



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

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

NEWS RELEASE

Contact: Brian Brustkern
515/281-5834

FOR RELEASE

November 5, 2024

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

FINANCIAL HIGHLIGHTS:

The City's receipts and disbursements totaled \$2,452,007 and \$2,330,530, respectively, for the year ended June 30, 2022.

AUDIT FINDINGS:

Sand reported nine findings related to the receipt and disbursement of taxpayer funds. They are found on pages 41 through 48 of this report. The findings address issues such as a lack of segregation of duties, the lack of reconciliations of utility billings, the lack of written policies and procedures for procurement of property or services, the lack of written policies and procedures over the City's computer system, the City's use of credit cards and questionable disbursements. Sand provided the City with recommendations to address each of the findings.

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 HARPERS FERRY

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

JUNE 30, 2022

City of Harpers Ferry



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

Rob Sand
Auditor of State

October 2, 2024

Officials of the City of Harpers Ferry
Harpers Ferry, 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 Harpers Ferry for the year ended June 30, 2022. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand
Auditor of State

Table of Contents

| | | <u>Page</u> |
|--|-----------------|-------------|
| Officials | | 3 |
| Independent Auditor’s Report | | 5-7 |
| Basic Financial Statements: | <u>Exhibit</u> | |
| Government-wide Financial Statement: | | |
| Cash Basis Statement of Activities and Net Position | A | 10-11 |
| Governmental Fund Financial Statement: | | |
| Statement of Cash Receipts, Disbursements and Changes in Cash Balances | B | 12-13 |
| Proprietary Fund Financial Statement: | | |
| Statement of Cash Receipts, Disbursements and Changes in Cash Balances | C | 15 |
| Notes to Financial Statements | | 16-23 |
| Other Information | | |
| Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual – All Governmental Funds and Proprietary Funds | | 26-27 |
| Notes to Other Information – Budgetary Reporting | | 28 |
| Schedule of the City’s Proportionate Share of the Net Pension Liability | | 29 |
| Schedule of City Contributions | | 30 |
| Notes to Other Information – Pension Liability | | 31 |
| Supplementary Information: | <u>Schedule</u> | |
| Schedule of Expenditures of Federal Awards | 1 | 33 |
| Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u> | | 34-35 |
| Independent Auditor’s Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance | | 37-39 |
| Schedule of Findings and Questioned Costs | | 40-48 |
| Staff | | 49 |

City of Harpers Ferry

Officials

(Before January 2022)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|----------------------------------|----------------------|---------------------|
| Jerry Valley | Mayor | Jan 2024 |
| Kenny Barta | Council Member | Jan 2022 |
| Bob Sturch | Council Member | Jan 2022 |
| Tom Diggins | Council Member | Jan 2024 |
| Daren Kaepfel | Council Member | Jan 2024 |
| Sandi Riha | Council Member | Jan 2024 |
| Sherie Mathis | City Clerk/Treasurer | Indefinite |
| Paul Deason | City Superintendent | Indefinite |
| Nicole Winke | Attorney | (Resigned Nov 2021) |
| Jeff Swartz (Appointed Nov 2021) | Attorney | Indefinite |

(After January 2022)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------------------------|----------------------|---------------------|
| Jerry Valley | Mayor | Jan 2024 |
| Tom Diggins | Council Member | Jan 2024 |
| Daren Kaepfel | Council Member | Jan 2024 |
| Sandi Riha | Council Member | Jan 2024 |
| Kenny Barta | Council Member | Jan 2026 |
| Al Garin | Council Member | Jan 2026 |
| Sherie Mathis | City Clerk/Treasurer | (Resigned Apr 2022) |
| Kelli Melcher (Appointed Apr 2022) | City Clerk/Treasurer | Indefinite |
| Paul Deason | City Superintendent | Indefinite |
| Jeff Swartz | Attorney | Indefinite |

City of Harpers Ferry



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

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

Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Audit of the Financial Statements

Qualified Opinions

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Harpers Ferry, Iowa, as of and for the year ended June 30, 2022, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, except for the effects of such adjustments, if any, as might be determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2021, as described in the Basis for Qualified Opinions section of our report, 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 and each major fund of the City of Harpers Ferry as of June 30, 2022, and the respective changes in cash basis financial position for the year then ended in accordance with the cash basis of accounting described in Note 1.

Basis for Qualified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all the prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balances at July 1, 2021.

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 the Financial Statements section of our report. We are required to be independent of the City of Harpers Ferry, 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.

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 Harpers Ferry'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 judgment 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 judgment 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 Harpers Ferry'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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Harpers Ferry'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 Harpers Ferry's basic financial statements. The supplementary information included in Schedule 1, 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 auditing standards generally accepted in the United States of America. In our opinion, the supplementary information in Schedule 1 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 26 through 31 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 October 2, 2024 on our consideration of the City of Harpers Ferry'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 Harpers Ferry's internal control over financial reporting and compliance.



Brian R. Brustkern, CPA
Deputy Auditor of State

October 2, 2024

City of Harpers Ferry

Basic Financial Statements

City of Harpers Ferry

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2022

| | Program Receipts | | |
|---|------------------|---------------------------|--|
| | Disbursements | Charges for Service | Operating Grants, Contributions and Restricted Interest |
| Functions/Programs: | | | |
| Governmental activities: | | | |
| Public safety | \$ 29,461 | 2,590 | - |
| Public works | 181,627 | 61,830 | 31,704 |
| Culture and recreation | 47,292 | 9,781 | 15,898 |
| Community and economic development | 16,471 | - | - |
| General government | 123,365 | 1,905 | - |
| Total governmental activities | 398,216 | 76,106 | 47,602 |
| Business type activities: | | | |
| Sewer | 1,932,314 | 130,488 | - |
| Total business type activities | 1,932,314 | 130,488 | - |
| Total | \$ 2,330,530 | 206,594 | 47,602 |
| General Receipts and Transfers: | | | |
| Property and other city tax levied for: | | | |
| General purposes | | | |
| Debt service | | | |
| Local option sales tax | | | |
| Commercial/industrial tax replacement | | | |
| American Rescue Plan Act | | | |
| Unrestricted interest on investments | | | |
| Bond proceeds | | | |
| Miscellaneous | | | |
| Total general receipts | | | |
| Change in cash basis net position | | | |
| Cash basis net position beginning of year | | | |
| Cash basis net position end of year | | | |
| Cash Basis Net Position | | | |
| Restricted: | | | |
| Expendable: | | | |
| Streets | | | |
| Local option sales tax | | | |
| Debt service | | | |
| Other purposes | | | |
| Unrestricted | | | |
| Total cash basis net position | | | |

See notes to financial statements.

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

| Governmental Activities | Business Type Activities | Total |
|----------------------------|-----------------------------|-------------|
| (26,871) | - | (26,871) |
| (88,093) | - | (88,093) |
| (21,613) | - | (21,613) |
| (16,471) | - | (16,471) |
| (121,460) | - | (121,460) |
| (274,508) | - | (274,508) |
| - | (1,801,826) | (1,801,826) |
| - | (1,801,826) | (1,801,826) |
| (274,508) | (1,801,826) | (2,076,334) |
| 275,905 | - | 275,905 |
| 62 | - | 62 |
| 35,307 | - | 35,307 |
| 1,086 | - | 1,086 |
| 24,148 | - | 24,148 |
| 1,850 | 350 | 2,200 |
| - | 1,858,624 | 1,858,624 |
| 479 | - | 479 |
| 338,837 | 1,858,974 | 2,197,811 |
| 64,329 | 57,148 | 121,477 |
| 610,904 | 134,430 | 745,334 |
| \$ 675,233 | 191,578 | 866,811 |
| \$ 13,831 | - | 13,831 |
| 16,249 | - | 16,249 |
| - | 47,294 | 47,294 |
| 141,634 | - | 141,634 |
| 503,519 | 144,284 | 647,803 |
| \$ 675,233 | 191,578 | 866,811 |

City of Harpers Ferry

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

As of and for the year ended June 30, 2022

| | Special Revenue | | |
|--|-----------------|--------------------|------------------------------|
| | General | Road Use Tax | Local Option Sales Tax |
| Receipts: | | | |
| Property tax | \$ 270,068 | - | - |
| Local option sales tax | - | - | 35,307 |
| Other city tax | 5,837 | - | - |
| Licenses and permits | 11,321 | - | - |
| Use of money and property | 3,506 | - | - |
| Intergovernmental | 33,876 | 31,704 | - |
| Charges for service | 62,123 | - | - |
| Miscellaneous | 8,741 | - | - |
| Total receipts | 395,472 | 31,704 | 35,307 |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | 29,461 | - | - |
| Public works | 87,794 | 41,304 | 52,529 |
| Culture and recreation | 47,292 | - | - |
| Community and economic development | 16,471 | - | - |
| General government | 123,365 | - | - |
| Total disbursements | 304,383 | 41,304 | 52,529 |
| Excess (deficiency) of receipts over (under) disbursements | 91,089 | (9,600) | (17,222) |
| Other financing sources (uses): | | | |
| Transfers in | - | 12,708 | - |
| Transfers out | - | - | - |
| Total other financing sources (uses) | - | 12,708 | - |
| Change in cash balances | 91,089 | 3,108 | (17,222) |
| Cash balances beginning of year | 554,064 | 10,723 | 33,471 |
| Cash balances end of year | \$ 645,153 | 13,831 | 16,249 |
| Cash Basis Fund Balances | | | |
| Restricted for: | | | |
| Streets | - | 13,831 | - |
| Local option sales tax | - | - | 16,249 |
| Other purposes | 141,553 | - | - |
| Unassigned | 503,600 | - | - |
| Total cash basis fund balances | \$ 645,153 | 13,831 | 16,249 |

See notes to financial statements.

| Debt Service | Total |
|-----------------|-----------------|
| 56 | 270,124 |
| - | 35,307 |
| 6 | 5,843 |
| - | 11,321 |
| - | 3,506 |
| - | 65,580 |
| - | 62,123 |
| - | 8,741 |
| <u>62</u> | <u>462,545</u> |
| - | 29,461 |
| - | 181,627 |
| - | 47,292 |
| - | 16,471 |
| - | 123,365 |
| <u>-</u> | <u>398,216</u> |
| <u>62</u> | <u>64,329</u> |
| - | 12,708 |
| <u>(12,708)</u> | <u>(12,708)</u> |
| <u>(12,708)</u> | <u>-</u> |
| <u>(12,646)</u> | <u>64,329</u> |
| <u>12,646</u> | <u>610,904</u> |
| <u>-</u> | <u>675,233</u> |
| - | 13,831 |
| - | 16,249 |
| - | 141,553 |
| <u>-</u> | <u>503,600</u> |
| <u>-</u> | <u>675,233</u> |

City of Harpers Ferry

City of Harpers Ferry
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2022

| | Enterprise Sewer |
|--|---------------------|
| Operating receipts: | |
| Charges for service | \$ 130,488 |
| Operating disbursements: | |
| Business type activities | 145,572 |
| Deficiency of receipts under disbursements | (15,084) |
| Non-operating receipts (disbursements): | |
| Interest on investments | 350 |
| Sewer revenue bond proceeds | 1,858,624 |
| Debt service | (13,050) |
| Capital projects | (1,773,692) |
| Net non-operating receipts (disbursements) | 72,232 |
| Change in cash balances | 57,148 |
| Cash balances beginning of year | 134,430 |
| Cash balances end of year | \$ 191,578 |
| Cash Basis Fund Balances | |
| Restricted for: | |
| Debt service | \$ 47,294 |
| Unrestricted | 144,284 |
| Total cash basis fund balances | \$ 191,578 |

See notes to financial statements.

City of Harpers Ferry

Notes to Financial Statements

June 30, 2022

(1) Summary of Significant Accounting Policies

The City of Harpers Ferry is a political subdivision of the State of Iowa located in Allamakee County. It was first incorporated in 1847 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, the City of Harpers Ferry 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. The City has no component units which meet the Governmental Accounting Standards Board criteria.

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: Allamakee County Assessor's Conference Board and Allamakee County Emergency Management Commission.

B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position reports information on all 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:

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

Unrestricted net position consists of cash balances not meeting the definition of the preceding 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 the major individual enterprise fund are reported as separate columns in the fund financial statements.

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 Local Option Sales Tax Fund is used to account for the City's local option sales tax (LOST) receipts and related disbursements.

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

The City reports the following major proprietary fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Property Taxes and Governmental Cash Basis Fund Balances

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

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

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

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2022, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The City’s deposits in banks at June 30, 2022 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

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

(3) Bonds and Notes Payable

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

| | <hr/> | | | <hr/> | |
|---------------------------|------------|-----------|-----------|-----------|-----------|
| | Beginning | | | Ending | Due |
| | Balances | Increases | Decreases | Balances | Within |
| | <hr/> | | | <hr/> | |
| | | | | | One Year |
| Business type activities: | | | | | |
| Sewer revenue bonds/notes | | | | | |
| - direct borrowing | \$ 244,001 | 1,858,624 | - | 2,102,625 | 2,102,625 |

Direct Borrowing – Revenue Bonds/Notes

On June 26, 2020, the City entered into a loan agreement with the Iowa Finance Authority for the issuance of a \$194,000 sewer revenue loan and disbursement anticipation project note to pay the costs of planning and designing improvements and extensions to the municipal sanitary sewer system. The note is payable from the proceeds of an authorized loan agreement and a corresponding issuance of sewer revenue bonds in an amount sufficient to repay the note. The full amount of the note was drawn during fiscal year 2021 and is payable on June 26, 2023.

On May 26, 2021, the City entered into a loan anticipation project note agreement with Peoples State Bank to borrow \$2,367,000 to pay the costs of planning, designing and constructing improvements and extensions to the municipal sanitary sewer system with interest of 1.75% per annum. The note is payable from the proceeds of an authorized loan agreement and a corresponding issuance of sewer revenue bonds in an amount sufficient to repay the note. The City received an initial advance of \$50,001 during fiscal year 2021. During fiscal year 2022, the City drew down \$1,858,624 on the note, for a total of \$1,908,625. The remaining line of credit was \$458,375 and the note is payable on May 26, 2023.

(4) Pension Plan

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

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

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

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

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

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

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

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

In fiscal year 2022, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the City contributed 9.44% of covered payroll, for a total rate of 15.73%.

The City's contributions to IPERS for the year ended June 30, 2022 totaled \$11,694.

Net Pension Liability, Pension Expense (Reduction), Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2022, the City reported a liability of \$1,972 for its proportionate share of the overall plan net pension asset. The overall plan net pension asset was measured as of June 30, 2021. The total overall plan net pension asset used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the overall plan net pension asset was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2021, the City's proportion was (0.000571)%, which was a decrease of 0.001977% from its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, the City's pension expense (reduction), deferred outflows of resources and deferred inflows of resources totaled \$(6,857), \$12,978 and \$83,147, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The overall plan net pension asset in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

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

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2021 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

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

| Asset Class | Asset Allocation | Long-Term Expected Real Rate of Return |
|--------------------------|------------------|--|
| Domestic equity | 22.0% | 4.43% |
| International equity | 17.5 | 6.01 |
| Global smart beta equity | 6.0 | 5.10 |
| Core plus fixed income | 26.0 | 0.29 |
| Public credit | 4.0 | 2.08 |
| Cash | 1.0 | (0.25) |
| Private equity | 13.0 | 9.51 |
| Private real assets | 7.5 | 4.63 |
| Private credit | 3.0 | 2.87 |
| Total | <u>100.0%</u> | |

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

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

| | 1% Decrease (6.00%) | Discount Rate (7.00%) | 1% Increase (8.00%) |
|--|---------------------------|-----------------------------|---------------------------|
| City's proportionate share of the net pension liability (asset) | \$ 69,798 | 1,972 | (54,870) |

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

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation 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 and compensatory time payable to employees at June 30, 2022, primarily relating to the General Fund, is as follows:

| Type of Benefit | Amount |
|-------------------|-----------------|
| Vacation | \$ 2,441 |
| Compensatory time | 300 |
| Total | <u>\$ 2,741</u> |

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

(6) Interfund Transfers

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

| Transfer to | Transfer from | Amount |
|------------------|---------------|------------------|
| Special Revenue: | | |
| Road Use Tax | Debt Service | <u>\$ 12,708</u> |

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

(7) 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.

(8) Subsequent Event

On July 29, 2022, the City entered into a loan agreement with the United States Department of Agriculture – Rural Development for the issuance of \$2,367,000 of taxable sewer revenue notes to redeem the project anticipation notes previously issued to pay the costs of planning and designing improvements and extensions to the municipal sanitary sewer system. The notes bear interest at rates ranging from 1.250% to 1.375%, per annum, and mature on July 27, 2062.

City of Harpers Ferry

Other Information

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

Other Information

Year ended June 30, 2022

| | Governmental Funds Actual | Proprietary Funds Actual | Total |
|---|---------------------------------|--------------------------------|-------------|
| Receipts: | | | |
| Property tax | \$ 270,124 | - | 270,124 |
| Other city tax | 41,150 | - | 41,150 |
| Licenses and permits | 11,321 | - | 11,321 |
| Use of money and property | 3,506 | 350 | 3,856 |
| Intergovernmental | 65,580 | - | 65,580 |
| Charges for service | 62,123 | 130,488 | 192,611 |
| Miscellaneous | 8,741 | - | 8,741 |
| Total receipts | 462,545 | 130,838 | 593,383 |
| Disbursements: | | | |
| Public safety | 29,461 | - | 29,461 |
| Public works | 181,627 | - | 181,627 |
| Culture and recreation | 47,292 | - | 47,292 |
| Community and economic development | 16,471 | - | 16,471 |
| General government | 123,365 | - | 123,365 |
| Business type activities | - | 1,932,314 | 1,932,314 |
| Total disbursements | 398,216 | 1,932,314 | 2,330,530 |
| Excess (deficiency) of receipts over (under) disbursements | 64,329 | (1,801,476) | (1,737,147) |
| Other financing sources, net | - | 1,858,624 | 1,858,624 |
| Change in balances | 64,329 | 57,148 | 121,477 |
| Balances beginning of year | 610,904 | 134,430 | 745,334 |
| Balances end of year | \$ 675,233 | 191,578 | 866,811 |

See accompanying independent auditor's report.

| Budgeted Amounts | | Final to |
|------------------|------------------|------------------|
| Original | Final | Total |
| | | Variance |
| 271,431 | 271,431 | (1,307) |
| 33,074 | 33,074 | 8,076 |
| 10,900 | 10,900 | 421 |
| 2,150 | 2,150 | 1,706 |
| 1,945,456 | 69,524 | (3,944) |
| 188,000 | 188,000 | 4,611 |
| 11,770 | 11,770 | (3,029) |
| <u>2,462,781</u> | <u>586,849</u> | <u>6,534</u> |
| 31,250 | 31,250 | 1,789 |
| 163,750 | 200,550 | 18,923 |
| 59,770 | 59,770 | 12,478 |
| 27,100 | 27,100 | 10,629 |
| 136,425 | 146,425 | 23,060 |
| <u>1,966,400</u> | <u>2,433,400</u> | <u>501,086</u> |
| <u>2,384,695</u> | <u>2,898,495</u> | <u>567,965</u> |
| 78,086 | (2,311,646) | 574,499 |
| - | <u>2,367,000</u> | <u>(508,376)</u> |
| 78,086 | 55,354 | 66,123 |
| <u>852,583</u> | <u>852,583</u> | <u>(107,249)</u> |
| <u>930,669</u> | <u>907,937</u> | <u>(41,126)</u> |

City of Harpers Ferry

Notes to Other Information – Budgetary Reporting

June 30, 2022

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. 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 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, two budget amendments increased budgeted disbursements by \$513,800. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2022, disbursements did not exceed amounts budgeted.

City of Harpers Ferry

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

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

Other Information

| | <u>2022</u> |
|--|----------------|
| City's proportion of the net pension liability (asset) | (0.000571)% ** |
| City's proportionate share of the net pension liability | \$ 2 |
| City's covered payroll | \$ 114 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 1.75% |
| IPERS' net position as a percentage of the total pension liability (asset) | 100.81% |

* 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.

City of Harpers Ferry

Schedule of City Contributions

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

Other Information

| | <u>2022</u> |
|---|-------------|
| Statutorily required contribution | \$ 12 |
| Contributions in relation to the statutorily required contribution | <u>(12)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> |
| City's covered payroll | \$ 124 |
| Contributions as a percentage of covered payroll | 9.68% |

See accompanying independent auditor's report.

City of Harpers Ferry

Notes to Other Information – Pension Liability

Year ended June 30, 2022

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

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

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

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

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

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

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

Supplementary Information

City of Harpers Ferry
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2022

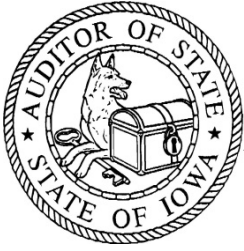
| Grantor/Program | Assistance Listings Number | Pass-Through Entity Identifying Number | Program Expenditures |
|--|----------------------------------|--|-------------------------|
| U.S. Department of Agriculture: Water and Waste Disposal Systems for Rural Communities | 10.760 | | \$ 1,876,036 |
| Total U.S. Department of Agriculture | | | <u>1,876,036</u> |
| U.S. Department of the Treasury: COVID-19, CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS | 21.027 | FY2022 | 24,067 |
| Total U.S. Department of the Treasury | | | <u>24,067</u> |
| Total | | | <u>\$ 1,900,103</u> |

Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the City of Harpers Ferry under programs of the federal government for the year ended June 30, 2022. 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 Harpers Ferry, it is not intended to and does not present the financial position, changes in financial position or cash flows of the City of Harpers Ferry.

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 Harpers Ferry has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor's report.



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

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

Rob Sand
Auditor of State

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 and each major fund of the City of Harpers Ferry, Iowa, as of and for the year ended June 30, 2022, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 2, 2024. The financial statements 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 modified opinions on the governmental activities, business type activities and each major fund since we were unable to satisfy ourselves as to the distribution by fund of the total July 2021 fund balance.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Harpers Ferry'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 Harpers Ferry's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Harpers Ferry'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 material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items 2022-001 and 2022-002 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items 2022-003 through 2022-005 to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Harpers Ferry'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 noncompliance 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, 2022 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Harpers Ferry's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Harpers Ferry's responses to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The City of Harpers Ferry'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 Harpers Ferry 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.



Brian R. Brustkern, CPA
Deputy Auditor of State

October 2, 2024

City of Harpers Ferry



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

Rob Sand
Auditor of State

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

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 Harpers Ferry, 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 Harpers Ferry's major federal program for the year ended June 30, 2022. The City of Harpers Ferry's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the City of Harpers Ferry 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, 2022.

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 (Government Auditing Standards), 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 Harpers Ferry and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City of Harpers Ferry'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 Harpers Ferry'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 Harpers Ferry'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 judgment made by a reasonable user of the report on compliance about the City of Harpers Ferry'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 judgment 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 Harpers Ferry'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 Harpers Ferry'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 Harpers Ferry'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

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2022-006, to be a significant deficiency.

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.

Government Auditing Standards requires the auditor to perform limited procedures on the City of Harpers Ferry's response to the internal control over compliance finding identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The City of Harpers Ferry's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.



Brian R. Brustkern, CPA
Deputy Auditor of State

October 2, 2024

City of Harpers Ferry
Schedule of Findings and Questioned Costs
Year ended June 30, 2022

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

- (a) Modified opinions were issued on the governmental activities, the business type activities and each major fund, which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A significant deficiency in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed findings which are required to be reported in accordance with the Uniform Guidance, Section 200.516.
- (g) The major program was Assistance Listing Number 10.760 – Water and Waste Disposal Systems for Rural Communities.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) The City of Harpers Ferry did not qualify as a low-risk auditee.

City of Harpers Ferry

Schedule of Findings and Questioned Costs

Year ended June 30, 2022

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

2022-001 Segregation of Duties

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

Condition – Generally, one or two individuals may have control over the following areas for which no compensating controls exist:

- (1) Accounting system – performing all accounting functions, including making journal entries and having custody of assets.
- (2) Cash – initiating cash receipt and disbursement functions, handling and recording cash and reconciling.
- (3) Investments – custodian also has responsibility for recordkeeping of investments.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Utility receipts – billing, collecting, depositing, posting, entering utility rates and maintaining detailed accounts receivable records.
- (6) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (7) Payroll – entering rates into the system, preparing, recording and distributing.
- (8) Long-term debt – recordkeeping, compliance, and debt payment processing.

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 – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials, to provide additional controls through review of transactions, reconciliations and financial report. The reviews should be documented by the signature or initials of the reviewer and the date of the review.

City of Harpers Ferry

Schedule of Findings and Questioned Costs

Year ended June 30, 2022

Response – As a small City with a limited number of office employees, we segregate duties when possible. When writing/distributing disbursements, the City Clerk writes the checks based off the invoices received, the Mayor reviews and signs the invoices and the checks, the Assistant City Clerk reviews the invoices and checks and then disburses the checks to vendors. When possible, the City Clerk and the Assistant City Clerk share roles in retrieving the mail, entering payments, recording and making deposits. The City Clerk does payroll and the Mayor reviews timecards, signs the timecards before signing and distributing paychecks. The City Clerk and Assistant City Clerk are responsible for custodian and record keeping of investments and debt. The City Clerk and Assistant City Clerk work together on utility billing by reviewing accurate customer information and mailing utility bills.

Conclusion – Response acknowledged. The City should continue to review controls to obtain the maximum internal control possible, utilizing current personnel, including other officials and employees, to provide additional control for their accounts.

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

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

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

Cause – Policies have not been established and procedures have not been implemented to reconcile utility billings and utility collections to deposits.

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

Recommendation – Procedures should be established to reconcile utility billings, collections, and delinquent accounts for each billing period and to reconcile collections to deposits. The City Council or a Council-designated independent person should review the reconciliations and monitor delinquent accounts. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of review.

Response – The City Clerk will prepare utility billing reconciliations and a Council designated independent individual will review the reconciliations quarterly during finance review, as the City bills quarterly for utilities.

Conclusion – Response accepted.

City of Harpers Ferry

Schedule of Findings and Questioned Costs

Year ended June 30, 2022

2022-003 Credit Cards

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

Condition – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Cause – Adoption of a formal policy to regulate the use of credit cards has not been prioritized by the City Council.

Effect – Lack of written policies and procedures to regulate the use of credit cards could result in unauthorized and unsupported transactions and the opportunity for misappropriation.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use the credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – Resolution 505, Adopting a Policy Regarding Use of City Credit Cards, was passed, adopted and approved by the City Council on May 13, 2024.

Conclusion – Response accepted.

2022-004 Computer System

Criteria – Properly designed policies and procedures pertaining to control activities over the City’s computer systems and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable and helps ensure the effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Condition – The City does not have written policies for:

- Information system security, including password privacy and confidentiality.
- Requiring password changes because the software does not require users to change logins/passwords periodically.
- A written disaster recovery plan which provides for a backup site, procedures to be followed to prepare the site for equipment and identifies staff responsibilities.

Cause – Management has not required written policies for the above computer-based controls.

City of Harpers Ferry

Schedule of Findings and Questioned Costs

Year ended June 30, 2022

Effect – Lack of written policies for computer-based system could result in a loss of data or compromised data, resulting in unreliable financial information. The failure to have a formal disaster recovery plan could result in the City’s inability to function in the event of a disaster or continue City business without interruption.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over its computer systems. A written disaster recovery plan should also be developed.

Response – Resolution 510, Adopting a Computer Based Systems Policy and Disaster Recovery Plan for Financial Continuity, was passed, adopted and approved by the City Council on August 12, 2024.

Conclusion – Response accepted.

2022-005 Petty Cash and Change Fund

Criteria – Internal controls over safeguarding petty cash and change funds constitute a process, effected by an entity’s governing body, management and other personnel designated to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding petty cash and change funds from error or misappropriation. Petty cash and change funds should be maintained on an imprest basis in which cash is maintained at fixed, authorized amounts and all distributions from the funds are documented with a vendor receipt. Systematic use of petty cash should be discouraged, especially for expenditures for which another reimbursement process has already been established.

Condition – The City used the petty cash and change funds interchangeably and neither was maintained on an imprest basis. Withdrawals were made from the change fund and deposited into the petty cash fund, which allowed the petty cash fund to have an amount greater than the \$75 stated limit. Neither the petty cash nor change fund were authorized by the City Council through resolution. In addition, the change fund was not kept in a locked, secure location.

Cause – Policies and procedures have not been designed and implemented to ensure cash is secured and petty cash and change funds are properly authorized and accounted for.

Effect – This condition could result in unrecorded receipts and disbursements and the opportunity for misappropriation.

City of Harpers Ferry

Schedule of Findings and Questioned Costs

Year ended June 30, 2022

Recommendation – Petty cash and change funds should be maintained on an imprest bases to provide additional control over these funds. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits. A resolution should be passed to allow for the petty cash and change funds, which allows for a certain amount to be available for making change for citizens and for allowing certain sums of money to be received by City staff. A numbered voucher system should be instituted to account for petty cash withdrawals. The petty cash drawer should be counted and reconciled periodically throughout the year. The cash drawer should be locked in a secure location and accessible only to staff with a need to access it. The cash drawer should be counted at least monthly (more often, if needed) and deposits should be made from the drawer, as needed. A monthly reconciliation should occur to ensure the cash on hand is adequate for the cash drawer needs. The cash drawer is to be used for receipts of cash and checks and to make change, when necessary.

Response – Resolution 504, To Establish a Petty Cash Fund and Policies on Use, was passed, adopted and approved by the City Council on May 13, 2024. This resolution states the petty cash fund and change fund are one in the same. We have the petty cash and change fund separated in a locked box and a locked drawer. We have numbered receipts to prove disbursements and income taken for fax, copies, etc. We also have a log that is checked and signed periodically by the City Clerk and Assistant City Clerk.

Conclusion – Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

City of Harpers Ferry

Schedule of Findings and Questioned Costs

Year ended June 30, 2022

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

Assistance Listing Number 10.760: Water and Waste Disposal Systems for Rural Communities

Federal Award Year: 2022

Prior Year Finding Number: N/A

U.S. Department of Agriculture

2022-006 Procurement Policy

Criteria – Title 2, U.S. Code of Federal Regulations Part 200.320 Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance) requires the City to have procurement policies and procedures in place to ensure the procurement methods used for the acquisition of property or services are appropriate based on the dollar amount and conditions.

Condition – The City has not established procurement policies and procedures which detail the procurement methods to be used for acquisition or property or services.

Cause – The City has not established policies or procedures for procurements.

Effect – The City is not in compliance with Federal regulations pertaining to procurements as required by the Uniform Guidance.

Recommendation – The City should establish written procurement policies for procurements to ensure compliance with the Uniform Guidance Part 200.320.

Response and Corrective Action Planned – Resolution 511, Purchasing Procedures Policy, was passed, adopted and approved by the City Council on August 12, 2024.

Conclusion – Response accepted.

City of Harpers Ferry
Schedule of Findings and Questioned Costs
Year ended June 30, 2022

Part IV: Other Findings Related to Required Statutory Reporting:

- 2022-A Certified Budget – Disbursements during the year ended June 30, 2022, did not exceed the amounts budgeted.
- 2022-B Questionable Disbursements – No disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- 2022-C Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- 2022-D Business Transactions – No business transactions between the City and City officials were noted.
- 2022-E Restricted Donor Activity – No transactions were noted between the City, City officials, City employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.
- 2022-F Bond coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- 2022-G Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- 2022-H Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted, except as follows:
- The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.
- Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.
- Response – Resolution 502, Investment Policy, was passed, adopted and approved by the City Council on May 13, 2024.
- Conclusion – Response accepted.
- 2022-I Questionable Donation – During the year ended June 30, 2022, the City donated \$1,000 to Harpers Ferry Rescue Squad and \$500 to American Legion Post 722.
- The Constitution of the State of Iowa prohibits governmental bodies from making a gift to private, nonprofit corporations. Article III, Section 31 of the Constitution of the State of Iowa states “...no public money or property shall be appropriated for local or private purposes, unless such appropriation, compensation or claim be allowed by two-thirds of the members elected to each branch of the General Assembly.”

City of Harpers Ferry

Schedule of Findings and Questioned Costs

Year ended June 30, 2022

At least six official Iowa Attorney General Opinions since 1972 have consistently concluded that “a governmental body may not donate public funds to a private entity, even if the entity is established for charitable educational purposes and performs work which the government can’t perform directly. The Opinions further state, “Even if the function of a private nonprofit corporation fits within the scope of activities generally recognized as serving a public purpose, a critical question exists regarding whether funds or property transferred to a private entity will indeed be used for those public purposes.”

“Political subdivisions and municipalities, including cities, counties, schools and townships are municipal – governmental entities. As governmental entities they are governed by elected bodies, are directly responsible to the public as a whole, and are subject to the limitations imposed on them by the state. Although a private organization may be formed to provide and support ‘public’ services which are the same or similar to the services provided by the government, the private organizations are not subjected to the same degree of public accountability and oversight as governmental entities.”

Recommendation – We are not aware of any statutory authority for the City to donate public funds to private nonprofit organizations. If the nonprofit organization provides a service to the City, the City may enter into an agreement properly established under Chapter 28E of the Code of Iowa or an ordinary contract for services similar to one they would enter with a private entity providing services. If the entity is not providing a service to the City, the City should immediately cease making future donations.

Response – The City will obtain a statement from Harpers Ferry Rescue Squad and American Legion Post 722 stating the funds will be used for public purposes.

Conclusion – Response acknowledged. If the nonprofit organization provides services to the City, the City should enter into an agreement or contract for services with the entity. If the entity is not providing a service to the City, the City should immediately cease making future donations.

2022-J Interfund Transfers – Section 545-2 of the City Finance Committee Rules requires “A fund transfer resolution must be completed for all transfers between funds and must include a clear statement of reason or purpose for the transfer, the name of the fund from which the transfer is originating, the name of the fund into which the transfer is to be received, and the dollar amount to be transferred.

The City made two interfund transfers which were not approved by resolution.

Recommendation – The City Council should ensure all transfers are approved by resolution prior to the actual transfer, as required by Section 545-2 of the City Finance Committee Rules.

Response – All transfers will be approved by resolution going forward.

Conclusion – Response accepted.

City of Harpers Ferry

Staff

This audit was performed by:

Brian R. Brustkern, CPA, Deputy
Tammy A. Hollingsworth, CIA, Manager
Premnarayan Gobin, Senior II Auditor
Molly N. Kalkwarf, Senior Auditor
Deborah S. Krueger, Staff Auditor