

CITY OF HARLAN

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

JUNE 30, 2005

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**CITY OF HARLAN
OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gary Christiansen	Mayor	January, 2006
Michael Hansen	Mayor pro tem	January, 2006
Rand Petersen	Council Member	January, 2008
Rhonda Brown	Council Member	January, 2008
Dave Miller	Council Member	January, 2008
Keith Kaufman	Council Member	January, 2006
Orv Roecker	Council Member	January, 2006
Terry Cox	City Administrator	Appointed
Susan Lambert	City Clerk	Appointed
Marjorie Ahrenholtz	City Treasurer	Appointed
Joseph Lauterbach	City Attorney	Appointed

MUXFELDT ASSOCIATES, CPA, P.C.

Certified Public Accountant

September 1, 2005

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Lonnie G. Muxfeldt
Certified Public
Accountant

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Missouri

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Harlan, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Harlan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my 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, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Continued

Member of American Institute of Certified Public Accountants,
Iowa Society of CPA's and AICPA Private Companies Practice Section

September 1, 2005
To the Honorable Mayor and
Members of the City Council
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated September 1, 2005 on my consideration of the City of Harlan's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 11, and 29 through 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally in inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Harlan's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the years ended June 30, 2004 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Wingfield Associates, CPA, P.C.

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

The City of Harlan provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in connection with the City's financial statements, which follow.

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. Therefore, when reviewing financial information and discussion within this annual report, the reader should keep in mind the limitation resulting from the use of the cash basis of accounting.

USING THIS ANNUAL REPORT

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

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities. The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances. The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds. Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements. Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year. Other Supplementary information provides detailed information about the nonmajor governmental funds.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the sewer and sewer equipment replacement funds and the component unit (Harlan Municipal Utilities). These activities are financed primarily by user charges.

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

Fund Financial Statements

The City has two kinds of funds:

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

- 2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Funds. Enterprise Funds report business types activities. The City maintains two sewer funds for operations and future sewer projects. Also included with Enterprise Funds is the activity of Harlan Municipal Activities. All three are considered major funds of the City. The Internal Service Funds are used to accumulate and allocate costs internally among the City's various functions.

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

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased 26 percent from the prior fiscal year, decreasing from \$1.3 million to \$0.9 million.

	Changes in Net Assets of Governmental Activities	
	Year ended June 30,	
	2005	2004
Receipts:		
Program receipts:		
Charges for services	\$ 1,302,404	\$ 793,655
Operating grants, contributions and restricted interest	106,058	1,443,993
Capital grants, contributions and restricted interest	199,986	9,824
General receipts:		
Property tax	1,426,675	1,477,941
Tax increment financing	1,091,014	980,614
Road use tax	439,177	439,925
Unrestricted investment earnings	25,325	20,387
Bond proceeds	-0-	428,617
Miscellaneous	244,201	563,129
Sale of assets	90,562	31,396
Transfers, net	611,473	(395,934)
Total receipts	<u>5,536,875</u>	<u>5,793,547</u>
Disbursements:		
Public safety	783,144	715,816
Public works	847,385	832,249
Culture and recreation	704,071	604,038
Community and economic development	-0-	570,820
General government	871,429	410,590
Debt service	494,018	499,108
Capital projects	1,612,417	1,884,019
Nonprogram	569,370	621,473
Total disbursements	<u>5,881,834</u>	<u>6,138,113</u>
Increase (decrease) in cash	(344,959)	(344,566)
Net assets, beginning of year	<u>1,334,220</u>	<u>1,678,786</u>
Net assets, end of year	<u>\$ 989,261</u>	<u>\$ 1,334,220</u>

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

The City's total receipts for governmental activities decreased by 4 percent or approximately \$256,700. The total cost of all programs and services also decreased by 4 percent or approximately \$256,300, with no new programs added this year.

The cost of all governmental activities this year was \$5.882 million compared to \$6.138 million last year. However, as shown in the Statement of Activities and Net Assets on pages 12 - 13, the amount taxpayers ultimately financed for these activities was approximately \$3.928 million because some of the cost was paid by those directly benefited from the programs (\$1,302,404) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$306,044).

	Changes in Net Assets of Business Type Activities	
	Year ended June 30,	
	2005	2004
Receipts:		
Program receipts:		
Charges for services and sales:		
Sewer	\$ 665,227	\$ 655,556
HMU Component unit	10,598,085	9,588,245
Operating grants, contributions, and restricted interest	105,223	79,469
Capital grants, contributions, and restricted interest	-0-	106,271
General receipts:		
Unrestricted interest	20,237	1,810
Bond proceeds	-0-	4,070,000
Transfers, net	(611,473)	395,934
Total receipts	<u>10,777,299</u>	<u>14,897,285</u>
Disbursements:		
Sewer	507,896	429,201
HMU Component unit	10,735,615	10,771,355
Total disbursements	<u>11,243,511</u>	<u>11,200,556</u>
Increase (decrease) in cash	(466,212)	3,696,729
Net assets, beginning of year	<u>10,436,731</u>	<u>6,740,002</u>
Net assets, end of year	<u>\$ 9,970,519</u>	<u>\$ 10,436,731</u>

Total business type activities receipts for the fiscal year were \$10.8 million compared to \$14.9 million last year. This significant decrease was due primarily to the receipt of \$4,070,000 revenue bond proceeds by the Harlan Municipal Utilities in fiscal year 2004. Total disbursements increased by less than 1 percent.

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Harlan completed the year, its governmental funds reported a combined fund balance of \$329,645, a decrease of \$356,496 below last year's total of \$686,141. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased by \$360,001 from the prior year to \$312,177. The majority of this decrease is related to \$284,000 community development block grant funds received in fiscal year 2004 but passed through to Concerned, Inc. in fiscal year 2005.
- The Industrial Park Fund cash balance increased by \$6,973 to \$144,718 from the previous year. \$401,982 TIF revenue was transferred in from the Urban Renewal Fund. \$390,020 was expended for capital projects from this fund.
- The Sanitary Sewer Fund was closed upon completion of a sewer project. \$655,519 was transferred from the Sewer Equipment Replacement Fund.
- The Urban Renewal Fund decreased by \$30,901 to end the fiscal year with a \$-0- balance. Tax Increment Financing funds are receipted into this fund and transferred out to finance debt payment for the Downtown Project 1994 and capital projects in urban renewal areas of the City. Footnote 10 contains a detailed analysis of Urban Renewal Fund activity.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

As the City of Harlan completed the year, its business type funds reported a combined fund balance of \$9,970,519, a decrease of \$466,212 below last year's total of \$10,436,731. The following indicate the changes in fund balances of the major business type funds from the prior year

- The Sewer Fund cash balance increased by \$46,178 to \$58,299.
- The Sewer Equipment Replacement Fund cash balance decreased by \$480,083 to \$1,725 million.
- The Harlan Municipal Utilities cash balance decreased by \$32,307 to \$8.188 million.

BUDGETARY HIGHLIGHT

Over the course of the year, the City amended its budget once. The amendment was approved on May 17, 2005 and resulted in a \$1.6 million decrease to revenues and other financing sources. Budget expenditures were increased by \$1.7 million. The City had sufficient cash balances to absorb these additional costs.

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

DEBT ADMINISTRATION

Outstanding Debt at Year-End			
		2005	2004
General obligation bonds	\$	2,845,000	\$ 3,225,000
Anticipatory warrants		-0-	400,000
Total	\$	2,845,000	\$ 3,625,000

Debt decreased as a result of redeeming the anticipatory warrants issued for construction of the Activity Center.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2,845,000 is significantly below its constitutional debt limit of \$9.93 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Harlan's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for various City activities. Amounts available for appropriation in the operating budget are \$17.8 million, a decrease of 2.9 percent under the final 2005 budget. Budgeted disbursements are expected to decrease by \$4.23 million, a decrease of 20 percent under the final 2005 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by \$1.2 million by the end of fiscal year 2006.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF HARLAN

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	Disbursements	Charges for Services	Program Receipts	
			Operating Grants, Contributions, And Restricted Interest	Capital Grants, Contributions And Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 783,144	\$ 44,274	\$ 39,423	\$ -0-
Public works	847,385	233,116	-0-	-0-
Cultures and recreation	704,071	177,479	28,211	-0-
General government	871,429	294,918	38,424	199,986
Debt service	494,018	-0-	-0-	-0-
Capital projects	1,612,417	3,909	-0-	-0-
Nonprogram - contractual services	563,658	548,708	-0-	-0-
Total governmental activities	5,876,122	1,302,404	106,058	199,986
Business type activities:				
Sewer	513,608	665,227	-0-	-0-
HMU - Component unit	10,735,615	10,598,085	105,223	-0-
Total business type activities	11,249,223	11,263,312	105,223	-0-
Total	\$ 17,125,345	\$ 12,565,716	\$ 211,281	\$ 199,986
General receipts:				
Property taxes levied for:				
General purposes				
Tax increment financing				
Debt service				
Road use tax				
Unrestricted investment earnings				
Miscellaneous				
Sale of assets				
Transfers				
Total general receipts and transfers				
Change in cash balance				
Net assets, beginning of year				
Net assets, end of year				
Assets				
Cash				
Net Assets				
Restricted:				
Streets				
Debt service				
Unrestricted				
Total net assets				

See notes to financial statements.

Net (Disbursements), Receipts and Changes in Net Assets			
	Governmental Activities	Business Type Activities	Total
Functions / Programs:			
Governmental activities:			
Public safety	\$ (699,447)	\$ -0-	\$ (699,447)
Public works	(614,269)	-0-	(614,269)
Cultures and recreation	(498,381)	-0-	(498,381)
General government	(338,101)	-0-	(338,101)
Debt service	(494,018)	-0-	(494,018)
Capital projects	(1,608,508)	-0-	(1,608,508)
Nonprogram - contractual services	(14,950)	-0-	(14,950)
Total governmental activities	<u>(4,267,674)</u>	<u>-0-</u>	<u>(4,267,674)</u>
Business type activities:			
Sewer	(5,712)	157,331	151,619
HMU - Component unit	-0-	(32,307)	(32,307)
Total business type activities	<u>(5,712)</u>	<u>125,024</u>	<u>119,312</u>
Total	(4,273,386)	125,024	(4,148,362)
	1,129,955	-0-	1,129,955
	1,091,014	-0-	1,091,014
	296,720	-0-	296,720
	439,177	-0-	439,177
	25,325	20,237	45,562
	244,201	-0-	244,201
	90,562	-0-	90,562
	<u>611,473</u>	<u>(611,473)</u>	<u>-0-</u>
	<u>3,928,427</u>	<u>(591,236)</u>	<u>3,337,191</u>
	(344,959)	(466,212)	(811,171)
	<u>1,334,220</u>	<u>10,436,731</u>	<u>11,770,951</u>
	<u>\$ 989,261</u>	<u>\$ 9,970,519</u>	<u>\$ 10,959,780</u>
	<u>\$ 989,261</u>	<u>\$ 9,970,519</u>	<u>\$ 10,959,780</u>
	13,464	-0-	13,464
	5,461	-0-	5,461
	970,336	9,970,519	10,940,855
	<u>\$ 989,261</u>	<u>\$ 9,970,519</u>	<u>\$ 10,959,780</u>

CITY OF HARLAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	Capital Projects		
	General	Industrial Park	Sanitary Sewer
Receipts:			
Property tax	\$ 859,743	\$ -0-	\$ -0-
Tax increment financing collections	-0-	-0-	-0-
Other city tax	20,776	-0-	-0-
Licenses and permits	60,021	-0-	-0-
Use of money and property	84,837	2,815	-0-
Intergovernmental	521,109	-0-	-0-
Charges for services	351,277	-0-	-0-
Special assessments	277	-0-	-0-
Miscellaneous	55,605	-0-	15,667
Total receipts	<u>1,953,645</u>	<u>2,815</u>	<u>15,667</u>
Disbursements:			
Operating:			
Public safety	731,336	-0-	-0-
Public works	441,238	-0-	-0-
Culture and recreation	648,631	-0-	-0-
General government	861,968	-0-	-0-
Debt service	-0-	-0-	-0-
Capital projects	-0-	390,020	413,874
Total disbursements	<u>2,683,173</u>	<u>390,020</u>	<u>413,874</u>
Excess (deficiency) of receipts over (under) disbursements	(729,528)	(387,205)	(398,207)
Other financing sources (uses):			
Sale of capital assets	2,166	28,396	-0-
Operating transfers in	438,661	401,982	655,519
Operating transfers out	(71,900)	(36,200)	-0-
Total other financing sources (uses)	<u>368,927</u>	<u>394,178</u>	<u>655,519</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) other financing sources (uses)	(360,601)	6,973	257,312
Cash basis fund balance, beginning of year	<u>672,778</u>	<u>137,745</u>	<u>(257,312)</u>
Cash basis fund balance, end of year	\$ <u>312,177</u>	\$ <u>144,718</u>	\$ <u>-0-</u>
Cash Basis Assets			
Cash	\$ <u>312,177</u>	\$ <u>144,718</u>	\$ <u>-0-</u>
Cash Basis Fund Balances			
Reserved:			
Debt Service	-0-	-0-	-0-
Unreserved:			
General fund	312,177	-0-	-0-
Special revenue funds	-0-	-0-	-0-
Capital projects funds	-0-	144,718	-0-
Total fund balance	\$ <u>312,177</u>	\$ <u>144,718</u>	\$ <u>-0-</u>

See notes to financial statements.

Special Revenue		
Urban Renewal	Other Nonmajor	Total
\$ -0-	\$ 544,292	\$ 1,404,035
1,091,014	-0-	1,091,014
-0-	1,865	22,641
-0-	-0-	60,021
-0-	798	88,450
-0-	444,121	965,230
-0-	-0-	351,277
-0-	3,909	4,186
-0-	213,112	284,384
<u>1,091,014</u>	<u>1,208,097</u>	<u>4,271,238</u>
-0-	1,805	733,141
-0-	376,879	818,117
-0-	28,824	677,455
-0-	-0-	861,968
-0-	494,018	494,018
-0-	808,523	1,612,417
<u>-0-</u>	<u>1,710,049</u>	<u>5,197,116</u>
1,091,014	(501,952)	(925,878)
-0-	60,000	90,562
-0-	576,570	2,072,732
(1,121,915)	(363,897)	(1,593,912)
<u>(1,121,915)</u>	<u>272,673</u>	<u>569,382</u>
(30,901)	(229,279)	(356,496)
<u>30,901</u>	<u>102,029</u>	<u>686,141</u>
\$ <u>-0-</u>	\$ <u>(127,250)</u>	\$ <u>329,645</u>
\$ <u>-0-</u>	\$ <u>(127,250)</u>	\$ <u>329,645</u>
-0-	5,461	5,461
-0-	-0-	312,177
-0-	75,452	75,452
-0-	(208,163)	(63,445)
\$ <u>-0-</u>	\$ <u>(127,250)</u>	\$ <u>329,645</u>

**RECONCILIATION OF THE STATEMENT OF CASH
RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005**

Total governmental funds cash balances (page 15)	\$	329,645
--------------------------------------------------	----	---------

*Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Funds are used by management to charge the costs of partial self funding of the City's health insurance benefit plan and to charge the costs of equipment purchases to individual funds. The Internal Service Funds are included in governmental activities in the Statement of Net Assets.

659,616

Cash basis net assets of governmental activities (page 13)	\$	<u>989,261</u>
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Net change in cash balances (page 15)	\$	(356,496)
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*Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Funds are used by management to charge the costs of partial self funding of the City's health insurance benefit plan and to charge the costs of equipment purchases to individual funds. The change in net assets of the Internal Service Funds is reported with governmental activities.

11,537

Change in cash balance of governmental activities (page 13)	\$	<u>(344,959)</u>
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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, 2005

	Enterprise Funds			Total
	Sewer	Sewer Equipment Replacement	HMU Component Unit	
Operating receipts:				
Use of money and property	\$ 782	\$ -0-	\$ -0-	\$ 782
Charges for services	665,227	-0-	10,598,085	11,263,312
Total receipts	666,009	-0-	10,598,085	11,264,094
Operating disbursements:				
Public safety	-0-	-0-	-0-	-0-
Culture and recreation	-0-	-0-	-0-	-0-
General government	-0-	-0-	-0-	-0-
Business type activities	406,831	101,065	10,735,615	11,243,511
Total disbursements	406,831	101,065	10,735,615	11,243,511
Operating income	259,178	(101,065)	(137,530)	20,583
Nonoperating receipts (disbursements):				
Interest on investments	-0-	19,455	105,223	124,678
Bond proceeds	-0-	-0-	-0-	-0-
Reimbursements	-0-	-0-	-0-	-0-
Contractual services	-0-	-0-	-0-	-0-
Transfer in	-0-	339,789	-0-	339,789
Transfer out	(213,000)	(738,262)	-0-	(951,262)
Total nonoperating receipts (disbursements)	(213,000)	(379,018)	105,223	(486,795)
Excess (deficiency) of receipts over (under) disbursements	46,178	(480,083)	(32,307)	(466,212)
Cash basis fund balance, beginning of year	12,121	2,204,803	8,219,807	10,436,731
Cash basis fund balances, end of year	\$ 58,299	\$ 1,724,720	\$ 8,187,500	\$ 9,970,519
Cash Basis Assets				
Cash	\$ 58,299	\$ 1,724,720	\$ 8,187,500	\$ 9,970,519
Cash Basis Fund Balances				
Unreserved				
Total fund balance	\$ 58,299	\$ 1,724,720	\$ 8,187,500	\$ 9,970,519

See notes to financial statements.

	Internal Service		Total
	Equipment Revolving Fund	Group Insurance Trust	
Operating receipts:			
Use of money and property	\$ 500	\$ -0-	\$ 500
Charges for services	-0-	-0-	-0-
Miscellaneous	9,978	-0-	9,978
Total receipts	<u>10,478</u>	<u>-0-</u>	<u>10,478</u>
Operating disbursements:			
Public safety	50,003	-0-	50,003
Public works	29,268	-0-	29,268
Culture and recreation	26,616	-0-	26,616
General government	9,461	-0-	9,461
Business type activities	5,712	-0-	5,712
Total disbursements	<u>121,060</u>	<u>-0-</u>	<u>121,060</u>
Operating income	(110,582)	-0-	(110,582)
Nonoperating receipts (disbursements):			
Interest on investments	-0-	4,416	4,416
Reimbursements	-0-	548,708	548,708
Contractual services	-0-	(563,658)	(563,658)
Transfer in	134,560	-0-	134,560
Transfer out	(1,907)	-0-	(1,907)
Total nonoperating receipts (disbursements)	<u>132,653</u>	<u>(10,534)</u>	<u>122,119</u>
Excess (deficiency) of receipts over (under) disbursements	22,071	(10,534)	11,537
Cash basis fund balance, beginning of year	<u>273,590</u>	<u>374,489</u>	<u>648,079</u>
Cash basis fund balances, end of year	<u>\$ 295,661</u>	<u>\$ 363,955</u>	<u>\$ 659,616</u>
Cash Basis Assets			
Cash	<u>\$ 295,661</u>	<u>\$ 363,955</u>	<u>\$ 659,616</u>
Cash Basis Fund Balances			
Unreserved:			
Total fund balance	<u>\$ 295,661</u>	<u>\$ 363,955</u>	<u>\$ 659,616</u>

NOTES TO FINANCIAL STATEMENTS

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(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 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 or impose specific financial burdens on the City. The City has one component unit, which meets the Government Accounting Standards Board criteria.

These financial statements present the City of Harlan (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discrete Component Unit - The Harlan Municipal Utilities is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utility is governed by a five-member board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council.

Jointly Governed Organizations - The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following boards and commissions: Shelby County Emergency Management Commission, Shelby County Ambulance Commission and The Shelby County Solid Waste Agency Board.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(1) **Summary of Significant Accounting Policies (Cont'd)**

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

The Statement of Activities and Net Assets presents the City's nonfiduciary assets and liabilities with the difference reported as net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets 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 whose purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions 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 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 that are not paid from other funds.

Special Revenue:

The Urban Renewal Fund is used to account for tax increment financing funds.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(1) **Summary of Significant Accounting Policies (Cont'd)**

B. Basis of Presentation (Cont'd)

Capital Projects:

The Activity Center Fund represents the activity of the Therkildsen Activity Center construction project.

The Industrial Park Fund accounts for community and economic development funds, mostly tax increment-financing funds transferred in.

The City reports the following major proprietary funds:

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

The Sewer Equipment Replacement Fund aggregates funds for future sewer projects.

The City also reports the following additional proprietary funds:

Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

The City reports former expendable trust funds (pre GASB-34) as other special revenue funds as they do not readily fall into GASB-34 Fiduciary fund categories of pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds or permanent (formerly non-expendable) trust funds.

C. Measurement Focus and Basis of Accounting

The City of Harlan 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, account 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.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. At June 30, 2005, disbursements exceed amounts budgeted in the general government functions.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(1) Summary of Significant Accounting Policies (Cont'd)

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2003, to compute the amounts, which became liens on property on July 1, 2004. These taxes were due and payable in two installments on September 30, 2004 and March 31, 2005, at the Shelby County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

(2) Deposits

The City's deposits in banks at June 30, 2005 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 members of the pool to insure 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 and the Treasurer of the State of Iowa; 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.

For the year ended June 30, 2005, \$2,772,280 was on deposit at local banks as demand deposits and certificates of deposit.

(3) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$89,059, \$80,258, and \$75,659, respectively, equal to the required contributions for each year.

**CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

(4) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2006	\$ 410,000	\$ 100,496
2007	400,000	87,248
2008	400,000	75,823
2009	295,000	63,253
2010	290,000	53,205
2011	295,000	42,705
2012	320,000	31,465
2013	325,000	18,905
2014	110,000	5,610
	\$ 2,845,000	\$ 478,710

The City has a general obligation debt limit of approximately \$9,931,263, which was not exceeded during the year ended June 30, 2005.

The resolutions providing for the issuance of the general obligation debt include the following provisions:

- (a) The levy of taxes sufficient to provide payment of principal and interest when due.
- (b) Proceeds of the tax levy are to be collected in the debt service fund or a special Revenue fund of the City, as it is applicable.

The City is in compliance with debt resolutions.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, compensatory time and floating holiday 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 compensated absences payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 47,375
Compensatory time	44,641
Floating holiday	7,029
	\$ 99,045

This liability has been computed based on rates of pay as of June 30, 2005.

**CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

(6) Anticipatory Warrants

Anticipatory warrants are warrants, which are legally drawn on City funds but are not paid for lack of funds, in accordance with Chapter 74 of the Code of Iowa. For the year ended June 30, 2004, the City issued \$400,000 in anticipatory warrants for Activity Center construction at 3.11% interest per annum. As of June 30, 2005, the anticipatory warrants had been fully redeemed.

(7) Self - Insurance Program

The City has established a self-insurance medical program, which is accounted for in the Group Insurance Fund (an internal service fund). This program provides employee health benefit coverage up to maximum of \$25,000 per employee per year. The City purchases commercial insurance for claims in excess of this coverage and all other risks of loss. The City pays all claims and is reimbursed from the re-insurer for excess claims. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

All funds of the City participated in the program and make payments to the Self Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims. The unpaid claims liability of \$24,902 is based on Government Accounting Standards Board Statement No. 10, which requires that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Changes in the Fund's claims liability amount is shown below.

Unpaid claims, beginning of year	\$	24,301
Incurred claims		400,238
Payments		399,637
Unpaid claims, end of year	\$	<u>24,902</u>

(8) Deficit Fund Balances

As of June 30, 2005, the following funds had deficit balances:

<u>Fund</u>		<u>Deficit</u>
Capital Projects:		
Sewer Rehabilitation	\$	(18,218)
Activity Center		(213,970)
Airport Improvement		(49,990)
Total	\$	<u>(282,178)</u>

The deficit balances were a result of project costs incurred prior to availability of funds. Deficits will be eliminated upon completion of the projects.

**CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

(9) Risk Management

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

(10) Tax Increment Financing

For the year ended June 30, 2005, the City collected \$1,091,014 in tax increment financing (TIF) funds. The TIF receipts are recorded into the urban renewal fund then transferred as follows:

Cash balance, beginning of year	\$	30,901
Tax Increment Financing receipts		1,091,014
TIF Funds available		<u>1,121,915</u>
Transferred to:		
Debt Service Fund		200,206
Street Overlay		149,310
Activity Center		41,405
General Fund		189,224
Sewer Equipment Replacement Fund		139,788
Industrial Park Fund		<u>401,982</u>
Total transfers		<u>1,121,915</u>
 Cash balance, end of year	 \$	 <u>-0-</u>

The City entered into 28E Agreements with Shelby County and the Harlan Community School District to remit a portion of TIF funds based on formula to both Shelby County and the Harlan Community School District for capital improvements and economic development, respectively. For the year ended June 30, 2005, the City remitted \$72,308 to the county and \$129,307 to the school district from the Industrial Park Fund.

During the fiscal year ended June 30, 2005, the State Auditor's Office questioned the 28E Agreements with the county and the school district on the grounds that the TIF funds may not be expended by the county and the school district except in urban renewal areas of the City. The State Auditor's Office also questioned the City's compliance with Chapter 403 of the Code of Iowa (Urban Renewal and Tax Increment Financing) and recommended the City consult with legal counsel to ensure compliance with provisions of Chapter 403 and the City's Urban Renewal Plan.

As a result of the State Auditor's inquiry and recommendation by legal counsel, the City created TIF boards by Resolution with both the Harlan Community School District and Shelby County and appointed the mayor, the personnel and finance committee chairperson and the city administrator to represent the City on the TIF boards. The boards will meet annually, provide oversight and review expenditures to ensure compliance with state statute and the City's Urban Renewal Plan.

**CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

(10) Tax Increment Financing (Cont'd)

Transfers of TIF funds to the general fund and the sewer equipment replacement fund represent repayment of funds expended in prior years for numerous projects and renovations in urban renewal areas from the general fund and the sewer equipment replacement fund. The payment schedule is beyond the scope of this footnote but is on file at the city clerk's office for inspection.

(11) Related Party Transactions

Business transactions between the City and City officials totaled \$37,307 for the year ended June 30, 2005.

(12) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2005, disbursements in the public safety, culture and recreation, debt service and capital projects functions exceeded the amounts budgeted.

(13) Restatement of Fund Balances

Beginning of the year fund balances have been restated as follows:

	As previously reported	As restated	Net Change
Hansen Trust Fund	\$ 4,288	\$ 4,854	\$ 566
Allen Trust Fund	1,873	1,307	(566)
Sewer	8,261	12,121	(3,860)
Sewer Equipment	<u>2,208,663</u>	<u>2,204,803</u>	<u>3,860</u>
Net	<u>\$ 2,223,085</u>	<u>\$ 2,223,085</u>	<u>\$ -0-</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARLAN

BUDGETARY COMPARISON SCHEDULE
 OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Property tax	\$ 1,404,035	\$ -0-
Other city tax	22,641	-0-
Tax increment financing	1,091,014	-0-
Licenses and permits	60,021	-0-
Use of money and property	93,366	125,460
Intergovernmental	965,230	-0-
Charges for services	351,277	11,263,312
Special assessments	4,186	-0-
Miscellaneous	933,632	-0-
Total receipts	<u>4,925,402</u>	<u>11,388,772</u>
Disbursements:		
Public safety	783,144	-0-
Public works	847,385	-0-
Culture and recreation	704,071	-0-
General government	871,429	-0-
Debt service	494,018	-0-
Capital projects	1,612,417	-0-
Business type	5,712	11,243,511
Nonprogram	563,658	-0-
Total disbursements	<u>5,881,834</u>	<u>11,243,511</u>
Excess (deficiency) of receipts over (under) disbursements	(956,432)	145,261
Other financing sources, net	<u>611,473</u>	<u>(611,473)</u>
Excess (deficiency) of receipts and other financing sources	(344,959)	(466,212)
Balance beginning of year	<u>1,334,220</u>	<u>10,436,731</u>
Balance end of year	<u>\$ 989,261</u>	<u>\$ 9,970,519</u>

See Accompanying Independent Auditor's Report

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$ 1,404,035	\$ 1,358,997	\$ 1,358,997	\$ 45,038
22,641	45,577	45,577	(22,936)
1,091,014	960,012	988,115	102,899
60,021	21,400	21,400	38,621
218,826	179,949	266,449	(47,623)
965,230	728,260	813,260	151,970
11,614,589	11,151,300	10,953,127	661,462
4,186	4,400	4,400	(214)
933,632	263,630	263,630	670,002
<u>16,314,174</u>	<u>14,713,525</u>	<u>14,714,955</u>	<u>1,599,219</u>
783,144	758,270	729,420	(53,724)
847,385	871,325	864,325	16,940
704,071	650,760	690,260	(13,811)
871,429	402,690	886,170	14,741
494,018	493,521	493,521	(497)
1,612,417	513,562	1,528,033	(84,384)
11,249,223	12,995,099	12,767,083	1,517,860
563,658	-0-	-0-	(563,658)
<u>17,125,345</u>	<u>16,685,227</u>	<u>17,958,812</u>	<u>833,467</u>
(811,171)	(1,971,702)	(3,243,857)	2,432,686
<u>-0-</u>	<u>2,700,000</u>	<u>679,750</u>	<u>(679,750)</u>
(811,171)	728,298	(2,564,107)	1,752,936
<u>11,770,951</u>	<u>11,770,951</u>	<u>11,770,951</u>	<u>-0-</u>
\$ <u>10,959,780</u>	\$ <u>12,499,249</u>	\$ <u>9,206,844</u>	\$ <u>1,752,936</u>

CITY OF HARLAN

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY REPORTING**

JUNE 30, 2005

The budgetary comparison is presented as Required Supplementary Information 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 blended component units, Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. 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, a budget amendment increased budgeted disbursements by \$1,273,585. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceed the amounts budgeted in the public safety, culture and recreation, debt service and capital projects functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HARLAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2005

	Special Revenue				Capital Projects			
	Road Use Tax	Employee Retirement	Housing Rehab	Debt Service	Activity Center	Street Overlay	Sewer Rehab	Airport
Receipts:								
Property tax	\$ -0-	\$ 248,449	\$ -0-	\$ 295,843	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Other City tax	-0-	988	-0-	877	-0-	-0-	-0-	-0-
Use of money and property	-0-	-0-	-0-	171	-0-	-0-	-0-	-0-
Intergovernmental	439,177	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Special assessments	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Miscellaneous	-0-	-0-	-0-	-0-	176,952	3,295	283	-0-
Total receipts	<u>439,177</u>	<u>249,437</u>	<u>-0-</u>	<u>296,891</u>	<u>176,952</u>	<u>3,295</u>	<u>283</u>	<u>-0-</u>
Disbursements:								
Operating:								
Public safety	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Public works	376,879	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Health and social services	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Culture and recreation	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
General government	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Debt Service	-0-	-0-	-0-	494,018	-0-	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-	-0-	421,393	215,145	101,243	49,990
Total disbursements	<u>376,879</u>	<u>-0-</u>	<u>-0-</u>	<u>494,018</u>	<u>421,393</u>	<u>215,145</u>	<u>101,243</u>	<u>49,990</u>
Excess (deficiency) of receipts Over (under) disbursements	62,298	249,437	-0-	(197,127)	(244,441)	(211,850)	(100,960)	(49,990)

See accompanying independent auditor's report.

SCHEDULE 1

Capital Projects							Other Special Revenue Funds	Total
Swim Pool	Library Building	Knudsen	Down Town	Skate Park	Other Projects			
\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 544,292	
-0-	-0-	-0-	-0-	-0-	-0-	-0-	1,865	
304	-0-	-0-	-0-	-0-	-0-	323	798	
-0-	-0-	-0-	-0-	-0-	-0-	4,944	444,121	
-0-	-0-	2,798	1,111	-0-	-0-	-0-	3,909	
-0-	3,000	-0-	-0-	1,600	-0-	27,982	213,112	
304	3,000	2,798	1,111	1,600	-0-	33,249	1,208,097	
-0-	-0-	-0-	-0-	-0-	-0-	1,805	1,805	
-0-	-0-	-0-	-0-	-0-	-0-	-0-	376,879	
-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	
-0-	-0-	-0-	-0-	-0-	-0-	28,824	28,824	
-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	
-0-	-0-	-0-	-0-	-0-	-0-	-0-	494,018	
14,785	5,883	-0-	-0-	61	23	-0-	808,523	
14,785	5,883	-0-	-0-	61	23	30,629	1,710,049	
(14,481)	(2,883)	2,798	1,111	1,539	(23)	2,620	(501,952)	

	Special Revenue				Capital Projects			
	Road Use Tax	Employee Retirement	Housing Rehab	Debt Service	Activity Center	Street Overlay	Sewer Rehab	Airport
Excess (deficiency) of receipts Over (under) disbursements	62,298	249,437	-0-	(197,127)	(244,441)	(211,850)	(100,960)	(49,990)
Other financing sources (uses):								
Transfer in	-0-	-0-	-0-	200,206	66,405	225,310	82,742	1,907
Transfer out	(101,000)	(249,437)	-0-	-0-	-0-	(13,460)	-0-	-0-
Sale of assets	-0-	-0-	-0-	-0-	60,000	-0-	-0-	-0-
	<u>(101,000)</u>	<u>(249,437)</u>	<u>-0-</u>	<u>200,206</u>	<u>126,405</u>	<u>211,850</u>	<u>82,742</u>	<u>1,907</u>
Net change in cash balance	(38,702)	-0-	-0-	3,079	(118,036)	-0-	(18,218)	(48,083)
Cash balances beginning of year	<u>52,166</u>	<u>-0-</u>	<u>24,873</u>	<u>2,382</u>	<u>(95,934)</u>	<u>-0-</u>	<u>-0-</u>	<u>(1,907)</u>
Cash balances end of year	<u>\$ 13,464</u>	<u>\$ -0-</u>	<u>\$ 24,873</u>	<u>\$ 5,461</u>	<u>\$ (213,970)</u>	<u>\$ -0-</u>	<u>\$ (18,218)</u>	<u>\$ (49,990)</u>
Cash Basis Fund Balances								
Unreserved:								
Special revenue funds	\$ 13,464	\$ -0-	\$ 24,873	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Debt service funds	-0-	-0-	-0-	5,461	-0-	-0-	-0-	-0-
Capital projects funds	-0-	-0-	-0-	-0-	(213,970)	-0-	(18,218)	(49,990)
Total cash basis fund balances	<u>\$ 13,464</u>	<u>\$ -0-</u>	<u>\$ 24,873</u>	<u>\$ 5,461</u>	<u>\$ (213,970)</u>	<u>\$ -0-</u>	<u>\$ (18,218)</u>	<u>\$ (49,990)</u>

See accompanying independent auditor's report.

SCHEDULE 1 (Cont'd)

Capital Projects						Other Special Revenue Funds	Total
Swim Pool	Library Building	Knudsen	Down Town	Skate Park	Other Projects		
(14,481)	(2,883)	2,798	1,111	1,539	(23)	2,620	(501,952)
-0-	-0-	-0-	-0-	-0-	-0-	-0-	576,570
-0-	-0-	-0-	-0-	-0-	-0-	-0-	(363,897)
-0-	-0-	-0-	-0-	-0-	-0-	-0-	60,000
-0-	-0-	-0-	-0-	-0-	-0-	-0-	272,673
(14,481)	(2,883)	2,798	1,111	1,539	(23)	2,620	(229,279)
45,881	4,866	13,080	12,876	6,881	2,370	34,495	102,029
\$ 31,400	\$ 1,983	\$ 15,878	\$ 13,987	\$ 8,420	\$ 2,347	\$ 37,115	\$ (127,250)
\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 37,115	\$ 75,452
-0-	-0-	-0-	-0-	-0-	-0-	-0-	5,461
31,400	1,983	15,878	13,987	8,420	2,347	-0-	(208,163)
\$ 31,400	\$ 1,983	\$ 15,878	\$ 13,987	\$ 8,420	\$ 2,347	\$ 37,115	\$ (127,250)

CITY OF HARLAN

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES -
OTHER SPECIAL REVENUE FUNDS**

YEAR ENDED JUNE 30, 2005

	Library Trust	Beebe Trust	Police Trust	Play Ground	Hansen Trust	Allen Trust	Total
Receipts:							
Property tax	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Other City tax	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Use of money and property	27	186	-0-	110	-0-	-0-	323
Intergovernmental	4,944	-0-	-0-	-0-	-0-	-0-	4,944
Special assessments	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Miscellaneous	8,218	16,911	2,853	-0-	-0-	-0-	27,982
Total receipts	13,189	17,097	2,853	110	-0-	-0-	33,249
Disbursements:							
Operating:							
Public safety	-0-	-0-	1,805	-0-	-0-	-0-	1,805
Public works	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Health and social services	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Culture and recreation	12,981	15,482	-0-	361	-0-	-0-	28,824
General government	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Debt Service	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total disbursements	12,981	15,482	1,805	361	-0-	-0-	30,629

See accompanying independent auditor's report.

SCHEDULE 2

	<u>Library Trust</u>	<u>Beebe Trust</u>	<u>Police Trust</u>	<u>Play Ground</u>	<u>Hansen Trust</u>	<u>Allen Trust</u>	<u>Total</u>
Excess (deficiency) of receipts Over (under) disbursements	208	1,615	1,048	(251)	-0-	-0-	2,620
Cash balances beginning of year	<u>12,652</u>	<u>8,254</u>	<u>1,677</u>	<u>5,751</u>	<u>4,854</u>	<u>1,307</u>	<u>34,495</u>
Cash balances end of year	<u>\$ 12,860</u>	<u>\$ 9,869</u>	<u>\$ 2,725</u>	<u>\$ 5,500</u>	<u>\$ 4,854</u>	<u>\$ 1,307</u>	<u>\$ 37,115</u>
Cash Basis Fund Balances							
Special revenue funds	<u>12,860</u>	<u>9,869</u>	<u>2,725</u>	<u>5,500</u>	<u>4,854</u>	<u>1,307</u>	<u>37,115</u>
Total cash basis fund balances	<u>\$ 12,860</u>	<u>\$ 9,869</u>	<u>\$ 2,725</u>	<u>\$ 5,500</u>	<u>\$ 4,854</u>	<u>\$ 1,307</u>	<u>\$ 37,115</u>

**CITY OF HARLAN
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2005**

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due</u>
<u>Obligation</u>									
General Obligation Bonds:									
Refinancing Capital Note	Jan. 1, 2004	1.50 - 3.6%	\$ 1,770,000	\$ 1,770,000	\$ -0-	\$ 145,000	\$ 1,625,000	\$ 48,228	\$ 3,838
Swimming Pool Refunding	Dec. 1, 1996	4.25 - 4.9%	695,000	200,000	-0-	100,000	100,000	9,700	408
Fire Truck	Dec. 16, 2002	1.85 - 3.0%	355,000	305,000	-0-	50,000	255,000	8,017	583
Combined Issue	Jul. 20, 1999	4.10 - 5.1%	1,355,000	950,000	-0-	85,000	865,000	46,375	3,546
				<u>\$ 3,225,000</u>	<u>\$ -0-</u>	<u>\$ 380,000</u>	<u>\$ 2,845,000</u>	<u>\$ 112,320</u>	<u>\$ 8,375</u>
Anticipatory warrants:									
Activity Center	Dec. 19, 2003	3.11%	\$ 400,000	\$ 400,000	\$ -0-	\$ 400,000	\$ -0-	\$ 6,185	\$ -0-

SCHEDULE 4

**CITY OF HARLAN
BOND AND NOTE MATURITIES
JUNE 30, 2005**

General Obligation Bonds

Year Ending June 30,	Refinancing Capital Loan Note Issued Jan. 1, 2004		Swimming Pool Refunding Issued Dec. 1, 1996		Fire Truck Issued Dec. 16, 2002		Combined Issue Issued July 1, 1999		Total
	Interest Rates	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
2006	1.85%	\$ 170,000	4.90%	\$ 100,000	2.35%	\$ 55,000	4.50%	\$ 85,000	\$ 410,000
2007	2.20%	215,000	-0-	-0-	2.70%	100,000	4.60%	85,000	400,000
2008	2.50%	210,000	-0-	-0-	3.00%	100,000	4.70%	90,000	400,000
2009	2.75%	205,000	-0-	-0-	-0-	-0-	4.80%	90,000	295,000
2010	3.00%	200,000	-0-	-0-	-0-	-0-	4.90%	90,000	290,000
2011	3.20%	195,000	-0-	-0-	-0-	-0-	5.00%	100,000	295,000
2012	3.40%	215,000	-0-	-0-	-0-	-0-	5.00%	105,000	320,000
2013	3.60%	215,000	-0-	-0-	-0-	-0-	5.05%	110,000	325,000
2014	-0-	-0-	-0-	-0-	-0-	-0-	5.10%	110,000	110,000
		<u>\$ 1,625,000</u>		<u>\$ 100,000</u>		<u>\$ 255,000</u>		<u>\$ 865,000</u>	<u>\$ 2,845,000</u>

See Accompanying Independent Auditor's Report

CITY OF HARLAN
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2005

Receipts:	<u>2005</u>	<u>2004</u>
Property tax	\$ 1,404,035	\$ 1,461,570
Tax increment financing collections	1,091,014	980,614
Other city tax	22,641	16,371
Licenses and permits	60,021	54,195
Use of money and property	88,450	78,525
Intergovernmental	965,230	1,667,288
Charges for service	351,277	371,945
Special assessments	4,186	7,535
Miscellaneous	<u>284,384</u>	<u>497,532</u>
 Total	 \$ <u>4,271,238</u>	 \$ <u>5,135,575</u>
 Disbursements:		
Operating:		
Public safety	\$ 733,141	\$ 688,146
Public works	818,117	832,249
Culture and recreation	677,455	573,477
Community and economic development	-0-	570,820
General government	861,968	395,676
Debt service	494,018	499,108
Capital projects	<u>\$ 1,612,417</u>	<u>1,874,477</u>
 Total	 \$ <u>5,197,116</u>	 \$ <u>5,433,953</u>

See Accompanying Independent Auditor's Report

**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**

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

September 1, 2005

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

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Accountant

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Licensed In:

Iowa
Missouri

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Harlan, Iowa as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated September 1, 2005. My report expressed an unqualified opinion on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Harlan's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Harlan's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe none is a material weakness. Prior year reportable conditions have been resolved except for item 04-II-B.

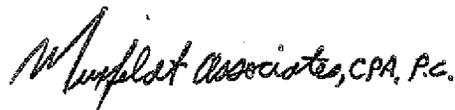
Compliance

As part of obtaining reasonable assurance about whether the City of Harlan's financial statements are free of material misstatement, I 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of noncompliance that are described in Part III 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, 2005 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my 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. Prior year statutory comments have been resolved except for Item 05-III-C.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Harlan and other parties to whom the City of Harlan may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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


M. J. H. Associates, CPA, P.C.

**CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

05-II-B Unsubstantiated Reimbursements

Comment - I noted instances in which documentation was not available to substantiate training, travel and conference reimbursements.

Recommendation - The City should review procedures to insure that all training, travel and conference reimbursements are properly substantiated.

Response - We will review our policy and procedures.

Conclusion - Response accepted.

Part III: Other Findings Related to Statutory Reporting:

05-III-A Official Depositories

A resolution naming official depositories has been adopted by the City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

05-III-B Certified Budget - For the year ended June 30, 2005, disbursements in the public safety, culture and recreation, debt service and capital projects functions exceeded the amounts budgeted.

Recommendation - The budget should have been amended in sufficient amounts at the functional level in accordance with Chapter 384.18 of the Code of Iowa. Total City disbursements did not exceed total budgeted amounts.

Response - The budget will be amended accordingly in the future.

Conclusion - Response accepted.

05-III-C Questionable Disbursements - I did not note any disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1970. However, I did note instances in which documentation was not available to substantiate training, travel, and conference reimbursements.

Recommendation - The City should review procedures to insure that all training, travel, and conference reimbursements are properly substantiated.

Response - We will review our policy and procedures.

Conclusion - Response accepted.

05-III-D Travel Expense

No disbursements of city money for travel expense of spouses of city officials or employees were noted.

**CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

Part III: Other Findings Related to Statutory Reporting (Cont'd.)

05-III-E Business Transactions

Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business connection	Transaction Description	Amount
Keith Burchett, Airport Commission, Owner Sta-Bilt	Construction contract	\$ 34,758
Jay Christensen, P & Z Board, Owner Dr. Jay's Eyecare	Employee benefits	2,349
Dave Miller, Council Member, Owner of Harlan Flower Shop	Supplies	<u>200</u>
Total		\$ <u>37,307</u>

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council Member and HMU Board Member do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year. The transactions with the Airport Commissioner and Planning and Zoning Board Member do not appear to represent conflicts of interest since they were entered into through competitive bidding.

05-III-F Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. However, the amount of coverage should be reviewed annually to insure adequate coverage for current operations.

05-III-G Council Minutes

No transactions were found that I believe should have been approved in the Council minutes but were not.

**CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

Part III: Other Findings Related to Statutory Reporting (Cont'd.)

05-III-H Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

05-III-I Revenue Notes

The City has no revenue debt at June 30, 2005.

05-III-J Payment of General Obligation Bonds

General Obligation Bonds were paid from the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

05-III-K Financial Condition - The following Funds had deficit balances as of June 30, 2005:

Fund	<u>Deficit</u>
Capital Projects:	
Sewer Rehabilitation	\$ (18,218)
Activity Center	(213,970)
Airport Improvement	<u>(49,990)</u>
Total	<u>\$ (282,178)</u>

Recommendation - The City should monitor these deficits in order to return these funds to a sound financial position.

Response - The deficits will be eliminated upon completion of the projects.

Conclusion - Response accepted.

CITY OF HARLAN
HARLAN, IOWA 51537
NEWS RELEASE

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa today released an audit report on the City of Harlan, Iowa.

The City's receipts totaled \$6,222,339 for the year ended June 30, 2005 a 9.1 percent decrease from 2004. The receipts included \$1,426,675 in property tax, \$1,091,014 from tax increment financing, \$1,967,631 from charges for services, \$106,058 from operating grants, contributions and restricted interest, \$199,986 from capital grants, contributions and restricted interest, \$45,562 from unrestricted investment earnings and \$1,385,413 from other general receipts.

Disbursements for the year totaled \$5,881,834, a 4.7 percent decrease from 2004, which included \$1,612,417 for capital projects, \$871,429 for general government, and \$847,385 for public works. Also, disbursements for business type activities totaled \$507,896.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.