

CITY OF HARLAN

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

JUNE 30, 2006

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**CITY OF HARLAN
OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
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
(After January 2006)		
Gary Christiansen	Mayor	January, 2008
Dave Miller	Mayor pro tem	January, 2008
Rand Petersen	Council Member	January, 2008
Rhonda Brown	Council Member	January, 2008
Keith Kaufman	Council Member	January, 2010
Dave Pedersen	Council Member	January, 2010
Orv Roecker	Council Member	January, 2010
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

August 29, 2006

Independent Auditor's Report

Lonnie G. Muxfeldt
Certified Public
Accountant

Harlan Office:

2309 B Chatburn Ave.
P.O. Box 551
Harlan, IA 51537-0551

Ph. (712) 755-3366
Fax (712) 755-3343

Avoca Office:

231 W. Lyon
P.O. Box 609
Avoca, IA 51521-0609

Ph. (712) 343-2379
Fax (712) 343-5012

www.muxfeldt-cpa.com
firm@muxfeldt-cpa.com

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, 2006, 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, 2006, 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 . . .

In accordance with *Government Auditing Standards*, I have also issued my report dated August 29, 2006 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 9, and 30 through 32 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, 2005 (which are not presented herein) and expressed an unqualified opinion on those financial statements which are prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 6, including the Schedule of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, 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.

 M. W. Wenzel Associates, CPA, P.C.

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

As management of the City of Harlan, Iowa we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's financial statements include three components: 1) a cash basis government-wide financial statement, 2) cash basis fund financial statements, and 3) notes to the financial statements.

Government-wide financial statement: This statement consists of a Statement of Activities and Net Assets and provides information about the activities of the City as a whole and presents an overall view of the City's finances.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. 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 spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Tax, and Urban Renewal Tax Increment, 3) Debt Service Fund, 4) and the Capital Projects Funds. 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 whether there are more or fewer 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. Enterprise Funds are used to report business type 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 follows the fund financial statements.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

ANALYSIS OF SIGNIFICANT CHANGES IN FINANCIAL POSITION AND NET ASSETS

Net assets may serve over time as a useful indicator of financial position. The cash basis of the net assets of the City's governmental activities increased 9.7% from the prior fiscal year, increasing by \$95,701. The following is the changes in the cash basis of the net assets of the City's governmental activities:

	Changes in Net Assets of Governmental Activities	
	Year ended June 30,	
	2006	2005
Receipts:		
Program receipts:		
Charges for services	\$ 1,441,785	\$ 1,302,404
Operating grants, contributions and restricted interest	89,666	106,058
Capital grants, contributions and restricted interest	725,038	199,986
General receipts:		
Property tax	1,413,850	1,426,675
Tax increment financing	1,199,550	1,091,014
Road use tax	442,238	439,177
Local option tax	250,150	-0-
Unrestricted investment earnings	42,348	25,325
Miscellaneous	19,168	244,201
Sale of assets	468	90,562
Transfers, net	(40,569)	611,473
Total receipts	<u>5,583,692</u>	<u>5,536,875</u>
Disbursements:		
Public safety	1,171,035	783,144
Public works	885,268	847,385
Community and economic development	377,533	-0-
Culture and recreation	737,547	704,071
General government	305,635	871,429
Debt service	512,095	494,018
Capital projects	989,072	1,612,417
Nonprogram	509,806	569,370
Total disbursements	<u>5,487,991</u>	<u>5,881,834</u>
Increase (decrease) in cash	95,701	(344,959)
Net assets, beginning of year	<u>989,261</u>	<u>1,334,220</u>
Net assets, end of year	<u>\$ 1,084,962</u>	<u>\$ 989,261</u>

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

The cash basis of the net assets of the City's business type activities increased by \$597,395 or 6% during the fiscal year ended June 30, 2006. The following is the changes in the cash basis of the net assets of the City's business type activities:

	Changes in Net Assets of Business Type Activities	
	Year ended June 30,	
	2006	2005
Receipts:		
Program receipts:		
Charges for services and sales:		
Sewer	\$ 699,132	\$ 665,227
HMU Component unit	11,453,257	10,598,085
Operating grants, contributions, and restricted interest	148,979	105,223
Capital grants, contributions, and restricted interest	-0-	-0-
General receipts:		
Unrestricted interest	10,800	20,237
Transfers, net	40,569	(611,473)
Total receipts	<u>12,352,737</u>	<u>10,777,299</u>
Disbursements:		
Sewer	579,093	507,896
HMU Component unit	<u>11,176,249</u>	<u>10,735,615</u>
Total disbursements	<u>11,755,342</u>	<u>11,243,511</u>
Increase (decrease) in cash	597,395	(466,212)
Net assets, beginning of year	<u>9,970,519</u>	<u>10,436,731</u>
Net assets, end of year	<u>\$ 10,567,914</u>	<u>\$ 9,970,519</u>

ANALYSIS BETWEEN ACTUAL AND BUDGET AMOUNTS

The City amended its budget on May 16, 2006. The amended budget increased revenue by over \$1 million and increased disbursements by over \$3.9 million, the majority of which increased business type disbursements for the year ended June 30, 2006. Actual disbursements exceeded budgeted amounts in the public safety function for the year ended June 30, 2006.

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

DEBT ADMINISTRATION

Outstanding Debt at Year-End		
	2006	2005
General obligation bonds	\$ <u>2,435,000</u>	\$ <u>2,845,000</u>

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 \$2,435,000 is significantly below its constitutional debt limit of \$9.97 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 2007 budget, tax rates, and fees that will be charged for various City activities. Amounts available for appropriation in the operating budget are \$21.9 million, an increase of 2.3 million over the final 2006 budget. Budgeted disbursements are expected to decrease by \$1.5 million, a decrease of 7 percent under the final 2006 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by \$2.2 million by the end of fiscal year 2007.

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, 2006

	Disbursements	Charges for Services	Program Receipts	
			Operating Grants, Contributions, And Restricted Interest	Capital Grants, Contributions And Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 1,171,035	\$ 47,421	\$ 74,929	\$ 182,734
Public works	885,268	273,801	-0-	446,748
Cultures and recreation	737,547	192,392	14,737	5,060
Community and economic dev	377,533	-0-	-0-	-0-
General government	305,635	305,996	-0-	-0-
Debt service	512,095	-0-	-0-	-0-
Capital projects	989,072	-0-	-0-	90,496
Nonprogram - contractual services	509,806	622,175	-0-	-0-
Total governmental activities	5,487,991	1,441,785	89,666	725,038
Business type activities:				
Sewer	579,093	699,132	-0-	-0-
HMU - Component unit	11,176,249	11,453,257	148,979	-0-
Total business type activities	11,755,342	12,152,389	148,979	-0-
Total	\$ 17,243,333	\$ 13,594,174	\$ 238,645	\$ 725,038
General receipts:				
Property taxes levied for:				
General purposes				
Tax increment financing				
Debt service				
Road use tax				
Local Option 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.

<u>Net (Disbursements), Receipts and Changes in Net Assets</u>			
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Functions / Programs:			
Governmental activities:			
Public safety	\$ (865,951)	\$ -0-	\$ (865,951)
Public works	(164,719)	-0-	(164,719)
Cultures and recreation	(525,358)	-0-	(525,358)
Community and economic dev	(377,533)	-0-	(377,533)
General government	361	-0-	361
Debt service	(512,095)	-0-	(512,095)
Capital projects	(898,576)	-0-	(898,576)
Nonprogram - contractual services	112,369	-0-	112,369
Total governmental activities	<u>(3,231,502)</u>	<u>-0-</u>	<u>(3,231,502)</u>
Business type activities:			
Sewer	-0-	120,039	120,039
HMU - Component unit	-0-	425,987	425,987
Total business type activities	<u>-0-</u>	<u>546,026</u>	<u>546,026</u>
Total	(3,231,502)	546,026	(2,685,476)
	1,121,574	-0-	1,121,574
	1,199,550	-0-	1,199,550
	292,276	-0-	292,276
	442,238	-0-	442,238
	250,150	-0-	250,150
	42,348	10,800	53,148
	19,168	-0-	19,168
	468	-0-	468
	<u>(40,569)</u>	<u>40,569</u>	<u>-0-</u>
	<u>3,327,203</u>	<u>51,369</u>	<u>3,378,572</u>
	95,701	597,395	693,096
	<u>989,261</u>	<u>9,970,519</u>	<u>10,959,780</u>
	<u>\$ 1,084,962</u>	<u>\$ 10,567,914</u>	<u>\$ 11,652,876</u>
	<u>\$ 1,084,962</u>	<u>\$ 10,567,914</u>	<u>\$ 11,652,876</u>
	6,969	-0-	6,969
	2,766	-0-	2,766
	<u>1,075,227</u>	<u>10,567,914</u>	<u>11,643,141</u>
	<u>\$ 1,084,962</u>	<u>\$ 10,567,914</u>	<u>\$ 11,652,876</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, 2006

	Special Revenue		
	General	Urban Renewal	Debt Service
Receipts:			
Property tax	\$ 865,323	\$ -0-	\$ 291,371
Tax increment financing collections	-	1,199,550	-
Other city tax	42,382	-	905
Licenses and permits	65,371	-	-
Use of money and property	99,886	-	1,375
Intergovernmental	307,097	-	-
Charges for services	402,974	-	-
Special assessments	2	-	-
Miscellaneous	52,911	-	-
Total receipts	<u>1,835,946</u>	<u>1,199,550</u>	<u>293,651</u>
Disbursements:			
Operating:			
Public safety	865,354	-	-
Public works	372,996	-	-
Community and economic development	-	1,704	-
Culture and recreation	670,319	-	-
General government	294,416	-	-
Debt service	-	-	512,095
Capital projects	-	-	-
Total disbursements	<u>2,203,085</u>	<u>1,704</u>	<u>512,095</u>
Excess (deficiency) of receipts over (under) disbursements	(367,139)	1,197,846	(218,444)
Other financing sources (uses):			
Sale of capital assets	468	-	-
Operating transfers in	463,848	-	215,749
Operating transfers out	(70,442)	(1,227,927)	-
Total other financing sources (uses)	<u>393,874</u>	<u>(1,227,927)</u>	<u>215,749</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) other financing sources (uses)	26,735	(30,081)	(2,695)
Cash basis fund balance, beginning of year	<u>312,177</u>	<u>-0-</u>	<u>5,461</u>
Cash basis fund balance, end of year	\$ <u>338,912</u>	\$ <u>(30,081)</u>	\$ <u>2,766</u>
Cash Basis Assets			
Cash	\$ <u>338,912</u>	\$ <u>(30,081)</u>	\$ <u>2,766</u>
Cash Basis Fund Balances			
Reserved:			
Debt Service	-	-	2,766
Unreserved:			
General fund	338,912	-	-
Special revenue funds	-	(30,081)	-
Capital projects funds	-	-	-
Total fund balance	\$ <u>338,912</u>	\$ <u>(30,081)</u>	\$ <u>2,766</u>

See notes to financial statements.

Capital Projects			
Industrial Park	Airport Improvement	Other Nonmajor	Total
\$ -0-	\$ -0-	\$ 212,938	\$ 1,369,632
-0-	-0-	-0-	1,199,550
-0-	-0-	251,081	294,368
-0-	-0-	-0-	65,371
4,411	-0-	717	106,389
-0-	446,748	628,053	1,381,898
-0-	-0-	-0-	402,974
-0-	-0-	975	977
314	-0-	103,470	156,695
<u>4,725</u>	<u>446,748</u>	<u>1,197,234</u>	<u>4,977,854</u>
-0-	-0-	219,472	1,084,826
-0-	-0-	383,133	756,129
375,829	-0-	-0-	377,533
-0-	-0-	57,131	727,450
-0-	-0-	-0-	294,416
-0-	-0-	-0-	512,095
-0-	420,285	568,787	989,072
<u>375,829</u>	<u>420,285</u>	<u>1,228,523</u>	<u>4,741,521</u>
(371,104)	26,463	(31,289)	236,333
-0-	-0-	-0-	468
385,680	26,000	796,509	1,887,786
<u>(158,000)</u>	<u>-0-</u>	<u>(583,078)</u>	<u>(2,039,447)</u>
<u>227,680</u>	<u>26,000</u>	<u>213,431</u>	<u>(151,193)</u>
(143,424)	52,463	182,142	85,140
<u>144,718</u>	<u>(49,990)</u>	<u>(82,721)</u>	<u>329,645</u>
\$ <u>1,294</u>	\$ <u>2,473</u>	\$ <u>99,421</u>	\$ <u>414,785</u>
\$ <u>1,294</u>	\$ <u>2,473</u>	\$ <u>99,421</u>	\$ <u>414,785</u>
-0-	-0-	-0-	2,766
-0-	-0-	-0-	338,912
-0-	-0-	71,430	41,349
1,294	2,473	27,991	31,758
\$ <u>1,294</u>	\$ <u>2,473</u>	\$ <u>99,421</u>	\$ <u>414,785</u>

CITY OF HARLAN

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, 2006

Total governmental funds cash balances (page 13) \$ 414,785

*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.

670,177

Cash basis net assets of governmental activities (page 11) \$ 1,084,962

Net change in cash balances (page 13) \$ 85,140

*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.

10,561

Change in cash balance of governmental activities (page 11) \$ 95,701

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, 2006

	Enterprise Funds			Total
	Sewer	Sewer Equipment Replacement	HMU Component Unit	
Operating receipts:				
Use of money and property	\$ 2,881	\$ -0-	\$ -0-	\$ 2,881
Charges for services	698,455	-0-	11,453,257	12,151,712
Miscellaneous	-0-	-0-	-0-	-0-
Total receipts	<u>701,336</u>	<u>-0-</u>	<u>11,453,257</u>	<u>12,154,593</u>
Operating disbursements:				
Public safety	-0-	-0-	-0-	-0-
Public Works	-0-	-0-	-0-	-0-
Culture and recreation	-0-	-0-	-0-	-0-
General government	-0-	-0-	-0-	-0-
Business type activities	528,998	50,095	11,176,249	11,755,342
Total disbursements	<u>528,998</u>	<u>50,095</u>	<u>11,176,249</u>	<u>11,755,342</u>
Operating income	172,338	(50,095)	277,008	399,251
Nonoperating receipts (disbursements):				
Interest on investments	-0-	8,596	148,979	157,575
Bond proceeds	-0-	-0-	-0-	-0-
Reimbursements	-0-	-0-	-0-	-0-
Contractual services	-0-	-0-	-0-	-0-
Transfer in	-0-	618,787	-0-	618,787
Transfer out	(210,000)	(368,218)	-0-	(578,218)
Total nonoperating receipts (disbursements)	<u>(210,000)</u>	<u>259,165</u>	<u>148,979</u>	<u>198,144</u>
Excess (deficiency) of receipts over (under) disbursements	(37,662)	209,070	425,987	597,395
Cash basis fund balance, beginning of year	<u>58,299</u>	<u>1,724,720</u>	<u>8,187,500</u>	<u>9,970,519</u>
Cash basis fund balances, end of year	\$ <u>20,637</u>	\$ <u>1,933,790</u>	\$ <u>8,613,487</u>	\$ <u>10,567,914</u>
Cash Basis Assets				
Cash	\$ <u>20,637</u>	\$ <u>1,933,790</u>	\$ <u>8,613,487</u>	\$ <u>10,567,914</u>
Cash Basis Fund Balances				
Unreserved				
Total fund balance	\$ <u>20,637</u>	\$ <u>1,933,790</u>	\$ <u>8,613,487</u>	\$ <u>10,567,914</u>

See notes to financial statements.

EXHIBIT D

	Internal Service		Total
	Equipment Revolving Fund	Group Insurance Trust	
Operating receipts:			
Use of money and property	\$ -0-	\$ -0-	\$ -0-
Charges for services	-0-	-0-	-0-
Miscellaneous	17,044	-0-	17,044
Total receipts	<u>17,044</u>	<u>-0-</u>	<u>17,044</u>
Operating disbursements:			
Public safety	86,209	-0-	86,209
Public works	129,139	-0-	129,139
Culture and recreation	10,097	-0-	10,097
General government	11,219	-0-	11,219
Business type activities	-0-	-0-	-0-
Total disbursements	<u>236,664</u>	<u>-0-</u>	<u>236,664</u>
Operating income (loss)	(219,620)	-0-	(219,620)
Nonoperating receipts (disbursements):			
Interest on investments	-0-	6,720	6,720
Bond Proceeds	-0-	-0-	-0-
Reimbursements	-0-	622,175	622,175
Contractual services	-0-	(509,806)	(509,806)
Transfer in	120,442	-0-	120,442
Transfer out	(9,350)	-0-	(9,350)
Total nonoperating receipts (disbursements)	<u>111,092</u>	<u>119,089</u>	<u>230,181</u>
Excess (deficiency) of receipts over (under) disbursements	(108,528)	119,089	10,561
Cash basis fund balance, beginning of year	<u>295,661</u>	<u>363,955</u>	<u>659,616</u>
Cash basis fund balances, end of year	\$ <u>187,133</u>	\$ <u>483,044</u>	\$ <u>670,177</u>
Cash Basis Assets			
Cash	\$ <u>187,133</u>	\$ <u>483,044</u>	\$ <u>670,177</u>
Cash Basis Fund Balances			
Unreserved:			
Total fund balance	\$ <u>187,133</u>	\$ <u>483,044</u>	\$ <u>670,177</u>

The company has been established to provide a range of services to its customers. The company's principal activities are the provision of financial services, including the management of investments and the provision of advisory services. The company is a public limited company and its shares are listed on the London Stock Exchange. The company's registered office is at [Address].

NOTES TO FINANCIAL STATEMENTS

The financial statements are prepared in accordance with the provisions of the Companies Act 2006 and the Financial Reporting Standard for General Purpose Financial Statements (FRS 102) issued by the Financial Reporting Council. The financial statements are prepared on a going concern basis. The company's accounting policies are set out in note 2. The financial statements are audited by the statutory auditors, who have issued an unqualified audit opinion.

The company's financial statements for the year ended 31st March 2018 show a profit of £[Amount] and a dividend of £[Amount]. The company's financial statements for the year ended 31st March 2017 show a profit of £[Amount] and a dividend of £[Amount]. The company's financial statements for the year ended 31st March 2016 show a profit of £[Amount] and a dividend of £[Amount].

The company's financial statements for the year ended 31st March 2018 show a profit of £[Amount] and a dividend of £[Amount]. The company's financial statements for the year ended 31st March 2017 show a profit of £[Amount] and a dividend of £[Amount]. The company's financial statements for the year ended 31st March 2016 show a profit of £[Amount] and a dividend of £[Amount].

The company's financial statements for the year ended 31st March 2018 show a profit of £[Amount] and a dividend of £[Amount]. The company's financial statements for the year ended 31st March 2017 show a profit of £[Amount] and a dividend of £[Amount]. The company's financial statements for the year ended 31st March 2016 show a profit of £[Amount] and a dividend of £[Amount].

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(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.

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, 2006

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

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, 2006

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

SCHEDULE 5 Basis of Presentation (Cont'd)

The Debt Service accounts for the principal and interest payments on long-term debt of the City.

Capital Projects:

The Airport Improvement Fund represents the improvements at the Municipal Airport.

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.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. At June 30, 2006, disbursements exceed amounts budgeted in the public safety function.

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2004, to compute the amounts, which became liens on property on July 1, 2005. These taxes were due and payable in two installments on September 30, 2005 and March 31, 2006, 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, 2006 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, 2006, \$3,039,389 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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. The City's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$88,458, \$89,059, and \$80,258, respectively, equal to the required contributions for each year.

**CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

(4) Bonds and Notes Payable

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

<u>Year Ending June 30,</u>	General Obligation Bonds	
	<u>Principal</u>	<u>Interest</u>
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
	\$ 2,435,000	\$ 378,214

The City has a general obligation debt limit of approximately \$9,971,016, which was not exceeded during the year ended June 30, 2006.

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, 2006, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 47,347
Compensatory time	40,627
Floating holiday	7,802
	\$ 95,776

This liability has been computed based on rates of pay as of June 30, 2006.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(6) 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 \$30,000 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 \$47,533 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 are as follows:

Unpaid claims, beginning of year	\$	24,902
Incurred claims		360,491
Payments		<u>(337,861)</u>
Unpaid claims, end of year	\$	<u>47,532</u>

(7) Deficit Fund Balances

As of June 30, 2006, the following funds had deficit balances:

<u>Fund</u>	<u>Deficit</u>
Special Revenue:	
Urban Renewal	\$ (30,081)
Capital Projects:	
Sewer Rehabilitation	(30,561)
Activity Center	<u>(46,196)</u>
Total	\$ <u>(106,838)</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, 2006

(8) 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.

(9) Urban Renewal

Harlan Urban Renewal Area

The original Harlan Urban Renewal Plan was dated April 1989 and was amended in June 1992, October 1993, March 2000, February 2002 and March 2005. Areas of the city within the urban renewal area include the Downtown Business District, the C. G. Therkildsen Center, the Wastewater Treatment and the Industrial Park areas.

Laurel Street Urban Renewal Area

The Laurel Street Urban Renewal Area is a stand alone urban renewal plan adopted in March 2005 for the promotion of new residential development at the former Laurel School site.

(10) Tax Increment Financing

For the year ended June 30, 2006, the City collected \$1,199,551 in tax increment financing (TIF) funds. The TIF receipts are recorded in the urban renewal fund then expended and transferred as follows:

	<u>2006</u>		<u>2005</u>
Cash balance, beginning of year	\$ -0-	\$	30,901
Tax Increment Financing receipts	<u>1,199,550</u>		<u>1,091,014</u>
TIF Funds available	1,199,550		1,121,915
Legal fees	1,704		-0-
Transferred to:			
Debt Service Fund	215,749		200,206
Street Overlay	78,236		149,310
Activity Center	-0-		41,405
General Fund	129,475		189,224
Sewer Equipment Replacement Fund	418,787		139,788
Industrial Park Fund	<u>385,680</u>		<u>401,982</u>
Total transfers	<u>1,229,631</u>		<u>1,121,915</u>
Cash balance, end of year	\$ <u>(30,081)</u>	\$	<u>-0-</u>

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(10) Tax Increment Financing (Continued)

In 2001, 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, 2006, the City remitted \$85,181 to the county and \$145,781 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.

In November 2005, as a result of the State Auditor's inquiry and recommendation by legal counsel, the City Council voted to terminate participation in the 28E Agreements with both Shelby County and the Harlan Community School District effective July 1, 2006. In addition, the City's General Fund will pay back the TIF funds it transferred to the General Fund for fiscal years 2004, 2005 and 2006. The payback will be appropriated for fiscal years 2007 through 2014 at which time the TIF program will sunset.

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 \$414 for the year ended June 30, 2006.

(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, 2006, disbursements in the public safety function exceeded the amounts budgeted.

**CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

(13) Grants

Shelby County Endowment Fund

On April 6, 2006, the Harlan Police Department was awarded a \$1,000 grant for its taser program from the Shelby County Endowment Fund's HF2302 Grant Fund. The grant expires December 1, 2006.

Omaha Community Foundation Grant

In May 2006, the Harlan Police Department was awarded a \$1,000 grant for its taser program from the Omaha Community Foundation.

Assistance to Firefighters Grant

On October 21, 2005, the Harlan Fire Department was awarded a \$180,734 grant from the Department of Homeland Security, Federal Emergency Management Agency, for the purchase of updated firemen's gear and equipment. The grant stipulated a 5 % local match of \$9,350. The grant expires October 21, 2006.

Airport Improvement Grant

On May 17, 2005, the Harlan Municipal Airport was awarded a \$446,747 grant from the U.S. Department of Transportation, the Federal Aviation Administration, for the construction of a partial parallel taxiway at the Municipal Airport. The grant stipulated a 5% local match of \$24,250. The City matched \$26,000. The grant expired upon completion of the project.

Community Development Block Grant

On March 29, 2006, the City of Harlan was awarded a \$305,000 Community Development Block Grant from the Iowa Department of Economic Development for the rehabilitation of low to moderate income family housing. The grant expires March 31, 2008. As of June 30, 2006, no funds had been received.

(14) Commitments

Harlan Country Club Estates

In September 1999, the City entered into an agreement with Harlan Country Club Estates, Inc. for the construction of road infrastructure in a residential development area. Under the terms of the agreement, the City agrees to pay \$15,100 per housing unit. There are 25 units and the City remains obligated for 10 infrastructure payments. For the year ended June 30, 2006, the City paid \$0, pursuant to the agreement.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(14) Commitments (Continued)

Ambulance Commission of Shelby County

On March 7, 2005, the City entered into a voluntary joint undertaking with Myrtue Memorial Hospital for the formation of the Ambulance Commission of Shelby County, as authorized by Chapter 28E of the 2005 Code of Iowa. The commencement date of the joint undertaking is July 1, 2006. The city administrator and an individual appointed by the mayor and approved by city council will serve on the five-member board of directors. The Ambulance Commission was established to provide ambulance services to the citizens of Harlan and Shelby County, Iowa. The agreement commits the City of Harlan to contribute 33-1/3% of the total cost of providing ambulance service to Shelby County.

Communications Center Services

On August 7, 2001, the City contracted with Shelby County to provide communications services through the Shelby County Emergency Management Commission for Harlan beginning July 1, 2001 and ending June 30, 2006. The communications services provided to Harlan during this period included dispatching, answering phones for the Harlan Police Department on night and weekends, MCIC access, city alarm monitoring and radio log maintenance and reports. After June 30, 2006, the parties will continue this contract on a year to year basis. For the year ended June 30, 2006, the City paid \$50,000 to Shelby County.

Agreement for GIS Services

In July 2003, the City of Harlan, Harlan Municipal Utilities and Shelby County entered into an agreement for the exchange and distribution of Geographic Information System (GIS) data. Shelby County developed a digital graphic and tabular database depicting land and cadastral data. This agreement is effective until July 1, 2008 and stipulates an annual fee of \$15,000. For the year ended June 30, 2006, the City paid Shelby County \$15,000 for GIS Services.

TIF Agreements

On May 1, 2001, the City entered into 28E agreements with both 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, 2006, the City remitted \$85,181 to the county and \$145,781 to the school district. On November 15, 2005, the city council terminated the 28E agreements with both Shelby County and Harlan Community School District effective July 1, 2006.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(14) Commitments (Continued)

Visu-Sewer Clean and Seal, Inc.

On March 28, 2006, the city council approved by resolution an \$119,580 contract with Visu-Sewer Clean and Seal, Inc. for the 2006 Sewer Rehabilitation Project. The contract provides for labor, equipment and materials necessary to provide air testing, the grouting of approximately 3,500 pipe joints, cleaning, televising, removal of a protruding tap and miscellaneous work and cleanup to the City's sewer system. As of June 30, 2006, the City had paid \$71,161 for the 2006 Sewer Rehabilitation Project.

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, 2006

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Property tax	\$ 1,369,632	\$ -0-
Other city tax	294,368	-0-
Tax increment financing	1,199,550	-0-
Licenses and permits	65,371	-0-
Use of money and property	113,109	159,779
Intergovernmental	1,381,898	-0-
Charges for services	402,974	12,152,389
Special assessments	977	-0-
Miscellaneous	796,382	-0-
Total receipts	<u>5,624,261</u>	<u>12,312,168</u>
Disbursements:		
Public safety	1,171,035	-0-
Public works	885,268	-0-
Culture and recreation	737,547	-0-
Community and economic development	377,533	-0-
General government	305,635	-0-
Debt service	512,095	-0-
Capital projects	989,072	-0-
Business type	-0-	11,755,342
Nonprogram	509,806	-0-
Total disbursements	<u>5,487,991</u>	<u>11,755,342</u>
Excess (deficiency) of receipts over (under) disbursements	136,270	556,826
Other financing sources, net	<u>(40,569)</u>	<u>40,569</u>
Excess (deficiency) of receipts and other financing sources	95,701	597,395
Balance beginning of year	<u>989,261</u>	<u>9,970,519</u>
Balance end of year	<u>\$ 1,084,962</u>	<u>\$ 10,567,914</u>

See Accompanying Independent Auditor's Report

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$ 1,369,632	\$ 1,367,221	\$ 1,367,221	\$ 2,411
294,368	147,636	147,636	146,732
1,199,550	1,070,925	1,227,926	(28,376)
65,371	21,950	21,950	43,421
272,888	169,400	169,400	103,488
1,381,898	726,314	1,595,414	(213,516)
12,555,363	12,227,678	12,024,323	531,040
977	3,800	3,800	(2,823)
796,382	181,917	371,012	425,370
<u>17,936,429</u>	<u>15,916,841</u>	<u>16,928,682</u>	<u>1,007,747</u>
1,171,035	787,300	1,061,284	(109,751)
885,268	889,905	959,264	73,996
737,547	682,549	756,799	19,252
377,533	-0-	463,049	85,516
305,635	297,960	341,310	35,675
512,095	512,096	512,096	1
989,072	426,546	995,571	6,499
11,755,342	11,091,420	13,506,670	1,751,328
509,806	-0-	-0-	(509,806)
<u>17,243,333</u>	<u>14,687,776</u>	<u>18,596,043</u>	<u>1,352,710</u>
693,096	1,229,065	(1,667,361)	2,360,457
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
693,096	1,229,065	(1,667,361)	2,360,457
<u>10,959,780</u>	<u>10,959,780</u>	<u>10,959,780</u>	<u>-0-</u>
\$ <u>11,652,876</u>	\$ <u>12,188,845</u>	\$ <u>9,292,419</u>	\$ <u>2,360,457</u>

CITY OF HARLAN

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

JUNE 30, 2006

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 functional 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 \$3,908,267. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceed the amounts budgeted in the public safety function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HARLAN

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

YEAR ENDED JUNE 30, 2006

	Special Revenue										Capital Projects			
	Road Use Tax	Employee Retirement	Housing Rehab	Fire Grant	Local Option Tax	Other Spec Rev Funds	Sewer Rehab	Activity Center						
Receipts:														
Property tax	\$ -0-	\$ 212,938	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Other City tax	-0-	931	-0-	-0-	250,150	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Use of money and property	-0-	-0-	-0-	-0-	-0-	183	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Intergovernmental	442,238	-0-	-0-	180,734	-0-	5,081	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Special assessments	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Miscellaneous	-0-	-0-	-0-	-0-	-0-	12,974	-0-	-0-	-0-	-0-	-0-	-0-	-0-	77,582
Total receipts	442,238	213,869	-0-	180,734	250,150	18,238	-0-	-0-	-0-	-0-	-0-	-0-	-0-	77,582
Disbursements:														
Operating:														
Public safety	-0-	-0-	-0-	190,084	27,094	2,294	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Public works	383,133	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Health and social services	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Culture and recreation	-0-	-0-	-0-	-0-	27,423	29,708	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
General government	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Debt Service	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	9,808
Total disbursements	383,133	-0-	-0-	190,084	54,517	32,002	-0-	-0-	-0-	-0-	380,561	380,561	-0-	9,808
Excess (deficiency) of receipts Over (under) disbursements	59,105	213,869	-0-	(9,350)	195,633	(13,764)	-0-	-0-	-0-	-0-	(380,561)	(380,561)	-0-	67,774

See accompanying independent auditor's report.

Capital Projects									
	Street Overlay	Swim Pool	Library Building	Harlan Plaza	Down Town	Skate Park	Other Projects	Total	
\$	-0-	-0-	-0-	-0-	-0-	-0-	-0-	212,938	\$
Property tax	-0-	-0-	-0-	-0-	-0-	-0-	-0-	251,081	
Other City tax	-0-	416	-0-	-0-	118	-0-	-0-	717	
Use of money and property	-0-	-0-	-0-	-0-	-0-	-0-	-0-	628,053	
Intergovernmental	-0-	-0-	-0-	-0-	975	-0-	-0-	975	
Special assessments	-0-	-0-	-0-	-0-	-0-	-0-	-0-	103,470	
Miscellaneous	-0-	-0-	3,274	-0-	-0-	9,640	-0-	103,470	
Total receipts	-0-	416	3,274	-0-	1,093	9,640	-0-	1,197,234	
Disbursements:									
Operating:									
Public safety	-0-	-0-	-0-	-0-	-0-	-0-	-0-	219,472	
Public works	-0-	-0-	-0-	-0-	-0-	-0-	-0-	383,133	
Health and social services	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	
Culture and recreation	-0-	-0-	-0-	-0-	-0-	-0-	-0-	57,131	
General government	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	
Debt Service	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	
Capital projects	163,708	8,673	5,200	438	-0-	375	24	568,787	
Total disbursements	163,708	8,673	5,200	438	-0-	375	24	1,228,523	

Excess (deficiency) of receipts Over (under) disbursements (163,708) (8,257) (1,926) (438) 1,093 9,265 (24) (31,289)

	Special Revenue					Capital Projects		
	Road Use Tax	Employee Retirement	Housing Rehab	Fire Grant	Local Option Tax	Other Spec Rev Funds	Sewer Rehab	Activity Center
Excess (deficiency) of receipts Over (under) disbursements	59,105	213,869	-0-	(9,350)	195,633	(13,764)	(380,561)	67,774
Other financing sources (uses):								
Transfer in	-0-	120,504	-0-	9,350	-0-	3,709	368,218	100,000
Transfer out	(65,600)	(334,373)	-0-	-0-	(183,105)	-0-	-0-	-0-
	(65,600)	(213,869)	-0-	9,350	(183,105)	3,709	368,218	100,000
Net change in cash balance	(6,495)	-0-	-0-	-0-	12,528	(10,055)	(12,343)	167,774
Cash balances beginning of year	13,464	-0-	24,873	-0-	-0-	37,115	(18,218)	(213,970)
Cash balances end of year	\$ 6,969	\$ -0-	\$ 24,873	\$ -0-	\$ 12,528	\$ 27,060	\$ (30,561)	\$ (46,196)
Cash Basis Fund Balances								
Unreserved:								
Special revenue funds	\$ 6,969	\$ -0-	\$ 24,873	\$ -0-	\$ 12,528	\$ 27,060	\$ -0-	\$ -0-
Capital projects funds	-0-	-0-	-0-	-0-	-0-	-0-	(30,561)	(46,196)
Total cash basis fund balances	\$ 6,969	\$ -0-	\$ 24,873	\$ -0-	\$ 12,528	\$ 27,060	\$ (30,561)	\$ (46,196)

See accompanying independent auditor's report.

SCHEDULE 1 (Cont'd)

	Capital Projects							
	Street Overlay	Swim Pool	Library Building	Harlan Plaza	Down Town	Skate Park	Other Projects	Total
(Continued)								
Excess (deficiency) of receipts Over (under) disbursements	(163,708)	(8,257)	(1,926)	(438)	1,093	9,265	(24)	(31,289)
Other financing sources (uses):								
Transfer in	194,728	-0-	-0-	-0-	-0-	-0-	-0-	796,509
Transfer out	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(583,078)</u>
	194,728	-0-	-0-	-0-	-0-	-0-	-0-	213,431
Net change in cash balance	31,020	(8,257)	(1,926)	(438)	1,093	9,265	(24)	182,142
Cash balances beginning of year	-0-	31,400	1,983	1,543	13,987	8,420	16,682	(82,721)
Cash balances end of year	\$ 31,020	\$ 23,143	\$ 57	\$ 1,105	\$ 15,080	\$ 17,685	\$ 16,658	\$ 99,421
Cash Basis Fund Balances								
Unreserved:								
Special revenue funds	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 71,430
Capital projects funds	31,020	23,143	57	1,105	15,080	17,685	16,658	27,991
Total cash basis fund balances	\$ 31,020	\$ 23,143	\$ 57	\$ 1,105	\$ 15,080	\$ 17,685	\$ 16,658	\$ 99,421

CITY OF HARLAN

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

YEAR ENDED JUNE 30, 2006

	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	104	79	-0-	-0-	-0-	-0-	183
Intergovernmental	5,081	-0-	-0-	-0-	-0-	-0-	5,081
Special assessments	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Miscellaneous	5,060	7,200	714	-0-	-0-	-0-	12,974
Total receipts	10,245	7,279	714	-0-	-0-	-0-	18,238
Disbursements:							
Operating:							
Public safety	-0-	-0-	2,294	-0-	-0-	-0-	2,294
Public works	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Health and social services	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Culture and recreation	14,310	13,746	-0-	-0-	1,652	-0-	29,708
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	14,310	13,746	2,294	-0-	1,652	-0-	32,002

SCHEDULE 2

	Library Trust	Beebe Trust	Police Trust	Play Ground	Hansen Trust	Allen Trust	Total
Excess (deficiency) of receipts Over (under) disbursements	(4,065)	(6,467)	(1,580)	-0-	(1,652)	-0-	(13,764)
Other financing sources (uses):							
Transfers in	-0-	3,709	-0-	-0-	-0-	-0-	3,709
Transfers out	-0-	-0-	-0-	-0-	-0-	-0-	-0-
	-0-	3,709	-0-	-0-	-0-	-0-	3,709
Net change in cash balances	(4,065)	(2,758)	(1,580)	-0-	(1,652)	-0-	(10,055)
Cash balances beginning of year	12,860	9,869	2,725	5,500	4,854	1,307	37,115
Cash balances end of year	\$ 8,795	\$ 7,111	\$ 1,145	\$ 5,500	\$ 3,202	\$ 1,307	\$ 27,060
Cash Basis Fund Balances							
Special revenue funds	8,795	7,111	1,145	5,500	3,202	1,307	27,060
Total cash basis fund balances	\$ 8,795	\$ 7,111	\$ 1,145	\$ 5,500	\$ 3,202	\$ 1,307	\$ 27,060

See accompanying independent auditor's report

**CITY OF HARLAN
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2006**

	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due
			\$ 1,770,000	\$ 1,625,000	\$ -0-	\$ 170,000	\$ 1,455,000	\$ 46,452	\$ 3,576
	Jan. 1, 2004	1.50 - 3.6%							
	Dec. 1, 1996	4.25 - 4.9%	695,000	100,000	-0-	100,000	-0-	5,300	-0-
	Dec. 16, 2002	1.85 - 3.0%	355,000	255,000	-0-	55,000	200,000	7,393	475
	Jul. 20, 1999	4.10 - 5.1%	1,355,000	865,000	-0-	85,000	780,000	42,950	3,220
			\$ 2,845,000	\$ 2,845,000	\$ -0-	\$ 410,000	\$ 2,435,000	\$ 102,095	\$ 7,271

Obligation

General Obligation Bonds:

- Refinancing Capital Note
- Swimming Pool Refunding
- Fire Truck
- Combined Issue

See Accompanying Independent Auditor's Report

SCHEDULE 4

**CITY OF HARLAN
BOND AND NOTE MATURITIES
JUNE 30, 2006**

General Obligation Bonds

Year Ending June 30,	Refinancing Capital Loan Note Issued Jan. 1, 2004		Fire Truck Issued Dec. 16, 2002		Combined Issue Issued July 1, 1999		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2007	2.20%	\$ 215,000	2.70%	\$ 100,000	4.60%	\$ 85,000	\$ 400,000
2008	2.50%	210,000	3.00%	100,000	4.70%	90,000	400,000
2009	2.75%	205,000	-0-	-0-	4.80%	90,000	295,000
2010	3.00%	200,000	-0-	-0-	4.90%	90,000	290,000
2011	3.20%	195,000	-0-	-0-	5.00%	100,000	295,000
2012	3.40%	215,000	-0-	-0-	5.00%	105,000	320,000
2013	3.60%	215,000	-0-	-0-	5.05%	110,000	325,000
2014	-0-	-0-	-0-	-0-	5.10%	110,000	110,000
		\$ 1,455,000		\$ 200,000		\$ 780,000	\$ 2,435,000

See Accompanying Independent Auditor's Report

CITY OF HARLAN
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS
FOR THE LAST THREE YEARS

Receipts:	<u>2006</u>	<u>2005</u>	<u>2004</u>
Property tax	\$ 1,369,632	\$ 1,404,035	\$ 1,461,570
Tax increment financing collections	1,199,550	1,091,014	980,614
Other city tax	294,368	22,641	16,371
Licenses and permits	65,371	60,021	54,195
Use of money and property	106,389	88,450	78,525
Intergovernmental	1,381,898	965,230	1,667,288
Charges for service	402,974	351,277	371,945
Special assessments	977	4,186	7,535
Miscellaneous	<u>156,695</u>	<u>284,384</u>	<u>497,532</u>
 Total	 \$ <u>4,977,854</u>	 \$ <u>4,271,238</u>	 \$ <u>5,135,575</u>
 Disbursements:			
Operating:			
Public safety	\$ 1,084,826	\$ 733,141	\$ 688,146
Public works	756,129	818,117	832,249
Community and economic development	377,533	-0-	570,820
Culture and recreation	727,450	677,455	573,477
General government	294,416	861,968	395,676
Debt service	512,095	494,018	499,108
Capital projects	<u>989,072</u>	<u>1,612,417</u>	<u>1,874,477</u>
 Total	 \$ <u>4,741,521</u>	 \$ <u>5,197,116</u>	 \$ <u>5,433,953</u>

See Accompanying Independent Auditor's Report

**CITY OF HARLAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

YEAR ENDED JUNE 30, 2006

Grantor/Program	CFDA Number	Program Expenditures
Direct:		
U.S. Department of Transportation Federal Aviation Administration Airport Improvement Grant	20.106	\$ 420,285
Department of Homeland Security Federal Emergency Management Agency Assistance to Firefighters Grant	97.044	<u>180,734</u>
Total		<u>\$ 601,019</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Harlan and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

August 29, 2006

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

Lonnie G. Muxfeldt
Certified Public
Accountant

Harlan Office:

2309 B Chatburn Ave.
P.O. Box 551
Harlan, IA 51537-0551

Ph. (712) 755-3366
Fax (712) 755-3343

Avoca Office:

231 W. Lyon
P.O. Box 609
Avoca, IA 51521-0609

Ph. (712) 343-2379
Fax (712) 343-5012

www.muxfeldt-cpa.com
firm@muxfeldt-cpa.com

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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, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated August 29, 2006. 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. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Continued . . .

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 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, 2006 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. L. Linsford Associates, CPA, P.C.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

August 29, 2006

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Lonnie G. Muxfeldt

Certified Public
Accountant

Harlan Office:

2309 B Chatburn Ave.
P.O. Box 551
Harlan, IA 51537-0551

Ph. (712) 755-3366
Fax (712) 755-3343

Avoca Office:

231 W. Lyon
P.O. Box 609
Avoca, IA 51521-0609

Ph. (712) 343-2379
Fax (712) 343-5012

www.muxfeldt-cpa.com
firm@muxfeldt-cpa.com

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Missouri

To the Honorable Mayor and
Members of the City Council:

Compliance

I have audited the compliance of the City of Harlan, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. The City of Harlan's major federal program is identified in Part I of the accompany Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Harlan's management. My responsibility is to express an opinion on the City of Harlan's compliance based on my audit.

I conducted my audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards, and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Harlan's compliance with those requirements and performing such other procedures as I consider necessary in the circumstances. I believe my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the City of Harlan's compliance with those requirements.

In my opinion, the City of Harlan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Continued . . .

Internal Control Over Compliance

The management of the City of Harlan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing my audit, I considered the City of Harlan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matter involving the internal control over compliance and its operation that I consider to be material weaknesses.

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, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Musfeldt Associates, CPA, P.C.

**CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006**

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) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No reportable conditions in internal control over the major program were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose any audit findings which are required to be reported in accordance with Office Management and Budget Circular A-133, Section .501(a).
- (g) The major program was CFDA number 20.106 - Airport Improvement Program.
- (h) The dollar threshold to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Harlan did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No matters were noted.

CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No matters were noted.

Part IV: Other Findings Related to Statutory Reporting:

IV-A-06 Certified Budget - For the year ended June 30, 2006, disbursements in the public safety function 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.

IV-B-06 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.

IV-C-06 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, 2006**

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

IV-D-06 Business Transactions

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

Name, Title, and Business connection	Transaction Description	Amount
Jay Christensen, P & Z Board, Owner Dr. Jay's Eyecare	Employee benefits	\$ 404
Craig Kroger, HMU Board, Owner Harlan Hauling		<u>10</u>
Total		\$ <u>410</u>

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Planning and Zoning Board Member and the 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.

IV-E-06 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.

IV-F-06 Council Minutes

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

The City did not publish the July 2005 Treasurer's Report (Receipts and Disbursements). Also, the mayor had not signed the council minutes for the June 20, 2006 meeting.

Recommendation - The City should publish the Treasurer's Report every month. The mayor should also sign the council minutes.

Response - We will publish Treasurer's Reports every month in future. The mayor will also sign the council minutes.

Conclusion - Response accepted.

**CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006**

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

IV-G-06 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.

IV-H-06 Revenue Notes

The City has no revenue debt at June 30, 2006.

IV-I-06 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.

IV-J-06 Financial Condition - The following Funds had deficit balances as of June 30, 2006:

Fund	<u>Deficit</u>
Capital Projects:	
Sewer Rehabilitation	\$ 30,561
Activity Center	46,195
Special Revenue:	
Urban Renewal	<u>30,081</u>
Total	<u>\$ 106,837</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.

