

CITY OF HARLAN

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

JUNE 30, 2008

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**CITY OF HARLAN
OFFICIALS**

(Before January 2008)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gary Christiansen	Mayor	December, 2008
Dave Miller	Mayor pro tem	December, 2008
Rand Petersen	Council Member	December, 2008
Rhonda Brown	Council Member	December, 2008
Keith Kaufman	Council Member	December, 2010
Bill Reid	Council Member	December, 2010
Orv Roecker	Council Member	December, 2010
Terry Cox	City Administrator	Indefinite
Susan Lambert	City Clerk	Indefinite
Marjorie Ahrenholtz	City Treasurer	Indefinite
Joseph Lauterbach	City Attorney	Indefinite

(After January 2008)

Gary Christiansen	Mayor	December, 2010
Dave Miller	Mayor pro tem	December, 2012
Aaron Anliker	Council Member	December, 2010
Rhonda Brown	Council Member	December, 2012
Keith Kaufman	Council Member	December, 2010
David Pedersen	Council Member	December, 2012
Orv Roecker	Council Member	December, 2010
Terry Cox	City Administrator	Indefinite
Susan Lambert	City Clerk	Indefinite
Marjorie Ahrenholtz	City Treasurer	Indefinite
Joseph Lauterbach	City Attorney	Indefinite

MUXFELDT ASSOCIATES, CPA, P.C.

September 9, 2008

Certified Public Accountant

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

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:

305 W. High Street
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

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, 2008, 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 did not audit the financial statements of the Harlan Municipal Utilities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and my opinion, insofar as it relates to the amounts included for the Harlan Municipal Utilities, is based on the report of the other auditors.

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, based on my audit and the report of other auditors, 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, 2008, 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 . . .

September 9, 2008
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 9, 2008 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 31 through 33 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 three years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements which are prepared in conformity with an other comprehensive basis of accounting. 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.

Murphy Associates, CPA, P.C.

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

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, 2007.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves 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 overview 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, and 4) 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 current 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 Fund is used to accumulate resources and allocate costs of the City's self-funded health insurance plan.

A reconciliation between the government-wide statement and the fund financial statement 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, 2008**

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 \$1.9 million from the prior fiscal year. 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,	
	2008	2007
Receipts:		
Program receipts:		
Charges for services	\$ 1,890,221	\$ 1,500,754
Operating grants, contributions and restricted interest	634,109	557,329
Capital grants, contributions and restricted interest	432,286	202,595
General receipts:		
Property tax	1,386,471	1,271,437
Tax increment financing	493,868	746,189
Debt service	236,234	242,413
Local option tax	420,119	324,646
Hotel / motel tax	18,538	17,773
Unrestricted investment earnings	60,729	59,423
Bond proceeds	3,778,211	-0-
Sale of assets	110,939	95,550
Transfers, net	(126,132)	(44,529)
Total receipts	<u>9,335,593</u>	<u>4,973,580</u>
Disbursements:		
Public safety	1,043,969	1,281,470
Public works	1,119,022	800,153
Culture and recreation	811,031	720,360
Community and economic development	359,763	361,077
General government	466,907	389,961
Debt service	633,710	488,448
Capital projects	2,274,980	544,516
Nonprogram	1,090,791	801,317
Total disbursements	<u>7,800,173</u>	<u>5,387,302</u>
Increase (decrease) in cash	1,535,420	(413,722)
Net assets, beginning of year	<u>671,240</u>	<u>1,084,962</u>
Net assets, end of year	<u>\$ 2,206,660</u>	<u>\$ 671,240</u>

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

The cash basis of the net assets of the City's business type activities increased by \$1.3 million or 11.4% during the fiscal year ended June 30, 2008. 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,	
	2008	2007
Receipts:		
Program receipts:		
Charges for services and sales:		
Sewer	\$ 798,842	\$ 708,621
HMU Component unit	13,982,204	15,093,671
Operating grants, contributions, and restricted interest	393,033	288,724
Capital grants, contributions, and restricted interest	-0-	-0-
General receipts:		
Unrestricted interest	-0-	67,782
Transfers, net	126,132	44,529
Total receipts	<u>15,300,211</u>	<u>16,203,327</u>
Disbursements:		
Sewer	571,172	629,132
HMU Component unit	13,383,095	14,341,609
Total disbursements	<u>13,954,267</u>	<u>14,970,741</u>
Increase (decrease) in cash	1,345,944	1,232,586
Net assets, beginning of year	<u>11,800,500</u>	<u>10,567,914</u>
Net assets, end of year	<u>\$ 13,146,444</u>	<u>\$ 11,800,500</u>

ANALYSIS BETWEEN ACTUAL AND BUDGET AMOUNTS

The City amended its budget on May 10, 2008. The amended budget increased revenue by over \$1.64 million and increased disbursements by over \$5.51 million, the majority of which increased governmental disbursements for the year ended June 30, 2008. Actual disbursements exceeded budgeted amounts in the public safety, culture and recreation, general government and debt service functions for the year ended June 30, 2008.

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

DEBT ADMINISTRATION

	Outstanding Debt at Year-End	
	2008	2007
General obligation bonds	\$ <u>5,450,000</u>	\$ <u>2,035,000</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 \$5,450,000 is significantly below its constitutional debt limit of \$10.7 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 2008 budget, tax rates, and fees that will be charged for various City activities. Amounts available for appropriation in the operating budget are \$25.2 million, an increase of 6.4 million over the final 2008 budget. Budgeted disbursements are expected to decrease by \$1.1 million, a decrease of 4 percent under the final 2008 budget.

If these estimates are realized, the City's budgeted cash balances are expected to increase by \$1.7 million by the end of fiscal year 2009.

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 questions 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, 2008

	Disbursements	Charges for Services	Program Receipts	
			Operating Grants, Contributions, And Restricted Interest	Capital Grants, Contributions And Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 1,043,969	\$ 53,643	\$ 105,687	\$ 131,808
Public works	1,119,022	290,341	452,523	-0-
Community and economic dev	811,031	-0-	-0-	221,546
Culture and recreation	359,763	199,654	36,852	13,820
General government	466,907	361,870	25,719	-0-
Debt service	633,710	-0-	3,156	-0-
Capital projects	2,274,980	-0-	3,603	65,112
Nonprogram - contractual services	1,090,791	984,713	6,569	-0-
Total governmental activities	7,800,173	1,890,221	634,109	432,286
Business type activities:				
Sewer	571,172	798,842	81,965	-0-
HMU - Component unit	13,383,095	13,982,204	311,068	-0-
Total business type activities	13,954,267	14,781,046	393,033	-0-
Total	\$ 21,754,440	\$ 16,671,267	\$ 1,027,142	\$ 432,286

General receipts:

Property taxes levied for:
 General purposes
 Tax increment financing
 Debt service
 Hotel/motel tax
 Local option tax
 Unrestricted investment earnings
 Bond proceeds
 Sale of property
 Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets, beginning of year

Cash basis net assets, end of year

Cash Basis Net Assets

Restricted:
 Streets
 Debt service
 Other purposes

Unrestricted

Total cash basis 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	\$ (752,831)	\$ -0-	\$ (752,831)
Public works	(376,158)	-0-	(376,158)
Community and economic dev	(589,485)	-0-	(589,485)
Culture and recreation	(109,437)	-0-	(109,437)
General government	(79,318)	-0-	(79,318)
Debt service	(630,554)	-0-	(630,554)
Capital projects	(2,206,265)	-0-	(2,206,265)
Nonprogram - contractual services	(99,509)	-0-	(99,509)
Total governmental activities	<u>(4,843,557)</u>	<u>-0-</u>	<u>(4,843,557)</u>
Business type activities:			
Sewer	-0-	309,635	309,635
HMU - Component unit	-0-	910,177	910,177
Total business type activities	<u>-0-</u>	<u>1,219,812</u>	<u>1,219,812</u>
Total	(4,843,557)	1,219,812	(3,623,745)
	1,386,471	-0-	1,386,471
	493,868	-0-	493,868
	236,234	-0-	236,234
	420,119	-0-	420,119
	18,538	-0-	18,538
	60,729	-0-	60,729
	3,778,211	-0-	3,778,211
	110,939	-0-	110,939
	<u>(126,132)</u>	<u>126,132</u>	<u>-0-</u>
	<u>6,378,977</u>	<u>126,132</u>	<u>6,505,109</u>
	1,535,420	1,345,944	2,881,364
	<u>671,240</u>	<u>11,800,500</u>	<u>12,471,740</u>
	<u>\$ 2,206,660</u>	<u>\$ 13,146,444</u>	<u>\$ 15,353,104</u>
	2,695	-0-	2,695
	3,749	-0-	3,749
	-0-	-0-	-0-
	<u>2,200,216</u>	<u>13,146,444</u>	<u>15,346,660</u>
	<u>\$ 2,206,660</u>	<u>\$ 13,146,444</u>	<u>\$ 15,353,104</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, 2008

	Special Revenue		
	General	Urban Renewal	Debt Service
Receipts:			
Property tax	\$ 1,123,117	\$ -0-	\$ 235,459
Tax increment financing	-0-	493,868	-0-
Other city tax	22,690	-0-	775
Licenses and permits	74,021	-0-	-0-
Use of money and property	122,533	-0-	3,156
Intergovernmental	374,553	-0-	-0-
Charges for services	433,401	-0-	-0-
Special assessments	-0-	-0-	-0-
Miscellaneous	65,926	-0-	-0-
Total receipts	<u>2,216,241</u>	<u>493,868</u>	<u>239,390</u>
Disbursements:			
Operating:			
Public safety	842,584	-0-	-0-
Public works	481,922	-0-	-0-
Culture and recreation	748,061	-0-	-0-
Community and economic development	-0-	-0-	-0-
General government	398,651	-0-	-0-
Debt service	-0-	-0-	633,710
Capital projects	-0-	-0-	-0-
Total disbursements	<u>2,471,218</u>	<u>-0-</u>	<u>633,710</u>
Excess (deficiency) of receipts over (under) disbursements	(254,977)	493,868	(394,320)
Other financing sources (uses):			
Sale of property	1,840	-0-	-0-
Proceeds on bond sales	-0-	-0-	3,778,211
Operating transfers in	498,262	37,500	261,943
Operating transfers out	(111,752)	(493,868)	(3,644,973)
Total other financing sources (uses)	<u>388,350</u>	<u>(456,368)</u>	<u>395,181</u>
Net change in cash balances	133,373	37,500	861
Cash balances, beginning of year	<u>403,612</u>	<u>-0-</u>	<u>2,888</u>
Cash balances, end of year	\$ <u>536,985</u>	\$ <u>37,500</u>	\$ <u>3,749</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -0-	\$ -0-	\$ 3,749
Unreserved:			
General fund	536,985	-0-	-0-
Special revenue funds	-0-	37,500	-0-
Capital projects funds	-0-	-0-	-0-
Total cash basis fund balances	\$ <u>536,985</u>	\$ <u>37,500</u>	\$ <u>3,749</u>

See notes to financial statements.

Capital Projects			
Dye Street Project	College Park	Other Nonmajor	Total
\$ -0-	\$ -0-	\$ 258,245	\$ 1,616,821
-0-	-0-	-0-	493,868
-0-	-0-	421,076	444,541
-0-	-0-	-0-	74,021
17,227	12,355	6,183	161,454
-0-	-0-	801,866	1,176,419
-0-	-0-	7,184	440,585
-0-	-0-	5,404	5,404
<u>3,385</u>	<u>10,000</u>	<u>88,869</u>	<u>168,180</u>
20,612	22,355	1,588,827	4,581,293
-0-	-0-	201,385	1,043,969
-0-	-0-	637,100	1,119,022
-0-	-0-	62,970	811,031
-0-	-0-	359,763	359,763
-0-	-0-	68,256	466,907
-0-	-0-	-0-	633,710
<u>1,164,936</u>	<u>260,877</u>	<u>849,167</u>	<u>2,274,980</u>
<u>1,164,936</u>	<u>260,877</u>	<u>2,178,641</u>	<u>6,709,382</u>
(1,144,324)	(238,522)	(589,814)	(2,128,089)
-0-	-0-	109,099	110,939
-0-	-0-	-0-	3,778,211
2,122,964	500,000	1,549,744	4,970,413
-0-	-0-	(845,952)	(5,096,545)
<u>2,122,964</u>	<u>500,000</u>	<u>812,891</u>	<u>3,763,018</u>
978,640	261,478	223,077	1,634,929
<u>(283,910)</u>	<u>-0-</u>	<u>192,613</u>	<u>315,203</u>
\$ <u>694,730</u>	\$ <u>261,478</u>	\$ <u>415,690</u>	\$ <u>1,950,132</u>
\$ -0-	\$ -0-	\$ -0-	\$ 3,749
-0-	-0-	-0-	536,985
-0-	-0-	403,865	441,365
<u>694,730</u>	<u>261,478</u>	<u>11,825</u>	<u>968,033</u>
\$ <u>694,730</u>	\$ <u>261,478</u>	\$ <u>415,690</u>	\$ <u>1,950,132</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, 2008**

Total governmental funds cash balances (page 13)	\$	1,950,132
 <i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i>		
 The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan. The Internal Service Fund is included in governmental activities in the Statement of Activities and Net Assets		
		256,528
Cash basis net assets of governmental activities (page 11)	\$	2,206,660
 Net change in cash balances (page 13)		
	\$	1,535,420
 <i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i>		
 The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan. The change in net assets of the Internal Service Fund is reported with governmental activities.		
		99,509
Change in cash balance of governmental activities (page 11)	\$	1,634,929

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, 2008

	Enterprise Funds			
	Sewer	Sewer Equipment Replacement	HMU Component Unit	Total
Operating receipts:				
Use of money and property	\$ 1,990	\$ -0-	\$ -0-	\$ 1,990
Charges for services	798,842	-0-	13,982,204	14,781,046
Miscellaneous	-0-	-0-	-0-	-0-
Total operating receipts	<u>800,832</u>	<u>-0-</u>	<u>13,982,204</u>	<u>14,783,036</u>
Operating disbursements:				
Business type activities	<u>538,445</u>	<u>32,727</u>	<u>13,383,095</u>	<u>13,954,267</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	262,387	(32,727)	599,109	828,769
Non-operating receipts (disbursements):				
Interest on investments	-0-	79,975	311,068	391,043
Reimbursements	-0-	-0-	-0-	-0-
Contractual services	-0-	-0-	-0-	-0-
Transfer in	-0-	336,132	-0-	336,132
Transfer out	<u>(210,000)</u>	<u>-0-</u>	<u>-0-</u>	<u>(210,000)</u>
Net non-operating receipts (disbursements)	<u>(210,000)</u>	<u>416,107</u>	<u>311,068</u>	<u>517,175</u>
Net change in cash balances	52,387	383,380	910,177	1,345,944
Cash balances, beginning of year	<u>(9,710)</u>	<u>2,155,937</u>	<u>9,654,273</u>	<u>11,800,500</u>
Cash balances, end of year	<u>\$ 42,677</u>	<u>\$ 2,539,317</u>	<u>\$ 10,564,450</u>	<u>\$ 13,146,444</u>
Cash Basis Fund Balances				
Unreserved				
Total cash basis fund balances	<u>\$ 42,677</u>	<u>\$ 2,539,317</u>	<u>\$ 10,564,450</u>	<u>\$ 13,146,444</u>

See notes to financial statements.

	<u>Internal Service</u> <u>Group</u> <u>Insurance</u> <u>Trust</u>
Operating receipts:	
Use of money and property	\$ -0-
Charges for services	-0-
Miscellaneous	-0-
Total receipts	<u>-0-</u>
Operating disbursements:	
Public safety	-0-
Public works	-0-
Culture and recreation	-0-
General government	-0-
Business type activities	-0-
Total disbursements	<u>-0-</u>
Operating income (loss)	-0-
Non-operating receipts (disbursements):	
Interest on investments	6,569
Reimbursements	984,713
Contractual services	(1,090,791)
Transfer in	-0-
Transfer out	-0-
Net non-operating receipts (disbursements)	<u>(99,509)</u>
Excess (deficiency) of receipts over (under) disbursements	(99,509)
Cash balances, beginning of year	<u>356,037</u>
Cash balances, end of year	\$ <u><u>256,528</u></u>
Cash Basis Fund Balances	
Unreserved:	
Total fund balance	\$ <u><u>256,528</u></u>

NOTES TO FINANCIAL STATEMENTS

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(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 Mayor/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, 2008

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

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental 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 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. The Road Use Tax Fund is used to account for street construction and maintenance. The Industrial Park Fund is used to account in part for community and economic development funds, mostly tax increment financing funds transferred in. The Equipment Revolving Fund is also presented as a Special Revenue Fund.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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

Basis of Presentation (Cont'd)

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

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 fund:

Internal Service Fund is used to accumulate resources and allocate costs of the City's self-funded health insurance plan.

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, 2008, disbursements exceed amounts budgeted in the public safety, culture and recreation, general government and debt service functions.

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2007, to compute the amounts, which became liens on property on July 1, 2007. These taxes were due and payable in two installments on September 30, 2007 and March 31, 2008, at the Shelby County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(2) Deposits

The City's deposits in banks at June 30, 2008 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, 2008, \$4,788,255 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 3.90% of their annual covered salary and the City is required to contribute 6.05% 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, 2008, 2007 and 2006 were \$93,935, \$91,345, and \$88,458, respectively, equal to the required contributions for each year.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(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
2009	\$ 380,000	\$ 223,833
2010	445,000	210,385
2011	455,000	193,685
2012	485,000	176,045
2013	495,000	156,885
2014 - 2018	1,045,000	578,423
2019 - 2023	1,075,000	370,089
2024 - 2027	1,070,000	117,218
	\$ 5,450,000	\$ 2,026,563

The City has a general obligation debt limit of approximately \$10.7 million which was not exceeded during the year ended June 30, 2008.

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, 2008, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 46,451
Compensatory time	42,146
Floating holiday	3,883
	\$ 92,480

This liability has been computed based on rates of pay in effect at June 30, 2008.

**CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

(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 \$40,000 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 \$78,644 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	\$	53,772
Incurred claims		549,185
Payments		(524,313)
Unpaid claims, end of year	\$	78,644

(7) Deficit Fund Balances

As of June 30, 2008, the following funds had deficit balances:

<u>Fund</u>		<u>Deficit</u>
Special Revenue:		
Housing Rehab	\$	12,436
Ragbrai		4,984
Fire Grant		1,806
Capital Projects:		
Harlan Plaza		858
Airport Improvement		68,052
Sewer Rehabilitation		135,294
Total	\$	223,430

The deficit balances were a result of project costs incurred prior to availability of funds. Material deficits will be eliminated upon receipt of grant funds and transfer of funds upon completion of the projects.

**CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

(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, March 2005, November 2006 and April 2008. Areas of the city within the urban renewal area include the Downtown Business District, the C. G. Therkildsen Center, GH Christiansen Subdivision, 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

The TIF receipts are recorded in the urban renewal fund then expended or transferred as follows:

	<u>2008</u>		<u>2007</u>
Cash balance, beginning of year	\$ -0-	\$	(30,081)
Tax Increment Financing receipts	493,868		746,189
General Fund payback	<u>37,500</u>		<u>37,500</u>
TIF Funds available	531,368		753,608
Legal fees	-0-		1,416
Transferred to:			
Debt Service Fund	261,943		245,531
Street Overlay	32,192		62,690
General Fund	25,500		-0-
Sewer Equipment Replacement Fund	136,133		114,894
Industrial Park Fund	<u>38,100</u>		<u>329,077</u>
Total transfers	493,868		753,608
Cash balance, end of year	\$ <u>37,500</u>	\$	<u>-0-</u>

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(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.

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 \$300,000 payback will be appropriated for fiscal years 2007 through 2014. For the year ended June 30, 2008, the General Fund reimbursed the Urban Renewal Fund \$37,500. \$225,000 remains outstanding.

Transfers of TIF funds to the sewer equipment replacement fund represent repayment of funds expended in prior years for numerous projects and renovations in urban renewal areas from 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. For the year ended June 30, 2008, the Urban Renewal Fund transferred \$136,133 to the Sewer Equipment Replacement Fund.

(11) Related Party Transactions

Business transactions between the City and City officials totaled \$1,165 for the year ended June 30, 2008.

(12) Budget Over-expenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2008, disbursements in the public safety, culture and recreation, general government and debt service functions exceeded the amounts budgeted.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(13) Grants

Shelby County Endowment Fund

On March 27, 2007, the City was awarded a \$10,000 grant from the Shelby County Endowment Fund for the construction of College Park. All grant funds were received in the year ended June 30, 2008.

On April 3, 2008, the City was awarded a \$5,000 grant from the Shelby County Endowment Fund for the replacement of playground equipment in three city parks. For the year ended June 30, 2008, the City received all grant funds.

Iowa Governor's Traffic Safety Bureau

For the year ended June 30, 2008, the Harlan Police Department expended \$1,575 in STEP grants for its Special Traffic Enforcement Program (STEP) from the Iowa Governor's Traffic Safety Bureau.

General Aviation Vertical Infrastructure Grant

On July 11, 2006, the Harlan Municipal Airport was awarded a General Aviation Vertical Infrastructure (GAVI) grant from the Iowa Transportation Commission. The \$68,000 grant required a 15%, or a \$12,000, local match. The project rehabilitated doors and floors of seven hangars. As of June 30, 2008, all grant funds had been received.

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. As of June 30, 2008, grant funds of \$304,965 had been received. The grant expired March 31, 2008.

Iowa West Foundation

In January 2007, the City of Harlan was awarded a \$200,000 grant from the Iowa West Foundation for development of College Park. The grant requires 50/50 matching funds from the City and expires March 31, 2009. As of June 30, 2008, no grant funds had been received.

On July 11, 2007, the City of Harlan was awarded a \$25,000 grant from the Iowa West Foundation for the construction of the Rocky Skate Park. As of June 30, 2008, all grant funds had been received.

In May 2008, the City was awarded a \$5,000 grant from the Iowa West Foundation for playground equipment. The grant requires a 50/50 match from the City and expires June 30, 2009. For the year ended June 30, 2008, no grant funds had been received.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(13) Grants (Continued)

FEMA Grants

For the year ended June 30, 2008, the City received Federal Emergency Management Agency (FEMA) funds of \$21,947 and State matching funds of \$6,451 to cover costs associated with the blizzard in March and the flooding in May 2007.

In November 2, 2007, the Harlan Fire Department was awarded an Assistance to Firefighters Grant from the Federal Emergency Management Agency to assist in the purchase of a new compressor, pagers and portable radios. The \$67,329 grant requires a local match of 5% or \$3,543. For the year ended June 30, 2008, the Fire Department received \$50,563. The grant expires November 1, 2008.

Surface Transportation Program Grant

On February 14, 2008, the City was awarded a \$1 million Surface Transportation Program Grant through the Iowa Department of Transportation for the resurfacing of various streets in the City of Harlan. For the year ended June 30, 2008, no grant 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, 2008, the City paid \$30,200 pursuant to the agreement.

Ambulance Commission of Shelby County

On March 7, 2005, the City entered into a joint voluntary 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 was July 1, 2006. The city administrator and an individual appointed by the mayor and approved by city council 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. For the year ended June 30, 2008, the City contributed \$31,000.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(14) Commitments (Continued)

E911 Communications Center Services

On August 7, 2001, the City contracted with Shelby County to provide E911 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, 2008, the City contributed \$50,924 to Shelby County for E911 services.

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, 2008, the City contributed \$15,000 to Shelby County for GIS services.

Performance Agreement - CiDirect, Inc.

On December 1, 2006, the City entered into a refundable conditional grant agreement with CiDirect, Inc. for the formation and maintenance of at least eighty-six new full-time jobs for five years. The refundable conditional grant amount is \$129,000 and obligates CiDirect, Inc. to refund the grant or portion of the grant with interest in the event of default.

Performance Agreement - Variety Distributors, Inc.

On February 19, 2008, the City entered into a forgivable loan agreement with Variety Distributors, Inc. as an incentive to create at least sixty full time equivalent jobs in the community and maintain them over a five year period. The \$60,000 forgivable loan bears interest at 7% and matures on March 1, 2013. The debt will be forgiven upon satisfaction of the terms of the agreement.

Dye Street Development Project

In May 2007, the City began infrastructure development on a forty-acre tract of land in north Harlan. The \$2.5 million project will provide 79 single and multi-family housing lots. The grading, street development and installation of gas, water, electric, phone, fiber optics and sewer lines have been completed. For the year ended June 30, 2008, the City expended \$1,164,936 for the development project.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(14) Commitments (Continued)

Myrtue Memorial Wellness Center

On January 22, 2008, the City committed \$500,000 in eligible tax increment financing funds to the construction of a community wellness center. The first of five payments of \$100,000 is due July 1, 2009.

Shelby County DevelopSource

On March 4, 2008, the City committed \$25,000 to Shelby County DevelopSource for fiscal years 2009, 2010, and 2011. The organization promotes and coordinates economic development and monitors the City's performance agreements with CiDirect and Variety Distributors.

College Park

On September 4, 2007, The City and Iowa Western Community College entered into a 28E Agreement, as authorized by Chapter 28E of the 2005 Code of Iowa, for the construction of an IWCC campus on City owned property. The satellite campus will provide classrooms for IWCC and an information technology center as well as other facilities that will promote the economic development of the community. The agreement requires the City to commit \$500,000 to the project. For the year ended June 30, 2008, the City contributed \$250,000. The remainder is payable upon commencement of construction.

On June 3, 2008, the Harlan Industrial Foundation committed \$625,000 to the College Park construction project and the City agreed to reimburse the Foundation \$125,000 in TIF eligible funds in five equal payments due July 1, 2009 through 2013. There are no fees or interest costs to the City.

(15) Subsequent Event

On July 1, 2008, the City awarded Henningson Construction, Inc. of Atlantic, Iowa a contract in the amount of \$1,029,832 for the resurfacing of various City streets.

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, 2008

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Property tax	\$ 1,616,821	\$ -0-
Tax increment financing	493,868	-0-
Other city tax	444,541	-0-
Licenses and permits	74,021	-0-
Use of money and property	161,454	393,033
Intergovernmental	1,176,419	-0-
Charges for services	440,585	14,781,046
Special assessments	5,404	-0-
Miscellaneous	168,180	-0-
Total receipts	<u>4,581,293</u>	<u>15,174,079</u>
Disbursements:		
Public safety	1,043,969	-0-
Public works	1,119,022	-0-
Culture and recreation	811,031	-0-
Community and economic development	359,763	-0-
General government	466,907	-0-
Debt service	633,710	-0-
Capital projects	2,274,980	-0-
Business type	-0-	13,954,267
Nonprogram	99,509	-0-
Total disbursements	<u>6,808,891</u>	<u>13,954,267</u>
Excess (deficiency) of receipts over (under) disbursements	(2,227,598)	1,219,812
Other financing sources, net	<u>3,763,018</u>	<u>126,132</u>
Excess (deficiency) of receipts and other financing sources	1,535,420	1,345,944
Balance beginning of year	<u>671,240</u>	<u>11,800,500</u>
Balance end of year	<u>\$ 2,206,660</u>	<u>\$ 13,146,444</u>

See Accompanying Independent Auditor's Report

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$ 1,616,821	\$ 1,572,106	\$ 1,572,106	\$ 44,715
493,868	474,972	474,972	18,896
444,541	349,707	349,707	94,834
74,021	24,300	24,300	49,721
554,487	134,830	134,830	419,657
1,176,419	784,146	1,094,146	82,273
15,221,631	14,327,250	15,661,250	(439,619)
5,404	5,955	5,955	(551)
168,180	674,032	674,032	(505,852)
<u>19,755,372</u>	<u>18,347,298</u>	<u>19,991,298</u>	<u>(235,926)</u>
1,043,969	890,674	1,034,674	(9,295)
1,119,022	960,072	1,146,072	27,050
811,031	765,419	802,419	(8,612)
359,763	14,873	429,873	70,110
466,907	414,798	464,798	(2,109)
633,710	477,024	608,564	(25,146)
2,274,980	45,889	2,613,389	338,409
13,954,267	15,436,270	17,420,270	3,466,003
99,509	-0-	-0-	(99,509)
<u>20,763,158</u>	<u>19,005,019</u>	<u>24,520,059</u>	<u>3,756,901</u>
(1,007,786)	(657,721)	(4,528,761)	3,520,975
<u>3,889,150</u>	<u>500,000</u>	<u>4,240,111</u>	<u>(350,961)</u>
2,881,364	(157,721)	(288,650)	3,170,014
<u>12,471,740</u>	<u>12,471,740</u>	<u>12,471,740</u>	<u>-0-</u>
\$ <u>15,353,104</u>	\$ <u>12,314,019</u>	\$ <u>12,183,090</u>	\$ <u>3,170,014</u>

CITY OF HARLAN

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

JUNE 30, 2008

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 \$5,515,040. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceed the amounts budgeted in the public safety, culture and recreation, general government and debt service functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HARLAN

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

YEAR ENDED JUNE 30, 2008

	Special Revenue										Other Spec Rev Funds	
	Road Use	Local Option Tax	Employee Benefits	Equipment Revolving	Housing Rehab	Industrial Park	Fire					
Receipts:	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Property tax	-0-	-0-	258,245	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Other City tax	-0-	420,119	957	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Use of money and property	-0-	-0-	-0-	-0-	-0-	2,782	-0-	-0-	-0-	-0-	-0-	54
Intergovernmental	452,523	-0-	-0-	6,713	221,546	-0-	51,254	-0-	-0-	-0-	-0-	1,830
Charges for services	-0-	-0-	-0-	4,845	-0-	-0-	-0-	-0-	-0-	-0-	-0-	2,339
Special assessments	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Miscellaneous	-0-	-0-	-0-	30,566	-0-	150	-0-	-0-	-0-	-0-	-0-	32,623
Total receipts	452,523	420,119	259,202	42,124	221,546	2,932	51,254	-0-	-0-	-0-	-0-	36,846
Disbursements:												
Operating:												
Public safety	-0-	-0-	-0-	147,378	-0-	-0-	53,060	-0-	-0-	-0-	-0-	947
Public works	503,613	-0-	-0-	133,487	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Culture and recreation	-0-	14,413	-0-	28,166	-0-	-0-	-0-	-0-	-0-	-0-	-0-	20,391
Comm and econ development	-0-	-0-	-0-	-0-	250,760	109,003	-0-	-0-	-0-	-0-	-0-	-0-
General government	-0-	-0-	-0-	51,469	-0-	-0-	-0-	-0-	-0-	-0-	-0-	16,787
Capital projects	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total disbursements	503,613	14,413	-0-	360,500	250,760	109,003	53,060	-0-	-0-	-0-	-0-	38,125
Excess (deficiency) of receipts over (under) disbursements	(51,090)	405,706	259,202	(318,376)	(29,214)	(106,071)	(1,806)					(1,279)

See accompanying independent auditor's report.

SCHEDULE 1

	Capital Projects							Total
	Street Overlay	Fire Station	Airport Improve	Rocky's Skate Park	Knudsen	Sewer Rehab	Other Projects	
Receipts: (Continued)								
Property tax	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 258,245
Other City tax	-0-	-0-	-0-	-0-	-0-	-0-	-0-	421,076
Use of money and property	-0-	2,721	-0-	-0-	-0-	-0-	626	6,183
Intergovernmental	-0-	-0-	68,000	-0-	-0-	-0-	-0-	801,866
Charges for services	-0-	-0-	-0-	-0-	-0-	-0-	-0-	7,184
Special assessments	2,953	-0-	-0-	-0-	2,451	-0-	-0-	5,404
Miscellaneous	-0-	-0-	-0-	25,530	-0-	-0-	-0-	88,869
Total receipts	2,953	2,721	68,000	25,530	2,451	-0-	626	1,588,827
Disbursements:								
Operating:								
Public safety	-0-	-0-	-0-	-0-	-0-	-0-	-0-	201,385
Public works	-0-	-0-	-0-	-0-	-0-	-0-	-0-	637,100
Culture and recreation	-0-	-0-	-0-	-0-	-0-	-0-	-0-	62,970
Comm and econ development	-0-	-0-	-0-	-0-	-0-	-0-	-0-	359,763
General government	-0-	-0-	-0-	-0-	-0-	-0-	-0-	68,256
Capital projects	146,755	367,449	88,507	110,965	-0-	135,294	197	849,167
Total disbursements	146,755	367,449	88,507	110,965	-0-	135,294	197	2,178,641
Excess (deficiency) of receipts over (under) disbursements	(143,802)	(364,728)	(20,507)	(85,435)	2,451	(135,294)	429	(589,814)

	Special Revenue								Other Spec Rev Funds
	Road Use	Local Option Tax	Employee Benefits	Equipment Revolving	Housing Rehab	Industrial Park	Fire		
Excess (deficiency) of receipts over (under) disbursements	(51,090)	405,706	259,202	(318,376)	(29,214)	(106,071)	(1,806)	(1,279)	
Other financing sources (uses):									
Sale of property	-0-	-0-	-0-	15,374	-0-	93,725	-0-	-0-	
Bond proceeds	-0-	-0-	-0-	422,009	-0-	-0-	-0-	-0-	
Transfers in	-0-	-0-	210,060	175,066	16,817	38,100	-0-	-0-	
Transfers out	(2,000)	(336,559)	(469,262)	-0-	-0-	-0-	-0-	-0-	
	(2,000)	(336,559)	(259,202)	612,449	16,817	131,825	-0-	-0-	
Net change in cash balances	(53,090)	69,147	-0-	294,073	(12,397)	25,754	(1,806)	(1,279)	
Cash balances beginning of year	55,785	-0-	-0-	(123,601)	(39)	127,521	-0-	23,797	
Cash balances end of year	\$ 2,695	\$ 69,147	\$ -0-	\$ 170,472	\$ (12,436)	\$ 153,275	\$ (1,806)	\$ 22,518	
Cash Basis Fund Balances									
Unreserved:									
Special revenue funds	\$ 2,695	\$ 69,147	\$ -0-	\$ 170,472	\$ (12,436)	\$ 153,275	\$ (1,806)	\$ 22,518	
Capital projects funds	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	
Total cash basis fund balances	\$ 2,695	\$ 69,147	\$ -0-	\$ 170,472	\$ (12,436)	\$ 153,275	\$ (1,806)	\$ 22,518	

See accompanying independent auditor's report.

SCHEDULE 1 (Cont'd)

	Capital Projects							
	Street Overlay	Fire Station	Airport Improve	Rocky's Skate Park	Knudsen	Sewer Rehab	Other Projects	Total
(Continued)								
Excess (deficiency) of receipts over (under) disbursements	(143,802)	(364,728)	(20,507)	(85,435)	2,451	(135,294)	429	(589,814)
Other financing sources (uses):								
Sale of property	-0-	-0-	-0-	-0-	-0-	-0-	-0-	109,099
Bond proceeds	-0-	400,000	-0-	-0-	-0-	-0-	-0-	822,009
Transfers in	277,692	-0-	-0-	10,000	-0-	-0-	-0-	727,735
Transfers out	-0-	-0-	-0-	-0-	-0-	-0-	(38,131)	(845,952)
	<u>277,692</u>	<u>400,000</u>	<u>-0-</u>	<u>10,000</u>	<u>-0-</u>	<u>-0-</u>	<u>(38,131)</u>	<u>812,891</u>
Net change in cash balances	133,890	35,272	(20,507)	(75,435)	2,451	(135,294)	(37,702)	223,077
Cash balances beginning of year	4,755	-0-	(47,545)	76,976	21,611	-0-	53,353	192,613
Cash balances end of year	<u>\$ 138,645</u>	<u>\$ 35,272</u>	<u>\$ (68,052)</u>	<u>\$ 1,541</u>	<u>\$ 24,062</u>	<u>\$ (135,294)</u>	<u>\$ 15,651</u>	<u>\$ 415,690</u>
Cash Basis Fund Balances								
Unreserved:								
Special revenue funds	-0-	-0-	-0-	-0-	-0-	-0-	-0-	403,865
Capital projects funds	138,645	35,272	(68,052)	1,541	24,062	(135,294)	15,651	11,825
Total cash basis fund balances	<u>\$ 138,645</u>	<u>\$ 35,272</u>	<u>\$ (68,052)</u>	<u>\$ 1,541</u>	<u>\$ 24,062</u>	<u>\$ (135,294)</u>	<u>\$ 15,651</u>	<u>\$ 415,690</u>

CITY OF HARLAN

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

YEAR ENDED JUNE 30, 2008

	Ragbrai	Library Trust	Beebe Trust	Police Trust	Play Ground	Hansen Trust	Allen Trust	Total
Receipts:								
Property tax	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Other City tax	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Use of money and property	-0-	-0-	54	-0-	-0-	-0-	-0-	54
Intergovernmental	-0-	1,830	-0-	-0-	-0-	-0-	-0-	1,830
Charges for services	-0-	-0-	-0-	2,339	-0-	-0-	-0-	2,339
Special assessments	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Miscellaneous	11,803	13,820	7,000	-0-	-0-	-0-	-0-	32,623
Total receipts	11,803	15,650	7,054	2,339	-0-	-0-	-0-	36,846
Disbursements:								
Operating:								
Public safety	-0-	-0-	-0-	947	-0-	-0-	-0-	947
Public works	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Culture and recreation	-0-	14,293	2,255	-0-	2,077	1,766	-0-	20,391
General government	16,787	-0-	-0-	-0-	-0-	-0-	-0-	16,787
Debt Service	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total disbursements	16,787	14,293	2,255	947	2,077	1,766	-0-	38,125

SCHEDULE 2

	Regbrai	Library Trust	Beebe Trust	Police Trust	Play Ground	Hansen Trust	Allen Trust	Total
Excess (deficiency) of receipts Over (under) disbursements	(4,984)	1,357	4,799	1,392	(2,077)	(1,766)	-0-	(1,279)
Other financing sources (uses):								
Transfers in	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Transfers out	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Net change in cash balances	(4,984)	1,357	4,799	1,392	(2,077)	(1,766)	-0-	(1,279)
Cash balances beginning of year	-0-	7,424	6,123	1,161	5,204	3,202	683	23,797
Cash balances end of year	\$ (4,984)	\$ 8,781	\$ 10,922	\$ 2,553	\$ 3,127	\$ 1,436	\$ 683	\$ 22,518
Cash Basis Fund Balances								
Special revenue funds	(4,984)	8,781	10,922	2,553	3,127	1,436	683	22,518
Total cash basis fund balances	\$ (4,984)	\$ 8,781	\$ 10,922	\$ 2,553	\$ 3,127	\$ 1,436	\$ 683	\$ 22,518

See accompanying independent auditor's report.

**CITY OF HARLAN
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2008**

	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
	Jan. 1, 2004	1.50 - 3.6%	\$ 1,770,000	\$ 1,240,000	\$ -0-	\$ 210,000	\$ 1,030,000	\$ 38,178	\$ 2,744
	Dec. 16, 2002	1.85 - 3.0%	355,000	100,000	-0-	100,000	-0-	3,000	-0-
	Jul. 20, 1999	4.10 - 5.1%	1,355,000	695,000	-0-	90,000	605,000	34,645	2,527
	Jul 10, 2007	4.00 - 4.30%	3,815,000	-0-	3,815,000	-0-	3,815,000	131,140	13,382
			\$ 3,815,000	\$ 2,035,000	\$ 3,815,000	\$ 400,000	\$ 5,450,000	\$ 206,963	\$ 18,653

Obligation

General Obligation Bonds:

- Refinancing Capital Note
- Fire Truck
- Combined Issue
- Combined Issue

See Accompanying Independent Auditor's Report.

SCHEDULE 4

**CITY OF HARLAN
BOND AND NOTE MATURITIES
JUNE 30, 2008**

General Obligation Bonds

Year Ending June 30,	Refinancing Capital Loan Note Issued Jan. 1, 2004		Combined Issue Callable June 30, 2015 Issued Jul. 10, 2007		Combined Issue Issued July 1, 1999		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2009	2.75%	\$ 205,000	4.00%	\$ 85,000	4.80%	\$ 90,000	\$ 380,000
2010	3.00%	200,000	4.00%	155,000	4.90%	90,000	445,000
2011	3.20%	195,000	4.00%	160,000	5.00%	100,000	455,000
2012	3.40%	215,000	4.00%	165,000	5.00%	105,000	485,000
2013	3.60%	215,000	4.00%	170,000	5.05%	110,000	495,000
2014	--	-0-	4.25%	235,000	5.10%	110,000	345,000
2015	--	-0-	4.25%	165,000	--	-0-	165,000
2016	--	-0-	4.25%	170,000	--	-0-	170,000
2017	--	-0-	4.25%	180,000	--	-0-	180,000
2018	--	-0-	4.25%	185,000	--	-0-	185,000
2019	--	-0-	4.25%	195,000	--	-0-	195,000
2020	--	-0-	4.25%	205,000	--	-0-	205,000
2021	--	-0-	4.25%	215,000	--	-0-	215,000
2022	--	-0-	4.25%	225,000	--	-0-	225,000
2023	--	-0-	4.25%	235,000	--	-0-	235,000
2024	--	-0-	4.25%	250,000	--	-0-	250,000
2025	--	-0-	4.25%	260,000	--	-0-	260,000
2026	--	-0-	4.30%	275,000	--	-0-	275,000
2027	--	-0-	4.30%	285,000	--	-0-	285,000
		\$ 1,030,000		\$ 3,815,000		\$ 605,000	\$ 5,450,000

See Accompanying Independent Auditor's Report.

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

	<u>2008</u>		<u>2007</u>		<u>2006</u>		<u>2005</u>
Receipts:							
Property tax	\$ 1,616,821	\$	1,490,434	\$	1,369,632	\$	1,404,035
Tax increment financing collections	493,868		746,189		1,199,550		1,091,014
Other city tax	444,541		348,062		294,368		22,641
Licenses and permits	74,021		62,066		65,371		60,021
Use of money and property	161,454		116,655		106,389		88,450
Intergovernmental	1,176,419		853,006		1,381,898		965,230
Charges for service	440,585		412,506		402,974		351,277
Special assessments	5,404		14,435		977		4,186
Miscellaneous	168,180		204,896		156,695		284,384
Bond proceeds	3,778,211		-0-		-0-		-0-
Sale of property	110,939		-0-		-0-		-0-
	<u>8,470,443</u>	\$	<u>4,248,249</u>	\$	<u>4,977,854</u>	\$	<u>4,271,238</u>
Total							
Disbursements:							
Operating:							
Public safety	\$ 1,043,969	\$	1,281,470	\$	1,084,826	\$	733,141
Public works	1,119,022		800,153		756,129		818,117
Culture and recreation	811,031		720,360		727,450		677,455
Community and economic dev	359,763		361,077		377,533		-0-
General government	466,907		389,961		294,416		861,968
Debt service	633,710		488,448		512,095		494,018
Capital projects	2,274,980		544,516		989,072		1,612,417
	<u>6,709,382</u>	\$	<u>4,585,985</u>	\$	<u>4,741,521</u>	\$	<u>5,197,116</u>
Total							

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 9, 2008

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:

305 W. High Street
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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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, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated September 9, 2008. 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 as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the City of Harlan's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified a certain deficiency in internal control over financial reporting that I consider to be a significant deficiency.

Continued . . .

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Harlan's ability to initiate, authorize, record, process or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Harlan's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. I consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Harlan's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

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, 2008 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.

September 9, 2008
To the Honorable Mayor and
Members of the City Council
Page Three

The City of Harlan's responses to findings identified in my audit are described in the accompanying Schedule of findings and Questioned Costs. While I have expressed my conclusions on the City's responses, I did not audit the City of Harlan's responses and accordingly, I express no opinion on them.

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.

Musfeldt Associates, CPA, P.C.

**CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were 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 significant deficiency 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

SIGNIFICANT DEFICIENCY:

II-A-07 CDBG Grant Funds misposted to general fund - A misposting of CDBG funds resulted in a deficit balance in the Housing Rehab Fund and indicates a lack of review procedures to identify and correct misposting.

Recommendation - The work of subordinates should be reviewed especially if performing tasks not normally performed.

Response - We will perform reviews as directed.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

**CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

Part III: Other Findings Related to Statutory Reporting:

IV-A-08 Certified Budget - For the year ended June 30, 2008, disbursements in the public safety, culture and recreation, general government and debt service functions exceeded the amounts budgeted.

Recommendation - The budget should have been monitored more closely at the functional level and amended in sufficient amounts 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 monitored and amended accordingly in the future.

Conclusion - Response accepted.

IV-B-08 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-08 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, 2008**

Part III: Other Findings Related to Statutory Reporting: (Continued)

IV-D-08 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	903
Dave Miller, City Council, Owner Harlan Flower Shop	Miscellaneous	27
Keith Kaufman, City Council, Owner Westside	Miscellaneous	235
		\$ <u>1,165</u>

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Planning and Zoning Board Member does not appear to represent a conflict of interest since employee benefits include eye examinations and glasses.

IV-E-08 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-08 Council Minutes

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

IV-G-08 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-08 Revenue Notes

The City has no revenue debt at June 30, 2008.

**CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

Part III: Other Findings Related to Statutory Reporting: (Continued)

IV-I-08 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-08 Financial Condition - The following Funds had deficit balances as of June 30, 2007:

<u>Fund</u>	<u>Deficit</u>
Special Revenue - Housing Rehab	\$ 12,436
Special Revenue - Ragbrai	4,984
Special Revenue - Fire Grant	1,806
Capital Projects - Harlan Plaza	858
Capital Projects - Airport Improvement	68,052
Capital Projects - Sewer Rehabilitation	135,294
Total	\$ <u>223,430</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 the receipt of grants and the completion of the projects.

Conclusion - Response accepted.

III-K-07 Two Required Signatures - Two signatures are required on checks over \$5,000. Two checks were issued without the required signatures.

Recommendation - The clerk should obtain the required second signature on checks over \$5,000.

Response - Signatures will be obtained in future.

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 \$10,342,532 for the year ended June 30, 2008 a 78 percent increase from 2007. The receipts included \$1,622,705 in property tax, \$493,868 from tax increment financing, \$2,689,063 from charges for services, \$716,074 from operating grants, contributions and restricted interest, \$432,286 from capital grants, contributions and restricted interest, \$60,729 from unrestricted investment earnings, \$3,778,211 from bond proceeds and \$549,596 from other general receipts.

Disbursements for the year totaled \$8,371,345, a 39 percent increase from 2007, which included \$2,274,980 for capital projects, \$1,119,022 for public works, and \$811,031 for community and economic development. Also, disbursements for business type activities totaled \$571,172.

A copy of the audit report is available for review in the City Clerk's office, in the office of the Auditor of State and on the Auditor of State's website at [http:// auditor.iowa.gov / reports / reports.htm](http://auditor.iowa.gov/reports/reports.htm).

