

**ANNUAL
FINANCIAL REPORT
OF THE
CITY OF HARLAN, IOWA
FOR THE FISCAL YEAR ENDED
JUNE 30, 2012**

CITY OF HARLAN, IOWA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012
TABLE OF CONTENTS

INTRODUCTORY SECTION

	Page
List of Principal Officials.....	1
 <i>FINANCIAL SECTION</i> 	
Independent Auditors' Report	2 – 3
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
Statement of Net Assets	4
Statement of Activities	5 – 6
FUND FINANCIAL STATEMENTS	
Governmental Funds Financial Statements	
Balance Sheet.....	7 – 8
Reconciliation of the Balance Sheet to the Statement of Net Assets.....	9
Statement of Revenues, Expenditures and Changes in Fund Balances.....	10 – 11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities.....	12
Proprietary Funds Financial Statements	
Statement of Net Assets.....	13
Statement of Revenues, Expenses and Changes in Net Assets	14
Statement of Cash Flows	15 – 16
Fiduciary Funds Financial Statements	
Combined Statement of Fiduciary Net Assets	17
Statement of Changes in Fiduciary Net Assets	18
Notes to Financial Statements	19 – 38
Required Supplementary Information	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – Governmental Funds and Proprietary Funds.....	39 – 40
Budget to GAAP Reconciliation	41
Notes to Required Supplementary Information – Budgetary Reporting.....	42
Schedule of Funding Progress for Retiree Health Plan.....	43

CITY OF HARLAN, IOWA
 ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED JUNE 30, 2012
 TABLE OF CONTENTS

FINANCIAL SECTION – (CONTINUED)

	Page
Other Supplementary Information	
Governmental Non-Major Funds Combining Financial Statements	
Balance Sheet	44 – 47
Statement of Revenues, Expenditures and Changes in Fund Balances	48 – 51
Internal Service Non-Major Funds Combining Financial Statements	
Combining Statement of Net Assets	52
Combining Statement of Revenues, Expenses and Changes in Net Assets	53
Combining Statement of Cash Flows	54
Fiduciary Funds	
Statement of Changes in Assets and Liabilities – Agency Funds	55
Combining Statement of Fiduciary Net Assets	56
Combining Statement of Changes in Net Assets	57
Schedule of Revenues by Source and Expenditures by Function – Governmental Funds	58 – 59
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	60 – 61
Schedule of Findings	62 – 63

* * * *

CITY OF HARLAN

List of Principal Officials
June 30, 2012

Title	Name
Mayor	Gene Gettys
Council Member	Keith Kaufman
Council Member	Orv Roecker
Council Member	Dave Pedersen
Council Member	Aaron Anliker
Council Member	Dan Schumacher
Council Member	Dave Miller
City Attorney	Joseph Lauterbach
City Administrator/City Engineer	Terri Cox
City Clerk	Debra Sawyer
City Treasurer	Marjorie Ahrenholtz



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INDEPENDENT AUDITORS' REPORT

Honorable Mayor, Members of the City Council
City of Harlan, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Harlan, Iowa, (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we 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. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and schedule of funding progress for the retiree health plan be presented to supplement the basic financial statements. The budgetary comparison information and schedule of funding status can be found on pages 39 through 43. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The City has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements on the cash basis of accounting for the eight years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Williams & Leggett, P.C.
Certified Public Accountants

Le Mars, Iowa
March 30, 2013

CITY OF HARLAN, IOWA
STATEMENT OF NET ASSETS
June 30, 2012

	Primary Government		Total	Component Unit
	Governmental Activities	Business-Type Activities		Harlan Municipal Utilities
ASSETS				
Cash and Cash Equivalents	1,293,221	\$ 2,997,447	\$ 4,290,668	\$ 9,324,795
Receivables (Net, where applicable, of allowance for uncollectibles)				
Accounts	87,039	69,255	156,294	1,293,424
Taxes	15,004	-	15,004	-
Subsequent Year Taxes	2,282,024	-	2,282,024	-
Other	-	-	-	3,479
Estimated Unbilled Usage	-	-	-	394,540
Notes Receivable	-	-	-	1,046
Due from Other Governmental Agencies	200,142	-	200,142	-
Inventories	41,830	5,490	47,320	639,549
Prepaid Assets	153,222	16,458	169,680	138,816
Restricted Assets:				
Cash and Cash Equivalents	-	-	-	5,409,280
Bond Issue Costs	51,414	60,683	112,097	191,019
Land	-	22,500	22,500	-
Construction in Progress	111,397	43,887	155,284	10,102,261
Infrastructure, Property and Equipment, Net of Accumulated Depreciation	14,707,839	3,487,263	18,195,102	19,499,530
Total Assets	18,943,132	6,702,983	25,646,115	46,997,739
LIABILITIES				
Accounts Payable	123,825	96,010	219,835	1,074,122
Accrued Wages	83,603	8,326	91,929	218,626
Other Accrued Expenses	-	1,997	1,997	125,156
Customer Deposits	-	-	-	34,760
Due to Other Governments	-	-	-	242,972
Claims Incurred But Not Reported	24,037	-	24,037	-
Deferred Revenue - Subsequent Year Taxes	2,282,024	-	2,282,024	-
Accrued Interest Payable	14,879	572	15,451	112,161
Noncurrent Liabilities:				
Due within one year:				
Revenue Bonds Payable	-	-	-	824,967
General Obligation Bonds	545,000	135,000	680,000	-
Compensated Absences and Benefits	69,561	10,755	80,316	-
Due in more than one year:				
Revenue Bonds Payable	-	-	-	13,538,400
General Obligation Bonds	4,090,000	2,363,444	6,453,444	-
Other Post Employment Benefits	37,078	-	37,078	-
Total Liabilities	7,270,007	2,616,104	9,886,111	16,171,164
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	10,184,236	1,838,250	12,022,486	15,238,424
Restricted for:				
Debt Service	228,815	-	228,815	2,269,656
Employee Benefits	276,948	-	276,948	-
Local Option Sales Tax Purposes	85,084	-	85,084	-
Urban Renewal	1,009	-	1,009	-
Streets	118,949	-	118,949	-
Housing Grant	25,000	-	25,000	-
Unrestricted	753,084	2,248,629	3,001,713	12,177,552
Total Net Assets	\$ 11,673,125	\$ 4,086,879	\$ 15,760,004	\$ 30,826,575

See Accompanying Notes to Financial Statements

CITY OF HARLAN, IOWA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Public Safety	\$ 1,143,888	\$ 50,122	\$ 45,286	\$ 1,874
Public Works	2,116,946	696,307	482,765	158,727
Culture and Recreation	1,160,659	249,162	109,718	9,750
Community and Economic Development	356,226	-	37,160	-
General Government	837,119	603,848	-	-
Debt Service	193,005	-	-	-
Total governmental activities	<u>5,807,843</u>	<u>1,599,439</u>	<u>674,929</u>	<u>170,351</u>
Business-Type Activities:				
Sewer System	<u>1,324,822</u>	<u>854,353</u>	<u>-</u>	<u>774</u>
Total Business-Type Activities:	<u>1,324,822</u>	<u>854,353</u>	<u>-</u>	<u>774</u>
Total Primary Government	<u>7,132,665</u>	<u>2,453,792</u>	<u>674,929</u>	<u>171,125</u>
Component Unit:				
Harlan Municipal Utilities	<u>\$ 11,762,216</u>	<u>\$ 13,213,927</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:
Property Taxes
Other Taxes
Local Option Sales Tax
Hotel/Motel Taxes
Interest
Payments in Lieu of Tax
Miscellaneous
Interfund Transfers
Total general revenues and transfers
Change in net assets

Net assets - beginning

Prior Period Adjustment

Net Assets - beginning, as restated

Net assets - ending

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Business-Type Activities	Total	Component Unit Harlan Municipal Utilities
\$ (1,046,606)		\$ (1,046,606)	
(779,147)		(779,147)	
(792,029)		(792,029)	
(319,066)		(319,066)	
(233,271)		(233,271)	
(193,005)		(193,005)	
<u>(3,363,124)</u>		<u>(3,363,124)</u>	
	\$ (469,695)	(469,695)	
	<u>(469,695)</u>	<u>(469,695)</u>	
<u>(3,363,124)</u>	<u>(469,695)</u>	<u>(3,832,819)</u>	
			\$ <u>1,451,711</u>
2,130,594	-	2,130,594	-
217,883	-	217,883	-
432,136	-	432,136	-
53,548	-	53,548	-
5,305	1,905	7,210	56,691
254,609	-	254,609	-
190,364	729	191,093	-
(8,180)	8,180	-	-
<u>3,276,259</u>	<u>10,814</u>	<u>3,287,073</u>	<u>56,691</u>
(86,865)	(458,881)	(545,746)	1,508,402
1,336,168	2,563,115	3,899,283	29,318,173
<u>10,423,822</u>	<u>1,982,645</u>	<u>12,406,467</u>	<u>-</u>
11,759,990	4,545,760	16,305,750	29,318,173
<u>\$ 11,673,125</u>	<u>\$ 4,086,879</u>	<u>\$ 15,760,004</u>	<u>\$ 30,826,575</u>

See Accompanying Notes to Financial Statements

CITY OF HARLAN, IOWA
BALANCE SHEET
Governmental Funds
June 30, 2012

	General	Debt Service
Assets		
Cash and Cash Equivalents	\$ 87,603	\$ 246,622
Receivables (Net, where applicable, of allowance for uncollectibles)		
Accounts	87,039	-
Taxes	1,662	4,770
Subsequent Year Taxes	1,326,780	307,672
Due from Other Funds	-	-
Due from Other Governmental Agencies	-	-
Inventories	2,757	-
Total Assets	<u>1,505,841</u>	<u>559,064</u>
Liabilities and Fund Balances		
Liabilities:		
Accounts Payable	59,830	7,698
Accrued Wages	77,862	-
Due to Other Funds	-	-
Deferred Revenue - Subsequent Year Taxes	1,326,780	307,672
Deferred Revenue	1,662	-
Total Liabilities	<u>1,466,134</u>	<u>315,370</u>
Fund Balances:		
Non-Spendable:		
Inventories	2,757	-
Restricted:		
Debt Service	-	243,694
Employee Benefits	-	-
Local Option Sales Tax Purposes	-	-
Specific Tax Levy	-	-
Streets	-	-
Housing Grant	-	-
Assigned:		
Capital Projects	-	-
Unassigned	36,950	-
Total Fund Balances	<u>39,707</u>	<u>243,694</u>
Total Liabilities and Equity	<u>\$ 1,505,841</u>	<u>\$ 559,064</u>

See Accompanying Notes to Financial Statements

Special Revenue		Other Governmental Funds	Total Governmental Funds
Employee Benefits	Urban Renewal		
\$ 269,833	\$ -	\$ 255,309	\$ 859,367
-	-	-	87,039
7,115	1,457	-	15,004
647,572	-	-	2,282,024
-	-	202,134	202,134
-	-	200,142	200,142
-	-	39,073	41,830
924,520	1,457	696,658	3,687,540
-	448	26,050	94,026
-	-	5,741	83,603
-	-	202,134	202,134
647,572	-	-	2,282,024
-	-	-	1,662
647,572	448	233,925	2,663,449
-	-	39,073	41,830
-	-	-	243,694
276,948	-	-	276,948
-	-	85,084	85,084
-	1,009	-	1,009
-	-	79,876	79,876
-	-	25,000	25,000
-	-	355,597	355,597
-	-	(121,897)	(84,947)
276,948	1,009	462,733	1,024,091
\$ 924,520	\$ 1,457	\$ 696,658	\$ 3,687,540

See Accompanying Notes to Financial Statements

CITY OF HARLAN, IOWA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2012

Amounts reported for Governmental Activities in the Statement of Net assets are different because:

Total Fund Balance - Governmental Funds (page 8)	\$ 1,024,091
Infrastructure, property, and equipment used in governmental activities are not financial resources and, therefore, are not reported in the funds.	13,626,691
Internal service funds are used by management to fund and maintain the City's equipment replacement fund and medical costs provided to user departments and are included in the statement of net assets.	1,572,563
Deferred revenues from the balance sheet that provide current financial resources for governmental activities.	1,662
Prepaid expenses are reported in the governmental activities but are not reported in the funds as they do not provide current economic resources.	153,222
Accrued interest expense from the balance sheet that require current financial resources from governmental activities.	(14,879)
Other Post Employment Benefits not due and payable in the current period and therefore are not reported in the funds.	(37,078)
Bond issue costs are reported in the governmental activities but are not reported in the funds as they do not provide current economic resources.	51,414
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	\$ (4,635,000)
Compensated Absences	(69,561)
	<u>(4,704,561)</u>
Total Net Assets - Governmental Activities (page 4)	<u><u>\$ 11,673,125</u></u>

CITY OF HARLAN, IOWA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Funds
For the Year Ended June 30, 2012

	General	Debt Service
Revenue:		
Taxes	\$ 1,334,753	\$ 389,077
Special Assessments	1,861	-
Licenses and Permits	94,155	-
Intergovernmental Revenue	77,267	-
Charges for Services	538,919	-
Payments in Lieu of Taxes	254,609	-
Fines and Forfeits	24,703	-
Contributions	551	-
Revenue from Use of Property	82,502	-
Interest on Investments	5,116	-
Miscellaneous	61,014	-
Total Revenue	<u>2,475,450</u>	<u>389,077</u>
Expenditures:		
Public Safety	1,072,507	-
Public Works	737,725	-
Culture and Recreation	814,330	-
Community and Economic Development	31,643	-
General Government	576,125	-
Capital Projects	-	-
Debt Service	-	505,162
Total Expenditures	<u>3,232,330</u>	<u>505,162</u>
Excess (Deficiency) of revenues over expenditures	<u>(756,880)</u>	<u>(116,085)</u>
Other financing sources (uses):		
Proceeds from Sale of Capital Assets	22,500	-
Transfers In	523,621	346,506
Transfers Out	-	-
Total other financing sources (uses)	<u>546,121</u>	<u>346,506</u>
Net Change in Fund Balance	(210,759)	230,421
Fund balances - beginning of year	283,827	15,808
Prior Period Adjustment	<u>(33,361)</u>	<u>(2,535)</u>
Fund balances - beginning of year (as restated)	<u>250,466</u>	<u>13,273</u>
Fund balances - end of year	<u>\$ 39,707</u>	<u>\$ 243,694</u>

See Accompanying Notes to Financial Statements

Special Revenue		Other Governmental Funds	Total Governmental Funds
Employee Benefits	Urban Renewal		
\$ 507,487	\$ 675,690	\$ 432,136	\$ 3,339,143
-	-	1,528	3,389
-	-	-	94,155
-	-	676,240	753,507
-	-	-	538,919
-	-	-	254,609
-	-	-	24,703
-	-	57,543	58,094
-	-	-	82,502
-	-	189	5,305
-	844	2,750	64,608
507,487	676,534	1,170,386	5,218,934
-	-	-	1,072,507
-	-	469,408	1,207,133
-	-	147,000	961,330
-	235,731	34,206	301,580
-	-	-	576,125
-	-	640,345	640,345
-	-	-	505,162
-	235,731	1,290,959	5,264,182
507,487	440,803	(120,573)	(45,248)
-	-	18,500	41,000
190,000	37,500	171,163	1,268,790
(427,105)	(480,852)	(369,013)	(1,276,970)
(237,105)	(443,352)	(179,350)	32,820
270,382	(2,549)	(299,923)	(12,428)
-	-	611,051	910,686
6,566	3,558	151,605	125,833
6,566	3,558	762,656	1,036,519
\$ 276,948	\$ 1,009	\$ 462,733	\$ 1,024,091

See Accompanying Notes to Financial Statements

CITY OF HARLAN, IOWA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2012

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 11) \$ (12,428)

Governmental funds report capital outlays, including infrastructure, as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Depreciation expense exceeded capital outlays in the current year as follows:

Expenditures for capital assets	\$ 111,397	
Depreciation expense	<u>(654,519)</u>	(543,122)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues. 1,662

The effect of the change in prepaid insurance which is not reported in the governmental funds as it is not available to provide current financial resources. 9,805

Long-term accrual of other post employment benefits liability in the governmental funds as it does not consume current financial resources. (37,078)

Accrued interest expense reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. 792

Governmental funds do not reflect the change in accrued compensated absences as it does not consume current financial resources. The Statement of Activities reflects the change in accrued compensated absences through expenditures. 12,137

Internal service funds are used by management to fund and maintain the City's insurance policies provided to user departments and are included in the statement of net assets. The net revenue of the internal service funds is reported with governmental activities. 170,002

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The amount by which payments exceeded proceeds in the current year is as follows:

Repayments of long-term debt	315,000
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The effect of bond issuance costs when new debt is issued, whereas, these amounts are deferred and amortized in the Statement of Activities. (3,635)

Change in net assets of governmental activities (page 6) \$ (86,865)

CITY OF HARLAN, IOWA
STATEMENT OF NET ASSETS
Proprietary Funds
June 30, 2012

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Sewer</u>	<u>Internal Service</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 2,997,447	\$ 433,854
Receivables (Net, where applicable, of allowance for uncollectibles)		
Accounts	69,255	-
Inventories	5,490	-
Prepaid Assets	16,458	-
Total Current Assets	<u>3,088,650</u>	<u>433,854</u>
Noncurrent Assets		
Bond Issue Costs	60,683	-
Land	22,500	-
Construction in Progress	43,887	-
Infrastructure, Property and Equipment, Net of Accumulated Depreciation	<u>3,487,263</u>	<u>1,192,545</u>
Total Noncurrent Assets	<u>3,614,333</u>	<u>1,192,545</u>
Total Assets	<u><u>6,702,983</u></u>	<u><u>1,626,399</u></u>
LIABILITIES		
Current Liabilities		
Accounts Payable	96,010	29,799
Accrued Wages	8,326	-
Other Accrued Expenses	1,997	-
Accrued Interest Payable	572	-
Claims Incurred But Not Reported	-	24,037
General Obligation Bonds	135,000	-
Total Current Liabilities	<u>241,905</u>	<u>53,836</u>
Noncurrent Liabilities:		
Due within one year:		
Compensated Absences and Benefits	10,755	-
Due in more than one year:		
General Obligation Bonds	<u>2,363,444</u>	-
Total Noncurrent Liabilities	<u>2,374,199</u>	-
Total Liabilities	<u><u>2,616,104</u></u>	<u><u>53,836</u></u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	1,838,250	1,192,545
Unrestricted	<u>2,248,629</u>	<u>380,018</u>
Total Net Assets	<u><u>\$ 4,086,879</u></u>	<u><u>\$ 1,572,563</u></u>

See Accompanying Notes to Financial Statements

CITY OF HARLAN, IOWA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Proprietary Funds
For the Year Ended June 30, 2012

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Sewer</u>	<u>Internal Service</u>
Operating Revenues:		
Charges for Services	\$ 854,854	\$ 510,690
Miscellaneous	273	-
Reimbursement from Employees/Insurance	-	937,021
Total Operating Revenue	<u>855,127</u>	<u>1,447,711</u>
Operating Expenses:		
Public Safety	-	94,269
Public Works	-	8,669
Culture and Recreation	-	22,778
General Government	-	991,203
Employee Services	357,095	-
Contract Services	512,035	-
Repairs and Maintenance	252,979	-
Utilities	80,901	-
Miscellaneous	2,984	-
Depreciation	118,256	198,720
Total Operating Expenses	<u>1,324,250</u>	<u>1,315,639</u>
Operating Income (Loss)	(469,123)	132,072
Non-Operating Income:		
Interest Income	1,905	-
Revenue from Use of Property	729	-
Other Non-Operating Revenues	-	23,906
Interest Expense	(572)	-
Total Non-Operating Income	<u>2,062</u>	<u>23,906</u>
Income (Loss) before Contributions and Transfers	(467,061)	155,978
Other Financing Sources (Uses)		
Proceeds from Sale of Capital Assets	-	13,250
Federal Grant	-	774
Transfers In	8,180	-
Total Other Financing Sources (Uses)	<u>8,180</u>	<u>14,024</u>
Change in Net Assets	(458,881)	170,002
Net Assets - Beginning	2,563,115	424,543
Prior Period Adjustment	1,982,645	978,018
Net Assets - Beginning, as Restated	<u>4,545,760</u>	<u>1,402,561</u>
Net Assets - Ending	<u>\$ 4,086,879</u>	<u>\$ 1,572,563</u>

See Accompanying Notes to Financial Statements

CITY OF HARLAN, IOWA
STATEMENT OF CASH FLOWS
Proprietary Funds
For the Year Ended June 30, 2012

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Sewer</u>	<u>Internal Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 844,497	\$ 1,447,711
Cash Paid to Suppliers for Goods and Services	(776,637)	(143,290)
Cash Paid to Employees for Services	(361,356)	(932,194)
Other Nonoperating Income	729	23,906
Net Cash Provided (Used) by Operating Activities	<u>(292,767)</u>	<u>396,133</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and Construction of Capital Assets	(1,720,747)	(400,846)
Proceeds from Sale of Capital Assets	-	13,250
Proceeds from Grant	-	774
Bond Issuance Costs	(60,683)	-
Bond Premium	43,444	-
Proceeds from Debt Issuance	2,455,000	-
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>717,014</u>	<u>(386,822)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers from Other Funds	8,180	-
Net Cash Provided by Non-Capital Financing Activities	<u>8,180</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and Dividends on Investments	1,905	-
Net Cash Provided for Investing Activities	<u>1,905</u>	<u>-</u>
Net Increase in Cash and Cash Equivalents	434,332	9,311
Cash and Cash Equivalents at Beginning of Year	<u>2,563,115</u>	<u>424,543</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,997,447</u>	<u>\$ 433,854</u>

(Continued)

CITY OF HARLAN, IOWA
COMBINING STATEMENT OF CASH FLOWS (Continued)
Proprietary Funds
For the Year Ended June 30, 2012

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Sewer</u>	<u>Internal Service</u>
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities		
Operating Income (Loss)	\$ (469,123)	\$ 132,072
Adjustments to Reconcile Net Operating (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	118,256	198,720
Miscellaneous Non-Operating Income	729	23,906
(Increase) Decrease in Assets:		
Accounts Receivable	(10,630)	-
Prepaid Expenses	(457)	-
Inventories	(5,490)	-
Increase (Decrease) in Liabilities		
Accounts Payable	78,209	41,435
Accrued Wages	(3,221)	-
Accrued Compensated Absences	(1,040)	-
Total Adjustments	<u>176,356</u>	<u>264,061</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (292,767)</u>	<u>\$ 396,133</u>

CITY OF HARLAN, IOWA
 COMBINED STATEMENT OF FIDUCIARY NET ASSETS
 Fiduciary Funds
 June 30, 2012

	<u>Agency Fund</u> Flex Spending	Private Purpose Trust Funds	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 280	\$ 26,647	\$ 26,927
Total Current Assets	<u>280</u>	<u>26,647</u>	<u>26,927</u>
LIABILITIES			
Current Liabilities:			
Other Payables	280	-	280
Total Current Liabilities	<u>280</u>	<u>-</u>	<u>280</u>
NET ASSETS			
Restricted - Held In Trust	-	26,647	26,647
Total Net Assets	<u>\$ -</u>	<u>\$ 26,647</u>	<u>\$ 26,647</u>

CITY OF HARLAN, IOWA
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 Fiduciary Funds
 For the Year Ended June 30, 2012

	Private Purpose Trust Funds Totals
Additions	
Contributions	\$ 12,832
Total Additions	<u>12,832</u>
Deductions	
Public Safety	685
Culture and Recreation	17,378
Total Deductions	<u>18,063</u>
Change in Net Assets	(5,231)
Net Assets Beginning of Year	<u>31,878</u>
Net Assets End of Year	<u><u>\$ 26,647</u></u>

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2012

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Harlan, Iowa is a political subdivision of the State of Iowa located in Shelby County, and was incorporated in 1879, under the laws of the State of Iowa, later amended in 1974 under the Home Rule City Act. The City operates under a Mayor-Council form of government with the mayor and council members elected on a non-partisan basis. The City administers the following functions as authorized by its charter: public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also has a municipal sewer utility system, which is governed by the City Council.

The City's financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City of Harlan, Iowa, has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Harlan, Iowa (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.

Discretely Presented Component Unit - The government-wide financial statements include the Harlan Municipal Utilities as a component unit. The Harlan Municipal Utilities is a legally separate organization. The board of the Harlan Municipal Utilities is appointed by the Harlan City Council. Iowa Statutes provide for circumstances whereby the City can impose their will on the Harlan Municipal Utilities. The Harlan Municipal Utilities can create a potential financial benefit or burden on the City. As a component unit, the Harlan Municipal Utilities financial statements have been presented as a discrete column in the financial statements. The information presented is for the fiscal year ended June 30, 2012. Complete financial statements are on file at Harlan Municipal Utilities.

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, IOWA
Notes to Financial Statements
June 30, 2012

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax, intergovernmental revenues, and other nonexchange revenues are reported separately from business type activities, which rely to a significant extent on fees and charges for services. The City's general, special revenue, debt service, capital projects and permanent funds are classified as governmental activities. The City's equipment revolving internal service fund and group insurance internal service fund are also classified as a governmental-type activity.

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

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. The City first uses restricted resources when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

The City does not allocate indirect costs. Certain expenses of the City are accounted for through the internal service fund on a cost-reimbursement basis.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year activities.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2012

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reports the following major governmental funds:

- 1) General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The sources of revenue include property taxes, charges for services, fines and fees, licenses and permits, as well as state and federal grants. The expenditures of the General Fund relate to general administration, police and fire protection, maintenance of public streets, economic development, and culture and recreation.
- 2) Debt Service Fund - Accounts for the accumulation of resources for and the payment of general obligation debt principal, interest and related costs.
- 3) Special Revenue Funds:

Employee Benefits Fund – Accounts for taxes levied for employee benefits.

Urban Renewal Fund – Accounts for property taxes received to be expended for public improvements, construction of public infrastructure, as well as, economic development opportunities.

The City reports the following major proprietary (enterprise) funds:

The Sewer Utility is used to account for the operation and maintenance of the City's sewer system.

In addition, the City reports the following fund types:

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the city, or to other governmental units, on a cost-reimbursement basis.

The City's internal service funds are presented in the proprietary fund financial statements.

Equipment Revolving Fund – Accounts for equipment purchases for various departments of the City.

Group Insurance Fund – Accounts for funding and maintenance of the City's self-funded health insurance provided to City Employees.

Since the principal users of both funds are the City's governmental activities, the financial statements of both internal service funds are consolidated in the governmental column when presented in the government-wide financial statements. To the extent possible, the cost of these services are reported in the appropriate functional activity.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2012

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Fund Types – Fiduciary funds are used to report assets held in an agency or custodial capacity for others and therefore not available to support City programs. Since agency funds are custodial in nature, they do not involve the measurement of results of operations and are not incorporated into the government-wide financial statements. The City has the following private purpose trust funds:

C. Hansen / Schildberg Trust	Police Trust
Library Trust	Loree / Poynter Trust
Beebe Trust	

The City also has the following agency fund:

Flex Fund – to account for assets held by the City as an agent for individuals.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2012

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

The proprietary fund of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of enterprise funds are charges to customers for sales and services. Operating expenses consist of cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-recovery basis. The City's internal service fund is presented in the proprietary fund financial statements.

Fiduciary funds are used to report assets held in an agency or custodial capacity for others and, therefore, these funds not available to support City programs.

D. Assets, Liabilities and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents – The cash balances of most City funds, including the Harlan Municipal Utility, are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Custodial Credit Risk – The City has no policy in place regarding custodial credit risk and deposits with financial institutions, however, deposits are insured by the state sinking fund, which provides for additional assessments against depositories to avoid loss of public funds.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2012

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Property Tax Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City Council to the County Board of Supervisors. Current year delinquent property taxes receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the City Council to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City Council is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in March 2011. Any county collections on the 2011-2012 tax levy remitted to the City within 60 days subsequent to June 30, 2012, are recorded as property tax revenue.

Customer Accounts and Unbilled Usage – Accounts receivable in the Enterprise Funds includes services billed prior to June 30, 2012 and an estimate of services provided through June 30, 2012 but not billed.

Short-Term Interfund Receivables/Payables - During the course of its operations, the City has numerous transactions between funds to finance operations, provide services, construct assets, and service debt. To the extent certain transactions between funds have not been paid or received as of June 30, 2012, balances of interfund amounts payable or receivable have been recorded as “due to other funds” and “due from other funds”, respectively in the fund financial statements. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as interfund balances.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories of the proprietary fund types are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed.

Prepaid Assets - Payments made to vendors for services that will benefit periods beyond June 30, 2012 are recorded as prepaid items.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2012

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Capital Assets - Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets and in the Proprietary Funds Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of \$5,000 for general capital assets and \$25,000 for infrastructure assets and estimated useful lives in excess of one year. Depreciation expense is calculated using the straight-line method over the following useful lives:

Buildings	39 – 150 Years
Machinery & Equipment	5 – 40 Years
Infrastructure	20 – 100 Years

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of uncollected notes receivable, as well as delinquent property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied.

Compensated Absences - City employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon lapse of available period. Compensatory time for non-exempt and exempt employees will be earned and accrued from January 1 to July 1 and July 1 to January 1 for use in the consecutive six months following the accrual period. Time for non-exempt employees is accrued at time and a half to be paid out to employees after the six month period of use has expired. Exempt employees are required to use their compensatory time or forfeit it at the end of the six months. A liability is recorded when incurred in the government-wide and proprietary fund financial statement. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2012. The compensated absences liability attributable to the governmental activities will be paid by the General Fund and Road Use Tax Fund.

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2012

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – Fund balances for each of the City's governmental funds (General Fund, special revenue funds, capital projects funds, and debt service funds) will be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance* – amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- *Restricted fund balance* – amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- *Assigned fund balance* – amounts the City intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- *Unassigned fund balance* – amounts that are available for any purpose; these amounts can be reported only in the City's General Fund.

In addition, the Statement clarifies the definitions of the various types of governmental funds. Interpretations of certain terms within the new definition of special revenue funds may affect which activities the City can report in special revenue funds.

Fund balance amounts represent the nature of the net resources that are reported in a governmental fund. The City fund balance classifications include non-spendable resources, restricted, and non-restricted (unassigned) amounts. When the City incurs an expenditure and both restricted and unrestricted amounts are available, the City considers restricted amounts to have been spent. When the City incurs an expenditure for an unrestricted amount, committed amounts are reduced first, followed by assigned amounts and then unassigned amounts for purposes in which any of those unrestricted fund balance classifications could be used.

Interfund Transactions - Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2012

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All other interfund transactions, except interfund services provided and used transactions and reimbursements, are reported as transfers.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the Culture and Recreation function.

Note 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The City's deposits at June 30, 2012, were entirely covered by Federal Depository Insurance collateralized with securities or letters of credit held by the City or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. Chapter 12C provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligation of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. There were no investments held by the City as of June 30, 2012.

Note 3 - RECEIVABLES

Receivables at June 30, 2012 are net of allowance for uncollectibles. The allowance for uncollectibles for the enterprise funds was \$0 as the City considers all receivables to be collectible at June 30, 2012.

Note 4 - DUE FROM OTHER GOVERNMENTS

At June 30, 2012, amounts due from other governments were as follows:

Due from the Iowa Department of Revenue for Road Use Tax allocation	\$	35,721
Due from the Iowa Department of Revenue for State and Federal Grant Projects		94,649
Due from the Iowa Department of Revenue for Local Option Sales taxes		69,772
Total Governmental Funds	\$	<u>200,142</u>

Note 5 - INTERFUND RECEIVABLES AND PAYABLES

As of June 30, 2012, short-term interfund borrowings were as follows:

<u>Fund Due To</u>	<u>Fund Due From</u>	<u>Amount</u>
Nonmajor Governmental	Nonmajor Governmental	<u>\$ 202,134</u>

The purpose of the interfund balances is to help short-term cash flow shortages of various funds.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2012

Note 6 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

Governmental Activities	Balance July 1, 2011 (As Restated)	Additions	Deletions	Balance June 30, 2012
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 111,397	\$ -	\$ 111,397
Total capital assets not being depreciated	-	111,397	-	111,397
Capital assets being depreciated:				
Buildings & equipment	10,537,787	604,484	-	11,142,271
Infrastructure	20,161,636	-	-	20,161,636
Total capital assets being depreciated	30,699,423	604,484	-	31,303,907
Less accumulated depreciation for:				
Buildings & equipment	3,734,080	465,006	-	4,199,086
Infrastructure	12,008,749	388,233	-	12,396,982
Total accumulated depreciation	15,742,829	853,239	-	16,596,068
Total capital assets being depreciated, net	14,956,594	(248,755)	-	14,707,839
Governmental activities capital assets, net	\$ 14,956,594	\$ (137,358)	\$ -	\$ 14,819,236

Construction in progress is related to the airport improvement project.

Depreciation expense was charged to functions as follows:

Governmental Activities:	
Public Safety	\$ 14,000
Public Works, which includes the depreciation of infrastructure	491,925
Culture and Recreation	168,594
Governmental Activities Depreciation Expense by Function	654,519
Internal Service – Equipment Revolving Fund	198,720
Total governmental activities - depreciation expense	\$ 853,239

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2012

Note 6 - CAPITAL ASSETS (Continued)

	Balance July 1, 2011 (As Restated)	Additions	Deletions	Balance June 30, 2012
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 22,500	\$ -	\$ -	\$ 22,500
Construction in progress	33,875	43,887	33,875	43,887
Total capital assets not being depreciated	56,375	43,887	33,875	66,387
Capital assets being depreciated:				
Buildings and equipment	3,143,311	1,603,688	-	4,746,999
Infrastructure	1,547,589	231,170	-	1,778,759
Total capital assets being depreciated	4,690,900	1,834,858	-	6,525,758
Less: Accumulated depreciation for:				
Buildings & equipment	2,002,930	85,282	-	2,088,212
Infrastructure	917,309	32,974	-	950,283
Total accumulated depreciation	2,920,239	118,256	-	3,038,495
Total capital assets being depreciated, net	1,770,661	1,716,602	-	3,487,263
Governmental activities capital assets, net	\$ 1,827,036	\$ 1,760,489	\$ 33,875	\$ 3,553,650

Construction in progress at June 30, 2012 is related to the Sewer Bio Disk Project.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2012

Note 6 - CAPITAL ASSETS (Continued)

A summary of changes in capital assets for the discretely presented component unit is as follows:

Harlan Municipal Utilities	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Discretely Presented Component Unit:				
Capital assets not being depreciated:				
Construction in Progress	\$ 5,371,207	\$ 4,731,054	\$ -	\$ 10,102,261
Total capital assets not being depreciated	5,371,207	4,731,054	-	10,102,261
Capital assets being depreciated:				
Property, plant & equipment	48,304,891	787,145	-	49,092,036
Total capital assets being depreciated	48,304,891	787,145	-	49,092,036
Less: Accumulated depreciation for:				
Property, plant & equipment	28,065,764	1,526,742	-	29,592,506
Total accumulated depreciation	28,065,764	1,526,742	-	29,592,506
Total capital assets being depreciated, net	20,239,127	(739,597)	-	19,499,530
Governmental activities capital assets, net	\$ 25,610,334	\$ 3,991,457	\$ -	\$ 29,601,791

	Governmental Activities	Business-Type Activities	Component Unit
Land	\$ -	\$ 22,500	\$ -
Construction in Progress	111,397	43,887	-
Capital Assets (net of accumulated depreciation)	14,707,839	3,487,263	19,499,530
Less: General Obligation Bonds Payable	4,635,000	2,498,444	-
Revenue Bonds & Capital Loan Notes	-	-	4,261,106
Add: Bonds Unspent	-	783,044	-
Invested in Capital Assets, Net of Related Debt	\$ 10,184,236	\$ 1,838,250	\$ 15,238,424

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2012

Note 7 - LONG-TERM DEBT

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and projects. General obligation bonds have been issued for both governmental and business-type activities. These bonds are direct obligations and pledge the full faith and credit of the City.

General obligation bonds outstanding as of June 30, 2012 are as follows:

Primary Government:	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance 6/30/12	Due Within One Year
Governmental Activities						
General Obligation Debt						
Corporate purpose bonds	01/01/04	06/01/13	3.60%	\$ 1,770,000	\$ 215,000	\$ 215,000
Corporate purpose bonds	08/07/07	06/01/27	4.00 – 4.30%	3,850,000	3,250,000	170,000
Corporate purpose bonds	03/16/09	06/01/14	2.20 – 2.60%	530,000	220,000	110,000
Corporate purpose bonds	06/01/11	06/01/26	1.20% 3.80%	990,000	950,000	50,000
Total Governmental Activities – General Obligation Debt					<u>\$ 4,635,000</u>	<u>\$ 545,000</u>
Business-Type Activities						
General Obligation Debt						
Corporate purpose bonds	06/28/12	06/01/27	2.00 – 2.50%	\$ 2,455,000	<u>\$ 2,455,000</u>	<u>\$ 135,000</u>

The balance shown on the Statement of Net Assets is gross of unamortized bond premiums of \$43,444.

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

Primary Government

Years	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 545,000	\$ 178,555	\$ 135,000	\$ 47,760
2014	395,000	160,775	140,000	48,778
2015	225,000	147,328	140,000	45,978
2016	230,000	139,115	150,000	43,178
2017	245,000	130,690	155,000	40,178
2018-2022	1,365,000	505,226	810,000	153,690
2023-2027	1,630,000	203,798	925,000	66,163
Total	<u>\$ 4,635,000</u>	<u>\$ 1,465,487</u>	<u>\$ 2,455,000</u>	<u>\$ 445,725</u>

The City's computed legal debt limit as of June 30, 2012 is \$12,621,850 of which \$7,090,000 is committed for outstanding general obligation debt.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2012

Note 7 - LONG-TERM DEBT (Continued)

Revenue Bond Covenants

Component Unit:

Bond covenants require funds to be set aside in retirement, reserve, and plant improvements accounts. During the year ended June 30, 2012, the Utility was in compliance with the revenue note provisions.

Details of revenue bonds notes and contracts payable at June 30, 2012 are as follows:

Component Unit:	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance 6/30/12	Due Within One Year
Electric Fund						
Electric Revenue Bond, Series 2006	12/5/06	10/1/17	3.70-4.05%	\$ 1,280,000	\$ 765,000	\$ 71,441
Electric Revenue Bond, Series 2010A	6/1/10	10/1/24	3.0-4.25%	8,285,000	8,185,000	462,419
Electric Revenue Bond, Series 2010B	6/1/10	10/1/15	2.0-2.5%	2,260,000	1,840,000	126,140
Total Electric Bonds & Contracts					10,790,000	660,000
Water Fund:						
Water Revenue Bond, Series 1999	7/1/99	7/1/14	4.85-5.00%	1,600,000	285,000	-
Water Revenue Bond, Series 2004	4/15/04	7/1/16	1.40-4.10%	670,000	265,000	-
Water State Revolving Fund	5/16/12	7/1/32	3.0%	7,035,000	1,373,700	-
Total Water Bonds					1,923,700	-
Telecommunications Fund:						
Communications Utility Revenue Capital Loan Notes, Series 2012	3/29/12	4/1/22	3.25%	\$ 1,649,667	1,649,667	164,967
Total Telecommunications Fund					1,649,667	164,967
					\$14,363,367	\$ 824,967

Debt service requirements to maturity for revenue bonds are as follows:

Component Unit:

Year Ending June 30,	Electric Revenue Bonds & Contracts		Water Revenue Bonds		Telecommunications Revenue Capital Loan Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 660,000	\$ 366,972	\$ -	\$ 93,464	\$ 164,967	\$ 53,912
2014	675,000	350,379	190,000	229,677	164,967	48,253
2015	695,000	333,295	201,000	220,263	164,967	42,891
2016	715,000	314,438	289,000	209,510	164,967	37,530
2017	750,000	292,325	295,000	199,810	164,967	32,169
Thereafter	7,295,000	1,250,282	948,700	66,326	824,832	80,421
Total	\$10,790,000	\$ 2,907,691	\$1,923,700	\$1,024,767	\$ 1,649,667	\$ 295,176

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2012

Note 7 - LONG-TERM DEBT (Continued)

The water revenue bonds have not been fully drawn down as of June 30, 2012. Therefore, the annual debt service requirements have not been include in the maturity schedule. The bonds are expected to be fully drawn down as of June 30, 2013.

Changes in Long-Term Liabilities

Long-Term liability activity for the year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
Governmental Activities:					
General Obligation Bonds	\$ 4,950,000	\$ -	\$ 315,000	\$ 4,635,000	\$ 545,000
Other Post Employee Benefits	-	37,078	-	37,078	-
Compensated Absences	81,698	69,561	81,698	69,561	69,561
Long-Term Liabilities	<u>\$ 5,031,698</u>	<u>\$ 106,639</u>	<u>\$ 396,698</u>	<u>\$ 4,741,639</u>	<u>\$ 614,561</u>
Business-Type Activities:					
General Obligation Bonds	\$ -	\$ 2,455,000	\$ -	\$ 2,455,000	\$ 135,000
Compensated Absences	11,796	10,755	11,796	10,755	10,755
Other Post Employment Benefits	<u>\$ 11,796</u>	<u>\$ 2,465,755</u>	<u>\$ 11,796</u>	<u>\$ 2,465,755</u>	<u>\$ 145,755</u>
Component Unit:					
Electric Revenue Bonds	\$11,420,000	\$ -	\$ 630,000	\$ 10,790,000	\$ 660,000
Water Revenue Bonds	1,060,905	1,052,795	190,000	1,923,700	-
Capital Loan Notes	1,797,433	1,649,667	1,797,433	1,649,667	164,967
Long-Term Liabilities	<u>\$14,278,338</u>	<u>\$ 2,702,462</u>	<u>\$ 2,617,433</u>	<u>\$ 14,363,367</u>	<u>\$ 824,967</u>

Note 8 - TRANSFERS

The following is a summary of transfers between funds:

	General	Debt Service	Employee Benefits	Urban Renewal	Non Major Governmental	Sewer	Total Transfers Out
Employee Benefit	\$ 427,105	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 427,105
Urban Renewal	93,016	346,506	-	-	33,150	8,180	480,852
Nonmajor Governmental	3,500	-	190,000	37,500	138,013	-	369,013
	<u>\$ 523,621</u>	<u>\$346,506</u>	<u>\$ 190,000</u>	<u>\$ 37,500</u>	<u>\$ 171,163</u>	<u>\$ 8,180</u>	<u>\$ 1,276,970</u>

Generally, transfers are used to (1) move revenues from the fund that collects them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2012

Note 9- PENSION AND RETIREMENT

Iowa Public Employees Retirement System - 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 plan to 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, Iowa 50306-9117.

Plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of annual covered payroll except for, fire employees, in which case, the percentages are actuarially determined, and law employees who are covered by another plan. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$134,426, \$116,096, and \$107,325, respectively, equal to the required contributions for each year.

Note 10- SPLIT FUNDING HEALTH INSURANCE PLAN

The City of Harlan, along with its' component unit, Harlan Municipal Utilities, has established a partially self-funded health insurance program. The plan is funded by City contributions and is administered through a service agreement with Employee Benefit Systems. The agreement is subject to automatic renewal provisions. The City assumes liability for deductible amounts of \$2,000 to \$4,000 depending on the coverage selected by the employee.

Monthly payments of service fees, plan contributions, and claims for the City's split funding health insurance are recorded as expenditures in the City's Internal Service – Group Insurance Fund.

Claims payable and estimated claims incurred but not reported are recorded as a liability in the City's Internal Service – Group Insurance Fund.

	<u>Current Year</u>	<u>Prior Year</u>
Unpaid claims, beginning of fiscal year	\$ 11,475	\$ 9,442
Current year claims and changes in estimates	463,090	425,302
Claim payments	(450,528)	(423,269)
Unpaid claims, end of fiscal year	<u>\$ 24,037</u>	<u>\$ 11 475</u>

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2012

Note 11 - DEFICIT FUND EQUITY

The City has three funds with deficit equity balances at June 30, 2012. The City intends to finance these deficits from various resources including grant revenue and fund transfers.

The individual fund deficits were as follows:

Nonmajor – Airport Improvement	\$ 17,948
Nonmajor – GH Christiansen	103,949
Nonmajor – Internal Service - Group Insurance.....	24,037

Note 12- RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. All of these risks, with the exception of vision and dental care, are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

Note 13- COMMITMENTS

During the year ended June 30, 2012, the City had entered into several construction contracts totaling approximately \$3,547,229 of which approximately \$2,380,229 has been expended to date. The remaining balance will be paid as work progresses.

Note 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description – The City operates a single-employer retiree benefit plan which provides medical, prescription drug, and dental benefits for retirees and their spouses. There are 33 active and 2 retired members in the plan. Covered individuals include any eligible individual employed by the City. Individuals retiring from service with the City are eligible under the Municipal Fire and Police Retirement System of Iowa (MFPRSI) or Iowa Public Employees Retirement System (IPERS). Retiring individual must have a minimum of four years of experience with the City as well as be at least 55 years of age. Coverage ceases upon reaching age 65 or the individual becomes eligible for Medicare.

The medical, prescription drug, and dental coverage is provided through a self-insured plan with Employee Benefit Systems. Retirees under age 65 pay the full amount of the premium for the medical/dental/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. Monthly medical premiums for active members are \$562 for single coverage and \$1,252 for family coverage. Monthly dental premiums for active members are \$26 for single coverage and \$55 for family coverage. The same monthly premiums apply to retirees.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2012

Note 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) – (Continued)

Annual OPEB Cost and Net OPEB Obligation – The City’s annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the City’s annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the City’s net OPEB obligation:

Annual required contribution	\$ 47,490
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
	-
Annual OPEB cost	47,490
Contributions made	(10,412)
	-
Increase in net OPEB obligation	37,078
Net OPEB obligation beginning of year	-
	-
Net OPEB obligation end of year	\$ 37,078

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2011. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 47,490	21.9%	\$ 37,078

Funded Status and Funding Progress – As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$317,393, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$317,393. The covered payroll (annual payroll of active employees covered by the plan) was \$1,440,117 and the ratio of the UAAL to covered payroll was 22.0%. As of June 30, 2012, there were no trust fund assets.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2012

Note 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2012 actuarial valuation date, the alternative measurement method was used. The ultimate medical trend rate is 8.0%. The medical trend rate is reduced 0.5% each year until reaching the 5.0% ultimate rate.

Mortality rates are from the 2004 United States Life Tables. Annual termination probabilities were developed from specific aged-based data from GASB Statement 45. Annual retirement probabilities were developed based on the historical average age for the covered group.

Projected claim costs of the medical plan are \$11,676 per year for retirees less than age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 15 - PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2012, the City converted their financial statements from cash basis financial statements to the accrual basis financial statements in accordance with U.S. generally accepted accounting principles. The effect of the cash to accrual conversion resulted in the following changes to the fund balance for each individual fund:

General Fund	(\$ 33,361)
Debt Service Fund	(2,535)
Special Revenue – Employee Benefits Fund	6,566
Special Revenue – Urban Renewal Fund	3,558
Nonmajor – Local Option Sales Tax Fund	65,081
Nonmajor – Road Use Tax Fund	86,524
Sewer Fund	1,982,645
Internal Service – Equipment Revolving Fund	989,493
Internal Service – Group Insurance Fund	(11,475)

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2012

Note 15 - PRIOR PERIOD ADJUSTMENT (Continued)

The cash to accrual conversion also resulted in a total increase of \$10,423,822 and \$1,982,645 to the fund balance for governmental activities and business-type activities, respectively.

Note 16 - FORGIVABLE LOANS

The City offers forgivable loans to new businesses in Harlan. The purpose of the loan is to stimulate the local economy and encourage local businesses to create and maintain create new jobs within Harlan. If the business does not maintain the required number of full-time equivalent positions as stipulated in the agreement, the City penalizes the business until the number of jobs returns to the required minimum in the agreement. If the business meets the requirements throughout, the loan is forgiven at the end of the contract period.

In February 2008, the City issued a forgivable loan in the amount of \$60,000 to Variety Distributors, Inc. The agreement requires Variety to create and maintain at least 60 full-time equivalent jobs over the course of the next five years. As of June 30, 2012, Variety Distributors has met the requirements of the loan agreement and therefore, no receivable has been recorded at year end.

In October 2008, the City issued a forgivable loan in the amount of \$16,800 to Superior Midwest Foods. The agreement requires to creation of 30 full-time equivalent positions with 19 to be created by December 31, 2011 and 11 more positions to be created by the end of the contract on December 31, 2016. On June 5, 2012, Superior Midwest dissolved operations. As of June 30, 2012, the City considers 70%, or \$11,760, of the loan to be collectible. A receivable in the amount has been recorded in the general fund as of June 30, 2012.

In October 2011, the City issued a forgivable loan in the amount of \$30,000 to Elite. The agreement requires the company to maintain 20 full-time equivalent positions for 3 years until October 2014. As of June 30, 2012, Elite has met the requirements of the loan and therefore, no receivable has been recorded at year end.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARLAN, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN
BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
Governmental Funds and Proprietary Funds
For the Year Ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Taxes	\$ 3,054,285	\$ -
Special Assessments	3,389	-
Tax Increment Financing	-	-
Other City Taxes	-	-
Licenses and Permits	94,155	-
Intergovernmental Revenue	662,815	-
Charges for Services	451,880	11,441,464
Payments in Lieu of Taxes	297,740	-
Fines and Forfeits	24,703	-
Contributions	58,094	-
Revenue from Use of Property	82,502	57,591
Interest on Investments	5,305	58,596
Miscellaneous	64,623	1,284,870
Total Revenue	<u>4,799,491</u>	<u>12,842,521</u>
Disbursements:		
Public Safety	1,062,450	-
Public Works	1,183,131	-
Culture and Recreation	952,263	-
Community and Economic Development	300,962	-
General Government	566,468	-
Capital Projects	622,454	-
Debt Service	195,918	-
Business-Type Activities	-	20,417,341
Total Expenditures	<u>4,883,646</u>	<u>20,417,341</u>
Excess (deficiency) of receipts over disbursements	<u>(84,155)</u>	<u>(7,574,820)</u>
Other financing sources (uses):		
Proceeds from Debt Issuance	-	5,157,462
Bond Premium on Debt Issuance	-	43,444
Proceeds of Capital Asset Sales	41,000	-
Transfers In	1,268,790	8,180
Transfers Out	(1,276,970)	-
Total other financing sources (uses)	<u>32,820</u>	<u>5,209,086</u>
Net Change in Balances	(51,335)	(2,365,734)
Balances - beginning of year	<u>910,702</u>	<u>20,097,256</u>
Balances - end of year	<u>\$ 859,367</u>	<u>\$ 17,731,522</u>

Total Actual	Budgeted Amounts		Final to Actual Variance
	Original	Final	
\$ 3,054,285	\$ 2,132,458	\$ 2,132,458	\$ 921,827
3,389	1,000	1,000	2,389
-	677,944	677,944	(677,944)
-	506,258	506,258	(506,258)
94,155	17,550	17,550	76,605
662,815	807,487	807,487	(144,672)
11,893,344	16,381,391	16,381,391	(4,488,047)
297,740	-	-	297,740
24,703	-	-	24,703
58,094	-	-	58,094
140,093	221,400	221,400	(81,307)
63,901	-	-	63,901
1,349,493	908,830	908,830	440,663
<u>17,642,012</u>	<u>21,654,318</u>	<u>21,654,318</u>	<u>(4,012,306)</u>
1,062,450	1,067,650	1,517,650	455,200
1,183,131	1,173,995	1,258,995	75,864
952,263	929,628	929,628	(22,635)
300,962	290,800	440,800	139,838
566,468	541,206	641,206	74,738
622,454	260,000	660,000	37,546
195,918	659,550	659,550	463,632
20,417,341	24,795,338	26,295,338	5,877,997
<u>25,300,987</u>	<u>29,718,167</u>	<u>32,403,167</u>	<u>7,102,180</u>
<u>(7,658,975)</u>	<u>(8,063,849)</u>	<u>(10,748,849)</u>	<u>3,089,874</u>
5,157,462	7,500,000	9,955,000	(4,797,538)
43,444	-	-	43,444
41,000	-	-	41,000
1,276,970	2,465,248	2,251,557	(974,587)
<u>(1,276,970)</u>	<u>(2,465,248)</u>	<u>(2,251,557)</u>	<u>974,587</u>
<u>5,241,906</u>	<u>7,500,000</u>	<u>9,955,000</u>	<u>(4,713,094)</u>
(2,417,069)	(563,849)	(793,849)	(1,623,220)
<u>21,007,958</u>	<u>30,317,768</u>	<u>21,465,302</u>	<u>(457,344)</u>
<u>\$ 18,590,889</u>	<u>\$ 29,753,919</u>	<u>\$ 20,671,453</u>	<u>\$ (2,080,564)</u>

CITY OF HARLAN, IOWA
BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
For the Year Ended June 30, 2012

	Cash Basis	Accrual Adjustments	Modified/Full Accrual Basis
Revenue:			
Taxes	\$ 3,054,285	\$ 284,858	\$ 3,339,143
Special Assessments	3,389	-	3,389
Licenses and Permits	94,155	-	94,155
Intergovernmental Revenue	662,815	90,692	753,507
Charges for Services	11,893,344	(10,499,298)	1,394,046
Payments in Lieu of Taxes	297,740	(43,131)	254,609
Fines and Forfeits	24,703	-	24,703
Contributions	58,094	-	58,094
Revenue from Use of Property	140,093	(56,862)	83,231
Interest on Investments	63,901	(56,691)	7,210
Miscellaneous	1,349,493	(1,284,885)	64,608
Total Revenue	<u>17,642,012</u>	<u>(11,565,317)</u>	<u>6,076,695</u>
Expenditures/Expenses:			
Public Safety	1,062,450	10,057	1,072,507
Public Works	1,183,131	24,002	1,207,133
Culture and Recreation	952,263	9,067	961,330
Community and Economic Development	300,962	618	301,580
General Government	566,468	9,657	576,125
Capital Projects	622,454	17,891	640,345
Debt Service	195,918	309,244	505,162
Business-Type Activities	20,417,341	(19,092,519)	1,324,822
Total Expenditures/Expenses	<u>25,300,987</u>	<u>(18,711,983)</u>	<u>6,589,004</u>
Excess (Deficiency) of Revenues Over Expenditures/Expenses	<u>(7,658,975)</u>	<u>7,146,666</u>	<u>(512,309)</u>
Other financing sources (uses):			
Proceeds from Debt Issuance	5,157,462	(5,157,462)	-
Bond Premium on Debt Issuance	43,444	(43,444)	-
Proceeds of Capital Asset Sales	41,000	-	41,000
Transfers In	1,276,970	-	1,276,970
Transfers Out	(1,276,970)	-	(1,276,970)
Total other financing sources (uses)	<u>5,241,906</u>	<u>(5,200,906)</u>	<u>41,000</u>
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures/Expenses and Other (Uses)	<u>(2,417,069)</u>	<u>1,945,760</u>	<u>(471,309)</u>
Fund Balance/Retained Earnings - beginning of year	<u>21,007,958</u>	<u>(15,425,679)</u>	<u>5,582,279</u>
Fund Balance/Retained Earnings - end of year	<u>\$ 18,590,889</u>	<u>\$(13,479,919)</u>	<u>\$ 5,110,970</u>

CITY OF HARLAN, IOWA
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2012

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 the Internal Service Funds, and appropriates the amount deemed necessary for each of the different City offices and departments. The budgets may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end. During the year ended June 30, 2012, one budget amendment was adopted increasing budgeted receipts by \$2,455,000 and increasing budgeted disbursements by \$2,685,000.

Formal and legal budgetary control is based upon 9 major classes of expenditures known as functions, not by fund. These 9 functions are: public safety, public works, community and economic development, health and social services, culture and recreation, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department.

During the fiscal year ended June 30, 2012, disbursements exceeded the amounts budgeted in the Culture and Recreation functions.

CITY OF HARLAN, IOWA
Schedule of Funding Progress for the
Retiree Health Plan

Required Supplementary Information						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Approximate Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2012	-	\$ 317,393	\$ 317,393	0.00%	\$1,440,117	22.0%

See Note 14 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HARLAN, IOWA
 COMBINING BALANCE SHEET
 Governmental Nonmajor Funds
 June 30, 2012

	Special Revenue		
	Road Use Tax	Local Option Sales Tax	Upper Story Façade
Assets			
Cash and Cash Equivalents	\$ 58,055	\$ 15,312	\$ -
Receivables (Net, where applicable, of allowance for uncollectibles)			
Due from Other Funds	-	-	-
Due from Other Governmental Agencies	35,721	69,772	-
Inventories	39,073	-	-
Total Assets	132,849	85,084	-
Liabilities and Fund Balances			
Liabilities:			
Accounts Payable	8,159	-	-
Accrued Wages	5,741	-	-
Due to Other Funds	-	-	-
Total Liabilities	13,900	-	-
Fund Balances:			
Non-Spendable:			
Inventories	39,073	-	-
Restricted:			
Local Option Sales Tax Purposes	-	85,084	-
Streets	79,876	-	-
Housing Grant	-	-	-
Assigned:			
Capital Projects	-	-	-
Unassigned	-	-	-
Total Fund Balances	118,949	85,084	-
Total Liabilities and Equity	\$ 132,849	\$ 85,084	\$ -

Capital Projects				
Library Building	Dye Street	College Park Plaza	Airport Improvement	
\$ 7,661	\$ -	\$ 21,491	\$ -	
-	-	-	-	-
-	-	-	94,649	-
-	-	-	-	-
7,661	-	21,491	94,649	
-	-	-	14,412	
-	-	-	-	
-	-	-	98,185	
-	-	-	112,597	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
7,661	-	21,491	-	
-	-	-	(17,948)	
7,661	-	21,491	(17,948)	
\$ 7,661	\$ -	\$ 21,491	\$ 94,649	

CITY OF HARLAN, IOWA
 COMBINING BALANCE SHEET
 Governmental Nonmajor Funds
 June 30, 2012

	Capital Projects		
	Activity Center	Street Overlay	GH Christiansen Subdivision
Assets			
Cash and Cash Equivalents	\$ 32,530	\$ 3,077	\$ -
Receivables (Net, where applicable, of allowance for uncollectibles)			
Due from Other Funds	-	-	-
Due from Other Governmental Agencies	-	-	-
Inventories	-	-	-
Total Assets	32,530	3,077	-
Liabilities and Fund Balances			
Liabilities:			
Accounts Payable	3,298	-	-
Accrued Wages	-	-	-
Due to Other Funds	-	-	103,949
Total Liabilities	3,298	-	103,949
Fund Balances:			
Non-Spendable:			
Inventories	-	-	-
Restricted:			
Local Option Sales Tax Purposes	-	-	-
Streets	-	-	-
Housing Grant	-	-	-
Assigned:			
Capital Projects	29,232	3,077	-
Unassigned	-	-	(103,949)
Total Fund Balances	29,232	3,077	(103,949)
Total Liabilities and Equity	\$ 32,530	\$ 3,077	\$ -

Capital Projects		Total Governmental Nonmajor Funds
Housing Rehab 1998	Industrial Park	
\$ 25,000	\$ 92,183	\$ 255,309
-	202,134	202,134
-	-	200,142
-	-	39,073
25,000	294,317	696,658
-	181	26,050
-	-	5,741
-	-	202,134
-	181	233,925
-	-	39,073
-	-	85,084
-	-	79,876
25,000	-	25,000
-	294,136	355,597
-	-	(121,897)
25,000	294,136	462,733
\$ 25,000	\$ 294,317	\$ 696,658

CITY OF HARLAN, IOWA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 Governmental Nonmajor Funds
 For the Year Ended June 30, 2012

	Special Revenue		
	Road Use Tax	Local Option Sales Tax	Upper Story Façade
Revenue:			
Taxes	\$ -	\$ 432,136	\$ -
Special Assessments	-	-	-
Intergovernmental Revenue	480,353	-	-
Contributions	-	-	-
Interest	-	-	-
Miscellaneous	-	-	-
Total Revenue	<u>480,353</u>	<u>432,136</u>	<u>-</u>
Expenditures:			
Public Works	469,408	-	-
Culture and Recreation	-	147,000	-
Community and Economic Development	-	-	22,046
Capital Projects	-	-	-
Total Expenditures	<u>469,408</u>	<u>147,000</u>	<u>22,046</u>
Excess (deficiency) of revenues over expenditures	<u>10,945</u>	<u>285,136</u>	<u>(22,046)</u>
Other financing sources (uses):			
Proceeds from Sale of Capital Assets	-	-	-
Transfers In	-	-	22,046
Transfers Out	(98,000)	(271,000)	-
Total other financing sources (uses)	<u>(98,000)</u>	<u>(271,000)</u>	<u>22,046</u>
Net Change in Fund Balance	(87,055)	14,136	-
Fund balances (deficits) -beginning of year	119,480	5,867	-
Prior Period Adjustments	<u>86,524</u>	<u>65,081</u>	<u>-</u>
Fund balances (deficits) -beginning of year (as restated)	<u>206,004</u>	<u>70,948</u>	<u>-</u>
Fund balances (deficits) - end of year	<u>\$ 118,949</u>	<u>\$ 85,084</u>	<u>\$ -</u>

Capital Projects				
Library Building	Dye Street	College Park Plaza	Airport Improvement	
\$ -	\$ -	\$ -	\$ -	-
-	-	-	-	-
-	-	-	-	94,649
7,543	-	-	-	-
-	-	-	-	-
-	-	-	-	-
7,543	-	-	-	94,649
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	13	-	-	111,397
-	13	-	-	111,397
7,543	(13)	-	-	(16,748)
-	-	-	-	-
-	13	-	-	-
-	-	-	-	-
-	13	-	-	-
7,543	-	-	-	(16,748)
118	-	21,491	-	(1,200)
-	-	-	-	-
118	-	21,491	-	(1,200)
\$ 7,661	\$ -	\$ 21,491	\$ -	(17,948)

CITY OF HARLAN, IOWA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 Governmental Nonmajor Funds
 For the Year Ended June 30, 2012

	Capital Projects		
	Activity Center	Street Overlay	GH Christiansen Subdivision
Revenue:			
Taxes	\$ -	\$ -	\$ -
Special Assessments	-	1,528	-
Intergovernmental Revenue	-	64,078	-
Contributions	50,000	-	-
Interest	-	-	-
Miscellaneous	-	-	1,250
Total Revenue	50,000	65,606	1,250
Expenditures:			
Public Works	-	-	-
Culture and Recreation	-	-	-
Community and Economic Development	-	-	-
Capital Projects	20,768	453,521	6,410
Total Expenditures	20,768	453,521	6,410
Excess (deficiency) of revenues over expenditures	29,232	(387,915)	(5,160)
Other financing sources (uses):			
Proceeds from Sale of Capital Assets	-	-	-
Transfers In	-	138,000	-
Transfers Out	-	-	-
Total other financing sources (uses)	-	138,000	-
Net Change in Fund Balance	29,232	(249,915)	(5,160)
Fund balances (deficits) -beginning of year	-	252,992	(98,789)
Prior Period Adjustments	-	-	-
Fund balances (deficits) -beginning of year (as restated)	-	252,992	(98,789)
Fund balances (deficits) - end of year	\$ 29,232	\$ 3,077	\$ (103,949)

Capital Projects		Total Governmental Nonmajor Funds
Housing Rehab 1998	Industrial Park	
\$ -	\$ -	432,136
-	-	1,528
37,160	-	676,240
-	-	57,543
-	189	189
-	1,500	2,750
37,160	1,689	1,170,386
-	-	469,408
-	-	147,000
12,160	-	34,206
-	48,236	640,345
12,160	48,236	1,290,959
25,000	(46,547)	(120,573)
-	18,500	18,500
-	11,104	171,163
-	(13)	(369,013)
-	29,591	(179,350)
25,000	(16,956)	(299,923)
-	311,092	611,051
-	-	151,605
-	311,092	762,656
\$ 25,000	\$ 294,136	\$ 462,733

CITY OF HARLAN, IOWA
STATEMENT OF NET ASSETS
COMBINING STATEMENT OF NET ASSETS
Internal Service Funds
June 30, 2012

	Equipment Revolving	Group Insurance	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 433,854	\$ -	\$ 433,854
Total Current Assets	<u>433,854</u>	<u>-</u>	<u>433,854</u>
Noncurrent Assets			
Infrastructure, Property and Equipment, Net of Accumulated Depreciation	1,192,545	-	1,192,545
Total Noncurrent Assets	<u>1,192,545</u>	<u>-</u>	<u>1,192,545</u>
Total Assets	<u>1,626,399</u>	<u>-</u>	<u>1,626,399</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	29,799	-	29,799
Claims Incurred But Not Reported	-	24,037	24,037
Total Current Liabilities	<u>29,799</u>	<u>24,037</u>	<u>53,836</u>
Total Liabilities	<u>29,799</u>	<u>24,037</u>	<u>53,836</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,192,545	-	1,192,545
Unrestricted	404,055	(24,037)	380,018
Total Net Assets	<u>\$ 1,596,600</u>	<u>\$ (24,037)</u>	<u>\$ 1,572,563</u>

CITY OF HARLAN, IOWA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Internal Service Funds
For the Year Ended June 30, 2012

	Equipment Revolving	Group Insurance	Total
Operating Revenues:			
Charges for Services	\$ 510,690	\$ -	\$ 510,690
Reimbursement from Employees/Insurance	-	937,021	937,021
Total Operating Revenue	<u>510,690</u>	<u>937,021</u>	<u>1,447,711</u>
Operating Expenses:			
Public Safety	94,269	-	94,269
Public Works	8,669	-	8,669
Culture and Recreation	22,778	-	22,778
General Government	46,447	944,756	991,203
Depreciation	198,720	-	198,720
Total Operating Expenses	<u>370,883</u>	<u>944,756</u>	<u>1,315,639</u>
Operating Income (Loss)	139,807	(7,735)	132,072
Non-Operating Income:			
Other Non-Operating Revenues	23,906	-	23,906
Total Non-Operating Income	<u>23,906</u>	<u>-</u>	<u>23,906</u>
Income (Loss) before Contributions and Transfers	163,713	(7,735)	155,978
Other Financing Sources (Uses)			
Proceeds from Sale of Capital Assets	13,250	-	13,250
Federal Grant	774	-	774
Total Other Financing Sources (Uses)	<u>14,024</u>	<u>-</u>	<u>14,024</u>
Change in Net Assets	<u>177,737</u>	<u>(7,735)</u>	<u>170,002</u>
Net Assets (Deficit)- Beginning	429,370	(4,827)	424,543
Prior Period Adjustment	989,493	(11,475)	978,018
Net Assets (Deficits) - Beginning, as Restated	<u>1,418,863</u>	<u>(16,302)</u>	<u>1,402,561</u>
Net Assets (Deficit) - Ending	<u>\$ 1,596,600</u>	<u>\$ (24,037)</u>	<u>\$ 1,572,563</u>

CITY OF HARLAN, IOWA
COMBINING STATEMENT OF CASH FLOWS
Internal Service Funds
For the Year Ended June 30, 2012

	Equipment Revolving	Group Insurance	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	\$ 510,690	\$ 937,021	\$ 1,447,711
Cash Paid to Suppliers for Goods and Services	(143,290)	-	(143,290)
Cash Paid to Employees for Services	-	(932,194)	(932,194)
Other Nonoperating Income	23,906	-	23,906
Net Cash (Used) by Operating Activities	<u>391,306</u>	<u>4,827</u>	<u>396,133</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and Construction of Capital Assets	(400,846)	-	(400,846)
Proceeds from Sale of Capital Assets	13,250	-	13,250
Proceeds from Grant	774	-	774
Net Cash (Used) for Capital and Related Financing Activities	<u>(386,822)</u>	<u>-</u>	<u>(386,822)</u>
Net Increase in Cash and Cash Equivalents	4,484	4,827	9,311
Cash and Cash Equivalents at Beginning of Year	<u>429,370</u>	<u>(4,827)</u>	<u>424,543</u>
Cash and Cash Equivalents at End of Year	<u><u>433,854</u></u>	<u><u>-</u></u>	<u><u>433,854</u></u>
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities			
Operating Income (Loss)	<u>\$ 139,807</u>	<u>\$ (7,735)</u>	<u>\$ 132,072</u>
Adjustments to Reconcile Net Operating (Loss) to Net Cash Provided by Operating Activities:			
Depreciation	198,720	-	198,720
Miscellaneous Non-Operating Income	23,906	-	23,906
Increase (Decrease) in Liabilities			-
Accounts Payable	28,873	12,562	41,435
Total Adjustments	<u>251,499</u>	<u>12,562</u>	<u>264,061</u>
Net Cash Provided by Operating Activities	<u><u>\$ 391,306</u></u>	<u><u>\$ 4,827</u></u>	<u><u>\$ 396,133</u></u>

CITY OF HARLAN, IOWA
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUND
 Fiduciary Funds
 June 30, 2012

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012
FLEX SPENDING				
ASSETS				
Cash and Cash Equivalents	\$ 939	\$ 8,610	\$ 9,269	\$ 280
Total Assets	939	8,610	9,269	280
LIABILITIES				
Other Payables	939	8,610	9,269	280
Total Liabilities	939	8,610	9,269	280

CITY OF HARLAN, IOWA
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 Fiduciary Funds
 June 30, 2012

	Private Purpose Trust Funds					Totals
	C Hansen/ Schildberg	Library	Beebe	Police	Loree/ Poynter	
ASSETS						
Cash and Cash Equivalents	\$ 392	\$ 8,862	\$ 12,995	\$ 2,715	\$ 1,683	\$ 26,647
Total Assets	392	8,862	12,995	2,715	1,683	26,647
NET ASSETS						
Restricted - Held in Trust	392	8,862	12,995	2,715	1,683	26,647
Total Net Assets	\$ 392	\$ 8,862	\$ 12,995	\$ 2,715	\$ 1,683	\$ 26,647

CITY OF HARLAN, IOWA
 COMBINING STATEMENT OF CHANGES IN NET ASSETS
 Fiduciary Funds
 For the Year Ended June 30, 2012

	Private Purpose Trust Funds					Totals
	C Hansen/ Schildberg	Library	Beebe	Police	Loree/ Poynter	
Additions						
Contributions	\$ -	\$ 10,832	\$ 2,000	\$ -	\$ -	\$ 12,832
Total Additions	-	10,832	2,000	-	-	12,832
Deductions						
Public Safety	485	-	-	200	-	685
Culture and Recreation	-	17,378	-	-	-	17,378
Total Deductions	485	17,378	-	200	-	18,063
Changes in Net Assets	(485)	(6,546)	2,000	(200)	-	(5,231)
Net Assets Beginning of Year	877	15,408	10,995	2,915	1,683	31,878
Net Assets End of Year	\$ 392	\$ 8,862	\$ 12,995	\$ 2,715	\$ 1,683	\$ 26,647

CITY OF HARLAN
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -
ALL GOVERNMENTAL FUNDS
For the Last Nine Years Ended June 30

	Modified		Cash Basis	
	Accrual Basis			
	2012	2011	2010	2009
Revenues:				
Property tax	\$ 3,339,143	\$ 2,025,923	\$ 1,786,162	\$ 1,772,090
Tax Increment Financing Revenue	-	700,948	611,180	517,593
Other City Tax	-	494,847	433,037	448,915
Licenses and Permits	94,155	83,935	76,814	70,919
Intergovernmental	753,507	945,377	1,264,385	2,004,457
Charges for Services	538,919	410,184	449,920	534,851
Payment in Lieu of Taxes	254,609	-	-	-
Fines and Forfeits	24,703	-	-	-
Contributions	58,094	-	-	-
Use of Money and Property	82,502	85,093	74,134	78,176
Special Assessments	3,389	5,271	3,880	7,122
Bond Proceeds	-	982,947	-	528,410
Sale of Property	-	2,666	26,901	9,932
Interest on Investments	5,305	-	-	-
Miscellaneous	64,608	112,396	196,973	424,176
Total	\$ 5,218,934	\$ 5,849,587	\$ 4,923,386	\$ 6,396,641
Expenditures:				
Operating:				
Public Safety	1,072,507	\$ 1,298,212	\$ 949,364	\$ 983,002
Public Works	1,207,133	1,083,467	1,106,564	1,132,733
Culture and Recreation	961,330	911,837	800,439	833,871
Community and Economic Development	301,580	554,117	235,494	211,368
General Government	576,125	514,232	483,744	465,307
Debt Service	505,162	872,198	649,844	1,124,564
Capital Projects	640,345	265,712	993,567	2,947,130
Total	\$ 5,264,182	\$ 5,499,775	\$ 5,219,016	\$ 7,697,975

Cash Basis				
2008	2007	2006	2005	2004
\$ 1,616,821	\$ 1,490,434	\$ 1,369,632	\$ 1,404,035	\$ 1,461,570
493,868	746,189	1,199,550	1,091,014	980,614
444,541	348,062	294,368	22,641	16,371
74,021	62,066	65,371	60,021	54,195
1,176,419	853,006	1,381,898	965,230	1,667,288
440,585	412,506	402,974	351,277	371,945
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
161,454	116,655	106,389	88,450	78,525
5,404	14,435	977	4,186	7,535
3,778,211	-	-	-	-
110,939	-	-	-	-
-	-	-	-	-
168,180	204,896	156,695	284,384	497,532
<u>\$ 8,470,443</u>	<u>\$ 4,248,249</u>	<u>\$ 4,977,854</u>	<u>\$ 4,271,238</u>	<u>\$ 5,135,575</u>

\$ 1,043,969	\$ 1,281,470	\$ 1,084,826	\$ 733,141	\$ 688,146
1,119,022	800,153	756,129	818,117	832,249
811,031	720,360	727,450	677,455	573,477
359,763	361,077	377,533	-	570,820
466,907	389,961	294,416	861,968	395,676
633,710	488,448	512,095	494,018	499,108
2,274,980	544,516	989,072	1,612,417	1,874,477
<u>\$ 6,709,382</u>	<u>\$ 4,585,985</u>	<u>\$ 4,741,521</u>	<u>\$ 5,197,116</u>	<u>\$ 5,433,953</u>



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**INDEPENDENT AUDITORS' 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**

Honorable Mayor, Members of the City Council
City of Harlan, Iowa

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the CITY OF HARLAN, IOWA as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 30, 2013. We conducted our 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:

Management of the City of Harlan is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Harlan, Iowa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Harlan, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Harlan, Iowa's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items II-A-12 and II-B-12 to be material weaknesses.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the City of Harlan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Harlan, Iowa's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the City of Harlan, Iowa's response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit.


Certified Public Accountants

March 30, 2013
Le Mars, Iowa

CITY OF HARLAN, IOWA
Schedule of Findings
For the Year Ended June 30, 2012

Part I: Summary of the Independent Auditors' Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) Material weaknesses in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters were noted.

Material Weakness:

II-A-12 **Financial Reporting**

Observation - During the audit, we identified material amounts of receivables and payables not recorded in the City's financial statements. Adjustments were subsequently made by the City to properly include these amounts in the financial statements.

Recommendation – The City should implement procedures to ensure all receivables and payables are identified and included in the City's financial statements.

Response – We will double check these in the future to avoid any missing receivables and payables.

Conclusion – Response accepted.

II-B-12 Observation – During the audit, it was observed the signature disk used for check signing was accessible to all employees. Therefore, no internal controls exist over approval of final payment.

Recommendation – The City should implement procedures to ensure proper internal controls exist over the final approval of payment by limiting access to the signature disk.

Response – The City will limit access to the signature disk and implement procedures to review transactions prior to approval of final payment.

Conclusion – Response accepted.

Part III: Other Findings Related to Statutory Reporting:

III-A-12 - Certified Budget – Disbursements during the year ended June 30, 2012, exceeded the amounts budgeted in the Culture and Recreation function.

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

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

CITY OF HARLAN, IOWA
Schedule of Findings
For the Year Ended June 30, 2012

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

III-B-12 - Certified Tax Levy – The adopted tax levy exceeded the estimated tax levy published. Chapter 384.16 of the Code of Iowa states, “the tax levy certified may be less than but not more than the amount estimated in the proposed budget submitted at the final hearing, unless an additional tax levy is approved at a city election.”

Recommendation – The City should adopt a tax levy less than or equal to the estimated tax levy in the proposed budget in accordance with Chapter 384.16 of the Code of Iowa.

Response – The City followed proper procedure to increase the levy due to a miscalculation of debt service requirements.

Conclusion – Response accepted.

III-C-12 - Questionable Expenditures - We noted no questionable expenditures during our audit.

III-D-12 - Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

III-E-12 - Business Transactions – There were no business transactions between the City and City officials identified during the audit.

III-F-12 - Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. However, we recommend that the amount of coverage be reviewed annually to insure that the coverage is adequate for current operations.

III-G-12 - Council Minutes - We noted no transactions requiring approval which had not been approved by the Council.

III-H-12 - Cash and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.