

**HARLAN MUNICIPAL UTILITIES**  
**INDEPENDENT AUDITORS' REPORT**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**  
**AND QUESTIONED COSTS**

**JUNE 30, 2004**

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## OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Craig Kroger	Chairman	2007
Al Burchett	Board Member	2006
Pat Pattison	Board Member	2004
Pete Horne	Board Member	2009
Kathleen Kohorst	Board Member	2005
Tom Gaffigan	Chief Executive Officer	Indefinite
John Doonan	Director of Customer Relations & Support Services	Indefinite
Robert Hall	Attorney	Indefinite

# **HEITHOFF, HANSEN, MUHLBAUER & CO., P.C.**

## **Certified Public Accountants**

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### **INDEPENDENT AUDITORS' REPORT**

October 8, 2004

Board of Trustees  
Harlan Municipal Utilities  
Harlan, Iowa

We have audited the accompanying basic financial statements of the business type activities, listed as exhibits in the table of contents of this report, of Harlan Municipal Utilities, a component unit of the City of Harlan, as of and for the year ended June 30, 2004. These financial statements are the responsibility of the management of the Harlan Municipal Utilities. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of Harlan Municipal Utilities for the year ended June 30, 2003 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated August 11, 2003. As discussed in Note 13, Harlan Municipal Utilities has restated its June 30, 2003 financial statements during the current year to account for several accrual entries discovered after the audit date, in conformity with accounting principles generally accepted in the United States of America. The other auditors reported on the June 30, 2003 financial statements before the restatement.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 business type activities, in which each is shown as a major fund, of the Harlan Municipal Utilities as of June 30, 2004, and the respective changes in financial position and cash flows of its proprietary fund types for the year then ended in conformity with U.S. generally accepted accounting principles.

Board of Trustees  
October 8, 2004  
Page two

As described in Note 14 to the financial statements, for the year ended June 30, 2004, the Harlan Municipal Utilities adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule-Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our reports dated October 8, 2004, on our consideration of Harlan Municipal Utilities internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on page 6 through 10 and 36 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Harlan Municipal Utilities' basic financial statements. The supplemental information included in Schedules 1 through 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Information in Schedules 11 through 13 has not been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, accordingly, we express no opinion on it.

We also audited the adjustments described in Note 13 that were applied to restate the June 30, 2003, financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

*Heithoff, Hansen, Muhlbauer & Co. P.C.*

HEITHOFF, HANSEN, MUHLBAUER & CO., P.C.  
Certified Public Accountants



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Harlan Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

Because Harlan Municipal Utilities is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Utilities financial position and results of operations.

### 2004 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities increased .04%, or \$4,601, from fiscal 2003 to fiscal 2004.
- Operating expenses decreased 7.13%, or \$603,829 from fiscal 2003 to fiscal 2004.
- The Utilities' net assets of business type activities increased 7.77%, or \$1,141,853 from June 30, 2003 to June 30, 2004.

### USING THIS ANNUAL REPORT

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

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities' financial activities.

Financial Statements consist of a Balance Sheet- Proprietary Funds, and a Statement of Revenues, Expenses, and Changes in Fund Net Assets- Proprietary Funds and a Statement of Cash Flows- Proprietary Funds. These provide information about the activities of Harlan Municipal Utilities as a whole and present an overall view of the Utilities' finances.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year.

Other Supplementary Information provides comparative financial data with a prior year and statistical data.

## REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

### Basic Financial Statements

One of the most important questions asked about the Utilities' finances is, "Is the Utility as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Fund Net Assets report information, which helps answer, this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Balance Sheet presents all of the Utilities' assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the Utilities' net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Fund Net Assets presents information showing how the Utilities' net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Fund Net Assets report the following activity:

- Business type activities including the electric utility, gas utility, water utility, telecommunication utility, and the telephone utility. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The Utility has one fund:

1) Proprietary funds account for the Utilities' Enterprise Funds. These funds report services for which the Utility charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Balance Sheet and the Statement of Revenues, Expenses, and Changes in Fund Net Assets. The Enterprise Funds include the electric utility, gas utility, water utility, telecommunication utility, and the telephone utility, each considered to be a major fund of the Utility. The Utility is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

The required financial statements for proprietary funds include a balance sheet, a statement of revenues, expenses, and changes in fund net assets and a statement of cash flows.

## BASIC FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for business type activities.

Net Assets	
June 30, 2004	
<b><u>Business Type Activities-Enterprise Funds</u></b>	
Current and other assets	\$ 9,833,496
Capital assets	18,126,391
Total Assets	<u>\$ 27,959,887</u>
Current liabilities	\$ 1,407,298
Non-current liabilities	10,709,899
Total Liabilities	<u>\$ 12,117,197</u>
Net assets:	
Invested in capital assets, net of related debt	\$ 10,672,186
Restricted	1,637,757
Unrestricted	3,532,747
Total net assets	<u>\$ 15,842,690</u>

Net assets of business type activities increased from FY03 by \$1,141,853, or 7.77%. The largest portion of the Utilities' net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is \$3,532,747 at the end of this year.

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Changes in Net Assets  
Year ended June 30, 2004

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Business Type Activities-Enterprise Funds

Revenues:	
Charges for services	\$ 9,537,647
Interest income	79,469
Capital grants	106,272
Total revenues	<u>\$ 9,723,388</u>
Operating expenses:	
Plant operations	\$ 4,395,394
Distribution operations	738,224
Administrative and general	612,309
Consumer services	60,192
Marketing and stakeholder relations	104,624
Employee benefits	592,684
Total operating expenses	<u>\$ 6,503,427</u>
Other expenses:	
Amortization	\$ 26,650
Depreciation	1,330,249
Contributions to City-In lieu of taxes	201,797
Interest expense	464,412
Industrial development contribution	55,000
Total other expense	<u>\$ 2,078,108</u>
Increase in net assets	\$ 1,141,853
Net assets beginning of year (restated)	<u>14,700,837</u>
Net assets end of year	<u>\$ 15,842,690</u>

## INDIVIDUAL PROPRIETARY FUND ANALYSIS

### Proprietary Fund Highlights

The Electric Fund, which accounts for the operation and maintenance of the Utilities' electrical system, ended fiscal 2004 with a \$10,294,451 net asset balance compared to the prior year ending net asset balance of \$9,675,781.

The Gas Fund, which accounts for the operation and maintenance of the Utilities' gas system, ended fiscal 2004 with a \$2,498,354 net asset balance compared to the prior year ending net asset balance of \$3,008,448.

The Water Fund, which accounts for the operation and maintenance of the Utilities' water system, ended fiscal 2004 with a \$2,469,672 net asset balance compared to the prior year ending net asset balance of \$2,306,624.

The Telecommunication Fund, which accounts for the operation and maintenance of the Utilities' cable and internet system, ended fiscal 2004 with a \$691,317 net asset balance compared to the prior year ending net asset balance deficit of \$(124,348).

The Telephone Fund, which accounts for the operation and maintenance of the Utilities' telephone communication system, ended fiscal 2004 with a \$(111,104) net asset balance deficit compared to the prior year ending net asset balance deficit of \$(165,668).

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the Utility amended its budget once. The amendment was done in March 2004. The amendment was needed to cover unplanned bonding receipts and disbursements, including disbursements associated with debt payments on bond refinancing.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

The Utilities' capital assets include land, buildings and improvements, equipment, lighting systems, and other infrastructure. Capital assets for business type activities totaled \$18,047,690 (net of accumulated depreciation) at June 30, 2004. See Note 3 to the financial statements for more information about the Utilities capital assets.

For business type activities, major additions included underground electrical updates.

Construction in progress at June 30, 2004 for business type activities consists primarily of electrical underground projects.

#### **Long-Term Debt**

At June 30, 2004, the Utility had \$10,583,065 in total long-term debt outstanding for business type activities. During the year ended June 30, 2004, the Utility issued a total of \$4,070,000 in revenue bonds and \$317,225 in capital refunding notes to finance the Utilities 2004 capital projects and to refinance existing bonds.

### **ECONOMIC FACTORS BEARING ON THE CITY'S FUTURE**

Several economic factors affected decisions made by the Utility in setting its fiscal 2005 budget. The Utility will experience a slight increase in revenues and expenditures from fiscal 2004 to fiscal 2005.

The Business Type Activities—Enterprise Fund is projected to end fiscal 2005 with a fund balance of approximately \$16,528,000, a 4.32% increase from fiscal 2004.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the Utilities finances and operating activities. If you have any questions or require additional information please contact the Chief Executive Officer, 405 Chatburn Avenue, Harlan, Iowa.

**BASIC FINANCIAL STATEMENTS**

**HARLAN MUNICIPAL UTILITIES  
BALANCE SHEET  
PROPRIETARY FUNDS  
JUNE 30, 2004**

	Business Type Activities -		
	Electric Utility	Gas Utility	Water Utility
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Designated			
Plant improvements, emergency and contingency funds:			
Cash and savings	\$ 176,276	\$ 171,062	\$ 37,990
Plant improvements, emergency and replacement funds bond requirement:			
Cash and savings	250,000	-0-	-0-
Restricted			
Consumers' deposit fund	20,946	-0-	-0-
Revenue bond retirement-savings	338,949	-0-	3,273
Capital improvement fund – savings	3,289,807	-0-	170,000
Unrestricted			
Cash and savings	1,376,982	1,138,148	100,045
Industrial development fund	107,976	86,811	-0-
Accounts receivable - net of allowance for doubtful accounts of \$37,000	284,983	74,134	152,976
Unbilled usage	187,172	53,093	49,630
Employee loans receivable	20,751	-0-	-0-
Inventory	271,457	25,420	35,273
Prepaid expenses	29,551	21,206	25,412
Total current assets	6,354,850	1,569,874	574,599
<b>CAPITAL ASSETS</b>			
Utility plant			
Plant in service, at cost	24,155,819	2,096,031	7,040,963
Less accumulated depreciation	12,840,100	1,230,007	3,255,163
	11,315,719	866,024	3,785,800
Construction work in progress	78,701	-0-	-0-
Net capital assets	11,394,420	866,024	3,785,800
<b>OTHER ASSETS</b>			
Other A/R – CABS L.T.	-0-	-0-	-0-
Bond discount and issuance costs	46,986	-0-	34,465
Intra-utility note receivable	189,907	189,907	-0-
Revenue bond reserve-restricted investments	-0-	-0-	237,449
Total other assets	236,893	189,907	271,914
Total assets	\$ 17,986,163	\$ 2,625,805	\$ 4,632,313

Enterprise Funds			
Telecommunications Utility	Telephone Utility	Elimination	Totals
\$ 77,295	\$ -0-	\$ -0-	\$ 462,623
-0-	-0-	-0-	250,000
-0-	-0-	-0-	20,946
9,917	-0-	-0-	352,139
-0-	-0-	-0-	3,459,807
73,141	310,898	-0-	2,999,214
-0-	-0-	-0-	194,787
84,977	71,369	-0-	668,439
-0-	7,340	-0-	297,235
-0-	-0-	-0-	20,751
3,361	-0-	-0-	335,511
24,788	2,973	-0-	103,930
<u>273,479</u>	<u>392,580</u>	<u>-0-</u>	<u>9,165,382</u>
1,118,445	1,575,059	-0-	35,986,317
<u>370,050</u>	<u>243,307</u>	<u>-0-</u>	<u>17,938,627</u>
748,395	1,331,752	-0-	18,047,690
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>78,701</u>
748,395	1,331,752	-0-	18,126,391
-0-	91,799	-0-	91,799
5,493	9,081	-0-	96,025
-0-	-0-	(379,814)	-0-
63,095	179,746	-0-	480,290
<u>68,588</u>	<u>280,626</u>	<u>(379,814)</u>	<u>668,114</u>
\$ <u>1,090,462</u>	\$ <u>2,004,958</u>	\$ <u>(379,814)</u>	\$ <u>27,959,887</u>

See Notes to Financial Statements.

**HARLAN MUNICIPAL UTILITIES  
BALANCE SHEET (Continued)  
PROPRIETARY FUNDS  
JUNE 30, 2004**

	Business Type Activities-		
	Electric Utility	Gas Utility	Water Utility
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Customer credits	\$ 25,499	\$ -0-	\$ -0-
Accounts payable	208,587	65,048	80,170
State sales and use taxes payable	1,161	2,393	6,379
Salaries, vacation and sick leave payable	55,372	24,975	37,787
Accrued property taxes	191,509	-0-	-0-
Bonds called not paid	12,080	-0-	-0-
Due City of Harlan for utility collections	-0-	-0-	57,757
Other accrued liabilities	916	-0-	-0-
Payable from restricted assets			
Current maturities of long-term debt	145,000	-0-	90,000
Interest payable	60,653	-0-	35,548
Customers' deposits	20,935	-0-	-0-
Total current liabilities	<u>721,712</u>	<u>92,416</u>	<u>307,641</u>
<b>NONCURRENT LIABILITIES</b>			
Long-Term Debt,			
net of current maturities (Note 5)	6,970,000	-0-	1,855,000
Contract payable (Note 5)	-0-	35,035	-0-
Deferred revenue – CABS	-0-	-0-	-0-
Intra-utility note payable, net of current maturities	-0-	-0-	-0-
Total noncurrent liabilities	<u>6,970,000</u>	<u>35,035</u>	<u>1,855,000</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	7,569,227	830,989	1,840,800
Restricted for:			
Capital improvement	176,276	171,062	207,990
Revenue bond retirement	338,949	-0-	240,722
Replacement funds – bond	250,000	-0-	-0-
Unrestricted	1,959,999	1,496,303	180,160
Total net assets	<u>10,294,451</u>	<u>2,498,354</u>	<u>2,469,672</u>
Total liabilities and net assets	<u>\$ 17,986,163</u>	<u>\$ 2,625,805</u>	<u>\$ 4,632,313</u>

Exhibit A  
(Continued)

Enterprise Funds			
Telecommunications Utility	Telephone Utility	Elimination	Totals
\$ -0-	\$ -0-	\$ -0-	\$ 25,499
61,720	30,265	-0-	445,790
2,572	1,058	-0-	13,563
15,050	6,261	-0-	139,445
-0-	-0-	-0-	191,509
-0-	-0-	-0-	12,080
-0-	-0-	-0-	57,757
-0-	1,988	-0-	2,904
60,000	81,857	-0-	376,857
2,578	22,180	-0-	120,959
-0-	-0-	-0-	20,935
141,920	143,609	-0-	1,407,298
257,225	1,500,840	-0-	10,583,065
-0-	-0-	-0-	35,035
-0-	91,799	-0-	91,799
-0-	379,814	(379,814)	-0-
257,225	1,972,453	(379,814)	10,709,899
431,170	-0-	-0-	10,672,186
-0-	-0-	-0-	555,328
73,012	179,746	-0-	832,429
-0-	-0-	-0-	250,000
187,135	(290,850)	-0-	3,532,747
691,317	(111,104)	-0-	15,842,690
\$ 1,090,462	\$ 2,004,958	\$ (379,814)	\$ 27,959,887

See Notes to Financial Statements

**HARLAN MUNICIPAL UTILITIES  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004**

	Business Type Activities – Enterprise Funds					
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility	Telephone Utility	Total
<b>OPERATING REVENUES</b>						
Sales to consumers	\$ 4,355,528	\$ 2,396,783	\$ 1,108,814	\$ 886,295	\$ 685,067	\$ 9,432,487
Other operating revenue	65,263	5,057	20,003	13,540	1,297	105,160
Total operating revenue	<u>4,420,791</u>	<u>2,401,840</u>	<u>1,128,817</u>	<u>899,835</u>	<u>686,364</u>	<u>9,537,647</u>
<b>OPERATING EXPENSES</b>						
Plant operation expenses						
Cost of power, chemicals, gas and programming	1,323,925	1,538,954	60,669	380,666	248,610	3,552,824
Salaries and wages	42,637	28,968	136,681	17,374	3,766	229,426
Repairs and maintenance	3,866	6,096	54,684	9,420	7,117	81,183
Utilities	43,572	16,509	67,915	12,042	3,647	143,685
Insurance	31,250	21,486	32,080	16,905	3,908	105,629
Property taxes	191,509	-0-	-0-	-0-	-0-	191,509
Other	38,198	21,783	20,800	4,166	6,191	91,138
Total plant operation expense	<u>1,674,957</u>	<u>1,633,796</u>	<u>372,829</u>	<u>440,573</u>	<u>273,239</u>	<u>4,395,394</u>
Distribution operation expenses						
Salaries and wages	194,186	112,647	39,265	61,326	-0-	407,424
Engineering	16,629	3,144	10,673	3,383	-0-	33,829
Repairs and maintenance	195,768	25,868	15,014	21,620	-0-	258,270
Other	5,912	7,992	1,050	23,747	-0-	38,701
Total distribution operation expense	<u>412,495</u>	<u>149,651</u>	<u>66,002</u>	<u>110,076</u>	<u>-0-</u>	<u>738,224</u>
Administrative and general expenses						
Salaries and wages	79,317	70,015	73,463	33,690	28,926	285,411
Office supplies	31,614	9,725	16,749	17,403	6,175	81,666
Education and travel	9,009	8,381	5,354	4,959	-0-	27,703
Professional	45,930	29,075	29,444	35,825	34,105	174,379
Other	3,744	14,425	22,540	1,095	1,346	43,150
Total administrative and general expenses	<u>169,614</u>	<u>131,621</u>	<u>147,550</u>	<u>92,972</u>	<u>70,552</u>	<u>612,309</u>

Exhibit B  
(Continued)

**HARLAN MUNICIPAL UTILITIES  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004**

	Business Type Activities – Enterprise Funds					
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility	Telephone Utility	Total
OPERATING EXPENSES (Continued)						
Consumer services						
Salaries and wages	\$ -0-	\$ -0-	\$ 7,580	\$ 30,423	\$ -0-	\$ 38,003
Bad debts	(7,078)	13,093	5,380	5,080	4,419	20,894
Other	-0-	55	-0-	395	845	1,295
Total consumer services	(7,078)	13,148	12,960	35,898	5,264	60,192
Marketing and stakeholder relations						
Salaries and wages	12,860	10,679	11,054	3,079	1,921	39,593
Advertising	17,763	3,883	3,822	7,801	18,275	51,544
Other	4,605	3,502	3,670	681	1,029	13,487
Total marketing and stakeholder relations	35,228	18,064	18,546	11,561	21,225	104,624
Employee benefits						
Payroll taxes	53,853	32,852	46,304	21,681	5,216	159,906
Health insurance	97,137	38,058	74,804	28,010	8,028	246,037
Compensated absences	80,718	24,392	43,302	21,088	9,593	179,093
Other	465	-0-	-0-	7,183	-0-	7,648
Total employee benefits	232,173	95,302	164,410	77,962	22,837	592,684
Total operating expenses excluding Amortization and depreciation	2,517,389	2,041,582	782,297	769,042	393,117	6,503,427
Operating income (loss) before amortization and depreciation	1,903,402	360,258	346,520	130,793	293,247	3,034,220
Amortization	15,931	-0-	4,187	3,732	2,800	26,650
Depreciation	902,575	69,010	170,831	62,469	125,364	1,330,249
	918,506	69,010	175,018	66,201	128,164	1,356,899
Operating income (loss)	984,896	291,248	171,502	64,592	165,083	1,677,321

Exhibit B  
(Continued)

**HARLAN MUNICIPAL UTILITIES  
STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004**

	Business Type Activities – Enterprise Funds					Total
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility	Telephone Utility	
NON-OPERATING REVENUES (EXPENSES)						
Contributions to City-In lieu of taxes (Note 8)	\$ (152,617)	\$ (29,251)	\$ (19,548)	\$ (381)	\$ -0-	\$ (201,797)
Interest income	42,288	22,949	6,715	2,590	4,927	79,469
Interest expense	(227,497)	(415)	(101,893)	(19,161)	(115,446)	(464,412)
Industrial development contribution	(28,400)	(26,600)	-0-	-0-	-0-	(55,000)
Total non-operating revenues (expenses)	<u>(366,226)</u>	<u>(33,317)</u>	<u>(114,726)</u>	<u>(16,952)</u>	<u>(110,519)</u>	<u>(641,740)</u>
Income (loss) before contributions	618,670	257,931	56,776	47,640	54,564	1,035,581
Capital Contributions – Grant	-0-	-0-	106,272	-0-	-0-	106,272
Change in Net Assets	618,670	257,931	163,048	47,640	54,564	1,141,853
Total net assets (deficit), beginning	9,675,781	3,008,448	2,306,624	(124,348)	(165,668)	14,700,837
Inter-Utility Loan Forgiven	-0-	(768,025)	-0-	768,025	-0-	-0-
Total net assets (deficit), ending	<u>\$ 10,294,451</u>	<u>\$ 2,498,354</u>	<u>\$ 2,469,672</u>	<u>\$ 691,317</u>	<u>\$ (111,104)</u>	<u>\$ 15,842,690</u>

See Notes to Financial Statements.

**HARLAN MUNICIPAL UTILITIES  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004**

	Business Type Activities -		
	Electric Utility	Gas Utility	Water Utility
Cash flows from operating activities:			
Cash received from customers and users	\$ 4,244,358	\$ 2,460,013	\$ 1,101,543
Cash received from other revenues	65,263	5,057	20,003
Cash paid to suppliers	(1,836,278)	(1,637,309)	(301,471)
Cash paid for personal services	(133,862)	(184,250)	(168,802)
Cash paid to employees	(439,096)	(242,451)	(298,564)
Net cash provided by operating activities	<u>1,900,385</u>	<u>401,060</u>	<u>352,709</u>
Cash flows from noncapital financing activities:			
Capital grant received	-0-	-0-	106,272
Contributions to City – In lieu of taxes	(152,617)	(29,251)	(19,548)
Net cash provided (used) by noncapital financing activities	<u>(152,617)</u>	<u>(29,251)</u>	<u>86,724</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(649,511)	(24,761)	(133,303)
Repayments on intra-utility notes	-0-	-0-	-0-
Principal payments on long-term borrowings	(1,705,000)	(902)	(815,000)
Interest paid on notes	(233,143)	(415)	(136,320)
Proceeds from revenue notes	3,400,000	-0-	670,000
Acquisition of bond discount/issuance costs	(13,805)	-0-	(14,051)
Net cash provided (used) by capital and related financing activities	<u>798,541</u>	<u>(26,078)</u>	<u>(428,674)</u>
Cash flows from investing activities:			
Interest on investments	42,288	22,949	6,715
Industrial development contribution	(28,400)	(26,600)	-0-
Principal received on employee loans	2,909	-0-	-0-
Principal received on intra-utility notes	9,336	9,336	-0-
Net cash provided by investing activities	<u>26,133</u>	<u>5,685</u>	<u>6,715</u>
Net increase in cash and cash equivalents	2,572,442	351,416	17,474
Cash and cash equivalents beginning of year	<u>2,988,494</u>	<u>1,044,605</u>	<u>531,283</u>
Cash and cash equivalents end of year	<u>\$ 5,560,936</u>	<u>\$ 1,396,021</u>	<u>\$ 548,757</u>

Enterprise Funds		
Telecommunications Utility	Telephone Utility	Total
\$ 884,893	\$ 716,386	\$ 9,407,193
13,540	1,297	105,160
(482,422)	(269,473)	(4,526,953)
(107,971)	(97,527)	(692,412)
<u>(162,697)</u>	<u>(39,606)</u>	<u>(1,182,414)</u>
145,343	311,077	3,110,574
-0-	-0-	106,272
<u>(381)</u>	<u>-0-</u>	<u>(201,797)</u>
(381)	-0-	(95,525)
(15,091)	(30,240)	(852,906)
-0-	(18,672)	(18,672)
(375,000)	(62,368)	(2,958,270)
(22,083)	(120,030)	(511,991)
317,225	-0-	4,387,225
<u>(6,000)</u>	<u>-0-</u>	<u>(33,856)</u>
(100,949)	(231,310)	11,530
2,590	4,927	79,469
-0-	-0-	(55,000)
-0-	-0-	2,909
-0-	-0-	18,672
<u>2,590</u>	<u>4,927</u>	<u>46,050</u>
46,603	84,694	3,072,629
<u>176,845</u>	<u>405,950</u>	<u>5,147,177</u>
\$ <u>223,448</u>	\$ <u>490,644</u>	\$ <u>8,219,806</u>

See Notes to Financial Statements.

**HARLAN MUNICIPAL UTILITIES  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004**

	Business Type Activities -		
	Electric Utility	Gas Utility	Water Utility
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income	\$ 984,896	\$ 291,248	\$ 171,502
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	902,575	69,010	170,831
Amortization expense	15,931	-0-	4,187
(Increase) decrease in customer accounts receivable and unbilled usage and other accounts receivable	(117,054)	63,230	(7,271)
(Increase) decrease in inventories	14,351	4,523	(409)
(Increase) decrease in prepaid expenses	64,488	(5,781)	4,117
Increase (decrease) in accounts payable	6,742	(23,818)	1,673
Increase (decrease) in customer credits	5,884	-0-	-0-
Increase (decrease) in payroll taxes payable	(30,772)	-0-	-0-
Increase (decrease) in sales & use tax payable	(1,407)	(1,602)	639
Increase (decrease) in salaries payable	(29,378)	4,250	12,781
Increase (decrease) in property taxes payable	79,973	-0-	-0-
Increase (decrease) in other payables	4,156	-0-	-0-
Increase (decrease) in due to other governments	-0-	-0-	(5,341)
Net cash provided by operating activities	<u>\$ 1,900,385</u>	<u>\$ 401,060</u>	<u>\$ 352,709</u>
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Assets:</b>			
Current assets:			
Cash and pooled investments	\$ 1,484,958	\$ 1,224,959	\$ 100,045
Restricted assets:			
Cash and pooled investments:			
Revenue bond reserve	735,225	-0-	240,722
Capital improvements	3,289,807	-0-	170,000
Designated contingency fund	30,000	171,062	37,990
Consumers' deposit fund	20,946	-0-	-0-
Cash and cash equivalents end of year	<u>\$ 5,560,936</u>	<u>\$ 1,396,021</u>	<u>\$ 548,757</u>

Enterprise Funds		
Telecommunications Utility	Telephone Utility	Total
\$ 64,592	\$ 165,083	\$ 1,677,321
62,469	125,364	1,330,249
3,732	2,800	26,650
(1,402)	31,319	(31,178)
(289)	-0-	18,176
(9,876)	1,275	54,223
31,663	(21,262)	(5,002)
-0-	-0-	5,884
-0-	-0-	(30,772)
355	(90)	(2,105)
4,283	4,600	(3,464)
-0-	-0-	79,973
-0-	1,988	6,144
(10,184)	-0-	(15,525)
<u>\$ 145,343</u>	<u>\$ 311,077</u>	<u>\$ 3,110,574</u>
\$ 73,141	\$ 310,898	\$ 3,194,001
73,012	179,746	1,228,705
-0-	-0-	3,459,807
77,295	-0-	316,347
-0-	-0-	20,946
<u>\$ 223,448</u>	<u>\$ 490,644</u>	<u>\$ 8,219,806</u>

See Notes to Financial Statements.

**NOTES TO FINANCIAL STATEMENTS**

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**(1) Summary of Significant Accounting Policies**

The Harlan Municipal Utilities is governed by a Board of Trustees that are appointed by the Mayor of the City of Harlan, Iowa. Services provided are electric, gas, water, telecommunications and telephone. The Utility follows the accounting practices prescribed by the Federal Energy Regulatory Commission which conform with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

Criteria specified by the Governmental Accounting Standards Board have been applied in determining the scope of the reporting entity for financial reporting purposes. Specifically, those offices and activities over which the Board of Trustees exercise oversight responsibility are included in these financial statements. Manifestations of oversight responsibility over an entity include: (1) financial interdependency, (2) selection of governing authority, (3) designation of management, (4) ability to significantly influence operations, and (5) accountability for fiscal matters.

In accordance with GASB 14, the Harlan Municipal Utilities has been identified as a component unit of the City of Harlan.

**B. Fund Financial Statements**

The accounts of the Utility are organized on the basis of proprietary funds, each of which is considered to be a separate accounting entity and each is reported in a separate column in the financial statements. The operations of each fund are accounted for by a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses.

The Harlan Municipal Utilities report the following major proprietary funds:

Enterprise:

The Electric Fund is used to account for the operation and maintenance of the Utilities' electric system.

The Gas Fund is used to account for the operation and maintenance of the Utilities' gas system.

The Water Fund is used to account for the operation and maintenance of the Utilities' water system.

The Telecommunications Fund is used to account for the operation and maintenance of the Utilities' telecommunication system.

The Telephone Fund is used to account for the operation and maintenance of the Utilities' telephone system.

The Balance Sheet presents the Utilities' assets and liabilities with the difference reported as net assets. Net assets are reported in the following categories:

**HARLAN MUNICIPAL UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

B. Fund Financial Statements (continued)

*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.

*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.

C. Measurement Focus and Basis of Accounting

The Harlan Municipal Utilities reports all of its' proprietary fund financial statements on the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

The 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 the Utility's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the costs 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.

D. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget. The budget of the Utility is submitted with that of the City of Harlan following required public notice and hearing. The budgetary comparison and related disclosures are reported as Required Supplementary Information.

E. Cash, Investments, and Cash Equivalents

The cash balances of most of funds are pooled and invested. Interest earned on investments is divided among the enterprise funds. For purposes of the Statement of Cash Flows, the Utility considers all deposits to be cash equivalents. Investments are stated at cost which approximates market.

F. Inventory

Inventory consists of materials, supplies, fuel and coal. The inventory is valued at average cost. Inventories are recorded as expenses when consumed rather than when purchased.

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

G. Capital Assets

Capital assets, which include property, plant, and equipment, are stated at original cost, including an allowance for borrowed funds used during construction. The allowance for borrowed funds used during construction consists of interest costs on proceeds temporarily invested. Depreciation of the Utilities' property, plant, and equipment is calculated on the straight-line method at rates based on estimated service lives and salvage values of the several classes of property. The estimated service lives range from 5 to 50 years. It is the policy of the Utilities not to take any depreciation on capital assets in the year they are placed in service and to take a full year's depreciation in the year of disposition.

Replacements and betterments of depreciable property are charged to the asset. Routine maintenance and repairs are charged to expense as incurred.

The Utility capitalizes direct labor, material costs and interest costs used to construct improvements. Projects uncompleted on June 30, 2004 have been classified as work in progress.

- H. Customer Accounts and Unbilled Usage -- Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided. Allowance for doubtful accounts is \$37,000 for all of the Enterprise Funds combined.

The customer billing locations are split into three sections and each section is read once a month. The Utilities' employees read the customer meters at three different times throughout the month. Therefore, there are three different billing periods. If a customer does not pay their bill on time, a delinquent notice is mailed out that gives them 12 more days to pay their bill. If the customer exceeds the 12 day past due notice, they then receive a hand delivered shut off notice which gives them 24 hours to pay or make payment arrangements. A customer fee of \$25 is assessed if the Utility has to hand deliver a shut off notice.

- I. Restricted Assets -- Funds set aside for payment of revenue bonds are classified as restricted assets since their use is restricted by applicable bond indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers and bond revenues received but not yet spent as of June 30, 2004.

J. Bond Discount and Issue Costs

Bond discount and issue costs are being amortized over the life of the bonds using the effective interest method.

K. Medical/Health Self-Insurance

The Utility, jointly with the City of Harlan, has a Medical/Health self-insurance program. The purpose of the program is to pay medical insurance claims of employees and covered dependents to minimize the annual cost of insurance to the Utility. The program pays a plan administrator to process and evaluate claims, and the plan administrator, in turn, bills the City of Harlan for approved claims up to a stop loss maximum of \$30,000 per year, per covered individual. A private insurance carrier pays claims in excess. The Utility, in turn, remits to the City a set amount monthly to cover claims and plan costs paid on their behalf. Health insurance expense for the years ended June 30, 2004 was \$246,037.

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

L. 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 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 CABS billings for the telephone system which are considered highly uncollectible.

M. Compensated Absences

Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. The accrued amounts have been recognized in the financial statements as of June 30, 2004 at current pay rates.

A limited amount of earned but unused sick leave may be accrued by an employee. Sick leave is payable when used, over maximum or upon retirement. If an employee has accumulated over the maximum 576 hours, one-third of the excess will be paid to the employee each November. The accrued amounts for the one-third have been recognized in the financial statements as of June 30, 2004 at current pay rates. An employee forfeits any accrued sick leave if he resigns or is terminated before retirement. The amount of maximum potential liabilities for sick leave at June 30, 2004 was \$255,857. This liability is not reflected in the financial statements since the amounts actually payable are not readily determinable.

N. Allocations

The Utility allocates expenses based on the number of customers in each utility except for those expenses determined to be for a specific fund. The allocation of liability insurance is based on plant valuation.

O. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**(2) Deposits and Investments**

The Utility's deposits at June 30, 2004 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**(2) Deposits and Investments (continued)**

The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

**(3) Capital Assets**

Capital assets activity for the year ended June 30, 2004 is summarized by the following classifications:

	Balance Beginning of Year	Increase	Decrease	Balance End of Year
Intangible plant	\$ 220,632	\$ -0-	\$ -0-	\$ 220,632
Production	9,033,677	53,604	-0-	9,087,281
Transmission	3,748,398	1,604	-0-	3,750,002
Pumping and treatment	1,903,127	-0-	-0-	1,903,127
Distribution	12,498,856	564,899	-0-	13,063,755
General	3,103,921	107,115	-0-	3,211,036
Fiber Optics	<u>4,703,501</u>	<u>46,983</u>	<u>-0-</u>	<u>4,750,484</u>
 Total property, plant and equipment	 35,212,112	 774,205	 -0-	 35,986,317
Less: accumulated depreciation	<u>16,608,377</u>	<u>1,330,250</u>	<u>-0-</u>	<u>17,938,627</u>
Net property, plant and equipment	\$ <u>18,603,735</u>	\$ <u>(556,045)</u>	\$ <u>-0-</u>	\$ <u>18,047,690</u>
 Depreciation charged to operations				 \$ <u>1,330,249</u>

**(4) Bonds Payable & Contract Payable**

Revenue Bond Covenants

Bond covenants require funds to be set aside in retirement, reserve, and plant improvements accounts. The Utility has set aside such accounts.

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**(4) Bonds Payable & Contract Payable (Continued)**

Details of revenue bonds/capital loan notes and contract payable are as follows:

	<u>Date of Issue</u>	<u>Amount Originally Issued</u>	<u>Interest Rates</u>	<u>Final Due Date</u>	<u>Annual Payments</u>	<u>Outstanding June 30, 2004</u>
<u>Electric Fund:</u>						
Elec. Revenue Bond	6-29-96	\$ 2,525,000	5.00-5.50%	10-01-09	\$25,000-525,000	\$ 2,350,000
Elec. Rev. Bond, Services 2003 A	2-10-03	980,000	2.25-2.85%	10-01-08	\$185,000-245,000	980,000
Elec. Rev. Bond, Series 2003B	2-10-03	490,000	2.50-3.50%	10-01-06	\$120,000-135,000	385,000
Elec. Rev. Bond, Series 2004	5-01-04	3,400,000	3.00-4.00%	10-01-15	\$150,000-480,000	3,400,000
Total Electric Bonds						\$ <u>7,115,000</u>
<u>Water Fund:</u>						
Water Rev. Bond, Series 1999	7-01-99	\$ 1,600,000	4.85%-5.00%	7-01-14	\$90,000-145,000	\$ 1,275,000
Water Rev. Bond, Series 2004	4-15-04	670,000	1.40%-4.10%	7-01-16	\$45,000-70,000	670,000
Total Water Bonds						\$ <u>1,945,000</u>
<u>Telecommunications Fund:</u>						
Communications Utility Rev. Refunding Capital Loan, Series 2004	4-01-04	\$ 317,225	3.25%	4-01-09	\$66,000-67,225	\$ <u>317,225</u>
<u>Telephone Fund:</u>						
Telephone Capital Loan Note	2-27-01	\$ 1,720,000	5.98%	4-01-07	Various	\$ <u>1,582,697</u>
<u>Gas Fund:</u>						
Contract Payable-Shelby County	9-26-96	\$ 37,063	0%	Unknown	Various	\$ <u>35,035</u>

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**(4) Bonds Payable & Contract Payable (Continued)**

Long-Term Debt Summary

Long-term debt maturities are as follows:

Year Ending June 30,	Electric Revenue Bonds		Water Revenue Bonds		Telecommunications Revenue Bond Anticipation Note		Telephone Revenue Capital Loan Note	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 145,000	\$ 268,505	\$ 90,000	\$ 74,789	60,000	10,310	\$ 81,857	\$ 88,721
2006	890,000	256,732	140,000	75,734	60,000	8,360	85,000	89,750
2007	915,000	218,620	145,000	70,330	65,000	6,409	1,415,840	84,667
2008	950,000	183,858	155,000	64,499	65,000	4,297	-0-	-0-
2009	900,000	150,291	160,000	58,222	67,225	2,185	-0-	-0-
2010	680,000	114,019	165,000	51,550	-0-	-0-	-0-	-0-
2011	400,000	90,562	170,000	44,491	-0-	-0-	-0-	-0-
2012	415,000	76,800	180,000	36,897	-0-	-0-	-0-	-0-
2013	430,000	62,013	190,000	28,638	-0-	-0-	-0-	-0-
2014	445,000	46,144	200,000	19,805	-0-	-0-	-0-	-0-
2015	465,000	28,500	210,000	10,427	-0-	-0-	-0-	-0-
2016	480,000	9,600	70,000	4,235	-0-	-0-	-0-	-0-
2017	-0-	-0-	70,000	1,435	-0-	-0-	-0-	-0-
Total	\$ 7,115,000	\$ 1,505,644	\$ 1,945,000	\$ 541,052	\$ 317,225	\$ 31,561	\$ 1,582,697	\$ 263,138

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**(5) Changes in Long-Term Debt**

A summary of changes in long-term debt for the year ended June 30, 2004 is as follows:

	Electric Revenue Bonds	Water Revenue Bonds	Telecommunications Capital Loan Notes	Telephone Capital Loan Notes	Gas Shelby County Contract	Total
Balance, beginning	\$ 5,420,000	\$ 2,090,000	\$ 375,000	\$ 1,645,065	\$ 35,937	\$ 9,566,002
Issued	3,400,000	670,000	317,225	-0-	-0-	4,387,225
Paid	<u>(1,705,000)</u>	<u>(815,000)</u>	<u>(375,000)</u>	<u>(62,368)</u>	<u>(902)</u>	<u>(2,958,270)</u>
Balance, ending 6-30-04	7,115,000	1,945,000	317,225	1,582,697	35,035	10,994,957
Less: Current Portion	<u>(145,000)</u>	<u>(90,000)</u>	<u>(60,000)</u>	<u>(81,857)</u>	<u>-0-</u>	<u>(376,857)</u>
L.T. Debt, net of Current Portion	<u>\$ 6,970,000</u>	<u>\$ 1,855,000</u>	<u>\$ 257,225</u>	<u>\$ 1,500,840</u>	<u>\$ 35,035</u>	<u>\$ 10,618,100</u>

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**(6) Intra-Utility Notes Payable & Notes Receivable**

In March 2002 the Telephone Utility borrowed \$200,000 from the Electric Utility and \$200,000 from the Gas Utility at a 4.85% interest rate for each. In June 2004, a new resolution was adopted where the notes will no longer accrue interest and any or all prior interest is forgiven and cancelled. A new payment schedule for the remaining unpaid principal was also set up.

In January 1998, the Telecommunications Utility borrowed \$768,025 from the Gas Utility at a 0% interest rate. No payments had been made on this note over the years. In June 2004, a new resolution was adopted whereas the indebtedness of the Telecommunications Utility to the Gas Utility was forgiven and the debt cancelled in full.

Detail of interfund receivables and payables at June 30, 2004 is as follows:

Payable Fund. . . . .	<u>Telephone Utility</u>		<u>Telecomm. Utility</u>	
	Loan from	Loan from	Loan from	
Receivable Fund. . . . .	<u>Gas Utility</u>	<u>Elec. Utility</u>	<u>Gas Utility</u>	<u>Totals</u>
Beginning Balance 7-1-03	\$199,243	\$199,243	\$768,025	\$1,166,511
Less: Payments made by Telephone Utility	9,336	9,336	-0-	18,672
Less: Loan Forgiven	<u>-0-</u>	<u>-0-</u>	<u>768,025</u>	<u>768,025</u>
Ending Balance 6-30-04	<u>\$189,907</u>	<u>\$189,907</u>	<u>\$ -0-</u>	<u>\$379,814</u>

**(7) Jointly Owned Electric Utility Plant**

The Utility owns a share in a power plant located in Louisa County, Iowa. The Utility is required to pay for its share of the plant's operating expenses on an ongoing basis. These expenses are reflected in the Statement of Earnings. The Utility's ownership share in the plant is reflected on the Balance Sheet in Utility Plant. The net book value as of June 30, 2004 is as follows:

<u>Unit</u>	<u>Percentage of Ownership</u>	<u>Louisa Electric Utility Plant, Net 2004</u>
Louisa Power Plant and Transmission Lines	<u>.8%</u>	<u>\$ 5,613,533</u>

**(8) Related Party Transactions**

The Utility provides utility services to the City of Harlan. The Utility contributes an amount equal to the utilities back to the City for payment in lieu of taxes. The amounts paid to the City for the year ended June 30, 2004 was \$201,797.

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**(9) Deficit Balances**

The Telephone Fund had a Fund deficit of \$111,104 for the year ended June 30, 2004. This deficit balance is a result of a larger deficit carried over from the prior year. This deficit will eventually be eliminated as operating income continues to grow in the Telephone Fund.

**(10) Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual salary and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$75,352, \$79,948 and \$74,044, equal to the required contributions for each year.

**(11) Risk Management**

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

**(12) Subsequent Events**

In August 2004, the Utility approved a bid in the amount of \$2,562,798 for the labor portion of the 2004 Underground Conversion Project, also known as the 10<sup>th</sup> Street Rebuild Project. This project will be funded by the Electric Revenue Bonds issued May 1, 2004.

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**(13) Restatements for June 30, 2003**

There were several restatements made on the June 30, 2003 financial statements which are reported under schedules 1 and 2 for the Electric Fund and 9 and 10 for the Telephone Fund.

Under the Electric Utility, the accounts receivable were reduced by \$69,648 which included \$54,308 in an overcharge of customer meter readings from January 1998 to June 30, 2003 and \$15,340 to write off pole attachment fees billed in 02-03 that Iowa Telecom disputed. The accounts payable were also increased by \$24,182 to adjust property taxes which were incorrectly classified to the Telephone Utility.

Under the Telephone Utility, the accounts receivable were reduced by \$58,000 to write off CABS receivable that the Iowa legislature ruled uncollectible. The accounts payable were also reduced by \$24,182 to adjust property taxes which were incorrectly classified to the Telephone Utility.

The effects of the restatements are summarized as follows:

	<u>Elec. Fund</u>	<u>Telephone Fund</u>
Net assets at June 30, 2003 as previously reported	\$9,769,611	\$(131,850)
A/R Adjustments – Incurred 7-1-02 to 6-30-03	(24,507)	-0-
Incurred Prior to 7-1-02	(45,141)	-0-
A/R CABS Adjustments – Incurred 7-1-02 to 6-30-03	-0-	(40,787)
Incurred Prior to 7-1-02	-0-	(17,213)
A/P Adjustments – Incurred 7-1-02 to 6-30-03	<u>(24,182)</u>	<u>24,182</u>
Net assets at June 30, 2003 - Restated	<u>\$9,675,781</u>	<u>\$(165,668)</u>

**(14) Accounting Change**

The Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the Utility's financial activities. The financial statements have always been prepared on an accrual basis of accounting so the beginning net assets did not have to be restated for that reason. Each enterprise fund is treated as a major fund and therefore there are no nonmajor funds to report on.

**REQUIRED SUPPLEMENTARY INFORMATION**

**HARLAN MUNICIPAL UTILITIES  
 BUDGETARY COMPARISON SCHEDULE OF  
 REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS-  
 ACCRUAL BUDGET VS ACTUAL (ACCRUAL BASIS)  
 PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2004**

	Accrual Basis		
	Total Proprietary Funds-Actual	Final Budgeted Amounts	Variance Favorable (Unfavorable)
Operating Revenues			
Sales to consumers	\$ 9,432,487	\$10,031,731	\$(599,244)
Other operating revenue	<u>105,160</u>	<u>86,335</u>	<u>18,825</u>
Total operating revenue	9,537,647	10,118,066	(580,419)
Operating Expenses			
Plant operation expenses	4,395,394	5,030,637	635,243
Distribution operation	738,224	703,156	(35,068)
Administrative and general	612,309	621,973	9,664
Consumer services	60,192	83,878	23,686
Marketing and relations	104,624	95,717	(8,907)
Employee benefits	592,684	640,713	48,029
Amortization and depreciation	<u>1,356,899</u>	<u>1,318,591</u>	<u>(38,308)</u>
Total operating expenses	<u>7,860,326</u>	<u>8,494,665</u>	<u>634,339</u>
Operating income (loss)	1,677,321	1,623,401	53,920
Other revenues (expenses), net	<u>(535,468)</u>	<u>(677,707)</u>	<u>142,239</u>
Change in net assets	1,141,853	<u>\$ 945,694</u>	<u>\$ 196,159</u>
Total net assets, beginning	<u>14,700,837</u>		
Total net assets, ending	<u>\$15,842,690</u>		

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES  
BUDGETARY COMPARISON SCHEDULE OF  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES-  
BUDGET AND ACTUAL (CASH BASIS)  
PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2004**

	Cash Basis		
	Total Proprietary Funds-Actual	Final Budgeted Amounts	Variance Favorable (Unfavorable)
Receipts:			
Charge for services	\$ 9,407,193	\$10,038,601	\$(631,408)
Miscellaneous	<u>105,160</u>	<u>74,470</u>	<u>30,690</u>
Total receipts	9,512,353	10,113,071	(600,718)
Disbursements:			
Business type activities	<u>6,401,779</u>	<u>7,303,117</u>	<u>901,338</u>
Excess of receipts over disbursements	3,110,574	2,809,954	300,620
Other financing sources (uses):			
Acquisition of capital assets	(852,906)	(841,060)	(11,846)
Proceeds on Long-term borrowings	4,390,134	4,400,000	(9,866)
Interest received on investments	79,469	-0-	79,469
Principal/Interest payments on long term borrowings	(3,470,261)	(3,805,699)	335,438
Other sources (uses), net	<u>(184,381)</u>	<u>-0-</u>	<u>(184,381)</u>
Total other financing sources (uses)	<u>(37,945)</u>	<u>(246,759)</u>	<u>208,814</u>
Excess of receipts and other financing sources over disbursements and other financing uses	3,072,629	2,563,195	<u>\$ 509,434</u>
Balances, beginning of year	<u>5,147,177</u>	<u>4,667,515</u>	
Balances, end of year	<u>\$8,219,806</u>	<u>\$7,230,710</u>	

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –  
BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2004**

The Utility prepares an annual budget on a GAAP basis for management purposes. The GAAP basis budget was not exceeded during the fiscal year.

In addition, as required by the Code of Iowa, the Utility annually adopts a budget on the cash basis following required public notice and hearing and is presented along with the City of Harlan's budget. The disbursements may not legally exceed budgeted appropriations at the functional level. Actual cash disbursements for the year ended June 30, 2004 did not exceed the final statutory budget.

**OTHER SUPPLEMENTARY INFORMATION**

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL ELECTRIC UTILITY  
COMPARATIVE BALANCE SHEETS  
JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>Restated 2003</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Designated		
Plant improvement, emergency and contingency funds:		
Cash and savings	\$ 176,276	\$ 180,996
Plant improvement, emergency and replacement funds bond requirement:		
Cash and savings	250,000	250,000
Restricted		
Consumers' deposit fund	20,946	17,545
Revenue bond retirement-savings	338,949	777,110
Capital improvement fund – savings	3,289,807	-0-
Unrestricted		
Cash and savings	1,376,982	1,002,756
Industrial development fund	107,976	109,467
Accounts receivable-net of allowance for doubtful accounts of \$8,000 and \$12,000 for 2004 and 2003	284,983	188,255
Unbilled usage	187,172	166,846
Employee loans receivable	20,751	23,660
Inventory	271,457	285,808
Prepaid expenses	29,551	94,039
Total current assets	<u>6,354,850</u>	<u>3,096,482</u>
<b>CAPITAL ASSETS</b>		
Electric Utility Plant		
Plant in service, at cost	24,155,819	23,585,009
Less: accumulated depreciation	<u>12,840,100</u>	<u>11,937,525</u>
	11,315,719	11,647,484
Construction work in progress	<u>78,701</u>	<u>-0-</u>
Net capital assets	11,394,420	11,647,484
<b>OTHER ASSETS</b>		
Bond discount and issuance costs	46,986	49,112
Intra-utility note receivable	189,907	199,243
Revenue bond reserve-restricted		
Deposits and investments	<u>-0-</u>	<u>650,620</u>
Total other assets	<u>236,893</u>	<u>898,975</u>
Total assets	<u>\$ 17,986,163</u>	<u>\$ 15,642,941</u>

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL ELECTRIC UTILITY  
COMPARATIVE BALANCE SHEETS (Continued)  
JUNE 30, 2004 AND 2003**

	<u>2004</u>	Restated <u>2003</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Customer credits	\$ 25,499	\$ 19,615
Accounts payable	208,587	201,845
Payroll taxes payable	-0-	30,772
Sales and use tax payable	1,161	2,568
Salaries, vacation and sick leave payable	55,372	84,750
Accrued property taxes	191,509	111,536
Bonds called not paid	12,080	12,080
Other accrued liabilities	916	111
Payable from restricted assets		
Current maturities of long-term debt	145,000	905,000
Interest payable	60,653	66,299
Customers' deposits	20,935	17,584
Total current liabilities	721,712	1,452,160
Long-term debt, net of current maturities	6,970,000	4,515,000
NET ASSETS		
Designated	426,276	430,996
Undesignated	9,868,175	9,244,785
Total net assets	10,294,451	9,675,781
Total Liabilities & Net Assets	\$ 17,986,163	\$ 15,642,941

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL ELECTRIC UTILITY  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	Restated <u>2003</u>	2004 <u>Actual</u>	2004 <u>Budget</u>	Budget Variance Favorable (Unfavorable)
<b>OPERATING REVENUES</b>				
Sales to consumers	\$4,091,606	\$4,355,528	\$4,546,314	\$(190,786)
Other operating revenues	<u>46,110</u>	<u>65,263</u>	<u>59,946</u>	<u>5,317</u>
Total operating revenues	4,137,716	4,420,791	4,606,260	(185,469)
<b>OPERATING EXPENSES</b>				
Plant operation expenses				
Cost of power	1,356,910	1,323,925	1,403,325	79,400
Salaries and wages	35,060	42,637	62,316	19,679
Repairs and maintenance	7,827	3,866	19,870	16,004
Utilities	44,133	43,572	49,859	6,287
Insurance	28,195	31,250	35,463	4,213
Property taxes	135,782	191,509	75,490	(116,019)
Other	<u>52,635</u>	<u>38,198</u>	<u>23,161</u>	<u>(15,037)</u>
Total plant operation expense	1,660,542	1,674,957	1,669,484	(5,473)
Distribution operation expenses				
Salaries and wages	262,215	194,186	309,941	115,755
Engineering	5,446	16,629	7,773	(8,856)
Repairs and maintenance	99,941	195,768	101,186	(94,582)
Other	<u>4,308</u>	<u>5,912</u>	<u>4,613</u>	<u>(1,299)</u>
Total distribution operation expense	371,910	412,495	423,513	11,018
Administrative and general expenses				
Salaries and wages	81,873	79,317	90,457	11,140
Office supplies	28,760	31,614	42,126	10,512
Education and travel	4,499	9,009	14,431	5,422
Professional services	33,329	45,930	24,344	(21,586)
Other	<u>2,504</u>	<u>3,744</u>	<u>14,844</u>	<u>11,100</u>
Total administrative and general expense	150,965	169,614	186,202	16,588
Consumer services				
Bad debts (collected)	<u>19,195</u>	<u>(7,078)</u>	<u>12,741</u>	<u>19,819</u>
Total consumer services	19,195	(7,078)	12,741	19,819

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL ELECTRIC UTILITY  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>Restated 2003</u>	<u>2004 Actual</u>	<u>2004 Budget</u>	<u>Budget Variance Favorable (Unfavorable)</u>
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	\$ 12,443	\$ 12,860	\$ 9,318	\$ (3,542)
Advertising	12,225	17,763	6,379	(11,384)
Other	<u>6,756</u>	<u>4,605</u>	<u>7,376</u>	<u>2,771</u>
Total marketing and stakeholder relations expense	31,424	35,228	23,073	(12,155)
Employee benefits				
Payroll taxes	68,950	53,853	64,161	10,308
Health insurance	108,051	97,137	120,652	23,515
Compensated absences	79,205	80,718	61,290	(19,428)
Other	<u>4,428</u>	<u>465</u>	<u>-0-</u>	<u>(465)</u>
Total employee benefits	<u>260,634</u>	<u>232,173</u>	<u>246,103</u>	<u>13,930</u>
Total operating expense excluding amortization and depreciation	<u>2,494,670</u>	<u>2,517,389</u>	<u>2,561,116</u>	<u>43,727</u>
Operating income before amortization and depreciation	1,643,046	1,903,402	2,045,144	(141,742)
Amortization	17,836	15,931	13,200	(2,731)
Depreciation	<u>890,989</u>	<u>902,575</u>	<u>885,270</u>	<u>(17,305)</u>
	<u>908,825</u>	<u>918,506</u>	<u>898,470</u>	<u>(20,036)</u>
Operating income	734,221	984,896	1,146,674	(161,778)
Non-operating revenues (expenses)				
Contributions to City-In lieu of taxes (Note 8)	(152,478)	(152,617)	(165,000)	12,383
Gain (loss) of sale of asset	7,758	-0-	-0-	-0-
Interest income	58,541	42,288	48,000	(5,712)
Interest expense	(268,661)	(227,497)	(229,002)	1,505
Industrial development contribution	<u>(45,240)</u>	<u>(28,400)</u>	<u>(32,500)</u>	<u>4,100</u>
Total non-operating revenues (expenses)	<u>(400,080)</u>	<u>(366,226)</u>	<u>(378,502)</u>	<u>12,276</u>
Change in Net Assets	334,141	618,670	<u>\$ 768,172</u>	<u>\$(149,502)</u>
Total net assets, beginning of year	9,386,781	9,675,781		
Prior period adjustment	<u>(45,141)</u>	<u>-0-</u>		
Total net assets, end of year	<u>\$ 9,675,781</u>	<u>\$10,294,451</u>		

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL GAS UTILITY  
COMPARATIVE BALANCE SHEETS  
JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Designated		
Plant improvement, emergency and contingency funds:		
Cash and savings	\$ 171,062	\$ 149,062
Unrestricted		
Cash and savings	1,138,148	819,543
Industrial development fund	86,811	76,000
Accounts receivable-net of allowance for doubtful accounts of \$9,000 for 2004 and 2003	74,134	110,673
Unbilled usage	53,093	55,389
Inventory	25,420	29,943
Prepaid expenses	21,206	15,425
Total current assets	<u>1,569,874</u>	<u>1,256,035</u>
<b>CAPITAL ASSETS</b>		
Utility Plant		
Plant in service, at cost	2,096,031	2,071,269
Less: accumulated depreciation	<u>1,230,007</u>	<u>1,160,997</u>
Net capital assets	866,024	910,272
<b>OTHER ASSETS</b>		
Long-term unbilled usage	-0-	24,395
Intra-utility note receivable	189,907	967,268
Total other assets	<u>189,907</u>	<u>991,663</u>
Total assets	<u>\$ 2,625,805</u>	<u>\$ 3,157,970</u>

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL GAS UTILITY  
COMPARATIVE BALANCE SHEETS (Continued)  
JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 65,048	\$ 88,866
Sales and use tax payable	2,393	3,995
Salaries, vacation and sick leave payable	24,975	20,725
Total current liabilities	92,416	113,586
Contract payable	35,035	35,936
NET ASSETS		
Designated	171,062	149,062
Undesignated	2,327,292	2,859,386
Total net assets	2,498,354	3,008,448
Total Liabilities & Net Assets	\$ 2,625,805	\$ 3,157,970

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL GAS UTILITY  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2003</u>	<u>2004 Actual</u>	<u>2004 Budget</u>	Budget Variance Favorable (Unfavorable)
<b>OPERATING REVENUES</b>				
Sales to consumers	\$2,839,615	\$2,396,783	\$2,732,554	\$(335,771)
Other operating revenues	<u>10,440</u>	<u>5,057</u>	<u>6,890</u>	<u>(1,833)</u>
Total operating revenues	2,850,055	2,401,840	2,739,444	(337,604)
<b>OPERATING EXPENSES</b>				
Plant operation expenses				
Cost of power	2,082,769	1,538,954	2,095,394	556,440
Salaries and wages	22,947	28,968	27,601	(1,367)
Repairs and maintenance	5,552	6,096	4,647	(1,449)
Utilities	8,925	16,509	8,720	(7,789)
Insurance	22,924	21,486	24,702	3,216
Other	<u>16,190</u>	<u>21,783</u>	<u>25,177</u>	<u>3,394</u>
Total plant operation expense	2,159,307	1,633,796	2,186,241	552,445
Distribution operation expenses				
Salaries and wages	98,738	112,647	108,915	(3,732)
Engineering	2,620	3,144	3,651	507
Repairs and maintenance	20,716	25,868	25,800	(68)
Other	<u>10,175</u>	<u>7,992</u>	<u>2,500</u>	<u>(5,492)</u>
Total distribution operation expense	132,249	149,651	140,866	(8,785)
Administrative and general expenses				
Salaries and wages	67,480	70,015	76,924	6,909
Office supplies	9,080	9,725	13,610	3,885
Education and travel	4,553	8,381	6,185	(2,196)
Professional services	10,310	29,075	26,116	(2,959)
Other	<u>15,627</u>	<u>14,425</u>	<u>12,214</u>	<u>(2,211)</u>
Total administrative and general expense	107,050	131,621	135,049	3,428
Consumer services				
Bad debts	30,263	13,093	9,000	(4,093)
Other	<u>144</u>	<u>55</u>	<u>357</u>	<u>302</u>
Total consumer services	30,407	13,148	9,357	(3,791)

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL GAS UTILITY  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2003</u>	<u>2004 Actual</u>	<u>2004 Budget</u>	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	\$ 10,350	\$ 10,679	\$ 9,433	\$ (1,246)
Advertising	4,558	3,883	4,705	822
Other	<u>4,580</u>	<u>3,502</u>	<u>5,563</u>	<u>2,061</u>
Total marketing and stakeholder relations expense	19,488	18,064	19,701	1,637
Employee benefits				
Payroll taxes	30,344	32,852	34,483	1,631
Health insurance	48,474	38,058	48,034	9,976
Compensated absences	32,507	24,392	26,850	2,458
Compensated absences	<u>2,281</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total employee benefits	<u>113,606</u>	<u>95,302</u>	<u>109,367</u>	<u>14,065</u>
Total operating expense excluding amortization and depreciation	<u>2,562,107</u>	<u>2,041,582</u>	<u>2,600,581</u>	<u>558,999</u>
Operating income before amortization and depreciation	287,948	360,258	138,863	221,395
Depreciation	<u>71,948</u>	<u>69,010</u>	<u>68,124</u>	<u>(886)</u>
Operating income	216,000	291,248	70,739	220,509
Non-operating revenues (expenses)				
Contributions to City-In lieu of taxes (Note 8)	(36,061)	(29,251)	(29,588)	337
Interest income	28,111	22,949	16,000	6,949
Interest expense	-0-	(415)	-0-	(415)
Industrial development contribution	<u>(42,840)</u>	<u>(26,600)</u>	<u>(31,298)</u>	<u>4,698</u>
Total non-operating revenues (expenses)	<u>(50,790)</u>	<u>(33,317)</u>	<u>(44,886)</u>	<u>11,569</u>
Change in Net Assets	165,210	257,931	<u>\$ 25,853</u>	<u>\$232,078</u>
Total net assets, beginning of year	2,843,238	3,008,448		
Inter-Utility Loan Rec. Forgiven	<u>-0-</u>	<u>(768,025)</u>		
Total net assets, end of year	<u>\$3,008,448</u>	<u>\$2,498,354</u>		

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL WATER UTILITY  
COMPARATIVE BALANCE SHEETS  
JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Designated		
Plant improvement, emergency and contingency funds:		
Cash and savings	\$ 37,990	\$ 37,990
Restricted		
Revenue bond retirement-savings	3,273	197,260
Capital improvement fund-savings	170,000	-0-
Unrestricted		
Cash and savings	100,045	62,230
Accounts receivable-net of allowance for doubtful accounts of \$4,000 and \$4,800 for 2004 and 2003	152,976	152,668
Unbilled usage	49,630	42,667
Inventory	35,273	34,864
Prepaid expenses	25,412	29,529
Total current assets	<u>574,599</u>	<u>557,208</u>
<b>CAPITAL ASSETS</b>		
Utility Plant		
Plant in service, at cost	7,040,963	6,907,660
Less: accumulated depreciation	<u>3,255,163</u>	<u>3,084,332</u>
Net capital assets	<u>3,785,800</u>	<u>3,823,328</u>
<b>OTHER ASSETS</b>		
Bond discount and issuance costs	34,465	24,601
Revenue bond reserve-restricted		
Cash and savings	<u>237,449</u>	<u>233,803</u>
Total other assets	<u>271,914</u>	<u>258,404</u>
Total assets	<u>\$ 4,632,313</u>	<u>\$ 4,638,940</u>

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL WATER UTILITY  
COMPARATIVE BALANCE SHEETS (Continued)  
JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 80,170	\$ 78,497
Sales and use tax payable	6,379	5,740
Salaries, vacation and sick leave payable	37,787	25,006
Due to City of Harlan for utility collections	57,757	63,098
Payable from restricted assets		
Interest payable	35,548	69,975
Current maturities of long-term debt	90,000	125,000
Total current liabilities	<u>307,641</u>	<u>367,316</u>
Long-term debt, net of current maturities	1,855,000	1,965,000
NET ASSETS		
Designated	37,990	37,990
Undesignated	2,431,682	2,268,634
Total net assets	<u>2,469,672</u>	<u>2,306,624</u>
Total Liabilities & Net Assets	<u>\$ 4,632,313</u>	<u>\$ 4,638,940</u>

See Accompanying Independent Auditor's Report.

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL WATER UTILITY  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2003</u>	<u>2004 Actual</u>	<u>2004 Budget</u>	Budget Variance Favorable (Unfavorable)
<b>OPERATING REVENUES</b>				
Sales to consumers	\$1,062,962	\$1,108,814	\$1,177,001	\$(68,187)
Other operating revenues	<u>14,401</u>	<u>20,003</u>	<u>7,899</u>	<u>12,104</u>
Total operating revenues	1,077,363	1,128,817	1,184,900	(56,083)
<b>OPERATING EXPENSES</b>				
Plant operation expenses				
Cost of power	51,731	60,669	68,109	7,440
Salaries and wages	153,788	136,681	163,171	26,490
Repairs and maintenance	48,751	54,684	50,970	(3,714)
Utilities	66,458	67,915	55,810	(12,105)
Insurance	28,185	32,080	31,449	(631)
Other	<u>23,756</u>	<u>20,800</u>	<u>29,200</u>	<u>8,400</u>
Total plant operation expense	372,669	372,829	398,709	25,880
Distribution operation expenses				
Salaries and wages	60,571	39,265	52,949	13,684
Engineering	4,386	10,673	3,825	(6,848)
Repairs and maintenance	15,778	15,014	11,000	(4,014)
Other	<u>3,013</u>	<u>1,050</u>	<u>-0-</u>	<u>(1,050)</u>
Total distribution operation expense	83,748	66,002	67,774	1,772
Administrative and general expenses				
Salaries and wages	72,569	73,463	79,683	6,220
Office supplies	13,036	16,749	19,009	2,260
Education and travel	4,055	5,354	5,000	(354)
Professional services	6,393	29,444	20,022	(9,422)
Other	<u>17,138</u>	<u>22,540</u>	<u>17,079</u>	<u>(5,461)</u>
Total administrative and general expense	113,191	147,550	140,793	(6,757)
Consumer services				
Bad debts	7,375	7,580	7,420	(160)
Other	<u>11,353</u>	<u>5,380</u>	<u>3,500</u>	<u>(1,880)</u>
Total consumer services	18,728	12,960	10,920	(2,040)

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL WATER UTILITY  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2003</u>	<u>2004 Actual</u>	<u>2004 Budget</u>	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	\$ 10,630	\$ 11,054	\$ 9,318	\$ (1,736)
Advertising	4,488	3,822	4,793	971
Other	<u>5,004</u>	<u>3,670</u>	<u>6,258</u>	<u>2,588</u>
Total marketing and stakeholder relations expense	20,122	18,546	20,369	1,823
Employee benefits				
Payroll taxes	52,691	46,304	51,937	5,633
Health insurance	94,127	74,804	93,051	18,247
Compensated absences	65,100	43,302	38,067	(5,235)
Other	<u>2,354</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total employee benefits	<u>214,272</u>	<u>164,410</u>	<u>183,055</u>	<u>18,645</u>
Total operating expense excluding amortization and depreciation	<u>822,730</u>	<u>782,297</u>	<u>821,620</u>	<u>39,323</u>
Operating income before amortization and depreciation	254,633	346,520	363,280	(16,760)
Amortization	4,082	4,187	4,200	13
Depreciation	<u>171,806</u>	<u>170,831</u>	<u>165,689</u>	<u>(5,142)</u>
	<u>175,888</u>	<u>175,018</u>	<u>169,889</u>	<u>(5,129)</u>
Operating income	78,745	171,502	193,391	(21,889)
Non-operating revenues (expenses)				
Contributions to City-In lieu of taxes (Note 8)	(16,057)	(19,548)	(21,345)	1,797
Interest income	4,200	106,272	-0-	106,272
Interest expense	9,941	6,715	4,200	2,515
Industrial development contribution	<u>(103,600)</u>	<u>(101,893)</u>	<u>(101,388)</u>	<u>(505)</u>
Total non-operating revenues (expenses)	<u>(105,516)</u>	<u>(8,454)</u>	<u>(118,533)</u>	<u>110,079</u>
Change in Net Assets	(26,771)	163,048	<u>\$ 74,858</u>	<u>\$ 88,190</u>
Total net assets, beginning of year	<u>2,333,395</u>	<u>2,306,624</u>		
Total net assets, end of year	<u>\$ 2,306,624</u>	<u>\$2,469,672</u>		

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL TELECOMMUNICATIONS UTILITY  
COMPARATIVE BALANCE SHEETS  
JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 77,295	\$ 64,638
Restricted		
Revenue bond retirement savings	9,917	15,566
Unrestricted		
Cash and savings	73,141	35,025
Accounts receivable-net of allowance for doubtful accounts of \$7,000 and \$5,000 for 2004 and 2003	84,977	83,575
Inventory	3,361	3,072
Prepaid expenses	24,788	14,912
Total current assets	<u>273,479</u>	<u>216,788</u>
<b>CAPITAL ASSETS</b>		
Telecommunications Utility Plant		
Plant in service, at cost	1,118,445	1,103,355
Less: accumulated depreciation	<u>370,050</u>	<u>307,581</u>
Net capital assets	748,395	795,774
<b>OTHER ASSETS</b>		
Bond discount and issuance costs	5,493	3,225
Revenue bond reserve-restricted		
Cash and savings	63,095	61,615
	<u>68,588</u>	<u>64,840</u>
 Total assets	 \$ <u>1,090,462</u>	 \$ <u>1,077,402</u>

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL TELECOMMUNICATIONS UTILITY  
COMPARATIVE BALANCE SHEETS (Continued)  
JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 50,518	\$ 30,057
Sales and use tax payable	2,572	2,217
Salaries, vacation and sick leave payable	15,050	10,767
Due to City of Harlan for utility collections	11,202	10,184
Payable from restricted assets		
Interest payable	2,578	5,500
Current maturities long-term debt	60,000	375,000
Total current liabilities	<u>141,920</u>	<u>433,725</u>
Intra-utility note payable, net of current maturities	-0-	768,025
Long-term debt, net of current maturities	257,225	-0-
<b>NET ASSETS</b>		
Designated	77,295	64,638
Undesignated	614,022	(188,986)
Total net assets	<u>691,317</u>	<u>(124,348)</u>
Total Liabilities & Net Assets	<u>\$ 1,090,462</u>	<u>\$ 1,077,402</u>

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL TELECOMMUNICATIONS UTILITY  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2003</u>	<u>2004 Actual</u>	<u>2004 Budget</u>	Budget Variance Favorable (Unfavorable)
<b>OPERATING REVENUES</b>				
Sales to consumers	\$ 808,738	\$ 886,295	\$ 817,294	\$ 69,001
Other operating revenues	<u>3,065</u>	<u>13,540</u>	<u>11,600</u>	<u>1,940</u>
Total operating revenues	811,803	899,835	828,894	70,941
<b>OPERATING EXPENSES</b>				
Plant operation expenses				
Cost of power	355,654	380,666	329,425	(51,241)
Salaries and wages	31,965	17,374	31,000	13,626
Repairs and maintenance	3,575	9,420	4,900	(4,520)
Utilities	10,552	12,042	13,500	1,458
Insurance	18,637	16,905	16,393	(512)
Other	<u>4,979</u>	<u>4,166</u>	<u>5,600</u>	<u>1,434</u>
Total plant operation expense	425,362	440,573	400,818	(39,755)
Distribution operation expenses				
Salaries and wages	60,223	61,326	42,960	(18,366)
Engineering	1,132	3,383	1,221	(2,162)
Repairs and maintenance	11,300	21,620	13,372	(8,248)
Other	<u>19,756</u>	<u>23,747</u>	<u>13,450</u>	<u>(10,297)</u>
Total distribution operation expense	92,411	110,076	71,003	(39,073)
Administrative and general expenses				
Salaries and wages	42,041	33,690	39,330	5,640
Office supplies	14,670	17,403	21,096	3,693
Education and travel	3,859	4,959	2,647	(2,312)
Professional services	27,373	35,825	30,580	(5,245)
Other	<u>612</u>	<u>1,095</u>	<u>3,314</u>	<u>2,219</u>
Total administrative and general expense	88,555	92,972	96,967	3,995
Consumer services				
Salaries and wages	27,805	30,423	33,679	3,256
Bad debts	12,171	5,080	9,200	4,120
Other	<u>1,896</u>	<u>395</u>	<u>584</u>	<u>189</u>
Total consumer services	41,872	35,898	43,463	7,565

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL TELECOMMUNICATIONS UTILITY  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS (Continued)  
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2003</u>	<u>2004 Actual</u>	<u>2004 Budget</u>	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	\$ 1,989	\$ 3,079	\$ 923	\$ (2,156)
Advertising	9,275	7,801	8,685	884
Other	<u>2,085</u>	<u>681</u>	<u>1,756</u>	<u>1,075</u>
Total marketing and stakeholder relations expense	13,349	11,561	11,364	(197)
Employee benefits				
Payroll taxes	24,881	21,681	22,960	1,279
Health insurance	34,444	28,010	34,636	6,626
Compensated absences	21,298	21,088	16,173	(4,915)
Other	<u>150</u>	<u>7,183</u>	<u>-0-</u>	<u>(7,183)</u>
Total employee benefits	<u>80,773</u>	<u>77,962</u>	<u>73,769</u>	<u>(4,193)</u>
Total operating expense excluding amortization and depreciation	<u>742,322</u>	<u>769,042</u>	<u>697,384</u>	<u>(71,658)</u>
Operating income before amortization and depreciation	69,481	130,793	131,510	(717)
Amortization	1,806	3,732	2,100	(1,632)
Depreciation	<u>57,563</u>	<u>62,469</u>	<u>56,450</u>	<u>(6,019)</u>
	<u>59,369</u>	<u>66,201</u>	<u>58,550</u>	<u>(7,651)</u>
Operating income (loss)	10,112	64,592	72,960	(8,368)
Non-operating revenues (expenses)				
Contributions to City-In lieu of taxes (Note 8)	(340)	(381)	(372)	(9)
Interest income	4,392	2,590	2,070	520
Interest expense	<u>(23,707)</u>	<u>(19,161)</u>	<u>(21,938)</u>	<u>2,777</u>
Total non-operating revenues (expenses)	<u>(19,655)</u>	<u>(16,952)</u>	<u>(20,240)</u>	<u>3,288</u>
Change in Net Assets	(9,543)	47,640	<u>\$ 52,720</u>	<u>\$ (5,080)</u>
Total net assets, beginning of year (deficit)	(114,805)	(124,348)		
Inter-Utility Loan Payable Forgiven	<u>-0-</u>	<u>768,025</u>		
Total net assets, end of year (deficit)	<u>\$ (124,348)</u>	<u>\$ 691,317</u>		

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL TELEPHONE UTILITY  
COMPARATIVE BALANCE SHEETS  
JUNE 30, 2004 AND 2003**

ASSETS	<u>2004</u>	<u>Restated 2003</u>
<b>CURRENT ASSETS</b>		
Unrestricted		
Cash and savings	\$ 310,898	\$ 180,125
Account receivable-net of allowances for doubtful accounts of \$9,000 and \$8,000 for 2004 and 2003	71,369	110,028
Unbilled usage	7,340	-0-
Prepaid expenses	2,973	4,248
Total current assets	<u>392,580</u>	<u>294,401</u>
<b>CAPITAL ASSETS</b>		
Telephone Utility Plant	1,575,059	1,544,819
Less accumulated depreciation	243,307	117,942
Net capital assets	<u>1,331,752</u>	<u>1,426,877</u>
<b>OTHER ASSETS</b>		
Other Accounts receivable	91,799	-0-
Bond discount and issuance cost	9,081	11,881
Revenue bond reserve-restricted Investments	179,746	225,825
	<u>280,626</u>	<u>237,706</u>
Total assets	<u>\$ 2,004,958</u>	<u>\$ 1,958,984</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 30,265	\$ 51,527
Sales and use tax payable	1,058	1,148
Salaries, vacation and sick leave payable	6,261	1,661
Other accrued liabilities	1,988	-0-
Payable from restricted assets		
Interest payable	22,180	26,765
Current maturities-long term debt	81,857	80,000
Total current liabilities	<u>143,609</u>	<u>161,101</u>
<b>LONG TERM LIABILITIES</b>		
Long-term debt, net of current maturities	1,500,840	1,565,065
Deferred income – CABS	91,799	-0-
Intra-utility note payable, net of current maturities	379,814	398,486
Total noncurrent liabilities	<u>1,972,453</u>	<u>1,963,551</u>
<b>NET ASSETS</b>		
Undesignated (deficit) (Note 9)	<u>(111,104)</u>	<u>(165,668)</u>
Total Liabilities and Net Assets	<u>\$ 2,004,958</u>	<u>\$ 1,958,984</u>

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL TELEPHONE UTILITY  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
JUNE 30, 2004 AND 2003**

	Restated <u>2003</u>	2004 <u>Actual</u>	2004 <u>Budget</u>	Budget Variance Favorable (Unfavorable)
<b>OPERATING REVENUES</b>				
Sales to consumers	\$ 656,109	\$ 685,067	\$ 758,568	\$ (73,501)
Other operating revenues	<u>-0-</u>	<u>1,297</u>	<u>-0-</u>	<u>1,297</u>
Total operating revenues	656,109	686,364	758,568	(72,204)
<b>OPERATING EXPENSES</b>				
<b>Plant operation expenses</b>				
Cost of power	330,977	248,610	306,000	57,390
Salaries and wages	9,314	3,766	39,120	35,354
Repairs and maintenance	2,205	7,117	408	(6,709)
Utilities	3,966	3,647	1,500	(2,147)
Insurance	7,455	3,908	8,031	4,123
Property taxes	-0-	-0-	19,915	19,915
Other	<u>22,747</u>	<u>6,191</u>	<u>411</u>	<u>(5,780)</u>
Total plant operation expense	376,664	273,239	375,385	102,146
<b>Distribution operation expenses</b>				
Repairs and maintenance	85	-0-	-0-	-0-
<b>Administrative and general expenses</b>				
Salaries and wages	22,065	28,926	30,530	1,604
Office supplies	5,504	6,175	7,471	1,296
Professional services	28,512	34,105	22,396	(11,709)
Other	<u>3,791</u>	<u>1,346</u>	<u>2,565</u>	<u>1,219</u>
Total administrative and general expense	59,872	70,552	62,962	(7,590)
<b>Consumer services</b>				
Bad debts	30,643	4,419	7,500	3,081
Other	<u>3,365</u>	<u>845</u>	<u>(103)</u>	<u>(948)</u>
Total consumer services	34,008	5,264	7,397	2,133

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL TELEPHONE UTILITY  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS (Continued)  
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>Restated 2003</u>	<u>2004 Actual</u>	<u>2004 Budget</u>	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	\$ 892	\$ 1,921	\$ 5,184	\$ 3,263
Advertising	9,712	18,275	10,112	(8,163)
Other	<u>645</u>	<u>1,029</u>	<u>5,914</u>	<u>4,885</u>
Total marketing and stakeholder relations expense	11,249	21,225	21,210	(15)
Employee benefits				
Payroll taxes	4,973	5,216	11,130	5,914
Health insurance	13,675	8,028	10,136	2,108
Compensated absences	<u>6,043</u>	<u>9,593</u>	<u>7,153</u>	<u>(2,440)</u>
Total employee benefits	<u>24,691</u>	<u>22,837</u>	<u>28,419</u>	<u>5,582</u>
Total operating expense excluding amortization and depreciation	<u>506,569</u>	<u>393,117</u>	<u>495,373</u>	<u>102,256</u>
Operating income before amortization and depreciation	149,540	293,247	263,195	30,052
Amortization	1,785	2,800	1,704	(1,096)
Depreciation	<u>117,942</u>	<u>125,364</u>	<u>121,854</u>	<u>(3,510)</u>
	<u>119,727</u>	<u>128,164</u>	<u>123,558</u>	<u>(4,606)</u>
Operating income (loss)	29,813	165,083	139,637	25,446
Non-operating revenues (expenses)				
Interest income	8,091	4,927	4,200	727
Interest expense	<u>(127,891)</u>	<u>(115,446)</u>	<u>(119,746)</u>	<u>4,300</u>
Total non-operating revenues (expenses)	<u>(119,800)</u>	<u>(110,519)</u>	<u>(115,546)</u>	<u>5,027</u>
Change in Net Assets	(89,987)	54,564	<u>\$ 24,091</u>	<u>\$ 30,473</u>
Total net assets, beginning of year (deficit)	(58,468)	(165,668)		
Prior period adjustment	<u>(17,213)</u>	<u>-0-</u>		
Total net assets, end of year	<u>\$ (165,668)</u>	<u>\$ (111,104)</u>		

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES**  
**SUMMARY OF USAGE STATISTICS-ELECTRIC**  
**(UNAUDITED)**  
**JUNE 30, 2004 AND 2003**

**Electric Utility**

	<b><u>2004</u></b>	
KWH purchased and generated*	63,667,322	100.00%
Less: KWH unaccounted for	(3,024,920)	(4.75%)
	<hr/>	<hr/>
KWH billed	60,642,402	95.25%
	<hr/>	<hr/>
<b><u>Rate Categories</u></b>	<b><u>Customers</u></b>	<b><u>KWH Billed</u></b>
Single Phase Small	2,623	26,889,395
Single Phase Large	44	2,322,160
Three Phase	168	9,528,305
Commercial	1	576,576
Demand	12	3,073,872
Time of Use	14	14,594,684
Municipal – Defiance, IA	1	344,640
Municipal – Tennant, IA	1	381,300
Street lights	102	1,931,051
Other	1	0
Water Plant - pumping	15	1,000,419
	<hr/>	<hr/>
	2,982	60,642,402
	<hr/>	<hr/>
	<b><u>2003</u></b>	
KWH purchased and generated*	62,802,864	100.00%
Less: KWH unaccounted for	(2,990,596)	(4.76%)
	<hr/>	<hr/>
KWH billed	59,812,268	95.24%
	<hr/>	<hr/>
<b><u>Rate Categories</u></b>	<b><u>Customers</u></b>	<b><u>KWH Billed</u></b>
Single Phase Small	2,617	27,303,384
Single Phase Large	46	2,378,821
Three Phase	162	9,346,030
Commercial	1	510,912
Demand	13	3,244,428
Time of Use	13	13,929,280
Municipal – Tennant, IA	1	378,540
Municipal - Defiance, IA	1	145,600
Street lights	99	1,369,614
Water Plant - pumping	15	1,205,659
Other	1	0
	<hr/>	<hr/>
	2,969	59,812,268
	<hr/>	<hr/>

\*Total to Harlan Municipal Utilities' gate - includes KWH's from Louisa Generating Station.

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES  
SUMMARY OF USAGE STATISTICS-GAS  
(UNAUDITED)  
JUNE 30, 2004 AND 2003**

**Gas Utility**

	<b><u>2004</u></b>	
CCF purchased	3,319,800	100.00%
Add: CCF unaccounted for	133,921	4.03%
CCF billed	3,453,721	104.03%
<b><u>Rate Categories</u></b>	<b>Customers</b>	<b>CCF Billed</b>
Residential	1,945	1,585,539
Commercial	319	608,862
Large Commercial	30	279,115
Interruptible	4	925,571
Large Interruptible	0	54,634
	2,298	3,453,721

	<b><u>2003</u></b>	
CCF purchased	3,493,950	100.00%
Add: CCF unaccounted for	123,369	3.23%
CCF billed	3,617,319	103.23%
<b><u>Rate Categories</u></b>	<b>Customers</b>	<b>CCF Billed</b>
Residential	1,944	1,700,375
Commercial	327	611,359
Large Commercial	31	295,193
Interruptible	3	289,238
Large Interruptible	1	721,154
	2,306	3,617,319

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES**  
**SUMMARY OF USAGE STATISTICS-WATER**  
**(UNAUDITED)**  
**JUNE 30, 2004 AND 2003**

**Water Utility****2004**

Gallons produced	263,256,000	
Gallons used in production	<u>(28,591,000)</u>	
Gallons to account for	234,665,000	100.00%
Less: Gallons unaccounted for	<u>(51,797,983)</u>	<u>(22.07%)</u>
Gallons billed	<u>182,867,017</u>	<u>77.93%</u>

<u>Rate Categories</u>	<u>Customers</u>	<u>Gallons Billed</u>
Residential	1,993	107,809,711
Commercial	382	63,853,306
Fire protection	7	-0-
Interruptible	1	11,204,000
	<u>2,383</u>	<u>182,867,017</u>

**2003**

Gallons produced	252,029,000	
Gallons purchased	0	
Gallons used in production	<u>(31,308,790)</u>	
Gallons to account for	220,720,210	100.00%
Less: gallons unaccounted for	<u>(40,698,870)</u>	<u>(18.44%)</u>
Gallons billed	<u>180,021,340</u>	<u>81.56%</u>

<u>Rate Categories</u>	<u>Customers</u>	<u>Gallons Billed</u>
Residential	1,992	108,663,048
Commercial	386	60,234,292
Fire protection	6	-0-
Interruptible	1	11,124,000
	<u>2,385</u>	<u>180,021,340</u>

See Accompanying Independent Auditor's Report.

# **HEITHOFF, HANSEN, MUHLBAUER & CO., P.C.**

## **Certified Public Accountants**

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### **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

October 8, 2004

To the Board of Trustees of the  
Harlan Municipal Utilities:

We have audited the financial statements of Harlan Municipal Utilities as of and for the year ended June 30, 2004, and have issued our report thereon dated October 8, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with U.S. generally accepted accounting principles. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether Harlan Municipal Utilities financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. 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. Prior year statutory comments have been resolved except for items III-G-04 and III-J-04.

October 8, 2004  
To the Board of Trustees of the  
Harlan Municipal Utilities:

Internal Control Over Financial Reporting

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. There were no prior year reportable conditions.

This report, a public record by law, is intended solely for the information and use of the board of trustees, management, employees and stakeholders of Harlan Municipal Utilities and other parties to whom the Utility may report. This report is not intended and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Utility during the course of our audit. Should you have any questions concerning any of the above matters, we will be pleased to discuss them with you at your convenience.



HEITHOFF, HANSEN, MUHLBAUER & Co., P.C.  
Certified Public Accountants

**HARLAN MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004**

**Part I: Summary of the Independent Auditors' Results**

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, none of which are considered to be material weaknesses.
- (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.

**REPORTABLE CONDITIONS:**

II-A-04 Proper Invoice Cancellation and Support - Supporting documentation was not always available to support credit card charges. Also the actual invoices are not getting stamped "paid" or initialed on to prevent re-use.

Recommendation – Supporting documentation should always be required to substantiate the charges on the credit cards. Also the Utility should review procedures to insure that all expenditures are properly cancelled and filed to prevent them from getting paid twice.

Response – We will review our procedures.

Conclusion – Response accepted.

**Part III: Other Findings Related to Required Statutory Reporting:**

- III-A-04 Official Depositories - A resolution naming official depositories has been approved by the board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- III-B-04 Certified Budget - Harlan Municipal Utilities is a component unit of the City of Harlan, therefore their receipts and disbursements are included in the Certified Budget of the City of Harlan. Cash disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.

**HARLAN MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004**

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

III-C-04      Questionable Disbursements - Disbursements of the Utility money appear to meet public purpose requirements.

III-D-04      Travel Expense - No disbursements of Utility money for travel expenses for spouses of the Utilities officials or employees were noted.

III-E-04      Business Transactions - No business transactions between the Utility and Utility officials or employees were noted.

III-F-04      Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provision. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

III-G-04      Board Minutes - No transactions were found that we believe should have been approved in the board minutes but were not.

Although minutes of the board meetings were approved, one (1) instance was noted where an abstract of claims was not published within fifteen days as required by Chapter 372.13 (6) of the Iowa Code.

Recommendation - The Utility should monitor its procedures to insure proper publications as required by Chapter 372.13 (6) of the Iowa Code.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

III-H-04      Revenue Notes - The Utility is in compliance with all the provisions of revenue note resolutions for all of the funds.

III-I-04      Deposits and Investments - No instances of noncompliance with the deposit and investments provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities investment policy were noted.

III-J-04      Deficit Fund Equity - As previously noted, the Telephone Fund has a deficit balance of \$111,104, as of June 30, 2004.

Recommendation - The Utility should monitor the activity in this fund in order to eliminate the deficit.

Response - We will monitor the activity of this fund.

Conclusion - Response accepted.