

**HARLAN MUNICIPAL UTILITIES**

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

**JUNE 30, 2005**

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## OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kathleen Kohorst	Chairman	2005
Bill Campbell	Vice-Chairman	2009
Randy Doran	Board Member	2010
Allen Burchett	Board Member	2006
Craig Kroger	Board Member	2007
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**

August 25, 2005

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, 2005. 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.

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

As described in Note 1, the financial statements of Harlan Municipal Utilities are intended to present the financial position and results of operations and cash flows of proprietary fund types of only that portion of the financial reporting entity of the City of Harlan, Iowa, that is attributable to the transactions of the Harlan Municipal Utilities.

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, 2005, 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  
August 25, 2005  
Page Two

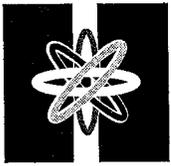
In accordance with Government Auditing Standards, we have also issued our report dated August 25, 2005, on our consideration of Harlan Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on page 6 through 11 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the Harlan Municipal Utilities' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 and expressed an unqualified opinion on that financial statement. The financial statements for the two years ended June 30, 2003 were audited by other auditors and they expressed unqualified opinions on them. 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.

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

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



# HARLAN MUNICIPAL UTILITIES

Telecommunications

Electric

Water

Gas

405 Chatburn Avenue  
P.O. Box 71  
Harlan, Iowa 51537-0071

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HMU@HarlanNet.com

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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, 2005. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

### 2005 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities increased 13.64%, or \$1,300,797, from fiscal 2004 to fiscal 2005.
- Operating expenses increased 8.18%, or \$643,037 from fiscal 2004 to fiscal 2005.
- The Utilities' net assets of business type activities increased 10.37%, or \$1,642,477 from June 30, 2004 to June 30, 2005.

### 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			
<b><u>Business Type Activities-Enterprise Funds</u></b>			
	Year Ended		
	6-30-05	6-30-04	
Current and other assets	\$ 10,004,212	\$ 9,833,496	
Capital assets	19,427,109	18,126,391	
Total Assets	<u>\$ 29,431,321</u>	<u>\$ 27,959,887</u>	
Current liabilities	\$ 2,378,720	\$ 1,407,298	
Non-current liabilities	9,567,434	10,709,899	
Total Liabilities	<u>\$ 11,946,154</u>	<u>\$ 12,117,197</u>	
Net assets:			
Invested in capital assets, net of related debt	\$ 9,884,441	\$ 10,672,186	
Restricted	2,881,705	1,637,757	
Unrestricted	4,719,021	3,532,747	
Total net assets	<u>\$ 17,485,167</u>	<u>\$ 15,842,690</u>	

Net assets of business type activities increased from FY04 by \$1,642,477, or 10.37%. 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, increased by \$1,186,274 at the end of this year, an increase of 33.58%.

This increase in unrestricted net assets is a result of approximately \$1,640,000 change in net assets for the year ended June 30, 2005. The invested in capital assets, net of related debt, decreased by approximately \$787,000 due to more debt being paid off and no new debt was acquired.

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Changes in Net Assets

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**Business Type Activities-Enterprise Funds**

	<u>Year Ended</u>	
	<u>6-30-05</u>	<u>6-30-04</u>
Revenues:		
Charges for services	\$ 10,838,444	\$ 9,537,647
Interest income	105,223	79,469
Capital grants	-0-	106,272
Total revenues	<u>10,943,667</u>	<u>9,723,388</u>
Operating expenses:		
Plant operations	5,106,372	4,395,394
Distribution operations	666,249	738,224
Administrative and general	625,420	612,309
Consumer services	37,011	60,192
Marketing and stakeholder relations	137,830	104,624
Employee benefits	603,797	592,684
Total operating expenses	<u>7,176,679</u>	<u>6,503,427</u>
Other expenses:		
Amortization	23,115	26,650
Depreciation	1,303,569	1,330,249
Contributions to City-In lieu of taxes	236,096	201,797
Interest expense	461,731	464,412
Industrial development contribution	100,000	55,000
Total other expense	<u>2,124,511</u>	<u>2,078,108</u>
Increase in net assets	1,642,477	1,141,853
Net assets beginning of year	<u>15,842,690</u>	<u>14,700,837</u>
Net assets end of year	<u>\$ 17,485,167</u>	<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 2005 with a \$11,513,821 net asset balance compared to the prior year ending net asset balance of \$10,294,451.

The Gas Fund, which accounts for the operation and maintenance of the Utilities' gas system, ended fiscal 2005 with a \$2,674,185 net asset balance compared to the prior year ending net asset balance of \$2,498,354.

The Water Fund, which accounts for the operation and maintenance of the Utilities' water system, ended fiscal 2005 with a \$2,651,522 net asset balance compared to the prior year ending net asset balance of \$2,469,672.

The Telecommunication Fund, which accounts for the operation and maintenance of the Utilities' cable and internet system, ended fiscal 2005 with a \$753,142 net asset balance compared to the prior year ending net asset balance of \$691,317.

The Telephone Fund, which accounts for the operation and maintenance of the Utilities' telephone communication system, ended fiscal 2005 with a \$(107,503) net asset balance deficit compared to the prior year ending net asset balance deficit of \$(111,104).

## BUDGETARY HIGHLIGHTS

Over the course of the year, the Utility amended its budget once. The amendment was done in March 2005. 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 \$36,652,801 at June 30, 2005. This is a net increase (including additions and deletions) of \$666,484 or 1.85% over last year.

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Capital Assets at Year End		
	June 30	
	2005	2004
Intangible Plant	\$ 220,632	\$ 220,632
Production	9,359,997	9,087,281
Transmission & Pumping	5,664,680	5,653,129
Distribution	13,327,174	13,063,755
General	3,262,062	3,211,036
Fiber Optics	<u>4,818,256</u>	<u>4,750,484</u>
Total	36,652,801	35,986,317
Less: Accumulated Depreciation	<u>19,242,197</u>	<u>17,938,627</u>
Net Capital Assets	<u>\$ 17,410,604</u>	<u>\$ 18,047,690</u>

This year's major additions included:

Electric Fund – New primary & electrical services	\$ 461,498
Gas Fund – New main & services	28,169
Water Fund – 9 Replacement & 4 new service lines	100,345
Telecommunication Fund – Cable modems, equipment, and services	25,379
Telephone Fund – Interface units, test equipment and tools	<u>51,093</u>
Total	<u>\$ 666,484</u>

The Utility had depreciation expense of \$1,303,569 in fiscal year June 30, 2005.

Construction in progress at June 30, 2005 for business type activities consists primarily of work done on the electrical underground project in the amount of \$2,016,505.

## Long-Term Debt

At June 30, 2005, the Utility had \$10,479,819 in total debt outstanding for business type activities compared to \$10,994,957 at June 30, 2004 as shown below.

Outstanding Debt of Business Type Activities at Year-End		
	June 30	
	2005	2004
Revenue bonds	\$ 8,685,000	\$ 9,060,000
Capital loan notes	1,759,921	1,899,922
Contract payable	34,898	35,035
Total	<u>\$10,479,819</u>	<u>\$10,994,957</u>

No new bonds or other debts were issued during June 30, 2005. Total debt was reduced by \$515,138 for the amount of principal paid off.

### ECONOMIC FACTORS BEARING ON THE UTILITY'S FUTURE

Several economic factors affected decisions made by the Utility in setting its fiscal 2006 budget. The Utility will experience a slight increase in revenues and expenditures from fiscal 2005 to fiscal 2006.

The Business Type Activities—Enterprise Fund is projected to end fiscal 2006 with a fund balance of approximately \$19,195,500, a 8.91% increase from fiscal 2005.

### CONTACTING THE UTILITY'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, 2005**

	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	\$ 716,276	\$ 195,062	\$ 37,990
Replacement funds bond requirement:			
Cash and savings	250,000	-0-	-0-
Restricted			
Consumers' deposit fund	21,046	-0-	-0-
Revenue bond retirement-savings	1,158,288	-0-	23,564
Capital improvement fund – savings	690,726	-0-	170,000
Unrestricted			
Cash and savings	1,718,531	1,259,443	41,650
Industrial development fund	124,060	97,647	-0-
Accounts receivable - net of allowance for doubtful accounts of \$37,500	339,733	132,423	182,238
Unbilled usage	232,171	71,511	55,353
Employee loans receivable	16,960	-0-	-0-
Inventory	258,077	25,494	34,503
Prepaid expenses	29,126	20,317	24,247
Total current assets	5,554,994	1,801,897	569,545
<b>CAPITAL ASSETS</b>			
Utility plant			
Plant in service, at cost	24,617,317	2,124,200	7,141,308
Less accumulated depreciation	13,743,774	1,290,534	3,410,724
	10,873,543	833,666	3,730,584
Construction work in progress	2,016,505	-0-	-0-
Net capital assets	12,890,048	833,666	3,730,584
<b>OTHER ASSETS</b>			
Other A/R – CABS L.T.	-0-	-0-	-0-
Bond discount and issuance costs	33,739	-0-	29,181
Intra-utility note receivable	142,430	189,907	-0-
Restricted investments for bonds:			
Debt reserve	739,500	-0-	227,000
Debt sinking	-0-	-0-	14,083
Total other assets	915,669	189,907	270,264
<b>Total assets</b>	\$ 19,360,711	\$ 2,825,470	\$ 4,570,393

Exhibit A

Enterprise Funds			
Telecommunications Utility	Telephone Utility	Elimination	Totals
\$ 90,065	\$ -0-	\$ -0-	\$ 1,039,393
-0-	-0-	-0-	250,000
-0-	-0-	-0-	21,046
36,223	168,864	-0-	1,386,939
-0-	-0-	-0-	860,726
53,093	111,251	-0-	3,183,968
-0-	-0-	-0-	221,707
91,148	64,512	-0-	810,054
-0-	15,237	-0-	374,272
-0-	-0-	-0-	16,960
4,652	-0-	-0-	322,726
17,936	5,552	-0-	97,178
<u>293,117</u>	<u>365,416</u>	<u>-0-</u>	<u>8,584,969</u>
1,143,824	1,626,152	-0-	36,652,801
<u>427,284</u>	<u>369,881</u>	<u>-0-</u>	<u>19,242,197</u>
716,540	1,256,271	-0-	17,410,604
-0-	-0-	-0-	2,016,505
<u>716,540</u>	<u>1,256,271</u>	<u>-0-</u>	<u>19,427,109</u>
-0-	122,615	-0-	122,615
3,558	6,430	-0-	72,908
-0-	-0-	(332,337)	-0-
31,722	172,000	-0-	1,170,222
<u>32,343</u>	<u>7,072</u>	<u>-0-</u>	<u>53,498</u>
<u>67,623</u>	<u>308,117</u>	<u>(332,337)</u>	<u>1,419,243</u>
\$ <u>1,077,280</u>	\$ <u>1,929,804</u>	\$ <u>(332,337)</u>	\$ <u>29,431,321</u>

See Notes to Financial Statements.

**HARLAN MUNICIPAL UTILITIES**  
**BALANCE SHEET (Continued)**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2005**

	Business Type Activities-		
	Electric Utility	Gas Utility	Water Utility
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 575,131	\$ 95,416	\$ 37,718
Payroll taxes payable	40,098	-0-	-0-
State sales and use taxes payable	1,368	2,340	6,739
Salaries, vacation and sick leave payable	42,148	18,631	28,936
Accrued property taxes	115,218	-0-	-0-
Bonds called not paid	12,080	-0-	-0-
Due City of Harlan for collections & fees	-0-	-0-	130,478
Other accrued liabilities	834	-0-	-0-
Payable from restricted assets			
Current maturities of long-term debt	890,000	-0-	-0-
Interest payable	69,633	-0-	-0-
Customers' deposits	20,380	-0-	-0-
Total current liabilities	<u>1,766,890</u>	<u>116,387</u>	<u>203,871</u>
<b>NONCURRENT LIABILITIES</b>			
Long-Term Debt,			
net of current maturities (Note 5)	6,080,000	-0-	1,715,000
Contract payable (Note 5)	-0-	34,898	-0-
Deferred revenue – CABS	-0-	-0-	-0-
Intra-utility note payable, net of current maturities	-0-	-0-	-0-
Total noncurrent liabilities	<u>6,080,000</u>	<u>34,898</u>	<u>1,715,000</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	6,610,774	798,768	2,015,584
Restricted for:			
Customer deposits	21,046	-0-	-0-
Revenue bond-debt reserve	739,500	-0-	227,000
Revenue bond retirement	1,158,288	-0-	37,647
Replacement funds – bond	250,000	-0-	-0-
Unrestricted	2,734,213	1,875,417	371,291
Total net assets	<u>11,513,821</u>	<u>2,674,185</u>	<u>2,651,522</u>
Total liabilities and net assets	<u>\$ 19,360,711</u>	<u>\$ 2,825,470</u>	<u>\$ 4,570,393</u>

Exhibit A  
(Continued)

Enterprise Funds			
Telecommunications Utility	Telephone Utility	Elimination	Totals
\$ 37,320	\$ 45,626	\$ -0-	\$ 791,211
-0-	-0-	-0-	40,098
3,003	1,410	-0-	14,860
12,341	4,080	-0-	106,136
-0-	-0-	-0-	115,218
-0-	-0-	-0-	12,080
12,159	-0-	-0-	142,637
-0-	6,078	-0-	6,912
60,000	85,000	-0-	1,035,000
2,090	22,465	-0-	94,188
-0-	-0-	-0-	20,380
126,913	164,659	-0-	2,378,720
197,225	1,417,696	-0-	9,409,921
-0-	-0-	-0-	34,898
-0-	122,615	-0-	122,615
-0-	332,337	(332,337)	-0-
197,225	1,872,648	(332,337)	9,567,434
459,315	-0-	-0-	9,884,441
-0-	-0-	-0-	21,046
31,722	172,000	-0-	1,170,222
68,566	175,936	-0-	1,440,437
-0-	-0-	-0-	250,000
193,539	(455,439)	-0-	4,719,021
753,142	(107,503)	-0-	17,485,167
\$ <u>1,077,280</u>	\$ <u>1,929,804</u>	\$ <u>(332,337)</u>	\$ <u>29,431,321</u>

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, 2005**

	Business Type Activities – Enterprise Funds					
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility	Telephone Utility	Total
<b>OPERATING REVENUES</b>						
Sales to consumers	\$ 5,055,651	\$ 2,723,725	\$ 1,242,134	\$ 927,534	\$ 728,273	\$ 10,677,317
Other operating revenue	107,922	4,676	32,631	14,820	1,078	161,127
Total operating revenue	<u>5,163,573</u>	<u>2,728,401</u>	<u>1,274,765</u>	<u>942,354</u>	<u>729,351</u>	<u>10,838,444</u>
<b>OPERATING EXPENSES</b>						
Plant operation expenses						
Cost of power, chemicals, gas and programming	1,490,891	1,912,260	62,562	422,259	370,276	4,258,248
Salaries and wages	39,077	18,899	149,978	10,478	1,277	219,709
Repairs and maintenance	2,333	12,487	60,806	7,631	4,825	88,082
Utilities	59,374	18,891	91,133	13,570	4,327	187,295
Insurance	36,362	25,388	30,906	19,511	4,556	116,723
Property taxes	114,477	-0-	-0-	-0-	-0-	114,477
Other	42,772	24,782	33,708	2,826	17,750	121,838
Total plant operation expense	<u>1,785,286</u>	<u>2,012,707</u>	<u>429,093</u>	<u>476,275</u>	<u>403,011</u>	<u>5,106,372</u>
Distribution operation expenses						
Salaries and wages	189,775	91,804	31,118	73,976	-0-	386,673
Engineering	12,481	3,510	13,897	3,043	-0-	32,931
Repairs and maintenance	108,237	30,168	12,640	23,655	603	175,303
Other	33,750	1,373	1,127	35,092	-0-	71,342
Total distribution operation expense	<u>344,243</u>	<u>126,855</u>	<u>58,782</u>	<u>135,766</u>	<u>603</u>	<u>666,249</u>
Administrative and general expenses						
Salaries and wages	104,019	92,658	88,688	39,789	31,887	357,041
Office supplies	42,743	9,391	16,676	16,902	4,926	90,638
Education and travel	9,837	7,600	3,820	1,247	-0-	22,504
Professional	25,025	33,512	20,960	23,050	12,989	115,536
Other	3,764	9,861	23,119	754	2,203	39,701
Total administrative and general expenses	<u>185,388</u>	<u>153,022</u>	<u>153,263</u>	<u>81,742</u>	<u>52,005</u>	<u>625,420</u>

**HARLAN MUNICIPAL UTILITIES  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

	Business Type Activities – Enterprise Funds					Total
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility	Telephone Utility	
<b>OPERATING EXPENSES (Continued)</b>						
Consumer services						
Bad debts	\$ (10,722)	\$ 18,747	\$ 5,425	\$ 10,245	\$ 10,552	\$ 34,247
Other	-0-	141	-0-	907	1,716	2,764
Total consumer services	(10,722)	18,888	5,425	11,152	12,268	37,011
Marketing and stakeholder relations						
Salaries and wages	13,329	11,204	11,393	30,374	1,113	67,413
Advertising	15,910	4,317	4,564	9,799	12,872	47,462
Other	7,035	5,335	6,005	3,292	1,288	22,955
Total marketing and stakeholder relations	36,274	20,856	21,962	43,465	15,273	137,830
Employee benefits						
Payroll taxes	66,802	31,067	47,830	23,527	5,497	174,723
Health insurance	102,286	38,153	71,947	20,578	11,360	244,324
Compensated absences	81,541	27,040	46,459	21,087	8,623	184,750
Total employee benefits	250,629	96,260	166,236	65,192	25,480	603,797
Total operating expenses excluding Amortization and depreciation	2,591,098	2,428,588	834,761	813,592	508,640	7,176,679
Operating income (loss) before amortization and depreciation	2,572,475	299,813	440,004	128,762	220,711	3,661,765
Amortization	13,247	-0-	5,283	1,934	2,651	23,115
Depreciation	903,674	60,526	155,561	57,234	126,574	1,303,569
	916,921	60,526	160,844	59,168	129,225	1,326,684
Operating income (loss)	1,655,554	239,287	279,160	69,594	91,486	2,335,081

Exhibit B  
(Continued)

**HARLAN MUNICIPAL UTILITIES  
STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

	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)	\$ (181,457)	\$ (28,390)	\$ (25,859)	\$ (390)	\$ -0-	\$ (236,096)
Interest income	74,840	14,934	6,966	2,587	5,896	105,223
Interest expense	(279,567)	-0-	(78,417)	(9,966)	(93,781)	(461,731)
Industrial development contribution	(50,000)	(50,000)	-0-	-0-	-0-	(100,000)
Total non-operating revenues (expenses)	<u>(436,184)</u>	<u>(63,456)</u>	<u>(97,310)</u>	<u>(7,769)</u>	<u>(87,885)</u>	<u>(692,604)</u>
Change in Net Assets	1,219,370	175,831	181,850	61,825	3,601	1,642,477
Total net assets (deficit), beginning	<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>
Total net assets (deficit), ending	<u>\$ 11,513,821</u>	<u>\$ 2,674,185</u>	<u>\$ 2,651,522</u>	<u>\$ 753,142</u>	<u>\$ (107,503)</u>	<u>\$ 17,485,167</u>

See Notes to Financial Statements.

**HARLAN MUNICIPAL UTILITIES  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

	Business Type Activities -		
	Electric Utility	Gas Utility	Water Utility
Cash flows from operating activities:			
Cash received from customers and users	\$ 4,930,403	\$ 2,647,018	\$ 1,207,149
Cash received from other revenues	107,922	4,676	32,631
Cash paid to suppliers	(1,596,619)	(1,997,676)	(347,296)
Cash paid for personal services	(223,012)	(158,177)	(199,986)
Cash paid to employees	(440,965)	(247,949)	(336,487)
Net cash provided by operating activities	<u>2,777,729</u>	<u>247,892</u>	<u>356,011</u>
Cash flows from noncapital financing activities:			
Due to City for utility collections	-0-	-0-	72,722
Contributions to City – In lieu of taxes	(181,457)	(28,390)	(25,859)
Net cash provided (used) by noncapital financing activities	<u>(181,457)</u>	<u>(28,390)</u>	<u>46,863</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(2,399,302)	(28,168)	(100,345)
Repayments on intra-utility notes	-0-	-0-	-0-
Principal payments on long-term borrowings	(145,000)	(137)	(230,000)
Interest paid on notes	(270,587)	-0-	(113,965)
Net cash provided (used) by capital and related financing activities	<u>(2,814,889)</u>	<u>(28,305)</u>	<u>(444,310)</u>
Cash flows from investing activities:			
Interest on investments	74,840	14,934	6,966
Industrial development contribution	(50,000)	(50,000)	-0-
Principal received on employee loans	3,791	-0-	-0-
Principal received on intra-utility notes	47,477	-0-	-0-
Net cash provided by investing activities	<u>76,108</u>	<u>(35,066)</u>	<u>6,966</u>
Net increase in cash and cash equivalents	(142,509)	156,131	(34,470)
Cash and cash equivalents beginning of year	<u>5,560,936</u>	<u>1,396,021</u>	<u>548,757</u>
Cash and cash equivalents end of year	<u>\$ 5,418,427</u>	<u>\$ 1,552,152</u>	<u>\$ 514,287</u>

Enterprise Funds		
Telecommunications	Telephone	
Utility	Utility	Total
\$ 921,363	\$ 727,233	\$ 10,433,166
14,820	1,078	161,127
(535,224)	(389,555)	(4,866,370)
(109,870)	(58,961)	(750,006)
(178,413)	(45,081)	(1,248,895)
<u>112,676</u>	<u>234,714</u>	<u>3,729,022</u>
957	-0-	73,679
(390)	-0-	(236,096)
<u>567</u>	<u>-0-</u>	<u>(162,417)</u>
(25,378)	(51,092)	(2,604,285)
-0-	(47,477)	(47,477)
(60,000)	(80,001)	(515,138)
(10,454)	(93,496)	(488,502)
<u>(95,832)</u>	<u>(272,066)</u>	<u>(3,655,402)</u>
2,587	5,895	105,222
-0-	-0-	(100,000)
-0-	-0-	3,791
-0-	-0-	47,477
<u>2,587</u>	<u>5,895</u>	<u>56,490</u>
19,998	(31,457)	(32,307)
<u>223,448</u>	<u>490,644</u>	<u>8,219,806</u>
<u>\$ 243,446</u>	<u>\$ 459,187</u>	<u>\$ 8,187,499</u>

See Notes to Financial Statements.

**HARLAN MUNICIPAL UTILITIES  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

	Business Type Activities -		
	Electric Utility	Gas Utility	Water Utility
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income	\$ 1,655,554	\$ 239,287	\$ 279,160
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	903,674	60,526	155,561
Amortization expense	13,247	-0-	5,283
(Increase) decrease in customer accounts receivable and unbilled usage and other accounts receivable	(125,248)	(76,707)	(34,985)
(Increase) decrease in inventories	13,380	(74)	770
(Increase) decrease in prepaid expenses	425	889	1,165
Increase (decrease) in accounts payable	366,544	30,368	(42,452)
Increase (decrease) in payroll taxes payable	40,098	-0-	-0-
Increase (decrease) in sales & use tax payable	207	(53)	360
Increase (decrease) in salaries payable	(13,224)	(6,344)	(8,851)
Increase (decrease) in property taxes payable	(76,291)	-0-	-0-
Increase (decrease) in other payables	(637)	-0-	-0-
Net cash provided by operating activities	<u>\$ 2,777,729</u>	<u>\$ 247,892</u>	<u>\$ 356,011</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	\$ 1,842,591	\$ 1,357,090	\$ 41,650
Restricted assets:			
Cash and pooled investments:			
Revenue bond retirement	1,408,288	-0-	23,564
Revenue bond debt reserve	739,500	-0-	241,083
Capital improvements	690,726	-0-	170,000
Designated contingency fund	716,276	195,062	37,990
Consumers' deposit fund	21,046	-0-	-0-
Cash and cash equivalents end of year	<u>\$ 5,418,427</u>	<u>\$ 1,552,152</u>	<u>\$ 514,287</u>

Enterprise Funds			
	Telecommunications Utility	Telephone Utility	Total
\$	69,594	\$ 91,486	\$ 2,335,081
	57,234	126,574	1,303,569
	1,934	2,651	23,115
	(6,171)	(1,040)	(244,151)
	(1,291)	-0-	12,785
	6,852	(2,579)	6,752
	(13,198)	15,361	356,623
	-0-	-0-	40,098
	431	352	1,297
	(2,709)	(2,181)	(33,309)
	-0-	-0-	(76,291)
	-0-	4,090	3,453
\$	<u>112,676</u>	\$ <u>234,714</u>	\$ <u>3,729,022</u>
\$	53,093	\$ 111,251	\$ 3,405,675
	36,223	168,864	1,636,939
	64,065	179,072	1,223,720
	-0-	-0-	860,726
	90,065	-0-	1,039,393
	-0-	-0-	21,046
\$	<u>243,446</u>	\$ <u>459,187</u>	\$ <u>8,187,499</u>

See Notes to Financial Statements.

**NOTES TO FINANCIAL STATEMENTS**

**HARLAN MUNICIPAL UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**(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, Harlan Municipal Utilities has been identified as a component unit of the City of Harlan.

B. Basis of Presentation

Basic Financial Statements

The Balance Sheet and the Statement of Revenues, Expenses and Changes in Fund Net Assets report information on Harlan Municipal Utilities business type activities which rely to a significant extent on fees and charges for services.

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

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

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

*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.

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.

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

B. Basis of Presentation (continued)

Fund Financial Statements (continued)

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.

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.

**HARLAN MUNICIPAL UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

E. Cash, Investments, and Cash Equivalents

The cash balances of most of the 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. The Electric Fund owns a share in the Louisa Power Plant, and the coal inventory is kept at the Louisa plant site. Inventories are recorded as expenses when consumed rather than when purchased.

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, 2005 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. The allowance for doubtful accounts for all of the Enterprise Funds combined amounted to \$37,500 at June 30, 2005.

The customer billing locations are divided into 24 meter-reading routes, which are read once a month. The 24 reading routes are divided into three billing cycles. Therefore, three mailings of bills are done each month. The bill allows at least 20 days from the mailing date till the due date. If a customer does not pay their bill by the due date shown on the bill, 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, 2005.

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

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, 2005 was \$244,324.

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, 2005 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, 2005 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, 2005 was \$267,465. 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.

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

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. As of the date of the issuance of the accompanying financial statements, no material changes to the estimates used therein were anticipated by management in the near term.

**(2) Deposits and Investments**

The Utility's deposits in banks at June 30, 2005 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the 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 join investment trust; and warrants or improvement certificates of a drainage district.

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, 2005 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	9,087,281	272,716	-0-	9,359,997
Transmission & Pumping	5,653,129	11,551	-0-	5,664,680
Distribution	13,063,755	263,419	-0-	13,327,174
General	3,211,036	51,026	-0-	3,262,062
Fiber Optics	4,750,484	67,772	-0-	4,818,256
Total property, plant and equipment	35,986,317	666,484	-0-	36,652,801
Less: accumulated depreciation	17,938,627	1,303,570	-0-	19,242,197
Net property, plant and equipment	\$ 18,047,690	\$ (637,086)	\$ -0-	\$ 17,410,604
Depreciation charged to operations				\$ 1,303,570

**(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, 2005**

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

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

	Date of Issue	Amount Originally Issued	Interest Rates	Final Due Date	Annual Payments	Outstanding June 30, 2005
<u>Electric Fund:</u>						
Elec. Revenue Bond	6-29-96	\$ 2,525,000	5.00-5.50%	10-01-09	\$25,000-525,000	\$ 2,325,000
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	265,000
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>6,970,000</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	\$ 1,090,000
Water Rev. Bond, Series 2004	4-15-04	670,000	1.40%-4.10%	7-01-16	\$45,000-70,000	625,000
Total Water Bonds						\$ <u>1,715,000</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>257,225</u>
<u>Telephone Fund:</u>						
Telephone Capital Loan Note	2-27-01	\$ 1,720,000	5.98%	4-01-07	Various	\$ <u>1,502,696</u>
<u>Gas Fund:</u>						
Contract Payable-Shelby County	9-26-96	\$ 37,063	0%	Unknown	Various	\$ <u>34,898</u>

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**(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
2006	\$ 890,000	\$ 261,376	\$ -0-	\$ 36,558	\$ 60,000	\$ 8,360	\$ 85,000	\$ 89,861
2007	915,000	225,926	145,000	70,330	65,000	6,409	1,417,696	84,778
2008	950,000	188,601	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	\$ 6,970,000	\$ 1,253,832	\$ 1,715,000	\$ 427,087	\$ 257,225	\$ 21,251	\$ 1,502,696	\$ 174,639

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

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

A summary of changes in long-term debt for the year ended June 30, 2005 is as follows:

	Electric Revenue Bonds	Water Revenue Bonds	Telecommunications Capital Loan Notes	Telephone Capital Loan Notes	Gas Shelby County Contract	Total
Balance, beginning	\$ 7,115,000	\$ 1,945,000	\$ 317,225	\$ 1,582,697	\$ 35,035	\$ 10,994,957
Issued	-0-	-0-	-0-	-0-	-0-	-0-
Paid	(145,000)	(230,000)	(60,000)	(80,001)	(137)	(515,138)
Balance, ending 6-30-05	<u>6,970,000</u>	<u>1,715,000</u>	<u>257,225</u>	<u>1,502,696</u>	<u>34,898</u>	<u>10,479,819</u>
Less: Current Portion	<u>(890,000)</u>	<u>-0-</u>	<u>(60,000)</u>	<u>(85,000)</u>	<u>-0-</u>	<u>(1,035,000)</u>
L.T. Debt, net of Current Portion	<u>\$ 6,080,000</u>	<u>\$ 1,715,000</u>	<u>\$ 197,225</u>	<u>\$ 1,417,696</u>	<u>\$ 34,898</u>	<u>\$ 9,444,819</u>

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**(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 was forgiven and cancelled. A new payment schedule for the remaining unpaid principal was also set up.

Detail of interfund receivables and payables at June 30, 2005 is as follows:

Payable Fund. ....	<u>Telephone Utility</u>		
Receivable Fund. ....	<u>Loan from</u>	<u>Loan from</u>	
	<u>Elec. Utility</u>	<u>Gas Utility</u>	<u>Totals</u>
Beginning Balance 7-1-04	\$189,907	\$189,907	\$379,814
Less: Payments made by Telephone Utility	<u>(47,477)</u>	<u>-0-</u>	<u>(47,477)</u>
Ending Balance 6-30-05	<u>\$142,430</u>	<u>\$189,907</u>	<u>\$332,337</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, 2005 is as follows:

<u>Unit</u>	<u>Percentage of</u> <u>Ownership</u>	<u>Louisa Electric</u> <u>Utility Plant, Net</u>
Louisa Power Plant and Transmission Lines	<u>.8%</u>	<u>\$ 5,844,775</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, 2005 was \$236,096.

**(9) Deficit Balances**

The Telephone Fund had a Fund deficit of \$107,503 for the year ended June 30, 2005. 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.

**HARLAN MUNICIPAL UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**(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, 2005, 2004 and 2003 were \$81,602, \$75,352 and \$79,948, respectively, 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.

**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, 2005**

	Accrual Basis		
	Total Proprietary Funds-Actual	Final Budgeted Amounts	Variance Favorable (Unfavorable)
Operating Revenues			
Sales to consumers	\$10,677,317	\$10,184,595	\$492,722
Other operating revenue	<u>161,127</u>	<u>102,232</u>	<u>58,895</u>
Total operating revenue	10,838,444	10,286,827	551,617
Operating Expenses			
Plant operation expenses	5,106,372	5,237,742	131,370
Distribution operation	666,249	824,459	158,210
Administrative and general	625,420	622,081	(3,339)
Consumer services	37,011	64,610	27,599
Marketing and relations	137,830	138,979	1,149
Employee benefits	603,797	656,569	52,772
Amortization and depreciation	<u>1,326,684</u>	<u>1,329,700</u>	<u>3,016</u>
Total operating expenses	<u>8,503,363</u>	<u>8,874,140</u>	<u>370,777</u>
Operating income (loss)	2,335,081	1,412,687	922,394
Other revenues (expenses), net	<u>(692,604)</u>	<u>(601,555)</u>	<u>(91,049)</u>
Change in net assets	1,642,477	<u>\$ 811,132</u>	<u>\$ 831,345</u>
Total net assets, beginning	<u>15,842,690</u>		
Total net assets, ending	<u>\$17,485,167</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, 2005**

	Cash Basis		
	Total Proprietary Funds-Actual	Final Budgeted Amounts	Variance Favorable (Unfavorable)
Receipts:			
Charge for services	\$10,433,166	\$10,184,595	\$ 248,571
Miscellaneous	<u>161,127</u>	<u>102,232</u>	<u>58,895</u>
Total receipts	10,594,293	10,286,827	307,466
Disbursements:			
Business type activities	<u>6,865,271</u>	<u>7,544,440</u>	<u>679,169</u>
Excess of receipts over disbursements	3,729,022	2,742,387	986,635
Other financing sources (uses):			
Capital grants	-0-	85,000	(85,000)
Acquisition of capital assets	(2,604,285)	(3,403,228)	798,943
Proceeds on Long-term borrowings	3,791	-0-	3,791
Interest received on investments	105,222	86,500	18,722
Principal/Interest payments on long term borrowings	(1,003,640)	(875,705)	(127,935)
Other sources (uses), net	<u>(262,417)</u>	<u>(312,350)</u>	<u>49,933</u>
Total other financing sources (uses)	<u>(3,761,329)</u>	<u>(4,419,783)</u>	<u>658,454</u>
Excess of receipts and other financing sources over disbursements and other financing uses	(32,307)	(1,677,396)	<u>\$ 1,645,089</u>
Balances, beginning of year	<u>8,219,806</u>	<u>8,219,807</u>	
Balances, end of year	<u>\$ 8,187,499</u>	<u>\$6,542,411</u>	

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION --  
BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2005**

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. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. During the year, a budget amendment by Harlan Municipal Utilities decreased budgeted disbursements by \$429,579 and decreased budgeted revenues by \$2,384,800. This budget amendment is reflected in the final budgeted amounts. Actual cash disbursements for the year ended June 30, 2005 did not exceed the final statutory budget.

**OTHER SUPPLEMENTARY INFORMATION**

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL ELECTRIC UTILITY  
COMPARATIVE BALANCE SHEETS  
JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Designated		
Plant improvement, emergency and contingency funds:		
Cash and savings	\$ 716,276	\$ 176,276
Plant improvement, emergency and replacement funds bond requirement:		
Cash and savings	250,000	250,000
Restricted		
Consumers' deposit fund	21,046	20,946
Revenue bond retirement-savings	1,158,288	338,949
Capital improvement fund – savings	690,726	3,289,807
Unrestricted		
Cash and savings	1,718,531	1,376,982
Industrial development fund	124,060	107,976
Accounts receivable-net of allowance for doubtful accounts of \$8,000 for 2005 and 2004	339,733	259,484
Unbilled usage	232,171	187,172
Employee loans receivable	16,960	20,751
Inventory	258,077	271,457
Prepaid expenses	29,126	29,551
Total current assets	<u>5,554,994</u>	<u>6,329,351</u>
<b>CAPITAL ASSETS</b>		
Electric Utility Plant		
Plant in service, at cost	24,617,317	24,155,819
Less: accumulated depreciation	<u>13,743,774</u>	<u>12,840,100</u>
	10,873,543	11,315,719
Construction work in progress	<u>2,016,505</u>	<u>78,701</u>
Net capital assets	12,890,048	11,394,420
<b>OTHER ASSETS</b>		
Bond discount and issuance costs	33,739	46,986
Intra-utility note receivable	142,430	189,907
Restricted investments for bonds:		
Debt reserve and sinking	<u>739,500</u>	<u>-0-</u>
Total other assets	<u>915,669</u>	<u>236,893</u>
Total assets	<u>\$ 19,360,711</u>	<u>\$ 17,960,664</u>

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL ELECTRIC UTILITY  
COMPARATIVE BALANCE SHEETS (Continued)  
JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 575,131	\$ 208,587
Payroll taxes payable	40,098	-
Sales and use tax payable	1,368	1,161
Salaries, vacation and sick leave payable	42,148	55,372
Accrued property taxes	115,218	191,509
Bonds called not paid	12,080	12,080
Other accrued liabilities	834	916
Payable from restricted assets		
Current maturities of long-term debt	890,000	145,000
Interest payable	69,633	60,653
Customers' deposits	20,380	20,935
Total current liabilities	1,766,890	696,213
Long-term debt, net of current maturities	6,080,000	6,970,000
<b>NET ASSETS</b>		
Designated	966,276	426,276
Undesignated	10,547,545	9,868,175
Total net assets	11,513,821	10,294,451
 Total Liabilities & Net Assets	 \$ 19,360,711	 \$ 17,960,664

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, 2005 AND 2004**

	2004	2005	2005	Budget
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
<b>OPERATING REVENUES</b>				
Sales to consumers	\$4,355,528	\$5,055,651	\$4,584,620	\$ 471,031
Other operating revenues	<u>65,263</u>	<u>107,922</u>	<u>78,432</u>	<u>29,490</u>
Total operating revenues	4,420,791	5,163,573	4,663,052	500,521
<b>OPERATING EXPENSES</b>				
<b>Plant operation expenses</b>				
Cost of power	1,323,925	1,490,891	1,488,210	( 2,681)
Salaries and wages	42,637	39,077	41,009	1,932
Repairs and maintenance	3,866	2,333	9,000	6,667
Utilities	43,572	59,374	45,100	(14,274)
Insurance	31,250	36,362	29,900	(6,462)
Property taxes	191,509	114,477	190,500	76,023
Other	<u>38,198</u>	<u>42,772</u>	<u>46,262</u>	<u>3,490</u>
Total plant operation expense	1,674,957	1,785,286	1,849,981	64,695
<b>Distribution operation expenses</b>				
Salaries and wages	194,186	189,775	309,801	120,026
Engineering	16,629	12,481	8,000	(4,481)
Repairs and maintenance	195,768	108,237	125,753	17,516
Other	<u>5,912</u>	<u>33,750</u>	<u>38,700</u>	<u>4,950</u>
Total distribution operation expense	412,495	344,243	482,254	138,011
<b>Administrative and general expenses</b>				
Salaries and wages	79,317	104,019	78,321	(25,698)
Office supplies	31,614	42,743	43,370	627
Education and travel	9,009	9,837	11,574	1,737
Professional services	45,930	25,025	43,377	18,352
Other	<u>3,744</u>	<u>3,764</u>	<u>9,460</u>	<u>5,696</u>
Total administrative and general expense	169,614	185,388	186,102	714
<b>Consumer services</b>				
Bad debts (collected)	<u>(7,078)</u>	<u>(10,722)</u>	<u>9,000</u>	<u>19,722</u>
Total consumer services	(7,078)	(10,722)	9,000	19,722

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL ELECTRIC UTILITY  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS (Continued)  
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

	2004	2005	2005	Budget Variance Favorable (Unfavorable)
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>(Unfavorable)</u>
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	\$ 12,860	\$ 13,329	\$ 8,898	\$ (4,431)
Advertising	17,763	15,910	13,270	(2,640)
Other	<u>4,605</u>	<u>7,035</u>	<u>8,381</u>	<u>1,346</u>
Total marketing and stakeholder relations expense	35,228	36,274	30,549	(5,725)
Employee benefits				
Payroll taxes	53,853	66,802	76,752	9,950
Health insurance	97,137	102,286	114,692	12,406
Compensated absences	80,718	81,541	72,952	(8,589)
Other	<u>465</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total employee benefits	<u>232,173</u>	<u>250,629</u>	<u>264,396</u>	<u>13,767</u>
Total operating expense excluding amortization and depreciation	<u>2,517,389</u>	<u>2,591,098</u>	<u>2,822,282</u>	<u>231,184</u>
Operating income before amortization and depreciation	1,903,402	2,572,475	1,840,770	731,705
Amortization	15,931	13,247	13,500	253
Depreciation	<u>902,575</u>	<u>903,674</u>	<u>904,000</u>	<u>326</u>
	<u>918,506</u>	<u>916,921</u>	<u>917,500</u>	<u>579</u>
Operating income	984,896	1,655,554	923,270	732,284
Non-operating revenues (expenses)				
Contributions to City-In lieu of taxes (Note 8)	(152,617)	(181,457)	(160,000)	(21,457)
Interest income	42,288	74,840	48,000	26,840
Interest expense	(227,497)	(279,567)	(276,478)	(3,089)
Industrial development contribution	<u>(28,400)</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>-0-</u>
Total non-operating revenues (expenses)	<u>(366,226)</u>	<u>(436,184)</u>	<u>(438,478)</u>	<u>2,294</u>
Change in Net Assets	618,670	1,219,370	<u>\$ 484,792</u>	<u>\$ 734,578</u>
Total net assets, beginning of year	<u>9,675,781</u>	<u>10,294,451</u>		
Total net assets, end of year	<u>\$10,294,451</u>	<u>\$11,513,821</u>		

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL GAS UTILITY  
COMPARATIVE BALANCE SHEETS  
JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Designated		
Plant improvement, emergency and contingency funds:		
Cash and savings	\$ 195,062	\$ 171,062
Unrestricted		
Cash and savings	1,259,443	1,138,148
Industrial development fund	97,647	86,811
Accounts receivable-net of allowance for doubtful accounts of \$9,000 for 2005 and 2004	132,423	74,134
Unbilled usage	71,511	53,093
Inventory	25,494	25,420
Prepaid expenses	20,317	21,206
Total current assets	<u>1,801,897</u>	<u>1,569,874</u>
<b>CAPITAL ASSETS</b>		
Utility Plant		
Plant in service, at cost	2,124,200	2,096,031
Less: accumulated depreciation	<u>1,290,534</u>	<u>1,230,007</u>
Net capital assets	833,666	866,024
<b>OTHER ASSETS</b>		
Intra-utility note receivable	<u>189,907</u>	<u>189,907</u>
Total other assets	<u>189,907</u>	<u>189,907</u>
Total assets	<u>\$ 2,825,470</u>	<u>\$ 2,625,805</u>

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL GAS UTILITY  
COMPARATIVE BALANCE SHEETS (Continued)  
JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 95,416	\$ 65,048
Sales and use tax payable	2,340	2,393
Salaries, vacation and sick leave payable	18,631	24,975
Total current liabilities	116,387	92,416
Contract payable	34,898	35,035
<b>NET ASSETS</b>		
Designated	195,062	171,062
Undesignated	2,479,123	2,327,292
Total net assets	2,674,185	2,498,354
Total Liabilities & Net Assets	\$ 2,825,470	\$ 2,625,805

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, 2005 AND 2004**

	2004	2005	2005	Budget Variance Favorable
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>(Unfavorable)</u>
<b>OPERATING REVENUES</b>				
Sales to consumers	\$2,396,783	\$2,723,725	\$2,826,725	\$(103,000)
Other operating revenues	<u>5,057</u>	<u>4,676</u>	<u>7,100</u>	<u>(2,424)</u>
Total operating revenues	2,401,840	2,728,401	2,833,825	(105,424)
<b>OPERATING EXPENSES</b>				
<b>Plant operation expenses</b>				
Cost of power	1,538,954	1,912,260	2,085,000	172,740
Salaries and wages	28,968	18,899	29,560	10,661
Repairs and maintenance	6,096	12,487	5,900	(6,587)
Utilities	16,509	18,891	8,900	(9,991)
Insurance	21,486	25,388	24,270	(1,118)
Other	<u>21,783</u>	<u>24,782</u>	<u>20,130</u>	<u>(4,652)</u>
Total plant operation expense	1,633,796	2,012,707	2,173,760	161,053
<b>Distribution operation expenses</b>				
Salaries and wages	112,647	91,804	118,703	26,899
Engineering	3,144	3,510	4,000	490
Repairs and maintenance	25,868	30,168	20,200	(9,968)
Other	<u>7,992</u>	<u>1,373</u>	<u>4,610</u>	<u>3,237</u>
Total distribution operation expense	149,651	126,855	147,513	20,658
<b>Administrative and general expenses</b>				
Salaries and wages	70,015	92,658	65,624	(27,034)
Office supplies	9,725	9,391	9,624	233
Education and travel	8,381	7,600	11,242	3,642
Professional services	29,075	33,512	20,150	(13,362)
Other	<u>14,425</u>	<u>9,861</u>	<u>18,015</u>	<u>8,154</u>
Total administrative and general expense	131,621	153,022	124,655	(28,367)
<b>Consumer services</b>				
Bad debts	13,093	18,747	15,000	(3,747)
Other	<u>55</u>	<u>141</u>	<u>355</u>	<u>214</u>
Total consumer services	13,148	18,888	15,355	(3,533)

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL GAS UTILITY  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS (Continued)  
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

	2004 <u>Actual</u>	2005 <u>Actual</u>	2005 <u>Budget</u>	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	\$ 10,679	\$ 11,204	\$ 9,083	\$ (2,121)
Advertising	3,883	4,317	5,193	876
Other	<u>3,502</u>	<u>5,335</u>	<u>6,319</u>	<u>984</u>
Total marketing and stakeholder relations expense	18,064	20,856	20,595	(261)
Employee benefits				
Payroll taxes	32,852	31,067	34,033	2,966
Health insurance	38,058	38,153	47,992	9,839
Compensated absences	<u>24,392</u>	<u>27,040</u>	<u>29,214</u>	<u>2,174</u>
Total employee benefits	<u>95,302</u>	<u>96,260</u>	<u>111,239</u>	<u>14,979</u>
Total operating expense excluding amortization and depreciation	<u>2,041,582</u>	<u>2,428,588</u>	<u>2,593,117</u>	<u>164,529</u>
Operating income before amortization and depreciation	360,258	299,813	240,708	59,105
Depreciation	<u>69,010</u>	<u>60,526</u>	<u>61,000</u>	<u>474</u>
Operating income	291,248	239,287	179,708	59,579
Non-operating revenues (expenses)				
Contributions to City-In lieu of taxes (Note 8)	(29,251)	(28,390)	(36,000)	7,610
Interest income	22,949	14,934	16,000	(1,066)
Interest expense	(415)	-0-	-0-	-0-
Industrial development contribution	<u>(26,600)</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>-0-</u>
Total non-operating revenues (expenses)	<u>(33,317)</u>	<u>(63,456)</u>	<u>(70,000)</u>	<u>6,544</u>
Change in Net Assets	257,931	175,831	<u>\$ 109,708</u>	<u>\$ 66,123</u>
Total net assets, beginning of year	3,008,448	2,498,354		
Inter-Utility Loan Rec. Forgiven	<u>(768,025)</u>	<u>-0-</u>		
Total net assets, end of year	<u>\$2,498,354</u>	<u>\$2,674,185</u>		

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL WATER UTILITY  
COMPARATIVE BALANCE SHEETS  
JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</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	23,564	3,273
Capital improvement fund-savings	170,000	170,000
Unrestricted		
Cash and savings	41,650	100,045
Accounts receivable-net of allowance for doubtful accounts of \$4,000 for 2005 and 2004	182,238	152,976
Unbilled usage	55,353	49,630
Inventory	34,503	35,273
Prepaid expenses	24,247	25,412
Total current assets	<u>569,545</u>	<u>574,599</u>
<b>CAPITAL ASSETS</b>		
Utility Plant		
Plant in service, at cost	7,141,308	7,040,963
Less: accumulated depreciation	<u>3,410,724</u>	<u>3,255,163</u>
Net capital assets	3,730,584	3,785,800
<b>OTHER ASSETS</b>		
Bond discount and issuance costs	29,181	34,465
Restricted investments for bonds:		
Debt reserve & sinking	<u>241,083</u>	<u>237,449</u>
Total other assets	<u>270,264</u>	<u>271,914</u>
Total assets	<u>\$ 4,570,393</u>	<u>\$ 4,632,313</u>

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL WATER UTILITY  
COMPARATIVE BALANCE SHEETS (Continued)  
JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 37,718	\$ 80,170
Sales and use tax payable	6,739	6,379
Salaries, vacation and sick leave payable	28,936	37,787
Due to City of Harlan for utility collections	130,478	57,757
Payable from restricted assets		
Interest payable	-0-	35,548
Current maturities of long-term debt	-0-	90,000
Total current liabilities	<u>203,871</u>	<u>307,641</u>
Long-term debt, net of current maturities	1,715,000	1,855,000
<b>NET ASSETS</b>		
Designated	37,990	37,990
Undesignated	<u>2,613,532</u>	<u>2,431,682</u>
Total net assets	<u>2,651,522</u>	<u>2,469,672</u>
 Total Liabilities & Net Assets	 <u>\$ 4,570,393</u>	 <u>\$ 4,632,313</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, 2005 AND 2004**

	2004 <u>Actual</u>	2005 <u>Actual</u>	2005 <u>Budget</u>	Budget Variance Favorable (Unfavorable)
<b>OPERATING REVENUES</b>				
Sales to consumers	\$1,108,814	\$1,242,134	\$1,170,000	\$ 72,134
Other operating revenues	<u>20,003</u>	<u>32,631</u>	<u>9,700</u>	<u>22,931</u>
Total operating revenues	1,128,817	1,274,765	1,179,700	95,065
<b>OPERATING EXPENSES</b>				
Plant operation expenses				
Cost of power	60,669	62,562	66,000	3,438
Salaries and wages	136,681	149,978	154,150	4,172
Repairs and maintenance	54,684	60,806	55,000	(5,806)
Utilities	67,915	91,133	67,300	(23,833)
Insurance	32,080	30,906	29,876	(1,030)
Other	<u>20,800</u>	<u>33,708</u>	<u>31,900</u>	<u>(1,808)</u>
Total plant operation expense	372,829	429,093	404,226	(24,867)
Distribution operation expenses				
Salaries and wages	39,265	31,118	48,570	17,452
Engineering	10,673	13,897	5,000	(8,897)
Repairs and maintenance	15,014	12,640	12,600	(40)
Other	<u>1,050</u>	<u>1,127</u>	<u>2,190</u>	<u>1,063</u>
Total distribution operation expense	66,002	58,782	68,360	9,578
Administrative and general expenses				
Salaries and wages	73,463	88,688	70,209	(18,479)
Office supplies	16,749	16,676	20,321	3,645
Education and travel	5,354	3,820	4,300	480
Professional services	29,444	20,960	16,838	(4,122)
Other	<u>22,540</u>	<u>23,119</u>	<u>17,147</u>	<u>(5,972)</u>
Total administrative and general expense	147,550	153,263	128,815	(24,448)
Consumer services				
Salaries and wages	-0-	-0-	7,850	7,850
Bad debts	7,580	5,425	5,000	(425)
Other	<u>5,380</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total consumer services	12,960	5,425	12,850	7,425

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL WATER UTILITY  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS (Continued)  
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

	2004 <u>Actual</u>	2005 <u>Actual</u>	2005 <u>Budget</u>	Budget Variance Favorable <u>(Unfavorable)</u>
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	\$ 11,054	\$ 11,393	\$ 8,898	\$ (2,495)
Advertising	3,822	4,564	5,289	725
Other	<u>3,670</u>	<u>6,005</u>	<u>7,112</u>	<u>1,107</u>
Total marketing and stakeholder relations expense	18,546	21,962	21,299	(663)
Employee benefits				
Payroll taxes	46,304	47,830	50,378	2,548
Health insurance	74,804	71,947	92,992	21,045
Compensated absences	<u>43,302</u>	<u>46,459</u>	<u>44,009</u>	<u>(2,450)</u>
Total employee benefits	<u>164,410</u>	<u>166,236</u>	<u>187,379</u>	<u>21,143</u>
Total operating expense excluding amortization and depreciation	<u>782,297</u>	<u>834,761</u>	<u>822,929</u>	<u>11,832</u>
Operating income before amortization and depreciation	346,520	440,004	356,771	83,233
Amortization	4,187	5,283	5,500	217
Depreciation	<u>170,831</u>	<u>155,561</u>	<u>156,000</u>	<u>439</u>
	<u>175,018</u>	<u>160,844</u>	<u>161,500</u>	<u>656</u>
Operating income	171,502	279,160	195,271	83,889
Non-operating revenues (expenses)				
Contributions to City-In lieu of taxes (Note 8)	(19,548)	(25,859)	(16,000)	(9,859)
Interest income	6,715	6,966	10,000	(3,034)
Interest expense	(101,893)	(78,417)	(78,417)	-0-
Grant income	<u>106,272</u>	<u>-0-</u>	<u>85,000</u>	<u>(85,000)</u>
Total non-operating revenues (expenses)	<u>(8,454)</u>	<u>(97,310)</u>	<u>583</u>	<u>(97,893)</u>
Change in Net Assets	163,048	181,850	<u>\$ 195,854</u>	<u>\$ (14,004)</u>
Total net assets, beginning of year	<u>2,306,624</u>	<u>2,469,672</u>		
Total net assets, end of year	<u>\$ 2,469,672</u>	<u>\$2,651,522</u>		

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL TELECOMMUNICATIONS UTILITY  
COMPARATIVE BALANCE SHEETS  
JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 90,065	\$ 77,295
Restricted		
Revenue bond retirement savings	36,223	9,917
Unrestricted		
Cash and savings	53,093	73,141
Accounts receivable-net of allowance for doubtful accounts of \$7,000 for 2005 and 2004	91,148	84,977
Inventory	4,652	3,361
Prepaid expenses	17,936	24,788
Total current assets	<u>293,117</u>	<u>273,479</u>
<b>CAPITAL ASSETS</b>		
Telecommunications Utility Plant		
Plant in service, at cost	1,143,824	1,118,445
Less: accumulated depreciation	<u>427,284</u>	<u>370,050</u>
Net capital assets	716,540	748,395
<b>OTHER ASSETS</b>		
Bond discount and issuance costs	3,558	5,493
Restricted investments for bonds:		
Debt reserve & sinking	64,065	63,095
Total other assets	<u>67,623</u>	<u>68,588</u>
 Total assets	 <u>\$ 1,077,280</u>	 <u>\$ 1,090,462</u>

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL TELECOMMUNICATIONS UTILITY  
COMPARATIVE BALANCE SHEETS (Continued)  
JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 37,320	\$ 50,518
Sales and use tax payable	3,003	2,572
Salaries, vacation and sick leave payable	12,341	15,050
Due to City of Harlan for utility collections	12,159	11,202
Payable from restricted assets		
Interest payable	2,090	2,578
Current maturities long-term debt	60,000	60,000
Total current liabilities	<u>126,913</u>	<u>141,920</u>
Long-term debt, net of current maturities	197,225	257,225
<b>NET ASSETS</b>		
Designated	90,065	77,295
Undesignated	663,077	614,022
Total net assets	<u>753,142</u>	<u>691,317</u>
Total Liabilities & Net Assets	<u>\$ 1,077,280</u>	<u>\$ 1,090,462</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, 2005 AND 2004**

	2004 <u>Actual</u>	2005 <u>Actual</u>	2005 <u>Budget</u>	Budget Variance Favorable (Unfavorable)
<b>OPERATING REVENUES</b>				
Sales to consumers	\$ 886,295	\$ 927,534	\$ 833,800	\$ 93,734
Other operating revenues	<u>13,540</u>	<u>14,820</u>	<u>7,000</u>	<u>7,820</u>
Total operating revenues	899,835	942,354	840,800	101,554
<b>OPERATING EXPENSES</b>				
<b>Plant operation expenses</b>				
Cost of programming	380,666	422,259	360,700	(61,559)
Salaries and wages	17,374	10,478	4,900	(5,578)
Repairs and maintenance	9,420	7,631	5,300	(2,331)
Utilities	12,042	13,570	13,500	(70)
Insurance	16,905	19,511	19,755	244
Other	<u>4,166</u>	<u>2,826</u>	<u>4,260</u>	<u>1,434</u>
Total plant operation expense	440,573	476,275	408,415	(67,860)
<b>Distribution operation expenses</b>				
Salaries and wages	61,326	73,976	64,100	(9,876)
Engineering	3,383	3,043	20,000	16,957
Repairs and maintenance	21,620	23,655	14,250	(9,405)
Other	<u>23,747</u>	<u>35,092</u>	<u>27,982</u>	<u>(7,110)</u>
Total distribution operation expense	110,076	135,766	126,332	(9,434)
<b>Administrative and general expenses</b>				
Salaries and wages	33,690	39,789	37,020	(2,769)
Office supplies	17,403	16,902	22,847	5,945
Education and travel	4,959	1,247	4,283	3,036
Professional services	35,825	23,050	39,540	16,490
Other	<u>1,095</u>	<u>754</u>	<u>783</u>	<u>29</u>
Total administrative and general expense	92,972	81,742	104,473	22,731
<b>Consumer services</b>				
Salaries and wages	30,423	-0-	-0-	-0-
Bad debts	5,080	10,245	12,800	2,555
Other	<u>395</u>	<u>907</u>	<u>605</u>	<u>(302)</u>
Total consumer services	35,898	11,152	13,405	2,253

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL TELECOMMUNICATIONS UTILITY  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS (Continued)  
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

	2004 <u>Actual</u>	2005 <u>Actual</u>	2005 <u>Budget</u>	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	\$ 3,079	\$ 30,374	\$ 35,651	\$ 5,277
Advertising	7,801	9,799	9,594	(205)
Other	<u>681</u>	<u>3,292</u>	<u>2,000</u>	<u>(1,292)</u>
Total marketing and stakeholder relations expense	11,561	43,465	47,245	3,780
Employee benefits				
Payroll taxes	21,681	23,527	21,074	(2,453)
Health insurance	28,010	20,578	35,523	14,945
Compensated absences	21,088	21,087	10,989	(10,098)
Other	<u>7,183</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total employee benefits	<u>77,962</u>	<u>65,192</u>	<u>67,586</u>	<u>2,394</u>
Total operating expense excluding amortization and depreciation	<u>769,042</u>	<u>813,592</u>	<u>767,456</u>	<u>(46,136)</u>
Operating income before amortization and depreciation	130,793	128,762	73,344	55,418
Amortization	3,732	1,934	2,000	66
Depreciation	<u>62,469</u>	<u>57,234</u>	<u>58,000</u>	<u>766</u>
	<u>66,201</u>	<u>59,168</u>	<u>60,000</u>	<u>832</u>
Operating income (loss)	64,592	69,594	13,344	56,250
Non-operating revenues (expenses)				
Contributions to City-In lieu of taxes (Note 8)	(381)	(390)	(350)	(40)
Interest income	2,590	2,587	5,000	(2,413)
Interest expense	<u>(19,161)</u>	<u>(9,966)</u>	<u>(9,826)</u>	<u>(140)</u>
Total non-operating revenues (expenses)	<u>(16,952)</u>	<u>(7,769)</u>	<u>(5,176)</u>	<u>(2,593)</u>
Change in Net Assets	47,640	61,825	<u>\$ 8,168</u>	<u>\$ 53,657</u>
Total net assets, beginning of year (deficit)	(124,348)	691,317		
Inter-Utility Loan Payable Forgiven	<u>768,025</u>	<u>-0-</u>		
Total net assets, end of year (deficit)	<u>\$ 691,317</u>	<u>\$ 753,142</u>		

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL TELEPHONE UTILITY  
COMPARATIVE BALANCE SHEETS  
JUNE 30, 2005 AND 2004**

ASSETS	<u>2005</u>	<u>2004</u>
<b>CURRENT ASSETS</b>		
Restricted		
Revenue bond retirement savings	\$ 168,864	\$ -0-
Unrestricted		
Cash and savings	111,251	310,898
Accounts receivable-net of allowances for doubtful accounts of \$9,500 and \$9,000 for 2005 and 2004	64,512	71,369
Unbilled usage	15,237	7,340
Prepaid expenses	5,552	2,973
Total current assets	<u>365,416</u>	<u>392,580</u>
<b>CAPITAL ASSETS</b>		
Telephone Utility Plant	1,626,152	1,575,059
Less accumulated depreciation	<u>369,881</u>	<u>243,307</u>
Net capital assets	1,256,271	1,331,752
<b>OTHER ASSETS</b>		
Other Accounts receivable	122,615	91,799
Bond discount and issuance cost	6,430	9,081
Restricted investments for bonds:		
Debt reserve and sinking	<u>179,072</u>	<u>179,746</u>
Total other assets	<u>308,117</u>	<u>280,626</u>
Total assets	<u>\$ 1,929,804</u>	<u>\$ 2,004,958</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 45,626	\$ 30,265
Sales and use tax payable	1,410	1,058
Salaries, vacation and sick leave payable	4,080	6,261
Other accrued liabilities	6,078	1,988
Payable from restricted assets		
Interest payable	22,465	22,180
Current maturities-long term debt	<u>85,000</u>	<u>81,857</u>
Total current liabilities	<u>164,659</u>	<u>143,609</u>
<b>LONG TERM LIABILITIES</b>		
Long-term debt, net of current maturities	1,417,696	1,500,840
Deferred income – CABS	122,615	91,799
Intra-utility note payable, net of current maturities	<u>332,337</u>	<u>379,814</u>
Total noncurrent liabilities	1,872,648	1,972,453
<b>NET ASSETS</b>		
Undesignated (deficit) (Note 9)	<u>(107,503)</u>	<u>(111,104)</u>
Total Liabilities and Net Assets	<u>\$ 1,929,804</u>	<u>\$ 2,004,958</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, 2005 AND 2004**

	2004 <u>Actual</u>	2005 <u>Actual</u>	2005 <u>Budget</u>	Budget Variance Favorable <u>(Unfavorable)</u>
<b>OPERATING REVENUES</b>				
Sales to consumers	\$ 685,067	\$ 728,273	\$ 769,450	\$ (41,177)
Other operating revenues	<u>1,297</u>	<u>1,078</u>	<u>-0-</u>	<u>1,078</u>
Total operating revenues	686,364	729,351	769,450	(40,099)
<b>OPERATING EXPENSES</b>				
Plant operation expenses				
Cost of line charges & fees	248,610	370,276	335,500	(34,776)
Salaries and wages	3,766	1,277	28,160	26,883
Repairs and maintenance	7,117	4,825	2,900	(1,925)
Utilities	3,647	4,327	4,100	(227)
Insurance	3,908	4,556	7,500	2,944
Other	<u>6,191</u>	<u>17,750</u>	<u>23,200</u>	<u>5,450</u>
Total plant operation expense	273,239	403,011	401,360	(1,651)
Distribution operation expenses				
Repairs and maintenance	-0-	603	-0-	(603)
Administrative and general expenses				
Salaries and wages	28,926	31,887	28,900	(2,987)
Office supplies	6,175	4,926	15,301	10,375
Professional services	34,105	12,989	30,043	17,054
Other	<u>1,346</u>	<u>2,203</u>	<u>3,792</u>	<u>1,589</u>
Total administrative and general expense	70,552	52,005	78,036	26,031
Consumer services				
Bad debts	4,419	10,552	10,000	(552)
Other	<u>845</u>	<u>1,716</u>	<u>4,000</u>	<u>2,284</u>
Total consumer services	5,264	12,268	14,000	1,732

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL TELEPHONE UTILITY  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS (Continued)  
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

	2004 <u>Actual</u>	2005 <u>Actual</u>	2005 <u>Budget</u>	Budget Variance Favorable <u>(Unfavorable)</u>
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	\$ 1,921	\$ 1,113	\$ 4,356	\$ 3,243
Advertising	18,275	12,872	10,000	(2,872)
Other	<u>1,029</u>	<u>1,288</u>	<u>4,935</u>	<u>3,647</u>
Total marketing and stakeholder relations expense	21,225	15,273	19,291	4,018
Employee benefits				
Payroll taxes	5,216	5,497	9,132	3,635
Health insurance	8,028	11,360	10,088	(1,272)
Compensated absences	<u>9,593</u>	<u>8,623</u>	<u>6,749</u>	<u>(1,874)</u>
Total employee benefits	<u>22,837</u>	<u>25,480</u>	<u>25,969</u>	<u>489</u>
Total operating expense excluding amortization and depreciation	<u>393,117</u>	<u>508,640</u>	<u>538,656</u>	<u>30,016</u>
Operating income before amortization and depreciation	293,247	220,711	230,794	(10,083)
Amortization	2,800	2,651	2,700	49
Depreciation	<u>125,364</u>	<u>126,574</u>	<u>127,000</u>	<u>426</u>
	<u>128,164</u>	<u>129,225</u>	<u>129,700</u>	<u>475</u>
Operating income (loss)	165,083	91,486	101,094	(9,608)
Non-operating revenues (expenses)				
Interest income	4,927	5,896	7,500	(1,604)
Interest expense	<u>(115,446)</u>	<u>(93,781)</u>	<u>(95,984)</u>	<u>2,203</u>
Total non-operating revenues (expenses)	<u>(110,519)</u>	<u>(87,885)</u>	<u>(88,484)</u>	<u>599</u>
Change in Net Assets	54,564	3,601	<u>\$ 12,610</u>	<u>\$ (9,009)</u>
Total net assets, beginning of year (deficit)	<u>(165,668)</u>	<u>(111,104)</u>		
Total net assets, end of year	<u>\$ (111,104)</u>	<u>\$ (107,503)</u>		

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES  
SUMMARY OF USAGE STATISTICS-ELECTRIC  
(UNAUDITED)  
JUNE 30, 2005 AND 2004**

**Electric Utility**

	<u>2005</u>	
KWH purchased and generated*	63,459,625	100.00%
Less: KWH unaccounted for	<u>(5,443,340)</u>	<u>(8.58%)</u>
KWH billed	<u>58,016,285</u>	<u>91.42%</u>
<u>Rate Categories</u>	<u>Customers</u>	<u>KWH Billed</u>
Single Phase Small	2,625	25,455,837
Single Phase Large	43	2,409,150
Three Phase	149	6,731,918
Commercial	1	604,416
Demand	25	5,992,564
Time of Use	13	14,500,556
Municipal – Tennant, IA	0	10,560
Municipal – City of Harlan, Demand	1	333,440
Street lights	11	1,074,182
Water Plant – pumping	15	903,662
	<u>2,883</u>	<u>58,016,285</u>
	<u>2004</u>	
KWH purchased and generated*	63,667,322	100.00%
Less: KWH unaccounted for	<u>(3,480,525)</u>	<u>(5.47%)</u>
KWH billed	<u>60,186,797</u>	<u>94.53%</u>
<u>Rate Categories</u>	<u>Customers</u>	<u>KWH Billed</u>
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 – City of Harlan, Demand	1	344,640
Municipal – Tennant, IA	1	381,300
Street lights	9	1,475,446
Other	1	0
Water Plant – pumping	15	1,000,419
	<u>2,889</u>	<u>60,186,797</u>

\*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-WATER  
(UNAUDITED)  
JUNE 30, 2005 AND 2004**

Water Utility

	<u>2005</u>	
Gallons produced	247,456,000	
Gallons used in production	(33,507,000)	
Gallons to account for	<u>213,949,000</u>	100.00%
Less: gallons unaccounted for	<u>(37,571,589)</u>	<u>(17.56%)</u>
Gallons billed	<u>176,377,411</u>	<u>82.44%</u>

<u>Rate Categories</u>	<u>Customers</u>	<u>Gallons Billed</u>
Residential	1,993	99,978,511
Commercial	380	65,663,900
Interruptible	1	10,735,000
	<u>2,374</u>	<u>176,377,411</u>

	<u>2004</u>	
Gallons produced	263,256,000	
Gallons used in production	(28,591,000)	
Gallons to account for	<u>234,665,000</u>	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>

See Accompanying Independent Auditor's Report.

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

## **Certified Public Accountants**

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

August 25, 2005

To the Board of Trustees of the  
Harlan Municipal Utilities:

We have audited the accompanying financial statements of Harlan Municipal Utilities as of and for the year ended June 30, 2005, and have issued our report thereon dated August 25, 2005. 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing 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 an opinion 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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.

August 25, 2005  
To the Board of Trustees of the  
Harlan Municipal Utilities:

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 or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters 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, 2005 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-05 and III-J-05.

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.*

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

**HARLAN MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**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-05 Proper Invoice Cancellation - The actual invoices are not getting stamped "paid" or initialed on to prevent re-use.

Recommendation – The Utility should review procedures to insure that all expenditures are properly cancelled and filed to prevent them from getting paid twice. Just attaching a check to an invoice is not really an adequate form of cancellation. Stamping each invoice with a "paid" stamp, notation of date paid, and check number used would be more sufficient.

Response – We will review our procedures.

Conclusion – Response accepted.

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

III-A-05 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, 2005.

III-B-05 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, 2005 did not exceed the amounts budgeted.

**HARLAN MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2005**

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

- III-C-05     Questionable Disbursements - Disbursements of the Utility money appear to meet public purpose requirements.
- III-D-05     Travel Expense - No disbursements of Utility money for travel expenses for spouses of the Utilities officials or employees were noted.
- III-E-05     Business Transactions - No business transactions between the Utility and Utility officials or employees were noted.
- III-F-05     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-05     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, two instances were noted where the minutes were 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 have consistently tried to follow the above guidelines. In both instances pointed out above, Harlan Municipal Utilities received a receipt to verify the minutes were delivered to the newspaper office in a timely manner. However, the newspaper office did not print the minutes in a timely manner.

Conclusion - Response accepted.

- III-H-05     Revenue Notes - The Utility is in compliance with all the provisions of revenue note resolutions for all of the funds.
- III-I-05     Deposits and Investments – The Utility had adopted a written investment policy as required by Chapter 12B and 12C of the Code of Iowa. However, the interest income paid out by Midstates Bank on one time certificate was incorrect. The miscalculation was due to not paying on the proper number of days during part of the time period and during another time period, the interest rate did not meet the minimum rate of interest set by the State Rate Setting Committee.

Recommendation – The Utility should be aware of the current allowable rates to insure that at least the minimum rate is received for all investments. The Utility should seek reimbursement of the additional interest due on the certificate.

Response – Per phone call with Midstates Bank, they will issue a check for the additional interest which should have been paid to Harlan Municipal Utilities.

**HARLAN MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2005**

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

Conclusion – Response accepted.

III-J-05     Deficit Fund Equity – As previously noted, the Telephone Fund has a deficit balance of \$107,503, as of June 30, 2005.

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.

III-K-05     Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.