

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

**JUNE 30, 2006**

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## OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Allen Burchett	Chairman	2006
Randy Doran	Vice-Chairman	2010
Michael Hansen	Board Member	2009
Amy Keast	Board Member	2011
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 31, 2006

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, 2006. 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, 2006, 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.

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2006, 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 pages 6 through 11 and 37 through 39 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 required 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 two years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the one year ended June 30, 2003 was audited by other auditors and they expressed an unqualified opinion on it. 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



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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, 2006. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

### 2006 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities increased 8.78%, or \$982,406, from fiscal 2005 to fiscal 2006.
- Operating expenses increased 1.60%, or \$141,326 from fiscal 2005 to fiscal 2006.
- The Utilities' net assets of business type activities increased 15.03%, or \$2,628,653 from June 30, 2005 to June 30, 2006.

### 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>Business Type Activities-Enterprise Funds</b>		
	<u>Year Ended</u>	
	<u>6-30-06</u>	<u>6-30-05</u>
Current and other assets	\$ 10,386,056	\$ 10,004,212
Capital assets	20,097,499	19,427,109
Total Assets	<u>\$ 30,483,555</u>	<u>\$ 29,431,321</u>
Current liabilities	\$ 3,337,473	\$ 2,378,720
Non-current liabilities	7,032,262	9,567,434
Total Liabilities	<u>\$ 10,369,735</u>	<u>\$ 11,946,154</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 11,116,055	\$ 9,884,441
Restricted	2,274,693	2,881,705
Unrestricted	6,723,072	4,719,021
Total net assets	<u>\$ 20,113,820</u>	<u>\$ 17,485,167</u>

Net assets of business type activities increased from FY05 by \$2,628,653, or 15.03%. 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 \$2,004,051 at the end of this year, an increase of 42.47%.

This increase in unrestricted net assets is a result of approximately \$2,628,000 change in net assets for the year ended June 30, 2006. The invested in capital assets, net of related debt, increased by approximately \$1,231,000 due to more capital assets being acquired.

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Changes in Net Assets

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**Business Type Activities-Enterprise Funds**

	<u>6-30-06</u>	<u>6-30-05</u>
Revenues:		
Charges for services	\$ 12,172,616	\$ 11,190,210
Interest income	148,980	105,223
Total revenues	<u>12,321,596</u>	<u>11,295,433</u>
Operating expenses:		
Plant operations	5,550,638	5,458,138
Distribution operations	691,811	666,249
Administrative and general	619,282	625,420
Consumer services	25,493	37,011
Marketing and stakeholder relations	127,724	137,830
Employee benefits	643,264	603,797
Total operating expenses	<u>7,658,212</u>	<u>7,528,445</u>
Other expenses:		
Amortization	21,130	23,115
Depreciation	1,317,113	1,303,569
Contributions to City-In lieu of taxes	242,382	236,096
Loss on sale of assets	355	-0-
Interest expense	422,501	461,731
Industrial development contribution	31,250	100,000
Total other expense	<u>2,034,731</u>	<u>2,124,511</u>
Increase in net assets	2,628,653	1,642,477
Net assets beginning of year	<u>17,485,167</u>	<u>15,842,690</u>
Net assets end of year	\$ <u>20,113,820</u>	\$ <u>17,485,167</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 2006 with a \$13,537,802 net asset balance compared to the prior year ending net asset balance of \$11,513,821.

The Gas Fund, which accounts for the operation and maintenance of the Utilities' gas system, ended fiscal 2006 with a \$2,929,636 net asset balance compared to the prior year ending net asset balance of \$2,674,185.

The Water Fund, which accounts for the operation and maintenance of the Utilities' water system, ended fiscal 2006 with a \$2,894,459 net asset balance compared to the prior year ending net asset balance of \$2,651,522.

The Telecommunication Fund, which accounts for the operation and maintenance of the Utilities' cable and internet system, ended fiscal 2006 with a \$890,191 net asset balance compared to the prior year ending net asset balance of \$753,142.

The Telephone Fund, which accounts for the operation and maintenance of the Utilities' telephone communication system, ended fiscal 2006 with a \$(138,268) net asset balance deficit compared to the prior year ending net asset balance deficit of \$(107,503).

## BUDGETARY HIGHLIGHTS

Over the course of the year, the Utility amended its budget once. The amendment was done in March 2006. The amendment was needed to cover unplanned grant receipts and disbursements, including disbursements associated with Electric capital expenditures.

## 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 \$40,656,809 at June 30, 2006. This is a net increase (including additions and deletions) of \$4,004,008 or 10.92% over last year.

Capital Assets at Year End		
	June 30	
	2006	2005
Intangible Plant	\$ 220,632	\$ 220,632
Production	9,603,794	9,359,997
Transmission & Pumping	5,667,404	5,664,680
Distribution	16,974,458	13,327,174
General	3,274,556	3,262,062
Fiber Optics	<u>4,915,965</u>	<u>4,818,256</u>
Total	40,656,809	36,652,801
Less: Accumulated Depreciation	<u>20,559,310</u>	<u>19,242,197</u>
Net Capital Assets	<u>\$ 20,097,499</u>	<u>\$ 17,410,604</u>
This year's major additions included:		
Electric Fund – New primary & electrical services		\$ 3,825,726
Gas Fund – New main & services		15,043
Water Fund – Replacement & new service lines		83,880
Telecommunication Fund – Cable modems, equipment, and services		12,641
Telephone Fund – Interface units, test equipment and tools		<u>76,647</u>
Total		<u>\$ 4,013,937</u>
This year's disposals:		
Telecommunication Fund – Equipment		<u>\$ 9,929</u>

The Utility had depreciation expense of \$1,317,113 in fiscal year June 30, 2006.

## Long-Term Debt

At June 30, 2006, the Utility had \$9,299,737 in total debt outstanding for business type activities compared to \$10,479,819 at June 30, 2005 as shown below.

Outstanding Debt of Business Type Activities at Year-End		
	June 30	
	2006	2005
Revenue bonds	\$ 7,650,000	\$ 8,685,000
Capital loan notes	1,614,921	1,759,921
Contract payable	34,816	34,898
Total	<u>\$ 9,299,737</u>	<u>\$10,479,819</u>

No new bonds or other debts were issued during June 30, 2006. Total debt was reduced by \$1,180,082 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 2007 budget. The Utility will experience a slight increase in revenues and expenditures from fiscal 2006 to fiscal 2007.

The Business Type Activities—Enterprise Fund is projected to end fiscal 2007 with a fund balance of approximately \$22,126,851, a 10.01% increase from fiscal 2006.

## 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, 2006**

	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	\$ 219,062	\$ 37,990
Replacement funds bond requirement:			
Cash and savings	250,000	-0-	-0-
Restricted			
Consumers' deposit fund	23,374	-0-	-0-
Revenue bond retirement-savings	778,377	-0-	982
Capital improvement fund -- savings	102,411	-0-	170,000
Unrestricted			
Cash and savings	2,487,022	1,610,005	248,489
Industrial development fund	148,339	121,495	-0-
Accounts receivable - net of allowance for doubtful accounts of \$37,500	393,062	78,198	187,895
Unbilled usage	221,256	59,006	55,840
Employee loans receivable	18,906	-0-	-0-
Inventory	244,025	25,752	36,207
Prepaid expenses	36,147	28,067	26,060
Total current assets	5,419,195	2,141,585	763,463
<b>CAPITAL ASSETS</b>			
Utility plant			
Plant in service, at cost	28,443,044	2,139,244	7,225,188
Less accumulated depreciation	14,655,445	1,351,013	3,566,609
	13,787,599	788,231	3,658,579
Construction work in progress	-0-	-0-	-0-
Net capital assets	13,787,599	788,231	3,658,579
<b>OTHER ASSETS</b>			
Other A/R -- CABS L.T.	-0-	-0-	-0-
Bond discount and issuance costs	21,989	-0-	24,072
Intra-utility note receivable	142,430	142,430	-0-
Restricted investments for bonds:			
Debt reserve	739,500	-0-	227,000
Total other assets	903,919	142,430	251,072
<b>Total assets</b>	\$ 20,110,713	\$ 3,072,246	\$ 4,673,114

Enterprise Funds			
Telecommunications Utility	Telephone Utility	Elimination	Totals
\$ 103,644	\$ -0-	\$ -0-	\$ 1,076,972
-0-	-0-	-0-	250,000
-0-	-0-	-0-	23,374
18,201	33,537	-0-	831,097
-0-	-0-	-0-	272,411
233,436	140,624	-0-	4,719,576
-0-	-0-	-0-	269,834
92,807	57,097	-0-	809,059
-0-	14,507	-0-	350,609
-0-	-0-	-0-	18,906
4,569	-0-	-0-	310,553
8,377	2,792	-0-	101,443
<u>461,034</u>	<u>248,557</u>	<u>-0-</u>	<u>9,033,834</u>
1,146,534	1,702,799	-0-	40,656,809
<u>485,258</u>	<u>500,985</u>	<u>-0-</u>	<u>20,559,310</u>
661,276	1,201,814	-0-	20,097,499
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
661,276	1,201,814	-0-	20,097,499
-0-	130,221	-0-	130,221
1,912	3,806	-0-	51,779
-0-	-0-	(284,860)	-0-
31,722	172,000	-0-	1,170,222
<u>33,634</u>	<u>306,027</u>	<u>(284,860)</u>	<u>1,352,222</u>
\$ <u>1,155,944</u>	\$ <u>1,756,398</u>	\$ <u>(284,860)</u>	\$ <u>30,483,555</u>

See NOTES to Financial Statements.

**HARLAN MUNICIPAL UTILITIES  
BALANCE SHEET (Continued)  
PROPRIETARY FUNDS  
JUNE 30, 2006**

	Business Type Activities-		
	Electric Utility	Gas Utility	Water Utility
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 193,866	\$ 85,544	\$ 36,283
Payroll taxes payable	38,732	-0-	-0-
State sales and use taxes payable	1,439	2,559	8,467
Salaries, vacation and sick leave payable	45,170	19,691	32,455
Accrued property taxes	116,541	-0-	-0-
Bonds called not paid	12,080	-0-	-0-
Due City of Harlan for collections & fees	-0-	-0-	131,450
Other accrued liabilities	714	-0-	-0-
Payable from restricted assets			
Current maturities of long-term debt	915,000	-0-	-0-
Interest payable	61,064	-0-	-0-
Customers' deposits	23,305	-0-	-0-
Total current liabilities	<u>1,407,911</u>	<u>107,794</u>	<u>208,655</u>
<b>NONCURRENT LIABILITIES</b>			
Long-Term Debt,			
net of current maturities (Note 5)	5,165,000	-0-	1,570,000
Contract payable (Note 5)	-0-	34,816	-0-
Deferred revenue – CABS	-0-	-0-	-0-
Intra-utility note payable, net of current maturities	-0-	-0-	-0-
Total noncurrent liabilities	<u>5,165,000</u>	<u>34,816</u>	<u>1,570,000</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	7,810,010	753,415	2,088,579
Restricted for:			
Customer deposits	23,374	-0-	-0-
Revenue bond-debt reserve	739,500	-0-	227,000
Revenue bond retirement	778,377	-0-	982
Replacement funds – bond	250,000	-0-	-0-
Unrestricted	3,936,541	2,176,221	577,898
Total net assets	<u>13,537,802</u>	<u>2,929,636</u>	<u>2,894,459</u>
 Total liabilities and net assets	 <u>\$ 20,110,713</u>	 <u>\$ 3,072,246</u>	 <u>\$ 4,673,114</u>

Exhibit A  
(Continued)

Enterprise Funds			
Telecommunications Utility	Telephone Utility	Elimination	Totals
\$ 41,059	\$ 34,894	\$ -0-	\$ 391,646
-0-	-0-	-0-	38,732
3,150	1,401	-0-	17,016
12,224	4,399	-0-	113,939
-0-	-0-	-0-	116,541
-0-	-0-	-0-	12,080
10,493	-0-	-0-	141,943
-0-	-0-	-0-	714
65,000	1,417,696	-0-	2,397,696
1,602	21,195	-0-	83,861
-0-	-0-	-0-	23,305
133,528	1,479,585	-0-	3,337,473
132,225	-0-	-0-	6,867,225
-0-	-0-	-0-	34,816
-0-	130,221	-0-	130,221
-0-	284,860	(284,860)	-0-
132,225	415,081	(284,860)	7,032,262
464,051	-0-	-0-	11,116,055
-0-	-0-	-0-	23,374
31,722	172,000	-0-	1,170,222
18,201	33,537	-0-	831,097
-0-	-0-	-0-	250,000
376,217	(343,805)	-0-	6,723,072
890,191	(138,268)	-0-	20,113,820
\$ 1,155,944	\$ 1,756,398	\$ (284,860)	\$ 30,483,555

See Notes to Financial Statements

Exhibit B

**HARLAN MUNICIPAL UTILITIES  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006**

	Business Type Activities -- Enterprise Funds					Total
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility	Telephone Utility	
<b>OPERATING REVENUES</b>						
Sales to consumers	\$ 5,205,544	\$ 2,922,884	\$ 1,292,274	\$ 1,029,653	\$ 666,977	\$ 11,117,332
Other operating revenue	195,537	7,134	40,311	10,252	-0-	253,234
Excess sales - Louisa Power	802,050	-0-	-0-	-0-	-0-	802,050
Total operating revenue	6,203,131	2,930,018	1,332,585	1,039,905	666,977	12,172,616
<b>OPERATING EXPENSES</b>						
Plant operation expenses	1,540,713	2,104,362	71,640	413,457	352,868	4,483,040
Cost of gas, power, chemicals, programming, and line fees	218,658	-0-	-0-	-0-	-0-	218,658
Cost of excess sales	34,452	15,765	153,367	10,571	1,269	215,424
Salaries and wages	4,434	7,504	72,425	20,300	4,842	109,505
Repairs and maintenance	56,480	16,523	93,806	13,447	4,457	184,713
Utilities	35,587	25,186	29,295	21,194	6,093	117,355
Insurance	116,541	-0-	-0-	-0-	-0-	116,541
Property taxes	40,566	19,860	22,350	5,216	17,410	105,402
Other	2,047,431	2,189,200	442,883	484,185	386,939	5,550,638
Total plant operation expense	202,209	100,723	25,654	77,937	-0-	406,523
Distribution operation expenses	6,175	4,050	8,134	5,000	-0-	23,359
Salaries and wages	156,622	21,494	17,211	19,282	438	215,047
Engineering	5,556	1,008	1,113	39,205	-0-	46,882
Repairs and maintenance	370,562	127,275	52,112	141,424	438	691,811
Other	102,681	89,410	92,006	41,974	32,893	358,964
Total distribution operation expense	46,222	8,142	15,727	18,265	4,491	92,847
Administrative and general expenses	12,058	7,553	4,610	1,525	-0-	25,746
Salaries and wages	16,003	34,733	12,040	27,826	4,973	95,575
Office supplies	4,553	9,758	27,569	897	3,573	46,150
Education and travel	181,317	149,596	151,952	90,487	45,930	619,282
Professional						
Other						
Total administrative and general expenses						

Exhibit B  
(Continued)

HARLAN MUNICIPAL UTILITIES  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	Business Type Activities – Enterprise Funds					Total
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility	Telephone Utility	
OPERATING EXPENSES (Continued)						
Consumer services						
Bad debts	\$ (3,156)	\$ 5,789	\$ 4,012	\$ 3,981	\$ 13,153	\$ 23,779
Other	-0-	270	-0-	800	644	1,714
Total consumer services	(3,156)	6,059	4,012	4,781	13,797	25,493
Marketing and stakeholder relations						
Salaries and wages	9,128	9,175	9,128	38,380	4,489	70,300
Advertising	8,523	3,764	3,621	11,203	5,730	32,841
Other	6,878	8,770	5,521	2,341	1,073	24,583
Total marketing and stakeholder relations	24,529	21,709	18,270	51,924	11,292	127,724
Employee benefits						
Payroll taxes	62,027	31,690	48,187	25,667	6,021	173,592
Health insurance	116,474	43,536	82,097	23,480	12,963	278,550
Compensated absences	90,860	27,601	46,275	18,175	8,211	191,122
Total employee benefits	269,361	102,827	176,559	67,322	27,195	643,264
Total operating expenses excluding Amortization and depreciation	2,890,044	2,596,666	845,788	840,123	485,591	7,658,212
Operating income (loss) before amortization and depreciation	3,313,087	333,352	486,797	199,782	181,386	4,514,404
Amortization	11,750	-0-	5,110	1,646	2,624	21,130
Depreciation	911,670	60,478	155,886	57,974	131,105	1,317,113
Operating income (loss)	923,420	60,478	160,996	59,620	133,729	1,338,243
	2,389,667	272,874	325,801	140,162	47,657	3,176,161

Exhibit B  
(Continued)

**HARLAN MUNICIPAL UTILITIES**  
**STATEMENT OF REVENUES, EXPENSES,**  
**AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	Business Type Activities – Enterprise Funds					Total
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility	Telephone Utility	
<b>NON-OPERATING REVENUES (EXPENSES)</b>						
Contributions to City-In lieu of taxes (Note 8)	\$ (181,075)	\$ (34,459)	\$ (26,433)	\$ (415)	\$ -0-	\$ (242,382)
Gain (Loss) on sale of assets	-0-	-0-	-0-	(355)	-0-	(355)
Interest income	83,822	32,661	16,684	5,645	10,168	148,980
Interest expense	(252,808)	-0-	(73,115)	(7,988)	(88,590)	(422,501)
Industrial development contribution	(15,625)	(15,625)	-0-	-0-	-0-	(31,250)
Total non-operating revenues (expenses)	<u>(365,686)</u>	<u>(17,423)</u>	<u>(82,864)</u>	<u>(3,113)</u>	<u>(78,422)</u>	<u>(547,508)</u>
Change in Net Assets	2,023,981	255,451	242,937	137,049	(30,765)	2,628,653
Total net assets (deficit), beginning	<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>
Total net assets (deficit), ending	<u>\$ 13,537,802</u>	<u>\$ 2,929,636</u>	<u>\$ 2,894,459</u>	<u>\$ 890,191</u>	<u>\$ (138,268)</u>	<u>\$ 20,113,820</u>

See Notes to Financial Statements.

**HARLAN MUNICIPAL UTILITIES  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006**

	Business Type Activities -		
	Electric Utility	Gas Utility	Water Utility
Cash flows from operating activities:			
Cash received from customers and users	\$ 5,163,130	\$ 2,989,614	\$ 1,286,130
Cash received from other revenues	997,587	7,134	40,311
Cash paid to suppliers	(2,548,545)	(2,210,117)	(319,113)
Cash paid for personal services	(273,570)	(161,536)	(202,497)
Cash paid to employees	(436,308)	(241,614)	(322,911)
Net cash provided by operating activities	<u>2,902,294</u>	<u>383,481</u>	<u>481,920</u>
Cash flows from noncapital financing activities:			
Contributions to City – In lieu of taxes	(181,075)	(34,459)	(26,435)
Net cash provided (used) by noncapital financing activities	<u>(181,075)</u>	<u>(34,459)</u>	<u>(26,435)</u>
Cash flows from capital and related financing activities:			
Loss on sale of assets	-0-	-0-	-0-
Acquisition of capital assets	(1,809,221)	(15,043)	(83,880)
Repayments on intra-utility notes	-0-	-0-	-0-
Principal payments on long-term borrowings	(890,000)	(82)	(145,000)
Interest paid on notes	(261,377)	-0-	(73,115)
Net cash provided (used) by capital and related financing activities	<u>(2,960,598)</u>	<u>(15,125)</u>	<u>(301,995)</u>
Cash flows from investing activities:			
Interest on investments	83,822	32,661	16,684
Industrial development contribution	(15,625)	(15,625)	-0-
Principal received (loaned) on employee loans	(1,946)	-0-	-0-
Principal received on intra-utility notes	-0-	47,477	-0-
Net cash provided by investing activities	<u>66,251</u>	<u>64,513</u>	<u>16,684</u>
Net increase in cash and cash equivalents	(173,128)	398,410	170,174
Cash and cash equivalents beginning of year	<u>5,418,427</u>	<u>1,552,152</u>	<u>514,287</u>
Cash and cash equivalents end of year	<u>\$ 5,245,299</u>	<u>\$ 1,950,562</u>	<u>\$ 684,461</u>

Enterprise Funds		
Telecommunications Utility	Telephone Utility	Total
\$ 1,027,994	\$ 675,122	\$ 11,141,990
10,252	-0-	1,055,284
(533,279)	(396,840)	(6,007,894)
(107,945)	(55,948)	(801,496)
(187,154)	(46,543)	(1,234,530)
<u>209,868</u>	<u>175,791</u>	<u>4,153,354</u>
(415)	-0-	(242,384)
<u>(415)</u>	<u>-0-</u>	<u>(242,384)</u>
(355)	-0-	(355)
(2,710)	(76,648)	(1,987,502)
-0-	(47,477)	(47,477)
(60,000)	(85,000)	(1,180,082)
(8,476)	(89,860)	(432,828)
<u>(71,541)</u>	<u>(298,985)</u>	<u>(3,648,244)</u>
5,645	10,168	148,980
-0-	-0-	(31,250)
-0-	-0-	(1,946)
-0-	-0-	47,477
<u>5,645</u>	<u>10,168</u>	<u>163,261</u>
143,557	(113,026)	425,987
<u>243,446</u>	<u>459,187</u>	<u>8,187,499</u>
\$ <u>387,003</u>	\$ <u>346,161</u>	\$ <u>8,613,486</u>

See Notes to Financial Statements.

**HARLAN MUNICIPAL UTILITIES  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006**

	Business Type Activities -		
	Electric Utility	Gas Utility	Water Utility
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income	\$ 2,389,667	\$ 272,874	\$ 325,801
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	911,670	60,478	155,886
Amortization expense	11,750	-0-	5,110
(Increase) decrease in customer accounts receivable and unbilled usage and other accounts receivable	(42,414)	66,730	(6,144)
(Increase) decrease in inventories	14,052	(258)	(1,704)
(Increase) decrease in prepaid expenses	(7,021)	(7,750)	(1,813)
Increase (decrease) in accounts payable	(381,265)	(9,872)	(1,435)
Increase (decrease) in payroll taxes payable	(1,366)	-0-	-0-
Increase (decrease) in sales & use tax payable	71	219	1,728
Increase (decrease) in salaries payable	3,022	1,060	3,519
Increase (decrease) in property taxes payable	1,323	-0-	-0-
Increase (decrease) in other payables	2,805	-0-	972
Net cash provided by operating activities	\$ 2,902,294	\$ 383,481	\$ 481,920
<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	\$ 2,635,361	\$ 1,731,500	\$ 248,489
Restricted assets:			
Cash and pooled investments:			
Revenue bond retirement	1,028,377	-0-	982
Revenue bond debt reserve	739,500	-0-	227,000
Capital improvements	102,411	-0-	170,000
Designated contingency fund	716,276	219,062	37,990
Consumers' deposit fund	23,374	-0-	-0-
Cash and cash equivalents end of year	\$ 5,245,299	\$ 1,950,562	\$ 684,461

Enterprise Funds		
Telecommunications Utility	Telephone Utility	Total
\$ 140,162	\$ 47,657	\$ 3,176,161
57,974	131,105	1,317,113
1,646	2,624	21,130
(1,659)	8,145	24,658
83	-0-	12,173
9,559	2,760	(4,265)
3,739	(10,732)	(399,565)
-0-	-0-	(1,366)
147	(9)	2,156
(117)	319	7,803
-0-	-0-	1,323
(1,666)	(6,078)	(3,967)
<u>\$ 209,868</u>	<u>\$ 175,791</u>	<u>\$ 4,153,354</u>
\$ 233,436	\$ 140,624	\$ 4,989,410
18,201	33,537	1,081,097
31,722	172,000	1,170,222
-0-	-0-	272,411
103,644	-0-	1,076,972
-0-	-0-	23,374
<u>\$ 387,003</u>	<u>\$ 346,161</u>	<u>\$ 8,613,486</u>

See Notes to Financial Statements.

**NOTES TO FINANCIAL STATEMENTS**

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**(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, 2006**

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, 2006**

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. The Utility did not have any work in progress at June 30, 2006.

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, 2006.

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.

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

- 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 deposits set aside for capital construction.

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 \$40,000 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, 2006 was \$278,550.

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, 2006 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, 2006 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, 2006 was \$284,406. This liability is not reflected in the financial statements since the amounts actually payable are not readily determinable.

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

N. Allocations

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

O. Estimates

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

P. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenses exceeded the amount budgeted in the Telephone Utility.

**(2) Deposits and Investments**

The Utility's deposits in banks at June 30, 2006 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**(3) Capital Assets**

Capital assets activity for the year ended June 30, 2006 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	9,359,997	253,728	(9,931)	9,603,794
Transmission & Pumping	5,664,680	2,724	-0-	5,667,404
Distribution	13,327,174	3,647,284	-0-	16,974,458
General	3,262,062	12,494	-0-	3,274,556
Fiber Optics	4,818,256	97,709	-0-	4,915,965
Total property, plant and equipment	<u>36,652,801</u>	<u>4,013,939</u>	<u>(9,931)</u>	<u>40,656,809</u>
Less: accumulated depreciation	<u>19,242,197</u>	<u>1,317,113</u>	<u>-0-</u>	<u>20,559,310</u>
Net property, plant and equipment	\$ <u>17,410,604</u>	\$ <u>2,696,826</u>	\$ <u>(9,931)</u>	\$ <u>20,097,499</u>
Depreciation charged to operations				\$ <u>1,317,113</u>

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

Revenue Bond Covenants

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

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

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

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

<u>Electric Fund:</u>	<u>Date of Issue</u>	<u>Amount Originally Issued</u>	<u>Interest Rates</u>	<u>Final Due Date</u>	<u>Annual Payments</u>	<u>Outstanding June 30, 2006</u>
Elec. Revenue Bond	6-29-96	\$ 2,525,000	5.00-5.50%	10-01-09	\$25,000-525,000	\$ 1,900,000
Elec. Rev. Bond, Services 2003 A	2-10-03	980,000	2.25-2.85%	10-01-08	\$185,000-245,000	795,000
Elec. Rev. Bond, Series 2003B	2-10-03	490,000	2.50-3.50%	10-01-06	\$120,000-135,000	135,000
Elec. Rev. Bond, Series 2004	5-01-04	3,400,000	3.00-4.00%	10-01-15	\$150,000-480,000	3,250,000
<b>Total Electric Bonds</b>						<b>\$ 6,080,000</b>
<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	\$ 990,000
Water Rev. Bond, Series 2004	4-15-04	670,000	1.40%-4.10%	7-01-16	\$45,000-70,000	580,000
<b>Total Water Bonds</b>						<b>\$ 1,570,000</b>
<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	\$ 197,225
<u>Telephone Fund:</u>						
Telephone Capital Loan Note	2-27-01	\$ 1,720,000	5.98%	4-01-07	Various	\$ 1,417,696
<u>Gas Fund:</u>						
Contract Payable-Shelby County	9-26-96	\$ 37,063	0%	Unknown	Various	\$ 34,816

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**(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
2007	\$ 915,000	\$ 225,926	\$ -0-	\$ 33,773	\$ 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-
<b>Total</b>	<b>\$ 6,080,000</b>	<b>\$ 992,456</b>	<b>\$ 1,570,000</b>	<b>\$ 353,972</b>	<b>\$ 197,225</b>	<b>\$ 12,891</b>	<b>\$ 1,417,696</b>	<b>\$ 84,778</b>

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

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

A summary of changes in long-term debt for the year ended June 30, 2006 is as follows:

	Electric Revenue Bonds	Water Revenue Bonds	Telecommunications Capital Loan Notes	Telephone Capital Loan Notes	Gas Shelby County Contract	Total
Balance, beginning	\$ 6,970,000	\$ 1,715,000	\$ 257,225	\$ 1,502,696	\$ 34,898	\$ 10,479,819
Issued	-0-	-0-	-0-	-0-	-0-	-0-
Paid	(890,000)	(145,000)	(60,000)	(85,000)	(82)	(1,180,082)
Balance, ending 6-30-06	6,080,000	1,570,000	197,225	1,417,696	34,816	9,299,737
Less: Current Portion	(915,000)	-0-	(65,000)	*(1,417,696)	-0-	(2,397,696)
L.T. Debt, net of Current Portion	\$ 5,165,000	\$ 1,570,000	\$ 132,225	\$ -0-	\$ 34,816	\$ 6,902,041

\*The Telephone Capital Loan Notes mature on 4-01-07, which makes the entire portion current. As of the date of this report, the Utility has no idea at what rate or terms they will be able to get this note refinanced for.

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**(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, 2006 is as follows:

Payable Fund. . . . .	<u>Telephone Utility</u>		
Receivable Fund. . . . .	<u>Loan from Elec. Utility</u>	<u>Loan from Gas Utility</u>	<u>Totals</u>
Beginning Balance 7-1-05	\$142,430	\$189,907	\$332,337
Less: Payments made by Telephone Utility	<u>-0-</u>	<u>(47,477)</u>	<u>(47,477)</u>
Ending Balance 6-30-06	<u>\$142,430</u>	<u>\$142,430</u>	<u>\$284,860</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, 2006 is as follows:

<u>Unit</u>	<u>Percentage of Ownership</u>	<u>Louisa Electric Utility Plant, Net</u>
Louisa Power Plant and Transmission Lines	<u>.8%</u>	<u>\$ 6,022,448</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, 2006 was \$242,382.

**(9) Deficit Balances**

The Telephone Fund had a Fund deficit of \$138,268 for the year ended June 30, 2006. 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. However, for the year ended June 30, 2006, the change in net assets was a deficit as well.

**HARLAN MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**(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, 2006, 2005 and 2004 were \$80,751, \$81,602 and \$75,352, 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.

**(12) Pledged Contributions**

The Board approved a pledge of \$29,000 to CI Direct under Resolution No. 48. A public purpose shall be served in which CI Direct shall expand and provide the community with business opportunities for existing businesses and new jobs would be generated. As of August 31, 2006, CI Direct had not started their expansion project, and therefore Harlan Municipal Utility had not paid any portion of the pledge yet.

**(13) Subsequent Events**

In July 2006, the Utility approved the labor portion of the 2006-2007 Underground Conversion Project which was over \$1,397,000. At this time, the Utility also approved low bids for the materials portions. This project will be funded with Electric Revenue Bonds in the amount of \$1,280,000.

Harlan Municipal Utilities has agreed to the sale of its "Tennant Electric Line" to Nishnabotna Valley Rural Electric Cooperative for the sum of \$150,000. The transfer of that line and the sale price must be approved by the Iowa Utility Board.

**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, 2006**

	Accrual Basis		
	Total Proprietary Funds-Actual	Final Budgeted Amounts	Variance Favorable (Unfavorable)
Operating Revenues			
Sales to consumers	\$11,117,332	\$11,055,141	\$ 62,191
Other operating revenue	<u>253,234</u>	<u>100,182</u>	<u>153,052</u>
Total operating revenue	11,370,566	11,155,323	215,243
 Operating Expenses			
Plant operation expenses	4,748,588	5,167,627	419,039
Distribution operation	691,811	763,963	72,152
Administrative and general	619,282	658,570	39,288
Consumer services	25,493	56,441	30,948
Marketing and relations	127,724	147,136	19,412
Employee benefits	643,264	687,583	44,319
Amortization and depreciation	<u>1,338,243</u>	<u>1,337,500</u>	<u>(743)</u>
Total operating expenses	<u>8,194,405</u>	<u>8,818,820</u>	<u>624,415</u>
 Operating income	3,176,161	2,336,503	839,658
 Other revenues (expenses), net	<u>(547,508)</u>	<u>(576,250)</u>	<u>28,742</u>
 Change in net assets	2,628,653	<u>\$1,760,253</u>	<u>\$ 868,400</u>
 Total net assets, beginning	<u>17,485,167</u>		
 Total net assets, ending	<u>\$20,113,820</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, 2006**

	Cash Basis		
	Total Proprietary Funds-Actual	Final Budgeted Amounts	Variance Favorable (Unfavorable)
Receipts:			
Charge for services	\$11,142,971	\$11,055,141	\$ 87,830
Miscellaneous	<u>253,234</u>	<u>100,182</u>	<u>153,052</u>
Total receipts	11,396,205	11,155,323	240,882
Disbursements:			
Business type activities	<u>7,255,122</u>	<u>7,481,320</u>	<u>226,198</u>
Excess of receipts over disbursements	4,141,083	3,674,003	467,080
Other financing sources (uses):			
Proceeds from sale of assets	9,575	-0-	9,575
Capital grants	-0-	85,000	(85,000)
Acquisition of capital assets	(1,997,433)	(3,558,500)	1,561,067
Interest received on investments	148,979	71,000	77,979
Principal/Interest payments on			
long term borrowings	(1,602,584)	(1,592,850)	(9,734)
Other sources (uses), net	<u>(273,633)</u>	<u>(314,400)</u>	<u>40,767</u>
Total other financing sources (uses)	<u>(3,715,096)</u>	<u>(5,309,750)</u>	<u>1,594,654</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	425,987	(1,635,747)	<u>\$2,061,734</u>
Balances, beginning of year	<u>8,187,499</u>	<u>8,187,499</u>	
Balances, end of year	<u>\$ 8,613,486</u>	<u>\$6,551,752</u>	

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –  
BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2006**

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 increased budgeted disbursements by \$1,270,000 and increased budgeted revenues by \$85,000. This budget amendment is reflected in the final budgeted amounts. Actual cash disbursements for the year ended June 30, 2006 did not exceed the final statutory budget.

**OTHER SUPPLEMENTARY INFORMATION**

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL ELECTRIC UTILITY  
COMPARATIVE BALANCE SHEETS  
JUNE 30, 2005 AND 2006**

	<u>2005</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvement, emergency and contingency funds:		
Cash and savings	\$ 716,276	\$ 716,276
Plant improvement, emergency and replacement funds bond requirement:		
Cash and savings	250,000	250,000
Restricted		
Consumers' deposit fund	21,046	23,374
Revenue bond retirement-savings	1,158,288	778,377
Capital improvement fund – savings	690,726	102,411
Unrestricted		
Cash and savings	1,718,531	2,487,022
Industrial development fund	124,060	148,339
Accounts receivable-net of allowance for doubtful accounts of \$8,000 for 2005 and 2006	339,733	393,062
Unbilled usage	232,171	221,256
Employee loans receivable	16,960	18,906
Inventory	258,077	244,025
Prepaid expenses	29,126	36,147
Total current assets	<u>5,554,994</u>	<u>5,419,195</u>
CAPITAL ASSETS		
Electric Utility Plant		
Plant in service, at cost	24,617,317	28,443,043
Less: accumulated depreciation	<u>13,743,774</u>	<u>14,655,444</u>
	10,873,543	13,787,599
Construction work in progress	<u>2,016,505</u>	<u>-0-</u>
Net capital assets	<u>12,890,048</u>	<u>13,787,599</u>
OTHER ASSETS		
Bond discount and issuance costs	33,739	21,989
Intra-utility note receivable	142,430	142,430
Restricted investments for bonds:		
Debt reserve and sinking	<u>739,500</u>	<u>739,500</u>
Total other assets	<u>915,669</u>	<u>903,919</u>
Total assets	<u>\$ 19,360,711</u>	<u>\$ 20,110,713</u>

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL ELECTRIC UTILITY  
COMPARATIVE BALANCE SHEETS (Continued)  
JUNE 30, 2005 AND 2006**

	<u>2005</u>	<u>2006</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 575,131	\$ 193,866
Payroll taxes payable	40,098	38,732
Sales and use tax payable	1,368	1,439
Salaries, vacation and sick leave payable	42,148	45,170
Accrued property taxes	115,218	116,541
Bonds called not paid	12,080	12,080
Other accrued liabilities	834	714
Payable from restricted assets		
Current maturities of long-term debt	890,000	915,000
Interest payable	69,633	61,064
Customers' deposits	20,380	23,305
Total current liabilities	1,766,890	1,407,911
Long-term debt, net of current maturities	6,080,000	5,165,000
NET ASSETS		
Designated	966,276	966,277
Undesignated	10,547,545	12,571,525
Total net assets	11,513,821	13,537,802
 Total Liabilities & Net Assets	 \$ 19,360,711	 \$ 20,110,713

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 2006**

	2005	2006	2006	Budget Variance Favorable (Unfavorable)
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	
<b>OPERATING REVENUES</b>				
Sales to consumers	\$5,055,651	\$5,205,544	\$5,197,460	\$ 8,084
Other operating revenues	107,922	195,537	66,732	128,805
Excess sales – Louisa Power	351,766	802,050	-0-	802,050
Total operating revenues	<u>5,515,339</u>	<u>6,203,131</u>	<u>5,264,192</u>	<u>938,939</u>
<b>OPERATING EXPENSES</b>				
Plant operation expenses				
Cost of excess sales	148,201	218,658	-0-	(218,658)
Cost of power	1,694,456	1,540,713	1,415,250	(125,463)
Salaries and wages	39,077	34,452	46,500	12,048
Repairs and maintenance	2,333	4,434	6,700	2,266
Utilities	59,374	56,480	48,000	(8,480)
Insurance	36,362	35,587	32,500	(3,087)
Property taxes	114,477	116,541	190,000	73,459
Other	42,772	40,566	42,795	2,229
Total plant operation expense	<u>2,137,052</u>	<u>2,047,431</u>	<u>1,781,745</u>	<u>(265,686)</u>
Distribution operation expenses				
Salaries and wages	189,775	202,209	214,150	11,941
Engineering	12,481	6,175	18,000	11,825
Repairs and maintenance	108,237	156,622	171,300	14,678
Other	33,750	5,556	6,470	914
Total distribution operation expense	<u>344,243</u>	<u>370,562</u>	<u>409,920</u>	<u>39,358</u>
Administrative and general expenses				
Salaries and wages	104,019	102,681	85,115	(17,566)
Office supplies	42,743	46,222	34,500	(11,722)
Education and travel	9,837	12,058	11,000	(1,058)
Professional services	25,025	16,003	51,400	35,397
Other	3,764	4,353	10,250	5,897
Total administrative and general expense	<u>185,388</u>	<u>181,317</u>	<u>192,265</u>	<u>10,948</u>
Consumer services				
Bad debts (collected)	(10,722)	(3,156)	10,000	13,156
Total consumer services	<u>(10,722)</u>	<u>(3,156)</u>	<u>10,000</u>	<u>13,156</u>

**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 2006**

	2005 <u>Actual</u>	2006 <u>Actual</u>	2006 <u>Budget</u>	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	\$ 13,329	\$ 9,128	\$ 9,331	\$ 203
Advertising	15,910	8,523	16,255	7,732
Other	<u>7,035</u>	<u>6,878</u>	<u>8,697</u>	<u>1,819</u>
Total marketing and stakeholder relations expense	36,274	24,529	34,283	9,754
Employee benefits				
Payroll taxes	66,802	62,027	64,499	2,472
Health insurance	102,286	116,474	128,400	11,926
Compensated absences	<u>81,541</u>	<u>90,860</u>	<u>81,708</u>	<u>(9,152)</u>
Total employee benefits	<u>250,629</u>	<u>269,361</u>	<u>274,607</u>	<u>5,246</u>
Total operating expense excluding amortization and depreciation	<u>2,942,864</u>	<u>2,890,044</u>	<u>2,702,820</u>	<u>(187,224)</u>
Operating income before amortization and depreciation	2,572,475	3,313,087	2,561,372	751,715
Amortization	13,247	11,750	15,000	3,250
Depreciation	<u>903,674</u>	<u>911,670</u>	<u>905,000</u>	<u>(6,670)</u>
	<u>916,921</u>	<u>923,420</u>	<u>920,000</u>	<u>(3,420)</u>
Operating income	1,655,554	2,389,667	1,641,372	748,295
Non-operating revenues (expenses)				
Contributions to City-In lieu of taxes (Note 8)	(181,457)	(181,075)	(160,000)	(21,075)
Interest income	74,840	83,822	40,000	43,822
Interest expense	(279,567)	(252,808)	(247,000)	(5,808)
Industrial development contribution	<u>(50,000)</u>	<u>(15,625)</u>	<u>(50,000)</u>	<u>34,375</u>
Total non-operating revenues (expenses)	<u>(436,184)</u>	<u>(365,686)</u>	<u>(417,000)</u>	<u>51,314</u>
Change in Net Assets	1,219,370	2,023,981	<u>\$1,224,372</u>	<u>\$ 799,609</u>
Total net assets, beginning of year	<u>10,294,451</u>	<u>11,513,821</u>		
Total net assets, end of year	<u>\$11,513,821</u>	<u>\$13,537,802</u>		

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL GAS UTILITY  
COMPARATIVE BALANCE SHEETS  
JUNE 30, 2005 AND 2006**

	<u>2005</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvement, emergency and contingency funds:		
Cash and savings	\$ 195,062	\$ 219,062
Unrestricted		
Cash and savings	1,259,443	1,610,005
Industrial development fund	97,647	121,495
Accounts receivable-net of allowance for doubtful accounts of \$9,000 for 2005 and 2006	132,423	78,198
Unbilled usage	71,511	59,006
Inventory	25,494	25,752
Prepaid expenses	20,317	28,067
Total current assets	<u>1,801,897</u>	<u>2,141,585</u>
CAPITAL ASSETS		
Utility Plant		
Plant in service, at cost	2,124,200	2,139,243
Less: accumulated depreciation	<u>1,290,534</u>	<u>1,351,012</u>
Net capital assets	833,666	788,231
OTHER ASSETS		
Intra-utility note receivable	<u>189,907</u>	<u>142,430</u>
Total other assets	<u>189,907</u>	<u>142,430</u>
Total assets	<u>\$ 2,825,470</u>	<u>\$ 3,072,246</u>

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL GAS UTILITY  
COMPARATIVE BALANCE SHEETS (Continued)  
JUNE 30, 2005 AND 2006**

	<u>2005</u>	<u>2006</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 95,416	\$ 85,544
Sales and use tax payable	2,340	2,559
Salaries, vacation and sick leave payable	18,631	19,691
Total current liabilities	<u>116,387</u>	<u>107,794</u>
Contract payable	34,898	34,816
NET ASSETS		
Designated	195,062	219,062
Undesignated	2,479,123	2,710,574
Total net assets	<u>2,674,185</u>	<u>2,929,636</u>
Total Liabilities & Net Assets	<u>\$ 2,825,470</u>	<u>\$ 3,072,246</u>

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 2006**

	2005 <u>Actual</u>	2006 <u>Actual</u>	2006 <u>Budget</u>	Budget Variance Favorable (Unfavorable)
<b>OPERATING REVENUES</b>				
Sales to consumers	\$2,723,725	\$2,922,884	\$2,887,500	\$ 35,384
Other operating revenues	<u>4,676</u>	<u>7,134</u>	<u>7,100</u>	<u>34</u>
Total operating revenues	2,728,401	2,930,018	2,894,600	35,418
<b>OPERATING EXPENSES</b>				
Plant operation expenses				
Cost of power	1,912,260	2,104,362	2,103,670	(692)
Salaries and wages	18,899	15,765	28,650	12,885
Repairs and maintenance	12,487	7,504	6,157	(1,347)
Utilities	18,891	16,523	16,700	177
Insurance	25,388	25,186	23,000	(2,186)
Other	<u>24,782</u>	<u>19,860</u>	<u>26,630</u>	<u>6,770</u>
Total plant operation expense	2,012,707	2,189,200	2,204,807	15,607
Distribution operation expenses				
Salaries and wages	91,804	100,723	119,460	18,737
Engineering	3,510	4,050	3,500	(550)
Repairs and maintenance	30,168	21,494	24,500	3,006
Other	<u>1,373</u>	<u>1,008</u>	<u>9,156</u>	<u>8,148</u>
Total distribution operation expense	126,855	127,275	156,616	29,341
Administrative and general expenses				
Salaries and wages	92,658	89,410	74,410	(15,000)
Office supplies	9,391	8,142	10,390	2,248
Education and travel	7,600	7,553	11,950	4,397
Professional services	33,512	34,733	31,400	(3,333)
Other	<u>9,861</u>	<u>9,758</u>	<u>16,790</u>	<u>7,032</u>
Total administrative and general expense	153,022	149,596	144,940	(4,656)
Consumer services				
Bad debts	18,747	5,789	15,000	9,211
Other	<u>141</u>	<u>270</u>	<u>359</u>	<u>89</u>
Total consumer services	18,888	6,059	15,359	9,300

**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 2006**

	2005 <u>Actual</u>	2006 <u>Actual</u>	2006 <u>Budget</u>	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	\$ 11,204	\$ 9,175	\$ 9,512	\$ 337
Advertising	4,317	3,764	4,318	554
Other	<u>5,335</u>	<u>8,770</u>	<u>6,577</u>	<u>(2,193)</u>
Total marketing and stakeholder relations expense	20,856	21,709	20,407	(1,302)
Employee benefits				
Payroll taxes	31,067	31,690	34,402	2,712
Health insurance	38,153	43,536	50,500	6,964
Compensated absences	<u>27,040</u>	<u>27,601</u>	<u>26,608</u>	<u>(993)</u>
Total employee benefits	<u>96,260</u>	<u>102,827</u>	<u>111,510</u>	<u>8,683</u>
Total operating expense excluding amortization and depreciation	<u>2,428,588</u>	<u>2,596,666</u>	<u>2,653,639</u>	<u>56,973</u>
Operating income before amortization and depreciation	299,813	333,352	240,961	92,391
Depreciation	<u>60,526</u>	<u>60,478</u>	<u>60,000</u>	<u>(478)</u>
Operating income	239,287	272,874	180,961	91,913
Non-operating revenues (expenses)				
Contributions to City-In lieu of taxes (Note 8)	(28,390)	(34,459)	(36,000)	1,541
Interest income	14,934	32,661	15,000	17,661
Industrial development contribution	<u>(50,000)</u>	<u>(15,625)</u>	<u>(50,000)</u>	<u>34,375</u>
Total non-operating revenues (expenses)	<u>(63,456)</u>	<u>(17,423)</u>	<u>(71,000)</u>	<u>53,577</u>
Change in Net Assets	175,831	255,451	<u>\$ 109,961</u>	<u>\$ 145,490</u>
Total net assets, beginning of year	<u>2,498,354</u>	<u>2,674,185</u>		
Total net assets, end of year	<u>\$2,674,185</u>	<u>\$2,929,636</u>		

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL WATER UTILITY  
COMPARATIVE BALANCE SHEETS  
JUNE 30, 2005 AND 2006**

	<u>2005</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvement, emergency and contingency funds:		
Cash and savings	\$ 37,990	\$ 37,990
Restricted		
Revenue bond retirement-savings	23,564	982
Capital improvement fund-savings	170,000	170,000
Unrestricted		
Cash and savings	41,650	248,489
Accounts receivable-net of allowance for doubtful accounts of \$4,000 for 2005 and 2006	182,238	187,895
Unbilled usage	55,353	55,840
Inventory	34,503	36,207
Prepaid expenses	24,247	26,060
Total current assets	<u>569,545</u>	<u>763,463</u>
CAPITAL ASSETS		
Utility Plant		
Plant in service, at cost	7,141,308	7,225,188
Less: accumulated depreciation	<u>3,410,724</u>	<u>3,566,609</u>
Net capital assets	3,730,584	3,658,579
OTHER ASSETS		
Bond discount and issuance costs	29,181	24,072
Restricted investments for bonds:		
Debt reserve & sinking	<u>241,083</u>	<u>227,000</u>
Total other assets	<u>270,264</u>	<u>251,072</u>
Total assets	<u>\$ 4,570,393</u>	<u>\$ 4,673,114</u>

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL WATER UTILITY  
COMPARATIVE BALANCE SHEETS (Continued)  
JUNE 30, 2005 AND 2006**

	<u>2005</u>	<u>2006</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 37,718	\$ 36,283
Sales and use tax payable	6,739	8,467
Salaries, vacation and sick leave payable	28,936	32,455
Due to City of Harlan for utility collections	130,478	131,450
Total current liabilities	<u>203,871</u>	<u>208,655</u>
Long-term debt, net of current maturities	1,715,000	1,570,000
NET ASSETS		
Designated	37,990	37,991
Undesignated	2,613,532	2,856,468
Total net assets	<u>2,651,522</u>	<u>2,894,459</u>
Total Liabilities & Net Assets	<u>\$ 4,570,393</u>	<u>\$ 4,673,114</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 2006**

	2005	2006	2006	Budget Variance Favorable (Unfavorable)
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	
<b>OPERATING REVENUES</b>				
Sales to consumers	\$1,242,134	\$1,292,274	\$1,308,000	\$ (15,726)
Other operating revenues	<u>32,631</u>	<u>40,311</u>	<u>20,700</u>	<u>19,611</u>
Total operating revenues	1,274,765	1,332,585	1,328,700	3,885
<b>OPERATING EXPENSES</b>				
Plant operation expenses				
Cost of power	62,562	71,640	71,700	60
Salaries and wages	149,978	153,367	148,350	(5,017)
Repairs and maintenance	60,806	72,425	60,150	(12,275)
Utilities	91,133	93,806	67,900	(25,906)
Insurance	30,906	29,295	33,500	4,205
Other	<u>33,708</u>	<u>22,350</u>	<u>27,525</u>	<u>5,175</u>
Total plant operation expense	429,093	442,883	409,125	(33,758)
Distribution operation expenses				
Salaries and wages	31,118	25,654	40,115	14,461
Engineering	13,897	8,134	8,500	366
Repairs and maintenance	12,640	17,211	17,800	589
Other	<u>1,127</u>	<u>1,113</u>	<u>2,320</u>	<u>1,207</u>
Total distribution operation expense	58,782	52,112	68,735	16,623
Administrative and general expenses				
Salaries and wages	88,688	92,006	78,320	(13,686)
Office supplies	16,676	15,727	18,350	2,623
Education and travel	3,820	4,610	5,500	890
Professional services	20,960	12,040	31,250	19,210
Other	<u>23,119</u>	<u>27,569</u>	<u>27,235</u>	<u>(334)</u>
Total administrative and general expense	153,263	151,952	160,655	8,703
Consumer services				
Salaries and wages	-0-	-0-	8,000	8,000
Bad debts	<u>5,425</u>	<u>4,012</u>	<u>5,800</u>	<u>1,788</u>
Total consumer services	5,425	4,012	13,800	9,788

**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 2006**

	2005 <u>Actual</u>	2006 <u>Actual</u>	2006 <u>Budget</u>	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	\$ 11,393	\$ 9,128	\$ 9,331	\$ 203
Advertising	4,564	3,621	4,407	786
Other	<u>6,005</u>	<u>5,521</u>	<u>7,379</u>	<u>1,858</u>
Total marketing and stakeholder relations expense	21,962	18,270	21,117	2,847
Employee benefits				
Payroll taxes	47,830	48,187	49,774	1,587
Health insurance	71,947	82,097	98,000	15,903
Compensated absences	<u>46,459</u>	<u>46,275</u>	<u>44,513</u>	<u>(1,762)</u>
Total employee benefits	<u>166,236</u>	<u>176,559</u>	<u>192,287</u>	<u>15,728</u>
Total operating expense excluding amortization and depreciation	<u>834,761</u>	<u>845,788</u>	<u>865,719</u>	<u>19,931</u>
Operating income before amortization and depreciation	440,004	486,797	462,981	23,816
Amortization	5,283	5,110	5,500	390
Depreciation	<u>155,561</u>	<u>155,886</u>	<u>160,000</u>	<u>4,114</u>
	<u>160,844</u>	<u>160,996</u>	<u>165,500</u>	<u>4,504</u>
Operating income	279,160	325,801	297,481	28,320
Non-operating revenues (expenses)				
Contributions to City-In lieu of taxes (Note 8)	(25,859)	(26,433)	(18,000)	(8,433)
Interest income	6,966	16,684	8,000	8,684
Interest expense	(78,417)	(73,115)	(73,500)	385
Grant income	<u>-0-</u>	<u>-0-</u>	<u>85,000</u>	<u>(85,000)</u>
Total non-operating revenues (expenses)	<u>(97,310)</u>	<u>(82,864)</u>	<u>1,500</u>	<u>(84,364)</u>
Change in Net Assets	181,850	242,937	<u>\$ 298,981</u>	<u>\$ (56,044)</u>
Total net assets, beginning of year	<u>2,469,672</u>	<u>2,651,522</u>		
Total net assets, end of year	<u>\$2,651,522</u>	<u>\$2,894,459</u>		

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL TELECOMMUNICATIONS UTILITY  
COMPARATIVE BALANCE SHEETS  
JUNE 30, 2005 AND 2006**

	<u>2005</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 90,065	\$ 103,644
Restricted		
Revenue bond retirement savings	36,223	18,201
Unrestricted		
Cash and savings	53,093	233,436
Accounts receivable-net of allowance for doubtful accounts of \$7,000 for 2005 and 2006	91,148	92,807
Inventory	4,652	4,569
Prepaid expenses	17,936	8,377
Total current assets	<u>293,117</u>	<u>461,034</u>
CAPITAL ASSETS		
Telecommunications Utility Plant		
Plant in service, at cost	1,143,824	1,146,534
Less: accumulated depreciation	<u>427,284</u>	<u>485,258</u>
Net capital assets	716,540	661,276
OTHER ASSETS		
Bond discount and issuance costs	3,558	1,912
Restricted investments for bonds:		
Debt reserve & sinking	<u>64,065</u>	<u>31,722</u>
Total other assets	<u>67,623</u>	<u>33,634</u>
Total assets	<u>\$ 1,077,280</u>	<u>\$ 1,155,944</u>

HARLAN MUNICIPAL UTILITIES  
MUNICIPAL TELECOMMUNICATIONS UTILITY  
COMPARATIVE BALANCE SHEETS (Continued)  
JUNE 30, 2005 AND 2006

	<u>2005</u>	<u>2006</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 37,320	\$ 41,059
Sales and use tax payable	3,003	3,150
Salaries, vacation and sick leave payable	12,341	12,224
Due to City of Harlan for utility collections	12,159	10,493
Payable from restricted assets		
Interest payable	2,090	1,602
Current maturities long-term debt	<u>60,000</u>	<u>65,000</u>
Total current liabilities	126,913	133,528
Long-term debt, net of current maturities	197,225	132,225
NET ASSETS		
Designated	90,065	103,644
Undesignated	<u>663,077</u>	<u>786,547</u>
Total net assets	<u>753,142</u>	<u>890,191</u>
Total Liabilities & Net Assets	<u>\$ 1,077,280</u>	<u>\$ 1,155,944</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 2006**

	2005 <u>Actual</u>	2006 <u>Actual</u>	2006 <u>Budget</u>	Budget Variance Favorable <u>(Unfavorable)</u>
<b>OPERATING REVENUES</b>				
Sales to consumers	\$ 927,534	\$1,029,653	\$ 973,231	\$ 56,422
Other operating revenues	<u>14,820</u>	<u>10,252</u>	<u>5,650</u>	<u>4,602</u>
Total operating revenues	942,354	1,039,905	978,881	61,024
<b>OPERATING EXPENSES</b>				
Plant operation expenses				
Cost of programming	422,259	413,457	404,700	(8,757)
Salaries and wages	10,478	10,571	17,200	6,629
Repairs and maintenance	7,631	20,300	10,000	(10,300)
Utilities	13,570	13,447	13,000	(447)
Insurance	19,511	21,194	17,500	(3,694)
Other	<u>2,826</u>	<u>5,216</u>	<u>4,260</u>	<u>(956)</u>
Total plant operation expense	476,275	484,185	466,660	(17,525)
Distribution operation expenses				
Salaries and wages	73,976	77,937	66,800	(11,137)
Engineering	3,043	5,000	6,000	1,000
Repairs and maintenance	23,655	19,282	23,710	4,428
Other	<u>35,092</u>	<u>39,205</u>	<u>32,182</u>	<u>(7,023)</u>
Total distribution operation expense	135,766	141,424	128,692	(12,732)
Administrative and general expenses				
Salaries and wages	39,789	41,974	35,735	(6,239)
Office supplies	16,902	18,265	18,900	635
Education and travel	1,247	1,525	6,000	4,475
Professional services	23,050	27,826	38,750	10,924
Other	<u>754</u>	<u>897</u>	<u>1,165</u>	<u>268</u>
Total administrative and general expense	81,742	90,487	100,550	10,063
Consumer services				
Salaries and wages	-0-	-0-	-0-	-0-
Bad debts	10,245	3,981	10,800	6,819
Other	<u>907</u>	<u>800</u>	<u>632</u>	<u>(168)</u>
Total consumer services	11,152	4,781	11,432	6,651

**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 2006**

	2005 <u>Actual</u>	2006 <u>Actual</u>	2006 <u>Budget</u>	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	\$ 30,374	\$ 38,380	\$ 38,215	\$ (165)
Advertising	9,799	11,203	9,036	(2,167)
Other	<u>3,292</u>	<u>2,341</u>	<u>2,378</u>	<u>37</u>
Total marketing and stakeholder relations expense	43,465	51,924	49,629	(2,295)
Employee benefits				
Payroll taxes	23,527	25,667	22,701	(2,966)
Health insurance	20,578	23,480	37,600	14,120
Compensated absences	21,087	18,175	18,028	(147)
Other	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total employee benefits	<u>65,192</u>	<u>67,322</u>	<u>78,329</u>	<u>11,007</u>
Total operating expense excluding amortization and depreciation	<u>813,592</u>	<u>840,123</u>	<u>835,292</u>	<u>(4,831)</u>
Operating income before amortization and depreciation	128,762	199,782	143,589	56,193
Amortization	1,934	1,646	2,000	354
Depreciation	<u>57,234</u>	<u>57,974</u>	<u>60,000</u>	<u>2,026</u>
	<u>59,168</u>	<u>59,620</u>	<u>62,000</u>	<u>2,380</u>
Operating income (loss)	69,594	140,162	81,589	58,573
Non-operating revenues (expenses)				
Contributions to City-In lieu of taxes (Note 8)	(390)	(415)	(400)	(15)
Gain (Loss) on Sale of Assets	-0-	(355)	-0-	(355)
Interest income	2,587	5,645	3,000	2,645
Interest expense	<u>(9,966)</u>	<u>(7,988)</u>	<u>(7,850)</u>	<u>(138)</u>
Total non-operating revenues (expenses)	<u>(7,769)</u>	<u>(3,113)</u>	<u>(5,250)</u>	<u>2,137</u>
Change in Net Assets	61,825	137,049	<u>\$ 76,339</u>	<u>\$ 60,710</u>
Total net assets, beginning of year	<u>691,317</u>	<u>753,142</u>		
Total net assets, end of year	<u>\$ 753,142</u>	<u>\$ 890,191</u>		

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES  
MUNICIPAL TELEPHONE UTILITY  
COMPARATIVE BALANCE SHEETS  
JUNE 30, 2005 AND 2006**

ASSETS	<u>2005</u>	<u>2006</u>
<b>CURRENT ASSETS</b>		
Restricted		
Revenue bond retirement savings	\$ 168,864	\$ 33,537
Unrestricted		
Cash and savings	111,251	140,624
Accounts receivable-net of allowances for doubtful accounts of \$9,500 and \$9,000 for 2005 and 2006	64,512	57,097
Unbilled usage	15,237	14,507
Prepaid expenses	5,552	2,792
Total current assets	<u>365,416</u>	<u>248,557</u>
<b>CAPITAL ASSETS</b>		
Telephone Utility Plant	1,626,152	1,702,799
Less accumulated depreciation	<u>369,881</u>	<u>500,985</u>
Net capital assets	1,256,271	1,201,814
<b>OTHER ASSETS</b>		
Other Accounts receivable	122,615	130,221
Bond discount and issuance cost	6,430	3,806
Restricted investments for bonds:		
Debt reserve and sinking	<u>179,072</u>	<u>172,000</u>
Total other assets	<u>308,117</u>	<u>306,027</u>
Total assets	<u>\$ 1,929,804</u>	<u>\$ 1,756,398</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 45,626	\$ 34,894
Sales and use tax payable	1,410	1,401
Salaries, vacation and sick leave payable	4,080	4,399
Other accrued liabilities	6,078	-0-
Payable from restricted assets		
Interest payable	22,465	21,195
Current maturities-long term debt	<u>85,000</u>	<u>1,417,696</u>
Total current liabilities	<u>164,659</u>	<u>1,479,585</u>
<b>LONG TERM LIABILITIES</b>		
Long-term debt, net of current maturities	1,417,696	-0-
Deferred income – CABS	122,615	130,221
Intra-utility note payable, net of current maturities	<u>332,337</u>	<u>284,860</u>
Total noncurrent liabilities	1,872,648	415,081
<b>NET ASSETS</b>		
Undesignated (deficit) (Note 9)	<u>(107,503)</u>	<u>(138,268)</u>
Total Liabilities and Net Assets	<u>\$ 1,929,804</u>	<u>\$ 1,756,398</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 2006**

	2005 <u>Actual</u>	2006 <u>Actual</u>	2006 <u>Budget</u>	Budget Variance Favorable (Unfavorable)
<b>OPERATING REVENUES</b>				
Sales to consumers	\$ 728,273	\$ 666,977	\$ 688,950	\$ (21,973)
Other operating revenues	<u>1,078</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total operating revenues	729,351	666,977	688,950	(21,973)
<b>OPERATING EXPENSES</b>				
<b>Plant operation expenses</b>				
Cost of line charges & fees	370,276	352,868	266,600	(86,268)
Salaries and wages	1,277	1,269	3,870	2,601
Repairs and maintenance	4,825	4,842	9,100	4,258
Utilities	4,327	4,457	4,000	(457)
Insurance	4,556	6,093	4,000	(2,093)
Other	<u>17,750</u>	<u>17,410</u>	<u>7,765</u>	<u>(9,645)</u>
Total plant operation expense	403,011	386,939	295,335	(91,604)
<b>Distribution operation expenses</b>				
Repairs and maintenance	603	438	-0-	(438)
<b>Administrative and general expenses</b>				
Salaries and wages	31,887	32,893	31,570	(1,323)
Office supplies	4,926	4,491	6,700	2,209
Professional services	12,989	4,973	31,015	26,042
Other	<u>2,203</u>	<u>3,573</u>	<u>1,375</u>	<u>(2,198)</u>
Total administrative and general expense	52,005	45,930	70,660	24,730
<b>Consumer services</b>				
Bad debts	10,552	13,153	5,000	(8,153)
Other	<u>1,716</u>	<u>644</u>	<u>850</u>	<u>206</u>
Total consumer services	12,268	13,797	5,850	(7,947)

**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 2006**

	2005 <u>Actual</u>	2006 <u>Actual</u>	2006 <u>Budget</u>	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	\$ 1,113	\$ 4,489	\$ 4,200	\$ (289)
Advertising	12,872	5,730	13,000	7,270
Other	<u>1,288</u>	<u>1,073</u>	<u>4,500</u>	<u>3,427</u>
Total marketing and stakeholder relations expense	15,273	11,292	21,700	10,408
Employee benefits				
Payroll taxes	5,497	6,021	6,805	784
Health insurance	11,360	12,963	13,500	537
Compensated absences	<u>8,623</u>	<u>8,211</u>	<u>10,000</u>	<u>1,789</u>
Total employee benefits	<u>25,480</u>	<u>27,195</u>	<u>30,305</u>	<u>3,110</u>
Total operating expense excluding amortization and depreciation	<u>508,640</u>	<u>485,591</u>	<u>423,850</u>	<u>(61,741)</u>
Operating income before amortization and depreciation	220,711	181,386	265,100	(83,714)
Amortization	2,651	2,624	3,000	376
Depreciation	<u>126,574</u>	<u>131,105</u>	<u>127,000</u>	<u>(4,105)</u>
	<u>129,225</u>	<u>133,729</u>	<u>130,000</u>	<u>(3,729)</u>
Operating income (loss)	91,486	47,657	135,100	(87,443)
Non-operating revenues (expenses)				
Interest income	5,896	10,168	5,000	5,168
Interest expense	<u>(93,781)</u>	<u>(88,590)</u>	<u>(89,500)</u>	<u>910</u>
Total non-operating revenues (expenses)	<u>(87,885)</u>	<u>(78,422)</u>	<u>(84,500)</u>	<u>6,078</u>
Change in Net Assets	3,601	(30,765)	<u>\$ 50,600</u>	<u>\$ (81,365)</u>
Total net assets, beginning of year (deficit)	<u>(111,104)</u>	<u>(107,503)</u>		
Total net assets, end of year (deficit)	<u>\$ (107,503)</u>	<u>\$ (138,268)</u>		

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES**  
**SUMMARY OF USAGE STATISTICS-ELECTRIC**  
**(UNAUDITED)**  
**JUNE 30, 2005 AND 2006**

**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>2006</u>	
KWH purchased and generated*	65,932,188	100.00%
Less: KWH unaccounted for	<u>(4,813,018)</u>	<u>(7.30%)</u>
KWH billed	<u>61,119,170</u>	<u>92.70%</u>
<u>Rate Categories</u>	<u>Customers</u>	<u>KWH Billed</u>
Single Phase Small	2,659	27,707,720
Single Phase Large	43	2,527,340
Three Phase	140	6,702,015
Commercial	1	593,856
Demand	24	6,423,940
Time of Use	13	14,663,560
Municipal – City of Harlan, Demand	3	480,080
Municipal – Tennant, IA	0	0
Street lights	9	1,003,313
Water Plant – pumping	15	1,017,346
	<u>2,907</u>	<u>61,119,170</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-GAS  
(UNAUDITED)  
JUNE 30, 2005 AND 2006**

**Gas Utility**

	<b><u>2005</u></b>	
CCF purchased	3,275,890	100.00%
Add: CCF unaccounted for	107,022	3.27%
CCF billed	3,382,912	103.27%
<b><u>Rate Categories</u></b>	<b>Customers</b>	<b>CCF Billed</b>
Residential	1,940	1,471,772
Commercial	317	540,505
Large Commercial	34	305,567
Interruptible	4	1,065,068
	2,295	3,382,912
	<b><u>2006</u></b>	
CCF purchased	3,183,900	100.00%
Add: CCF unaccounted for	143,897	4.52%
CCF billed	3,327,797	104.52%
<b><u>Rate Categories</u></b>	<b>Customers</b>	<b>CCF Billed</b>
Residential	1,947	1,387,706
Commercial	314	490,328
Large Commercial	32	348,184
Interruptible	4	1,101,579
	2,297	3,327,797

See Accompanying Independent Auditors' Report.

**HARLAN MUNICIPAL UTILITIES  
SUMMARY OF USAGE STATISTICS-WATER  
(UNAUDITED)  
JUNE 30, 2005 AND 2006**

**Water Utility**

	<u>2005</u>	
Gallons produced	247,456,000	
Gallons used in production	<u>(33,507,000)</u>	
Gallons to account for	213,949,000	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>2006</u>	
Gallons produced	266,175,000	
Gallons used in production	<u>(37,582,000)</u>	
Gallons to account for	228,593,000	100.00%
Less: Gallons unaccounted for	<u>(36,597,996)</u>	<u>(16.01%)</u>
Gallons billed	<u>191,995,004</u>	<u>83.99%</u>

<u>Rate Categories</u>	<u>Customers</u>	<u>Gallons Billed</u>
Residential	2,022	103,966,004
Commercial	389	73,950,000
Interruptible	1	14,079,000
	<u>2,412</u>	<u>191,995,004</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 31, 2006

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, 2006, and have issued our report thereon dated August 31, 2006. 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 opinions 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. There are no reportable conditions to describe in the accompanying Schedule of Findings.

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 31, 2006  
To the Board of Trustees of the  
Harlan Municipal Utilities:

Compliance and Other Matters

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, 2006 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 item III-J-06.

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, 2006**

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, and therefore there were also no 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**

No reportable conditions were noted.

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

- III-A-06 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, 2006 did not exceed the amounts budgeted.
- III-B-06 Questionable Disbursements - Disbursements of the Utility money appear to meet public purpose requirements.
- III-C-06 Travel Expense - No disbursements of Utility money for travel expenses for spouses of the Utilities officials or employees were noted.
- III-D-06 Business Transactions - No business transactions between the Utility and Utility officials or employees were noted.
- III-E-06 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-F-06 Board Minutes - No transactions were found that we believe should have been approved in the board minutes but were not. Also the Utility did publish annual gross salaries as in accordance with an Attorney General's opinion dated April 12, 1978.
- III-G-06 Revenue Notes - The Utility is in compliance with all the provisions of revenue note resolutions for all of the funds.
- III-H-06 Deposits and Investments - No instance of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Utilities' investment policy were noted.

**HARLAN MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2006**

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

III-I-06      Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

III-J-06      Deficit Fund Equity – As previously noted, the Telephone Fund has a deficit balance of \$138,268, as of June 30, 2006.

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-06      Bad Debt Collection – Harlan Municipal Utilities uses a collection agency to try and collect on bad accounts written off. However, all the 2005-2006 accounts written off were not getting processed at the collection agency. As it turns out, the claims were getting e-mailed to a person who no longer works at the agency, and thus the claims were just setting in limbo.

Recommendation – The Utility should make it a priority to get these claims submitted before any more time elapses.

Response – The Utility will resubmit the claims, and the collection agency will make it a priority to get them processed.

Conclusion – Response accepted.