HARLAN MUNICIPAL UTILITIES

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

JUNE 30, 2007

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OFFICIALS

Name	Title	Term Expires
Randall Doran	Chairman	2010
Amy Keast	Vice-Chairman	2011
Michael Hansen	Board Member	2009
Allen Burchett	Board Member	2012
Craig Kroger	Board Member	2007
Tom Gaffigan	Chief Executive Officer	Indefinite
John Doonan	Director of Customer Relations & Support Services	Indefinite
Robert Hall	Attorney	Indefinite

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INDEPENDENT AUDITORS' REPORT

October 31, 2007

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, 2007. 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, 2007, 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.

Member American Institute of Certified Public Accountants and the Iowa Society of Certified Public Accountants

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2007, 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 grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 11 and 38 through 40 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 three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Information in Schedules 11 through 13 has not been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, accordingly, we express no opinion on it.

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

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

HARLAN MUNICIPAL UTILITIES

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Water
Gas

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2007. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities increased .52%, or $62,476, from fiscal 2006 to fiscal 2007.
- Operating expenses increased 6.50%, or $498,032 from fiscal 2006 to fiscal 2007.
- The Utilities' net assets of business type activities increased 11.86%, or $2,383,068 from June 30, 2006 to June 30, 2007.

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

Business Type Activities-Enterprise Funds

	Year Ended 6-30-07	Restated 6-30-06
Current and other assets	$ 11,561,852	$ 10,386,056
Capital assets	21,472,182	20,097,499
Total Assets	$ 33,034,034	$ 30,483,555
Current liabilities	$ 2,182,489	$ 3,342,727
Non-current liabilities	8,380,926	7,053,277
Total Liabilities	$ 10,563,415	$ 10,396,004
Net assets:		
Invested in capital assets, net of related debt	$ 12,307,431	$ 11,116,055
Restricted	2,411,212	2,274,693
Unrestricted	7,751,976	6,696,803
Total net assets	$ 22,470,619	$ 20,087,551

Net assets of business type activities increased from FY06 by $2,383,068, or 11.86%. The largest portion of the Utilities' net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, increased by $1,055,173 at the end of this year, an increase of 15.76%.

This increase in unrestricted net assets is a result of approximately $2,383,000 change in net assets for the year ended June 30, 2007. The invested in capital assets, net of related debt, increased by approximately $1,191,000 due to more capital assets being acquired.

Business Type Activities-Enterprise Funds

	6-30-07	Restated 6-30-06
Revenues:		
Charges for services	$ 12,182,555	$ 12,120,079
Interest income	288,723	148,980
Capital grants	91,547	26,268
Gain on sales of assets	150,000	-0-
Total revenues	12,712,825	12,295,327
Operating expenses:		
Plant operations	5,969,658	5,550,638
Distribution operations	661,877	691,811
Administrative and general	685,413	619,282
Consumer services	24,483	25,493
Marketing and stakeholder relations	143,645	127,724
Employee benefits	671,168	643,264
Total operating expenses	8,156,244	7,658,212
Other expenses:		
Amortization	20,825	21,130
Depreciation	1,439,921	1,317,113
Contributions to City-In lieu of taxes	250,447	242,382
Loss on sale of assets	-0-	355
Interest expense	398,320	422,501
Industrial development contribution	64,000	31,250
Total other expense	2,173,513	2,034,731
Increase in net assets	2,383,068	2,602,384
Net assets beginning of year	20,087,551	17,485,167
Net assets end of year	$ 22,470,619	$ 20,087,551

INDIVIDUAL PROPRIETARY FUND ANALYSIS

Proprietary Fund Highlights

The Electric Fund, which accounts for the operation and maintenance of the Utilities' electrical system, ended fiscal 2007 with a $15,251,926 net asset balance compared to the prior year ending restated net asset balance of $13,511,533.

The Gas Fund, which accounts for the operation and maintenance of the Utilities' gas system, ended fiscal 2007 with a $3,095,769 net asset balance compared to the prior year ending net asset balance of $2,929,636.

The Water Fund, which accounts for the operation and maintenance of the Utilities' water system, ended fiscal 2007 with a $3,100,264 net asset balance compared to the prior year ending net asset balance of $2,894,459.

The Telecommunication Fund, which accounts for the operation and maintenance of the Utilities' cable and internet system, ended fiscal 2007 with a $1,114,348 net asset balance compared to the prior year ending net asset balance of $890,191.

The Telephone Fund, which accounts for the operation and maintenance of the Utilities' telephone communication system, ended fiscal 2007 with a $(129,679) net asset balance deficit compared to the prior year ending net asset balance deficit of $(138,268).

BUDGETARY HIGHLIGHTS

Over the course of the year, the Utility amended its budget once. The amendment was needed to cover unplanned operating revenues, capital grants, and proceeds from the sale of an asset. The amendments to the budget also decreased bond proceeds and increased the capital expenditures and debt retirement.

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 $42,037,349 at June 30, 2007. This is a net increase (including additions and deletions) of $1,380,540 or 3.40% over last year.

Capital Assets at Year End

	June 30	
	2007	2006
Intangible Plant	$ 220,632	$ 220,632
Production	10,535,261	9,603,794
Transmission & Pumping	5,788,711	5,667,404
Distribution	17,231,851	16,974,458
General	3,288,375	3,274,556
Fiber Optics	4,972,519	4,915,965
Total	42,037,349	40,656,809
Less: Accumulated Depreciation	21,999,231	20,559,310
Net Capital Assets	$ 20,038,118	$ 20,097,499

This year's major additions included:	
Electric Fund – New primary & electrical services	$ 1,009,869
Gas Fund – New main & services	94,532
Water Fund – Replacement & new service lines	168,842
Telecommunication Fund – Cable modems, equipment, and services	59,410
Telephone Fund – Interface units, test equipment and tools	47,887
Total	$ 1,380,540

The Utility had depreciation expense of $1,439,921 in fiscal year June 30, 2007.

There were no disposals for June 30, 2007. The Utility did sell the Tennant Rural Service Line; however, this was expensed before the Utility started their capitalization policy.

Long-Term Debt

At June 30, 2007, the Utility had $9,449,207 in total debt outstanding for business type activities compared to $9,326,005 at June 30, 2006 as shown below.

Outstanding Debt of Business Type Activities at Year-End

	June 30	
	2007	Restated 2006
Revenue bonds	$ 7,860,000	$ 7,650,000
Capital loan notes	1,533,454	1,614,921
Contract payable	55,753	61,084
Total	$ 9,449,207	$ 9,326,005

During the year ended June 30, 2007, a new electric revenue bond for $1,280,000 was issued, and the Utility refinanced the telephone capital loan for $1,400,000. Total debt was reduced by $2,556,798 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 2008 budget. The Utility will experience a slight increase in revenues and expenditures from fiscal 2007 to fiscal 2008.

The Business Type Activities—Enterprise Fund is projected to end fiscal 2008 with a fund balance of approximately $24,524,475, a 9.14% increase from fiscal 2007.

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, 2007

	Business Type Activities - Electric Utility	Gas Utility	Water Utility
ASSETS			
CURRENT ASSETS			
Designated			
Plant improvements, emergency and contingency funds:			
Cash and savings	$ 716,276	$ 243,062	$ 37,991
Replacement funds bond requirement:			
Cash and savings	250,000	-0-	-0-
Restricted			
Consumers' deposit fund	23,724	-0-	-0-
Revenue bond retirement-savings	852,552	-0-	-0-
Capital improvement fund – savings	3,336	-0-	170,000
Unrestricted			
Cash and savings	3,091,187	1,754,032	308,661
Industrial development fund	146,298	118,954	-0-
Accounts receivable - net of allowance for doubtful accounts of $38,000	433,692	46,502	198,108
Unbilled usage	235,265	58,229	54,912
Employee loans receivable	15,394	-0-	-0-
Inventory	301,931	31,627	53,651
Prepaid expenses	31,718	24,215	25,112
Total current assets	6,101,373	2,276,621	848,435
CAPITAL ASSETS			
Utility plant			
Plant in service, at cost	29,452,913	2,233,776	7,394,030
Less accumulated depreciation	15,689,964	1,407,353	3,723,474
	13,762,949	826,423	3,670,556
Construction work in progress	1,434,064	-0-	-0-
Net capital assets	15,197,013	826,423	3,670,556
OTHER ASSETS			
Other A/R – CABS L.T.	-0-	-0-	-0-
Bond discount and issuance costs	29,705	-0-	19,487
Intra-utility note receivable	94,954	142,430	-0-
Restricted investments for bonds:			
Debt reserve	818,500	-0-	227,000
Total other assets	943,159	142,430	246,487
Total assets	$ 22,241,545	$ 3,245,474	$ 4,765,478

Enterprise Funds			
Telecommunications Utility	Telephone Utility	Elimination	Totals
$ 109,343	$ -0-	$ -0-	$ 1,106,672
-0-	-0-	-0-	250,000
-0-	-0-	-0-	23,724
18,599	49,114	-0-	920,265
-0-	-0-	-0-	173,336
368,259	175,661	-0-	5,697,800
-0-	-0-	-0-	265,252
112,755	63,987	-0-	855,044
-0-	17,185	-0-	365,591
-0-	-0-	-0-	15,394
5,720	-0-	-0-	392,929
8,072	2,691	-0-	91,808
622,748	308,638	-0-	10,157,815
1,205,944	1,750,686	-0-	42,037,349
543,297	635,143	-0-	21,999,231
662,647	1,115,543	-0-	20,038,118
-0-	-0-	-0-	1,434,064
662,647	1,115,543	-0-	21,472,182
-0-	136,972	-0-	136,972
650	-0-	-0-	49,842
-0-	-0-	(237,384)	-0-
31,723	140,000	-0-	1,217,223
32,373	276,972	(237,384)	1,404,037
$ 1,317,768	$ 1,701,153	$ (237,384)	$ 33,034,034

See Notes to Financial Statements.

HARLAN MUNICIPAL UTILITIES
BALANCE SHEET (Continued)
PROPRIETARY FUNDS
JUNE 30, 2007

	Business Type Activities-		
	Electric Utility	Gas Utility	Water Utility
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	$ 217,364	$ 92,338	$ 18,214
Payroll taxes payable	32,501	-0-	-0-
State sales and use taxes payable	1,264	2,645	8,265
Salaries, vacation and sick leave payable	48,451	19,983	38,473
Accrued property taxes	124,008	-0-	-0-
Bonds called not paid	12,080	-0-	-0-
Due City of Harlan for collections & fees	-0-	-0-	147,271
Other accrued liabilities	758	-0-	-0-
Payable from restricted assets			
Current maturities of long-term debt	1,055,254	-0-	-0-
Interest payable	64,328	-0-	-0-
Customers' deposits	22,850	-0-	-0-
Total current liabilities	1,578,858	114,966	212,223
NONCURRENT LIABILITIES			
Long-Term Debt, net of current maturities (Note 5)	5,395,000	-0-	1,415,000
Contract payable, net of current maturities (Note 5)	15,761	34,739	-0-
Deferred revenue – CABS	-0-	-0-	-0-
Intra-utility note payable, net of current maturities	-0-	-0-	-0-
Total noncurrent liabilities	5,410,761	34,739	1,415,000
NET ASSETS			
Invested in capital assets, net of related debt	8,730,998	791,684	2,255,556
Restricted for:			
Customer deposits	23,724	-0-	-0-
Revenue bond-debt reserve	818,500	-0-	227,000
Revenue bond retirement	852,552	-0-	-0-
Replacement funds – bond	250,000	-0-	-0-
Unrestricted	4,576,152	2,304,085	655,699
Total net assets	15,251,926	3,095,769	3,138,255
Total liabilities and net assets	$ 22,241,545	$ 3,245,474	$ 4,765,478

Enterprise Funds				
Telecommunications Utility	Telephone Utility	Elimination	Totals	
$ 38,708	$ 34,738	$ -0-	$ 401,362	
-0-	-0-	-0-	32,501	
3,252	776	-0-	16,202	
11,151	4,579	-0-	122,637	
-0-	-0-	-0-	124,008	
-0-	-0-	-0-	12,080	
15,771	-0-	-0-	163,042	
-0-	388	-0-	1,146	
65,000	85,000	-0-	1,205,254	
1,084	15,995	-0-	81,407	
-0-	-0-	-0-	22,850	
134,966	141,476	-0-	2,182,489	
68,454	1,315,000	-0-	8,193,454	
-0-	-0-	-0-	50,500	
-0-	136,972	-0-	136,972	
-0-	237,384	(237,384)	-0-	
68,454	1,689,356	(237,384)	8,380,926	
529,193	-0-	-0-	12,307,431	
-0-	-0-	-0-	23,724	
31,723	140,000	-0-	1,217,223	
18,599	49,114	-0-	920,265	
-0-	-0-	-0-	250,000	
534,833	(318,793)	-0-	7,751,976	
1,114,348	(129,679)	-0-	22,470,619	
$ 1,317,768	$ 1,701,153	$ (237,384)	$ 33,034,034	

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, 2007

	Business Type Activities – Enterprise Funds					
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility	Telephone Utility	Total
OPERATING REVENUES						
Sales to consumers	$ 5,301,937	$ 2,887,982	$ 1,268,400	$ 1,139,439	$ 692,796	$ 11,290,554
Other operating revenue	114,611	7,870	27,443	19,755	-0-	169,679
Excess sales – Louisa Power	722,322	-0-	-0-	-0-	-0-	722,322
Total operating revenue	6,138,870	2,895,852	1,295,843	1,159,194	692,796	12,182,555
OPERATING EXPENSES						
Plant operation expenses						
Cost of gas, power, chemicals, programming, and line fees	1,819,416	2,109,501	73,729	453,618	363,030	4,819,294
Cost of excess sales	214,208	-0-	-0-	-0-	-0-	214,208
Salaries and wages	61,080	18,163	154,931	17,254	1,229	252,657
Repairs and maintenance	10,531	9,921	73,029	18,117	4,305	115,903
Utilities	57,610	17,700	94,967	13,893	4,632	188,802
Insurance	41,129	31,140	32,293	10,380	3,460	118,402
Property taxes	124,008	-0-	-0-	-0-	-0-	124,008
Other	53,412	19,266	44,658	3,341	15,707	136,384
Total plant operation expense	2,381,394	2,205,691	473,607	516,603	392,363	5,969,658
Distribution operation expenses						
Salaries and wages	191,117	104,656	28,504	69,969	-0-	394,246
Engineering	5,119	4,050	11,141	6,412	-0-	26,722
Repairs and maintenance	127,913	27,532	20,962	9,712	43	186,162
Other	4,698	1,164	1,017	47,868	-0-	54,747
Total distribution operation expense	328,847	137,402	61,624	133,961	43	661,877
Administrative and general expenses						
Salaries and wages	104,945	98,575	97,202	47,280	37,890	385,892
Office supplies	49,412	8,968	18,189	23,603	5,769	105,941
Education and travel	10,375	17,173	4,014	2,676	-0-	34,238
Professional	34,704	35,520	12,170	26,016	1,234	109,644
Other	4,353	11,535	28,579	890	4,341	49,698
Total administrative and general expenses	203,789	171,771	160,154	100,465	49,234	685,413

HARLAN MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Business Type Activities – Enterprise Funds					
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility	Telephone Utility	Total
OPERATING EXPENSES (Continued)						
Consumer services						
Bad debts	$ 4,779	$ 12,440	$ 6,029	$ 819	$ (952)	$ 23,115
Other	-0-	-0-	-0-	1,065	303	1,368
Total consumer services	4,779	12,440	6,029	1,884	(649)	24,483
Marketing and stakeholder relations						
Salaries and wages	9,620	9,777	9,645	36,799	4,972	70,813
Advertising	18,518	4,097	5,340	13,468	4,167	45,590
Other	7,114	8,658	4,692	6,062	716	27,242
Total marketing and stakeholder relations	35,252	22,532	19,677	56,329	9,855	143,645
Employee benefits						
Payroll taxes	63,332	34,413	49,970	25,993	6,896	180,604
Health insurance	114,494	42,936	80,965	23,157	12,784	274,336
Compensated absences	91,009	35,558	58,257	21,750	9,654	216,228
Total employee benefits	268,835	112,907	189,192	70,900	29,334	671,168
Total operating expenses excluding Amortization and depreciation	3,222,896	2,662,743	910,283	880,142	480,180	8,156,244
Operating income (loss) before amortization and depreciation	2,915,974	233,109	385,560	279,052	212,616	4,026,311
Amortization	11,171	-0-	4,585	1,262	3,807	20,825
Depreciation	1,034,519	56,340	156,865	58,039	134,158	1,439,921
	1,045,690	56,340	161,450	59,301	137,965	1,460,746
Operating income (loss)	1,870,284	176,769	224,110	219,751	74,651	2,565,565

HARLAN MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Business Type Activities – Enterprise Funds					
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility	Telephone Utility	Total
NON-OPERATING REVENUES (EXPENSES)						
Capital Grants	$ 2,368	$ 1,984	$ 87,195	$ -0-	$ -0-	$ 91,547
Contributions to City-In lieu of taxes (Note 8)	(185,537)	(37,523)	(26,892)	(495)	-0-	(250,447)
Gain (Loss) on sale of assets	150,000	-0-	-0-	-0-	-0-	150,000
Interest income	180,489	56,903	26,928	11,074	13,329	288,723
Interest expense	(245,211)	-0-	(67,545)	(6,173)	(79,391)	(398,320)
Industrial development contribution	(32,000)	(32,000)	-0-	-0-	-0-	(64,000)
Total non-operating revenues (expenses)	(129,891)	(10,636)	19,686	4,406	(66,062)	(182,497)
Change in Net Assets	1,740,393	166,133	243,796	224,157	8,589	2,383,068
Total net assets (deficit), beginning	13,511,533	2,929,636	2,894,459	890,191	(138,268)	20,087,551
Total net assets (deficit), ending	$ 15,251,926	$ 3,095,769	$ 3,138,255	$ 1,114,348	$ (129,679)	$ 22,470,619

See Notes to Financial Statement

HARLAN MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Business Type Activities -		
	Electric Utility	Gas Utility	Water Utility
Cash flows from operating activities:			
Cash received from customers and users	$ 5,247,298	$ 2,920,455	$ 1,259,115
Cash received from other revenues	836,933	7,870	27,443
Cash paid to suppliers	(2,486,918)	(2,215,417)	(370,742)
Cash paid for personal services	(307,536)	(175,740)	(209,948)
Cash paid to employees	(454,490)	(266,437)	(342,521)
Net cash provided by operating activities	2,835,287	270,731	363,347
Cash flows from noncapital financing activities:			
Contributions to City – In lieu of taxes	(185,537)	(37,523)	(26,892)
Net cash provided (used) by noncapital financing activities	(185,537)	(37,523)	(26,892)
Cash flows from capital and related financing activities:			
Loan proceeds	1,280,000	-0-	-0-
Gain on sales of assets	150,000	-0-	-0-
Acquisition of capital assets	(2,443,933)	(94,532)	(168,842)
Repayments on intra-utility notes	-0-	-0-	-0-
Principal payments on long-term borrowings	(920,254)	(77)	(155,000)
Interest paid on notes	(241,947)	-0-	(67,545)
Bond discount/issue costs paid	(18,887)	-0-	-0-
Net cash provided (used) by capital and related financing activities	(2,195,021)	(94,609)	(391,387)
Cash flows from investing activities:			
Capital grants	2,368	1,984	87,195
Interest on investments	180,489	56,903	26,928
Industrial development contribution	(32,000)	(32,000)	-0-
Principal received (loaned) on employee loans	3,512	-0-	-0-
Principal received on intra-utility notes	47,476	-0-	-0-
Net cash provided by investing activities	201,845	26,887	114,123
Net increase in cash and cash equivalents	656,574	165,486	59,191
Cash and cash equivalents beginning of year	5,245,299	1,950,562	684,461
Cash and cash equivalents end of year	$ 5,901,873	$ 2,116,048	$ 743,652

Enterprise Funds		
Telecommunications Utility	Telephone Utility	Total
$ 1,119,491	$ 683,228	$ 11,229,587
19,755	-0-	892,001
(561,158)	(391,469)	(6,025,704)
(123,749)	(35,258)	(852,231)
(194,125)	(53,565)	(1,311,138)
260,214	202,936	3,932,515
(495)	-0-	(250,447)
(495)	-0-	(250,447)
-0-	1,400,000	2,680,000
-0-	-0-	150,000
(59,410)	(47,887)	(2,814,604)
-0-	(47,476)	(47,476)
(63,771)	(1,417,696)	(2,556,798)
(6,691)	(84,592)	(400,775)
-0-	-0-	(18,887)
(129,872)	(197,651)	(3,008,540)
-0-	-0-	91,547
11,074	13,329	288,723
-0-	-0-	(64,000)
-0-	-0-	3,512
-0-	-0-	47,476
11,074	13,329	367,258
140,921	18,614	1,040,786
387,003	346,161	8,613,486
$ 527,924	$ 364,775	$ 9,654,272

See Notes to Financial Statements.

HARLAN MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Business Type Activities - Electric Utility	Gas Utility	Water Utility
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$ 1,870,284	$ 176,769	$ 224,110
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	1,034,519	56,340	156,865
Amortization expense	11,171	-0-	4,585
(Increase) decrease in customer accounts receivable and unbilled usage and other accounts receivable	(54,639)	32,473	(9,285)
(Increase) decrease in inventories	(57,906)	(5,875)	(17,444)
(Increase) decrease in prepaid expenses	4,429	3,852	948
Increase (decrease) in accounts payable	23,498	6,794	(2,248)
Increase (decrease) in payroll taxes payable	(6,231)	-0-	-0-
Increase (decrease) in sales & use tax payable	(175)	86	(202)
Increase (decrease) in salaries payable	3,281	292	6,018
Increase (decrease) in property taxes payable	7,467	-0-	-0-
Increase (decrease) in other payables	(411)	-0-	-0-
Net cash provided by operating activities	$ 2,835,287	$ 270,731	$ 363,347
Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Assets:			
Current assets:			
Cash and pooled investments	$ 3,237,485	$ 1,872,986	$ 308,661
Restricted assets:			
Cash and pooled investments:			
Revenue bond retirement	1,102,552	-0-	-0-
Revenue bond debt reserve	818,500	-0-	227,000
Capital improvements	3,336	-0-	170,000
Designated contingency fund	716,276	243,062	37,991
Consumers' deposit fund	23,724	-0-	-0-
Cash and cash equivalents end of year	$ 5,901,873	$ 2,116,048	$ 743,652

Enterprise Funds		
Telecommunications Utility	Telephone Utility	Total
$ 219,751	$ 74,651	$ 2,565,565
58,039	134,158	1,439,921
1,262	3,807	20,825
(19,948)	(9,568)	(60,967)
(1,151)	-0-	(82,376)
305	101	9,635
(2,351)	(156)	25,537
-0-	-0-	(6,231)
102	(625)	(814)
(1,073)	180	8,698
-0-	-0-	7,467
5,278	388	5,255
$ 260,214	$ 202,936	$ 3,932,515
$ 368,259	$ 175,661	$ 5,963,052
18,599	49,114	1,170,265
31,723	140,000	1,217,223
-0-	-0-	173,336
109,343	-0-	1,106,672
-0-	-0-	23,724
$ 527,924	$ 364,775	$ 9,654,272

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

(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.

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.

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, 2007 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 $38,000 at June 30, 2007.

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 delivered a shut off notice.

I. Restricted Assets – Funds set aside for payment of revenue bonds are classified as restricted assets since their use is restricted by applicable bond indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers and 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, 2007 was $274,708.

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, 2007 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, 2007 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, 2007 was $287,423. This liability is not reflected in the financial statements since the amounts actually payable are not readily determinable.

N. Advertising

Advertising costs are expensed as incurred. Advertising expense was $45,590 for the year ended June 30, 2007. This includes the expenses incurred in their energy efficiency program.

O. 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.

P. 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.

Q. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenses exceeded the amount budgeted for the business type activities for the cash basis budget.

(2) Deposits and Investments

The Utility's deposits in banks at June 30, 2007 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.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2007 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	9,603,794	931,467	-0-	10,535,261
Transmission & Pumping	5,667,404	121,307	-0-	5,788,711
Distribution	16,974,458	257,393	-0-	17,231,851
General	3,274,556	13,819	-0-	3,288,375
Fiber Optics	4,915,965	56,554	-0-	4,972,519
Total property, plant and equipment	40,656,809	1,380,540	-0-	42,037,349
Less: accumulated depreciation	20,559,310	1,439,921	-0-	21,999,231
Net property, plant and equipment	$ 20,097,499	$ (59,381)	$ -0-	$ 20,038,118
Depreciation charged to operations				$ 1,439,921

(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.

(4) Bonds Payable & Contract Payable (Continued)

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

Electric Fund:	Date of Issue	Amount Originally Issued	Interest Rates	Final Due Date	Annual Payments	Outstanding June 30, 2007
Elec. Revenue Bond	6-29-96	$ 2,525,000	5.00-5.50%	10-01-09	$25,000-525,000	$ 1,475,000
Elec. Rev. Bond, Services 2003 A	2-10-03	980,000	2.25-2.85%	10-01-08	$185,000-245,000	590,000
Elec. Rev. Bond, Series 2004	5-01-04	3,400,000	3.00-4.00%	10-01-15	$150,000-480,000	3,100,000
Elec. Rev. Bond, Series 2006	12-5-06	1,280,000	3.70-4.05%	10-01-17	$100,000-140,000	1,280,000
Contract Payable, Myrtue Hospital	12-1-05	26,268	0%	12-01-10	$5,254	21,014
Total Electric Bonds & Contracts						$ 6,466,014
Water Fund:						
Water Rev. Bond, Series 1999	7-01-99	$ 1,600,000	4.85%-5.00%	7-01-14	$90,000-145,000	$ 885,000
Water Rev. Bond, Series 2004	4-15-04	670,000	1.40%-4.10%	7-01-16	$45,000-70,000	530,000
Total Water Bonds						$ 1,415,000
Telecommunications Fund:						
Communications Utility Rev. Refunding Capital Loan, Series 2004	4-01-04	$ 317,225	3.25%	4-01-09	$66,000-67,225	$ 133,454
Telephone Fund:						
Telephone Capital Loan Note	3-30-07	1,400,000	4.52%	4-01-12	$85,000	1,400,000
						$ 1,400,000
Gas Fund:						
Contract Payable-Shelby County	9-26-96	$ 37,063	0%	Unknown	Various	$ 34,739

(4) Bonds Payable & Contracts Payable (Continued)

Long-Term Debt Summary

Long-term debt maturities are as follows:

Year Ending	Electric Revenue Bonds & Contracts		Water Revenue Bonds		Telecommunications Revenue Bond Anticipation Note		Telephone Revenue Capital Loan Note	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 1,055,254	$ 236,470	$ -0-	$ 30,726	$ 65,000	$ 4,297	$ 85,000	$ 63,640
2009	1,005,254	194,460	160,000	58,222	68,454	2,185	85,000	59,438
2010	785,253	154,463	165,000	51,550	-0-	-0-	85,000	55,596
2011	510,253	127,136	170,000	44,491	-0-	-0-	85,000	51,754
2012	525,000	109,261	180,000	36,897	-0-	-0-	1,060,000	47,912
2013	545,000	90,128	190,000	28,638	-0-	-0-	-0-	-0-
2014	565,000	69,691	200,000	19,805	-0-	-0-	-0-	-0-
2015	590,000	47,239	210,000	10,427	-0-	-0-	-0-	-0-
2016	610,000	23,270	70,000	4,235	-0-	-0-	-0-	-0-
2017	135,000	8,370	70,000	1,435	-0-	-0-	-0-	-0-
2018	140,000	2,835	-0-	-0-	-0-	-0-	-0-	-0-
Total	$ 6,466,014	$ 1,063,323	$ 1,415,000	$ 286,426	$ 133,454	$ 6,482	$ 1,400,000	$ 278,340

(5) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2007 is as follows:

	Electric Revenue Bonds & Contracts	Water Revenue Bonds	Telecommunications Capital Loan Notes	Telephone Capital Loan Notes	Gas Shelby County Contract	Total
Balance, beginning	$ * 6,106,268	$ 1,570,000	$ 197,225	$ 1,417,696	$ 34,816	$ 9,326,005
Issued	1,280,000	-0-	-0-	1,400,000	-0-	2,680,000
Paid	(920,254)	(155,000)	(63,771)	(1,417,696)	(77)	(2,556,798)
Balance, ending 6-30-07	6,466,014	1,415,000	133,454	1,400,000	34,739	9,449,207
Less: Current Portion	(1,055,254)	-0-	(65,000)	(85,000)	-0-	(1,205,254)
L.T. Debt, net of Current Portion	$ 5,410,760	$ 1,415,000	$ 68,454	$ 1,315,000	$ 34,739	$ 8,243,953

*This beginning balance was restated for a Contract Payable to Myrtue Hospital which existed as of 6-30-06 in the amount of $26,268. See Note 13 on Restatements.

(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, 2007 is as follows:

Payable Fund.	Telephone Utility		
Receivable Fund.	Loan from Elec. Utility	Loan from Gas Utility	Totals
Beginning Balance 7-1-06	$142,430	$142,430	$284,860
Less: Payments made by Telephone Utility	(47,476)	-0-	(47,476)
Ending Balance 6-30-07	$ 94,954	$142,430	$237,384

(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, 2007 is as follows:

Unit	Percentage of Ownership	Louisa Electric Utility Plant, Net
Louisa Power Plant and Transmission Lines	.8%	$ 6,794,432

(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, 2007 was $250,447.

(9) Deficit Balances

The Telephone Fund had a Fund deficit of $129,679 for the year ended June 30, 2007. 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. During the year ended June 30, 2007, this deficit was reduced by $8,589 when compared to the prior year.

(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, 2007, 2006 and 2005 were $82,062, $80,751 and $81,602, 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. The Utility paid this pledge off in April 2007.

In December 2006, the Utility approved funding in the amount of $125,000 to Iowa Western Community College for a college park project. This pledge is to be spread over 5 years with the first payment most likely to be made in November, 2007.

(13) Restatements for June 30, 2006

There were several restatements made on the June 30, 2006 financial statements which are reported under schedules 1 and 2 for the Electric Fund.

Under the Electric Utility, the other operating revenues were reduced by $52,537 and instead posted $26,269 to a Contract Payable – Myrtue Memorial Hospital and $26,268 to capital grant income.

The effects of the restatements are summarized as follows:

Net assets at June 30, 2006, as previously reported	$13,537,802
Contract Payable adjustment	(26,269)
Net assets at June 30, 2006 – Restated	$13,511,533

(14) Subsequent Events

Effective October 1, 2007, the Utility will have a rate change for Cable TV services. Any package which includes the expanded basic cable tier will increase by $3.00 and audit visual services will increase by $2.90. Two new channels will also be added.

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, 2007

	Accrual Basis		
	Total Proprietary Funds-Actual	Final Budgeted Amounts	Variance Favorable (Unfavorable)
Operating Revenues			
Sales to consumers	$11,290,554	$11,784,781	$ (494,227)
Other operating revenue	169,679	145,184	24,495
Total operating revenue	11,460,233	11,929,965	(469,732)
Operating Expenses			
Plant operation expenses	5,247,336	5,693,801	446,465
Distribution operation	661,877	662,558	681
Administrative and general	685,413	658,931	(26,482)
Consumer services	24,483	56,877	32,394
Marketing and relations	143,645	139,918	(3,727)
Employee benefits	671,168	638,161	(33,007)
Amortization and depreciation	1,460,746	1,415,200	(45,546)
Total operating expenses	8,894,668	9,265,446	370,778
Operating income	2,565,565	2,664,519	(98,954)
Other revenues (expenses), net	(182,497)	(413,362)	230,865
Change in net assets	2,383,068	$2,251,157	$ 131,911
Total net assets, beginning	20,087,551		
Total net assets, ending	$22,470,619		

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, 2007

	Cash Basis		
	Total Proprietary Funds-Actual	Final Budgeted Amounts	Variance Favorable (Unfavorable)
Receipts:			
Charge for services	$11,954,968	$11,784,781	$ 170,187
Miscellaneous	169,679	145,184	24,495
Total receipts	12,124,647	11,929,965	194,682
Disbursements:			
Business type activities	8,191,072	7,850,246	(340,826)
Excess of receipts over disbursements	3,933,575	4,079,719	(146,144)
Other financing sources (uses):			
Loan proceeds	2,680,000	2,697,696	(17,696)
Proceeds from sale of assets	150,000	150,000	-0-
Capital grants	91,547	85,146	6,401
Acquisition of capital assets	(2,814,604)	(2,905,277)	90,673
Interest received on investments	288,724	80,600	208,124
Principal/Interest payments on long term borrowings	(2,955,119)	(3,020,404)	65,285
Other sources (uses), net	(333,337)	(336,400)	3,063
Total other financing sources (uses)	(2,892,789)	(3,248,639)	355,850
Excess of receipts and other financing sources over disbursements and other financing uses	1,040,786	831,080	$ 209,706
Balances, beginning of year	8,613,486	6,551,752	
Balances, end of year	$ 9,654,272	$7,382,832	

See Accompanying Independent Auditors' Report.

HARLAN MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

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 operating revenues by $20,000, increased other financing sources by $82,842, and increased other financing uses by $974,797.

During the year ended June 30, 2007, disbursements in the business type activities exceeded the amount budgeted for the cash basis.

OTHER SUPPLEMENTARY INFORMATION

Schedule 1

HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
COMPARATIVE BALANCE SHEETS
JUNE 30, 2006 AND 2007

	Restated 2006	2007
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	23,374	23,724
Revenue bond retirement-savings	778,377	852,552
Capital improvement fund – savings	102,411	3,336
Unrestricted		
Cash and savings	2,487,022	3,091,187
Industrial development fund	148,339	146,298
Accounts receivable-net of allowance for doubtful accounts of $8,000 for 2006 and $8,500 for 2007	393,062	433,692
Unbilled usage	221,256	235,265
Employee loans receivable	18,906	15,394
Inventory	244,025	301,931
Prepaid expenses	36,147	31,718
Total current assets	5,419,195	6,101,373
CAPITAL ASSETS		
Electric Utility Plant		
Plant in service, at cost	28,443,043	29,452,913
Less: accumulated depreciation	14,655,444	15,689,964
	13,787,599	13,762,949
Construction work in progress	-0-	1,434,064
Net capital assets	13,787,599	15,197,013
OTHER ASSETS		
Bond discount and issuance costs	21,989	29,705
Intra-utility note receivable	142,430	94,954
Restricted investments for bonds:		
Debt reserve and sinking	739,500	818,500
Total other assets	903,919	943,159
Total assets	$ 20,110,713	$ 22,241,545

HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
COMPARATIVE BALANCE SHEETS (Continued)
JUNE 30, 2006 AND 2007

	Restated 2006	2007
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 193,866	$ 217,364
Payroll taxes payable	38,732	32,501
Sales and use tax payable	1,439	1,264
Salaries, vacation and sick leave payable	45,170	48,451
Accrued property taxes	116,541	124,008
Bonds called not paid	12,080	12,080
Other accrued liabilities	714	758
Payable from restricted assets		
Current maturities of long-term debt	920,254	1,055,254
Interest payable	61,064	64,328
Customers' deposits	23,305	22,850
Total current liabilities	1,413,165	1,578,858
Long-term debt, net of current maturities	5,165,000	5,395,000
Contract Payable, net of current maturities	21,015	15,761
	5,186,015	5,410,761
NET ASSETS		
Designated	966,277	966,277
Undesignated	12,545,256	14,285,649
Total net assets	13,511,533	15,251,926
Total Liabilities & Net Assets	$ 20,110,713	$ 22,241,545

See Accompanying Independent Auditors' Report.

Schedule 2

HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2007

	Restated 2006 Actual	2007 Actual	2007 Budget	Budget Variance Favorable (Unfavorable)
OPERATING REVENUES				
Sales to consumers	$5,205,544	$5,301,937	$5,468,591	$ (166,654)
Other operating revenues	143,000	114,611	100,184	14,427
Excess sales – Louisa Power	802,050	722,322	-0-	722,322
Total operating revenues	6,150,594	6,138,870	5,568,775	570,095
OPERATING EXPENSES				
Plant operation expenses				
Cost of excess sales	218,658	214,208	226,242	12,034
Cost of power	1,540,713	1,819,416	1,341,029	(478,387)
Salaries and wages	34,452	61,081	49,895	(11,186)
Repairs and maintenance	4,434	10,531	4,426	(6,105)
Utilities	56,480	57,610	60,200	2,590
Insurance	35,587	41,129	38,000	(3,129)
Property taxes	116,541	124,008	120,000	(4,008)
Other	40,566	53,411	43,330	(10,081)
Total plant operation expense	2,047,431	2,381,394	1,883,122	(498,272)
Distribution operation expenses				
Salaries and wages	202,209	191,117	217,504	26,387
Engineering	6,175	5,119	9,580	4,461
Repairs and maintenance	156,622	127,913	105,727	(22,186)
Other	5,556	4,698	6,727	2,029
Total distribution operation expense	370,562	328,847	339,538	10,691
Administrative and general expenses				
Salaries and wages	102,681	104,945	108,138	3,193
Office supplies	46,222	49,411	45,500	(3,911)
Education and travel	12,058	10,376	10,229	(147)
Professional services	16,003	34,704	25,500	(9,204)
Other	4,353	4,353	4,480	127
Total administrative and general expense	181,317	203,789	193,847	(9,942)
Consumer services				
Bad debts (collected)	(3,156)	4,779	12,000	7,221
Total consumer services	(3,156)	4,779	12,000	7,221

HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS (Continued)
FOR THE YEARS ENDED JUNE 30, 2006 AND 2007

	Restated 2006 Actual	2007 Actual	2007 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	$ 9,128	$ 9,620	$ 9,704	$ 84
Advertising	8,523	18,518	6,560	(11,958)
Other	6,878	7,114	8,465	1,351
Total marketing and stakeholder relations expense	24,529	35,252	24,729	(10,523)
Employee benefits				
Payroll taxes	62,027	63,332	63,143	(189)
Health insurance	116,474	114,494	110,000	(4,494)
Compensated absences	90,860	91,009	84,355	(6,654)
Total employee benefits	269,361	268,835	257,498	(11,337)
Total operating expense excluding amortization and depreciation	2,890,044	3,222,896	2,710,734	(512,162)
Operating income before amortization and depreciation	3,260,550	2,915,974	2,858,041	57,933
Amortization	11,750	11,171	10,000	(1,171)
Depreciation	911,670	1,034,519	990,000	(44,519)
	923,420	1,045,690	1,000,000	(45,690)
Operating income	2,337,130	1,870,284	1,858,041	12,243
Non-operating revenues (expenses)				
Capital grants	26,268	2,368	-0-	2,368
Contributions to City-In lieu of taxes (Note 8)	(181,075)	(185,537)	(180,000)	(5,537)
Gain on sale of assets	-0-	150,000	150,000	-0-
Interest income	83,822	180,489	50,000	130,489
Interest expense	(252,808)	(245,211)	(231,645)	(13,566)
Industrial development contribution	(15,625)	(32,000)	(50,000)	18,000
Total non-operating revenues (expenses)	(339,418)	(129,891)	(261,645)	131,754
Change in Net Assets	1,997,712	1,740,393	$1,596,396	$ 143,997
Total net assets, beginning of year	11,513,821	13,511,533		
Total net assets, end of year	$13,511,533	$15,251,926		

See Accompanying Independent Auditors' Report.

Schedule 3

HARLAN MUNICIPAL UTILITIES
MUNICIPAL GAS UTILITY
COMPARATIVE BALANCE SHEETS
JUNE 30, 2006 AND 2007

	2006	2007
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvement, emergency and contingency funds:		
Cash and savings	$ 219,062	$ 243,062
Unrestricted		
Cash and savings	1,610,005	1,754,032
Industrial development fund	121,495	118,954
Accounts receivable-net of allowance for doubtful accounts of $9,000 for 2006 and 2007	78,198	46,502
Unbilled usage	59,006	58,229
Inventory	25,752	31,627
Prepaid expenses	28,067	24,215
Total current assets	2,141,585	2,276,621
CAPITAL ASSETS		
Utility Plant		
Plant in service, at cost	2,139,243	2,233,776
Less: accumulated depreciation	1,351,012	1,407,353
Net capital assets	788,231	826,423
OTHER ASSETS		
Intra-utility note receivable	142,430	142,430
Total other assets	142,430	142,430
Total assets	$ 3,072,246	$ 3,245,474

Schedule 3
(Continued)

HARLAN MUNICIPAL UTILITIES
MUNICIPAL GAS UTILITY
COMPARATIVE BALANCE SHEETS (Continued)
JUNE 30, 2006 AND 2007

LIABILITIES AND NET ASSETS	2006	2007
CURRENT LIABILITIES		
Accounts payable	$ 85,544	$ 92,338
Sales and use tax payable	2,559	2,645
Salaries, vacation and sick leave payable	19,691	19,983
Total current liabilities	107,794	114,966
Contract payable	34,816	34,739
NET ASSETS		
Designated	219,062	243,062
Undesignated	2,710,574	2,852,707
Total net assets	2,929,636	3,095,769
Total Liabilities & Net Assets	$ 3,072,246	$ 3,245,474

See Accompanying Independent Auditors' Report.

Schedule 4

HARLAN MUNICIPAL UTILITIES
MUNICIPAL GAS UTILITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2007

	2006 Actual	2007 Actual	2007 Budget	Budget Variance Favorable (Unfavorable)
OPERATING REVENUES				
Sales to consumers	$2,922,884	$2,887,982	$3,159,712	$ (271,730)
Other operating revenues	7,134	7,870	5,500	2,370
Total operating revenues	2,930,018	2,895,852	3,165,212	(269,360)
OPERATING EXPENSES				
Plant operation expenses				
Cost of power	2,104,362	2,109,501	2,366,486	256,985
Salaries and wages	15,765	18,163	19,653	1,490
Repairs and maintenance	7,504	9,921	7,346	(2,575)
Utilities	16,523	17,700	18,800	1,100
Insurance	25,186	31,140	25,000	(6,140)
Other	19,860	19,266	23,358	4,092
Total plant operation expense	2,189,200	2,205,691	2,460,643	254,952
Distribution operation expenses				
Salaries and wages	100,723	104,656	95,473	(9,183)
Engineering	4,050	4,050	3,500	(550)
Repairs and maintenance	21,494	27,532	21,479	(6,053)
Other	1,008	1,164	6,600	5,436
Total distribution operation expense	127,275	137,402	127,052	(10,350)
Administrative and general expenses				
Salaries and wages	89,410	98,575	94,309	(4,266)
Office supplies	8,142	8,968	10,000	1,032
Education and travel	7,553	17,173	9,975	(7,198)
Professional services	34,733	35,520	35,000	(520)
Other	9,758	11,535	8,900	(2,635)
Total administrative and general expense	149,596	171,771	158,184	(13,587)
Consumer services				
Bad debts	5,789	12,440	19,370	6,930
Other	270	-0-	-0-	-0-
Total consumer services	6,059	12,440	19,370	6,930

HARLAN MUNICIPAL UTILITIES
MUNICIPAL GAS UTILITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS (Continued)
FOR THE YEARS ENDED JUNE 30, 2006 AND 2007

	2006 Actual	2007 Actual	2007 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	$ 9,175	$ 9,777	$ 9,974	$ 197
Advertising	3,764	4,097	4,468	371
Other	8,770	8,658	9,195	537
Total marketing and stakeholder relations expense	21,709	22,532	23,637	1,105
Employee benefits				
Payroll taxes	31,690	34,413	32,958	(1,455)
Health insurance	43,536	42,936	40,000	(2,936)
Compensated absences	27,601	35,558	28,158	(7,400)
Total employee benefits	102,827	112,907	101,116	(11,791)
Total operating expense excluding amortization and depreciation	2,596,666	2,662,743	2,890,002	227,259
Operating income before amortization and depreciation	333,352	233,109	275,210	(42,101)
Depreciation	60,478	56,340	60,500	4,160
Operating income	272,874	176,769	214,710	(37,941)
Non-operating revenues (expenses)				
Capital grants	-0-	1,984	-0-	1,984
Contributions to City-In lieu of taxes (Note 8)	(34,459)	(37,523)	(30,000)	(7,523)
Interest income	32,661	56,903	15,000	41,903
Industrial development contribution	(15,625)	(32,000)	(50,000)	18,000
Total non-operating revenues (expenses)	(17,423)	(10,636)	(65,000)	54,364
Change in Net Assets	255,451	166,133	$ 149,710	$ 16,423
Total net assets, beginning of year	2,674,185	2,929,636		
Total net assets, end of year	$2,929,636	$3,095,769		

See Accompanying Independent Auditors' Report.

Schedule 5

HARLAN MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY
COMPARATIVE BALANCE SHEETS
JUNE 30, 2006 AND 2007

	2006	2007
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvement, emergency and contingency funds:		
Cash and savings	$ 37,990	$ 37,991
Restricted		
Revenue bond retirement-savings	982	-0-
Capital improvement fund-savings	170,000	170,000
Unrestricted		
Cash and savings	248,489	308,661
Accounts receivable-net of allowance for doubtful accounts of $4,000 for 2006 and 2007	187,895	198,108
Unbilled usage	55,840	54,912
Inventory	36,207	53,651
Prepaid expenses	26,060	25,112
Total current assets	763,463	848,435
CAPITAL ASSETS		
Utility Plant		
Plant in service, at cost	7,225,188	7,394,030
Less: accumulated depreciation	3,566,609	3,723,474
Net capital assets	3,658,579	3,670,556
OTHER ASSETS		
Bond discount and issuance costs	24,072	19,487
Restricted investments for bonds:		
Debt reserve & sinking	227,000	227,000
Total other assets	251,072	246,487
Total assets	$ 4,673,114	$ 4,765,478

Schedule 5
(Continued)

HARLAN MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY
COMPARATIVE BALANCE SHEETS (Continued)
JUNE 30, 2006 AND 2007

	2006	2007
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 36,283	$ 18,214
Sales and use tax payable	8,467	8,265
Salaries, vacation and sick leave payable	32,455	38,473
Due to City of Harlan for utility collections	131,450	147,271
Total current liabilities	208,655	212,223
Long-term debt, net of current maturities	1,570,000	1,415,000
NET ASSETS		
Designated	37,991	37,991
Undesignated	2,856,468	3,100,264
Total net assets	2,894,459	3,138,255
Total Liabilities & Net Assets	$ 4,673,114	$ 4,765,478

See Accompanying Independent Auditor's Report.

Schedule 6

HARLAN MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2007

	2006 Actual	2007 Actual	2007 Budget	Budget Variance Favorable (Unfavorable)
OPERATING REVENUES				
Sales to consumers	$1,292,274	$1,268,400	$1,345,378	$ (76,978)
Other operating revenues	40,311	27,443	28,200	(757)
Total operating revenues	1,332,585	1,295,843	1,373,578	(77,735)
OPERATING EXPENSES				
Plant operation expenses				
Cost of power	71,640	73,729	72,200	(1,529)
Salaries and wages	153,367	154,931	156,010	1,079
Repairs and maintenance	72,425	73,029	58,604	(14,425)
Utilities	93,806	94,967	91,950	(3,017)
Insurance	29,295	32,293	35,000	2,707
Other	22,350	44,658	33,037	(11,621)
Total plant operation expense	442,883	473,607	446,801	(26,806)
Distribution operation expenses				
Salaries and wages	25,654	28,504	32,240	3,736
Engineering	8,134	11,141	14,400	3,259
Repairs and maintenance	17,211	20,962	14,846	(6,116)
Other	1,113	1,017	1,150	133
Total distribution operation expense	52,112	61,624	62,636	1,012
Administrative and general expenses				
Salaries and wages	92,006	97,202	92,210	(4,992)
Office supplies	15,727	18,189	17,900	(289)
Education and travel	4,610	4,014	4,500	486
Professional services	12,040	12,170	22,800	10,630
Other	27,569	28,579	22,750	(5,829)
Total administrative and general expense	151,952	160,154	160,160	6
Consumer services				
Salaries and wages	-0-	-0-	-0-	-0-
Bad debts	4,012	6,029	6,300	271
Total consumer services	4,012	6,029	6,300	271

HARLAN MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS (Continued)
FOR THE YEARS ENDED JUNE 30, 2006 AND 2007

	2006 Actual	2007 Actual	2007 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	$ 9,128	$ 9,645	$ 9,704	$ 59
Advertising	3,621	5,340	4,766	(574)
Other	5,521	4,692	7,182	2,490
Total marketing and stakeholder relations expense	18,270	19,677	21,652	1,975
Employee benefits				
Payroll taxes	48,187	49,970	50,319	349
Health insurance	82,097	80,965	75,000	(5,965)
Compensated absences	46,275	58,257	47,794	(10,463)
Total employee benefits	176,559	189,192	173,113	(16,079)
Total operating expense excluding amortization and depreciation	845,788	910,283	870,662	(39,621)
Operating income before amortization and depreciation	486,797	385,560	502,916	(117,356)
Amortization	5,110	4,585	5,000	415
Depreciation	155,886	156,865	156,000	(865)
	160,996	161,450	161,000	(450)
Operating income	325,801	224,110	341,916	(117,806)
Non-operating revenues (expenses)				
Contributions to City-In lieu of taxes (Note 8)	(26,433)	(26,892)	(26,000)	(892)
Interest income	16,684	26,928	7,000	19,928
Interest expense	(73,115)	(67,545)	(70,330)	2,785
Grant income	-0-	87,195	85,146	2,049
Total non-operating revenues (expenses)	(82,864)	19,686	(4,184)	23,870
Change in Net Assets	242,937	243,796	$ 337,732	$ (93,936)
Total net assets, beginning of year	2,651,522	2,894,459		
Total net assets, end of year	$2,894,459	$3,138,255		

See Accompanying Independent Auditors' Report.

Schedule 7

HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY
COMPARATIVE BALANCE SHEETS
JUNE 30, 2006 AND 2007

	2006	2007
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	$ 103,644	$ 109,343
Restricted		
Revenue bond retirement savings	18,201	18,599
Unrestricted		
Cash and savings	233,436	368,259
Accounts receivable-net of allowance for doubtful accounts of $7,000 for 2006 and 2007	92,807	112,755
Inventory	4,569	5,720
Prepaid expenses	8,377	8,072
Total current assets	461,034	622,748
CAPITAL ASSETS		
Telecommunications Utility Plant		
Plant in service, at cost	1,146,534	1,205,944
Less: accumulated depreciation	485,258	543,297
Net capital assets	661,276	662,647
OTHER ASSETS		
Bond discount and issuance costs	1,912	650
Restricted investments for bonds:		
Debt reserve & sinking	31,722	31,723
Total other assets	33,634	32,373
Total assets	$ 1,155,944	$ 1,317,768

HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY
COMPARATIVE BALANCE SHEETS (Continued)
JUNE 30, 2006 AND 2007

	2006	2007
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 41,059	$ 38,708
Sales and use tax payable	3,150	3,252
Salaries, vacation and sick leave payable	12,224	11,151
Due to City of Harlan for utility collections	10,493	15,771
Payable from restricted assets		
Interest payable	1,602	1,084
Current maturities long-term debt	65,000	65,000
Total current liabilities	133,528	134,966
Long-term debt, net of current maturities	132,225	68,454
NET ASSETS		
Designated	103,644	109,343
Undesignated	786,547	1,005,005
Total net assets	890,191	1,114,348
Total Liabilities & Net Assets	$ 1,155,944	$ 1,317,768

See Accompanying Independent Auditors' Report.

Schedule 8

HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2007

	2006 Actual	2007 Actual	2007 Budget	Budget Variance Favorable (Unfavorable)
OPERATING REVENUES				
Sales to consumers	$1,029,653	$1,139,439	$1,052,000	$ 87,439
Other operating revenues	10,252	19,755	11,300	8,455
Total operating revenues	1,039,905	1,159,194	1,063,300	95,894
OPERATING EXPENSES				
Plant operation expenses				
Cost of programming	413,457	453,618	417,800	(35,818)
Salaries and wages	10,571	17,254	7,250	(10,004)
Repairs and maintenance	20,300	18,117	28,000	9,883
Utilities	13,447	13,893	14,000	107
Insurance	21,194	10,380	20,000	9,620
Other	5,216	3,341	6,460	3,119
Total plant operation expense	484,185	516,603	493,510	(23,093)
Distribution operation expenses				
Salaries and wages	77,937	69,969	77,100	7,131
Engineering	5,000	6,412	6,500	88
Repairs and maintenance	19,282	9,712	9,500	(212)
Other	39,205	47,868	40,232	(7,636)
Total distribution operation expense	141,424	133,961	133,332	(629)
Administrative and general expenses				
Salaries and wages	41,974	47,280	41,850	(5,430)
Office supplies	18,265	23,603	17,700	(5,903)
Education and travel	1,525	2,676	3,000	324
Professional services	27,826	26,016	23,700	(2,316)
Other	897	890	1,230	340
Total administrative and general expense	90,487	100,465	87,480	(12,985)
Consumer services				
Salaries and wages	-0-	-0-	-0-	-0-
Bad debts	3,981	819	5,500	4,681
Other	800	1,065	3,707	2,642
Total consumer services	4,781	1,884	9,207	7,323

HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS (Continued)
FOR THE YEARS ENDED JUNE 30, 2006 AND 2007

	2006 Actual	2007 Actual	2007 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	$ 38,380	$ 36,799	$ 39,410	$ 2,611
Advertising	11,203	13,468	11,619	(1,849)
Other	2,341	6,062	2,466	(3,596)
Total marketing and stakeholder relations expense	51,924	56,329	53,495	(2,834)
Employee benefits				
Payroll taxes	25,667	25,993	25,536	(457)
Health insurance	23,480	23,157	28,000	4,843
Compensated absences	18,175	21,750	24,320	2,570
Total employee benefits	67,322	70,900	77,856	6,956
Total operating expense excluding amortization and depreciation	840,123	880,142	854,880	(25,262)
Operating income before amortization and depreciation	199,782	279,052	208,420	70,632
Amortization	1,646	1,262	1,700	438
Depreciation	57,974	58,039	58,000	(39)
	59,620	59,301	59,700	399
Operating income (loss)	140,162	219,751	148,720	71,301
Non-operating revenues (expenses)				
Contributions to City-In lieu of taxes (Note 8)	(415)	(495)	(400)	(95)
Gain (Loss) on Sale of Assets	(355)	-0-	-0-	-0-
Interest income	5,645	11,074	2,600	8,474
Interest expense	(7,988)	(6,173)	(5,883)	(290)
Total non-operating revenues (expenses)	(3,113)	4,406	(3,683)	8,089
Change in Net Assets	137,049	224,157	$ 145,037	$ 79,120
Total net assets, beginning of year	753,142	890,191		
Total net assets, end of year	$ 890,191	$1,114,348		

See Accompanying Independent Auditors' Report.

Schedule 9

HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELEPHONE UTILITY
COMPARATIVE BALANCE SHEETS
JUNE 30, 2006 AND 2007

ASSETS	2006	2007
CURRENT ASSETS		
Restricted		
Revenue bond retirement savings	$ 33,537	$ 49,114
Unrestricted		
Cash and savings	140,624	175,661
Accounts receivable-net of allowances for doubtful accounts of $9,500 for 2006 and 2007	57,097	63,987
Unbilled usage	14,507	17,185
Prepaid expenses	2,792	2,691
Total current assets	248,557	308,638
CAPITAL ASSETS		
Telephone Utility Plant	1,702,799	1,750,686
Less accumulated depreciation	500,985	635,143
Net capital assets	1,201,814	1,115,543
OTHER ASSETS		
Other Accounts receivable	130,221	136,972
Bond discount and issuance cost	3,806	-0-
Restricted investments for bonds:		
Debt reserve and sinking	172,000	140,000
Total other assets	306,027	276,972
Total assets	$ 1,756,398	$ 1,701,153
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 34,894	$ 34,738
Sales and use tax payable	1,401	776
Salaries, vacation and sick leave payable	4,399	4,579
Other accrued liabilities	-0-	388
Payable from restricted assets		
Interest payable	21,195	15,995
Current maturities-long term debt	1,417,696	85,000
Total current liabilities	1,479,585	141,476
LONG TERM LIABILITIES		
Long-term debt, net of current maturities	-0-	1,315,000
Deferred income – CABS	130,221	136,972
Intra-utility note payable, net of current maturities	284,860	237,384
Total noncurrent liabilities	415,081	1,689,356
NET ASSETS		
Undesignated (deficit) (Note 9)	(138,268)	(129,679)
Total Liabilities and Net Assets	$ 1,756,398	$ 1,701,153

See Accompanying Independent Auditors' Report.

Schedule 10

HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELEPHONE UTILITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
JUNE 30, 2006 AND 2007

	2006 Actual	2007 Actual	2007 Budget	Budget Variance Favorable (Unfavorable)
OPERATING REVENUES				
Sales to consumers	$ 666,977	$ 692,796	$ 759,100	$ (66,304)
Other operating revenues	-0-	-0-	-0-	-0-
Total operating revenues	666,977	692,796	759,100	(66,304)
OPERATING EXPENSES				
Plant operation expenses				
Cost of line charges & fees	352,868	363,030	373,450	10,420
Salaries and wages	1,269	1,229	1,325	96
Repairs and maintenance	4,842	4,305	6,650	2,345
Utilities	4,457	4,632	4,300	(332)
Insurance	6,093	3,460	5,000	1,540
Other	17,410	15,707	19,000	3,293
Total plant operation expense	386,939	392,363	409,725	17,362
Distribution operation expenses				
Repairs and maintenance	438	44	-0-	(44)
Administrative and general expenses				
Salaries and wages	32,893	37,890	33,275	(4,615)
Office supplies	4,491	5,769	5,450	(319)
Professional services	4,973	1,234	17,700	16,466
Other	3,573	4,340	2,835	(1,505)
Total administrative and general expense	45,930	49,233	59,260	10,027
Consumer services				
Bad debts	13,153	(952)	10,000	10,952
Other	644	304	-0-	(304)
Total consumer services	13,797	(648)	10,000	10,648

HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELEPHONE UTILITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS (Continued)
FOR THE YEARS ENDED JUNE 30, 2006 AND 2007

	2006 Actual	2007 Actual	2007 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Marketing and stakeholder relations				
Salaries and wages	$ 4,489	$ 4,972	$ 5,007	$ 35
Advertising	5,730	4,167	8,900	4,733
Other	1,073	716	2,498	1,782
Total marketing and stakeholder relations expense	11,292	9,855	16,405	6,550
Employee benefits				
Payroll taxes	6,021	6,896	6,658	(238)
Health insurance	12,963	12,784	12,000	(784)
Compensated absences	8,211	9,654	9,920	266
Total employee benefits	27,195	29,334	28,578	(756)
Total operating expense excluding amortization and depreciation	485,591	480,181	523,968	43,787
Operating income before amortization and depreciation	181,386	212,615	235,132	(22,517)
Amortization	2,624	3,806	4,000	194
Depreciation	131,105	134,158	130,000	(4,158)
	133,729	137,964	134,000	(3,964)
Operating income (loss)	47,657	74,651	101,132	(26,481)
Non-operating revenues (expenses)				
Interest income	10,168	13,329	6,000	7,329
Interest expense	(88,590)	(79,391)	(84,850)	5,459
Total non-operating revenues (expenses)	(78,422)	(66,062)	(78,850)	12,788
Change in Net Assets	(30,765)	8,589	$ 22,282	$ (13,693)
Total net assets, beginning of year (deficit)	(107,503)	(138,268)		
Total net assets, end of year (deficit)	$ (138,268)	$ (129,679)		

See Accompanying Independent Auditors' Report.

Schedule 11

HARLAN MUNICIPAL UTILITIES
SUMMARY OF USAGE STATISTICS-ELECTRIC
(UNAUDITED)
JUNE 30, 2006 AND 2007

Electric Utility

	2006		
KWH purchased and generated*		65,932,188	100.00%
Less: KWH unaccounted for		(4,813,018)	(7.30%)
KWH billed		61,119,170	92.70%
Rate Categories		Customers	KWH Billed
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
Street lights		9	1,003,313
Water Plant – pumping		15	1,017,346
		2,907	61,119,170
	2007		
KWH purchased and generated*		66,213,527	100.00%
Less: KWH unaccounted for		(4,602,784)	(6.95%)
KWH billed		61,610,743	93.05%
Rate Categories		Customers	KWH Billed
Single Phase Small		2,649	27,915,919
Single Phase Large		31	2,327,200
Three Phase		121	6,361,472
Commercial		1	672,384
Demand		25	6,522,564
Time of Use		13	15,277,624
Municipal – City of Harlan, Demand		3	584,440
Street lights		9	981,693
Water Plant – pumping		14	967,447
		2,866	61,610,743

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

See Accompanying Independent Auditors' Report.

Schedule 12

HARLAN MUNICIPAL UTILITIES
SUMMARY OF USAGE STATISTICS-GAS
(UNAUDITED)
JUNE 30, 2006 AND 2007

Gas Utility

2006		
CCF purchased	3,183,900	100.00%
Add: CCF unaccounted for	143,897	4.52%
CCF billed	3,327,797	104.52%
Rate Categories	Customers	CCF Billed
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
2007		
CCF purchased	3,328,150	100.00%
Add: CCF unaccounted for	124,801	3.75%
CCF billed	3,452,951	103.75%
Rate Categories	Customers	CCF Billed
Residential	1,950	1,504,473
Commercial	305	478,275
Large Commercial	37	448,249
Interruptible	4	1,021,954
	2,296	3,452,951

See Accompanying Independent Auditors' Report.

Schedule 13

HARLAN MUNICIPAL UTILITIES
SUMMARY OF USAGE STATISTICS-WATER
(UNAUDITED)
JUNE 30, 2006 AND 2007

Water Utility

	2006	
Gallons produced	266,175,000	
Gallons used in production	(37,582,000)	
Gallons to account for	228,593,000	100.00%
Less: gallons unaccounted for	(36,597,996)	(16.01%)
Gallons billed	191,995,004	83.99%

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

	2007	
Gallons produced	243,833,000	
Gallons used in production	(40,124,934)	
Gallons to account for	203,708,066	100.00%
Less: Gallons unaccounted for	(24,868,000)	(12.21%)
Gallons billed	178,840,066	87.79%

Rate Categories	Customers	Gallons Billed
Residential	2,039	93,653,766
Commercial	379	70,521,300
Interruptible	1	14,665,000
	2,419	178,840,066

See Accompanying Independent Auditor's Report.

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

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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

October 31, 2007

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, 2007, and have issued our report thereon dated October 31, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Harlan Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Harlan Municipal Utilities' internal control over financial reporting..

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Harlan Municipal Utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Harlan Municipal Utilities' financial statements that is more than inconsequential will not be prevented or detected by Harlan Municipal Utilities' internal control. We did not find any deficiencies in internal control.

Member American Institute of Certified Public Accountants and the Iowa Society of Certified Public Accountants

October 31, 2007
To the Board of Trustees of the
Harlan Municipal Utilities:

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

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

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 grant agreements, non-compliance 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 non-compliance 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 Utilities' operations for the year ended June 30, 2007 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.

Harlan Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utilities' responses, we did not audit Harlan Municipal Utilities' responses and, accordingly, we express no opinion on them.

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 Harlan Municipal Utilities 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, 2007

Part I: Summary of the Independent Auditors' Results:

(a) Unqualified opinions were issued on the financial statements.

(b) No significant deficiencies 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 non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

No significant deficiencies were noted.

Part III: Other Findings Related to Required Statutory Reporting:

III-A-07 Certified Budget – Disbursements during the year ended June 30, 2007 exceeded the amount budgeted in the business type activities function. The budget that was exceeded was prepared on the cash basis. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response – We are more concerned about whether Harlan Municipal Utilities exceeds the accrual budget. We monitor the accrual budget very closely. However, we will need to monitor the cash basis budget more closely and amend the budget in the future, if applicable.

Conclusion – Response accepted.

III-B-07 Questionable Disbursements – Disbursements of the Utility money appear to meet public purpose requirements.

III-C-07 Travel Expense – No disbursements of Utility money for travel expenses for spouses of the Utilities officials or employees were noted.

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

III-D-07 Business Transactions – Business transactions between Harlan Municipal Utilities and Utility officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Steve Keast, Husband of Board Member, Shareholder of Keast Ford Lincoln/ Mercury, Inc.	Labor, Parts, Repairs	$ 2,626

In accordance with Chapter 362.5 (10) of the Code of Iowa, the transaction above does appear to represent a conflict of interest since it was over $1,500 and not competitively bid.

Recommendation – The Utility should consult legal counsel to determine the disposition of this matter.

Response – We will do this. However, this is the only Ford dealer in the City, and many of our vehicles are Fords.

Conclusion – Response accepted.

III-E-07 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-07 Board Minutes – No transactions were found that we believe should have been approved in the board minutes but were not.

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

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

Response – In this one instance, the minutes were delivered to the newspaper office in a timely manner, however, they were not published by the newspaper office in a timely manner.

Conclusion – Response accepted.

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

III-G-07 Revenue Notes – The Utility is in compliance with all the provisions of revenue note resolutions for all of the funds.

III-H-07 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.

III-I-07 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

III-J-07 Deficit Fund Equity – As previously noted, the Telephone Fund has a deficit balance of $129,679, as of June 30, 2007. However, the Utility did decrease this deficit by $8,589 from the prior year.

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

Response - We will continue to monitor the activity of this fund. As noted above, we did decrease the deficit this year.

Conclusion - Response accepted.