

HARLAN MUNICIPAL UTILITIES

INDEPENDENT AUDITORS' REPORT

BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

SCHEDULE OF FINDINGS & QUESTIONED COSTS

JUNE 30, 2009

HARLAN MUNICIPAL UTILITIES

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HARLAN MUNICIPAL UTILITIES

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Jones	Chairman	2013
Allen Burchett	Vice-Chairman	2012
Todd Argotsinger	Board Member	2009
Randall Doran	Board Member	2010
Michael Hansen	Board Member	2008
Amy Keast	Board Member	2011
Tom Gaffigan	Chief Executive Officer	Indefinite
John Doonan	Director of Customer Relations & Support Services	Indefinite
Robert Hall	Attorney	Indefinite

HARLAN MUNICIPAL UTILITIES

MAHONEY & GOTTO COMPANY

Certified Public Accountants

201 South 7th Street
Denison, IA 51442

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Harlan Municipal Utilities

We have audited the accompanying financial statements, 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, 2009. These basic financial statements are the responsibility of the management of the Harlan Municipal Utilities. Our responsibility is to express an opinion 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 opinion.

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 Harlan Municipal Utilities as of June 30, 2009, and the respective changes in financial position and cash flows of its proprietary fund types for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2009 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 7 through 15 and 40 through 42 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 inquires 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 Harlan Municipal Utilities' basic financial statements. In accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2007 (which are not presented herein nor were they audited by us) expressed unqualified opinions. Other supplementary information included in Schedules 1 through 8 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.

Mahoney & Gotto Company

MAHONEY & GOTTO COMPANY
Certified Public Accountants

September 15, 2009
Denison, Iowa



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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, 2009. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities decreased 0.98%, or \$125,671, from fiscal 2008 to fiscal 2009.
- Operating expenses increased 0.59%, or \$53,965 from fiscal 2008 to fiscal 2009.
- The Utilities' net assets of business type activities increased 6.21%, or \$1,513,038 from June 30, 2008 to June 30, 2009.

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 Statement of Net Assets – Proprietary Funds, and a Statement of Revenues, Expenses, and Changes in 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 Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in 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 Statement of Net Assets presents all 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 declining.

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 Statement of Net Assets 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, and the telecommunications 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 Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets. The Enterprise Funds include the electric utility, gas utility, water utility, and the telecommunications 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 statement of net assets, 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		
	<u>Year Ended</u>	
	<u>6-30-09</u>	<u>6-30-08</u>
Current and other assets	\$ 12,666,101	\$ 12,317,210
Capital assets	<u>21,903,007</u>	<u>22,311,104</u>
Total Assets	<u>\$ 34,569,108</u>	<u>\$ 34,628,314</u>
Current liabilities	\$ 1,982,103	\$ 2,343,770
Non-current liabilities	<u>6,710,746</u>	<u>7,921,323</u>
Total Liabilities	<u>\$ 8,692,849</u>	<u>\$ 10,265,093</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 14,118,244	\$ 14,289,453
Restricted	2,071,423	2,505,764
Unrestricted	<u>9,686,592</u>	<u>7,568,004</u>
Total net assets	<u>\$ 25,876,259</u>	<u>\$ 24,363,221</u>

Net assets of business type activities increased from FY08 by \$1,513,038, or 6.21%. The largest portion of the Utilities' net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, increased by \$2,118,588 at the end of this year, an increase of 27.99%.

Changes in Net Assets

Business Type Activities-Enterprise Funds

	<u>6-30-09</u>	<u>6-30-08</u>
Revenues:		
Charges for services	\$ 12,718,442	\$ 12,844,113
Interest Income	206,571	311,069
Capital grants	0	821
Gain on sale of assets	<u>0</u>	<u>625</u>
Total revenues	<u>12,925,013</u>	<u>13,156,628</u>
Operating expenses:		
Plant operations	6,781,426	6,859,877
Distribution operations	652,746	721,970
Administrative and general	745,050	702,690
Consumer services	39,434	41,121
Marketing and stakeholder relations	171,835	166,172
Employee benefits	<u>786,268</u>	<u>630,964</u>
Total operating expenses	<u>9,176,759</u>	<u>9,122,794</u>
Other expenses:		
Amortization	8,974	11,289
Depreciation	1,557,320	1,445,689
Contributions to City-In lieu of taxes	247,557	268,422
Interest expense	341,365	361,242
Industrial development contribution	<u>80,000</u>	<u>54,590</u>
Total other expenses	<u>2,235,216</u>	<u>2,141,232</u>
Increase in net assets	1,513,038	1,892,602
Net assets beginning of year	<u>24,363,221</u>	<u>22,470,619</u>
Net assets end of year	<u>\$ 25,876,259</u>	<u>\$ 24,363,221</u>

INDIVIDUAL PROPRIETARY FUND ANALYSIS

Proprietary Fund Highlights

The Electric Fund, which accounts for the operation and maintenance of the Utilities' electrical system, ended fiscal 2009 with a \$17,503,468 net asset balance compared to the prior year ending net asset balance of \$16,639,190.

The Gas Fund, which accounts for the operating and maintenance of the Utilities' gas system, ended fiscal 2009 with a \$3,494,262 net asset balance compared to the prior year ending net asset balance of \$3,299,352.

The Water Fund, which accounts for the operating and maintenance of the Utilities' water system, ended fiscal 2009 with a \$3,573,250 net asset balance compared to the prior year ending net asset balance of \$3,291,701.

The Telecommunication Fund, which accounts for the operation and maintenance of the Utilities' cable and internet system, ended fiscal 2009 with a \$1,305,279 net asset balance compared to the prior year ending net asset balance of \$1,132,978.

Summary of Usage Statistics

ELECTRIC UTILITY

	2009		2008	
KWH purchased and generated*	64,966,577	100.00%	66,363,915	100.00%
Less: KWH unaccounted for	(3,814,486)	-5.87%	(3,742,485)	-5.64%
KWH BILLED	61,152,091	94.13%	62,621,430	94.36%

Following is a schedule of the number of customers and the kilowatts used by customer class for the fiscal years June 30, 2009 and 2008:

Comparison of Customer Meters & Usage by Customer Class				
	2009		2008	
Rate Categories	Customers	KWH Billed	Customers	KWH Billed
Single Phase Small	2,644	28,401,938	2,634	28,943,934
Single Phase Large	38	2,330,602	35	2,379,460
Three Phase	110	5,825,895	117	5,593,557
Commercial	1	761,856	1	730,176
Demand	29	6,708,188	28	6,946,692
Time of Use	13	14,635,000	13	15,413,428
Municipal-City of Harlan, Demand	3	600,120	3	601,440
Street Lights	8	887,293	8	1,005,023
Water Plant - pumping	15	1,001,199	15	1,007,720
Total Customers & Billed	2,861	61,152,091	2,854	62,621,430

GAS UTILITY

	<u>2009</u>		<u>2008</u>	
CCF purchased	3,551,340	100.00%	3,563,520	100.00%
Add: CCF unaccounted for	139,877	3.94%	134,624	3.78%
CCF BILLED	<u>3,691,217</u>	<u>103.94%</u>	<u>3,698,144</u>	<u>103.78%</u>

Following is a schedule of the number of customers and the centum cubic-feet used by customer class for the fiscal years June 30, 2009 and 2008:

Comparison of Customer Meters & Usage by Customer Class				
	<u>2009</u>		<u>2008</u>	
Rate Categories	Customers	CCF Billed	Customers	CCF Billed
Residential	1,932	1,504,627	1,932	1,616,765
Commercial	297	484,781	304	495,029
Large Commercial	38	529,359	36	532,627
Interruptible	4	1,172,450	4	1,053,723
Total Customers and Billed	<u>2,271</u>	<u>3,691,217</u>	<u>2,276</u>	<u>3,698,144</u>

WATER UTILITY

	<u>2009</u>		<u>2008</u>	
Gallons produced	241,999,000		243,318,000	
Gallons used in production	(38,850,000)		(41,755,625)	
Gallons to account for	203,149,000	100.00%	201,562,375	100.00%
Less: Gallons unaccounted for	(22,581,909)	-11.11%	(24,167,342)	-11.99%
GALLONS BILLED	<u>180,567,091</u>	<u>88.89%</u>	<u>177,395,033</u>	<u>88.01%</u>

Following is a schedule of the number of customers and gallons used by customer class for the fiscal years June 30, 2009 and 2008:

Comparison of Customer Meters & Usage by Customer Class				
	<u>2009</u>		<u>2008</u>	
Rate Categories	Customers	Gallons Billed	Customers	Gallons Billed
Residential	2,048	95,693,531	2,039	93,653,766
Commercial	370	66,580,560	379	70,521,300
Interruptible	1	18,293,000	1	14,665,000
Total Customers and Billed	<u>2,419</u>	<u>180,567,091</u>	<u>2,419</u>	<u>178,840,066</u>

BUDGETARY HIGHLIGHTS

Over the course of the year, the Utility re-allocated a portion of its budget. The Utility re-allocated \$50,000 to increase employee benefits – health insurance and subsequently decreased cost of power, chemicals, gas and programming; repairs and maintenance; and miscellaneous operations expenses.

There were no amendments during the course of the year, nor was the budget exceeded.

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 \$46,881,537 at June 30, 2009. This is a net increase (including additions and deletions) of \$1,286,779 or 2.83% over last year.

<u>Capital Assets at Year End</u>		
	<u>June 30</u> <u>2009</u>	<u>June 30</u> <u>2008</u>
Intangible Plant	\$ 220,632	\$ 220,632
Production	11,506,684	11,346,668
Transmission & Pumping	5,789,024	5,789,012
Distribution	20,451,821	19,575,296
General	3,846,134	3,640,213
Fiber Optics	<u>5,067,242</u>	<u>5,022,937</u>
Total	46,881,537	45,594,758
Less: Accumulated Depreciation	<u>25,002,241</u>	<u>23,444,921</u>
Net Capital Assets	<u>\$ 21,879,296</u>	<u>\$ 22,149,837</u>

This year's major additions included:

Electric Fund – New primary & electrical services	\$ 421,573
Gas Fund – New main & services	96,441
Water Fund – Replacement & new service lines	88,691
Telecommunication Fund – Cable modems, equipment, and services, interface units, test equipment and tools	<u>680,074</u>
Total	<u>\$ 1,286,779</u>

The Utility had depreciation expense of \$1,557,320 in fiscal year June 30, 2009.

There were no disposals for June 30, 2009.

Long-Term Debt

At June 30, 2009, the Utility had \$7,642,332 in total debt outstanding for business type activities compared to \$9,002,672 at June 30, 2008 as shown below.

Outstanding Debt of Business Type Activities at Year-End		
	<u>June 30</u> <u>2009</u>	<u>June 30</u> <u>2008</u>
Revenue bonds	\$ 5,485,000	\$ 6,650,000
Capital loan notes	2,088,667	2,302,225
Contract payable	45,150	50,447
Interim Loan	<u>23,515</u>	<u>0</u>
Total	<u>\$ 7,642,332</u>	<u>\$ 9,002,672</u>

During the year ended June 30, 2009, a new water planning and design interim loan and disbursement agreement with Iowa Finance Authority was approved for an amount not to exceed \$435,000. Harlan Municipal Utilities has submitted disbursement request forms and required documentation for costs incurred of \$23,515. As of June 30, 2009, the Utility had been reimbursed for such costs.

Total debt was reduced by \$1,383,856 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 2010 budget. The Utility will experience an increase in revenues and expenditures from fiscal 2009 to fiscal 2010. The Business Type Activities – Enterprise Fund is projected to end fiscal 2010 with a fund balance of approximately \$28,958,258, an 11.3% increase from fiscal 2009.

Harlan Municipal Utilities and Walnut Communications entered into three separate service agreements on December 14, 2007 – Cable Television Service Agreement, Host Switching Services Agreement (telephone), ISP Traffic Services Agreement (internet and bandwidth). Billing dates for these three agreements all started on different dates. Walnut Communications started supplying Harlan Municipal Utilities with ISP Services on September 3, 2008. On September 15, 2008 Walnut Communications began supplying Harlan Municipal Utilities with Host Switching. Harlan Municipal Utilities commenced providing CATV Service to Walnut Communications on October 1, 2008. Previous Host Switching and ISP requirements were provided to Harlan Municipal Utilities by Long Lines, LLC.

On April 11, 2008 Harlan Municipal Utilities signed an Acceptance Document with MACC (Mid America Computer Corp.). This acceptance document includes telecommunications billing and data processing services. Prior billing and data processing were done by both Long Lines, LLC and Martins. The April 11th date was the start of the conversion process of Long Lines and Martins to MACC.

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
STATEMENTS OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2009

ASSETS	Business Type Activities -		
	Electric Utility	Gas Utility	Water Utility
CURRENT ASSETS			
Designated			
Plant improvements, emergency and contingency funds:			
Cash and savings	\$ 570,000	\$ 291,062	\$ 251,991
Replacement funds bond requirement:			
Cash and savings	146,276	0	0
Restricted			
Consumers' deposit fund	35,223	0	0
Revenue bond retirement-savings	628,323	0	0
Capital improvement fund-savings	4,756	0	170,000
Unrestricted			
Cash and savings	3,969,777	2,082,680	353,804
Industrial development fund	150,670	122,504	0
Accounts receivable - net of allowance for doubtful accounts of \$37,500	154,130	103,827	220,436
Unbilled usage	212,246	66,474	58,096
Employee loans receivable	13,159	0	0
Inventory	376,271	30,344	57,208
Prepaid expenses	30,748	23,188	24,047
Total current assets	6,291,579	2,720,079	1,135,582
CAPITAL ASSETS			
Utility plant			
Plant in service, at cost	33,212,449	2,398,665	7,571,639
Less accumulated depreciation	17,878,364	1,519,992	4,045,354
	15,334,085	878,673	3,526,285
Construction work in progress	0	0	23,711
Net capital assets	15,334,085	878,673	3,549,996
OTHER ASSETS			
Note receivable - Shelby Co. Fair	21,372	0	0
Bond discount and issuance costs	18,047	0	11,533
Intra-utility note receivable	94,954	47,477	0
Restricted investments for bonds:			
Debt Reserve	720,500	0	227,000
Total other assets	854,873	47,477	238,533
Total assets	\$ 22,480,537	\$ 3,646,229	\$ 4,924,111

Enterprise Funds		
Telecommunications		
<u>Utility</u>	<u>Elimination</u>	<u>Totals</u>
\$ 135,000	\$ 0	\$ 1,248,053
0	0	146,276
0	0	35,223
82,101	0	710,424
0	0	174,756
889,113	0	7,295,374
0	0	273,174
165,406	0	643,799
1,669	0	338,485
0	0	13,159
4,813	0	468,636
10,306	0	88,289
<u>1,288,408</u>	<u>0</u>	<u>11,435,648</u>
3,698,784	0	46,881,537
<u>1,558,531</u>	<u>0</u>	<u>25,002,241</u>
2,140,253	0	21,879,296
0	0	23,711
<u>2,140,253</u>	<u>0</u>	<u>21,903,007</u>
0	0	21,372
0	0	29,580
0	(142,430)	1
		0
232,000	0	1,179,500
<u>232,000</u>	<u>(142,430)</u>	<u>1,230,453</u>
\$ <u>3,660,661</u>	\$ <u>(142,430)</u>	\$ <u>34,569,108</u>

See notes to financial statements.

HARLAN MUNICIPAL UTILITIES
STATEMENTS OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2009

LIABILITIES AND NET ASSETS	Business Type Activities -		
	Electric Utility	Gas Utility	Water Utility
CURRENT LIABILITIES			
Accounts payable	\$ 290,608	\$ 91,073	\$ 28,768
Payroll taxes payable	5,296	0	0
State sales and use tax payable	811	2,700	8,906
Salaries, vacation and sick leave payable	60,519	23,551	45,438
Accrued property taxes	124,846	0	0
Bonds called not paid	12,080	0	0
Due City of Harlan for collections & fees	0	0	154,234
Other accrued liabilities	523	0	0
Payable from restricted assets		0	0
Current maturities of long-term debt	785,254	0	0
Interest Payable	43,323	0	0
Customers' deposits	33,555	0	0
Total current liabilities	1,356,815	117,324	237,346
NONCURRENT LIABILITIES			
Long-Term Debt, net of current maturities	3,615,000	0	1,113,515
Contract Payable, net of current maturities	5,254	34,643	0
Intra-utility note payable, net of current maturities	0	0	0
Total noncurrent liabilities	3,620,254	34,643	1,113,515
NET ASSETS			
Invested in capital assets, net of related debt	10,928,577	844,030	2,436,481
Restricted for:			
Customer deposits	35,223	0	0
Revenue bond-debt reserve	720,500	0	227,000
Revenue bond retirement	628,323	0	0
Replacement funds - bond	146,276	0	0
Unrestricted	5,044,569	2,650,232	909,769
Total net assets	17,503,468	3,494,262	3,573,250
 Total liabilities and net assets	\$ 22,480,537	\$ 3,646,229	\$ 4,924,111

Enterprise Funds		
<u>Telecommunications</u>		
<u>Utility</u>	<u>Elimination</u>	<u>Totals</u>
\$		\$
51,169	0	461,618
0	0	5,296
6,931	0	19,348
20,973	0	150,481
0	0	124,846
0	0	12,080
21,129	0	175,363
309	0	832
146,333	0	931,587
23,774	0	67,097
0	0	33,555
<u>270,618</u>	<u>0</u>	<u>1,982,103</u>
1,942,334	0	6,670,849
0	0	39,897
142,430	(142,430)	0
<u>2,084,764</u>	<u>(142,430)</u>	<u>6,710,746</u>
(90,844)	0	14,118,244
0	0	35,223
232,000	0	1,179,500
82,101	0	710,424
0	0	146,276
1,082,022	0	9,686,592
<u>1,305,279</u>	<u>0</u>	<u>25,876,259</u>
\$ <u>3,660,661</u>	\$ <u>(142,430)</u>	\$ <u>34,569,108</u>

See notes to financial statements.

HARLAN MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009

Exhibit B

	Business Type Activities - Enterprise Funds				Total
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility	
OPERATING REVENUES					
Sales to consumers	\$ 4,928,215	\$ 3,620,804	\$ 1,427,750	\$ 1,783,972	\$ 11,760,741
Other operating revenue	151,186	8,278	19,053	61,570	240,087
Excess sales - Louisa Power	717,614	0	0	0	717,614
Total operating revenue	<u>5,797,015</u>	<u>3,629,082</u>	<u>1,446,803</u>	<u>1,845,542</u>	<u>12,718,442</u>
OPERATING EXPENSES					
Plant operating expenses					
Cost of gas, power, chemicals, programming, and line fees	1,991,955	2,757,357	73,078	724,835	5,547,225
Cost of excess sales	308,401	0	0	0	308,401
Salaries and wages	56,693	21,139	155,523	8,996	242,351
Repairs and maintenance	3,113	11,220	61,030	32,182	107,545
Utilities	59,895	19,233	99,186	20,312	198,626
Insurance	37,286	27,678	28,703	12,610	106,277
Property taxes	124,846	0	0	0	124,846
Other	45,450	22,551	53,389	24,765	146,155
Total plant operating expenses	<u>2,627,639</u>	<u>2,859,178</u>	<u>470,909</u>	<u>823,700</u>	<u>6,781,426</u>
Distribution operation expenses					
Salaries and wages	199,810	105,550	26,071	71,571	403,002
Engineering	5,671	4,650	4,903	3,744	18,968
Repairs and maintenance	86,908	35,020	40,488	12,213	174,629
Other	7,327	10,598	1,663	36,559	56,147
Total distribution operation expense	<u>299,716</u>	<u>155,818</u>	<u>73,125</u>	<u>124,087</u>	<u>652,746</u>
Administration and general expenses					
Salaries and wages	100,455	95,380	96,170	91,540	383,545
Office supplies	53,140	8,303	18,322	41,457	121,222
Education and travel	9,933	11,158	4,888	37,695	63,674
Professional	15,688	42,342	8,014	13,659	79,703
Other	5,545	13,115	32,448	45,798	96,906
Total administrative and general expenses	<u>184,761</u>	<u>170,298</u>	<u>159,842</u>	<u>230,149</u>	<u>745,050</u>

See notes to financial statements.

HARLAN MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009

Exhibit B

	Business Type Activities - Enterprise Funds				Total
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility	
OPERATING EXPENSES (Continued)					
Consumer services					
Bad debts	\$ 8,117	\$ 10,363	\$ 6,495	\$ 11,482	\$ 36,457
Other	0	0	0	2,977	2,977
Total consumer services	<u>8,117</u>	<u>10,363</u>	<u>6,495</u>	<u>14,459</u>	<u>39,434</u>
Marketing and stakeholder relations					
Salaries and wages	10,009	10,081	10,009	42,680	72,779
Advertising	44,899	4,069	4,401	21,005	74,374
Other	6,364	4,587	4,625	9,106	24,682
Total marketing and stakeholder relations	<u>61,272</u>	<u>18,737</u>	<u>19,035</u>	<u>72,791</u>	<u>171,835</u>
Employee benefits					
Payroll taxes	64,800	35,902	48,696	35,720	185,118
Health insurance	157,362	58,466	112,156	62,048	390,032
Compensated absences	89,428	27,317	52,413	41,960	211,118
Total employee benefits	<u>311,590</u>	<u>121,685</u>	<u>213,265</u>	<u>139,728</u>	<u>786,268</u>
Total operating expenses excluding amortization and depreciation	<u>3,493,095</u>	<u>3,336,079</u>	<u>942,671</u>	<u>1,404,914</u>	<u>9,176,759</u>
OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION	2,303,920	293,003	504,132	440,628	3,541,683
Amortization	4,985	0	3,766	223	8,974
Depreciation	1,150,542	55,856	160,568	190,354	1,557,320
	<u>1,155,527</u>	<u>55,856</u>	<u>164,334</u>	<u>190,577</u>	<u>1,566,294</u>
OPERATING INCOME	<u>1,148,393</u>	<u>237,147</u>	<u>339,798</u>	<u>250,051</u>	<u>1,975,389</u>

See notes to financial statements.

HARLAN MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009

Exhibit B

	Business Type Activities - Enterprise Funds				Total
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility	
NON-OPERATING REVENUES (EXPENSES)					
Contributions to City-In lieu of taxes	\$ (167,480)	\$ (51,395)	\$ (28,059)	\$ (623)	\$ (247,557)
Interest income	107,242	49,158	24,803	25,368	206,571
Interest expense	(183,877)	0	(54,993)	(102,495)	(341,365)
Industrial development contribution	(40,000)	(40,000)	0	0	(80,000)
Total non-operating revenues (expenses)	<u>(284,115)</u>	<u>(42,237)</u>	<u>(58,249)</u>	<u>(77,750)</u>	<u>(462,351)</u>
CHANGE IN NET ASSETS	864,278	194,910	281,549	172,301	1,513,038
TOTAL NET ASSETS, BEGINNING	<u>16,639,190</u>	<u>3,299,352</u>	<u>3,291,701</u>	<u>1,132,978</u>	<u>24,363,221</u>
TOTAL NET ASSETS, ENDING	<u>\$ 17,503,468</u>	<u>\$ 3,494,262</u>	<u>\$ 3,573,250</u>	<u>\$ 1,305,279</u>	<u>\$ 25,876,259</u>

See notes to financial statements.

**HARLAN MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009**

Exhibit C

	Business Type Activities - Enterprise Funds				
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility	Total
Cash flows from operating activities:					
Cash received from customers and users	\$ 4,955,954	\$ 3,665,297	\$ 1,386,223	\$ 1,805,536	\$ 11,813,010
Cash received from other revenues	868,800	8,278	19,053	61,570	957,701
Cash paid to suppliers	(2,385,592)	(2,927,515)	(190,417)	(923,725)	(6,427,249)
Cash paid for personal services	(616,062)	(216,544)	(410,086)	(323,893)	(1,566,585)
Cash paid to employees	(450,789)	(258,567)	(336,171)	(255,941)	(1,301,468)
Net cash provided by operating activities	<u>2,372,311</u>	<u>270,949</u>	<u>468,602</u>	<u>363,547</u>	<u>3,475,409</u>
Cash flows from noncapital financing activities:					
Contributions to City-In lieu of taxes	(167,480)	(51,395)	(28,059)	(623)	(247,557)
Net cash provided (used) by noncapital financing activities	<u>(167,480)</u>	<u>(51,395)</u>	<u>(28,059)</u>	<u>(623)</u>	<u>(247,557)</u>
Cash flows from capital and related financing activities:					
Loan proceeds	0	0	23,515	0	23,515
Acquisition of capital assets	(421,573)	(96,441)	(112,402)	(518,807)	(1,149,223)
Repayments of intra-utility notes	0	0	0	(47,477)	(47,477)
Principal payments on long-term borrowings	(1,005,254)	(44)	(165,000)	(213,558)	(1,383,856)
Interest paid on notes	(194,460)	0	(54,993)	(101,556)	(351,009)
Net cash provided (used) by capital and related financing activities	<u>(1,621,287)</u>	<u>(96,485)</u>	<u>(308,880)</u>	<u>(881,398)</u>	<u>(2,908,050)</u>
Cash flows from investing activities:					
Principal received (loaned) on Fairground Note	5,964	0	0	0	5,964
Interest on investments	107,242	49,158	24,803	25,368	206,571
Industrial development contribution	(40,000)	(40,000)	0	0	(80,000)
Principal received (loaned) on employee loans	(1,483)	0	0	0	(1,483)
Principal received on intra-utility notes	0	47,477	0	0	47,477
Net cash provided by investing activities	<u>71,723</u>	<u>56,635</u>	<u>24,803</u>	<u>25,368</u>	<u>178,529</u>
Net increase (decrease) in cash and cash equivalents	655,267	179,704	156,466	(493,106)	498,331
Cash and cash equivalents beginning of year	<u>5,570,258</u>	<u>2,316,542</u>	<u>846,329</u>	<u>1,831,320</u>	<u>10,564,449</u>
Cash and cash equivalents end of year	<u>\$ 6,225,525</u>	<u>\$ 2,496,246</u>	<u>\$ 1,002,795</u>	<u>\$ 1,338,214</u>	<u>\$ 11,062,780</u>

See notes to financial statements.

**HARLAN MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009**

**Exhibit C
(Continued)**

	Business Type Activities - Enterprise Funds				
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility	Total
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ 1,148,393	\$ 237,147	\$ 339,798	\$ 250,051	\$ 1,975,389
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation expense	1,150,542	55,856	160,568	190,354	1,557,320
Amortization expense	4,985	0	3,766	223	8,974
(Increase) decrease in customer accounts receivable and unbilled usage and other accounts receivable	21,591	43,412	(39,276)	23,297	49,024
(Increase) decrease in inventories	(38,356)	(476)	(14,422)	(855)	(54,109)
(Increase) decrease in prepaid expenses	1,234	958	993	425	3,610
Increase (decrease) in accounts payable	71,007	(65,768)	1,984	(99,397)	(92,174)
Increase (decrease) in payroll taxes payable	(6,961)	0	0	0	(6,961)
Increase (decrease) in sales & use tax payable	1,097	(1,080)	912	(5,375)	(4,446)
Increase (decrease) in salaries payable	5,606	900	4,015	806	11,327
Increase (decrease) in property taxes payable	6,036	0	0	0	6,036
Increase (decrease) in other payables	7,137	0	10,264	4,018	21,419
Net cash provided by operating activities	<u>2,372,311</u>	<u>270,949</u>	<u>468,602</u>	<u>363,547</u>	<u>3,475,409</u>
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	\$ 4,120,447	\$ 2,205,184	\$ 353,804	\$ 889,113	\$ 7,568,548
Restricted assets:					
Cash and pooled investments:					
Revenue bond retirement	774,599	0	0	82,101	856,700
Revenue bond debt reserve	720,500	0	227,000	232,000	1,179,500
Capital improvements	4,756	0	170,000	0	174,756
Designated contingency fund	570,000	291,062	251,991	135,000	1,248,053
Consumers' deposit fund	35,223	0	0	0	35,223
Cash and cash equivalents end of year	<u>\$ 6,225,525</u>	<u>\$ 2,496,246</u>	<u>\$ 1,002,795</u>	<u>\$ 1,338,214</u>	<u>\$ 11,062,780</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

(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, and telecommunications. The Utility follows the accounting practices prescribed by the Federal Energy Regulatory Commission which conforms 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

Basis Financial Statements

The Statement of Net Assets 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 Statement of Net Assets 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.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

B. Basis of Presentation (continued)

Fund Financial Statements

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

The Harlan Municipal Utilities report the following major proprietary funds:

Enterprise:

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

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

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

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

C. Measurement Focus and Basis of Accounting

The Harlan Municipal Utilities report 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.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

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, 2009 have been classified as work in process.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

H. Customer Accounts and Unbilled Usage

Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided. The allowance for doubtful accounts for all of the Enterprise Funds combined amounted to \$37,500 at June 30, 2009.

The customer billing locations are divided into 24 meter-reading routes, which are read once a month. The 24 reading routes are divided into three billing cycles. Therefore, three mailings of bills are done each month. The bill allows at least 20 days from the mailing date till the due date. If a customer does not pay their bill by the due date shown on the bill, a delinquent notice is mailed out that gives them 12 more days to pay their bill. If the customer exceeds the 12 day past due notice, they then receive a hand delivered shut off notice which gives them 24 hours to pay or make payment arrangements. A customer fee of \$25 is assessed if the Utility has to hand deliver a shut off notice.

I. Restricted Assets

Funds set aside for payment of revenue bonds are classified as restricted assets since their use is restricted by applicable bond indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers and 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 year ended June 30, 2009 was \$390,032.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

L. 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, 2009 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. An employee forfeits any accrued sick leave if he resigns or is terminated before retirement. The accrued amounts for the one-third have been recognized in the financial statements as of June 30, 2009 at current pay rates.

M. Advertising

Advertising costs are expenses as incurred. Advertising expense was \$74,374 for the year ended June 30, 2009. This includes the expenses incurred in their energy efficiency program.

N. Allocations

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

O. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. As of the date of the issuance of the accompanying financial statements, no material changes to the estimates used therein were anticipated by management in the near term.

P. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, expenses did not exceed the amount budgeted for the business type activities for the cash basis budget.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

(2) Deposits and Investments

The Utility's deposits in banks at June 30, 2009 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, 2009 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	11,346,668	160,016	0	11,506,684
Transmission & Pumping	5,789,012	12	0	5,789,024
Distribution	19,575,296	876,525	0	20,451,821
General	3,640,213	205,921	0	3,846,134
Fiber Optics	<u>5,022,937</u>	<u>44,305</u>	<u>0</u>	<u>5,067,242</u>
Total property, plant & equipment	45,594,758	1,286,779	0	46,881,537
Less: accumulated depreciation	<u>23,444,921</u>	<u>1,557,320</u>	<u>0</u>	<u>25,002,241</u>
Net property, plant & equipment	<u>\$ 22,149,837</u>	<u>\$ (270,541)</u>	<u>\$ 0</u>	<u>\$ 21,879,296</u>
Depreciation charged to operations				<u>\$ 1,557,320</u>

(4) Bonds Payable & Contract Payable

Revenue Bond Covenants

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

HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(4) Bonds Payable & Contract Payable (Continued)

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

	Date of Issue	Amount Originally Issued	Interest Rates	Final Due Date		Annual Payments	Outstanding June 30, 2009
<u>Electric Fund:</u>							
Electric Revenue Bond	6/29/1996	\$ 2,525,000	5.00-5.50%	10/1/2009	\$	542,375	\$ 525,000
Electric Revenue Bond, Series 2004	5/1/2004	\$ 3,400,000	3.00-4.00%	10/1/2015	\$	259,425	2,790,000
Electric Revenue Bond, Series 2006	12/5/2006	\$ 1,280,000	3.70-4.05%	10/1/2017	\$	140,443	1,080,000
Contract Payable, Myrtue Hospital	12/1/2005	\$ 26,268	0%	12/1/2010	\$	5,254	10,507
Total Electric Bonds & Contracts							<u>\$ 4,405,507</u>
<u>Water Fund:</u>							
Water Revenue Bond, Series 1999	7/1/1999	\$ 1,600,000	4.85-5.00%	7/1/2014	\$	153,578	\$ 660,000
Water Revenue Bond, Series 2004	4/15/2004	\$ 670,000	1.40-4.10%	7/1/2016	\$	66,416	430,000
Water Planning & Design Interim Loan	9/17/2008	\$ 23,515	0%	9/17/2011			23,515
Total Water Bonds							<u>\$ 1,113,515</u>
<u>Telecommunications Fund:</u>							
Communications Utility Revenue							
Capital Loan Notes, Series 2008	4/24/2008	\$ 920,000	4.60%	4/1/2013	\$	100,126	\$ 858,667
Telephone Capital Loan Note	3/30/2007	\$ 1,400,000	4.52%	4/1/2012	\$	144,438	1,230,000
Total Telecommunications Fund							<u>\$ 2,088,667</u>
<u>Gas Fund:</u>							
Contract Payable - Shelby County	9/26/1996	\$ 37,063	0%	Unknown	\$	44	<u>\$ 34,643</u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

(4) Bonds Payable & Contract Payable (Continued)

Long-Term Debt Summary

Long-term debt maturities are as follows:

Year Ending June 30,	Electric Revenue Bonds & Contracts		Water Revenue Bonds		Telecommunications Revenue Capital Loan Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 785,254	\$ 154,463	\$ 0	\$ 51,550	\$ 146,333	\$ 95,095
2011	510,253	127,136	193,515	44,491	146,333	88,431
2012	525,000	109,261	180,000	36,897	1,121,333	81,768
2013	545,000	90,128	190,000	28,638	674,668	31,035
2014	565,000	69,691	200,000	19,805	0	0
2015	590,000	47,239	210,000	10,427	0	0
2016	610,000	23,270	70,000	4,235	0	0
2017	135,000	8,370	70,000	1,435	0	0
2018	140,000	2,835	0	0	0	0
Total	<u>\$ 4,405,507</u>	<u>\$ 632,393</u>	<u>\$ 1,113,515</u>	<u>\$ 197,478</u>	<u>\$ 2,088,667</u>	<u>\$ 296,329</u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

(5) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2009 is as follows:

	Electric Revenue Bonds & Contracts	Water Revenue Bonds	Telecommunications Capital Loan Notes	Gas Shelby County Contract	Total
Balance, beginning	\$ 5,410,762	\$ 1,255,000	\$ 2,302,225	\$ 34,687	\$ 9,002,674
Issued	0	23,515	0	0	23,515
Paid	(1,005,254)	(165,000)	(213,558)	(44)	(1,383,856)
Balance, ending 6-30-09	<u>4,405,508</u>	<u>1,113,515</u>	<u>2,088,667</u>	<u>34,643</u>	<u>7,642,333</u>
Less: Current Portion	<u>(785,254)</u>	<u>0</u>	<u>(146,333)</u>	<u>0</u>	<u>(931,587)</u>
Long-Term Debt, net of Current Portion	<u><u>\$ 3,620,254</u></u>	<u><u>\$ 1,113,515</u></u>	<u><u>\$ 1,942,334</u></u>	<u><u>\$ 34,643</u></u>	<u><u>\$ 6,710,746</u></u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

(6) Intra-Utility Notes Payable & Notes Receivable

In March 2002, the Telecommunications 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 inter-fund receivables and payables at June 30, 2009 is as follows:

Payable Fund.....	<u>Telecommunications Utility</u>		
Receivable Fund.....	<u>Loan from Electric Utility</u>	<u>Loan from Gas Utility</u>	<u>Totals</u>
Beginning Balance 7-01-08	\$ 94,954	\$ 94,953	\$ 189,907
Less: Payments made by Telecommunications Utility	_____ 0	(____ 47,476)	(____ 47,476)
Ending Balance 6-30-09	<u>\$ 94,954</u>	<u>\$ 47,477</u>	<u>\$ 142,431</u>

(7) Changes in Notes Receivable – Other

The Utility has a program in which full time employees can take out an interest free loan up to \$3,000 to purchase a computer. The loan is to be paid back over a three year period and payments are withheld from the employees' paychecks.

Harlan Municipal Utilities entered into an agreement with the Shelby County Fair Board to install new electric facilities at the Shelby County Fair Grounds. The cost of this project was \$29,821. The Fair Board will make sixty equal monthly payments in the sum of \$497 per month which will be added to the monthly Harlan Municipal Utility electric bill of the Fair Board. The monthly payments shall be made interest free.

A summary of changes in Other Notes Receivable for the year ended June 30, 2009 is as follows:

	<u>Employee Computer Note Receivable</u>	<u>Fair Ground Note Receivable</u>
Beginning Balance 7-1-08	\$ 11,676	\$ 27,336
Loaned Out	11,262	0
Payments Received/Forgiven	(____ 9,779)	(____ 5,964)
Ending Balance 6-30-09	<u>\$ 13,159</u>	<u>\$ 21,372</u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

(8) 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, 2009 is as follows:

<u>Unit</u>	<u>Percentage of Ownership</u>	<u>Louisa Electric Utility Plant, Net</u>
Louisa Power Plant and Transmission Lines	<u>0.8%</u>	\$ <u>7,666,849</u>

(9) 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 IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.10% of their annual covered salary and the Utility is required to contribute 6.35% of annual covered salary. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$87,954, \$85,552 and \$82,062, respectively, equal to the required contributions for each year.

(10) 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.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

(11) Pledged Contributions

In December 2006, the Utility Board 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. The first payment was made in January 2008 and the second payment was made in January 2009. The remaining unpaid pledge is \$75,000 as of June 30, 2009.

In January 2008, the Utility Board approved a pledge of \$150,000 to Myrtue Medical Center Wellness Center. The contribution will be made over 5 years at the sum of \$30,000 per year. The first payment was made in December, 2008. The remaining unpaid pledge is \$120,000 as of June 30, 2009.

(12) 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, 2009 was \$247,557.

The Utility had business transactions between the Utility and Utility officials totaling \$25,300 during the year ended June 30, 2009.

(13) Telecommunications Utility

The Board of Trustees of the Harlan Municipal Utilities had operated for accounting and related purposes its Telephone and General Telecommunications Utility as separate utilities. Effective July 1, 2008 the Telephone Utility and the General Telecommunications utility were consolidated for all purposes and are now operated as a single integrated utility call the Harlan Municipal Telecommunications Utility.

Harlan Municipal Utilities and Walnut Communications entered into the following three separate service agreements on December 14, 2007: Cable Television Service Agreement, Host Switching Services Agreement (telephone), ISP Traffic Services Agreement (Internet and bandwidth). Billing dates for these three agreements all began on different dates. Walnut Communications started supplying Harlan Municipal Utilities with ISP Services on September 3, 2008. On September 15, 2008 Walnut communications began supplying Harlan Municipal Utilities with Host Switching. Harlan Municipal Utilities started providing CATV Service to Walnut Communications on October 1, 2008. Previous Host Switching and ISP requirements were provided to Harlan Municipal Utilities by Long Lines, LLC. After the above agreements were put into place, all contracts with Long Lines LLC ceased.

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, 2009**

	Accrual Basis		
	Total Proprietary Funds-Actual	Final Budgeted Amounts	Variance Favorable (Unfavorable)
Operating Revenues			
Sales to consumers	\$ 11,760,741	\$ 13,423,416	\$ (1,662,675)
Other operating revenue	240,087	178,232	61,855
Excess sales	<u>717,614</u>	<u>875,000</u>	<u>(157,386)</u>
Total operating revenue	<u>12,718,442</u>	<u>14,476,648</u>	<u>(1,758,206)</u>
Operating Expenses			
Plant operation expenses	6,781,426	7,882,811	1,101,385
Distribution operation	652,746	733,884	81,138
Administrative and general	745,050	743,554	(1,496)
Consumer services	39,434	44,575	5,141
Marketing and relations	171,835	163,433	(8,402)
Employee benefits	786,268	847,247	60,979
Amortization and depreciation	<u>1,566,294</u>	<u>1,480,123</u>	<u>(86,171)</u>
Total operating expenses	<u>10,743,053</u>	<u>11,895,627</u>	<u>1,152,574</u>
Operating Income	1,975,389	2,581,021	(605,632)
Other revenues (expenses), net	<u>(462,351)</u>	<u>(332,539)</u>	<u>(129,812)</u>
Change in net assets	1,513,038	\$ <u>2,248,482</u>	\$ <u>(735,444)</u>
Total net assets, beginning	<u>24,363,221</u>		
Total net assets, ending	\$ <u>25,876,259</u>		

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
BUDGETARY COMPARISON SCHEDULE OF
REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS-
ACCRUAL BUDGET VS ACTUAL (CASH BASIS)
PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2009**

	Cash Basis		
	Total Proprietary Funds-Actual	Final Budgeted Amounts	Variance Favorable (Unfavorable)
Receipts:			
Charges for services	\$ 12,530,624	\$ 14,298,416	\$ (1,767,792)
Miscellaneous	240,087	178,232	61,855
Total receipts	12,770,711	14,476,648	(1,705,937)
Disbursements:			
Business type activities	9,295,302	10,415,504	1,120,202
Excess of receipts over disbursements	3,475,409	4,061,144	(585,735)
Other financing sources (uses):			
Loan proceeds	23,515	2,100,000	(2,076,485)
Acquisition of capital assets	(1,149,223)	(2,879,650)	1,730,427
Interest received on investments	206,571	320,000	(113,429)
Principal/Interest payments on long term borrowings	(1,734,865)	(1,612,193)	(122,672)
Other sources (uses), net	(323,076)	(355,600)	32,524
Total other financing sources (uses)	(2,977,078)	(2,427,443)	(549,635)
Excess of receipts and other financing sources over disbursements and other financing uses	498,331	1,633,701	\$ <u><u>(1,135,370)</u></u>
Balances, beginning of year	10,564,449	10,564,449	
Balances, end of year	\$ 11,062,780	\$ 12,198,150	

See accompanying independent auditors' report.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2009**

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.

There were no amendments during the course of the fiscal year, nor did actual cash disbursements exceed the final statutory budget.

OTHER SUPPLEMENTARY INFORMATION

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2009 AND 2008**

Schedule 1

	2009	2008
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 570,000	\$ 716,276
Replacement funds bond requirement:		
Cash and savings	146,276	250,000
Restricted		
Consumers' deposit fund	35,223	26,550
Revenue bond retirement-savings	628,323	847,230
Capital improvement fund-savings	4,756	3,914
Unrestricted		
Cash and savings	3,969,777	2,758,865
Industrial development fund	150,670	148,923
Accounts receivable - net of allowance for doubtful accounts of \$9,000 for 2009 and \$9,000 for 2008	154,130	222,734
Unbilled usage	212,246	165,233
Employee loans receivable	13,159	11,676
Inventory	376,271	337,915
Prepaid expenses	30,748	31,982
Total current assets	6,291,579	5,521,298
CAPITAL ASSETS		
Utility plant		
Plant in service, at cost	33,212,449	32,790,876
Less accumulated depreciation	17,878,364	16,727,822
	15,334,085	16,063,054
Construction work in progress	0	0
Net capital assets	15,334,085	16,063,054
OTHER ASSETS		
Note receivable - Shelby Co. Fair	21,372	27,336
Bond discount and issuance costs	18,047	23,031
Intra-utility note receivable	94,954	94,954
Restricted investments for bonds:		
Debt Reserve	720,500	818,500
Total other assets	854,873	963,821
 Total assets	\$ 22,480,537	\$ 22,548,173

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2009 AND 2008**

**Schedule 1
(Continued)**

	2009	2008
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 290,608	\$ 219,601
Payroll taxes payable	5,296	12,257
State sales and use tax payable	811	(286)
Salaries, vacation and sick leave payable	60,519	54,913
Accrued property taxes	124,846	118,810
Bonds called not paid	12,080	12,080
Other accrued liabilities	523	631
Payable from restricted assets		
Current maturities of long-term debt	785,254	1,005,254
Interest Payable	43,323	53,906
Customers' deposits	33,555	26,310
Total current liabilities	1,356,815	1,503,476
Long-Term Debt, net of current maturities	3,615,000	4,395,000
Contract Payable, net of current maturities	5,254	10,507
Total noncurrent liabilities	3,620,254	4,405,507
NET ASSETS		
Designated	716,276	966,277
Undesignated	16,787,192	15,672,913
Total net assets	17,503,468	16,639,190
Total liabilities and net assets	\$ 22,480,537	\$ 22,548,173

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY**

Schedule 2

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>Budget</u>	<u>Budget</u> <u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>Budget</u>	
OPERATING REVENUES					
Sales to consumers	\$ 4,928,215	\$ 5,408,279	\$ 6,006,750	\$	(1,078,535)
Other operating revenue	151,186	95,162	118,532		32,654
Excess sales - Louisa Power	717,614	740,328	875,000		(157,386)
Total operating revenue	<u>5,797,015</u>	<u>6,243,769</u>	<u>7,000,282</u>		<u>(1,203,267)</u>
OPERATING EXPENSES					
Plant operating expenses					
Cost of excess sales	308,401	569,829	562,200		253,799
Cost of power	1,991,955	1,750,449	2,136,654		144,699
Salaries and wages	56,693	67,801	56,505		(188)
Repairs and maintenance	3,113	15,057	6,500		3,387
Utilities	59,895	55,837	62,000		2,105
Insurance	37,286	39,573	44,300		7,014
Property taxes	124,846	118,810	125,000		154
Other	45,450	48,247	50,550		5,100
Total plant operating expenses	<u>2,627,639</u>	<u>2,665,603</u>	<u>3,043,709</u>		<u>416,070</u>
Distribution operation expenses					
Salaries and wages	199,810	191,578	222,128		22,318
Engineering	5,671	5,104	6,500		829
Repairs and maintenance	86,908	170,812	126,195		39,287
Other	7,327	4,662	4,950		(2,377)
Total distribution operation expense	<u>299,716</u>	<u>372,156</u>	<u>359,773</u>		<u>60,057</u>
Administration and general expenses					
Salaries and wages	100,455	102,977	117,580		17,125
Office supplies	53,140	54,485	51,300		(1,840)
Education and travel	9,933	9,874	11,200		1,267
Professional	15,688	19,190	35,000		19,312
Other	5,545	7,694	5,719		174
Total administrative and general expenses	<u>184,761</u>	<u>194,220</u>	<u>220,799</u>		<u>36,038</u>
Consumer services					
Bad debts (collected)	8,117	3,781	15,000		6,883
Total consumer services	<u>8,117</u>	<u>3,781</u>	<u>15,000</u>		<u>6,883</u>
Marketing and stakeholder relations					
Salaries and wages	10,009	10,020	10,751		742
Advertising	44,899	40,098	18,477		(26,422)
Other	6,364	5,408	9,690		3,326
Total marketing and stakeholder relations	<u>61,272</u>	<u>55,526</u>	<u>38,918</u>		<u>(22,354)</u>

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY**

**Schedule 2
(Continued)**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008**

	2009 Actual	2008 Actual	2009 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Employee benefits				
Payroll taxes	\$ 64,800	\$ 63,273	\$ 71,865	\$ 7,065
Health insurance	157,362	104,614	169,046	11,684
Compensated absences	89,428	83,172	97,343	7,915
Total employee benefits	311,590	251,059	338,254	26,664
Total operating expenses excluding amortization and depreciation	3,493,095	3,542,345	4,016,453	523,358
OPERATING INCOME (LOSS) BEFORE AMORTIZATION AND DEPRECIATION				
	2,303,920	2,701,424	2,983,829	679,909
Amortization	4,985	6,674	6,700	1,715
Depreciation	1,150,542	1,037,858	1,050,000	(100,542)
	1,155,527	1,044,532	1,056,700	(98,827)
OPERATING INCOME (LOSS)				
	1,148,393	1,656,892	1,927,129	(778,736)
NON-OPERATING REVENUES (EXPENSES)				
Capital Grants	0	304	0	0
Contributions to City-In lieu of taxes	(167,480)	(194,930)	(190,000)	22,520
Gain (Loss) on sale of assets	0	315	0	0
Interest income	107,242	178,213	190,000	(82,758)
Interest expense	(183,877)	(226,048)	(183,900)	23
Industrial development contribution	(40,000)	(27,482)	(50,000)	10,000
Total non-operating revenues (expenses)	(284,115)	(269,628)	(233,900)	(50,215)
CHANGE IN NET ASSETS				
	864,278	1,387,264	\$ 1,693,229	\$ (828,951)
TOTAL NET ASSETS, BEGINNING				
	16,639,190	15,251,926		
TOTAL NET ASSETS, ENDING				
	\$ 17,503,468	\$ 16,639,190		

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL GAS UTILITY
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2009 AND 2008**

Schedule 3

	2009	2008
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 291,062	\$ 267,062
Unrestricted		
Cash and savings	2,082,680	1,928,392
Industrial development fund	122,504	121,088
Accounts receivable - net of allowance for doubtful accounts of \$9,500 for 2009 and \$9,500 for 2008	103,827	122,155
Unbilled usage	66,474	91,559
Inventory	30,344	29,868
Prepaid expenses	23,188	24,146
Total current assets	2,720,079	2,584,270
CAPITAL ASSETS		
Utility plant		
Plant in service, at cost	2,398,665	2,302,224
Less accumulated depreciation	1,519,992	1,464,136
Net capital assets	878,673	838,088
OTHER ASSETS		
Intra-utility note receivable	47,477	94,953
Total other assets	47,477	94,953
 Total assets	\$ 3,646,229	\$ 3,517,311
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 91,073	\$ 156,841
State sales and use tax payable	2,700	3,780
Salaries, vacation and sick leave payable	23,551	22,651
Total current liabilities	117,324	183,272
Contract Payable	34,643	34,687
NET ASSETS		
Designated	291,062	267,062
Undesignated	3,203,200	3,032,290
Total net assets	3,494,262	3,299,352
 Total liabilities and net assets	\$ 3,646,229	\$ 3,517,311

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL GAS UTILITY**

Schedule 4

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008**

	2009 Actual	2008 Actual	2009 Budget	Budget Variance Favorable (Unfavorable)
OPERATING REVENUES				
Sales to consumers	\$ 3,620,804	\$ 3,495,552	\$ 4,129,402	\$ 508,598
Other operating revenue	8,278	8,049	8,200	(78)
Total operating revenue	3,629,082	3,503,601	4,137,602	508,520
OPERATING EXPENSES				
Plant operating expenses				
Cost of power	2,757,357	2,679,407	3,288,627	531,270
Salaries and wages	21,139	18,306	18,457	(2,682)
Repairs and maintenance	11,220	23,739	9,343	(1,877)
Utilities	19,233	20,176	18,800	(433)
Insurance	27,678	29,351	33,200	5,522
Other	22,551	19,554	23,372	821
Total plant operating expenses	2,859,178	2,790,533	3,391,799	532,621
Distribution operation expenses				
Salaries and wages	105,550	103,872	116,331	10,781
Engineering	4,650	4,050	4,000	(650)
Repairs and maintenance	35,020	31,675	27,200	(7,820)
Other	10,598	7,135	10,960	362
Total distribution operation expense	155,818	146,732	158,491	2,673
Administration and general expenses				
Salaries and wages	95,380	94,124	105,550	10,170
Office supplies	8,303	9,298	9,600	1,297
Education and travel	11,158	17,630	16,500	5,342
Professional	42,342	35,156	38,000	(4,342)
Other	13,115	12,598	12,295	(820)
Total administrative and general expenses	170,298	168,806	181,945	11,647
Consumer services				
Bad debts (collected)	10,363	16,221	13,400	3,037
Other	0	115	0	0
Total consumer services	10,363	16,336	13,400	3,037
Marketing and stakeholder relations				
Salaries and wages	10,081	10,197	11,021	940
Advertising	4,069	5,378	4,871	802
Other	4,587	4,121	8,667	4,080
Total marketing and stakeholder relations	18,737	19,696	24,559	5,822

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL GAS UTILITY**

**Schedule 4
(Continued)**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008**

	2009 Actual	2008 Actual	2009 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Employee benefits				
Payroll taxes	\$ 35,902	\$ 33,785	\$ 38,213	\$ 2,311
Health insurance	58,466	37,035	63,527	5,061
Compensated absences	27,317	28,485	37,543	10,226
Total employee benefits	121,685	99,305	139,283	17,598
Total operating expenses excluding amortization and depreciation	3,336,079	3,241,408	3,909,477	573,398
OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION				
	293,003	262,193	228,125	64,878
Depreciation	55,856	56,783	58,000	2,144
	55,856	56,783	58,000	2,144
OPERATING INCOME (LOSS)	237,147	205,410	170,125	67,022
NON-OPERATING REVENUES (EXPENSES)				
Capital Grants	0	254	0	0
Contributions to City-In lieu of taxes	(51,395)	(46,236)	(38,000)	(13,395)
Gain (Loss) on sale of assets	0	310	0	0
Interest income	49,158	70,953	70,000	(20,842)
Industrial development contribution	(40,000)	(27,108)	(50,000)	10,000
Total non-operating revenues (expenses)	(42,237)	(1,827)	(18,000)	(24,237)
CHANGE IN NET ASSETS	194,910	203,583	\$ 152,125	\$ 42,785
TOTAL NET ASSETS, BEGINNING	3,299,352	3,095,769		
TOTAL NET ASSETS, ENDING	\$ 3,494,262	\$ 3,299,352		

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2009 AND 2008**

Schedule 5

	2009	2008
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 251,991	\$ 37,991
Restricted		
Capital improvement fund-savings	170,000	170,000
Unrestricted		
Cash and savings	353,804	411,338
Accounts receivable - net of allowance for doubtful accounts of \$4,500 for 2009 and \$4,500 for 2008	220,436	191,392
Unbilled usage	58,096	47,864
Inventory	57,208	42,786
Prepaid expenses	24,047	25,040
Total current assets	1,135,582	926,411
CAPITAL ASSETS		
Utility plant		
Plant in service, at cost	7,571,639	7,482,948
Less accumulated depreciation	4,045,354	3,884,786
	3,526,285	3,598,162
Construction work in progress	23,711	0
Net capital assets	3,549,996	3,598,162
OTHER ASSETS		
Bond discount and issuance costs	11,533	15,299
Restricted investments for bonds:		
Debt reserve and sinking	227,000	227,000
Total other assets	238,533	242,299
Total assets	\$ 4,924,111	\$ 4,766,872
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 28,768	\$ 26,784
State sales and use tax payable	8,906	7,994
Salaries, vacation and sick leave payable	45,438	41,423
Due City of Harlan for collections & fees	154,234	143,970
Total current liabilities	237,346	220,171
Long-Term Debt, net of current maturities	1,113,515	1,255,000
NET ASSETS		
Designated	251,991	37,991
Undesignated	3,321,259	3,253,710
Total net assets	3,573,250	3,291,701
Total liabilities and net assets	\$ 4,924,111	\$ 4,766,872

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY**

Schedule 6

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>Budget</u>	<u>Budget</u> <u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>Budget</u>	<u>(Unfavorable)</u>
OPERATING REVENUES					
Sales to consumers	\$ 1,427,750	\$ 1,253,447	\$ 1,416,182	\$	11,568
Other operating revenue	19,053	20,736	29,700		(10,647)
Total operating revenue	<u>1,446,803</u>	<u>1,274,183</u>	<u>1,445,882</u>		<u>921</u>
OPERATING EXPENSES					
Plant operating expenses					
Cost of chemicals	73,078	79,540	90,346		17,268
Salaries and wages	155,523	148,667	166,560		11,037
Repairs and maintenance	61,030	66,507	78,021		16,991
Utilities	99,186	96,974	95,950		(3,236)
Insurance	28,703	30,438	33,000		4,297
Other	53,389	54,143	36,490		(16,899)
Total plant operating expenses	<u>470,909</u>	<u>476,269</u>	<u>500,367</u>		<u>29,458</u>
Distribution operation expenses					
Salaries and wages	26,071	28,109	29,507		3,436
Engineering	4,903	11,030	15,000		10,097
Repairs and maintenance	40,488	22,296	13,281		(27,207)
Other	1,663	937	1,200		(463)
Total distribution operation expense	<u>73,125</u>	<u>62,372</u>	<u>58,988</u>		<u>(14,137)</u>
Administration and general expenses					
Salaries and wages	96,170	92,428	106,400		10,230
Office supplies	18,322	19,070	18,900		578
Education and travel	4,888	3,952	5,000		112
Professional	8,014	9,473	14,100		6,086
Other	32,448	35,355	30,390		(2,058)
Total administrative and general expenses	<u>159,842</u>	<u>160,278</u>	<u>174,790</u>		<u>14,948</u>
Consumer services					
Bad debts (collected)	6,495	8,309	6,300		(195)
Total consumer services	<u>6,495</u>	<u>8,309</u>	<u>6,300</u>		<u>(195)</u>
Marketing and stakeholder relations					
Salaries and wages	10,009	10,020	10,751		742
Advertising	4,401	6,260	6,004		1,603
Other	4,625	4,267	8,231		3,606
Total marketing and stakeholder relations	<u>19,035</u>	<u>20,547</u>	<u>24,986</u>		<u>5,951</u>

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY**

**Schedule 6
(Continued)**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008**

	2009 Actual	2008 Actual	2009 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Employee benefits				
Payroll taxes	\$ 48,696	\$ 47,321	\$ 62,664	\$ 13,968
Health insurance	112,156	76,044	119,439	7,283
Compensated absences	52,413	48,703	64,304	11,891
Total employee benefits	213,265	172,068	246,407	33,142
Total operating expenses excluding amortization and depreciation	942,671	899,843	1,011,838	69,167
OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION				
	504,132	374,340	434,044	70,088
Amortization	3,766	4,188	4,200	434
Depreciation	160,568	161,311	165,000	4,432
	164,334	165,499	169,200	4,866
OPERATING INCOME	339,798	208,841	264,844	74,954
NON-OPERATING REVENUES (EXPENSES)				
Capital Grants	0	263	0	0
Contributions to City-In lieu of taxes	(28,059)	(26,728)	(27,000)	(1,059)
Gain (Loss) on sale of assets	0	0	0	0
Interest income	24,803	32,523	30,000	(5,197)
Interest expense	(54,993)	(61,453)	(54,994)	1
Total non-operating revenues (expenses)	(58,249)	(55,395)	(51,994)	(6,255)
CHANGE IN NET ASSETS	281,549	153,446	\$ 212,850	\$ 68,699
TOTAL NET ASSETS, BEGINNING	3,291,701	3,138,255		
TOTAL NET ASSETS, ENDING	\$ 3,573,250	\$ 3,291,701		

See accompanying independent auditor's report.

HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2009 AND 2008

Schedule 7

	2009	2008
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 135,000	\$ 123,000
Restricted		
Revenue bond retirement-savings	82,101	72,762
Capital improvement fund-savings	0	668,000
Unrestricted		
Cash and savings	889,113	703,836
Accounts receivable - net of allowance for doubtful accounts of \$7,000 for 2009 and \$7,000 for 2008	165,406	178,591
Unbilled Usage	1,669	11,781
Inventory	4,813	3,958
Prepaid expenses	10,306	10,731
Total current assets	1,288,408	1,772,659
CAPITAL ASSETS		
Utility plant		
Plant in service, at cost	3,698,784	3,018,710
Less accumulated depreciation	1,558,531	1,368,177
	2,140,253	1,650,533
Construction work in progress	0	161,267
Net capital assets	2,140,253	1,811,800
OTHER ASSETS		
Other A/R - CABS L.T.	0	137,461
Bond discount and issuance costs	0	223
Restricted investments for bonds:		
Debt reserve and sinking	232,000	263,722
Total other assets	232,000	401,406
Total assets	\$ 3,660,661	\$ 3,985,865

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2009 AND 2008**

**Schedule 7
(Continued)**

	2009	2008
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 51,169	\$ 150,566
Payroll taxes payable	0	0
State sales and use tax payable	6,931	12,306
Salaries, vacation and sick leave payable	20,973	20,167
Due City of Harlan for collections & fees	21,129	17,056
Other accrued liabilities	309	363
Payable from restricted assets		
Current maturities of long-term debt	146,333	213,558
Interest Payable	23,774	22,835
Total current liabilities	270,618	436,851
NONCURRENT LIABILITIES		
Long-Term Debt, net of current maturities	1,942,334	2,088,667
Deferred Revenue - CABS	0	137,462
Intra-utility note payable, net of current maturities	142,430	189,907
Total noncurrent liabilities	2,084,764	2,416,036
NET ASSETS		
Designated	135,000	123,000
Undesignated	1,170,279	1,009,978
Total net assets	1,305,279	1,132,978
 Total liabilities and net assets	 \$ 3,660,661	 \$ 3,985,865

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY**

Schedule 8

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>Budget</u>	<u>Budget Variance Favorable (Unfavorable)</u>
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>Budget</u>	
OPERATING REVENUES					
Sales to consumers	\$ 1,783,972	\$ 1,795,409	\$ 1,871,082	\$	(87,110)
Other operating revenue	<u>61,570</u>	<u>27,151</u>	<u>21,800</u>	<u>21,800</u>	<u>39,770</u>
Total operating revenue	<u>1,845,542</u>	<u>1,822,560</u>	<u>1,892,882</u>	<u>1,892,882</u>	<u>(47,340)</u>
OPERATING EXPENSES					
Plant operating expenses					
Cost of programming, line fees	724,835	816,254	818,826	818,826	93,991
Salaries and wages	8,996	17,418	13,685	13,685	4,689
Repairs and maintenance	32,182	45,480	31,425	31,425	(757)
Utilities	20,312	23,276	21,050	21,050	738
Insurance	12,610	13,153	24,000	24,000	11,390
Other	<u>24,765</u>	<u>11,891</u>	<u>37,950</u>	<u>37,950</u>	<u>13,185</u>
Total plant operating expenses	<u>823,700</u>	<u>927,472</u>	<u>946,936</u>	<u>946,936</u>	<u>123,236</u>
Distribution operation expenses					
Salaries and wages	71,571	84,042	87,800	87,800	16,229
Engineering	3,744	8,503	23,600	23,600	19,856
Repairs and maintenance	12,213	9,840	12,600	12,600	387
Other	<u>36,559</u>	<u>38,325</u>	<u>32,632</u>	<u>32,632</u>	<u>(3,927)</u>
Total distribution operation expense	<u>124,087</u>	<u>140,710</u>	<u>156,632</u>	<u>156,632</u>	<u>32,545</u>
Administration and general expenses					
Salaries and wages	91,540	90,803	91,425	91,425	(115)
Office supplies	41,457	34,283	30,700	30,700	(10,757)
Education and travel	37,695	1,062	1,600	1,600	(36,095)
Professional	13,659	43,529	35,700	35,700	22,041
Other	<u>45,798</u>	<u>9,709</u>	<u>6,595</u>	<u>6,595</u>	<u>(39,203)</u>
Total administrative and general expenses	<u>230,149</u>	<u>179,386</u>	<u>166,020</u>	<u>166,020</u>	<u>(64,129)</u>
Consumer services					
Bad debts (collected)	11,482	11,035	4,550	4,550	(6,932)
Other	<u>2,977</u>	<u>1,660</u>	<u>5,325</u>	<u>5,325</u>	<u>2,348</u>
Total consumer services	<u>14,459</u>	<u>12,695</u>	<u>9,875</u>	<u>9,875</u>	<u>(4,584)</u>
Marketing and stakeholder relations					
Salaries and wages	42,680	46,633	45,817	45,817	3,137
Advertising	21,005	20,530	23,094	23,094	2,089
Other	<u>9,106</u>	<u>3,240</u>	<u>6,059</u>	<u>6,059</u>	<u>(3,047)</u>
Total marketing and stakeholder relations	<u>72,791</u>	<u>70,403</u>	<u>74,970</u>	<u>74,970</u>	<u>2,179</u>

See accompanying independent auditors' report.

HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008

Schedule 8
(Continued)

	2009 Actual	2008 Actual	2009 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Employee benefits				
Payroll taxes	\$ 35,720	\$ 36,465	\$ 36,170	\$ 450
Health insurance	62,048	41,324	54,988	(7,060)
Compensated absences	41,960	30,743	32,145	(9,815)
Total employee benefits	139,728	108,532	123,303	(16,425)
Total operating expenses excluding amortization and depreciation	1,404,914	1,439,198	1,477,736	72,822
OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION	440,628	383,362	415,146	25,482
Amortization	223	427	223	0
Depreciation	190,354	189,737	196,000	5,646
	190,577	190,164	196,223	5,646
OPERATING INCOME	250,051	193,198	218,923	31,128
NON-OPERATING REVENUES (EXPENSES)				
Contributions to City-In lieu of taxes	(623)	(528)	(600)	(23)
Interest income	25,368	29,380	30,000	(4,632)
Interest expense	(102,495)	(73,741)	(58,045)	(44,450)
Total non-operating revenues (expenses)	(77,750)	(44,889)	(28,645)	(49,105)
CHANGE IN NET ASSETS	172,301	148,309	\$ 190,278	\$ (17,977)
TOTAL NET ASSETS, BEGINNING	1,132,978	984,669		
TOTAL NET ASSETS, ENDING	\$ 1,305,279	\$ 1,132,978		

See accompanying independent auditors' report.

MAHONEY & GOTTO COMPANY

Certified Public Accountants

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

To the Board of Trustees of the
Harlan Municipal Utilities:

We have audited the accompanying financial statements of the Harlan Municipal Utilities, a component unit of the City of Harlan, as of and for the year ended June 30, 2009, which collectively comprise the Utility's basic financial statements listed in the table of contents and have issued our report thereon dated September 15, 2009. We conducted our audit in accordance with generally accepted auditing standards in the United States 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 opinion 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 a 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 inconsequential will not be prevented or detected by Harlan Municipal Utilities' internal control. We did not find any deficiencies in internal control.

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 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 the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 test disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Harlan Municipal Utilities' operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Harlan Municipal Utilities. 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 Utility's 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 officials, management, employees and stakeholders of the Harlan Municipal Utilities and other parties to whom Harlan Municipal Utilities may report. This report is not intended to be 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 shall be pleased to discuss them with you at your convenience.

Mahoney & Gotto Company

MAHONEY & GOTTO COMPANY
Certified Public Accountants

September 15, 2009
Denison, Iowa

**HARLAN MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009**

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-08 Certified Budget - Harlan Municipal Utilities is a component unit of the City of Harlan, therefore their receipts and disbursements are included in the Certified Budget of the City of Harlan. Cash disbursements during the year ended June 30, 2009 did not exceed the amounts budgeted.
- III-B-08 Questionable Disbursements – Disbursements of the Utility money appear to meet public purpose requirements.
- III-C-08 Travel Expense - No disbursements of Utility money for travel expenses for spouses of the Utilities officials or employees were noted.

**HARLAN MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009**

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

III-D-08 Business Transactions – Business transactions between Harlan Municipal Utilities and Utility officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Steve Keast, Husband of Board Member, Shareholder of Keast Ford Lincoln/ Mercury, Inc.	Labor, Parts, Repairs 2008 Chevrolet, per bid	\$ 3,300 22,000 <u>\$ 25,300</u>

The transaction involving the purchase of the vehicle does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa. However, in accordance with Chapter 362.5(10) of the Code of Iowa, the transactions involving labor, parts and repairs do appear to represent a conflict of interest since they were 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-08 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-08 Board Minutes – No transactions were found that we believe should have been approved in the board minutes but were not. Minutes of the Utility proceedings were all properly and timely published. Also, the Utility did publish annual gross salaries for 2008 as in accordance with an Attorney General’s opinion dated April 12, 1978.

III-G-08 Revenue Notes – The Utility is in compliance with all the provisions of revenue note resolutions for all of the funds.

III-H-08 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-08 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.