

HARLAN MUNICIPAL UTILITIES
INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2010 and 2009

MAHONEY & GOTTO COMPANY
Certified Public Accountants

Denison, Iowa

HARLAN MUNICIPAL UTILITIES

TABLE OF CONTENTS

		<u>Page</u>
Officials		3
Independent Auditors' Report		5-6
Management's Discussion and Analysis		7-15
Basic Financial Statements	<u>Exhibit</u>	
Statement of Net Assets	A	17-20
Statement of Revenues, Expenses, and Change in Fund Net Assets	B	21-23
Statement of Cash Flows	C	24-25
Notes to Financial Statements		27-40
Required Supplementary Information		
Budgetary Comparison Schedule of Revenues, Expenses and Changes in Fund Net Assets-Accrual Budget vs. Actual (Accrual Basis) – Proprietary Funds		42
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances-Budget & Actual (Cash Basis) – Proprietary Funds		43
Notes to Required Supplementary Information – Budgetary Reporting		44
Other Supplementary Information	<u>Schedule</u>	
Municipal Electric Utility – Comparative Statements of Net Assets	1	46-47
Municipal Electric Utility – Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets	2	48-49
Municipal Gas Utility – Comparative Statements of Net Assets	3	50
Municipal Gas Utility – Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets	4	51-52
Municipal Water Utility – Comparative Statements of Net Assets	5	53
Municipal Water Utility – Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets	6	54-55
Municipal Telecommunications Utility – Comparative Statements of Net Assets	7	56-57
Municipal Telecommunications Utility – Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets	8	58-59
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 <u>Government Auditing Standards</u>		60-61
Schedule of Findings		62-63

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	2015
Randall Doran	Board Member	2010
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, 2010. 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, 2010, 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 13, 2010 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 42 through 44 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. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2009 (which is not presented herein) and expressed an unqualified opinion on those financial statements. 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
Certified Public Accountants

September 13, 2010
Denison, Iowa

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, 2010. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities increased 6.17%, or \$785,934, from fiscal 2009 to fiscal 2010.
- Operating expenses increased 6.72%, or \$615,776 from fiscal 2009 to fiscal 2010.
- The Utilities' net assets of business type activities increased 6.20%, or \$1,607,855 from June 30, 2009 to June 30, 2010.

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 deteriorating.

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

The 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 financial statements required 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>6-30-10</u>	<u>6-30-09</u>
Current and other assets	\$ 21,007,157	\$ 12,666,101
Capital assets	<u>22,996,159</u>	<u>21,989,315</u>
Total Assets	<u>\$ 44,003,316</u>	<u>\$ 34,655,416</u>
Current liabilities	\$ 2,217,841	\$ 2,012,967
Non-current liabilities	<u>14,278,213</u>	<u>6,743,042</u>
Total Liabilities	<u>\$ 16,496,054</u>	<u>\$ 8,756,009</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 7,935,541	\$ 14,141,392
Restricted	2,681,170	2,071,423
Unrestricted	<u>16,890,551</u>	<u>9,686,592</u>
Total net assets	<u>\$ 27,507,262</u>	<u>\$ 25,899,407</u>

Net assets of business type activities increased from FY09 by \$1,607,855, or 6.20%. 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 \$7,203,959 at the end of this year, an increase of 42.65%.

A prior period adjustment was needed to correct an error in the prior fiscal year. The details of this adjustment are disclosed in Footnote 15. Accordingly, the amounts for the year ended June 30, 2009 have been restated.

Changes in Net Assets

Business Type Activities-Enterprise Funds

	<u>6-30-10</u>	<u>6-30-09</u>
Revenues:		
Charges for services	\$ 13,504,376	\$ 12,718,442
Interest Income	80,666	206,571
Capital grants	0	0
Gain on sale of assets	<u>0</u>	<u>0</u>
Total revenues	<u>13,585,042</u>	<u>12,925,013</u>
Operating expenses:		
Plant operations	7,356,449	6,758,278
Distribution operations	735,181	652,746
Administrative and general	644,875	745,050
Consumer services	54,533	39,434
Marketing and stakeholder relations	143,188	171,835
Employee benefits	<u>835,161</u>	<u>786,268</u>
Total operating expenses	<u>9,769,387</u>	<u>9,153,611</u>
Other expenses:		
Amortization	7,661	8,974
Depreciation	1,540,982	1,557,320
Contributions to City-In lieu of taxes	261,622	247,557
Interest expense	317,535	341,365
Industrial development contribution	<u>80,000</u>	<u>80,000</u>
Total other expenses	<u>2,207,800</u>	<u>2,235,216</u>
Increase in net assets	1,607,855	1,536,186
Net assets beginning of year, as restated	<u>25,899,407</u>	<u>24,363,221</u>
Net assets end of year	<u>\$ 27,507,262</u>	<u>\$ 25,899,407</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 2010 with a \$18,496,143 net asset balance compared to the prior year ending net asset balance of \$17,503,468.

The Gas Fund, which accounts for the operating and maintenance of the Utilities' gas system, ended fiscal 2010 with a \$3,668,769 net asset balance compared to the prior year ending net asset balance of \$3,494,262.

The Water Fund, which accounts for the operating and maintenance of the Utilities' water system, ended fiscal 2010 with a \$3,808,696 net asset balance compared to the prior year ending net asset balance of \$3,573,250.

The Telecommunications Fund, which accounts for the operation and maintenance of the Utilities' cable and internet system, ended fiscal 2010 with a \$1,533,654 net asset balance compared to the prior year ending net asset balance of \$1,328,427.

Summary of Usage Statistics

ELECTRIC UTILITY

	2010		2009	
KWH purchased and generated*	62,989,546	100.00%	64,966,577	100.00%
Less: KWH unaccounted for	(3,330,483)	-5.29%	(3,814,486)	-5.87%
KWH BILLED	59,659,063	94.71%	61,152,091	94.13%

Following is a schedule of the number of customers and the kilowatts used by customer class for the fiscal years June 30, 2010 and 2009:

Comparison of Customer Meters & Usage by Customer Class				
	2010		2009	
Rate Categories	Customers	KWH Billed	Customers	KWH Billed
Single Phase Small	2,642	27,523,176	2,644	28,401,938
Single Phase Large	39	2,294,376	38	2,330,602
Three Phase	108	6,091,919	110	5,825,895
Commercial	1	650,688	1	761,856
Demand	29	6,575,324	29	6,708,188
Time of Use	13	14,029,064	13	14,635,000
Municipal-City of Harlan, Demand	3	643,800	3	600,120
Street Lights	8	879,537	8	887,293
Water Plant - pumping	15	971,179	15	1,001,199
Total Customers & Billed	2,858	59,659,063	2,861	61,152,091

GAS UTILITY

	<u>2010</u>		<u>2009</u>	
CCF purchased	3,776,960	100.00%	3,551,340	100.00%
Add: CCF unaccounted for	81,900	2.17%	139,877	3.94%
CCF BILLED	3,858,860	102.17%	3,691,217	103.94%

Following is a schedule of the number of customers and the centum cubic-feet used by customer class for the fiscal years June 30, 2010 and 2009:

Comparison of Customer Meters & Usage by Customer Class				
	<u>2010</u>		<u>2009</u>	
Rate Categories	Customers	CCF Billed	Customers	CCF Billed
Residential	1,929	1,502,382	1,932	1,504,627
Commercial	296	509,658	297	484,781
Large Commercial	41	663,761	38	529,359
Interruptible	4	1,183,059	4	1,172,450
Total Customers and Billed	2,270	3,858,860	2,271	3,691,217

WATER UTILITY

	<u>2010</u>		<u>2009</u>	
Gallons produced	225,655,000		241,999,000	
Gallons used in production	(31,471,000)		(38,850,000)	
Gallons to account for	194,184,000	100.00%	203,149,000	100.00%
Less: Gallons unaccounted for	(21,768,395)	-11.21%	(22,581,909)	-11.11%
GALLONS BILLED	172,415,605	88.79%	180,567,091	88.89%

Following is a schedule of the number of customers and gallons used by customer class for the fiscal years June 30, 2010 and 2009:

Comparison of Customer Meters & Usage by Customer Class				
	<u>2010</u>		<u>2009</u>	
Rate Categories	Customers	Gallons Billed	Customers	Gallons Billed
Residential	2,047	91,771,241	2,048	95,693,531
Commercial	369	64,187,364	370	66,580,560
Interruptible	1	16,457,000	1	18,293,000
Total Customers and Billed	2,417	172,415,605	2,419	180,567,091

BUDGETARY HIGHLIGHTS

Over the course of the year, the Utility amended its budget once. The amendment reduced capital expenditures by \$5,161,000 as the Operations Center and the completion of the Underground Conversion project will be moved to FYE June 30, 2011.

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 \$47,568,348 at June 30, 2010. This is a net increase (including additions and deletions) of \$600,503 or 1.27% over last year.

Capital Assets at Year End		
	June 30 2010	June 30 2009
Intangible Plant	\$ 220,632	\$ 220,632
Production	11,617,959	11,506,684
Transmission & Pumping	5,789,024	5,789,024
Distribution	20,845,328	20,538,129
General	3,955,324	3,846,134
Fiber Optics	5,140,081	5,067,242
Total	47,568,348	46,967,845
Less: Accumulated Depreciation	26,543,222	25,002,241
Net Capital Assets	\$ 21,025,126	\$ 21,965,604

This year's major additions included:

Electric Fund – New primary & electrical services	\$ 309,806
Gas Fund – New main & services	107,873
Water Fund – Replacement & new service lines	82,626
Telecommunication Fund – Cable modems, equipment, and services, interface units, test equipment and tools	100,198
Total	\$ 600,503

The Utility had depreciation expense of \$1,540,982 in fiscal year June 30, 2010.

There were no disposals for June 30, 2010.

A prior period adjustment was needed to correct an error in the prior fiscal year. The details of this adjustment are disclosed in Footnote 15. Accordingly, the amounts for the year ended June 30, 2009 have been restated.

Long-Term Debt

At June 30, 2010, the Utility had \$14,965,664 in total debt outstanding for business type activities compared to \$7,705,493 at June 30, 2009 as shown below.

Outstanding Debt of Business Type Activities at Year-End		
	<u>June 30</u> <u>2010</u>	<u>June 30</u> <u>2009</u>
Revenue bonds	\$ 12,845,000	\$ 5,485,000
Capital loan notes	1,942,334	2,088,667
Contract payable	72,165	108,311
Interim Loan	<u>106,165</u>	<u>23,515</u>
Total	<u>\$ 14,965,664</u>	<u>\$ 7,705,493</u>

During the year ended June 30, 2010, the Utility issued \$8,285,000 of revenue bonds to pay for costs of improvements and extensions to the Municipal Electric Light Plant and System, including conversion of a portion of the System from overhead to underground service and the construction of an operations center.

In addition, during the year ended June 30, 2010, the Utility issued \$2,260,000 of revenue bonds to pay for costs of refunding outstanding electric revenue indebtedness, including the Series 2004 Electric Revenue Bonds dated May 1, 2004.

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. As of June 30, 2010, Harlan Municipal Utilities has submitted disbursement request forms and required documentation for costs incurred of \$106,165. As of June 30, 2010, the Utility had been reimbursed for such costs.

Total debt was reduced by \$3,367,479 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 2011 budget. The Utility will experience an increase in revenues and expenditures from fiscal 2010 to fiscal 2011. The Business Type Activities – Enterprise Fund is projected to end fiscal 2011 with a fund balance of approximately \$29,820,814 an 8.41% increase from fiscal 2010.

FUTURE FINANCIAL STATEMENT IMPACT

For the year ended June 30, 2010, interest income declined by 61% or over \$80,000. This decline is a direct result of the Federal Reserve Bank's low interest rate policy and poses a unique challenge to the Utility in the sense that 19% of the Utility's assets bear interest as demand deposits, savings accounts, and certificates of deposit.

Conversely, the Utility increased the electric billing rates effective July 1, 2010.

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
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010 and 2009

	Business Type Activities -		
	<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Water Utility</u>
ASSETS			
CURRENT ASSETS			
Designated			
Plant improvements, emergency and contingency funds:			
Cash and savings	\$ 570,000	\$ 315,062	\$ 461,991
Replacement funds bond requirement:			
Cash and savings	146,276	0	0
Restricted			
Consumers' deposit fund	35,287	0	0
Revenue bond retirement-savings	1,240,377	0	0
Capital improvement fund-savings	5,580,453	0	170,000
Unrestricted			
Cash and savings	5,427,979	2,188,017	296,110
Industrial development fund	151,167	122,909	0
Accounts receivable - net of allowance for doubtful accounts of \$38,000	378,376	105,052	222,646
Unbilled usage	252,776	63,831	58,185
Employee loans receivable	10,090	0	0
Inventory	314,332	22,312	38,189
Prepaid expenses	35,266	27,090	28,093
Total current assets	<u>14,142,379</u>	<u>2,844,273</u>	<u>1,275,214</u>
CAPITAL ASSETS			
Utility plant			
Plant in service, at cost	33,522,255	2,506,538	7,654,265
Less accumulated depreciation	<u>19,000,695</u>	<u>1,571,845</u>	<u>4,204,983</u>
	14,521,560	934,693	3,449,282
Construction work in progress	<u>1,855,695</u>	<u>0</u>	<u>115,338</u>
Net capital assets	<u>16,377,255</u>	<u>934,693</u>	<u>3,564,620</u>
OTHER ASSETS			
Other accounts receivable	15,408	0	0
Bond discount and issuance costs	150,878	0	8,218
Intra-utility note receivable	47,477	47,477	0
Restricted investments for bonds:			
Debt Reserve	<u>720,500</u>	<u>0</u>	<u>227,000</u>
Total other assets	<u>934,263</u>	<u>47,477</u>	<u>235,218</u>
Total assets	\$ <u>31,453,897</u>	\$ <u>3,826,443</u>	\$ <u>5,075,052</u>

Enterprise Funds				
Telecommunications			Total	Total
Utility	Elimination		2010	2009
\$ 147,000	\$ 0	\$	1,494,053	\$ 1,248,053
0	0		146,276	146,276
0	0		35,287	35,223
79,730	0		1,320,107	710,424
0	0		5,750,453	174,756
974,891	0		8,886,997	7,295,374
0	0		274,076	273,174
169,915	0		875,989	643,799
2,130	0		376,922	338,485
0	0		10,090	13,159
5,581	0		380,414	468,636
12,040	0		102,489	88,289
<u>1,391,287</u>	<u>0</u>		<u>19,653,153</u>	<u>11,435,648</u>
3,885,290	0		47,568,348	46,967,845
<u>1,765,699</u>	<u>0</u>		<u>26,543,222</u>	<u>25,002,241</u>
2,119,591	0		21,025,126	21,965,604
0	0		1,971,033	23,711
<u>2,119,591</u>	<u>0</u>		<u>22,996,159</u>	<u>21,989,315</u>
0	0		15,408	21,372
0	0		159,096	29,580
0	(94,954)		0	1
			0	0
232,000	0		1,179,500	1,179,500
<u>232,000</u>	<u>(94,954)</u>		<u>1,354,004</u>	<u>1,230,453</u>
\$ <u>3,742,878</u>	\$ <u>(94,954)</u>	\$	<u>44,003,316</u>	\$ <u>34,655,416</u>

See notes to financial statements.

HARLAN MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010 and 2009

	Business Type Activities -		
	<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Water Utility</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 735,864	\$ 91,668	\$ 27,151
Payroll taxes payable	0	0	0
State sales and use tax payable	1,371	2,413	8,979
Salaries, vacation and sick leave payable	73,028	28,978	47,490
Accrued property taxes	118,663	0	0
Bonds called not paid	0	0	0
Due City of Harlan for collections & fees	0	0	156,571
Other accrued liabilities	440	0	0
Payable from restricted assets		0	0
Current maturities of long-term debt	510,254	0	0
Interest Payable	63,539	0	0
Customers' deposits	34,595	0	0
Total current liabilities	<u>1,537,754</u>	<u>123,059</u>	<u>240,191</u>
NONCURRENT LIABILITIES			
Long-Term Debt, net of current maturities	11,420,000	0	1,026,165
Contract Payable, net of current maturities	0	34,615	0
Intra-utility note payable, net of current maturities	0	0	0
Total noncurrent liabilities	<u>11,420,000</u>	<u>34,615</u>	<u>1,026,165</u>
NET ASSETS			
Invested in capital assets, net of related debt	4,447,001	900,078	2,538,455
Restricted for:			
Customer deposits	35,287	0	0
Revenue bond-debt reserve	720,500	0	227,000
Revenue bond retirement	1,240,377	0	0
Replacement funds - bond	146,276	0	0
Unrestricted	11,906,702	2,768,691	1,043,241
Total net assets	<u>18,496,143</u>	<u>3,668,769</u>	<u>3,808,696</u>
 Total liabilities and net assets	 <u>\$ 31,453,897</u>	 <u>\$ 3,826,443</u>	 <u>\$ 5,075,052</u>

Exhibit A

Enterprise Funds			
Telecommunications		Total	Total
Utility	Elimination	2010	2009
\$ 65,742	\$ 0	\$ 920,425	\$ 461,618
0	0	0	5,296
7,196	0	19,959	19,348
22,713	0	172,209	150,481
0	0	118,663	124,846
0	0	0	12,080
21,549	0	178,120	175,363
332	0	772	832
177,197	0	687,451	962,451
22,108	0	85,647	67,097
0	0	34,595	33,555
<u>316,837</u>	<u>0</u>	<u>2,217,841</u>	<u>2,012,967</u>
1,797,433	0	14,243,598	6,703,145
0	0	34,615	39,897
94,954	(94,954)	0	0
<u>1,892,387</u>	<u>(94,954)</u>	<u>14,278,213</u>	<u>6,743,042</u>
50,007	0	7,935,541	14,141,392
0	0	35,287	35,223
232,000	0	1,179,500	1,179,500
79,730	0	1,320,107	710,424
0	0	146,276	146,276
1,171,917	0	16,890,551	9,686,592
<u>1,533,654</u>	<u>0</u>	<u>27,507,262</u>	<u>25,899,407</u>
\$ <u>3,742,878</u>	\$ <u>(94,954)</u>	\$ <u>44,003,316</u>	\$ <u>34,655,416</u>

See notes to financial statements.

HARLAN MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2010 and 2009

Exhibit B

	Business Type Activities - Enterprise Funds					Total 2010	Total 2009
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility			
OPERATING REVENUES							
Sales to consumers	\$ 5,375,099	\$ 3,593,408	\$ 1,434,712	\$ 1,803,269	\$ 12,206,488	\$ 11,760,741	
Other operating revenue	141,719	8,856	25,734	71,262	247,571	240,087	
Excess sales - Louisa Power	1,050,317	0	0	0	1,050,317	717,614	
Total operating revenue	<u>6,567,135</u>	<u>3,602,264</u>	<u>1,460,446</u>	<u>1,874,531</u>	<u>13,504,376</u>	<u>12,718,442</u>	
OPERATING EXPENSES							
Plant operating expenses							
Cost of gas, power, chemicals, programming, and line fees	1,608,656	2,659,954	98,585	762,873	5,130,068	5,524,077	
Cost of excess sales	1,258,889	0	0	0	1,258,889	308,401	
Salaries and wages	44,772	25,085	170,541	18,451	258,849	242,351	
Repairs and maintenance	4,261	16,556	55,168	23,639	99,624	107,545	
Utilities	62,617	19,986	98,273	21,110	201,986	198,626	
Insurance	37,968	28,809	29,775	12,761	109,313	106,277	
Property taxes	108,259	0	0	0	108,259	124,846	
Other	57,231	31,743	51,365	49,122	189,461	146,155	
Total plant operating expenses	<u>3,182,653</u>	<u>2,782,133</u>	<u>503,707</u>	<u>887,956</u>	<u>7,356,449</u>	<u>6,758,278</u>	
Distribution operation expenses							
Salaries and wages	240,974	115,329	30,696	84,709	471,708	403,002	
Engineering	5,670	4,650	4,902	15,316	30,538	18,968	
Repairs and maintenance	102,302	27,738	24,170	8,609	162,819	174,629	
Other	9,635	13,061	1,927	45,493	70,116	56,147	
Total distribution operation expense	<u>358,581</u>	<u>160,778</u>	<u>61,695</u>	<u>154,127</u>	<u>735,181</u>	<u>652,746</u>	
Administration and general expenses							
Salaries and wages	82,915	91,072	93,463	74,794	342,244	383,545	
Office supplies	55,693	8,845	17,953	31,994	114,485	121,222	
Education and travel	7,906	6,438	2,957	1,147	18,448	63,674	
Professional	23,930	49,718	10,113	6,490	90,251	79,703	
Other	4,273	11,394	37,769	26,011	79,447	96,906	
Total administrative and general expenses	<u>174,717</u>	<u>167,467</u>	<u>162,255</u>	<u>140,436</u>	<u>644,875</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
YEARS ENDED JUNE 30, 2010 and 2009

Exhibit B

	Business Type Activities - Enterprise Funds					Total 2010	Total 2009
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility			
OPERATING EXPENSES (Continued)							
Consumer services							
Bad debts	\$ 9,520	\$ 17,533	\$ 8,875	\$ (4,228)	\$ 31,700	\$ 36,457	
Other	0	20,473	0	2,360	22,833	2,977	
Total consumer services	9,520	38,006	8,875	(1,868)	54,533	39,434	
Marketing and stakeholder relations							
Salaries and wages	10,332	10,332	10,332	41,093	72,089	72,779	
Advertising	29,517	3,571	4,581	11,849	49,518	74,374	
Other	5,523	9,502	3,548	3,008	21,581	24,682	
Total marketing and stakeholder relations	45,372	23,405	18,461	55,950	143,188	171,835	
Employee benefits							
Payroll taxes	63,921	38,705	56,484	37,231	196,341	185,118	
Health insurance	157,147	61,340	119,524	66,011	404,022	390,032	
Compensated absences	95,514	34,968	68,099	36,217	234,798	211,118	
Total employee benefits	316,582	135,013	244,107	139,459	835,161	786,268	
Total operating expenses excluding amortization and depreciation	4,087,425	3,306,802	999,100	1,376,060	9,769,387	9,153,611	
OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION	2,479,710	295,462	461,346	498,471	3,734,989	3,564,831	
Amortization	4,346	0	3,315	0	7,661	8,974	
Depreciation	1,122,331	51,854	159,629	207,168	1,540,982	1,557,320	
	1,126,677	51,854	162,944	207,168	1,548,643	1,566,294	
OPERATING INCOME	1,353,033	243,608	298,402	291,303	2,186,346	1,998,537	

See notes to financial statements.

HARLAN MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2010 and 2009

Exhibit B

	Business Type Activities - Enterprise Funds				Total 2010	Total 2009
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility		
NON-OPERATING REVENUES (EXPENSES)						
Contributions to City-In lieu of taxes	\$ (190,910)	\$ (44,967)	\$ (24,978)	\$ (767)	\$ (261,622)	\$ (247,557)
Interest income	45,230	15,866	10,130	9,440	80,666	206,571
Interest expense	(174,678)	0	(48,108)	(94,749)	(317,535)	(341,365)
Industrial development contribution	(40,000)	(40,000)	0	0	(80,000)	(80,000)
Total non-operating revenues (expenses)	<u>(360,358)</u>	<u>(69,101)</u>	<u>(62,956)</u>	<u>(86,076)</u>	<u>(578,491)</u>	<u>(462,351)</u>
CHANGE IN NET ASSETS	992,675	174,507	235,446	205,227	1,607,855	1,536,186
TOTAL NET ASSETS, BEGINNING	<u>17,503,468</u>	<u>3,494,262</u>	<u>3,573,250</u>	<u>1,328,427</u>	<u>25,899,407</u>	<u>24,363,221</u>
TOTAL NET ASSETS, ENDING	<u>\$ 18,496,143</u>	<u>\$ 3,668,769</u>	<u>\$ 3,808,696</u>	<u>\$ 1,533,654</u>	<u>\$ 27,507,262</u>	<u>\$ 25,899,407</u>

See notes to financial statements.

**HARLAN MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2010 AND 2009**

Exhibit C

	Business Type Activities - Enterprise Funds					Total 2010	Total 2009
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility			
Cash flows from operating activities:							
Cash received from customers and users	\$ 5,101,364	\$ 3,577,006	\$ 1,423,610	\$ 1,802,793	\$ 11,904,773	\$ 11,813,010	
Cash received from other revenues	1,192,034	8,854	25,735	71,260	1,297,883	957,701	
Cash paid to suppliers	(2,504,418)	(2,756,428)	(179,471)	(804,268)	(6,244,585)	(6,404,101)	
Cash paid for personal services	(618,904)	(251,331)	(421,929)	(308,240)	(1,600,404)	(1,566,585)	
Cash paid to employees	(461,999)	(271,357)	(371,080)	(253,524)	(1,357,960)	(1,301,468)	
Net cash provided by operating activities	<u>2,708,077</u>	<u>306,744</u>	<u>476,865</u>	<u>508,021</u>	<u>3,999,707</u>	<u>3,498,557</u>	
Cash flows from noncapital financing activities:							
Contributions to City-In lieu of taxes	(190,910)	(44,967)	(24,978)	(767)	(261,622)	(247,557)	
Net cash provided (used) by noncapital financing activities	<u>(190,910)</u>	<u>(44,967)</u>	<u>(24,978)</u>	<u>(767)</u>	<u>(261,622)</u>	<u>(247,557)</u>	
Cash flows from capital and related financing activities:							
Loan proceeds	10,545,000	0	0	0	10,545,000	86,675	
Bond issuance costs (paid)	(137,177)	0	0	0	(137,177)	0	
Acquisition of capital assets	(2,165,501)	(107,873)	(174,253)	(100,198)	(2,547,825)	(1,235,531)	
Repayments of intra-utility notes	0	0	0	(47,477)	(47,477)	(47,477)	
Principal payments on long-term borrowings	(3,020,254)	(28)	(87,350)	(177,197)	(3,284,829)	(1,383,856)	
Interest paid on notes	(154,461)	0	(48,108)	(96,415)	(298,984)	(351,009)	
Net cash provided (used) by capital and related financing activities	<u>5,067,607</u>	<u>(107,901)</u>	<u>(309,711)</u>	<u>(421,287)</u>	<u>4,228,708</u>	<u>(2,931,198)</u>	
Cash flows from investing activities:							
Principal received (loaned) on Fairground Note	5,964	0	0	0	5,964	5,964	
Interest on investments	45,230	15,866	10,130	9,440	80,666	206,571	
Industrial development contribution	(40,000)	(40,000)	0	0	(80,000)	(80,000)	
Principal received (loaned) on employee loans	3,069	0	0	0	3,069	(1,483)	
Principal received on intra-utility notes	47,477	0	0	0	47,477	47,477	
Net cash provided (used) by investing activities	<u>61,740</u>	<u>(24,134)</u>	<u>10,130</u>	<u>9,440</u>	<u>57,176</u>	<u>178,529</u>	
Net increase (decrease) in cash and cash equivalents	7,646,514	129,742	152,306	95,407	8,023,969	498,331	
Cash and cash equivalents beginning 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>	<u>10,564,449</u>	
Cash and cash equivalents end of year	<u>\$ 13,872,039</u>	<u>\$ 2,625,988</u>	<u>\$ 1,155,101</u>	<u>\$ 1,433,621</u>	<u>\$ 19,086,749</u>	<u>\$ 11,062,780</u>	

See notes to financial statements.

**HARLAN MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2010 AND 2009**

**Exhibit C
(Continued)**

	Business Type Activities - Enterprise Funds					Total 2010	Total 2009
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility			
Reconciliation of operating income to net cash provided by operating activities:							
Operating income	\$ 1,353,033	\$ 243,608	\$ 298,402	\$ 291,303	\$ 2,186,346	\$ 1,998,537	
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation expense	1,122,331	51,854	159,629	207,168	1,540,982	1,557,320	
Amortization expense	4,346	0	3,315	0	7,661	8,974	
(Increase) decrease in customer accounts receivable and unbilled usage and other accounts receivable	(264,776)	1,418	(2,299)	(4,970)	(270,627)	49,024	
(Increase) decrease in inventories	61,939	8,032	19,019	(768)	88,222	(54,109)	
(Increase) decrease in prepaid expenses	(4,518)	(3,902)	(4,046)	(1,734)	(14,200)	3,610	
Increase (decrease) in accounts payable	445,255	594	(1,617)	14,574	458,806	(92,174)	
Increase (decrease) in payroll taxes payable	(5,296)	0	0	0	(5,296)	(6,961)	
Increase (decrease) in sales & use tax payable	560	(287)	73	265	611	(4,446)	
Increase (decrease) in salaries payable	12,509	5,427	2,052	1,740	21,728	11,327	
Increase (decrease) in property taxes payable	(6,183)	0	0	0	(6,183)	6,036	
Increase (decrease) in other payables	(11,123)	0	2,337	443	(8,343)	21,419	
Net cash provided by operating activities	<u>2,708,077</u>	<u>306,744</u>	<u>476,865</u>	<u>508,021</u>	<u>3,999,707</u>	<u>3,498,557</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	\$ 5,579,146	\$ 2,310,926	\$ 296,110	\$ 974,891	\$ 9,161,073	\$ 7,568,548	
Restricted assets:							
Cash and pooled investments:							
Revenue bond retirement	1,386,653	0	0	79,730	1,466,383	856,700	
Revenue bond debt reserve	720,500	0	227,000	232,000	1,179,500	1,179,500	
Capital improvements	5,580,453	0	170,000	0	5,750,453	174,756	
Designated contingency fund	570,000	315,062	461,991	147,000	1,494,053	1,248,053	
Consumers' deposit fund	35,287	0	0	0	35,287	35,223	
Cash and cash equivalents end of year	<u>\$ 13,872,039</u>	<u>\$ 2,625,988</u>	<u>\$ 1,155,101</u>	<u>\$ 1,433,621</u>	<u>\$ 19,086,749</u>	<u>\$ 11,062,780</u>	

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

(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, 2010**

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 using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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, 2010**

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

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.

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 \$40,000 at June 30, 2010.

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.

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.

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.

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

D. Assets, Liabilities and Fund Equity (continued)

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, 2010 have been classified as work in process.

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, 2010 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 or death. 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, 2010 at current pay rates.

Long-Term Liabilities – Long-term debt and other obligations are reported as utility liabilities. Bond discount and issue costs are being amortized over the life of the bonds using the effective interest method.

E. 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.

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements 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, 2010**

F. Medical/Health Self-Insurance

The Utility, jointly with the City of Harlan, has a Medical/Health self-insurance program. The purpose of the program is to pay medical insurance claims of employees and covered dependents to minimize the annual cost of insurance to the Utility. The program pays a plan administrator to process and evaluate claims, and the plan administrator, in turn, bills the City of Harlan for approved claims up to a stop loss maximum of \$40,000 per year, per covered individual. A private insurance carrier pays claims in excess. The Utility, in turn, remits to the City a set amount monthly to cover claims and plan costs paid on their behalf. Health insurance expense for the years ended June 30, 2010 and June 30, 2009 were \$404,022 and \$390,032.

G. Advertising

Advertising costs are expenses as incurred. Advertising expense were \$72,351 and \$74,374 for the years ended June 30, 2010 and June 30, 2009. This includes the expenses incurred in their energy efficiency program.

H. 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.

I. 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.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

(2) Deposits and Investments

The Utility's deposits in banks at June 30, 2010 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, 2010 was as follows:

	Balance Beginning of Year, as restated	Additions	Deletions	Balance End of Year
Intangible Plant	\$ 220,632	\$ 0	\$ 0	\$ 220,632
Production	11,506,684	111,275	0	11,617,959
Transmission & Pumping	5,789,024	0	0	5,789,024
Distribution	20,538,129	307,199	0	20,845,328
General	3,846,134	109,190	0	3,955,324
Fiber Optics	<u>5,067,242</u>	<u>72,839</u>	<u>0</u>	<u>5,140,081</u>
Total property, plant & equipment	46,967,845	600,503	0	47,568,348
Less: accumulated depreciation	<u>25,002,241</u>	<u>1,540,982</u>	<u>0</u>	<u>26,543,223</u>
Net property, plant & equipment	<u>\$ 21,965,604</u>	<u>\$ (940,479)</u>	<u>\$ 0</u>	<u>\$ 21,025,125</u>
Depreciation charged to operations				<u>\$ 1,540,982</u>

As disclosed in Note 15, a prior period adjustment was needed to correct an error in the prior fiscal year. There was \$86,308 of digital conversion cable installation costs that were not reported as a capital asset addition. Accordingly, the amounts for the Balance at Beginning of Year have been restated.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

(4) Bonds Payable & Contract Payable

Revenue Bond Covenants

Bond covenants require funds to be set aside in retirement, reserve, and plant improvements accounts. During the year ended June 30, 2010, the Utility was in compliance with the revenue note provisions.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

(4) Bonds Payable & Contract Payable (Continued)

Details of revenue bonds/capital loan notes and contracts payable at June 30, 2010 are as follows:

	Date of Issue	Amount Originally Issued	Interest Rates	Final Due Date		Annual Payments	Outstanding June 30, 2010
<u>Electric Fund:</u>							
Electric Revenue Bond, Series 2004	5/1/2004	\$ 3,400,000	3.00-4.00%	10/1/2015	\$	490,562	400,000
Electric Revenue Bond, Series 2006	12/5/2006	\$ 1,280,000	3.70-4.05%	10/1/2017	\$	141,573	980,000
Electric Revenue Bond, Series 2010A	6/1/2010	\$ 8,285,000	3.0%-4.25%	10/1/2024	\$	257,192	8,285,000
Electric Revenue Bond, Series 2010B	6/1/2010	\$ 2,260,000	2.0%-2.5%	10/1/2015	\$	39,646	2,260,000
Contract Payable, Myrtue Hospital	12/1/2005	\$ 26,268	0%	12/1/2010	\$	5,254	5,254
Total Electric Bonds & Contracts							\$ <u>11,930,254</u>
<u>Water Fund:</u>							
Water Revenue Bond, Series 1999	7/1/1999	\$ 1,600,000	4.85-5.00%	7/1/2014	\$	147,943	\$ 545,000
Water Revenue Bond, Series 2004	4/15/2004	\$ 670,000	1.40-4.10%	7/1/2016	\$	70,165	375,000
Water Planning & Design Interim Loan	9/17/2008	\$ 106,165	0%	9/17/2011	\$	0	106,165
Total Water Bonds							\$ <u>1,026,165</u>
<u>Telecommunications Fund:</u>							
Communications Utility Revenue							
Capital Loan Notes, Series 2008	4/24/2008	\$ 920,000	4.60%	4/1/2013	\$	98,011	\$ 797,334
Telephone Capital Loan Note	3/30/2007	\$ 1,400,000	4.52%	4/1/2012	\$	136,754	1,145,000
Contract Payable, Walnut Communications	9/1/2008	\$ 86,308	0%	7/1/2011	\$	30,864	32,296
Total Telecommunications Fund							\$ <u>1,974,630</u>
<u>Gas Fund:</u>							
Contract Payable - Shelby County	9/26/1996	\$ 37,063	0%	Unknown	\$	44	\$ <u>34,615</u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

(4) Bonds Payable & Contract Payable (Continued)

Long-Term Debt Summary

A summary of the annual revenue bonds/capital loan notes and contracts principal and interest requirements to maturity by year is as follows:

Year Ending June 30,	Electric Revenue Bonds & Contracts		Water Revenue Bonds		Telecommunications Revenue Capital Loan Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 510,254	\$ 381,942	\$ 0	\$ 20,438	\$ 177,197	\$ 88,432
2012	630,000	382,967	286,165	36,898	1,122,764	81,768
2013	660,000	366,972	190,000	28,638	674,669	31,034
2014	675,000	350,379	200,000	19,806	0	0
2015	695,000	333,295	210,000	10,428	0	0
2016	715,000	314,438	70,000	4,235	0	0
2017	750,000	292,325	70,000	1,435	0	0
2018	775,000	268,040	0	0	0	0
2019	810,000	242,315	0	0	0	0
2020	840,000	213,830	0	0	0	0
2021	885,000	181,895	0	0	0	0
2022	925,000	146,580	0	0	0	0
2023	975,000	108,093	0	0	0	0
2024	1,015,000	66,791	0	0	0	0
2025	1,070,000	22,738	0	0	0	0
Total	<u>\$ 11,930,254</u>	<u>\$ 3,672,600</u>	<u>\$ 1,026,165</u>	<u>\$ 121,878</u>	<u>\$ 1,974,630</u>	<u>\$ 201,234</u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

(5) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2010 is as follows:

	Electric Revenue Bonds & Contracts	Water Revenue Bonds	Telecommunications Capital Loan Notes	Gas Shelby County Contract	Total
Balance, beginning 7-1-09	\$ 4,405,508	\$ 1,113,515	\$ 2,151,827	\$ 34,643	\$ 7,705,493
Issued	10,545,000	82,650	0	0	10,627,650
Paid	<u>(3,020,254)</u>	<u>(170,000)</u>	<u>(177,197)</u>	<u>(28)</u>	<u>(3,367,479)</u>
Balance, ending 6-30-10	11,930,254	1,026,165	1,974,630	34,615	14,965,664
Less: Current Portion	<u>(510,254)</u>	<u>0</u>	<u>(177,197)</u>	<u>0</u>	<u>(687,451)</u>
Long-Term Debt, net of Current Portion	<u>\$ 11,420,000</u>	<u>\$ 1,026,165</u>	<u>\$ 1,797,433</u>	<u>\$ 34,615</u>	<u>\$ 14,278,213</u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

(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, 2010 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 7-01-09	\$ 94,954	\$ 47,477	\$ 142,431
Less: Payments made by Telecommunications Utility	(47,477)	(0)	(47,477)
Ending Balance 6-30-10	<u>\$ 47,477</u>	<u>\$ 47,477</u>	<u>\$ 94,954</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, 2010 is as follows:

	Employee Computer <u>Note Receivable</u>	Fair Ground <u>Note Receivable</u>
Beginning Balance 7-1-09	\$ 13,159	\$ 21,372
Loaned Out	4,203	0
Payments Received/Forgiven	(7,272)	(5,964)
Ending Balance 6-30-10	<u>\$ 10,090</u>	<u>\$ 15,408</u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

(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, 2010 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>7,710,647</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, 2010, 2009 and 2008 were \$95,701, \$87,954 and \$85,552, 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, 2010**

(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, the second payment was made in January 2009 and the third payment was made December, 2009. The remaining unpaid pledge is \$50,000 as of June 30, 2010.

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 and the second payment was made December, 2009. The remaining unpaid pledge is \$90,000 as of June 30, 2010.

(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 years ended June 30, 2010 and June 30, 2009 were \$261,622 and \$247,557.

The Utility had business transactions between the Utility and Utility officials totaling \$67,137 and \$25,300 during the years ended June 30, 2010 and 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.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

(14) Subsequent Events

During June 2010, the Electric Utility issued \$2,260,000 in Revenue bonds. The proceeds are to be used to payoff the Series 2004 Revenue Bonds. Note provisions state that \$2,235,000 will be held in an escrow account at Bankers Trust Company. Bankers Trust Company was named as trustee. Note provisions also state that on October 1, 2010, these monies will be used as a principal payment on the Series 2004 Revenue bonds.

Since the monies are held in escrow and the issuance has occurred, the \$2,235,000 has been netted against the Series 2004 revenue bonds liability on the financial statements.

Series 2004 liability at June 30, 2010	\$2,635,000
Series 2010 escrow at June 30, 2010	<u>(2,235,000)</u>
Net liability at June 30, 2010	<u>\$ 400,000</u>

(15) Prior Period Adjustment

Net Assets as of July 1, 2009, has been restated to correct an error made in the fiscal year ended June 30, 2009. Harlan Municipal Utilities has a contract with Walnut Communications to share in 50% of the Digital Conversion Installation costs. During the fiscal year ended June 30, 2009, these installations costs were incorrectly posted to expense from October, 2008 to June, 2009. This prior period adjustment makes the correction to the Telecommunications Utility to capitalize the total installation costs of \$86,308; record the remaining contract payable of \$63,160 and decrease the internet costs expense by \$23,148.

Net Assets at beginning of year, as previously reported	\$ 25,876,259
Prior Period Adjustment	<u>23,148</u>
Net Assets at beginning of year, as restated	<u>\$ 25,899,407</u>

(16) 28E Agreement

The Board of Trustees approved on August 18, 2009 to enter into an agreement under Iowa Code Chapter 28E to join together with other entities in the Iowa Governmental HealthCare Plan. The purpose of this agreement is to provide for the establishment, continued planning, support and operation of a fully insured health and welfare and related benefits program for their respective employees.

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, 2010**

	Accrual Basis		
	Total Proprietary Funds-Actual	Final Budgeted Amounts	Variance Favorable (Unfavorable)
Operating Revenues			
Sales to consumers	\$ 12,206,488	\$ 14,996,832	\$ (2,790,344)
Other operating revenue	247,571	221,832	25,739
Excess sales	1,050,317	750,000	300,317
Total operating revenue	<u>13,504,376</u>	<u>15,968,664</u>	<u>(2,464,288)</u>
Operating Expenses			
Plant operation expenses	7,356,449	8,285,552	929,103
Distribution operation	735,181	814,312	79,131
Administrative and general	644,875	760,445	115,570
Consumer services	54,533	70,207	15,674
Marketing and relations	143,188	204,755	61,567
Employee benefits	835,161	839,157	3,996
Amortization and depreciation	1,548,643	1,634,500	85,857
Total operating expenses	<u>11,318,030</u>	<u>12,608,928</u>	<u>1,290,898</u>
Operating Income	2,186,346	3,359,736	(1,173,390)
Other revenues (expenses), net	<u>(578,491)</u>	<u>(398,400)</u>	<u>180,091</u>
Change in net assets	1,607,855	\$ <u>2,961,336</u>	\$ <u>(993,299)</u>
Total net assets, beginning	<u>25,899,407</u>		
Total net assets, ending	\$ <u><u>27,507,262</u></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, 2010**

	Cash Basis		
	Total Proprietary Funds-Actual	Final Budgeted Amounts	Variance Favorable (Unfavorable)
Receipts:			
Charges for services	\$ 12,955,090	\$ 15,746,832	\$ (2,791,742)
Miscellaneous	247,566	221,832	25,734
Total receipts	13,202,656	15,968,664	(2,766,008)
Disbursements:			
Business type activities	9,202,949	10,974,428	1,771,479
Excess of receipts over disbursements	3,999,707	4,994,236	(994,529)
Other financing sources (uses):			
Loan proceeds	10,545,000	8,335,000	2,210,000
Acquisition of capital assets	(2,547,825)	(9,191,750)	6,643,925
Interest received on investments	80,666	269,000	(188,334)
Principal/Interest payments on long term borrowings	(3,583,813)	(1,463,887)	(2,119,926)
Other sources (uses), net	(469,766)	(380,100)	(89,666)
Total other financing sources (uses)	4,024,262	(2,431,737)	6,455,999
Excess of receipts and other financing sources over disbursements and other financing uses	8,023,969	2,562,499	\$ 5,461,470
Balances, beginning of year	11,062,780	12,198,150	
Balances, end of year	\$ 19,086,749	\$ 14,760,649	

See accompanying independent auditors' report.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2010**

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

In addition, as required by the Code of Iowa, the Utility annually adopts a budget on the cash basis following required public notice and hearing and is presented along with the City of Harlan's budget. The disbursements may not legally exceed budgeted appropriations at the functional level. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. During the year, a budget amendment by Harlan Municipal Utilities decreased capital expenditures by \$5,161,000 and corrected transfers from the Electric Utility Budget and the Gas Utility Budget to the Telecommunications Utility of \$47,477. This budget amendment is reflected in the final budgeted amount.

During the year ended June 30, 2010, actual cash disbursements did not exceed the final statutory budget.

OTHER SUPPLEMENTARY INFORMATION

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009**

Schedule 1

	2010	2009
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 570,000	\$ 570,000
Replacement funds bond requirement:		
Cash and savings	146,276	146,276
Restricted		
Consumers' deposit fund	35,287	35,223
Revenue bond retirement-savings	1,240,377	628,323
Capital improvement fund-savings	5,580,453	4,756
Unrestricted		
Cash and savings	5,427,979	3,969,777
Industrial development fund	151,167	150,670
Accounts receivable - net of allowance for doubtful accounts of \$9,500 for 2010 and \$9,000 for 2009	378,376	154,130
Unbilled usage	252,776	212,246
Employee loans receivable	10,090	13,159
Inventory	314,332	376,271
Prepaid expenses	35,266	30,748
Total current assets	14,142,379	6,291,579
CAPITAL ASSETS		
Utility plant		
Plant in service, at cost	33,522,255	33,212,449
Less accumulated depreciation	19,000,695	17,878,364
	14,521,560	15,334,085
Construction work in progress	1,855,695	0
Net capital assets	16,377,255	15,334,085
OTHER ASSETS		
Other account receivable	15,408	21,372
Bond discount and issuance costs	150,878	18,047
Intra-utility note receivable	47,477	94,954
Restricted investments for bonds:		
Debt Reserve	720,500	720,500
Total other assets	934,263	854,873
Total assets	\$ 31,453,897	\$ 22,480,537

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009**

**Schedule 1
(Continued)**

	2010	2009
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 735,864	\$ 290,608
Payroll taxes payable	0	5,296
State sales and use tax payable	1,371	811
Salaries, vacation and sick leave payable	73,028	60,519
Accrued property taxes	118,663	124,846
Bonds called not paid	0	12,080
Other accrued liabilities	440	523
Payable from restricted assets		
Current maturities of long-term debt	510,254	785,254
Interest Payable	63,539	43,323
Customers' deposits	34,595	33,555
Total current liabilities	1,537,754	1,356,815
Long-Term Debt, net of current maturities	11,420,000	3,615,000
Contract Payable, net of current maturities	0	5,254
Total noncurrent liabilities	11,420,000	3,620,254
NET ASSETS		
Designated	716,276	716,276
Undesignated	17,779,867	16,787,192
Total net assets	18,496,143	17,503,468
 Total liabilities and net assets	\$ 31,453,897	\$ 22,480,537

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, 2010 AND 2009**

	<u>2010 Actual</u>	<u>2009 Actual</u>	<u>2010 Budget</u>	<u>Budget Variance Favorable (Unfavorable)</u>
OPERATING REVENUES				
Sales to consumers	\$ 5,375,099	\$ 4,928,215	\$ 7,141,700	\$ (1,766,601)
Other operating revenue	141,719	151,186	122,432	19,287
Excess sales - Louisa Power	<u>1,050,317</u>	<u>717,614</u>	<u>750,000</u>	<u>300,317</u>
Total operating revenue	6,567,135	5,797,015	8,014,132	(1,446,997)
OPERATING EXPENSES				
Plant operating expenses				
Cost of excess sales	1,258,889	308,401	475,000	(783,889)
Cost of power	1,608,656	1,991,955	2,475,540	866,884
Salaries and wages	44,772	56,693	65,500	20,728
Repairs and maintenance	4,261	3,113	13,500	9,239
Utilities	62,617	59,895	64,200	1,583
Insurance	37,968	37,286	45,600	7,632
Property taxes	108,259	124,846	120,000	11,741
Other	<u>57,231</u>	<u>45,450</u>	<u>56,450</u>	<u>(781)</u>
Total plant operating expenses	3,182,653	2,627,639	3,315,790	133,137
Distribution operation expenses				
Salaries and wages	240,974	199,810	243,900	2,926
Engineering	5,670	5,671	6,500	830
Repairs and maintenance	102,302	86,908	142,900	40,598
Other	<u>9,635</u>	<u>7,327</u>	<u>11,250</u>	<u>1,615</u>
Total distribution operation expense	358,581	299,716	404,550	45,969
Administration and general expenses				
Salaries and wages	82,915	100,455	124,710	41,795
Office supplies	55,693	53,140	59,400	3,707
Education and travel	7,906	9,933	15,500	7,594
Professional	23,930	15,688	15,300	(8,630)
Other	<u>4,273</u>	<u>5,545</u>	<u>4,865</u>	<u>592</u>
Total administrative and general expenses	174,717	184,761	219,775	45,058
Consumer services				
Bad debts (collected)	<u>9,520</u>	<u>8,117</u>	<u>25,000</u>	<u>15,480</u>
Total consumer services	9,520	8,117	25,000	15,480
Marketing and stakeholder relations				
Salaries and wages	10,332	10,009	11,063	731
Advertising	29,517	44,899	56,800	27,283
Other	<u>5,523</u>	<u>6,364</u>	<u>9,949</u>	<u>4,426</u>
Total marketing and stakeholder relations	45,372	61,272	77,812	32,440

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, 2010 AND 2009**

	2010 Actual	2009 Actual	2010 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Employee benefits				
Payroll taxes	\$ 63,921	\$ 64,800	\$ 75,237	\$ 11,316
Health insurance	157,147	157,362	156,400	(747)
Compensated absences	95,514	89,428	96,815	1,301
Total employee benefits	316,582	311,590	328,452	11,870
 Total operating expenses excluding amortization and depreciation	 4,087,425	 3,493,095	 4,371,379	 283,954
 OPERATING INCOME (LOSS) BEFORE AMORTIZATION AND DEPRECIATION				
	2,479,710	2,303,920	3,642,753	1,163,043
 Amortization	4,346	4,985	5,000	654
Depreciation	1,122,331	1,150,542	1,200,000	77,669
	1,126,677	1,155,527	1,205,000	78,323
 OPERATING INCOME (LOSS)				
	1,353,033	1,148,393	2,437,753	(1,084,720)
 NON-OPERATING REVENUES (EXPENSES)				
Capital Grants	0	0	500	(500)
Contributions to City-In lieu of taxes	(190,910)	(167,480)	(200,000)	9,090
Gain (Loss) on sale of assets	0	0	0	0
Interest income	45,230	107,242	165,000	(119,770)
Interest expense	(174,678)	(183,877)	(145,100)	(29,578)
Industrial development contribution	(40,000)	(40,000)	(50,000)	10,000
Total non-operating revenues (expenses)	(360,358)	(284,115)	(229,600)	(130,758)
 CHANGE IN NET ASSETS				
	992,675	864,278	\$ 2,208,153	\$ (1,215,478)
 TOTAL NET ASSETS, BEGINNING				
	17,503,468	16,639,190		
 TOTAL NET ASSETS, ENDING				
	\$ 18,496,143	\$ 17,503,468		

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL GAS UTILITY
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009**

Schedule 3

	2010	2009
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 315,062	\$ 291,062
Unrestricted		
Cash and savings	2,188,017	2,082,680
Industrial development fund	122,909	122,504
Accounts receivable - net of allowance for doubtful accounts of \$9,500 for 2010 and \$9,500 for 2009	105,052	103,827
Unbilled usage	63,831	66,474
Inventory	22,312	30,344
Prepaid expenses	27,090	23,188
Total current assets	2,844,273	2,720,079
CAPITAL ASSETS		
Utility plant		
Plant in service, at cost	2,506,538	2,398,665
Less accumulated depreciation	1,571,845	1,519,992
Net capital assets	934,693	878,673
OTHER ASSETS		
Intra-utility note receivable	47,477	47,477
Total other assets	47,477	47,477
 Total assets	\$ 3,826,443	\$ 3,646,229
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 91,668	\$ 91,073
State sales and use tax payable	2,413	2,700
Salaries, vacation and sick leave payable	28,978	23,551
Total current liabilities	123,059	117,324
Contract Payable	34,615	34,643
NET ASSETS		
Designated	315,062	291,062
Undesignated	3,353,707	3,203,200
Total net assets	3,668,769	3,494,262
 Total liabilities and net assets	\$ 3,826,443	\$ 3,646,229

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, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>	<u>2010</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	\$ 3,593,408	\$ 3,620,804	\$ 4,160,424	\$	567,016
Other operating revenue	<u>8,856</u>	<u>8,278</u>	<u>8,800</u>		<u>(56)</u>
Total operating revenue	3,602,264	3,629,082	4,169,224		566,960
OPERATING EXPENSES					
Plant operating expenses					
Cost of power	2,659,954	2,757,357	3,326,415		666,461
Salaries and wages	25,085	21,139	13,283		(11,802)
Repairs and maintenance	16,556	11,220	16,529		(27)
Utilities	19,986	19,233	21,200		1,214
Insurance	28,809	27,678	31,100		2,291
Other	<u>31,743</u>	<u>22,551</u>	<u>26,070</u>		<u>(5,673)</u>
Total plant operating expenses	2,782,133	2,859,178	3,434,597		652,464
Distribution operation expenses					
Salaries and wages	115,329	105,550	120,743		5,414
Engineering	4,650	4,650	4,000		(650)
Repairs and maintenance	27,738	35,020	32,000		4,262
Other	<u>13,061</u>	<u>10,598</u>	<u>17,950</u>		<u>4,889</u>
Total distribution operation expense	160,778	155,818	174,693		13,915
Administration and general expenses					
Salaries and wages	91,072	95,380	103,350		12,278
Office supplies	8,845	8,303	9,700		855
Education and travel	6,438	11,158	9,000		2,562
Professional	49,718	42,342	42,850		(6,868)
Other	<u>11,394</u>	<u>13,115</u>	<u>14,015</u>		<u>2,621</u>
Total administrative and general expenses	167,467	170,298	178,915		11,448
Consumer services					
Bad debts (collected)	17,533	10,363	20,500		2,967
Other	<u>20,473</u>	<u>0</u>	<u>0</u>		<u>(20,473)</u>
Total consumer services	38,006	10,363	20,500		(17,506)
Marketing and stakeholder relations					
Salaries and wages	10,332	10,081	11,011		679
Advertising	3,571	4,069	5,134		1,563
Other	<u>9,502</u>	<u>4,587</u>	<u>9,119</u>		<u>(383)</u>
Total marketing and stakeholder relations	23,405	18,737	25,264		1,859

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, 2010 AND 2009**

	2010 Actual	2009 Actual	2010 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Employee benefits				
Payroll taxes	\$ 38,705	\$ 35,902	\$ 45,054	\$ 6,349
Health insurance	61,340	58,466	56,000	(5,340)
Compensated absences	34,968	27,317	36,053	1,085
Total employee benefits	135,013	121,685	137,107	2,094
Total operating expenses excluding amortization and depreciation	3,306,802	3,336,079	3,971,076	664,274
OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION				
	295,462	293,003	198,148	97,314
Depreciation	51,854	55,856	60,000	8,146
	51,854	55,856	60,000	8,146
OPERATING INCOME (LOSS)	243,608	237,147	138,148	105,460
NON-OPERATING REVENUES (EXPENSES)				
Capital Grants	0	0	0	0
Contributions to City-In lieu of taxes	(44,967)	(51,395)	(50,000)	5,033
Gain (Loss) on sale of assets	0	0	0	0
Interest income	15,866	49,158	55,000	(39,134)
Industrial development contribution	(40,000)	(40,000)	(50,000)	10,000
Total non-operating revenues (expenses)	(69,101)	(42,237)	(45,000)	(24,101)
CHANGE IN NET ASSETS	174,507	194,910	\$ 93,148	\$ 81,359
TOTAL NET ASSETS, BEGINNING	3,494,262	3,299,352		
TOTAL NET ASSETS, ENDING	\$ 3,668,769	\$ 3,494,262		

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009**

Schedule 5

	2010	2009
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 461,991	\$ 251,991
Restricted		
Capital improvement fund-savings	170,000	170,000
Unrestricted		
Cash and savings	296,110	353,804
Accounts receivable - net of allowance for doubtful accounts of \$4,500 for 2010 and \$4,500 for 2009	222,646	220,436
Unbilled usage	58,185	58,096
Inventory	38,189	57,208
Prepaid expenses	28,093	24,047
Total current assets	1,275,214	1,135,582
CAPITAL ASSETS		
Utility plant		
Plant in service, at cost	7,654,265	7,571,639
Less accumulated depreciation	4,204,983	4,045,354
	3,449,282	3,526,285
Construction work in progress	115,338	23,711
Net capital assets	3,564,620	3,549,996
OTHER ASSETS		
Bond discount and issuance costs	8,218	11,533
Restricted investments for bonds:		
Debt reserve and sinking	227,000	227,000
Total other assets	235,218	238,533
Total assets	\$ 5,075,052	\$ 4,924,111
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 27,151	\$ 28,768
State sales and use tax payable	8,979	8,906
Salaries, vacation and sick leave payable	47,490	45,438
Due City of Harlan for collections & fees	156,571	154,234
Total current liabilities	240,191	237,346
Long-Term Debt, net of current maturities	1,026,165	1,113,515
NET ASSETS		
Designated	461,991	251,991
Undesignated	3,346,705	3,321,259
Total net assets	3,808,696	3,573,250
Total liabilities and net assets	\$ 5,075,052	\$ 4,924,111

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, 2010 AND 2009**

	<u>2010</u> <u>Actual</u>	<u>2009</u> <u>Actual</u>	<u>2010</u> <u>Budget</u>	<u>Budget</u> <u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
OPERATING REVENUES				
Sales to consumers	\$ 1,434,712	\$ 1,427,750	\$ 1,716,823	\$ (282,111)
Other operating revenue	<u>25,734</u>	<u>19,053</u>	<u>30,200</u>	<u>(4,466)</u>
Total operating revenue	1,460,446	1,446,803	1,747,023	(286,577)
OPERATING EXPENSES				
Plant operating expenses				
Cost of chemicals	98,585	73,078	93,500	(5,085)
Salaries and wages	170,541	155,523	173,221	2,680
Repairs and maintenance	55,168	61,030	82,750	27,582
Utilities	98,273	99,186	109,950	11,677
Insurance	29,775	28,703	33,900	4,125
Other	<u>51,365</u>	<u>53,389</u>	<u>65,420</u>	<u>14,055</u>
Total plant operating expenses	503,707	470,909	558,741	55,034
Distribution operation expenses				
Salaries and wages	30,696	26,071	30,337	(359)
Engineering	4,902	4,903	15,000	10,098
Repairs and maintenance	24,170	40,488	23,000	(1,170)
Other	<u>1,927</u>	<u>1,663</u>	<u>9,900</u>	<u>7,973</u>
Total distribution operation expense	61,695	73,125	78,237	16,542
Administration and general expenses				
Salaries and wages	93,463	96,170	103,690	10,227
Office supplies	17,953	18,322	20,300	2,347
Education and travel	2,957	4,888	3,500	543
Professional	10,113	8,014	14,000	3,887
Other	<u>37,769</u>	<u>32,448</u>	<u>37,600</u>	<u>(169)</u>
Total administrative and general expenses	162,255	159,842	179,090	16,835
Consumer services				
Bad debts (collected)	<u>8,875</u>	<u>6,495</u>	<u>9,300</u>	<u>425</u>
Total consumer services	8,875	6,495	9,300	425
Marketing and stakeholder relations				
Salaries and wages	10,332	10,009	10,741	409
Advertising	4,581	4,401	6,091	1,510
Other	<u>3,548</u>	<u>4,625</u>	<u>8,418</u>	<u>4,870</u>
Total marketing and stakeholder relations	18,461	19,035	25,250	6,789

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, 2010 AND 2009**

	2010 Actual	2009 Actual	2010 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Employee benefits				
Payroll taxes	\$ 56,484	\$ 48,696	\$ 60,500	\$ 4,016
Health insurance	119,524	112,156	113,600	(5,924)
Compensated absences	68,099	52,413	62,258	(5,841)
Total employee benefits	244,107	213,265	236,358	(7,749)
Total operating expenses excluding amortization and depreciation	999,100	942,671	1,086,976	87,876
OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION				
	461,346	504,132	660,047	(198,701)
Amortization	3,315	3,766	3,500	185
Depreciation	159,629	160,568	170,000	10,371
	162,944	164,334	173,500	10,556
OPERATING INCOME	298,402	339,798	486,547	(188,145)
NON-OPERATING REVENUES (EXPENSES)				
Capital Grants	0	0	0	0
Contributions to City-In lieu of taxes	(24,978)	(28,059)	(30,000)	5,022
Gain (Loss) on sale of assets	0	0	0	0
Interest income	10,130	24,803	25,000	(14,870)
Interest expense	(48,108)	(54,993)	(48,200)	92
Total non-operating revenues (expenses)	(62,956)	(58,249)	(53,200)	(9,756)
CHANGE IN NET ASSETS	235,446	281,549	\$ 433,347	\$ (197,901)
TOTAL NET ASSETS, BEGINNING	3,573,250	3,291,701		
TOTAL NET ASSETS, ENDING	\$ 3,808,696	\$ 3,573,250		

See accompanying independent auditor's report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009**

Schedule 7

	2010	2009
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 147,000	\$ 135,000
Restricted		
Revenue bond retirement-savings	79,730	82,101
Capital improvement fund-savings	0	0
Unrestricted		
Cash and savings	974,891	889,113
Accounts receivable - net of allowance for doubtful accounts of \$14,500 for 2010 and \$14,500 for 2009	169,915	165,406
Unbilled Usage	2,130	1,669
Inventory	5,581	4,813
Prepaid expenses	12,040	10,306
Total current assets	1,391,287	1,288,408
CAPITAL ASSETS		
Utility plant		
Plant in service, at cost	3,885,290	3,785,092
Less accumulated depreciation	1,765,699	1,558,531
	2,119,591	2,226,561
Construction work in progress	0	0
Net capital assets	2,119,591	2,226,561
OTHER ASSETS		
Other A/R - CABS L.T.	0	0
Bond discount and issuance costs	0	0
Restricted investments for bonds:		
Debt reserve and sinking	232,000	232,000
Total other assets	232,000	232,000
Total assets	\$ 3,742,878	\$ 3,746,969

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009**

**Schedule 7
(Continued)**

	2010	2009
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 65,742	\$ 51,169
Payroll taxes payable	0	0
State sales and use tax payable	7,196	6,931
Salaries, vacation and sick leave payable	22,713	20,973
Due City of Harlan for collections & fees	21,549	21,129
Other accrued liabilities	332	309
Payable from restricted assets		
Current maturities of long-term debt	177,197	177,197
Interest Payable	22,108	23,774
Total current liabilities	316,837	301,482
NONCURRENT LIABILITIES		
Long-Term Debt, net of current maturities	1,797,433	1,974,630
Deferred Revenue - CABS	0	0
Intra-utility note payable, net of current maturities	94,954	142,430
Total noncurrent liabilities	1,892,387	2,117,060
NET ASSETS		
Designated	147,000	135,000
Undesignated	1,386,654	1,193,427
Total net assets, as restated	1,533,654	1,328,427
 Total liabilities and net assets	 \$ 3,742,878	 \$ 3,746,969

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, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>	<u>2010</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	\$ 1,803,269	\$ 1,783,972	\$ 1,977,885	\$	(174,616)
Other operating revenue	71,262	61,570	60,400		10,862
Total operating revenue	<u>1,874,531</u>	<u>1,845,542</u>	<u>2,038,285</u>		<u>(163,754)</u>
OPERATING EXPENSES					
Plant operating expenses					
Cost of programming, line fees	762,873	701,687	851,524		88,651
Salaries and wages	18,451	8,996	18,450		(1)
Repairs and maintenance	23,639	32,182	33,300		9,661
Utilities	21,110	20,312	23,700		2,590
Insurance	12,761	12,610	16,000		3,239
Other	49,122	24,765	33,450		(15,672)
Total plant operating expenses	<u>887,956</u>	<u>800,552</u>	<u>976,424</u>		<u>88,468</u>
Distribution operation expenses					
Salaries and wages	84,709	71,571	91,600		6,891
Engineering	15,316	3,744	10,000		(5,316)
Repairs and maintenance	8,609	12,213	13,200		4,591
Other	45,493	36,559	42,032		(3,461)
Total distribution operation expense	<u>154,127</u>	<u>124,087</u>	<u>156,832</u>		<u>2,705</u>
Administration and general expenses					
Salaries and wages	74,794	91,540	104,670		29,876
Office supplies	31,994	41,457	29,800		(2,194)
Education and travel	1,147	37,695	4,000		2,853
Professional	6,490	13,659	26,200		19,710
Other	26,011	45,798	17,995		(8,016)
Total administrative and general expenses	<u>140,436</u>	<u>230,149</u>	<u>182,665</u>		<u>42,229</u>
Consumer services					
Bad debts (collected)	(4,228)	11,482	13,050		17,278
Other	2,360	2,977	2,357		(3)
Total consumer services	<u>(1,868)</u>	<u>14,459</u>	<u>15,407</u>		<u>17,275</u>
Marketing and stakeholder relations					
Salaries and wages	41,093	42,680	45,736		4,643
Advertising	11,849	21,005	21,968		10,119
Other	3,008	9,106	8,725		5,717
Total marketing and stakeholder relations	<u>55,950</u>	<u>72,791</u>	<u>76,429</u>		<u>20,479</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, 2010 AND 2009

Schedule 8
(Continued)

	2010 Actual	2009 Actual	2010 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Employee benefits				
Payroll taxes	\$ 37,231	\$ 35,720	\$ 42,025	\$ 4,794
Health insurance	66,011	62,048	61,750	(4,261)
Compensated absences	36,217	41,960	33,465	(2,752)
Total employee benefits	139,459	139,728	137,240	(2,219)
Total operating expenses excluding amortization and depreciation	1,376,060	1,381,766	1,544,997	168,937
OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION				
	498,471	463,776	493,288	5,183
Amortization	0	223	0	0
Depreciation	207,168	190,354	196,000	(11,168)
	207,168	190,577	196,000	(11,168)
OPERATING INCOME	291,303	273,199	297,288	(5,985)
NON-OPERATING REVENUES (EXPENSES)				
Contributions to City-In lieu of taxes	(767)	(623)	(600)	(167)
Interest income	9,440	25,368	24,000	(14,560)
Interest expense	(94,749)	(102,495)	(94,000)	(749)
Total non-operating revenues (expenses)	(86,076)	(77,750)	(70,600)	(15,476)
CHANGE IN NET ASSETS	205,227	195,449	\$ 226,688	\$ (21,461)
TOTAL NET ASSETS, BEGINNING	1,328,427	1,132,978		
TOTAL NET ASSETS, ENDING, as restated	\$ 1,533,654	\$ 1,328,427		

See accompanying independent auditors' report.

MAHONEY & GOTTO COMPANY
Certified Public Accountants

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INDEPENDENT AUDITOR'S 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, 2010, which collectively comprise the Utility's basic financial statements listed in the table of contents, and have issued our report thereon dated September 13, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harlan Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements and correct on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control such that there is a reasonable possibility a material misstatement of Harlan Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We did not find any deficiencies in internal control to be a material weakness.

A significant deficiency is a deficiency or a combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged by governance. We did not find any deficiencies in internal control to be a significant deficiency.

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 non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Harlan Municipal Utilities' operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Harlan Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. 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
Certified Public Accountants

September 13, 2010
Denison, Iowa

**HARLAN MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES

No deficiencies were noted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-10 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, 2010 did not exceed the amounts budgeted.

II-B-10 Questionable Expenditures – Expenditures of the Utility money appear to meet public purpose requirements.

II-C-10 Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utilities officials or employees were noted.

II-D-10 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 2009/10 Fords, per bids	\$ 3,831 <u>63,306</u> <u>\$ 67,137</u>

The transaction involving the purchase of vehicles 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, there are no other new dealerships in town and the Utility’s policy is to buy local.

Conclusion – Response accepted.

**HARLAN MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010**

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

- II-E-10 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.
- II-F-10 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 2009 as in accordance with an Attorney General’s opinion dated April 12, 1978.
- II-G-10 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.
- II-H-10 Revenue Notes – The Utility is in compliance with all the provisions of revenue note resolutions for all of the funds.
- II-I-10 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.