

HARLAN MUNICIPAL UTILITIES
INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2011 and 2010

MAHONEY & GOTTO COMPANY
Certified Public Accountants

Denison, Iowa

HARLAN MUNICIPAL UTILITIES

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HARLAN MUNICIPAL UTILITIES

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Todd Argotsinger	Chairman	2015
Amy Keast	Vice-Chairman	2011
Allen Burchett	Board Member	2012
Mary Johnson	Board Member	2016
Michael Jones	Board Member	2013
Tom Gaffigan	Chief Executive Officer & Board Secretary	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

Phone 712-263-6189
Fax 712-263-2184

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, 2011. These basic financial statements are the responsibility of Harlan Municipal Utilities' management. 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, 2011, 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, 2011 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 14 and 41 through 43 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harlan Municipal Utilities' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2010 (which is not presented herein) and expressed unqualified opinions 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.

A handwritten signature in cursive script that reads "Mahoney & Gotto Company".

MAHONEY & GOTTO COMPANY
Certified Public Accountants

September 13, 2011
Denison, Iowa



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

Phone: 712/755-5182
Fax: 712/755-2320
e-mail:
HMU@HarlanNet.com

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, 2011. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities increased 1.54%, or \$207,967, from fiscal 2010 to fiscal 2011.
- Operating expenses decreased 0.91%, or \$88,755 from fiscal 2010 to fiscal 2011.
- The Utilities' net assets of business type activities increased 6.58%, or \$1,810,911 from June 30, 2010 to June 30, 2011.

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 at Year-end		
Business Type Activities-Enterprise Funds		
	<u>Year Ended</u>	
	<u>6-30-11</u>	<u>6-30-10</u>
Current and other assets	\$ 19,504,242	\$ 21,007,157
Capital assets	<u>25,610,334</u>	<u>22,996,159</u>
Total Assets	<u>\$ 45,114,576</u>	<u>\$ 44,003,316</u>
Long-term liabilities	\$ 13,500,573	\$ 14,278,213
Other liabilities	<u>2,295,830</u>	<u>2,217,841</u>
Total Liabilities	<u>\$ 15,796,403</u>	<u>\$ 16,496,054</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 11,284,519	\$ 7,935,541
Restricted	5,409,280	8,285,347
Unrestricted	<u>12,624,374</u>	<u>11,286,374</u>
Total net assets	<u>\$ 29,318,173</u>	<u>\$ 27,507,262</u>

Net assets of business type activities increased approximately \$1,810,000, or 6.58% over fiscal year 2010. The largest portion of the Utilities' net assets is 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 resources 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, is approximately \$11,200,000 at the end of this year.

Changes in Net Assets for the Year ended June 30,

Business Type Activities-Enterprise Funds

	<u>2011</u>	<u>2010</u>
Revenues:		
Charges for services	\$ 13,712,343	\$ 13,504,376
Interest Income	70,615	80,666
Capital grants	0	0
Gain on sale of assets	<u>144,525</u>	<u>0</u>
Total revenues	<u>13,927,483</u>	<u>13,585,042</u>
Operating expenses:		
Plant operations	7,186,047	7,356,449
Distribution operations	816,095	735,181
Administrative and general	633,151	644,875
Consumer services	47,788	54,533
Marketing and stakeholder relations	165,570	143,188
Employee benefits	<u>831,981</u>	<u>835,161</u>
Total operating expenses	<u>9,680,632</u>	<u>9,769,387</u>
Other expenses:		
Amortization	20,459	7,661
Depreciation	1,522,542	1,540,982
Contributions to City-In lieu of taxes	268,082	261,622
Interest expense	544,857	317,535
Industrial development contribution	<u>80,000</u>	<u>80,000</u>
Total other expenses	<u>2,435,940</u>	<u>2,207,800</u>
Increase in net assets	1,810,911	1,607,855
Net assets beginning of year	<u>27,507,262</u>	<u>25,899,407</u>
Net assets end of year	<u>\$ 29,318,173</u>	<u>\$ 27,507,262</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 2011 with a \$19,695,043 net asset balance compared to the prior year ending net asset balance of \$18,496,143.

The Gas Fund, which accounts for the operating and maintenance of the Utilities' gas system, ended fiscal 2011 with a \$3,809,511 net asset balance compared to the prior year ending net asset balance of \$3,668,769.

The Water Fund, which accounts for the operating and maintenance of the Utilities' water system, ended fiscal 2011 with a \$3,985,129 net asset balance compared to the prior year ending net asset balance of \$3,808,696.

The Telecommunications Fund, which accounts for the operation and maintenance of the Utilities' cable and internet system, ended fiscal 2011 with a \$1,828,490 net asset balance compared to the prior year ending net asset balance of \$1,533,654.

Summary of Usage Statistics

ELECTRIC UTILITY

	2011		2010	
KWH purchased and generated	66,340,978	100.00%	62,989,546	100.00%
Less: KWH unaccounted for	(4,154,017)	-6.26%	(3,330,483)	-5.29%
KWH BILLED	62,186,961	93.74%	59,659,063	94.71%

Following is a schedule of the number of customers and the kilowatts used by customer class for the fiscal years June 30, 2011 and 2010:

Comparison of Customer Meters & Usage by Customer Class				
	2011		2010	
Rate Categories	Customers	KWH Billed	Customers	KWH Billed
Single Phase Small	2,651	28,957,566	2,642	27,523,176
Single Phase Large	39	2,384,140	39	2,294,376
Three Phase	101	7,597,151	108	6,091,919
Commercial	1	640,320	1	650,688
Demand	29	6,647,232	29	6,575,324
Time of Use	13	13,652,800	13	14,029,064
Municipal-City of Harlan, Demand	3	635,200	3	643,800
Street Lights	8	739,240	8	879,537
Water Plant – pumping	15	933,312	15	971,179
Total Customers & Billed	2,860	62,186,961	2,858	59,659,063

GAS UTILITY

	<u>2011</u>		<u>2010</u>	
CCF purchased	3,730,570	100.00%	3,776,960	100.00%
Add: CCF unaccounted for	25,825	.69%	81,900	2.17%
CCF BILLED	3,756,395	100.69%	3,858,860	102.17%

Following is a schedule of the number of customers and the centum cubic-feet used by customer class for the fiscal years June 30, 2011 and 2010:

Comparison of Customer Meters & Usage by Customer Class				
	<u>2011</u>		<u>2010</u>	
Rate Categories	Customers	CCF Billed	Customers	CCF Billed
Residential	1,933	1,469,400	1,929	1,502,382
Commercial	294	456,069	296	509,658
Large Commercial	41	680,513	41	663,761
Interruptible	4	1,150,413	4	1,183,059
Total Customers and Billed	2,272	3,756,395	2,270	3,858,860

WATER UTILITY

	<u>2011</u>		<u>2010</u>	
Gallons produced	218,342,000		225,655,000	
Gallons used in production	(33,410,449)		(31,471,000)	
Gallons to account for	184,931,551	100.00%	194,184,000	100.00%
Less: Gallons unaccounted for	(18,979,062)	-10.26%	(21,768,395)	-11.21%
GALLONS BILLED	165,952,489	89.74%	172,415,605	88.79%

Following is a schedule of the number of customers and gallons used by customer class for the fiscal years June 30, 2011 and 2010:

Comparison of Customer Meters & Usage by Customer Class				
	<u>2011</u>		<u>2010</u>	
Rate Categories	Customers	Gallons Billed	Customers	Gallons Billed
Residential	2,063	88,691,136	2,047	91,771,241
Commercial	367	64,500,353	369	64,187,364
Interruptible	1	12,761,000	1	16,457,000
Total Customers and Billed	2,431	165,952,489	2,417	172,415,605

BUDGETARY HIGHLIGHTS

Over the course of the year, the Utility amended its budget once. The amendment reduced interest income in all funds; reduced capital expenditures for the Operations Center and Water Plant in the electric and water funds; reduced interest expense in the electric, gas, and water funds; increased amortization expense in the electric fund and reduced amortization expense in the water fund; and reduced bond proceeds and outstanding principal in the electric, gas, and water funds.

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 \$20,239,127 (net of accumulated depreciation/amortization) at June 30, 2011. This is a net increase (including additions and deletions) of \$736,543 or 1.52% over last year.

Capital Assets at Year End		
	<u>June 30</u> <u>2011</u>	<u>June 30</u> <u>2010</u>
Intangible Plant	\$ 220,632	\$ 220,632
Production	11,807,879	11,617,959
Transmission & Pumping	5,790,657	5,789,024
Distribution	21,223,762	20,845,328
General	4,066,014	3,955,324
Fiber Optics	<u>5,195,947</u>	<u>5,140,081</u>
Total	48,304,891	47,568,348
Less: Accumulated Depreciation	<u>28,065,764</u>	<u>26,543,222</u>
Net Capital Assets	<u>\$ 20,239,127</u>	<u>\$ 21,025,126</u>

This year’s major additions included:

Electric Fund – New electrical services and truck	\$ 402,407
Gas Fund – New meters and regulators	36,944
Water Fund – Replacement service lines and truck	180,668
Telecommunication Fund – Head-end equipment and customer wiring	<u>116,524</u>
Total	<u>\$ 736,543</u>

The Utility had depreciation expense of \$1,522,542 in fiscal year June 30, 2011.

There were no disposals for June 30, 2011.

Long-Term Debt

At June 30, 2011, the Utility had \$14,278,338 in total debt outstanding for business type activities compared to \$14,965,664 at June 30, 2010 as shown below.

Outstanding Debt of Business Type Activities at Year-End		
	<u>June 30</u> <u>2011</u>	<u>June 30</u> <u>2010</u>
Revenue bonds	\$ 12,160,000	\$ 12,845,000
Capital loan notes	1,796,001	1,942,334
Contract payable	1,432	72,165
Interim Loan	<u>320,905</u>	<u>106,165</u>
Total	<u>\$ 14,278,338</u>	<u>\$ 14,965,664</u>

During the year ended June 30, 2009, a new water planning and design interim loan and disbursement agreement with Iowa Finance Authority was approved for an amount not to exceed \$435,000. As of June 30, 2011, Harlan Municipal Utilities has submitted disbursement request forms and required documentation for costs incurred of \$320,905. As of June 30, 2011, the Utility had been reimbursed for such costs.

Total debt was reduced by \$687,326 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 year 2012 budget. The Utility will experience an increase in revenues and expenditures from fiscal 2011 to fiscal 2012. The Business Type Activities – Enterprise Fund is projected to end fiscal 2012 with a fund balance of approximately \$31,343,617 a 6.9% increase from fiscal 2011.

FUTURE FINANCIAL STATEMENT IMPACT

For the year ended June 30, 2011, interest income declined by 12% or over \$10,000. 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 12% of the Utility's assets bear interest as demand deposits, savings accounts, and certificates of deposit.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the Utilities finances and operating activities. If you have any questions or require additional information, please contact the Chief Executive Officer, 405 Chatburn Avenue, Harlan, Iowa.

BASIC FINANCIAL STATEMENTS

HARLAN MUNICIPAL UTILITIES
STATEMENTS OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011 and 2010

	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	\$ 405,000	\$ 339,062	\$ 321,991
Replacement funds bond requirement:			
Cash and savings	146,276	0	0
Restricted			
Consumers' deposit fund	40,344	0	0
Revenue bond retirement-savings	926,951	0	0
Capital improvement fund-savings	3,015,127	0	170,000
Unrestricted			
Cash and savings	6,621,222	2,384,894	363,396
Industrial development fund	151,504	123,179	0
Accounts receivable - net of allowance for doubtful accounts of \$38,000	420,399	52,317	243,186
Unbilled usage	228,809	58,791	52,185
Employee loans receivable	4,466	0	0
Inventory	383,293	26,847	42,669
Prepaid expenses	36,328	29,723	30,824
Total current assets	<u>12,379,719</u>	<u>3,014,813</u>	<u>1,224,251</u>
CAPITAL ASSETS			
Utility plant			
Plant in service, at cost	33,924,661	2,543,482	7,834,933
Less accumulated depreciation	<u>20,101,191</u>	<u>1,625,182</u>	<u>4,365,637</u>
	13,823,470	918,300	3,469,296
Construction work in progress	<u>4,998,483</u>	<u>0</u>	<u>372,724</u>
Net capital assets	<u>18,821,953</u>	<u>918,300</u>	<u>3,842,020</u>
OTHER ASSETS			
Other accounts receivable	9,443	0	0
Bond discount and issuance costs	133,426	0	5,210
Intra-utility note receivable	47,477	0	0
Restricted investments for bonds:			
Debt Reserve	<u>720,500</u>	<u>0</u>	<u>227,000</u>
Total other assets	<u>910,846</u>	<u>0</u>	<u>232,210</u>
Total assets	<u>\$ 32,112,518</u>	<u>\$ 3,933,113</u>	<u>\$ 5,298,481</u>

Enterprise Funds			
Telecommunications		Total	Total
Utility	Elimination	2011	2010
\$ 159,000	\$ 0	\$ 1,225,053	\$ 1,494,053
0	0	146,276	146,276
0	0	40,344	35,287
77,358	0	1,004,309	1,320,107
0	0	3,185,127	5,750,453
1,109,337	0	10,478,849	8,886,997
0	0	274,683	274,076
193,227	0	909,129	875,989
2,370	0	342,155	376,922
0	0	4,466	10,090
3,378	0	456,187	380,414
13,210	0	110,085	102,489
<u>1,557,880</u>	<u>0</u>	<u>18,176,663</u>	<u>19,653,153</u>
4,001,815	0	48,304,891	47,568,348
<u>1,973,754</u>	<u>0</u>	<u>28,065,764</u>	<u>26,543,222</u>
2,028,061	0	20,239,127	21,025,126
0	0	5,371,207	1,971,033
<u>2,028,061</u>	<u>0</u>	<u>25,610,334</u>	<u>22,996,159</u>
0	0	9,443	15,408
0	0	138,636	159,096
0	(47,477)	0	-
		0	0
232,000	0	1,179,500	1,179,500
<u>232,000</u>	<u>(47,477)</u>	<u>1,327,579</u>	<u>1,354,004</u>
\$ <u>3,817,941</u>	\$ <u>(47,477)</u>	\$ <u>45,114,576</u>	\$ <u>44,003,316</u>

See notes to financial statements.

HARLAN MUNICIPAL UTILITIES
STATEMENTS OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011 and 2010

	Business Type Activities -		
	Electric Utility	Gas Utility	Water Utility
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 658,800	\$ 90,315	\$ 20,183
Payroll taxes payable	0	0	0
State sales and use tax payable	2,170	2,867	9,204
Salaries, vacation and sick leave payable	71,080	30,420	49,634
Accrued property taxes	133,074	0	0
Bonds called not paid	0	0	0
Due City of Harlan for collections & fees	0	0	173,426
Other accrued liabilities	525	0	0
Payable from restricted assets		0	0
Current maturities of long-term debt	630,000	0	0
Interest Payable	97,696	0	0
Consumers' deposits	34,130	0	0
Total current liabilities	1,627,475	123,602	252,447
NONCURRENT LIABILITIES			
Long-Term Debt, net of current maturities	10,790,000	0	1,060,905
Contract Payable, net of current maturities	0	0	0
Intra-utility note payable, net of current maturities	0	0	0
Total noncurrent liabilities	10,790,000	0	1,060,905
NET ASSETS			
Invested in capital assets, net of related debt	7,401,953	918,300	2,781,115
Restricted for:			
Consumers' deposit fund	40,344	0	0
Revenue bond-debt reserve	720,500	0	227,000
Revenue bond retirement	926,951	0	0
Capital improvement fund	3,015,127	0	170,000
Unrestricted	7,590,168	2,891,211	807,014
Total net assets	19,695,043	3,809,511	3,985,129
Total liabilities and net assets	\$ 32,112,518	\$ 3,933,113	\$ 5,298,481

Exhibit A

Enterprise Funds			
Telecommunications		Total	Total
Utility	Elimination	2011	2010
\$ 61,125	\$ 0	\$ 830,423	\$ 920,425
0	0	0	0
7,478	0	21,719	19,959
24,343	0	175,477	172,209
0	0	133,074	118,663
0	0	0	0
23,529	0	196,955	178,120
7,624	0	8,149	772
1,122,765	0	1,752,765	687,451
20,442	0	118,138	85,647
0	0	34,130	34,595
<u>1,267,306</u>	<u>0</u>	<u>3,270,830</u>	<u>2,217,841</u>
674,668	0	12,525,573	14,243,598
0	0	0	34,615
47,477	(47,477)	0	0
<u>722,145</u>	<u>(47,477)</u>	<u>12,525,573</u>	<u>14,278,213</u>
183,151	0	11,284,519	7,935,541
0	0	40,344	35,287
232,000	0	1,179,500	1,179,500
77,358	0	1,004,309	1,320,107
0	0	3,185,127	5,750,453
1,335,981	0	12,624,374	11,286,374
<u>1,828,490</u>	<u>0</u>	<u>29,318,173</u>	<u>27,507,262</u>
\$ <u>3,817,941</u>	\$ <u>(47,477)</u>	\$ <u>45,114,576</u>	\$ <u>44,003,316</u>

See notes to financial statements.

HARLAN MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2011 and 2010

Exhibit B

	Business Type Activities - Enterprise Funds					Total 2011	Total 2010
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility			
OPERATING REVENUES							
Sales to consumers	\$ 6,282,302	\$ 3,012,422	\$ 1,404,879	\$ 1,914,200	\$ 12,613,803	\$ 12,206,488	
Other operating revenue	159,074	6,501	23,209	69,148	257,932	247,571	
Other sales - MISO	840,608	0	0	0	840,608	1,050,317	
Total operating revenue	<u>7,281,984</u>	<u>3,018,923</u>	<u>1,428,088</u>	<u>1,983,348</u>	<u>13,712,343</u>	<u>13,504,376</u>	
OPERATING EXPENSES							
Plant operating expenses							
Cost of gas, power, chemicals, programming, and line fees	2,395,521	2,123,706	98,390	752,683	5,370,300	5,130,068	
Cost of other sales	764,124	0	0	0	764,124	1,258,889	
Salaries and wages	73,397	23,280	174,160	14,106	284,943	258,849	
Repairs and maintenance	8,384	11,284	70,348	44,267	134,283	99,624	
Utilities	60,887	18,932	99,427	21,667	200,913	201,986	
Insurance	51,470	34,026	35,337	15,123	135,956	109,313	
Property taxes	133,094	0	0	0	133,094	108,259	
Other	49,965	33,571	44,297	34,601	162,434	189,461	
Total plant operating expenses	<u>3,536,842</u>	<u>2,244,799</u>	<u>521,959</u>	<u>882,447</u>	<u>7,186,047</u>	<u>7,356,449</u>	
Distribution operation expenses							
Salaries and wages	223,067	121,566	32,113	87,862	464,608	471,708	
Engineering	5,708	4,650	7,412	14,398	32,168	30,538	
Repairs and maintenance	140,993	30,907	45,968	12,225	230,093	162,819	
Other	23,015	10,807	1,804	53,600	89,226	70,116	
Total distribution operation expense	<u>392,783</u>	<u>167,930</u>	<u>87,297</u>	<u>168,085</u>	<u>816,095</u>	<u>735,181</u>	
Administration and general expenses							
Salaries and wages	83,689	93,344	95,923	71,723	344,679	342,244	
Office supplies	52,907	8,573	15,739	31,576	108,795	114,485	
Education and travel	12,015	6,496	1,270	1,927	21,708	18,448	
Professional	19,779	37,607	12,536	5,742	75,664	90,251	
Other	8,403	9,660	34,723	29,519	82,305	79,447	
Total administrative and general expenses	<u>176,793</u>	<u>155,680</u>	<u>160,191</u>	<u>140,487</u>	<u>633,151</u>	<u>644,875</u>	

See notes to financial statements.

HARLAN MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2011 and 2010

Exhibit B

	Business Type Activities - Enterprise Funds					Total 2011	Total 2010
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility			
OPERATING EXPENSES (Continued)							
Consumer services							
Bad debts	\$ 7,370	\$ 8,512	\$ 4,550	\$ 870	\$ 21,302	\$ 31,700	
Other	0	26,338	0	148	26,486	22,833	
Total consumer services	7,370	34,850	4,550	1,018	47,788	54,533	
Marketing and stakeholder relations							
Salaries and wages	11,058	10,996	10,998	47,898	80,950	72,089	
Advertising	32,475	7,165	5,227	19,070	63,937	49,518	
Other	6,588	5,606	4,841	3,648	20,683	21,581	
Total marketing and stakeholder relations	50,121	23,767	21,066	70,616	165,570	143,188	
Employee benefits							
Payroll taxes	68,329	41,150	59,615	37,475	206,569	196,341	
Health insurance	156,647	61,793	118,191	64,963	401,594	404,022	
Compensated absences	102,641	32,785	56,706	31,686	223,818	234,798	
Total employee benefits	327,617	135,728	234,512	134,124	831,981	835,161	
Total operating expenses excluding amortization and depreciation	4,491,526	2,762,754	1,029,575	1,396,777	9,680,632	9,769,387	
OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION	2,790,458	256,169	398,513	586,571	4,031,711	3,734,989	
Amortization	17,451	0	3,008	0	20,459	7,661	
Depreciation	1,100,496	53,337	160,654	208,055	1,522,542	1,540,982	
	1,117,947	53,337	163,662	208,055	1,543,001	1,548,643	
OPERATING INCOME	1,672,511	202,832	234,851	378,516	2,488,710	2,186,346	

See notes to financial statements.

HARLAN MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2011 and 2010

Exhibit B

	Business Type Activities - Enterprise Funds					Total 2011	Total 2010
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility			
NON-OPERATING REVENUES (EXPENSES)							
Contributions to City-In lieu of taxes	\$ (204,973)	\$ (39,061)	\$ (23,215)	\$ (833)	\$ (268,082)	\$ (261,622)	
Gain on sale of asset	144,525	0	0	0	144,525	0	
Interest income	44,436	15,471	5,672	5,036	70,615	80,666	
Interest expense	(416,099)	0	(40,875)	(87,883)	(544,857)	(317,535)	
Industrial development contribution	(41,500)	(38,500)	0	0	(80,000)	(80,000)	
Total non-operating revenues (expenses)	<u>(473,611)</u>	<u>(62,090)</u>	<u>(58,418)</u>	<u>(83,680)</u>	<u>(677,799)</u>	<u>(578,491)</u>	
CHANGE IN NET ASSETS	1,198,900	140,742	176,433	294,836	1,810,911	1,607,855	
TOTAL NET ASSETS, BEGINNING	<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>	
TOTAL NET ASSETS, ENDING	<u>\$ 19,695,043</u>	<u>\$ 3,809,511</u>	<u>\$ 3,985,129</u>	<u>\$ 1,828,490</u>	<u>\$ 29,318,173</u>	<u>\$ 27,507,262</u>	

See notes to financial statements.

**HARLAN MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2011 and 2010**

Exhibit C

	Business Type Activities - Enterprise Funds					Total 2011	Total 2010
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility			
Cash flows from operating activities:							
Cash received from customers and users	\$ 6,257,672	\$ 3,062,138	\$ 1,386,016	\$ 1,890,058	\$ 12,595,884	\$ 11,904,773	
Cash received from other revenues	999,683	6,501	23,209	69,148	1,098,541	1,297,883	
Cash paid to suppliers	(3,492,549)	(2,220,539)	(247,373)	(833,655)	(6,794,116)	(6,244,585)	
Cash paid for personal services	(630,808)	(260,254)	(405,078)	(303,287)	(1,599,427)	(1,600,404)	
Cash paid to employees	(495,800)	(280,528)	(367,756)	(251,645)	(1,395,729)	(1,357,960)	
Net cash provided by operating activities	<u>2,638,198</u>	<u>307,318</u>	<u>389,018</u>	<u>570,619</u>	<u>3,905,153</u>	<u>3,999,707</u>	
Cash flows from noncapital financing activities:							
Contributions to City-In lieu of taxes	(204,973)	(39,061)	(23,215)	(833)	(268,082)	(261,622)	
Net cash provided (used) by noncapital financing activities	<u>(204,973)</u>	<u>(39,061)</u>	<u>(23,215)</u>	<u>(833)</u>	<u>(268,082)</u>	<u>(261,622)</u>	
Cash flows from capital and related financing activities:							
Loan proceeds	0	0	214,740	0	214,740	10,545,000	
Bond issuance costs (paid)	0	0	0	0	0	(137,177)	
Acquisition of capital assets	(3,400,669)	(36,944)	(438,054)	(116,525)	(3,992,192)	(2,547,825)	
Repayments of intra-utility notes	0	0	0	(47,477)	(47,477)	(47,477)	
Principal (payments) on long-term borrowings	(510,254)	(34,614)	(180,000)	(177,197)	(902,065)	(3,284,829)	
Interest paid on notes	(381,942)	0	(40,875)	(89,549)	(512,366)	(298,984)	
Net cash provided (used) by capital and related financing activities	<u>(4,292,865)</u>	<u>(71,558)</u>	<u>(444,189)</u>	<u>(430,748)</u>	<u>(5,239,360)</u>	<u>4,228,708</u>	
Cash flows from investing activities:							
Principal received (loaned) on Fairground Note	5,965	0	0	0	5,965	5,964	
Interest on investments	44,436	15,471	5,672	5,036	70,615	80,666	
Industrial development contribution	(41,500)	(38,500)	0	0	(80,000)	(80,000)	
Principal received on employee loans	5,624	0	0	0	5,624	3,069	
Principal received on intra-utility notes	0	47,477	0	0	47,477	47,477	
Net cash provided (used) by investing activities	<u>14,525</u>	<u>24,448</u>	<u>5,672</u>	<u>5,036</u>	<u>49,681</u>	<u>57,176</u>	
Net increase (decrease) in cash and cash equivalents	(1,845,115)	221,147	(72,714)	144,074	(1,552,608)	8,023,969	
Cash and cash equivalents beginning 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>	
Cash and cash equivalents end of year	<u>\$ 12,026,924</u>	<u>\$ 2,847,135</u>	<u>\$ 1,082,387</u>	<u>\$ 1,577,695</u>	<u>\$ 17,534,141</u>	<u>\$ 19,086,749</u>	

See notes to financial statements.

**HARLAN MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2011 and 2010**

**Exhibit C
(Continued)**

	Business Type Activities - Enterprise Funds					Total 2011	Total 2010
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility			
Reconciliation of operating income to net cash provided by operating activities:							
Operating income	\$ 1,672,511	\$ 202,832	\$ 234,851	\$ 378,516	\$ 2,488,710	\$ 2,186,346	
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation expense	1,100,496	53,337	160,654	208,055	1,522,542	1,540,982	
Amortization expense	17,451	0	3,008	0	20,459	7,661	
(Increase) decrease in customer accounts receivable and unbilled usage and other accounts receivable	(18,056)	57,775	(14,540)	(23,552)	1,627	(270,627)	
(Increase) decrease in inventories	(68,961)	(4,535)	(4,480)	2,203	(75,773)	88,222	
(Increase) decrease in prepaid expenses	(1,062)	(2,633)	(2,731)	(1,170)	(7,596)	(14,200)	
Increase (decrease) in accounts payable	(77,064)	(1,353)	(6,968)	(4,617)	(90,002)	458,806	
Increase (decrease) in payroll taxes payable	0	0	0	0	0	(5,296)	
Increase (decrease) in sales & use tax payable	799	453	225	282	1,759	611	
Increase (decrease) in salaries payable	(1,948)	1,442	2,144	1,630	3,268	21,728	
Increase (decrease) in property taxes payable	14,411	0	0	0	14,411	(6,183)	
Increase (decrease) in other payables	(379)	0	16,855	9,272	25,748	(8,343)	
Net cash provided by operating activities	<u>2,638,198</u>	<u>307,318</u>	<u>389,018</u>	<u>570,619</u>	<u>3,905,153</u>	<u>3,999,707</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	\$ 6,772,726	\$ 2,508,073	\$ 363,396	\$ 1,109,337	\$ 10,753,532	\$ 9,161,073	
Restricted assets:							
Cash and pooled investments:							
Revenue bond retirement	1,073,227	0	0	77,358	1,150,585	1,466,383	
Revenue bond debt reserve	720,500	0	227,000	232,000	1,179,500	1,179,500	
Capital improvements	3,015,127	0	170,000	0	3,185,127	5,750,453	
Designated contingency fund	405,000	339,062	321,991	159,000	1,225,053	1,494,053	
Consumers' deposit fund	40,344	0	0	0	40,344	35,287	
Cash and cash equivalents end of year	<u>\$ 12,026,924</u>	<u>\$ 2,847,135</u>	<u>\$ 1,082,387</u>	<u>\$ 1,577,695</u>	<u>\$ 17,534,141</u>	<u>\$ 19,086,749</u>	

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(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

For financial reporting purposes, the Utilities has included all funds, organizations, agencies, boards, commissions and authorities. The Utilities has also considered all potential component units for which it is financially accountable with other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities.

In accordance with GASB 14, Harlan Municipal Utilities has been identified as a component unit of the City of Harlan.

B. Basis of Presentation

The Statement of Net Assets presents the Utilities' assets and liabilities, with the difference reported as net assets. Net assets are reported in the following 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 preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Utilities' policy to use restricted resources first.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurements focus applied.

The Utilities' financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The accompanying financial statements have been prepared on the accrual basis of accounting, Revenues are recognized when earned and expenses are recorded when the liability is incurred.

The Utilities apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements; Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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 \$38,000 at June 30, 2011.

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 consumer deposits restricted for application to unpaid customer accounts or for refund to customers and deposits set aside for capital improvements.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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, 2011 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, 2011 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, 2011 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, 2011, 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, 2011**

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, 2011 and June 30, 2010 were \$401,594 and \$404,022.

G. Advertising

Advertising costs are expenses as incurred. Advertising expense were \$90,423 and \$72,351 for the years ended June 30, 2011 and June 30, 2010. 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.

J. Reclassifications

Certain items from the 2010 financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on increase in net assets.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

(2) Deposits and Investments

The Utility's deposits in banks at June 30, 2011 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 trusts; 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, 2011 was as follows:

	Balance Beginning, of Year	Additions	Deletions	Balance End of Year
Intangible Plant	\$ 220,632	\$ 0	\$ 0	\$ 220,632
Production	11,617,959	189,920	0	11,807,879
Transmission & Pumping	5,789,024	1,633	0	5,790,657
Distribution	20,845,328	378,434	0	21,223,762
General	3,955,324	110,690	0	4,066,014
Fiber Optics	<u>5,140,081</u>	<u>55,866</u>	<u>0</u>	<u>5,195,947</u>
Total property, plant & equipment	47,568,348	736,543	0	48,304,891
Less: accumulated depreciation	<u>26,543,222</u>	<u>1,522,542</u>	<u>0</u>	<u>28,065,764</u>
Net property, plant & equipment	<u>\$ 21,025,126</u>	<u>\$ (785,999)</u>	<u>\$ 0</u>	<u>\$ 20,239,127</u>
Depreciation charged to operations				<u>\$ 1,522,542</u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

(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, 2011, the Utility was in compliance with the revenue note provisions.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

(4) Bonds Payable & Contract Payable (Continued)

Details of revenue bonds/capital loan notes and contracts payable at June 30, 2011 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2011
<u>Electric Fund:</u>						
Electric Revenue Bond, Series 2006	12/5/2006	3.70-4.05%	10/1/2017	\$ 142,461	\$ 1,280,000	875,000
Electric Revenue Bond, Series 2010A	6/1/2010	3.0%-4.25%	10/1/2024	\$ 307,130	\$ 8,285,000	8,285,000
Electric Revenue Bond, Series 2010B	6/1/2010	2.0%-2.5%	10/1/2015	\$ 463,376	\$ 2,260,000	2,260,000
Total Electric Bonds & Contracts						\$ <u>11,420,000</u>
<u>Water Fund:</u>						
Water Revenue Bond, Series 1999	7/1/1999	4.85-5.00%	7/1/2014	\$ 156,000	\$ 1,600,000	\$ 420,000
Water Revenue Bond, Series 2004	4/15/2004	1.40-4.10%	7/1/2016	\$ 66,920	\$ 670,000	320,000
Water Planning & Design Interim Loan	9/17/2008	0%	9/17/2011	\$ 0	\$ 106,165	320,905
Total Water Bonds						\$ <u>1,060,905</u>
<u>Telecommunications Fund:</u>						
Communications Utility Revenue						
Capital Loan Notes, Series 2008	4/24/2008	4.60%	4/1/2013	\$ 95,189	\$ 920,000	\$ 736,001
Telephone Capital Loan Note	3/30/2007	4.52%	4/1/2012	\$ 1,107,912	\$ 1,400,000	1,060,000
Contract Payable, Walnut Communications	9/1/2008	0%	7/1/2011	\$ 1,432	\$ 86,308	1,432
Total Telecommunications Fund						\$ <u>1,797,433</u>
<u>Gas Fund:</u>						
Contract Payable - Shelby County	9/26/1996	0%	Unknown	\$ 0	\$ 37,063	\$ <u>0</u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

(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
2012	\$ 630,000	\$ 382,967	\$ 320,905	\$ 16,460	\$ 1,122,765	\$ 81,768
2013	660,000	366,972	190,000	28,638	674,668	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>11,420,000</u>	\$ <u>3,290,658</u>	\$ <u>1,060,905</u>	\$ <u>81,002</u>	\$ <u>1,797,433</u>	\$ <u>112,802</u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

(5) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2011 is as follows:

	Electric Revenue Bonds & Contracts	Water Revenue Bonds	Telecommunications Capital Loan Notes	Gas Shelby County Contract	Total
Balance, beginning 7-1-10	\$ 11,930,254	\$ 1,026,165	\$ 1,974,630	\$ 34,615	\$ 14,965,664
Issued	0	214,740	0	0	214,740
Paid	(510,254)	(180,000)	(177,197)	(34,615)	(902,066)
Balance, ending 6-30-11	<u>11,420,000</u>	<u>1,060,905</u>	<u>1,797,433</u>	<u>0</u>	<u>14,278,338</u>
Less: Current Portion	<u>(630,000)</u>	<u>0</u>	<u>(1,122,765)</u>	<u>0</u>	<u>(1,752,765)</u>
Long-Term Debt, net of Current Portion	<u><u>\$ 10,790,000</u></u>	<u><u>\$ 1,060,905</u></u>	<u><u>\$ 674,668</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 12,525,573</u></u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

(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, 2011 is as follows:

Payable Fund.....	<u>Telecommunications Utility</u>		
	<u>Loan from</u>	<u>Loan from</u>	
Receivable Fund.....	<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Totals</u>
Beginning Balance 7-01-10	\$ 47,477	\$ 47,477	\$ 94,954
Less: Payments made by Telecommunications Utility	(0)	(47,477)	(47,477)
Ending Balance 6-30-11	<u>\$ 47,477</u>	<u>\$ 0</u>	<u>\$ 47,477</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. The Board decided to no longer offer these loans at their August 12, 2010 meeting. Deductions from employees' paychecks will continue until the loans are paid in full.

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, 2011 is as follows:

	<u>Employee</u>	<u>Fair Ground</u>
	<u>Computer</u>	<u>Note Receivable</u>
	<u>Note Receivable</u>	<u>Note Receivable</u>
Beginning Balance 7-1-10	\$ 10,090	\$ 15,408
Loaned Out	0	0
Payments Received/Forgiven	(5,624)	(5,964)
Ending Balance 6-30-11	<u>\$ 4,466</u>	<u>\$ 9,444</u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

(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, 2011 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>7,785,759</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.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the Utility is required to contribute 6.95% of covered salary. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$106,019, \$95,701 and \$87,954, 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, 2011**

(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 fourth payment was made January, 2011. The remaining unpaid pledge is \$25,000 as of June 30, 2011.

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 third payment was made in December, 2010. The remaining unpaid pledge is \$60,000 as of June 30, 2011.

(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, 2011 and June 30, 2010 were \$268,082 and \$261,622.

The Utility had business transactions between the Utility and Utility officials totaling \$61,989 and \$67,137 during the years ended June 30, 2011 and June 30, 2010.

(13) Subsequent Events

On October 1, 2010, the monies received with the issuance of Series 2010B Revenue Bonds paid the outstanding principal of Series 2004 Revenue Bonds, as the provisions stated.

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. For June 30, 2010, 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.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

(14) 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. This Agreement was renewed at the April 19, 2011 meeting.

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, 2011**

	Accrual Basis		
	Total Proprietary Funds-Actual	Final Budgeted Amounts	Variance Favorable (Unfavorable)
Operating Revenues			
Sales to consumers	\$ 12,613,803	\$ 15,229,814	\$ (2,616,011)
Other operating revenue	257,932	226,232	31,700
Excess sales	<u>840,608</u>	<u>660,000</u>	<u>180,608</u>
Total operating revenue	<u>13,712,343</u>	<u>16,116,046</u>	<u>(2,403,703)</u>
Operating Expenses			
Plant operation expenses	7,186,047	8,194,437	1,008,390
Distribution operation	816,095	828,159	12,064
Administrative and general	633,151	720,585	87,434
Consumer services	47,788	67,750	19,962
Marketing and relations	165,570	215,916	50,346
Employee benefits	831,981	889,197	57,216
Amortization and depreciation	<u>1,543,001</u>	<u>1,661,250</u>	<u>118,249</u>
Total operating expenses	<u>11,223,633</u>	<u>12,577,294</u>	<u>1,353,661</u>
Operating Income	2,488,710	3,538,752	(1,050,042)
Other revenues (expenses), net	<u>(677,799)</u>	<u>(938,200)</u>	<u>(260,401)</u>
Change in net assets	1,810,911	\$ <u>2,600,552</u>	\$ <u>(1,310,443)</u>
Total net assets, beginning	<u>27,507,262</u>		
Total net assets, ending	\$ <u>29,318,173</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, 2011**

	Cash Basis		
	Total Proprietary Funds-Actual	Final Budgeted Amounts	Variance Favorable (Unfavorable)
Receipts:			
Charges for services	\$ 13,436,492	\$ 15,889,814	\$ (2,453,322)
Miscellaneous	257,933	226,232	31,701
Total receipts	<u>13,694,425</u>	<u>16,116,046</u>	<u>(2,421,621)</u>
Disbursements:			
Business type activities	<u>9,789,272</u>	<u>10,916,044</u>	<u>1,126,772</u>
Excess of receipts over disbursements	3,905,153	5,200,002	(1,294,849)
Other financing sources (uses):			
Loan proceeds	214,740	8,335,000	(8,120,260)
Acquisition of capital assets	(3,992,192)	(9,191,750)	5,199,558
Interest received on investments	70,615	269,000	(198,385)
Principal/Interest payments on long term borrowings	(1,414,431)	(1,463,887)	49,456
Other sources (uses), net	<u>(336,493)</u>	<u>(380,100)</u>	<u>43,607</u>
Total other financing sources (uses)	<u>(5,457,761)</u>	<u>(2,431,737)</u>	<u>(3,026,024)</u>
Excess of receipts over disbursements over (under) Other financing sources (uses)	(1,552,608)	2,768,265	\$ <u><u>(4,320,873)</u></u>
Balances, beginning of year	<u>19,086,749</u>	<u>14,760,649</u>	
Balances, end of year	\$ <u><u>17,534,141</u></u>	\$ <u><u>17,528,914</u></u>	

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2011**

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 interest income by \$102,000; decreased interest expense by \$390,000; and increased amortization expense by \$6,000. In addition, there was a decrease in capital expenditures of \$9,106,750; reduction of bond proceeds of \$7,500,000; and a reduction in outstanding principal of \$950,000. This budget amendment is reflected in the final budgeted amount.

During the year ended June 30, 2011, 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, 2011 and 2010**

Schedule 1

	2011	2010
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 405,000	\$ 570,000
Replacement funds- bond:		
Cash and savings	146,276	146,276
Restricted		
Consumers' deposit fund	40,344	35,287
Revenue bond retirement-savings	926,951	1,240,377
Capital improvement fund-savings	3,015,127	5,580,453
Unrestricted		
Cash and savings	6,621,222	5,427,979
Industrial development fund	151,504	151,167
Accounts receivable - net of allowance for doubtful accounts of \$9,500 for 2011 and \$9,500 for 2010	420,399	378,376
Unbilled usage	228,809	252,776
Employee loans receivable	4,466	10,090
Inventory	383,293	314,332
Prepaid expenses	36,328	35,266
Total current assets	12,379,719	14,142,379
CAPITAL ASSETS		
Utility plant		
Plant in service, at cost	33,924,661	33,522,255
Less accumulated depreciation	20,101,191	19,000,695
	13,823,470	14,521,560
Construction work in progress	4,998,483	1,855,695
Net capital assets	18,821,953	16,377,255
OTHER ASSETS		
Other account receivable	9,443	15,408
Bond discount and issuance costs	133,426	150,878
Intra-utility note receivable	47,477	47,477
Restricted investments for bonds:		
Debt Reserve	720,500	720,500
Total other assets	910,846	934,263
Total assets	\$ 32,112,518	\$ 31,453,897

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2011 and 2010**

**Schedule 1
(Continued)**

	2011	2010
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 658,800	\$ 735,864
Payroll taxes payable	0	0
State sales and use tax payable	2,170	1,371
Salaries, vacation and sick leave payable	71,080	73,028
Accrued property taxes	133,074	118,663
Bonds called not paid	0	0
Other accrued liabilities	525	440
Payable from restricted assets		
Current maturities of long-term debt	630,000	510,254
Interest Payable	97,696	63,539
Consumers' deposits	34,130	34,595
Total current liabilities	1,627,475	1,537,754
Long-Term Debt, net of current maturities	10,790,000	11,420,000
Contract Payable, net of current maturities	0	0
Total noncurrent liabilities	10,790,000	11,420,000
NET ASSETS		
Invested in capital assets, net of related debt	7,401,953	4,447,001
Restricted	4,702,922	7,576,617
Unrestricted	7,590,168	6,472,525
Total net assets	19,695,043	18,496,143
Total liabilities and net assets	\$ 32,112,518	\$ 31,453,897

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, 2011 and 2010**

	<u>2011 Actual</u>	<u>2010 Actual</u>	<u>2011 Budget</u>	<u>Budget Variance Favorable (Unfavorable)</u>
OPERATING REVENUES				
Sales to consumers	\$ 6,282,302	\$ 5,375,099	\$ 7,141,700	\$ (859,398)
Other operating revenue	159,074	141,719	120,632	38,442
Other sales - MISO	<u>840,608</u>	<u>1,050,317</u>	<u>660,000</u>	<u>180,608</u>
Total operating revenue	7,281,984	6,567,135	7,922,332	(640,348)
OPERATING EXPENSES				
Plant operating expenses				
Cost of other sales	764,124	1,258,889	524,000	(240,124)
Cost of power	2,395,521	1,608,656	2,356,500	(39,021)
Salaries and wages	73,397	44,772	68,248	(5,149)
Repairs and maintenance	8,384	4,261	13,500	5,116
Utilities	60,887	62,617	64,400	3,513
Insurance	51,470	37,968	63,000	11,530
Property taxes	133,094	108,259	125,000	(8,094)
Other	<u>49,965</u>	<u>57,231</u>	<u>56,470</u>	<u>6,505</u>
Total plant operating expenses	3,536,842	3,182,653	3,271,118	(265,724)
Distribution operation expenses				
Salaries and wages	223,067	240,974	251,736	28,669
Engineering	5,708	5,670	6,500	792
Repairs and maintenance	140,993	102,302	146,040	5,047
Other	<u>23,015</u>	<u>9,635</u>	<u>10,250</u>	<u>(12,765)</u>
Total distribution operation expense	392,783	358,581	414,526	21,743
Administration and general expenses				
Salaries and wages	83,689	82,915	104,520	20,831
Office supplies	52,907	55,693	56,100	3,193
Education and travel	12,015	7,906	6,500	(5,515)
Professional	19,779	23,930	16,400	(3,379)
Other	<u>8,403</u>	<u>4,273</u>	<u>5,750</u>	<u>(2,653)</u>
Total administrative and general expenses	176,793	174,717	189,270	12,477
Consumer services				
Bad debts (collected)	<u>7,370</u>	<u>9,520</u>	<u>10,000</u>	<u>2,630</u>
Total consumer services	7,370	9,520	10,000	2,630
Marketing and stakeholder relations				
Salaries and wages	11,058	10,332	11,289	231
Advertising	32,475	29,517	56,300	23,825
Other	<u>6,588</u>	<u>5,523</u>	<u>12,609</u>	<u>6,021</u>
Total marketing and stakeholder relations	50,121	45,372	80,198	30,077

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, 2011 and 2010**

	2011 Actual	2010 Actual	2011 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Employee benefits				
Payroll taxes	\$ 68,329	\$ 63,921	\$ 76,093	\$ 7,764
Health insurance	156,647	157,147	176,000	19,353
Compensated absences	102,641	95,514	106,554	3,913
Total employee benefits	327,617	316,582	358,647	31,030
Total operating expenses excluding amortization and depreciation	4,491,526	4,087,425	4,323,759	(167,767)
OPERATING INCOME (LOSS) BEFORE AMORTIZATION AND DEPRECIATION	2,790,458	2,479,710	3,598,573	(808,115)
Amortization	17,451	4,346	17,500	49
Depreciation	1,100,496	1,122,331	1,200,000	99,504
	1,117,947	1,126,677	1,217,500	99,553
OPERATING INCOME (LOSS)	1,672,511	1,353,033	2,381,073	(708,562)
NON-OPERATING REVENUES (EXPENSES)				
Capital Grants	0	0	500	(500)
Contributions to City-In lieu of taxes	(204,973)	(190,910)	(175,000)	(29,973)
Gain (Loss) on sale of assets	144,525	0	0	144,525
Interest income	44,436	45,230	50,000	(5,564)
Interest expense	(416,099)	(174,678)	(535,000)	118,901
Industrial development contribution	(41,500)	(40,000)	(50,000)	8,500
Total non-operating revenues (expenses)	(473,611)	(360,358)	(709,500)	235,889
CHANGE IN NET ASSETS	1,198,900	992,675	\$ 1,671,573	\$ (472,673)
TOTAL NET ASSETS, BEGINNING	18,496,143	17,503,468		
TOTAL NET ASSETS, ENDING	\$ 19,695,043	\$ 18,496,143		

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL GAS UTILITY
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2011 and 2010**

Schedule 3

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 339,062	\$ 315,062
Unrestricted		
Cash and savings	2,384,894	2,188,017
Industrial development fund	123,179	122,909
Accounts receivable - net of allowance for doubtful accounts of \$9,500 for 2011 and \$9,500 for 2010	52,317	105,052
Unbilled usage	58,791	63,831
Inventory	26,847	22,312
Prepaid expenses	29,723	27,090
Total current assets	<u>3,014,813</u>	<u>2,844,273</u>
CAPITAL ASSETS		
Utility plant		
Plant in service, at cost	2,543,482	2,506,538
Less accumulated depreciation	<u>1,625,182</u>	<u>1,571,845</u>
Net capital assets	918,300	934,693
OTHER ASSETS		
Intra-utility note receivable	<u>0</u>	<u>47,477</u>
Total other assets	<u>0</u>	<u>47,477</u>
 Total assets	 <u>\$ 3,933,113</u>	 <u>\$ 3,826,443</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 90,315	\$ 91,668
State sales and use tax payable	2,867	2,413
Salaries, vacation and sick leave payable	<u>30,420</u>	<u>28,978</u>
Total current liabilities	123,602	123,059
Contract Payable	0	34,615
NET ASSETS		
Invested in capital assets, net of related debt	918,300	900,078
Restricted	0	0
Unrestricted	<u>2,891,211</u>	<u>2,768,691</u>
Total net assets	<u>3,809,511</u>	<u>3,668,769</u>
 Total liabilities and net assets	 <u>\$ 3,933,113</u>	 <u>\$ 3,826,443</u>

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, 2011 and 2010**

	2011 Actual	2010 Actual	2011 Budget	Budget Variance Favorable (Unfavorable)
OPERATING REVENUES				
Sales to consumers	\$ 3,012,422	\$ 3,593,408	\$ 4,392,595	\$ (1,380,173)
Other operating revenue	6,501	8,856	9,200	(2,699)
Total operating revenue	3,018,923	3,602,264	4,401,795	(1,382,872)
OPERATING EXPENSES				
Plant operating expenses				
Cost of power	2,123,706	2,659,954	3,345,000	1,221,294
Salaries and wages	23,280	25,085	13,814	(9,466)
Repairs and maintenance	11,284	16,556	17,100	5,816
Utilities	18,932	19,986	21,800	2,868
Insurance	34,026	28,809	43,000	8,974
Other	33,571	31,743	29,570	(4,001)
Total plant operating expenses	2,244,799	2,782,133	3,470,284	1,225,485
Distribution operation expenses				
Salaries and wages	121,566	115,329	124,171	2,605
Engineering	4,650	4,650	5,000	350
Repairs and maintenance	30,907	27,738	39,000	8,093
Other	10,807	13,061	18,350	7,543
Total distribution operation expense	167,930	160,778	186,521	18,591
Administration and general expenses				
Salaries and wages	93,344	91,072	99,300	5,956
Office supplies	8,573	8,845	9,100	527
Education and travel	6,496	6,438	12,400	5,904
Professional	37,607	49,718	45,000	7,393
Other	9,660	11,394	14,600	4,940
Total administrative and general expenses	155,680	167,467	180,400	24,720
Consumer services				
Bad debts (collected)	8,512	17,533	10,500	1,988
Other	26,338	20,473	30,000	3,662
Total consumer services	34,850	38,006	40,500	5,650
Marketing and stakeholder relations				
Salaries and wages	10,996	10,332	11,289	293
Advertising	7,165	3,571	5,000	(2,165)
Other	5,606	9,502	15,223	9,617
Total marketing and stakeholder relations	23,767	23,405	31,512	7,745

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, 2011 and 2010**

	2011 Actual	2010 Actual	2011 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Employee benefits				
Payroll taxes	\$ 41,150	\$ 38,705	\$ 39,145	\$ (2,005)
Health insurance	61,793	61,340	63,000	1,207
Compensated absences	32,785	34,968	31,442	(1,343)
Total employee benefits	135,728	135,013	133,587	(2,141)
Total operating expenses excluding amortization and depreciation	2,762,754	3,306,802	4,042,804	1,280,050
OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION				
	256,169	295,462	358,991	(102,822)
Depreciation	53,337	51,854	60,000	6,663
OPERATING INCOME (LOSS)	202,832	243,608	298,991	(96,159)
NON-OPERATING REVENUES (EXPENSES)				
Capital Grants	0	0	0	0
Contributions to City-In lieu of taxes	(39,061)	(44,967)	(60,000)	20,939
Gain (Loss) on sale of assets	0	0	0	0
Interest income	15,471	15,866	20,000	(4,529)
Industrial development contribution	(38,500)	(40,000)	(50,000)	11,500
Total non-operating revenues (expenses)	(62,090)	(69,101)	(90,000)	27,910
CHANGE IN NET ASSETS	140,742	174,507	\$ 208,991	\$ (68,249)
TOTAL NET ASSETS, BEGINNING	3,668,769	3,494,262		
TOTAL NET ASSETS, ENDING	\$ 3,809,511	\$ 3,668,769		

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2011 and 2010**

Schedule 5

	2011	2010
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 321,991	\$ 461,991
Restricted		
Capital improvement fund-savings	170,000	170,000
Unrestricted		
Cash and savings	363,396	296,110
Accounts receivable - net of allowance for doubtful accounts of \$4,500 for 2011 and \$4,500 for 2010	243,186	222,646
Unbilled usage	52,185	58,185
Inventory	42,669	38,189
Prepaid expenses	30,824	28,093
Total current assets	1,224,251	1,275,214
CAPITAL ASSETS		
Utility plant		
Plant in service, at cost	7,834,933	7,654,265
Less accumulated depreciation	4,365,637	4,204,983
	3,469,296	3,449,282
Construction work in progress	372,724	115,338
Net capital assets	3,842,020	3,564,620
OTHER ASSETS		
Bond discount and issuance costs	5,210	8,218
Restricted investments for bonds:		
Debt reserve and sinking	227,000	227,000
Total other assets	232,210	235,218
Total assets	\$ 5,298,481	\$ 5,075,052
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 20,183	\$ 27,151
State sales and use tax payable	9,204	8,979
Salaries, vacation and sick leave payable	49,634	47,490
Due City of Harlan for collections & fees	173,426	156,571
Total current liabilities	252,447	240,191
Long-Term Debt, net of current maturities	1,060,905	1,026,165
NET ASSETS		
Invested in capital assets, net of related debt	2,781,115	2,538,455
Restricted	397,000	397,000
Unrestricted	807,014	873,241
Total net assets	3,985,129	3,808,696
Total liabilities and net assets	\$ 5,298,481	\$ 5,075,052

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, 2011 and 2010**

	<u>2011</u>	<u>2010</u>	<u>2011</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	\$ 1,404,879	\$ 1,434,712	\$ 1,802,484	\$	(397,605)
Other operating revenue	23,209	25,734	25,700		(2,491)
Total operating revenue	<u>1,428,088</u>	<u>1,460,446</u>	<u>1,828,184</u>		<u>(400,096)</u>
OPERATING EXPENSES					
Plant operating expenses					
Cost of chemicals	98,390	98,585	93,500		(4,890)
Salaries and wages	174,160	170,541	180,147		5,987
Repairs and maintenance	70,348	55,168	83,808		13,460
Utilities	99,427	98,273	103,500		4,073
Insurance	35,337	29,775	47,000		11,663
Other	44,297	51,365	68,830		24,533
Total plant operating expenses	<u>521,959</u>	<u>503,707</u>	<u>576,785</u>		<u>54,826</u>
Distribution operation expenses					
Salaries and wages	32,113	30,696	31,540		(573)
Engineering	7,412	4,902	15,000		7,588
Repairs and maintenance	45,968	24,170	27,000		(18,968)
Other	1,804	1,927	10,040		8,236
Total distribution operation expense	<u>87,297</u>	<u>61,695</u>	<u>83,580</u>		<u>(3,717)</u>
Administration and general expenses					
Salaries and wages	95,923	93,463	97,425		1,502
Office supplies	15,739	17,953	19,500		3,761
Education and travel	1,270	2,957	5,800		4,530
Professional	12,536	10,113	9,600		(2,936)
Other	34,723	37,769	36,300		1,577
Total administrative and general expenses	<u>160,191</u>	<u>162,255</u>	<u>168,625</u>		<u>8,434</u>
Consumer services					
Bad debts (collected)	4,550	8,875	7,300		2,750
Total consumer services	<u>4,550</u>	<u>8,875</u>	<u>7,300</u>		<u>2,750</u>
Marketing and stakeholder relations					
Salaries and wages	10,998	10,332	11,289		291
Advertising	5,227	4,581	5,600		373
Other	4,841	3,548	9,244		4,403
Total marketing and stakeholder relations	<u>21,066</u>	<u>18,461</u>	<u>26,133</u>		<u>5,067</u>

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY**

**Schedule 6
(Continued)**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2011 and 2010**

	2011 Actual	2010 Actual	2011 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Employee benefits				
Payroll taxes	\$ 59,615	\$ 56,484	\$ 60,327	\$ 712
Health insurance	118,191	119,524	126,700	8,509
Compensated absences	56,706	68,099	57,831	1,125
Total employee benefits	234,512	244,107	244,858	10,346
 Total operating expenses excluding amortization and depreciation	 1,029,575	 999,100	 1,107,281	 77,706
 OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION				
	398,513	461,346	720,903	(322,390)
 Amortization	3,008	3,315	3,500	492
Depreciation	160,654	159,629	170,000	9,346
	163,662	162,944	173,500	9,838
OPERATING INCOME	234,851	298,402	547,403	(312,552)
 NON-OPERATING REVENUES (EXPENSES)				
Capital Grants	0	0	0	0
Contributions to City-In lieu of taxes	(23,215)	(24,978)	(30,000)	6,785
Gain (Loss) on sale of assets	0	0	0	0
Interest income	5,672	10,130	15,000	(9,328)
Interest expense	(40,875)	(48,108)	(50,000)	9,125
Total non-operating revenues (expenses)	(58,418)	(62,956)	(65,000)	6,582
 CHANGE IN NET ASSETS	 176,433	 235,446	 \$ 482,403	 \$ (305,970)
 TOTAL NET ASSETS, BEGINNING	 3,808,696	 3,573,250		
 TOTAL NET ASSETS, ENDING	 \$ 3,985,129	 \$ 3,808,696		

See accompanying independent auditors' report.

HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2011 and 2010

Schedule 7

	2011	2010
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 159,000	\$ 147,000
Restricted		
Revenue bond retirement-savings	77,358	79,730
Capital improvement fund-savings	0	0
Unrestricted		
Cash and savings	1,109,337	974,891
Accounts receivable - net of allowance for doubtful accounts of \$14,500 for 2011 and \$14,500 for 2010	193,227	169,915
Unbilled Usage	2,370	2,130
Inventory	3,378	5,581
Prepaid expenses	13,210	12,040
Total current assets	1,557,880	1,391,287
CAPITAL ASSETS		
Utility plant		
Plant in service, at cost	4,001,815	3,885,290
Less accumulated depreciation	1,973,754	1,765,699
	2,028,061	2,119,591
Construction work in progress	0	0
Net capital assets	2,028,061	2,119,591
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	\$ 3,817,941	\$ 3,742,878

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2011 and 2010**

**Schedule 7
(Continued)**

	2011	2010
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 61,125	\$ 65,742
Payroll taxes payable	0	0
State sales and use tax payable	7,478	7,196
Salaries, vacation and sick leave payable	24,343	22,713
Due City of Harlan for collections & fees	23,529	21,549
Other accrued liabilities	7,624	332
Payable from restricted assets		
Current maturities of long-term debt	1,122,765	177,197
Interest Payable	20,442	22,108
Total current liabilities	1,267,306	316,837
NONCURRENT LIABILITIES		
Long-Term Debt, net of current maturities	674,668	1,797,433
Deferred Revenue - CABS	0	0
Intra-utility note payable, net of current maturities	47,477	94,954
Total noncurrent liabilities	722,145	1,892,387
NET ASSETS		
Invested in capital assets, net of related debt	183,151	50,007
Restricted	309,358	311,730
Unrestricted	1,335,981	1,171,917
Total net assets	1,828,490	1,533,654
 Total liabilities and net assets	 \$ 3,817,941	 \$ 3,742,878

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, 2011 and 2010**

	<u>2011</u> <u>Actual</u>	<u>2010</u> <u>Actual</u>	<u>2011</u> <u>Budget</u>	<u>Budget</u> <u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
OPERATING REVENUES				
Sales to consumers	\$ 1,914,200	\$ 1,803,269	\$ 1,893,035	\$ 21,165
Other operating revenue	69,148	71,262	70,700	(1,552)
Total operating revenue	<u>1,983,348</u>	<u>1,874,531</u>	<u>1,963,735</u>	<u>19,613</u>
OPERATING EXPENSES				
Plant operating expenses				
Cost of programming, line fees	752,683	762,873	756,100	3,417
Salaries and wages	14,106	18,451	14,250	144
Repairs and maintenance	44,267	23,639	25,300	(18,967)
Utilities	21,667	21,110	22,050	383
Insurance	15,123	12,761	21,800	6,677
Other	34,601	49,122	36,750	2,149
Total plant operating expenses	<u>882,447</u>	<u>887,956</u>	<u>876,250</u>	<u>(6,197)</u>
Distribution operation expenses				
Salaries and wages	87,862	84,709	79,600	(8,262)
Engineering	14,398	15,316	10,000	(4,398)
Repairs and maintenance	12,225	8,609	10,000	(2,225)
Other	53,600	45,493	43,932	(9,668)
Total distribution operation expense	<u>168,085</u>	<u>154,127</u>	<u>143,532</u>	<u>(24,553)</u>
Administration and general expenses				
Salaries and wages	71,723	74,794	96,250	24,527
Office supplies	31,576	31,994	42,750	11,174
Education and travel	1,927	1,147	2,800	873
Professional	5,742	6,490	22,500	16,758
Other	29,519	26,011	17,990	(11,529)
Total administrative and general expenses	<u>140,487</u>	<u>140,436</u>	<u>182,290</u>	<u>41,803</u>
Consumer services				
Bad debts (collected)	870	(4,228)	7,550	6,680
Other	148	2,360	2,400	2,252
Total consumer services	<u>1,018</u>	<u>(1,868)</u>	<u>9,950</u>	<u>8,932</u>
Marketing and stakeholder relations				
Salaries and wages	47,898	41,093	48,126	228
Advertising	19,070	11,849	20,500	1,430
Other	3,648	3,008	9,447	5,799
Total marketing and stakeholder relations	<u>70,616</u>	<u>55,950</u>	<u>78,073</u>	<u>7,457</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, 2011 and 2010

Schedule 8
(Continued)

	<u>2011</u> <u>Actual</u>	<u>2010</u> <u>Actual</u>	<u>2011</u> <u>Budget</u>	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Employee benefits				
Payroll taxes	\$ 37,475	\$ 37,231	\$ 40,130	\$ 2,655
Health insurance	64,963	66,011	69,800	4,837
Compensated absences	<u>31,686</u>	<u>36,217</u>	<u>42,175</u>	<u>10,489</u>
Total employee benefits	<u>134,124</u>	<u>139,459</u>	<u>152,105</u>	<u>17,981</u>
Total operating expenses excluding amortization and depreciation	<u>1,396,777</u>	<u>1,376,060</u>	<u>1,442,200</u>	<u>45,423</u>
OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION	586,571	498,471	521,535	65,036
Amortization	0	0	250	250
Depreciation	<u>208,055</u>	<u>207,168</u>	<u>210,000</u>	<u>1,945</u>
	<u>208,055</u>	<u>207,168</u>	<u>210,250</u>	<u>2,195</u>
OPERATING INCOME	<u>378,516</u>	<u>291,303</u>	<u>311,285</u>	<u>67,231</u>
NON-OPERATING REVENUES (EXPENSES)				
Contributions to City-In lieu of taxes	(833)	(767)	(700)	(133)
Interest income	5,036	9,440	15,000	(9,964)
Interest expense	<u>(87,883)</u>	<u>(94,749)</u>	<u>(88,000)</u>	<u>117</u>
Total non-operating revenues (expenses)	<u>(83,680)</u>	<u>(86,076)</u>	<u>(73,700)</u>	<u>(9,980)</u>
CHANGE IN NET ASSETS	294,836	205,227	\$ <u>237,585</u>	\$ <u>57,251</u>
TOTAL NET ASSETS, BEGINNING	<u>1,533,654</u>	<u>1,328,427</u>		
TOTAL NET ASSETS, ENDING	\$ <u><u>1,828,490</u></u>	\$ <u><u>1,533,654</u></u>		

See accompanying independent auditors' report.

MAHONEY & GOTTO COMPANY
Certified Public Accountants

201 South 7th Street
Denison, IA 51442

Phone 712-263-6189
Fax 712-263-2184

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

To the Board of Trustees of the
Harlan Municipal Utilities:

We have audited the accompanying financial statements of the Harlan Municipal Utilities, a component unit of the City of Harlan, as of and for the year ended June 30, 2011, which collectively comprise the Utility's basic financial statements listed in the table of contents, and have issued our report thereon dated September 13, 2011. 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 and correct misstatements 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 II 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, 2011 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, employees and citizens of the Harlan Municipal Utilities and other parties to whom Harlan Municipal Utilities may report and 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, 2011
Denison, Iowa

**HARLAN MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011**

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, 2011 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 Electric Truck and Water Truck, per bids	\$ 1,609 <u>60,380</u> \$ <u>61,989</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, 2011**

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 2010 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.