

HARLAN MUNICIPAL UTILITIES
INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2012 and 2011

MAHONEY & GOTTO COMPANY
Certified Public Accountants

Denison, Iowa

HARLAN MUNICIPAL UTILITIES

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HARLAN MUNICIPAL UTILITIES

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HARLAN MUNICIPAL UTILITIES

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Jones	Chairman	2013
Mary Johnson	Vice Chairman	2016
Todd Argotsinger	Board Member	2015
Allen Burchett	Board Member	2012
Amy Keast	Board Member	2011
Nella Seivert	Board Member	2012
David Tyrrel	Board Member	2017
Tom Gaffigan	Chief Executive Officer & Board Secretary	2012
Darrel Wenzel	Chief Executive Officer & Board Secretary	Indefinite
John Doonan	Director of Customer Relations & Support Services	Indefinite
Robert Hall	Attorney	Indefinite

MAHONEY & GOTTO COMPANY

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Harlan Municipal Utilities

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of Harlan Municipal Utilities, a component unit of the City of Harlan, as of and for the year ended June 30, 2012. 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 at June 30, 2012, 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 14, 2012 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.

U.S. generally accepted accounting principles require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 5 through 12 and 37 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the basic financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 three years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the other supplementary information included in Schedules 1 through 8 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



MAHONEY & GOTTO COMPANY
Certified Public Accountants

September 14, 2012
Denison, Iowa

Management's Discussion and Analysis



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Telecommunications
Electric
Water
Gas

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, 2012. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities decreased 3.64%, or \$498,416, from fiscal 2011 to fiscal 2012.
- Operating expenses of the Utilities' activities decreased 3.0%, or \$290,248 from fiscal 2011 to fiscal 2012.
- The Utilities' net assets of business type activities increased 5.14%, or \$1,508,402 from June 30, 2011 to June 30, 2012.

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.

Supplementary Information provides the Schedule of Expenditures of Federal Awards, which provides details of any federal programs benefiting the Utility.

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 include 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 telecommunications utility funds, 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>6-30-12</u>	<u>6-30-11</u>
Current and other assets	\$ 17,395,948	\$ 19,504,242
Capital assets	<u>29,601,791</u>	<u>25,610,334</u>
Total Assets	<u>\$ 46,997,739</u>	<u>\$ 45,114,576</u>
Long-term liabilities	\$ 13,538,400	\$ 13,500,573
Other liabilities	<u>2,632,764</u>	<u>2,295,830</u>
Total Liabilities	<u>\$ 16,171,164</u>	<u>\$ 15,796,403</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 15,238,424	\$ 11,284,519
Restricted	3,410,599	5,409,280
Unrestricted	<u>12,177,552</u>	<u>12,624,374</u>
Total net assets	<u>\$ 30,826,575</u>	<u>\$ 29,318,173</u>

Net assets of business type activities increased approximately \$1,508,000, or 5.14% over fiscal year 2011. 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 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 \$12,100,000 at the end of this year.

Changes in Net Assets for the Year ended June 30,

Business Type Activities-Enterprise Funds

	<u>2012</u>	<u>2011</u>
Revenues:		
Charges for services	\$ 13,213,927	\$ 13,712,343
Interest Income	56,691	70,615
Capital grants	0	0
Gain on sale of assets	<u>0</u>	<u>144,525</u>
Total revenues	<u>13,270,618</u>	<u>13,927,483</u>
Operating expenses:		
Plant operations	6,817,745	7,186,047
Distribution operations	834,651	816,095
Administrative and general	704,021	633,151
Consumer services	40,950	47,788
Marketing and stakeholder relations	149,792	165,570
Employee benefits	<u>843,222</u>	<u>831,981</u>
Total operating expenses	<u>9,390,381</u>	<u>9,680,632</u>
Other expenses:		
Amortization	17,967	20,459
Depreciation	1,526,742	1,522,542
Contributions to City-In lieu of taxes	254,540	268,082
Interest expense	492,586	544,857
Industrial development contribution	<u>80,000</u>	<u>80,000</u>
Total other expenses	<u>2,371,835</u>	<u>2,435,940</u>
Increase in net assets	1,508,402	1,810,911
Net assets beginning of year	<u>29,318,173</u>	<u>27,507,262</u>
Net assets end of year	<u>\$ 30,826,575</u>	<u>\$ 29,318,173</u>

INDIVIDUAL PROPRIETARY FUND ANALYSIS

Proprietary Fund Highlights

The Enterprise, Electric Fund, which accounts for the operation and maintenance of the Utilities' electrical system, ended fiscal 2012 with a \$20,865,886 net asset balance compared to the prior year ending net asset balance of \$19,695,043.

The Enterprise, Gas Fund, which accounts for the operating and maintenance of the Utilities' gas system, ended fiscal 2012 with a \$3,786,419 net asset balance compared to the prior year ending net asset balance of \$3,809,511.

The Enterprise, Water Fund, which accounts for the operating and maintenance of the Utilities' water system, ended fiscal 2012 with a \$4,154,303 net asset balance compared to the prior year ending net asset balance of \$3,985,129.

The Enterprise, Telecommunications Fund, which accounts for the operation and maintenance of the Utilities' cable and internet system, ended fiscal 2012 with a \$2,019,967 net asset balance compared to the prior year ending net asset balance of \$1,828,490.

Summary of Usage Statistics

ELECTRIC UTILITY

	2012		2011	
KWH purchased and generated	69,469,386	100.00%	66,340,978	100.00%
Less: KWH unaccounted for	(7,212,563)	-10.38%	(4,154,017)	-6.26%
KWH BILLED	62,256,823	89.62%	62,186,961	93.74%

Following is a schedule of the number of customers and the kilowatts used by customer class for the fiscal years June 30, 2012 and 2011:

Comparison of Customer Meters & Usage by Customer Class				
	2012		2011	
Rate Categories	Customers	KWH Billed	Customers	KWH Billed
Single Phase Small	2,667	28,102,475	2,651	28,957,566
Single Phase Large	41	2,360,371	39	2,384,140
Three Phase	98	7,767,681	101	7,597,151
Commercial	1	539,136	1	640,320
Demand	28	6,490,110	29	6,647,232
Time of Use	13	14,671,592	13	13,652,800
Municipal-City of Harlan, Demand	3	580,840	3	635,200
Street Lights	8	775,825	8	739,240
Water Plant – pumping	15	968,793	15	933,312
Total Customers & Billed	2,874	62,256,823	2,860	62,186,961

GAS UTILITY

	<u>2012</u>		<u>2011</u>	
CCF purchased	3,203,450	100.00%	3,730,570	100.00%
Add: CCF unaccounted for	132,723	4.14%	25,825	.69%
CCF BILLED	<u>3,336,173</u>	<u>104.14%</u>	<u>3,756,395</u>	<u>100.69%</u>

Following is a schedule of the number of customers and the centum cubic-feet used by customer class for the fiscal years June 30, 2012 and 2011:

Comparison of Customer Meters & Usage by Customer Class				
	<u>2012</u>		<u>2011</u>	
Rate Categories	Customers	CCF Billed	Customers	CCF Billed
Residential	1,936	1,151,957	1,933	1,469,400
Commercial	299	371,798	294	456,069
Large Commercial	41	613,251	41	680,513
Interruptible	4	1,199,167	4	1,150,413
Total Customers and Billed	<u>2,280</u>	<u>3,336,173</u>	<u>2,272</u>	<u>3,756,395</u>

WATER UTILITY

	<u>2012</u>		<u>2011</u>	
Gallons produced	213,688,134		218,342,000	
Gallons used in production	(35,752,000)		(33,410,449)	
Gallons to account for	177,936,134	100.00%	184,931,551	100.00%
Less: Gallons unaccounted for	(5,441,823)	3.06%	(18,979,062)	-10.26%
GALLONS BILLED	<u>172,494,311</u>	<u>96.94%</u>	<u>165,952,489</u>	<u>89.74%</u>

Following is a schedule of the number of customers and gallons used by customer class for the fiscal years June 30, 2012 and 2011:

Comparison of Customer Meters & Usage by Customer Class				
	<u>2012</u>		<u>2011</u>	
Rate Categories	Customers	Gallons Billed	Customers	Gallons Billed
Residential	2,080	90,745,580	2,063	88,691,136
Commercial	371	67,782,731	367	64,500,353
Interruptible	1	13,966,000	1	12,761,000
Total Customers and Billed	<u>2,452</u>	<u>172,494,311</u>	<u>2,431</u>	<u>165,952,489</u>

BUDGETARY HIGHLIGHTS

The Utility's revenues were \$1,845,914 less than budgeted revenues, a variance of 13%. The most significant variance resulted from the Utility receiving less revenue in the Gas Fund.

The Utility's operating expenses were \$888,716 less than budgeted expenses, a variance of 9%.

The Utilities' did not exceed the budgeted amounts for the year ended June 30, 2012.

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 \$19,499,530 (net of accumulated depreciation/amortization) at June 30, 2012. This is a net increase (including additions and deletions) of \$787,145 or 1.63% over last year. See Note 3 to the financial statements for more information about the Utility's capital assets.

<u>Capital Assets at Year End</u>		
	<u>June 30</u> <u>2012</u>	<u>June 30</u> <u>2011</u>
Intangible Plant	\$ 220,632	\$ 220,632
Production	12,124,612	11,807,879
Transmission & Pumping	5,799,805	5,790,657
Distribution	21,593,807	21,223,762
General	4,107,834	4,066,014
Fiber Optics	<u>5,245,346</u>	<u>5,195,947</u>
Total	49,092,036	48,304,891
Less: Accumulated Depreciation	<u>29,592,506</u>	<u>28,065,764</u>
Net Capital Assets	<u>\$ 19,499,530</u>	<u>\$ 20,239,127</u>
This year's additions by fund included:		
Electric Fund		\$ 366,517
Gas Fund		82,826
Water Fund		112,921
Telecommunication Fund		<u>224,881</u>
Total		<u>\$ 787,145</u>

The Utility had depreciation expense of \$1,526,742 in fiscal year June 30, 2012.

There were no disposals for June 30, 2012.

Long-Term Debt

At June 30, 2012, the Utility had \$14,363,367 in total debt outstanding for business type activities compared to \$14,278,338 at June 30, 2011 as shown below.

Outstanding Debt of Business Type Activities at Year-End		
	<u>June 30</u> <u>2012</u>	<u>June 30</u> <u>2011</u>
Revenue bonds	\$ 11,340,000	\$ 12,160,000
Capital loan notes	1,649,667	1,796,001
Contract payable	0	1,432
SRF Loan	<u>1,373,700</u>	<u>320,905</u>
Total	<u>\$ 14,363,367</u>	<u>\$ 14,278,338</u>

During the fiscal year ended June 30, 2012, there was a refinance of the telecommunications capital notes of \$1,649,667.

During the fiscal year ended June 30, 2012, the Utility has approved and authorized a Loan and Disbursement Agreement securing the payment of \$7,035,000 Water Revenue Capital Loan Notes. Loan proceeds are disbursed following the receipt, by the Iowa Finance Authority, of a completed disbursement request form. As of June 30, 2012, Harlan Municipal Utilities has submitted disbursement request forms and required documentation for costs incurred of \$1,373,700 to the Iowa Finance Authority Drinking Water State Revolving Loan Fund. As of June 30, 2012, the Utility had received the requested loan proceeds.

Total principal payments were \$2,617,433 for the year ended June 30, 2012.

ECONOMIC FACTORS BEARING ON THE UTILITY'S FUTURE

Several economic factors affected decisions made by the Utility in setting its fiscal year 2013 budget. The Utility will experience an increase in revenues and expenditures from fiscal 2012 to fiscal 2013. The Business Type Activities – Enterprise Fund is projected to end fiscal 2013 with a fund balance of approximately \$48,489,146 a 3.2% increase from fiscal 2012. Water usage rates will increase for residential, commercial, and interruptible customers effective July 1, 2012. These rates could increase 20% to 43% based upon usage.

FUTURE FINANCIAL STATEMENT IMPACT

For the year ended June 30, 2012, interest income declined by 19% or over \$13,000. 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 7% 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, 2412 Southwest Avenue, Harlan, Iowa.

Basic Financial Statements

HARLAN MUNICIPAL UTILITIES
STATEMENTS OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012 and 2011

	Business Type Activities -		
	Electric Utility	Gas Utility	Water Utility
ASSETS			
CURRENT ASSETS			
Designated			
Plant improvements, emergency and contingency funds:			
Cash and savings	\$ 405,000	\$ 363,062	\$ 531,991
Replacement funds bond requirement:			
Cash and savings	146,276	0	0
Restricted			
Consumers' deposit fund	40,400	0	0
Revenue bond retirement-savings	1,088,991	0	0
Capital improvement fund-savings	507,176	0	170,000
Unrestricted			
Cash and savings	6,114,209	2,450,860	128,242
Industrial development fund	151,790	123,411	0
Accounts receivable - net of allowance for doubtful accounts of \$35,000	524,932	237,494	334,688
Unbilled usage	267,922	48,772	75,860
Employee loans receivable	1,046	0	0
Inventory	575,238	21,836	39,747
Prepaid expenses	47,560	35,952	37,284
Total current assets	9,870,540	3,281,387	1,317,812
CAPITAL ASSETS			
Utility plant			
Plant in service, at cost	34,291,178	2,626,308	7,947,854
Less accumulated depreciation	21,195,693	1,679,041	4,532,357
	13,095,485	947,267	3,415,497
Construction work in progress	8,490,360	0	1,611,901
Net capital assets	21,585,845	947,267	5,027,398
OTHER ASSETS			
Other accounts receivable	3,479	0	0
Bond discount and issuance costs	118,161	0	72,858
Intra-utility note receivable	0	0	0
Restricted investments for bonds:			
Debt Reserve	720,500	0	227,000
Total other assets	842,140	0	299,858
Total assets	\$ 32,298,525	\$ 4,228,654	\$ 6,645,068

Enterprise Funds				
Telecommunications			Total	Total
Utility	Elimination		2012	2011
\$ 171,000	\$ 0	\$	1,471,053	\$ 1,225,053
0	0		146,276	146,276
0	0		40,400	40,344
68,198	0		1,157,189	1,004,309
0	0		677,176	3,185,127
1,161,002	0		9,854,313	10,478,849
0	0		275,201	274,683
196,310	0		1,293,424	909,129
1,986	0		394,540	342,155
0	0		1,046	4,466
2,728	0		639,549	456,187
18,020	0		138,816	110,085
<u>1,619,244</u>	<u>0</u>		<u>16,088,983</u>	<u>18,176,663</u>
4,226,696	0		49,092,036	48,304,891
<u>2,185,415</u>	<u>0</u>		<u>29,592,506</u>	<u>28,065,764</u>
2,041,281	0		19,499,530	20,239,127
0	0		10,102,261	5,371,207
<u>2,041,281</u>	<u>0</u>		<u>29,601,791</u>	<u>25,610,334</u>
0	0		3,479	9,443
0	0		191,019	138,636
0	0		0	0
			0	0
164,967	0		1,112,467	1,179,500
<u>164,967</u>	<u>0</u>		<u>1,306,965</u>	<u>1,327,579</u>
\$ <u>3,825,492</u>	\$ <u>0</u>	\$	<u>46,997,739</u>	\$ <u>45,114,576</u>

See notes to financial statements.

**HARLAN MUNICIPAL UTILITIES
STATEMENTS OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012 and 2011**

LIABILITIES AND NET ASSETS	Business Type Activities -		
	Electric Utility	Gas Utility	Water Utility
CURRENT LIABILITIES			
Customer credits	\$ 96,810	\$ 326,291	\$ 266
Accounts payable	234,233	69,117	269,786
Payroll taxes payable	0	0	0
State sales and use tax payable	2,775	2,213	9,790
Salaries, vacation and sick leave payable	77,758	44,614	63,689
Accrued property taxes	102,117	0	0
Bonds called not paid	0	0	0
Due City of Harlan for collections & fees	0	0	218,713
Other accrued liabilities	399	0	0
Payable from restricted assets		0	0
Current maturities of long-term debt	660,000	0	0
Interest Payable	93,787	0	4,821
Consumers' deposits	34,760	0	0
Total current liabilities	1,302,639	442,235	567,065
NONCURRENT LIABILITIES			
Long-Term Debt, net of current maturities	10,130,000	0	1,923,700
Contract Payable, net of current maturities	0	0	0
Intra-utility note payable, net of current maturities	0	0	0
Total noncurrent liabilities	10,130,000	0	1,923,700
NET ASSETS			
Invested in capital assets, net of related debt	10,795,845	947,267	3,103,698
Restricted for:			
Consumers' deposit fund	40,400	0	0
Customer credits	96,810	326,291	266
Revenue bond-debt reserve	720,500	0	227,000
Revenue bond retirement	1,088,991	0	0
Capital improvement fund	507,176	0	170,000
Unrestricted	7,616,164	2,512,861	653,339
Total net assets	20,865,886	3,786,419	4,154,303
Total liabilities and net assets	\$ 32,298,525	\$ 4,228,654	\$ 6,645,068

Exhibit A

Enterprise Funds			
Telecommunications		Total	Total
Utility	Elimination	2012	2011
\$ 0	\$ 0	\$ 423,367	\$ 0
77,619	0	650,755	830,423
0	0	0	0
7,544	0	22,322	21,719
32,565	0	218,626	175,477
0	0	102,117	133,074
0	0	0	0
24,259	0	242,972	196,955
318	0	717	8,149
164,967	0	824,967	1,752,765
13,553	0	112,161	118,138
0	0	34,760	34,130
<u>320,825</u>	<u>0</u>	<u>2,632,764</u>	<u>3,270,830</u>
1,484,700	0	13,538,400	12,525,573
0	0	0	0
0	0	0	0
<u>1,484,700</u>	<u>0</u>	<u>13,538,400</u>	<u>12,525,573</u>
391,614	0	15,238,424	11,284,519
0	0	40,400	40,344
0	0	423,367	0
164,967	0	1,112,467	1,179,500
68,198	0	1,157,189	1,004,309
0	0	677,176	3,185,127
1,395,188	0	12,177,552	12,624,374
<u>2,019,967</u>	<u>0</u>	<u>30,826,575</u>	<u>29,318,173</u>
<u>\$ 3,825,492</u>	<u>\$ 0</u>	<u>\$ 46,997,739</u>	<u>\$ 45,114,576</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, 2012 and 2011

Exhibit B

	Business Type Activities - Enterprise Funds					Total 2012	Total 2011
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility			
OPERATING REVENUES							
Sales to consumers	\$ 6,149,979	\$ 2,438,716	\$ 1,447,480	\$ 1,893,155	\$ 11,929,330	\$ 12,613,803	
Other operating revenue	133,885	4,667	26,598	65,669	230,819	257,932	
Other sales - MISO	1,053,778	0	0	0	1,053,778	840,608	
Total operating revenue	<u>7,337,642</u>	<u>2,443,383</u>	<u>1,474,078</u>	<u>1,958,824</u>	<u>13,213,927</u>	<u>13,712,343</u>	
OPERATING EXPENSES							
Plant operating expenses							
Cost of gas, power, chemicals, programming, and line fees	2,330,353	1,692,792	110,203	817,389	4,950,737	5,370,300	
Cost of other sales	841,700	0	0	0	841,700	764,124	
Salaries and wages	26,640	23,889	169,158	18,053	237,740	284,943	
Repairs and maintenance	5,472	42,702	70,529	33,055	151,758	134,283	
Utilities	63,815	18,127	102,755	22,446	207,143	200,913	
Insurance	47,004	40,325	44,869	17,699	149,897	135,956	
Property taxes	102,117	0	0	0	102,117	133,094	
Other	56,670	25,025	45,596	49,362	176,653	162,434	
Total plant operating expenses	<u>3,473,771</u>	<u>1,842,860</u>	<u>543,110</u>	<u>958,004</u>	<u>6,817,745</u>	<u>7,186,047</u>	
Distribution operation expenses							
Salaries and wages	284,089	111,839	33,588	75,747	505,263	464,608	
Engineering	5,732	4,650	14,441	29,655	54,478	32,168	
Repairs and maintenance	122,710	28,124	36,652	12,492	199,978	230,093	
Other	14,698	10,032	3,147	47,055	74,932	89,226	
Total distribution operation expense	<u>427,229</u>	<u>154,645</u>	<u>87,828</u>	<u>164,949</u>	<u>834,651</u>	<u>816,095</u>	
Administration and general expenses							
Salaries and wages	91,466	101,226	111,890	77,745	382,327	344,679	
Office supplies	51,945	8,113	16,147	33,332	109,537	108,795	
Education and travel	17,982	7,272	1,525	1,879	28,658	21,708	
Professional	15,694	40,683	31,912	18,166	106,455	75,664	
Other	6,164	7,949	33,214	29,717	77,044	82,305	
Total administrative and general expenses	<u>183,251</u>	<u>165,243</u>	<u>194,688</u>	<u>160,839</u>	<u>704,021</u>	<u>633,151</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, 2012 and 2011

Exhibit B

	Business Type Activities - Enterprise Funds					Total 2012	Total 2011
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility			
OPERATING EXPENSES (Continued)							
Consumer services							
Bad debts	\$ 2,123	\$ 7,161	\$ 6,829	\$ (237)	\$ 15,876	\$ 21,302	
Other	27,359	24,875	0	199	52,433	53,244	
Total consumer services	29,482	32,036	6,829	(38)	68,309	74,546	
Marketing and stakeholder relations							
Salaries and wages	11,667	11,667	11,554	49,888	84,776	80,950	
Advertising	4,447	3,670	6,026	9,579	23,722	37,179	
Other	4,097	3,782	3,577	2,479	13,935	20,683	
Total marketing and stakeholder relations	20,211	19,119	21,157	61,946	122,433	138,812	
Employee benefits							
Payroll taxes	77,452	42,815	62,438	39,121	221,826	206,569	
Health insurance	172,713	60,567	119,687	72,049	425,016	401,594	
Compensated absences	89,072	37,506	42,552	27,250	196,380	223,818	
Total employee benefits	339,237	140,888	224,677	138,420	843,222	831,981	
Total operating expenses excluding amortization and depreciation	4,473,181	2,354,791	1,078,289	1,484,120	9,390,381	9,680,632	
OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION	2,864,461	88,592	395,789	474,704	3,823,546	4,031,711	
Amortization	15,265	0	2,702	0	17,967	20,459	
Depreciation	1,094,502	53,859	166,720	211,661	1,526,742	1,522,542	
	1,109,767	53,859	169,422	211,661	1,544,709	1,543,001	
OPERATING INCOME	1,754,694	34,733	226,367	263,043	2,278,837	2,488,710	

See notes to financial statements.

HARLAN MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2012 and 2011

Exhibit B

	Business Type Activities - Enterprise Funds					Total 2011
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility	Total 2012	
NON-OPERATING REVENUES (EXPENSES)						
Contributions to City-In lieu of taxes	\$ (197,515)	\$ (31,084)	\$ (25,058)	\$ (883)	\$ (254,540)	\$ (268,082)
Gain on sale of asset	0	0	0	0	0	144,525
Interest income	34,222	11,759	5,606	5,104	56,691	70,615
Interest expense	(379,058)	0	(37,741)	(75,787)	(492,586)	(544,857)
Industrial development contribution	(41,500)	(38,500)	0	0	(80,000)	(80,000)
Total non-operating revenues (expenses)	<u>(583,851)</u>	<u>(57,825)</u>	<u>(57,193)</u>	<u>(71,566)</u>	<u>(770,435)</u>	<u>(677,799)</u>
CHANGE IN NET ASSETS	1,170,843	(23,092)	169,174	191,477	1,508,402	1,810,911
TOTAL NET ASSETS, BEGINNING	<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>
TOTAL NET ASSETS, ENDING	<u>\$ 20,865,886</u>	<u>\$ 3,786,419</u>	<u>\$ 4,154,303</u>	<u>\$ 2,019,967</u>	<u>\$ 30,826,575</u>	<u>\$ 29,318,173</u>

See notes to financial statements.

**HARLAN MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2012 and 2011**

Exhibit C

	Business Type Activities - Enterprise Funds					Total 2012	Total 2011
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility			
Cash flows from operating activities:							
Cash received from customers and users	\$ 4,798,121	\$ 2,582,034	\$ 1,326,327	\$ 1,890,759	\$ 10,597,241	\$ 12,595,884	
Cash received from other revenues	1,187,663	4,667	26,598	65,669	1,284,597	1,098,541	
Cash paid to suppliers	(2,353,678)	(1,816,480)	(91,936)	(901,820)	(5,163,914)	(6,794,116)	
Cash paid for personal services	(586,331)	(239,051)	(476,283)	(311,652)	(1,613,317)	(1,599,427)	
Cash paid to employees	(509,612)	(300,321)	(382,797)	(256,905)	(1,449,635)	(1,395,729)	
Net cash provided by operating activities	<u>2,536,163</u>	<u>230,849</u>	<u>401,909</u>	<u>486,051</u>	<u>3,654,972</u>	<u>3,905,153</u>	
Cash flows from noncapital financing activities:							
Contributions to City-In lieu of taxes	(197,515)	(31,084)	(25,058)	(883)	(254,540)	(268,082)	
Net cash provided (used) by noncapital financing activities	<u>(197,515)</u>	<u>(31,084)</u>	<u>(25,058)</u>	<u>(883)</u>	<u>(254,540)</u>	<u>(268,082)</u>	
Cash flows from capital and related financing activities:							
Loan proceeds	0	0	1,052,795	1,649,667	2,702,462	214,740	
Bond issuance costs (paid)	0	0	(70,350)	0	(70,350)	0	
Acquisition of capital assets	(4,227,847)	(82,826)	(1,167,136)	(224,881)	(5,702,690)	(3,992,192)	
Repayments of intra-utility notes	0	0	0	(47,477)	(47,477)	(47,477)	
Principal (payments) on long-term borrowings	(630,000)	0	(190,000)	(1,797,433)	(2,617,433)	(902,065)	
Interest paid on notes	(382,967)	0	(32,920)	(82,676)	(498,563)	(512,366)	
Net cash provided (used) by capital and related financing activities	<u>(5,240,814)</u>	<u>(82,826)</u>	<u>(407,611)</u>	<u>(502,800)</u>	<u>(6,234,051)</u>	<u>(5,239,360)</u>	
Cash flows from investing activities:							
Principal received (loaned) on Fairground Note	5,965	0	0	0	5,965	5,965	
Interest on investments	34,222	11,759	5,606	5,104	56,691	70,615	
Industrial development contribution	(41,500)	(38,500)	0	0	(80,000)	(80,000)	
Principal received on employee loans	3,420	0	0	0	3,420	5,624	
Principal received on intra-utility notes	47,477	0	0	0	47,477	47,477	
Net cash provided (used) by investing activities	<u>49,584</u>	<u>(26,741)</u>	<u>5,606</u>	<u>5,104</u>	<u>33,553</u>	<u>49,681</u>	
Net increase (decrease) in cash and cash equivalents	(2,852,582)	90,198	(25,154)	(12,528)	(2,800,066)	(1,552,608)	
Cash and cash equivalents beginning 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>	
Cash and cash equivalents end of year	<u>\$ 9,174,342</u>	<u>\$ 2,937,333</u>	<u>\$ 1,057,233</u>	<u>\$ 1,565,167</u>	<u>\$ 14,734,075</u>	<u>\$ 17,534,141</u>	

See notes to financial statements.

**HARLAN MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2012 and 2011**

**Exhibit C
(Continued)**

	Business Type Activities - Enterprise Funds					Total 2012	Total 2011
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility			
Reconciliation of operating income to net cash provided by operating activities:							
Operating income	\$ 1,754,694	\$ 34,733	\$ 226,367	\$ 263,043	\$ 2,278,837	\$ 2,488,710	
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation expense	1,094,502	53,859	166,720	211,661	1,526,742	1,522,542	
Amortization expense	15,265	0	2,702	0	17,967	20,459	
(Increase) decrease in customer accounts receivable and unbilled usage and other accounts receivable	(143,182)	(175,158)	(115,177)	(2,699)	(436,216)	1,627	
(Increase) decrease in inventories	(191,945)	5,011	2,922	650	(183,362)	(75,773)	
(Increase) decrease in prepaid expenses	(11,232)	(6,229)	(6,460)	(4,810)	(28,731)	(7,596)	
(Increase) decrease in customer credits	96,810	326,291	266	0	423,367	0	
Increase (decrease) in accounts payable	(55,114)	(21,198)	64,641	16,494	4,823	(90,002)	
Increase (decrease) in payroll taxes payable	0	0	0	0	0	0	
Increase (decrease) in sales & use tax payable	605	(654)	586	66	603	1,759	
Increase (decrease) in salaries payable	6,678	14,194	14,055	8,222	43,149	3,268	
Increase (decrease) in property taxes payable	(30,957)	0	0	0	(30,957)	14,411	
Increase (decrease) in other payables	39	0	45,287	(6,576)	38,750	25,748	
Net cash provided by operating activities	<u>2,536,163</u>	<u>230,849</u>	<u>401,909</u>	<u>486,051</u>	<u>3,654,972</u>	<u>3,905,153</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	\$ 6,265,999	\$ 2,574,271	\$ 128,242	\$ 1,161,002	\$ 10,129,514	\$ 10,753,532	
Restricted assets:							
Cash and pooled investments:							
Revenue bond retirement	1,235,267	0	0	68,198	1,303,465	1,150,585	
Revenue bond debt reserve	720,500	0	227,000	164,967	1,112,467	1,179,500	
Capital improvements	507,176	0	170,000	0	677,176	3,185,127	
Designated contingency fund	405,000	363,062	531,991	171,000	1,471,053	1,225,053	
Consumers' deposit fund	40,400	0	0	0	40,400	40,344	
Cash and cash equivalents end of year	<u>\$ 9,174,342</u>	<u>\$ 2,937,333</u>	<u>\$ 1,057,233</u>	<u>\$ 1,565,167</u>	<u>\$ 14,734,075</u>	<u>\$ 17,534,141</u>	

See notes to financial statements.

Notes to Financial Statements

HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(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 two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 reports 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' cable and telephone systems.

C. Measurement Focus and Basis of Accounting

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

When an expenditure is incurred in proprietary funds which can be paid using either restricted or unrestricted resources, the Utility's policy is generally to first apply the expenditure toward restricted fund balance.

The proprietary funds of the Utility 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 Procedures.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

C. Measurement Focus and Basis of Accounting, (continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utility's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation/amortization on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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 Utility 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 \$35,000 at June 30, 2012.

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 until 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.

Inventories – Inventories in the Enterprise Funds consist of materials, supplies, fuel and coal. Inventories are 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 Enterprise Fund 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, 2012**

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, 2012 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, death or retirement. The accrued amounts have been recognized in the financial statements as of June 30, 2012 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, 2012 at current pay rates.

Long-Term Liabilities – In the proprietary fund financial statements, long-term debt and other long-term 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, 2012, 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, 2012**

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, 2012 and June 30, 2011 were \$425,016 and \$401,594.

G. Advertising

Advertising costs are expenses as incurred. Advertising expense were \$76,155 and \$90,423 for the years ended June 30, 2012 and June 30, 2011. 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.

(2) Deposits and Investments

The Utility's deposits in banks at June 30, 2012 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.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

(2) Deposits and Investments (continued)

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, 2012 was as follows:

	Balance Beginning of Year	<u>Additions</u>	<u>Deletions</u>	Balance End of Year
Intangible Plant	\$ 220,632	\$ 0	\$ 0	\$ 220,632
Production	11,807,879	316,733	0	12,124,612
Transmission & Pumping	5,790,657	9,148	0	5,799,805
Distribution	21,223,762	370,045	0	21,593,807
General	4,066,014	41,820	0	4,107,834
Fiber Optics	<u>5,195,947</u>	<u>49,399</u>	<u>0</u>	<u>5,245,346</u>
Total property, plant & equipment	48,304,891	787,145	0	49,092,036
Less: accumulated depreciation	<u>28,065,764</u>	<u>1,526,742</u>	<u>0</u>	<u>29,592,506</u>
Net property, plant & equipment	<u>\$ 20,239,127</u>	<u>\$ (739,597)</u>	<u>\$ 0</u>	<u>\$ 19,499,530</u>

Depreciation expense charged to operations as follows:

Business type activities:

Electric	\$ 1,094,502
Gas	53,859
Water	166,720
Telecommunications	<u>211,661</u>
Total depreciation expense – business type activities	<u>\$ 1,526,742</u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

(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, 2012, the Utility was in compliance with the revenue note provisions.

Details of revenue bonds notes and contracts payable at June 30, 2012 are as follows:

	Date of <u>Issue</u>	Interest <u>Rates</u>	Final Due <u>Date</u>	Annual <u>Payments</u>	Amount Originally <u>Issued</u>	Outstanding <u>June 30, 2012</u>
<u>Electric Fund:</u>						
Electric Revenue Bond, Series 2006	12/5/2006	3.70-4.05%	10/1/2017	\$ 143,116	\$ 1,280,000	765,000
Electric Revenue Bond, Series 2010A	6/1/2010	3.0%-4.25%	10/1/2024	\$ 404,130	\$ 8,285,000	8,185,000
Electric Revenue Bond, Series 2010B	6/1/2010	2.0%-2.5%	10/1/2015	\$ 479,725	\$ 2,260,000	1,840,000
Total Electric Bonds & Contracts						<u>\$ 10,790,000</u>
 <u>Water Fund:</u>						
Water Revenue Bond, Series 1999	7/1/1999	4.85-5.00%	7/1/2014	\$ 154,250	\$ 1,600,000	\$ 285,000
Water Revenue Bond, Series 2004	4/15/2004	1.40-4.10%	7/1/2016	\$ 70,105	\$ 670,000	265,000
Water State Revolving Fund	5/16/2012	3%	7/1/2032	\$ 64,826	\$ 7,035,000	1,373,700
Total Water Bonds						<u>\$ 1,923,700</u>
 <u>Telecommunications Fund:</u>						
Communications Utility Revenue						
Capital Loan Notes, Series 2008	4/24/2008	4.60%	4/1/2013	\$ 0	\$ 920,000	\$ 0
Telephone Capital Loan Note	3/30/2007	4.52%	4/1/2012	\$ 0	\$ 1,400,000	0
Contract Payable, Walnut Communications	9/1/2008	0%	7/1/2011	\$ 0	\$ 86,308	0
Communications Utility Revenue						
Capital Loan Notes, Series 2012	3/29/2012	3.25%	4/1/2022	\$ 218,879	\$ 1,649,667	1,649,667
Total Telecommunications Fund						<u>\$ 1,649,667</u>

HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(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
2013	\$ 660,000	\$ 366,972	\$ 190,000	\$ 93,464	\$ 164,967	\$ 53,912
2014	675,000	350,379	201,000	229,677	164,967	48,253
2015	695,000	333,295	289,000	220,263	164,967	42,891
2016	715,000	314,438	295,000	209,510	164,967	37,530
2017	750,000	292,325	305,000	199,810	164,967	32,169
2018	775,000	268,040	315,000	190,125	164,967	26,807
2019	810,000	242,315	325,000	180,525	164,967	21,446
2020	840,000	213,830	335,000	170,625	164,966	16,084
2021	885,000	181,895	350,000	160,350	164,966	10,723
2022	925,000	146,580	360,000	149,700	164,966	5,361
2023	975,000	108,093	370,000	138,750	0	0
2024	1,015,000	66,791	380,000	127,500	0	0
2025	1,070,000	22,738	395,000	115,875	0	0
2026	0	0	410,000	103,800	0	0
2027	0	0	420,000	91,350	0	0
2028	0	0	435,000	78,525	0	0
2029	0	0	450,000	65,250	0	0
2030	0	0	465,000	51,525	0	0
2031	0	0	480,000	37,350	0	0
2032	0	0	495,000	22,725	0	0
2033	0	0	510,000	7,650	0	0
Total	\$ 10,790,000	\$ 2,907,691	\$ 7,775,000	\$ 2,644,349	\$ 1,649,667	\$ 295,176

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

(5) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2012 is as follows:

	Electric Revenue Bonds & Contracts	Water Revenue Bonds	Telecommunications Capital Loan Notes	Total
Balance, beginning 7-1-11	\$ 11,420,000	\$ 1,060,905	\$ 1,797,433	\$ 14,278,338
Issued	0	1,052,795	1,649,667	2,702,462
Paid	<u>(630,000)</u>	<u>(190,000)</u>	<u>(1,797,433)</u>	<u>(2,617,433)</u>
Balance, ending 6-30-12	10,790,000	1,923,700	1,649,667	14,363,367
Less: Current Portion	<u>(660,000)</u>	<u>0</u>	<u>(164,967)</u>	<u>(824,967)</u>
Long-Term Debt, net of Current Portion	<u>\$ 10,130,000</u>	<u>\$ 1,923,700</u>	<u>\$ 1,484,700</u>	<u>\$ 13,538,400</u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

(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, 2012 is as follows:

Payable Fund.....	<u>Telecommunications Utility</u>		
Receivable Fund.....	<u>Loan from Electric Utility</u>	<u>Loan from Gas Utility</u>	<u>Totals</u>
Beginning Balance 7-01-11	\$ 47,477	\$ 0	\$ 47,477
Less: Payments made by Telecommunications Utility	(47,477)	(0)	(47,477)
Ending Balance 6-30-12	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</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, 2012 is as follows:

	Employee Computer <u>Note Receivable</u>	Fair Ground <u>Note Receivable</u>
Beginning Balance 7-1-11	\$ 4,466	\$ 9,444
Loaned Out	0	0
Payments Received/Forgiven	(3,420)	(5,965)
Ending Balance 6-30-12	<u>\$ 1,046</u>	<u>\$ 3,479</u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

(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, 2012 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>7,822,791</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 to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the Utility is required to contribute 8.07% of covered salary. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$124,728, \$106,019 and \$95,701, respectively, equal to the required contributions for each year.

(10) Construction and Other Commitments

During January, 2012 the Utilities entered into a construction contract totaling \$7,035,000 for the construction of a Water Treatment Plant. As of June 30, 2012, payments totaling \$1,611,901 have been paid toward the project.

During June, 2011, the Utilities entered into a construction project totaling \$3,350,000 for the construction of a new HMU Operations Center. As of June 30, 2012, payments totaling \$3,028,179 have been paid toward the project.

During January, 2011, the Utilities entered into a construction project totaling \$6,150,000 for the 2010-2011 Underground Conversion Project. As of June 30, 2012, payments totaling \$5,462,181 have been paid toward the project.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

(11) Risk Management

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(12) Pledged Contributions

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 fifth and final payment of \$25,000 was paid December, 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 fourth payment was made in February, 2012. The remaining unpaid pledge is \$30,000 as of June 30, 2012.

(13) 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, 2012 and June 30, 2011 were \$254,539 and \$268,082.

The Utility had business transactions between the Utility and Utility officials totaling \$1,415 and \$61,989 during the years ended June 30, 2012 and June 30, 2011.

(14) Subsequent Events

Management has evaluated subsequent events through September 14, 2012, the date on which the financial statements were available to be issued.

(15) 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 June 19, 2012 meeting.

Required Supplementary Information

**HARLAN MUNICIPAL UTILITIES
 BUDGETARY COMPARISON SCHEDULE OF
 REVENUES, EXPENSES, AND CHANGE IN FUND NET ASSETS -
 ACCRUAL BUDGET VS ACTUAL (ACCRUAL BASIS)
 PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2012**

	Accrual Basis		
	Total Proprietary Funds-Actual	Final Budgeted Amounts	Variance Favorable (Unfavorable)
Operating Revenues			
Sales to consumers	\$ 11,929,330	\$ 13,757,734	\$ (1,828,404)
Other operating revenue	230,819	252,107	(21,288)
Excess sales	1,053,778	1,050,000	3,778
Total operating revenue	<u>13,213,927</u>	<u>15,059,841</u>	<u>(1,845,914)</u>
Operating Expenses			
Plant operation expenses	6,817,745	7,511,126	693,381
Distribution operation	834,651	828,546	(6,105)
Administrative and general	704,021	684,712	(19,309)
Consumer services	68,309	108,000	39,691
Marketing and relations	122,433	152,608	30,175
Employee benefits	843,222	994,105	150,883
Amortization and depreciation	1,544,709	1,667,500	122,791
Total operating expenses	<u>10,935,090</u>	<u>11,946,597</u>	<u>1,011,507</u>
Operating Income	2,278,837	3,113,244	(834,407)
Other revenues (expenses), net	<u>(770,435)</u>	<u>(1,087,800)</u>	<u>317,365</u>
Change in net assets	1,508,402	\$ <u><u>2,025,444</u></u>	\$ <u><u>(517,042)</u></u>
Total net assets, beginning	<u>29,318,173</u>		
Total net assets, ending	\$ <u><u>30,826,575</u></u>		

See accompanying independent auditors' report.

HARLAN MUNICIPAL UTILITIES
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND NET ASSETS -
ACCRUAL BUDGET VS ACTUAL (CASH BASIS)
PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2012

	Cash Basis		
	Total Proprietary Funds-Actual	Final Budgeted Amounts	Final to Actual Variance Favorable (Unfavorable)
Receipts:			
Charges for services	\$ 11,651,019	\$ 14,807,734	\$ (3,156,715)
Miscellaneous	230,819	252,107	(21,288)
Total receipts	<u>11,881,838</u>	<u>15,059,841</u>	<u>(3,178,003)</u>
Disbursements:			
Business type activities	<u>8,226,866</u>	<u>10,279,097</u>	<u>2,052,231</u>
Excess of receipts over disbursements	3,654,972	4,780,744	(1,125,772)
Other financing sources (uses):			
Loan proceeds	2,702,462	7,500,000	(4,797,538)
Acquisition of capital assets	(5,702,690)	(10,810,250)	5,107,560
Interest received on investments	56,691	95,000	(38,309)
Principal/Interest payments on long term borrowings	(3,115,996)	(1,768,333)	(1,347,663)
Other sources (uses), net	<u>(395,505)</u>	<u>(370,800)</u>	<u>(24,705)</u>
Total other financing sources (uses)	<u>(6,455,038)</u>	<u>(5,354,383)</u>	<u>(1,100,655)</u>
Excess of receipts over disbursements over (under) Other financing sources (uses)	(2,800,066)	(573,639) \$	<u><u>(2,226,427)</u></u>
Balances, beginning of year	<u>17,534,141</u>	<u>17,528,914</u>	
Balances, end of year	\$ <u><u>14,734,075</u></u>	\$ <u><u>16,955,275</u></u>	

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2012**

The budgetary comparison is presented as Required Supplementary Information in accordance with governmental generally accepted accounting principles.

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 accordance with 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 annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

During the year ended June 30, 2012, actual cash disbursements did not exceed the final statutory budget.

Supplementary Information

**HARLAN MUNICIPAL UTILITIES
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2012**

<u>Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass through Number</u>	<u>Federal Expenditures</u>
U.S. Environmental Protection Agency Capitalization Grants for Drinking Water State Revolving Funds Iowa Department of Natural Resources State Revolving Fund	66.468	FS-83-10 DWSRF-017	\$ <u>938,700</u>

Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Harlan Municipal Utilities and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of, the basic financial statements.

See accompanying independent auditors' report.

Other Supplementary Information

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2012 and 2011**

Schedule 1

	2012	2011
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 405,000	\$ 405,000
Replacement funds- bond:		
Cash and savings	146,276	146,276
Restricted		
Consumers' deposit fund	40,400	40,344
Revenue bond retirement-savings	1,088,991	926,951
Capital improvement fund-savings	507,176	3,015,127
Unrestricted		
Cash and savings	6,114,209	6,621,222
Industrial development fund	151,790	151,504
Accounts receivable - net of allowance for doubtful accounts of \$10,000 for 2012 and \$9,500 for 2011	524,932	420,399
Unbilled usage	267,922	228,809
Employee loans receivable	1,046	4,466
Inventory	575,238	383,293
Prepaid expenses	47,560	36,328
Total current assets	9,870,540	12,379,719
CAPITAL ASSETS		
Utility plant		
Plant in service, at cost	34,291,178	33,924,661
Less accumulated depreciation	21,195,693	20,101,191
	13,095,485	13,823,470
Construction work in progress	8,490,360	4,998,483
Net capital assets	21,585,845	18,821,953
OTHER ASSETS		
Other account receivable	3,479	9,443
Bond discount and issuance costs	118,161	133,426
Intra-utility note receivable	0	47,477
Restricted investments for bonds:		
Debt Reserve	720,500	720,500
Total other assets	842,140	910,846
 Total assets	 \$ 32,298,525	 \$ 32,112,518

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2012 and 2011**

**Schedule 1
(Continued)**

	2012	2011
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Customer credits	\$ 96,810	\$ 0
Accounts payable	234,233	658,800
Payroll taxes payable	0	0
State sales and use tax payable	2,775	2,170
Salaries, vacation and sick leave payable	77,758	71,080
Accrued property taxes	102,117	133,074
Bonds called not paid	0	0
Other accrued liabilities	399	525
Payable from restricted assets		
Current maturities of long-term debt	660,000	630,000
Interest Payable	93,787	97,696
Consumers' deposits	34,760	34,130
Total current liabilities	1,302,639	1,627,475
Long-Term Debt, net of current maturities	10,130,000	10,790,000
Contract Payable, net of current maturities	0	0
Total noncurrent liabilities	10,130,000	10,790,000
NET ASSETS		
Invested in capital assets, net of related debt	10,795,845	7,401,953
Restricted	2,453,877	4,702,922
Unrestricted	7,616,164	7,590,168
Total net assets	20,865,886	19,695,043
Total liabilities and net assets	\$ 32,298,525	\$ 32,112,518

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, 2012 and 2011**

	2012 Actual	2011 Actual	2012 Budget	Budget Variance Favorable (Unfavorable)
OPERATING REVENUES				
Sales to consumers	\$ 6,149,979	\$ 6,282,302	\$ 6,397,100	\$ (247,121)
Other operating revenue	133,885	159,074	146,532	(12,647)
Other sales - MISO	<u>1,053,778</u>	<u>840,608</u>	<u>1,050,000</u>	<u>3,778</u>
Total operating revenue	7,337,642	7,281,984	7,593,632	(255,990)
OPERATING EXPENSES				
Plant operating expenses				
Cost of other sales	841,700	764,124	540,000	(301,700)
Cost of power	2,330,353	2,395,521	2,492,500	162,147
Salaries and wages	26,640	73,397	65,897	39,257
Repairs and maintenance	5,472	8,384	13,500	8,028
Utilities	63,815	60,887	64,500	685
Insurance	47,004	51,470	55,000	7,996
Property taxes	102,117	133,094	120,000	17,883
Other	<u>56,670</u>	<u>49,965</u>	<u>59,170</u>	<u>2,500</u>
Total plant operating expenses	3,473,771	3,536,842	3,410,567	(63,204)
Distribution operation expenses				
Salaries and wages	284,089	223,067	235,226	(48,863)
Engineering	5,732	5,708	6,500	768
Repairs and maintenance	122,710	140,993	124,200	1,490
Other	<u>14,698</u>	<u>23,015</u>	<u>10,250</u>	<u>(4,448)</u>
Total distribution operation expense	427,229	392,783	376,176	(51,053)
Administration and general expenses				
Salaries and wages	91,466	83,689	87,908	(3,558)
Office supplies	51,945	52,907	58,000	6,055
Education and travel	17,982	12,015	3,900	(14,082)
Professional	15,694	19,779	17,100	1,406
Other	<u>6,164</u>	<u>8,403</u>	<u>4,400</u>	<u>(1,764)</u>
Total administrative and general expenses	183,251	176,793	171,308	(11,943)
Consumer services				
Bad debts (collected)	2,123	7,370	15,000	12,877
Other	<u>27,359</u>	<u>26,758</u>	<u>30,000</u>	<u>2,641</u>
Total consumer services	29,482	34,128	45,000	15,518
Marketing and stakeholder relations				
Salaries and wages	11,667	11,058	8,326	(3,341)
Advertising	4,447	5,717	6,200	1,753
Other	<u>4,097</u>	<u>6,588</u>	<u>10,554</u>	<u>6,457</u>
Total marketing and stakeholder relations	20,211	23,363	25,080	4,869

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, 2012 and 2011**

	<u>2012</u> Actual	<u>2011</u> Actual	<u>2012</u> Budget	<u>Budget</u> Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Employee benefits				
Payroll taxes	\$ 77,452	\$ 68,329	\$ 84,593	\$ 7,141
Health insurance	172,713	156,647	195,000	22,287
Compensated absences	89,072	102,641	105,585	16,513
Total employee benefits	<u>339,237</u>	<u>327,617</u>	<u>385,178</u>	<u>45,941</u>
 Total operating expenses excluding amortization and depreciation	 <u>4,473,181</u>	 <u>4,491,526</u>	 <u>4,413,309</u>	 <u>(59,872)</u>
 OPERATING INCOME (LOSS) BEFORE AMORTIZATION AND DEPRECIATION				
	2,864,461	2,790,458	3,180,323	(315,862)
 Amortization	 15,265	 17,451	 17,500	 2,235
Depreciation	1,094,502	1,100,496	1,200,000	105,498
	<u>1,109,767</u>	<u>1,117,947</u>	<u>1,217,500</u>	<u>107,733</u>
 OPERATING INCOME (LOSS)				
	<u>1,754,694</u>	<u>1,672,511</u>	<u>1,962,823</u>	<u>(208,129)</u>
 NON-OPERATING REVENUES (EXPENSES)				
Capital Grants	0	0	0	0
Contributions to City-In lieu of taxes	(197,515)	(204,973)	(190,000)	(7,515)
Gain (Loss) on sale of assets	0	144,525	0	0
Interest income	34,222	44,436	50,000	(15,778)
Interest expense	(379,058)	(416,099)	(380,000)	942
Industrial development contribution	(41,500)	(41,500)	(50,000)	8,500
Total non-operating revenues (expenses)	<u>(583,851)</u>	<u>(473,611)</u>	<u>(570,000)</u>	<u>(13,851)</u>
 CHANGE IN NET ASSETS				
	1,170,843	1,198,900	\$ <u>1,392,823</u>	\$ <u>(221,980)</u>
 TOTAL NET ASSETS, BEGINNING				
	<u>19,695,043</u>	<u>18,496,143</u>		
 TOTAL NET ASSETS, ENDING				
	\$ <u>20,865,886</u>	\$ <u>19,695,043</u>		

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL GAS UTILITY
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2012 and 2011**

Schedule 3

	2012	2011
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 363,062	\$ 339,062
Unrestricted		
Cash and savings	2,450,860	2,384,894
Industrial development fund	123,411	123,179
Accounts receivable - net of allowance for doubtful accounts of \$9,500 for 2012 and \$9,500 for 2011	237,494	52,317
Unbilled usage	48,772	58,791
Inventory	21,836	26,847
Prepaid expenses	35,952	29,723
Total current assets	3,281,387	3,014,813
CAPITAL ASSETS		
Utility plant		
Plant in service, at cost	2,626,308	2,543,482
Less accumulated depreciation	1,679,041	1,625,182
Net capital assets	947,267	918,300
OTHER ASSETS		
Intra-utility note receivable	0	0
Total other assets	0	0
 Total assets	 \$ 4,228,654	 \$ 3,933,113
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Customer credits	\$ 326,291	\$ 0
Accounts payable	69,117	90,315
State sales and use tax payable	2,213	2,867
Salaries, vacation and sick leave payable	44,614	30,420
Total current liabilities	442,235	123,602
Contract Payable	0	0
NET ASSETS		
Invested in capital assets, net of related debt	947,267	918,300
Restricted	326,291	0
Unrestricted	2,512,861	2,891,211
Total net assets	3,786,419	3,809,511
 Total liabilities and net assets	 \$ 4,228,654	 \$ 3,933,113

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, 2012 and 2011**

	<u>2012</u> <u>Actual</u>	<u>2011</u> <u>Actual</u>	<u>2012</u> <u>Budget</u>	<u>Budget</u> <u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
OPERATING REVENUES				
Sales to consumers	\$ 2,438,716	\$ 3,012,422	\$ 3,720,000	\$ (1,281,284)
Other operating revenue	4,667	6,501	8,875	(4,208)
Total operating revenue	<u>2,443,383</u>	<u>3,018,923</u>	<u>3,728,875</u>	<u>(1,285,492)</u>
OPERATING EXPENSES				
Plant operating expenses				
Cost of power	1,692,792	2,123,706	2,440,758	747,966
Salaries and wages	23,889	23,280	14,090	(9,799)
Repairs and maintenance	42,702	11,284	17,400	(25,302)
Utilities	18,127	18,932	22,000	3,873
Insurance	40,325	34,026	43,000	2,675
Other	25,025	33,571	33,570	8,545
Total plant operating expenses	<u>1,842,860</u>	<u>2,244,799</u>	<u>2,570,818</u>	<u>727,958</u>
Distribution operation expenses				
Salaries and wages	111,839	121,566	125,242	13,403
Engineering	4,650	4,650	5,600	950
Repairs and maintenance	28,124	30,907	39,300	11,176
Other	10,032	10,807	24,960	14,928
Total distribution operation expense	<u>154,645</u>	<u>167,930</u>	<u>195,102</u>	<u>40,457</u>
Administration and general expenses				
Salaries and wages	101,226	93,344	96,543	(4,683)
Office supplies	8,113	8,573	9,700	1,587
Education and travel	7,272	6,496	8,100	828
Professional	40,683	37,607	57,900	17,217
Other	7,949	9,660	12,200	4,251
Total administrative and general expenses	<u>165,243</u>	<u>155,680</u>	<u>184,443</u>	<u>19,200</u>
Consumer services				
Bad debts (collected)	7,161	8,512	15,500	8,339
Other	24,875	26,338	30,000	5,125
Total consumer services	<u>32,036</u>	<u>34,850</u>	<u>45,500</u>	<u>13,464</u>
Marketing and stakeholder relations				
Salaries and wages	11,667	10,996	8,326	(3,341)
Advertising	3,670	7,165	4,100	430
Other	3,782	5,606	8,952	5,170
Total marketing and stakeholder relations	<u>19,119</u>	<u>23,767</u>	<u>21,378</u>	<u>2,259</u>

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, 2012 and 2011**

	2012 Actual	2011 Actual	2012 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Employee benefits				
Payroll taxes	\$ 42,815	\$ 41,150	\$ 46,785	\$ 3,970
Health insurance	60,567	61,793	76,200	15,633
Compensated absences	37,506	32,785	37,561	55
Total employee benefits	140,888	135,728	160,546	19,658
 Total operating expenses excluding amortization and depreciation	 2,354,791	 2,762,754	 3,177,787	 822,996
 OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION				
	88,592	256,169	551,088	(462,496)
 Depreciation	 53,859	 53,337	 55,000	 1,141
	53,859	53,337	55,000	1,141
OPERATING INCOME (LOSS)	34,733	202,832	496,088	(461,355)
 NON-OPERATING REVENUES (EXPENSES)				
Capital Grants	0	0	0	0
Contributions to City-In lieu of taxes	(31,084)	(39,061)	(50,000)	18,916
Gain (Loss) on sale of assets	0	0	0	0
Interest income	11,759	15,471	20,000	(8,241)
Industrial development contribution	(38,500)	(38,500)	(50,000)	11,500
Total non-operating revenues (expenses)	(57,825)	(62,090)	(80,000)	22,175
 CHANGE IN NET ASSETS	 (23,092)	 140,742	 \$ 416,088	 \$ (439,180)
 TOTAL NET ASSETS, BEGINNING	 3,809,511	 3,668,769		
 TOTAL NET ASSETS, ENDING	 \$ 3,786,419	 \$ 3,809,511		

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2012 and 2011**

Schedule 5

	2012	2011
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 531,991	\$ 321,991
Restricted		
Capital improvement fund-savings	170,000	170,000
Unrestricted		
Cash and savings	128,242	363,396
Accounts receivable - net of allowance for doubtful accounts of \$4,500 for 2012 and \$4,500 for 2011	334,688	243,186
Unbilled usage	75,860	52,185
Inventory	39,747	42,669
Prepaid expenses	37,284	30,824
Total current assets	1,317,812	1,224,251
CAPITAL ASSETS		
Utility plant		
Plant in service, at cost	7,947,854	7,834,933
Less accumulated depreciation	4,532,357	4,365,637
	3,415,497	3,469,296
Construction work in progress	1,611,901	372,724
Net capital assets	5,027,398	3,842,020
OTHER ASSETS		
Bond discount and issuance costs	72,858	5,210
Restricted investments for bonds:		
Debt reserve and sinking	227,000	227,000
Total other assets	299,858	232,210
Total assets	\$ 6,645,068	\$ 5,298,481
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Customer credits	\$ 266	\$ 0
Accounts payable	269,786	20,183
State sales and use tax payable	9,790	9,204
Salaries, vacation and sick leave payable	63,689	49,634
Due City of Harlan for collections & fees	218,713	173,426
Interest Payable	4,821	0
Total current liabilities	567,065	252,447
Long-Term Debt, net of current maturities	1,923,700	1,060,905
NET ASSETS		
Invested in capital assets, net of related debt	3,103,698	2,781,115
Restricted	397,266	397,000
Unrestricted	653,339	807,014
Total net assets	4,154,303	3,985,129
Total liabilities and net assets	\$ 6,645,068	\$ 5,298,481

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, 2012 and 2011**

	<u>2012</u> Actual	<u>2011</u> Actual	<u>2012</u> Budget	<u>Budget</u> Variance Favorable (Unfavorable)
OPERATING REVENUES				
Sales to consumers	\$ 1,447,480	\$ 1,404,879	\$ 1,806,274	\$ (358,794)
Other operating revenue	<u>26,598</u>	<u>23,209</u>	<u>26,200</u>	<u>398</u>
Total operating revenue	1,474,078	1,428,088	1,832,474	(358,396)
OPERATING EXPENSES				
Plant operating expenses				
Cost of chemicals	110,203	98,390	93,500	(16,703)
Salaries and wages	169,158	174,160	185,413	16,255
Repairs and maintenance	70,529	70,348	84,878	14,349
Utilities	102,755	99,427	103,600	845
Insurance	44,869	35,337	44,000	(869)
Other	<u>45,596</u>	<u>44,297</u>	<u>71,050</u>	<u>25,454</u>
Total plant operating expenses	543,110	521,959	582,441	39,331
Distribution operation expenses				
Salaries and wages	33,588	32,113	32,588	(1,000)
Engineering	14,441	7,412	15,000	559
Repairs and maintenance	36,652	45,968	27,000	(9,652)
Other	<u>3,147</u>	<u>1,804</u>	<u>10,048</u>	<u>6,901</u>
Total distribution operation expense	87,828	87,297	84,636	(3,192)
Administration and general expenses				
Salaries and wages	111,890	95,923	99,059	(12,831)
Office supplies	16,147	15,739	19,500	3,353
Education and travel	1,525	1,270	0	(1,525)
Professional	31,912	12,536	10,500	(21,412)
Other	<u>33,214</u>	<u>34,723</u>	<u>41,200</u>	<u>7,986</u>
Total administrative and general expenses	194,688	160,191	170,259	(24,429)
Consumer services				
Bad debts (collected)	<u>6,829</u>	<u>4,550</u>	<u>9,300</u>	<u>2,471</u>
Total consumer services	6,829	4,550	9,300	2,471
Marketing and stakeholder relations				
Salaries and wages	11,554	10,998	5,810	(5,744)
Advertising	6,026	5,227	5,100	(926)
Other	<u>3,577</u>	<u>4,841</u>	<u>8,102</u>	<u>4,525</u>
Total marketing and stakeholder relations	21,157	21,066	19,012	(2,145)

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, 2012 and 2011**

	2012 Actual	2011 Actual	2012 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Employee benefits				
Payroll taxes	\$ 62,438	\$ 59,615	\$ 72,079	\$ 9,641
Health insurance	119,687	118,191	148,500	28,813
Compensated absences	42,552	56,706	59,848	17,296
Total employee benefits	224,677	234,512	280,427	55,750
 Total operating expenses excluding amortization and depreciation	 1,078,289	 1,029,575	 1,146,075	 67,786
 OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION				
	395,789	398,513	686,399	(290,610)
 Amortization	2,702	3,008	10,000	7,298
Depreciation	166,720	160,654	170,000	3,280
	169,422	163,662	180,000	10,578
OPERATING INCOME	226,367	234,851	506,399	(280,032)
 NON-OPERATING REVENUES (EXPENSES)				
Capital Grants	0	0	0	0
Contributions to City-In lieu of taxes	(25,058)	(23,215)	(30,000)	4,942
Gain (Loss) on sale of assets	0	0	0	0
Interest income	5,606	5,672	15,000	(9,394)
Interest expense	(37,741)	(40,875)	(350,000)	312,259
Total non-operating revenues (expenses)	(57,193)	(58,418)	(365,000)	307,807
 CHANGE IN NET ASSETS	 169,174	 176,433	 \$ 141,399	 \$ 27,775
 TOTAL NET ASSETS, BEGINNING	 3,985,129	 3,808,696		
 TOTAL NET ASSETS, ENDING	 \$ 4,154,303	 \$ 3,985,129		

See accompanying independent auditors' report.

HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2012 and 2011

Schedule 7

	2012	2011
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 171,000	\$ 159,000
Restricted		
Revenue bond retirement-savings	68,198	77,358
Capital improvement fund-savings	0	0
Unrestricted		
Cash and savings	1,161,002	1,109,337
Accounts receivable - net of allowance for doubtful accounts of \$11,000 for 2012 and \$14,500 for 2011	196,310	193,227
Unbilled Usage	1,986	2,370
Inventory	2,728	3,378
Prepaid expenses	18,020	13,210
Total current assets	1,619,244	1,557,880
CAPITAL ASSETS		
Utility plant		
Plant in service, at cost	4,226,696	4,001,815
Less accumulated depreciation	2,185,415	1,973,754
	2,041,281	2,028,061
Construction work in progress	0	0
Net capital assets	2,041,281	2,028,061
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	164,967	232,000
Total other assets	164,967	232,000
Total assets	\$ 3,825,492	\$ 3,817,941

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2012 and 2011**

**Schedule 7
(Continued)**

	2012	2011
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 77,619	\$ 61,125
Payroll taxes payable	0	0
State sales and use tax payable	7,544	7,478
Salaries, vacation and sick leave payable	32,565	24,343
Due City of Harlan for collections & fees	24,259	23,529
Other accrued liabilities	318	7,624
Payable from restricted assets		
Current maturities of long-term debt	164,967	1,122,765
Interest Payable	13,553	20,442
Total current liabilities	320,825	1,267,306
NONCURRENT LIABILITIES		
Long-Term Debt, net of current maturities	1,484,700	674,668
Deferred Revenue - CABS	0	0
Intra-utility note payable, net of current maturities	0	47,477
Total noncurrent liabilities	1,484,700	722,145
NET ASSETS		
Invested in capital assets, net of related debt	391,614	183,151
Restricted	233,165	309,358
Unrestricted	1,395,188	1,335,981
Total net assets	2,019,967	1,828,490
 Total liabilities and net assets	 \$ 3,825,492	 \$ 3,817,941

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, 2012 and 2011**

	<u>2012</u>	<u>2011</u>	<u>2012</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	\$ 1,893,155	\$ 1,914,200	\$ 1,834,360	\$	58,795
Other operating revenue	65,669	69,148	70,500		(4,831)
Total operating revenue	<u>1,958,824</u>	<u>1,983,348</u>	<u>1,904,860</u>		<u>53,964</u>
OPERATING EXPENSES					
Plant operating expenses					
Cost of programming, line fees	817,389	752,683	788,800		(28,589)
Salaries and wages	18,053	14,106	19,500		1,447
Repairs and maintenance	33,055	44,267	25,700		(7,355)
Utilities	22,446	21,667	22,000		(446)
Insurance	17,699	15,123	18,000		301
Other	49,362	34,601	73,300		23,938
Total plant operating expenses	<u>958,004</u>	<u>882,447</u>	<u>947,300</u>		<u>(10,704)</u>
Distribution operation expenses					
Salaries and wages	75,747	87,862	88,200		12,453
Engineering	29,655	14,398	30,000		345
Repairs and maintenance	12,492	12,225	9,500		(2,992)
Other	47,055	53,600	44,932		(2,123)
Total distribution operation expense	<u>164,949</u>	<u>168,085</u>	<u>172,632</u>		<u>7,683</u>
Administration and general expenses					
Salaries and wages	77,745	71,723	83,032		5,287
Office supplies	33,332	31,576	41,550		8,218
Education and travel	1,879	1,927	1,500		(379)
Professional	18,166	5,742	13,200		(4,966)
Other	29,717	29,519	19,420		(10,297)
Total administrative and general expenses	<u>160,839</u>	<u>140,487</u>	<u>158,702</u>		<u>(2,137)</u>
Consumer services					
Bad debts (collected)	(237)	870	6,050		6,287
Other	199	148	2,150		1,951
Total consumer services	<u>(38)</u>	<u>1,018</u>	<u>8,200</u>		<u>8,238</u>
Marketing and stakeholder relations					
Salaries and wages	49,888	47,898	62,007		12,119
Advertising	9,579	19,070	16,900		7,321
Other	2,479	3,648	8,231		5,752
Total marketing and stakeholder relations	<u>61,946</u>	<u>70,616</u>	<u>87,138</u>		<u>25,192</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, 2012 and 2011

Schedule 8
(Continued)

	2012 Actual	2011 Actual	2012 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Employee benefits				
Payroll taxes	\$ 39,121	\$ 37,475	\$ 47,571	\$ 8,450
Health insurance	72,049	64,963	82,000	9,951
Compensated absences	27,250	31,686	38,383	11,133
Total employee benefits	138,420	134,124	167,954	29,534
Total operating expenses excluding amortization and depreciation	1,484,120	1,396,777	1,541,926	57,806
OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION				
	474,704	586,571	362,934	111,770
Amortization	0	0	0	0
Depreciation	211,661	208,055	215,000	3,339
	211,661	208,055	215,000	3,339
OPERATING INCOME	263,043	378,516	147,934	115,109
NON-OPERATING REVENUES (EXPENSES)				
Contributions to City-In lieu of taxes	(883)	(833)	(800)	(83)
Interest income	5,104	5,036	10,000	(4,896)
Interest expense	(75,787)	(87,883)	(82,000)	6,213
Total non-operating revenues (expenses)	(71,566)	(83,680)	(72,800)	1,234
CHANGE IN NET ASSETS	191,477	294,836	\$ 75,134	\$ 116,343
TOTAL NET ASSETS, BEGINNING	1,828,490	1,533,654		
TOTAL NET ASSETS, ENDING	\$ 2,019,967	\$ 1,828,490		

See accompanying independent auditors' report.

**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**

MAHONEY & GOTTO COMPANY

Certified Public Accountants

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Denison, IA 51442

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Fax 712-263-2184

**Independent Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Trustees of the
Harlan Municipal Utilities:

We have audited the accompanying financial statements of the business type activities of the Harlan Municipal Utilities, a component unit of the City of Harlan, as of and for the year ended June 30, 2012, which collectively comprise the Utility's basic financial statements listed in the table of contents, and have issued our report thereon dated September 14, 2012. 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

The management of the Harlan Municipal Utilities is responsible for establishing and maintaining effective 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 an 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 tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV 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, 2012 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 the 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, including federal awarding agencies, 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 14, 2012
Denison, Iowa

**Independent Auditors' Report on Compliance
With Requirements That Could Have a Direct and Material
Effect on Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

MAHONEY & GOTTO COMPANY
Certified Public Accountants

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Denison, IA 51442

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**Independent Auditors' Report on Compliance
With Requirements That Could Have a Direct and Material
Effect on Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

To the Board of Trustees of the
Harlan Municipal Utilities

Compliance

We have audited the Harlan Municipal Utilities' compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on Harlan Municipal Utilities' major federal program for the year ended June 30, 2012. Harlan Municipal Utilities' major federal program is identified in Part I of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of Harlan Municipal Utilities' management. Our responsibility is to express an opinion on Harlan Municipal Utilities' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harlan Municipal Utilities' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Harlan Municipal Utilities' compliance with those requirements.

In our opinion, the Harlan Municipal Utilities complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the Harlan Municipal Utilities is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Harlan Municipal Utilities' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harlan Municipal Utilities' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Harlan Municipal Utilities and other parties to whom Harlan Municipal Utilities may report, including federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.



MAHONEY & GOTTO COMPANY
Certified Public Accountants

September 14, 2012
Denison, Iowa

**HARLAN MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012**

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) No significant deficiencies or material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 66.468 – Capitalization Grants for Drinking Water State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Harlan Municipal Utilities did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

No deficiencies were noted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over the major program were noted.

**HARLAN MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012**

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-12 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, 2012 did not exceed the amounts budgeted.
- IV-B-12 Questionable Expenditures – Expenditures of Utility money appear to meet public purpose requirements.
- IV-C-12 Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utilities officials or employees were noted.
- IV-D-12 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	<u>\$ 939</u>
David Tyrrel, Board Member, Owner of Harlan Radio Shack	Parts, Supplies	<u>\$ 476</u>

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions do not appear to represent conflicts of interest since total transactions for each were less than \$1,500 during the fiscal year.

- IV-E-12 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.
- IV-F-12 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 2011 as in accordance with an Attorney General’s opinion dated April 12, 1978.
- IV-G-12 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 Utility’s investment policy were noted.
- IV-H-12 Revenue Notes – No instances of non-compliance with the revenue note provisions were noted.
- IV-I-12 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.