

HARLAN MUNICIPAL UTILITIES
INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2013 and 2012

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>
Mary Johnson	Chairman	2016
David Tyrrel	Vice Chairman	2017
Michael Jones	Board Member	2013
Terry Arentsen	Board Member	2015
Todd Argotsinger	Board Member	2012
Allen Burchett	Board Member	2012
Nella Seivert	Board Member	2018
Tom Gaffigan	Chief Executive Officer & Board Secretary	2012
Darrel Wenzel	Chief Executive Officer & Board Secretary	Indefinite
Krista Allen	Director of Finance	Indefinite
John Doonan	Director of Customer Relations & Support Services	2013
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

Report on the Financial Statements

We have audited the accompanying financial statements of the proprietary fund types of Harlan Municipal Utilities, a component unit of the City of Harlan, Harlan, Iowa as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the proprietary fund types of Harlan Municipal Utilities as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information on pages 5 through 13 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 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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 third paragraph of this report, the financial statements for the four years ended June 30, 2012 (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, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 13, 2013 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 in considering Harlan Municipal Utilities' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Mahoney & Gotto Company". The signature is written in a cursive, flowing style.

MAHONEY & GOTTO COMPANY
Certified Public Accountants

September 13, 2013
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, 2013. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities increased 4.16%, or \$550,313, from fiscal 2012 to fiscal 2013.
- Operating expenses of the Utilities' activities increased 5.47%, or \$513,975 from fiscal 2012 to fiscal 2013.
- The Utilities' net assets of business type activities increased 4.99%, or \$1,538,872 from June 30, 2012 to June 30, 2013.

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 Position – Proprietary Funds, and a Statement of Revenues, Expenses, and Changes in Net Position – 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 Position and the Statement of Revenues, Expenses, and Changes in Net Position 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 Position presents all the Utilities' assets and liabilities, with the difference between the two reported as "net position". Over time, increases or decreases in the Utilities' net position 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 Position presents information showing how the Utilities' net position changed during the most recent fiscal year. All changes in net position 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 Position and the Statement of Revenues, Expenses, and Changes in Fund Net Position 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 Position and the Statement of Revenues, Expenses, and Changes in Fund Net Position. 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 Position, a Statement of Revenues, Expenses, and Changes in Fund Net Position and a Statement of Cash Flows.

BASIC FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net position for business type activities.

Net Position at Year-end		
Business Type Activities-Enterprise Funds		
	<u>Year Ended</u>	
	<u>6-30-13</u>	<u>6-30-12</u>
Current and other assets	\$ 18,115,813	\$ 17,395,948
Capital assets	<u>34,381,380</u>	<u>29,601,791</u>
Total Assets	<u>\$ 52,497,193</u>	<u>\$ 46,997,739</u>
Long-term liabilities	\$ 17,345,593	\$ 13,538,400
Other liabilities	<u>2,786,153</u>	<u>2,632,764</u>
Total Liabilities	<u>\$ 20,131,746</u>	<u>\$ 16,171,164</u>
Net position:		
Net investment in capital assets	\$ 16,194,820	\$ 15,238,424
Restricted	3,778,086	3,410,599
Unrestricted	<u>12,392,541</u>	<u>12,177,552</u>
Total net position	<u>\$ 32,365,447</u>	<u>\$ 30,826,575</u>

Net position of business type activities increased approximately \$1,538,000, or 5.0% over fiscal year 2012. The largest portion of the Utilities' net position 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 position represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately \$12,300,000 at the end of this year.

Changes in Net Position for the Year ended June 30,

Business Type Activities-Enterprise Funds

	<u>2013</u>	<u>2012</u>
Revenues:		
Charges for services	\$ 13,764,240	\$ 13,213,927
Interest Income	51,631	56,691
Capital grants	0	0
Gain on sale of assets	<u>0</u>	<u>0</u>
Total revenues	<u>13,815,871</u>	<u>13,270,618</u>
Operating expenses:		
Plant operations	7,126,150	6,817,745
Distribution operations	918,620	834,651
Administrative and general	709,855	704,021
Consumer services	81,794	68,309
Marketing and stakeholder relations	158,754	122,433
Employee benefits	<u>909,183</u>	<u>843,222</u>
Total operating expenses	<u>9,904,356</u>	<u>9,390,381</u>
Other expenses:		
Amortization	20,993	17,967
Depreciation	1,461,511	1,526,742
Contributions to City-In lieu of taxes	276,353	254,540
Interest expense	558,766	492,586
Industrial development contribution	<u>55,000</u>	<u>80,000</u>
Total other expenses	<u>2,372,623</u>	<u>2,371,835</u>
Increase in net position	1,538,892	1,508,402
Net position beginning of year	<u>30,826,575</u>	<u>29,318,173</u>
Net position end of year	<u>\$ 32,365,467</u>	<u>\$ 30,826,575</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 2013 with a \$21,811,079 net position balance compared to the prior year ending net position balance of \$20,865,886.

The Enterprise, Gas Fund, which accounts for the operating and maintenance of the Utilities' gas system, ended fiscal 2013 with a \$3,810,777 net position balance compared to the prior year ending net position balance of \$3,786,419.

The Enterprise, Water Fund, which accounts for the operating and maintenance of the Utilities' water system, ended fiscal 2013 with a \$4,598,746 net position balance compared to the prior year ending net position balance of \$4,154,303.

The Enterprise, Telecommunications Fund, which accounts for the operation and maintenance of the Utilities' cable and internet system, ended fiscal 2013 with a \$2,144,845 net position balance compared to the prior year ending net position balance of \$2,019,967.

Summary of Usage Statistics

ELECTRIC UTILITY

	2013		2012	
KWH purchased and generated	66,726,094	100.00%	69,469,386	100.00%
Less: KWH unaccounted for	(4,093,017)	(6.13)%	(7,212,563)	(10.38)%
KWH BILLED	62,633,077	93.87%	62,256,823	89.62%

Following is a schedule of the number of customers and the kilowatts used by customer class for the fiscal years June 30, 2013 and 2012:

Comparison of Customer Meters & Usage by Customer Class				
	2013		2012	
Rate Categories	Customers	KWH Billed	Customers	KWH Billed
Single Phase Small	2,670	28,473,866	2,667	28,102,475
Single Phase Large	39	2,337,457	41	2,360,371
Three Phase	96	8,315,470	98	7,767,681
Commercial	1	809,856	1	539,136
Demand	27	6,396,908	28	6,490,110
Time of Use	12	13,928,428	13	14,671,592
Municipal-City of Harlan, Demand	3	526,000	3	580,840
Street Lights	8	856,426	8	775,825
Water Plant – pumping	15	988,666	15	968,793
Total Customers & Billed	2,871	62,633,077	2,874	62,256,823

GAS UTILITY

	<u>2013</u>		<u>2012</u>	
CCF purchased	3,621,950	100.00%	3,203,450	100.00%
CCF unaccounted for	(230,560)	(6.37)%	132,723	4.14%
CCF BILLED	<u>3,391,390</u>	<u>93.63%</u>	<u>3,336,173</u>	<u>104.14%</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, 2013 and 2012:

Comparison of Customer Meters & Usage by Customer Class				
	<u>2013</u>		<u>2012</u>	
Rate Categories	Customers	CCF Billed	Customers	CCF Billed
Residential	1,924	1,194,742	1,936	1,151,957
Commercial	296	388,257	299	371,798
Large Commercial	39	604,149	41	613,251
Interruptible	4	1,204,242	4	1,199,167
Total Customers and Billed	<u>2,263</u>	<u>3,391,390</u>	<u>2,280</u>	<u>3,336,173</u>

WATER UTILITY

	<u>2013</u>		<u>2012</u>	
Gallons produced	247,640,000		213,688,134	
Gallons used in production	(38,195,000)		(35,752,000)	
Gallons to account for	209,445,000	100.00%	177,936,134	100.00%
Less: Gallons unaccounted for	(25,923,894)	(12.38)%	(5,441,823)	(3.06)%
GALLONS BILLED	<u>183,521,106</u>	<u>87.62%</u>	<u>172,494,311</u>	<u>96.94%</u>

Following is a schedule of the number of customers and gallons used by customer class for the fiscal years June 30, 2013 and 2012:

Comparison of Customer Meters & Usage by Customer Class				
	<u>2013</u>		<u>2012</u>	
Rate Categories	Customers	Gallons Billed	Customers	Gallons Billed
Residential	2,096	91,963,998	2,080	90,745,580
Commercial	368	71,043,108	371	67,782,731
Interruptible	1	20,514,000	1	13,966,000
Total Customers and Billed	<u>2,465</u>	<u>183,521,106</u>	<u>2,452</u>	<u>172,494,311</u>

BUDGETARY HIGHLIGHTS

Over the course of the year, the Utility amended its budget once.

In the Water Fund, the amendment increased capital expenditures for the water plant originally not planned to be completed until June 30, 2014 budget and increased the proceeds from the IA Finance for the water plant.

In the Telecommunications Fund, the amendment increased interest expense due to the refinance of the capital improvement note and increased capital assets for the telecomm assets: head end and cable boxes.

In the Electric Fund and Gas Fund, there was an amendment for non-transfer of funds between the funds for the Operation Center payment.

The Utility's revenues were \$941,602 less than budgeted revenues, a variance of 6%. The most significant variance resulted from the Utility receiving less revenue in the Gas Fund than originally anticipated.

The Utility's operating expenses were \$566,523 less than budgeted expenses, a variance of 5%.

The Utilities' did not exceed the budgeted amounts for the year ended June 30, 2013.

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 \$28,053,321 (net of accumulated depreciation/amortization) at June 30, 2013. This is a net increase (including additions and deletions) of \$10,015,302 or 20.4% over last year. See Note 3 to the financial statements for more information about the Utility's capital assets.

Capital Assets at Year End		
	<u>June 30</u> <u>2013</u>	<u>June 30</u> <u>2012</u>
Intangible Plant	\$ 220,632	\$ 220,632
Production	12,299,017	12,124,612
Transmission & Pumping	5,818,186	5,799,805
Distribution	28,030,177	21,593,807
General	7,361,308	4,107,834
Fiber Optics	<u>5,378,018</u>	<u>5,245,346</u>
Total	59,107,338	49,092,036
Less: Accumulated Depreciation	<u>31,054,017</u>	<u>29,592,506</u>
Net Capital Assets	<u>\$ 28,053,321</u>	<u>\$ 19,499,530</u>

This year's additions by fund included:	
Electric Fund	\$ 9,540,170
Gas Fund	74,625
Water Fund	128,104
Telecommunication Fund	<u>272,403</u>
Total	<u>\$ 10,015,302</u>

The Utility had depreciation expense of \$1,461,511 in fiscal year June 30, 2013.

There were no disposals for June 30, 2013.

Long-Term Debt

At June 30, 2013, the Utility had \$18,186,560 in total debt outstanding for business type activities compared to \$14,363,367 at June 30, 2012 as shown below.

Outstanding Debt of Business Type Activities at Year-End		
	<u>June 30</u> <u>2013</u>	<u>June 30</u> <u>2012</u>
Revenue bonds	\$ 10,480,000	\$ 11,340,000
Capital loan notes	1,484,701	1,649,667
SRF Loan	<u>6,221,859</u>	<u>1,373,700</u>
Total	<u>\$ 18,186,560</u>	<u>\$ 14,363,367</u>

During the fiscal year ended June 30, 2013, 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, 2013, Harlan Municipal Utilities has submitted disbursement request forms and required documentation for costs incurred of \$6,221,859 to the Iowa Finance Authority Drinking Water State Revolving Loan Fund. As of June 30, 2013, the Utility had received the requested loan proceeds.

Total principal payments were \$1,024,967 for the year ended June 30, 2013.

ECONOMIC FACTORS BEARING ON THE UTILITY'S FUTURE

Several economic factors affected decisions made by the Utility in setting its fiscal year 2014 budget. The Utility will experience an increase in revenues and expenditures from fiscal 2013 to fiscal 2014. The Business Type Activities – Enterprise Fund is projected to end fiscal 2014 with a fund balance of approximately \$53,621,038 a 2.1% increase from fiscal 2013.

FUTURE FINANCIAL STATEMENT IMPACT

For the year ended June 30, 2013, interest income declined by 8.9% or over \$5,000. 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 6.8% 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, rate payers, customers, investors and creditors with a general overview of the Utility's 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 POSITION
PROPRIETARY FUNDS
JUNE 30, 2013 and 2012**

	Business Type Activities -		
	Electric Utility	Gas Utility	Water Utility
ASSETS			
CURRENT ASSETS			
Designated			
Plant improvements, emergency and contingency funds:			
Cash and savings	\$ 405,000	\$ 385,062	\$ 474,491
Replacement funds bond requirement:			
Cash and savings	146,276	0	0
Restricted			
Consumers' deposit fund	45,425	0	0
Revenue bond retirement-savings	1,095,777	0	80,565
Capital improvement fund-savings	507,961	0	170,000
Unrestricted			
Cash and savings	6,280,049	2,562,105	355,339
Industrial development fund	151,957	123,547	0
Accounts receivable - net of allowance for doubtful accounts of \$33,500	547,025	413,163	468,264
Unbilled usage	214,338	44,069	65,321
Employee loans receivable	0	0	0
Inventory	672,709	26,745	33,151
Prepaid expenses	46,198	34,449	35,725
Total current assets	<u>10,112,715</u>	<u>3,589,140</u>	<u>1,682,856</u>
CAPITAL ASSETS			
Utility plant			
Plant in service, at cost	43,831,348	2,700,933	8,075,958
Less accumulated depreciation	<u>22,289,697</u>	<u>1,735,948</u>	<u>4,701,376</u>
	21,541,651	964,985	3,374,582
Construction work in progress	<u>0</u>	<u>0</u>	<u>6,328,059</u>
Net capital assets	<u>21,541,651</u>	<u>964,985</u>	<u>9,702,641</u>
OTHER ASSETS			
Other accounts receivable	0	0	0
Bond discount and issuance costs	103,384	0	66,642
Restricted investments for bonds:			
Debt Reserve	<u>720,500</u>	<u>0</u>	<u>227,000</u>
Total other assets	<u>823,884</u>	<u>0</u>	<u>293,642</u>
Total assets	<u>\$ 32,478,250</u>	<u>\$ 4,554,125</u>	<u>\$ 11,679,139</u>

Enterprise Funds			
Telecommunications		Total	Total
Utility	Elimination	2013	2012
\$ 182,000	\$ 0	\$ 1,446,553	\$ 1,471,053
0	0	146,276	146,276
0	0	45,425	40,400
68,198	0	1,244,540	1,157,189
0	0	677,961	677,176
968,672	0	10,166,165	9,854,313
0	0	275,504	275,201
202,752	0	1,631,204	1,293,424
1,572	0	325,300	394,540
0	0	0	1,046
2,871	0	735,476	639,549
22,544	0	138,916	138,816
<u>1,448,609</u>	<u>0</u>	<u>16,833,320</u>	<u>16,088,983</u>
4,499,099	0	59,107,338	49,092,036
<u>2,326,996</u>	<u>0</u>	<u>31,054,017</u>	<u>29,592,506</u>
2,172,103	0	28,053,321	19,499,530
<u>0</u>	<u>0</u>	<u>6,328,059</u>	<u>10,102,261</u>
2,172,103	0	34,381,380	29,601,791
0	0	0	3,479
0	0	170,026	191,019
		0	0
164,967	0	1,112,467	1,112,467
<u>164,967</u>	<u>0</u>	<u>1,282,493</u>	<u>1,306,965</u>
\$ <u>3,785,679</u>	\$ <u>0</u>	\$ <u>52,497,193</u>	\$ <u>46,997,739</u>

See notes to financial statements.

**HARLAN MUNICIPAL UTILITIES
STATEMENTS OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013 and 2012**

	Business Type Activities -		
	Electric Utility	Gas Utility	Water Utility
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Customer credits	\$ 59,137	\$ 634,853	\$ 3,703
Accounts payable	183,162	80,295	54,889
Payroll taxes payable	0	0	0
State sales and use tax payable	934	1,564	10,222
Salaries, vacation and sick leave payable	54,913	26,636	44,283
Accrued property taxes	104,283	0	0
Bonds called not paid	0	0	0
Due City of Harlan for collections & fees	0	0	315,872
Other accrued liabilities	364	0	0
Payable from restricted assets		0	0
Current maturities of long-term debt	675,000	0	1,000
Interest Payable	89,698	0	79,565
Consumers' deposits	44,680	0	0
Total current liabilities	<u>1,212,171</u>	<u>743,348</u>	<u>509,534</u>
NONCURRENT LIABILITIES			
Long-Term Debt, net of current maturities	9,455,000	0	6,570,859
Contract Payable, net of current maturities	0	0	0
Intra-utility note payable, net of current maturities	0	0	0
Total noncurrent liabilities	<u>9,455,000</u>	<u>0</u>	<u>6,570,859</u>
NET POSITION			
Net investment in capital assets	11,411,651	964,985	3,130,782
Restricted for:			
Consumers' deposit fund	45,425	0	0
Customer credits	59,137	634,853	3,703
Revenue bond-debt reserve	720,500	0	227,000
Revenue bond retirement	1,095,777	0	80,565
Capital improvement fund	507,961	0	170,000
Unrestricted	7,970,628	2,210,939	986,696
Total net position	<u>21,811,079</u>	<u>3,810,777</u>	<u>4,598,746</u>
Total liabilities and net position	<u>\$ 32,478,250</u>	<u>\$ 4,554,125</u>	<u>\$ 11,679,139</u>

Exhibit A

Enterprise Funds			
Telecommunications		Total	Total
Utility	Elimination	2013	2012
\$ 0	\$ 0	\$ 697,693	\$ 423,367
78,030	0	396,376	650,755
0	0	0	0
8,344	0	21,064	22,322
32,340	0	158,172	218,626
0	0	104,283	102,117
0	0	0	0
25,044	0	340,916	242,972
312	0	676	717
164,967	0	840,967	824,967
12,063	0	181,326	112,161
0	0	44,680	34,760
<u>321,100</u>	<u>0</u>	<u>2,786,153</u>	<u>2,632,764</u>
1,319,734	0	17,345,593	13,538,400
0	0	0	0
0	0	0	0
<u>1,319,734</u>	<u>0</u>	<u>17,345,593</u>	<u>13,538,400</u>
687,402	0	16,194,820	15,238,424
0	0	45,425	40,400
0	0	697,693	423,367
164,967	0	1,112,467	1,112,467
68,198	0	1,244,540	1,157,189
0	0	677,961	677,176
1,224,278	0	12,392,541	12,177,552
<u>2,144,845</u>	<u>0</u>	<u>32,365,447</u>	<u>30,826,575</u>
<u>\$ 3,785,679</u>	<u>\$ 0</u>	<u>\$ 52,497,193</u>	<u>\$ 46,997,739</u>

See notes to financial statements.

HARLAN MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2013 and 2012

Exhibit B

	Business Type Activities - Enterprise Funds					Total 2013	Total 2012
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility			
OPERATING REVENUES							
Sales to consumers	\$ 6,200,119	\$ 2,660,292	\$ 1,869,085	\$ 1,835,569	\$ 12,565,065	\$ 11,929,330	
Other operating revenue	123,985	3,210	41,953	60,973	230,121	230,819	
Other sales - MISO	969,054	0	0	0	969,054	1,053,778	
Total operating revenue	<u>7,293,158</u>	<u>2,663,502</u>	<u>1,911,038</u>	<u>1,896,542</u>	<u>13,764,240</u>	<u>13,213,927</u>	
OPERATING EXPENSES							
Plant operating expenses							
Cost of gas, power, chemicals, programming, and line fees	2,462,644	1,858,731	104,374	842,590	5,268,339	4,950,737	
Cost of other sales	802,524	0	0	0	802,524	841,700	
Salaries and wages	35,719	16,203	178,747	27,028	257,697	237,740	
Repairs and maintenance	21,207	12,974	1,427	45,033	80,641	151,758	
Utilities	68,149	25,291	117,273	25,635	236,348	207,143	
Insurance	63,912	47,815	49,662	21,270	182,659	149,897	
Property taxes	106,587	0	0	0	106,587	102,117	
Other	54,846	31,986	40,637	63,886	191,355	176,653	
Total plant operating expenses	<u>3,615,588</u>	<u>1,993,000</u>	<u>492,120</u>	<u>1,025,442</u>	<u>7,126,150</u>	<u>6,817,745</u>	
Distribution operation expenses							
Salaries and wages	275,843	116,170	81,333	77,910	551,256	505,263	
Engineering	24,896	0	10,895	16,540	52,331	54,478	
Repairs and maintenance	91,433	27,234	53,703	24,593	196,963	199,978	
Other	40,509	35,031	16,894	25,636	118,070	74,932	
Total distribution operation expense	<u>432,681</u>	<u>178,435</u>	<u>162,825</u>	<u>144,679</u>	<u>918,620</u>	<u>834,651</u>	
Administration and general expenses							
Salaries and wages	95,697	104,172	100,067	86,002	385,938	382,327	
Office supplies	62,930	10,506	11,633	6,722	91,791	109,537	
Education and travel	8,016	4,414	4,956	726	18,112	28,658	
Professional	15,869	14,110	29,452	6,162	65,593	106,455	
Other	6,342	39,615	43,304	59,160	148,421	77,044	
Total administrative and general expenses	<u>188,854</u>	<u>172,817</u>	<u>189,412</u>	<u>158,772</u>	<u>709,855</u>	<u>704,021</u>	

See notes to financial statements.

HARLAN MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2013 and 2012

Exhibit B

	Business Type Activities - Enterprise Funds					Total 2013	Total 2012
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility			
OPERATING EXPENSES (Continued)							
Consumer services							
Salaries and wages	\$ 11,275	\$ 0	\$ 0	\$ 0	\$ 11,275	\$ 0	
Bad debts	6,412	(89)	414	(824)	5,913	15,876	
Other	42,264	21,004	0	1,338	64,606	52,433	
Total consumer services	59,951	20,915	414	514	81,794	68,309	
Marketing and stakeholder relations							
Salaries and wages	8,375	8,375	5,801	69,957	92,508	84,776	
Advertising	6,761	4,314	5,919	16,815	33,809	23,722	
Other	11,047	13,003	5,302	3,085	32,437	13,935	
Total marketing and stakeholder relations	26,183	25,692	17,022	89,857	158,754	122,433	
Employee benefits							
Payroll taxes	86,104	44,355	69,876	53,827	254,162	221,826	
Health insurance	169,390	60,586	123,355	73,407	426,738	425,016	
Compensated absences	99,947	32,013	62,119	34,204	228,283	196,380	
Total employee benefits	355,441	136,954	255,350	161,438	909,183	843,222	
Total operating expenses excluding amortization and depreciation	4,678,698	2,527,813	1,117,143	1,580,702	9,904,356	9,390,381	
OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION	2,614,460	135,689	793,895	315,840	3,859,884	3,823,546	
Amortization	14,777	0	6,216	0	20,993	17,967	
Depreciation	1,094,004	56,907	169,019	141,581	1,461,511	1,526,742	
	1,108,781	56,907	175,235	141,581	1,482,504	1,544,709	
OPERATING INCOME	1,505,679	78,782	618,660	174,259	2,377,380	2,278,837	

See notes to financial statements.

HARLAN MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2013 and 2012

Exhibit B

	Business Type Activities - Enterprise Funds					Total 2013	Total 2012
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility			
NON-OPERATING REVENUES (EXPENSES)							
Contributions to City-In lieu of taxes	\$ (201,215)	\$ (38,403)	\$ (35,834)	\$ (901)	\$ (276,353)	\$ (254,540)	
Gain on sale of asset	0	0	0	0	0	0	
Interest income	32,611	9,979	5,079	3,962	51,631	56,691	
Interest expense	(362,882)	0	(143,462)	(52,422)	(558,766)	(492,586)	
Industrial development contribution	(29,000)	(26,000)	0	0	(55,000)	(80,000)	
Total non-operating revenues (expenses)	<u>(560,486)</u>	<u>(54,424)</u>	<u>(174,217)</u>	<u>(49,361)</u>	<u>(838,488)</u>	<u>(770,435)</u>	
CHANGE IN NET POSITION	945,193	24,358	444,443	124,898	1,538,892	1,508,402	
TOTAL NET POSITION, BEGINNING	<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>	
TOTAL NET POSITION, ENDING	<u>\$ 21,811,079</u>	<u>\$ 3,810,777</u>	<u>\$ 4,598,746</u>	<u>\$ 2,144,865</u>	<u>\$ 32,365,467</u>	<u>\$ 30,826,575</u>	

See notes to financial statements.

**HARLAN MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2013 and 2012**

Exhibit C

	Business Type Activities - Enterprise Funds					Total 2013	Total 2012
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility			
Cash flows from operating activities:							
Cash received from customers and users	\$ 6,261,030	\$ 2,797,328	\$ 1,749,503	\$ 1,831,165	\$ 12,639,026	\$ 12,639,026	\$ 10,597,241
Cash received from other revenues	1,093,039	3,210	41,953	60,973	1,199,175	1,199,175	1,284,597
Cash paid to suppliers	(3,669,342)	(1,944,145)	(254,485)	(943,359)	(6,811,331)	(6,811,331)	(5,163,914)
Cash paid for personal services	(732,253)	(335,009)	(582,571)	(347,014)	(1,996,847)	(1,996,847)	(1,613,317)
Cash paid to employees	(504,011)	(258,954)	(408,662)	(294,875)	(1,466,502)	(1,466,502)	(1,449,635)
Net cash provided by operating activities	<u>2,448,463</u>	<u>262,430</u>	<u>545,738</u>	<u>306,890</u>	<u>3,563,521</u>	<u>3,563,521</u>	<u>3,654,972</u>
Cash flows from noncapital financing activities:							
Contributions to City-In lieu of taxes	(201,215)	(38,403)	(35,834)	(901)	(276,353)	(276,353)	(254,540)
Net cash provided (used) by noncapital financing activities	<u>(201,215)</u>	<u>(38,403)</u>	<u>(35,834)</u>	<u>(901)</u>	<u>(276,353)</u>	<u>(276,353)</u>	<u>(254,540)</u>
Cash flows from capital and related financing activities:							
Loan proceeds	0	0	4,848,159	0	4,848,159	4,848,159	2,702,462
Bond issuance costs (paid)	0	0	0	0	0	0	(70,350)
Acquisition of capital assets	(1,049,810)	(74,625)	(4,844,262)	(272,403)	(6,241,100)	(6,241,100)	(5,702,690)
Repayments of intra-utility notes	0	0	0	0	0	0	(47,477)
Principal (payments) on long-term borrowings	(660,000)	0	(200,000)	(164,966)	(1,024,966)	(1,024,966)	(2,617,433)
Interest paid on notes	(366,971)	0	(68,718)	(53,912)	(489,601)	(489,601)	(498,563)
Net cash provided (used) by capital and related financing activities	<u>(2,076,781)</u>	<u>(74,625)</u>	<u>(264,821)</u>	<u>(491,281)</u>	<u>(2,907,508)</u>	<u>(2,907,508)</u>	<u>(6,234,051)</u>
Cash flows from investing activities:							
Principal received (loaned) on Fairground Note	3,479	0	0	0	3,479	3,479	5,965
Interest on investments	32,611	9,979	5,079	3,962	51,631	51,631	56,691
Industrial development contribution	(29,000)	(26,000)	0	0	(55,000)	(55,000)	(80,000)
Principal received on employee loans	1,046	0	0	0	1,046	1,046	3,420
Principal received on intra-utility notes	0	0	0	0	0	0	47,477
Net cash provided (used) by investing activities	<u>8,136</u>	<u>(16,021)</u>	<u>5,079</u>	<u>3,962</u>	<u>1,156</u>	<u>1,156</u>	<u>33,553</u>
Net increase (decrease) in cash and cash equivalents	178,603	133,381	250,162	(181,330)	380,816	380,816	(2,800,066)
Cash and cash equivalents beginning 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>14,734,075</u>	<u>17,534,141</u>
Cash and cash equivalents end of year	<u>\$ 9,352,945</u>	<u>\$ 3,070,714</u>	<u>\$ 1,307,395</u>	<u>\$ 1,383,837</u>	<u>\$ 15,114,891</u>	<u>\$ 15,114,891</u>	<u>\$ 14,734,075</u>

See notes to financial statements.

**HARLAN MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2013 and 2012**

Exhibit C
(Continued)

	Business Type Activities - Enterprise Funds					Total 2013	Total 2012
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility			
Reconciliation of operating income to net cash provided by operating activities:							
Operating income	\$ 1,505,679	\$ 78,782	\$ 618,660	\$ 174,259	\$ 2,377,380	\$ 2,278,837	
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation expense	1,094,004	56,907	169,019	141,581	1,461,511	1,526,742	
Amortization expense	14,777	0	6,216	0	20,993	17,967	
(Increase) decrease in customer accounts receivable and unbilled usage and other accounts receivable	31,491	(170,966)	(123,037)	(6,028)	(268,540)	(436,216)	
(Increase) decrease in inventories	(97,471)	(4,909)	6,596	(143)	(95,927)	(183,362)	
(Increase) decrease in prepaid expenses	1,362	1,503	1,559	(4,524)	(100)	(28,731)	
(Increase) decrease in customer credits	(37,673)	308,562	3,437	0	274,326	423,367	
Increase (decrease) in accounts payable	(51,071)	11,178	(214,897)	411	(254,379)	4,823	
Increase (decrease) in payroll taxes payable	0	0	0	0	0	0	
Increase (decrease) in sales & use tax payable	(1,841)	(649)	432	800	(1,258)	603	
Increase (decrease) in salaries payable	(22,845)	(17,978)	(19,406)	(225)	(60,454)	43,149	
Increase (decrease) in property taxes payable	2,166	0	0	0	2,166	(30,957)	
Increase (decrease) in other payables	9,885	0	97,159	759	107,803	38,750	
Net cash provided by operating activities	<u>2,448,463</u>	<u>262,430</u>	<u>545,738</u>	<u>306,890</u>	<u>3,563,521</u>	<u>3,654,972</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	\$ 6,432,006	\$ 2,685,652	\$ 355,339	\$ 968,672	\$ 10,441,669	\$ 10,129,514	
Restricted assets:							
Cash and pooled investments:							
Revenue bond retirement	1,242,053	0	80,565	68,198	1,390,816	1,303,465	
Revenue bond debt reserve	720,500	0	227,000	164,967	1,112,467	1,112,467	
Capital improvements	507,961	0	170,000	0	677,961	677,176	
Designated contingency fund	405,000	385,062	474,491	182,000	1,446,553	1,471,053	
Consumers' deposit fund	45,425	0	0	0	45,425	40,400	
Cash and cash equivalents end of year	<u>\$ 9,352,945</u>	<u>\$ 3,070,714</u>	<u>\$ 1,307,395</u>	<u>\$ 1,383,837</u>	<u>\$ 15,114,891</u>	<u>\$ 14,734,075</u>	

See notes to financial statements.

Notes to Financial Statements

HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(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 Utility has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility 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 Utility.

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 Position presents the Utility's' assets and liabilities, with the difference reported as net position. Net position is reported in the following categories.

Net investment in capital assets 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 position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often have constraints on resources imposed by management which can be removed or modified.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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 fund financial statements. The operations of each fund are accounted for by a separate set of self-balancing accounts which comprise its assets, liabilities, net position, 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.

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.

HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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 \$33,500 at June 30, 2013.

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 are valued at average cost. Inventories in the Enterprise Funds consist of materials, supplies, fuel and coal. 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 customer deposits restricted for application to unpaid customer accounts or for refund to customers and deposits set aside for capital improvements.

Capital Assets – Capital assets include property, plant, and equipment, stated at original cost. 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.

HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

D. Assets, Liabilities and Fund Equity (continued)

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, 2013 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, 2013 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, 2013 at current pay rates.

Long-Term Liabilities – In the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the proprietary fund Statement of Net Position. 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, 2013, 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, 2013**

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, 2013 and June 30, 2012 were \$426,738 and \$425,016.

G. Advertising

Advertising costs are expenses as incurred. Advertising expense were \$98,415 and \$76,155 for the years ended June 30, 2013 and June 30, 2012. 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, 2013 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, 2013**

(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, 2013 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Intangible Plant	\$ 220,632	\$ 0	\$ 0	\$ 220,632
Production	12,124,612	174,405	0	12,299,017
Transmission & Pumping	5,799,805	18,381	0	5,818,186
Distribution	21,593,807	6,436,370	0	28,030,177
General	4,107,834	3,253,474	0	7,361,308
Fiber Optics	<u>5,245,346</u>	<u>132,672</u>	<u>0</u>	<u>5,378,018</u>
Total property, plant & equipment	49,092,036	10,015,302	0	59,107,338
Less: accumulated depreciation	<u>29,592,506</u>	<u>1,461,511</u>	<u>0</u>	<u>31,054,017</u>
Net property, plant & equipment	<u>\$ 19,499,530</u>	<u>\$ 8,553,791</u>	<u>\$ 0</u>	<u>\$ 28,053,321</u>

Depreciation expense charged to operations as follows:

Business type activities:

Electric	\$ 1,094,004
Gas	56,907
Water	169,019
Telecommunications	<u>141,581</u>
Total depreciation expense – business type activities	<u>\$ 1,461,511</u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

(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, 2013, the Utility was in compliance with the revenue note provisions.

Details of revenue bonds notes and contracts payable at June 30, 2013 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, 2013</u>
<u>Electric Fund:</u>						
Electric Revenue Bond, Series 2006	12/5/2006	3.70-4.05%	10/1/2017	\$ 143,548	\$ 1,280,000	650,000
Electric Revenue Bond, Series 2010A	6/1/2010	3.0%-4.25%	10/1/2024	\$ 406,055	\$ 8,285,000	8,085,000
Electric Revenue Bond, Series 2010B	6/1/2010	2.0%-2.5%	10/1/2015	\$ 475,776	\$ 2,260,000	1,395,000
Total Electric Bonds & Contracts						<u>\$ 10,130,000</u>
 <u>Water Fund:</u>						
Water Revenue Bond, Series 1999	7/1/1999	4.85-5.00%	7/1/2014	\$ 152,250	\$ 1,600,000	\$ 145,000
Water Revenue Bond, Series 2004	4/15/2004	1.40-4.10%	7/1/2016	\$ 69,003	\$ 670,000	205,000
Water State Revolving Fund	5/16/2012	3%	7/1/2032	\$ 185,712	\$ 7,035,000	6,221,859
Total Water Bonds						<u>\$ 6,571,859</u>
 <u>Telecommunications Fund:</u>						
Communications Utility Revenue						
Capital Loan Notes, Series 2012	3/29/2012	3.25%	4/1/2022	\$ 213,219	\$ 1,649,667	\$ 1,484,701
Total Telecommunications Fund						<u>\$ 1,484,701</u>

HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(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
2014	\$ 675,000	\$ 350,379	\$ 1,000	\$ 192,340	\$ 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	164,967	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	<u>\$ 10,130,000</u>	<u>\$ 2,540,719</u>	<u>\$ 7,385,000</u>	<u>\$ 2,513,548</u>	<u>\$ 1,484,701</u>	<u>\$ 241,264</u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

(5) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2013 is as follows:

	Electric Revenue Bonds & Contracts	Water Revenue Bonds	Telecommunications Capital Loan Notes	Total
Balance, beginning 7-1-12	\$ 10,790,000	\$ 1,923,700	\$ 1,649,667	\$ 14,363,367
Issued	0	4,848,159	0	4,848,159
Paid	<u>(660,000)</u>	<u>(200,000)</u>	<u>(164,966)</u>	<u>(1,024,966)</u>
Balance, ending 6-30-13	10,130,000	6,571,859	1,484,701	18,186,560
Less: Current Portion	<u>(675,000)</u>	<u>(1,000)</u>	<u>(164,967)</u>	<u>(840,967)</u>
Long-Term Debt, net of Current Portion	<u>\$ 9,455,000</u>	<u>\$ 6,570,859</u>	<u>\$ 1,319,734</u>	<u>\$ 17,345,593</u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

(6) 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, 2013 is as follows:

	Employee Computer <u>Note Receivable</u>	Fair Ground <u>Note Receivable</u>
Beginning Balance 7-1-12	\$ 1,046	\$ 3,479
Loaned Out	0	0
Payments Received/Forgiven	(1,046)	(3,479)
Ending Balance 6-30-13	<u>\$ 0</u>	<u>\$ 0</u>

(7) Jointly Owned Electric Utility Plant

The Utility owns a share in a power plant located in Louisa and Muscatine Counties in 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>\$ 7,870,282</u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

(8) 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 5.78% of their annual covered salary and the Utility is required to contribute 8.67% of covered salary. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$140,209, \$124,728 and \$106,019, respectively, equal to the required contributions for each year.

(9) 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, 2013, payments totaling \$6,328,059 have been paid toward the project.

(10) Risk Management

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

(11) Pledged Contributions

In December 2006, the Utility Board approved funding in the amount of \$125,000 to Iowa Western Community College for a college park project. This pledge is to be spread over 5 years. The first payment was made in January 2008, the second payment was made in January 2009 and the third payment was made December, 2009. The fourth payment was made January, 2011. The 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 fifth and final payment of \$30,000 was paid March, 2013.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

(12) Related Party Transactions

The Utility provides utility services to the City of Harlan. The Utility contributes an amount equal to the utilities back to the City for payment in lieu of taxes. The amounts paid to the City for the years ended June 30, 2013 and June 30, 2012 were \$276,352 and \$254,539.

The Utility had business transactions between the Utility and Utility officials totaling \$1,127 and \$1,415 during the years ended June 30, 2013 and June 30, 2012.

(13) Subsequent Events

Management has evaluated subsequent events through September 13, 2013, the date on which the financial statements were available to be issued.

(14) 28E Agreement

The Board of Trustees approved on August 18, 2009 to enter into an agreement under Iowa Code Chapter 28E to join together with other entities in the Iowa Governmental HealthCare Plan. The purpose of this agreement is to provide for the establishment, continued planning, support and operation of a fully insured health and welfare and related benefits program for their respective employees. This Agreement was renewed April 29, 2013.

Required Supplementary Information

**HARLAN MUNICIPAL UTILITIES
 BUDGETARY COMPARISON SCHEDULE OF
 REVENUES, EXPENSES, AND CHANGE IN FUND NET POSITION -
 ACCRUAL BUDGET VS ACTUAL (ACCRUAL BASIS)
 PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2013**

	Accrual Basis		
	Total Proprietary Funds-Actual	Final Budgeted Amounts	Variance Favorable (Unfavorable)
Operating Revenues			
Sales to consumers	\$ 12,565,065	\$ 13,594,560	\$ (1,029,495)
Other operating revenue	230,121	261,282	(31,161)
Excess sales	969,054	850,000	119,054
Total operating revenue	<u>13,764,240</u>	<u>14,705,842</u>	<u>(941,602)</u>
Operating Expenses			
Plant operation expenses	7,126,150	7,707,330	581,180
Distribution operation	918,620	867,925	(50,695)
Administrative and general	709,855	674,714	(35,141)
Consumer services	81,794	31,750	(50,044)
Marketing and relations	158,754	221,265	62,511
Employee benefits	909,183	967,895	58,712
Amortization and depreciation	1,482,504	1,890,500	407,996
Total operating expenses	<u>11,386,860</u>	<u>12,361,379</u>	<u>974,519</u>
Operating Income	2,377,380	2,344,463	32,917
Other revenues (expenses), net	<u>(838,488)</u>	<u>(872,556)</u>	<u>34,068</u>
Change in net position	1,538,892	\$ <u><u>1,471,907</u></u>	\$ <u><u>66,985</u></u>
Total net position, beginning	<u>30,826,575</u>		
Total net position, ending	\$ <u><u>32,365,467</u></u>		

See accompanying independent auditors' report.

HARLAN MUNICIPAL UTILITIES
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND NET BALANCES -
ACCRUAL BUDGET VS ACTUAL (CASH BASIS)
PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2013

	Cash Basis		
	Total Proprietary Funds-Actual	Final Budgeted Amounts	Final to Actual Variance Favorable (Unfavorable)
Receipts:			
Charges for services	\$ 13,608,080	\$ 14,444,560	\$ (836,480)
Miscellaneous	230,121	261,282	(31,161)
Total receipts	<u>13,838,201</u>	<u>14,705,842</u>	<u>(867,641)</u>
Disbursements:			
Business type activities	<u>10,274,680</u>	<u>10,470,879</u>	<u>196,199</u>
Excess of receipts over disbursements	3,563,521	4,234,963	(671,442)
Other financing sources (uses):			
Loan proceeds	4,848,159	5,600,000	(751,841)
Acquisition of capital assets	(6,241,100)	(6,599,950)	358,850
Interest received on investments	51,631	110,000	(58,369)
Principal/Interest payments on long term borrowings	(1,514,567)	(1,611,773)	97,206
Other sources (uses), net	<u>(326,828)</u>	<u>(395,750)</u>	<u>68,922</u>
Total other financing sources (uses)	<u>(3,182,705)</u>	<u>(2,897,473)</u>	<u>(285,232)</u>
Excess of receipts over disbursements over (under) Other financing sources (uses)	380,816	1,337,490	<u>\$ (956,674)</u>
Balances, beginning of year	<u>14,734,075</u>	<u>16,955,275</u>	
Balances, end of year	<u>\$ 15,114,891</u>	<u>\$ 18,292,765</u>	

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2013**

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, 2013, 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, 2013**

<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 Loan No. D0238R	\$ <u>1,684,971</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 POSITION
JUNE 30, 2013 and 2012**

Schedule 1

	2013	2012
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	45,425	40,400
Revenue bond retirement-savings	1,095,777	1,088,991
Capital improvement fund-savings	507,961	507,176
Unrestricted		
Cash and savings	6,280,049	6,114,209
Industrial development fund	151,957	151,790
Accounts receivable - net of allowance for doubtful accounts of \$9,500 for 2013 and \$10,000 for 2012	547,025	524,932
Unbilled usage	214,338	267,922
Employee loans receivable	0	1,046
Inventory	672,709	575,238
Prepaid expenses	46,198	47,560
Total current assets	10,112,715	9,870,540
CAPITAL ASSETS		
Utility plant		
Plant in service, at cost	43,831,348	34,291,178
Less accumulated depreciation	22,289,697	21,195,693
	21,541,651	13,095,485
Construction work in progress	0	8,490,360
Net capital assets	21,541,651	21,585,845
OTHER ASSETS		
Other account receivable	0	3,479
Bond discount and issuance costs	103,384	118,161
Restricted investments for bonds:		
Debt Reserve	720,500	720,500
Total other assets	823,884	842,140
Total assets	\$ 32,478,250	\$ 32,298,525

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
COMPARATIVE STATEMENTS OF NET POSITION
JUNE 30, 2013 and 2012**

**Schedule 1
(Continued)**

	2013	2012
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Customer credits	\$ 59,137	\$ 96,810
Accounts payable	183,162	234,233
Payroll taxes payable	0	0
State sales and use tax payable	934	2,775
Salaries, vacation and sick leave payable	54,913	77,758
Accrued property taxes	104,283	102,117
Bonds called not paid	0	0
Other accrued liabilities	364	399
Payable from restricted assets		
Current maturities of long-term debt	675,000	660,000
Interest Payable	89,698	93,787
Consumers' deposits	44,680	34,760
Total current liabilities	1,212,171	1,302,639
Long-Term Debt, net of current maturities	9,455,000	10,130,000
Contract Payable, net of current maturities	0	0
Total noncurrent liabilities	9,455,000	10,130,000
NET POSITION		
Net investment in capital assets	11,411,651	10,795,845
Restricted	2,428,800	2,453,877
Unrestricted	7,970,628	7,616,164
Total net position	21,811,079	20,865,886
 Total liabilities and net position	\$ 32,478,250	\$ 32,298,525

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY**

Schedule 2

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED JUNE 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>Budget</u>	<u>Budget</u>
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>Budget</u>	<u>Variance</u>
					<u>Favorable</u>
					<u>(Unfavorable)</u>
OPERATING REVENUES					
Sales to consumers	\$ 6,200,119	\$ 6,149,979	\$ 6,230,400	\$	(30,281)
Other operating revenue	123,985	133,885	155,532		(31,547)
Other sales - MISO	969,054	1,053,778	850,000		119,054
Total operating revenue	<u>7,293,158</u>	<u>7,337,642</u>	<u>7,235,932</u>		<u>57,226</u>
OPERATING EXPENSES					
Plant operating expenses					
Cost of other sales	802,524	841,700	2,567,500		1,764,976
Cost of power	2,462,644	2,330,353	700,000		(1,762,644)
Salaries and wages	35,719	26,640	50,283		14,564
Repairs and maintenance	21,207	5,472	14,000		(7,207)
Utilities	68,149	63,815	64,600		(3,549)
Insurance	63,912	47,004	54,000		(9,912)
Property taxes	106,587	102,117	122,000		15,413
Other	54,846	56,670	52,643		(2,203)
Total plant operating expenses	<u>3,615,588</u>	<u>3,473,771</u>	<u>3,625,026</u>		<u>9,438</u>
Distribution operation expenses					
Salaries and wages	275,843	284,089	235,460		(40,383)
Engineering	24,896	5,732	6,500		(18,396)
Repairs and maintenance	91,433	122,710	139,600		48,167
Other	40,509	14,698	14,250		(26,259)
Total distribution operation expense	<u>432,681</u>	<u>427,229</u>	<u>395,810</u>		<u>(36,871)</u>
Administration and general expenses					
Salaries and wages	95,697	91,466	88,000		(7,697)
Office supplies	62,930	51,945	57,300		(5,630)
Education and travel	8,016	17,982	4,500		(3,516)
Professional	15,869	15,694	22,500		6,631
Other	6,342	6,164	3,550		(2,792)
Total administrative and general expenses	<u>188,854</u>	<u>183,251</u>	<u>175,850</u>		<u>(13,004)</u>
Consumer services					
Salaries and wages	11,275	0	0		(11,275)
Bad debts (collected)	6,412	2,123	12,000		5,588
Other	42,264	27,359	0		(42,264)
Total consumer services	<u>59,951</u>	<u>29,482</u>	<u>12,000</u>		<u>(47,951)</u>
Marketing and stakeholder relations					
Salaries and wages	8,375	11,667	8,575		200
Advertising	6,761	4,447	41,700		34,939
Other	11,047	4,097	8,951		(2,096)
Total marketing and stakeholder relations	<u>26,183</u>	<u>20,211</u>	<u>59,226</u>		<u>33,043</u>

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY**

**Schedule 2
(Continued)**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED JUNE 30, 2013 and 2012**

	2013 Actual	2012 Actual	2013 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Employee benefits				
Payroll taxes	\$ 86,104	\$ 77,452	\$ 84,571	\$ (1,533)
Health insurance	169,390	172,713	188,000	18,610
Compensated absences	99,947	89,072	96,485	(3,462)
Total employee benefits	355,441	339,237	369,056	13,615
Total operating expenses excluding amortization and depreciation	4,678,698	4,473,181	4,636,968	(41,730)
OPERATING INCOME (LOSS) BEFORE AMORTIZATION AND DEPRECIATION				
	2,614,460	2,864,461	2,598,964	15,496
Amortization	14,777	15,265	15,500	723
Depreciation	1,094,004	1,094,502	1,275,000	180,996
	1,108,781	1,109,767	1,290,500	181,719
OPERATING INCOME (LOSS)				
	1,505,679	1,754,694	1,308,464	197,215
NON-OPERATING REVENUES (EXPENSES)				
Capital Grants	0	0	0	0
Contributions to City-In lieu of taxes	(201,215)	(197,515)	(225,000)	23,785
Gain (Loss) on sale of assets	0	0	0	0
Interest income	32,611	34,222	45,000	(12,389)
Interest expense	(362,882)	(379,058)	(363,500)	618
Industrial development contribution	(29,000)	(41,500)	(50,000)	21,000
Total non-operating revenues (expenses)	(560,486)	(583,851)	(593,500)	33,014
CHANGE IN NET POSITION				
	945,193	1,170,843	\$ 714,964	\$ 230,229
TOTAL NET POSITION, BEGINNING				
	20,865,886	19,695,043		
TOTAL NET POSITION, ENDING				
	\$ 21,811,079	\$ 20,865,886		

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL GAS UTILITY
COMPARATIVE STATEMENTS OF NET POSITION
JUNE 30, 2013 and 2012**

Schedule 3

	2013	2012
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 385,062	\$ 363,062
Unrestricted		
Cash and savings	2,562,105	2,450,860
Industrial development fund	123,547	123,411
Accounts receivable - net of allowance for doubtful accounts of \$9,000 for 2013 and \$9,500 for 2012	413,163	237,494
Unbilled usage	44,069	48,772
Inventory	26,745	21,836
Prepaid expenses	34,449	35,952
Total current assets	3,589,140	3,281,387
CAPITAL ASSETS		
Utility plant		
Plant in service, at cost	2,700,933	2,626,308
Less accumulated depreciation	1,735,948	1,679,041
Net capital assets	964,985	947,267
 Total assets	\$ 4,554,125	\$ 4,228,654
 LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Customer credits	\$ 634,853	\$ 326,291
Accounts payable	80,295	69,117
State sales and use tax payable	1,564	2,213
Salaries, vacation and sick leave payable	26,636	44,614
Total current liabilities	743,348	442,235
Contract Payable	0	0
NET POSITION		
Net investment in capital assets	964,985	947,267
Restricted	634,853	326,291
Unrestricted	2,210,939	2,512,861
Total net position	3,810,777	3,786,419
 Total liabilities and net position	\$ 4,554,125	\$ 4,228,654

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL GAS UTILITY**

Schedule 4

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED JUNE 30, 2013 and 2012**

	<u>2013</u> <u>Actual</u>	<u>2012</u> <u>Actual</u>	<u>2013</u> <u>Budget</u>	<u>Budget</u> <u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
OPERATING REVENUES				
Sales to consumers	\$ 2,660,292	\$ 2,438,716	\$ 3,730,000	\$ (1,069,708)
Other operating revenue	<u>3,210</u>	<u>4,667</u>	<u>8,650</u>	<u>(5,440)</u>
Total operating revenue	2,663,502	2,443,383	3,738,650	(1,075,148)
OPERATING EXPENSES				
Plant operating expenses				
Cost of power	1,858,731	1,692,792	2,445,000	586,269
Salaries and wages	16,203	23,889	14,371	(1,832)
Repairs and maintenance	12,974	42,702	17,300	4,326
Utilities	25,291	18,127	20,500	(4,791)
Insurance	47,815	40,325	36,000	(11,815)
Other	<u>31,986</u>	<u>25,025</u>	<u>32,870</u>	<u>884</u>
Total plant operating expenses	1,993,000	1,842,860	2,566,041	573,041
Distribution operation expenses				
Salaries and wages	116,170	111,839	127,676	11,506
Engineering	0	4,650	5,600	5,600
Repairs and maintenance	27,234	28,124	42,500	15,266
Other	<u>35,031</u>	<u>10,032</u>	<u>27,460</u>	<u>(7,571)</u>
Total distribution operation expense	178,435	154,645	203,236	24,801
Administration and general expenses				
Salaries and wages	104,172	101,226	98,100	(6,072)
Office supplies	10,506	8,113	9,700	(806)
Education and travel	4,414	7,272	7,500	3,086
Professional	14,110	40,683	45,700	31,590
Other	<u>39,615</u>	<u>7,949</u>	<u>9,900</u>	<u>(29,715)</u>
Total administrative and general expenses	172,817	165,243	170,900	(1,917)
Consumer services				
Bad debts (collected)	(89)	7,161	10,500	10,589
Other	<u>21,004</u>	<u>24,875</u>	<u>0</u>	<u>(21,004)</u>
Total consumer services	20,915	32,036	10,500	(10,415)
Marketing and stakeholder relations				
Salaries and wages	8,375	11,667	10,006	1,631
Advertising	4,314	3,670	33,700	29,386
Other	<u>13,003</u>	<u>3,782</u>	<u>7,223</u>	<u>(5,780)</u>
Total marketing and stakeholder relations	25,692	19,119	50,929	25,237

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL GAS UTILITY**

**Schedule 4
(Continued)**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED JUNE 30, 2013 and 2012**

	2013 Actual	2012 Actual	2013 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Employee benefits				
Payroll taxes	\$ 44,355	\$ 42,815	\$ 47,071	\$ 2,716
Health insurance	60,586	60,567	74,000	13,414
Compensated absences	32,013	37,506	36,106	4,093
Total employee benefits	136,954	140,888	157,177	20,223
Total operating expenses excluding amortization and depreciation	2,527,813	2,354,791	3,158,783	630,970
OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION				
	135,689	88,592	579,867	(444,178)
Depreciation	56,907	53,859	90,000	33,093
	56,907	53,859	90,000	33,093
OPERATING INCOME (LOSS)	78,782	34,733	489,867	(411,085)
NON-OPERATING REVENUES (EXPENSES)				
Capital Grants	0	0	0	0
Contributions to City-In lieu of taxes	(38,403)	(31,084)	(45,000)	6,597
Gain (Loss) on sale of assets	0	0	0	0
Interest income	9,979	11,759	15,000	(5,021)
Industrial development contribution	(26,000)	(38,500)	(50,000)	24,000
Total non-operating revenues (expenses)	(54,424)	(57,825)	(80,000)	25,576
CHANGE IN NET POSITION	24,358	(23,092)	\$ 409,867	\$ (385,509)
TOTAL NET POSITION, BEGINNING	3,786,419	3,809,511		
TOTAL NET POSITION, ENDING	\$ 3,810,777	\$ 3,786,419		

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY
COMPARATIVE STATEMENTS OF NET POSITION
JUNE 30, 2013 and 2012**

Schedule 5

	2013	2012
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 474,491	\$ 531,991
Restricted		
Revenue bond retirement-savings	80,565	0
Capital improvement fund-savings	170,000	170,000
Unrestricted		
Cash and savings	355,339	128,242
Accounts receivable - net of allowance for doubtful accounts of \$4,500 for 2013 and \$4,500 for 2012	468,264	334,688
Unbilled usage	65,321	75,860
Inventory	33,151	39,747
Prepaid expenses	35,725	37,284
Total current assets	1,682,856	1,317,812
CAPITAL ASSETS		
Utility plant		
Plant in service, at cost	8,075,958	7,947,854
Less accumulated depreciation	4,701,376	4,532,357
	3,374,582	3,415,497
Construction work in progress	6,328,059	1,611,901
Net capital assets	9,702,641	5,027,398
OTHER ASSETS		
Bond discount and issuance costs	66,642	72,858
Restricted investments for bonds:		
Debt reserve and sinking	227,000	227,000
Total other assets	293,642	299,858
 Total assets	\$ 11,679,139	\$ 6,645,068

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY
COMPARATIVE STATEMENTS OF NET POSITION
JUNE 30, 2013 and 2012**

**Schedule 5
(Continued)**

	2013	2012
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Customer credits	\$ 3,703	\$ 266
Accounts payable	54,889	269,786
State sales and use tax payable	10,222	9,790
Salaries, vacation and sick leave payable	44,283	63,689
Due City of Harlan for collections & fees	315,872	218,713
Payable from restricted assets		
Current maturities of long-term debt	1,000	0
Interest Payable	79,565	4,821
Total current liabilities	509,534	567,065
Long-Term Debt, net of current maturities	6,570,859	1,923,700
NET POSITION		
Net investment in capital assets	3,130,782	3,103,698
Restricted	481,268	397,266
Unrestricted	986,696	653,339
Total net position	4,598,746	4,154,303
Total liabilities and net position	\$ 11,679,139	\$ 6,645,068

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY**

Schedule 6

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED JUNE 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>Budget</u>	<u>Budget</u> <u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>Budget</u>	
OPERATING REVENUES					
Sales to consumers	\$ 1,869,085	\$ 1,447,480	\$ 1,810,400	\$	58,685
Other operating revenue	41,953	26,598	26,400		15,553
Total operating revenue	<u>1,911,038</u>	<u>1,474,078</u>	<u>1,836,800</u>		<u>74,238</u>
OPERATING EXPENSES					
Plant operating expenses					
Cost of chemicals	104,374	110,203	96,500		(7,874)
Salaries and wages	178,747	169,158	194,244		15,497
Repairs and maintenance	1,427	70,529	85,969		84,542
Utilities	117,273	102,755	100,000		(17,273)
Insurance	49,662	44,869	37,100		(12,562)
Other	40,637	45,596	69,650		29,013
Total plant operating expenses	<u>492,120</u>	<u>543,110</u>	<u>583,463</u>		<u>91,343</u>
Distribution operation expenses					
Salaries and wages	81,333	33,588	33,337		(47,996)
Engineering	10,895	14,441	15,000		4,105
Repairs and maintenance	53,703	36,652	33,000		(20,703)
Other	16,894	3,147	6,610		(10,284)
Total distribution operation expense	<u>162,825</u>	<u>87,828</u>	<u>87,947</u>		<u>(74,878)</u>
Administration and general expenses					
Salaries and wages	100,067	111,890	100,759		692
Office supplies	11,633	16,147	19,400		7,767
Education and travel	4,956	1,525	1,500		(3,456)
Professional	29,452	31,912	13,200		(16,252)
Other	43,304	33,214	35,350		(7,954)
Total administrative and general expenses	<u>189,412</u>	<u>194,688</u>	<u>170,209</u>		<u>(19,203)</u>
Consumer services					
Bad debts (collected)	414	6,829	5,300		4,886
Total consumer services	<u>414</u>	<u>6,829</u>	<u>5,300</u>		<u>4,886</u>
Marketing and stakeholder relations					
Salaries and wages	5,801	11,554	6,000		199
Advertising	5,919	6,026	5,700		(219)
Other	5,302	3,577	7,825		2,523
Total marketing and stakeholder relations	<u>17,022</u>	<u>21,157</u>	<u>19,525</u>		<u>2,503</u>

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY**

**Schedule 6
(Continued)**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED JUNE 30, 2013 and 2012**

	2013 Actual	2012 Actual	2013 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Employee benefits				
Payroll taxes	\$ 69,876	\$ 62,438	\$ 76,138	\$ 6,262
Health insurance	123,355	119,687	142,000	18,645
Compensated absences	62,119	42,552	62,633	514
Total employee benefits	255,350	224,677	280,771	25,421
Total operating expenses excluding amortization and depreciation	1,117,143	1,078,289	1,147,215	30,072
OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION				
	793,895	395,789	689,585	104,310
Amortization	6,216	2,702	10,000	3,784
Depreciation	169,019	166,720	285,000	115,981
	175,235	169,422	295,000	119,765
OPERATING INCOME	618,660	226,367	394,585	224,075
NON-OPERATING REVENUES (EXPENSES)				
Capital Grants	0	0	0	0
Contributions to City-In lieu of taxes	(35,834)	(25,058)	(25,000)	(10,834)
Gain (Loss) on sale of assets	0	0	0	0
Interest income	5,079	5,606	40,000	(34,921)
Interest expense	(143,462)	(37,741)	(173,306)	29,844
Total non-operating revenues (expenses)	(174,217)	(57,193)	(158,306)	(15,911)
CHANGE IN NET POSITION	444,443	169,174	\$ 236,279	\$ 208,164
TOTAL NET POSITION, BEGINNING	4,154,303	3,985,129		
TOTAL NET POSITION, ENDING	\$ 4,598,746	\$ 4,154,303		

See accompanying independent auditors' report.

HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY
COMPARATIVE STATEMENTS OF NET POSITION
JUNE 30, 2013 and 2012

Schedule 7

	2013	2012
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 182,000	\$ 171,000
Restricted		
Revenue bond retirement-savings	68,198	68,198
Capital improvement fund-savings	0	0
Unrestricted		
Cash and savings	968,672	1,161,002
Accounts receivable - net of allowance for doubtful accounts of \$10,500 for 2013 and \$11,000 for 2012	202,752	196,310
Unbilled Usage	1,572	1,986
Inventory	2,871	2,728
Prepaid expenses	22,544	18,020
Total current assets	1,448,609	1,619,244
CAPITAL ASSETS		
Utility plant		
Plant in service, at cost	4,499,099	4,226,696
Less accumulated depreciation	2,326,996	2,185,415
	2,172,103	2,041,281
Construction work in progress	0	0
Net capital assets	2,172,103	2,041,281
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	164,967
Total other assets	164,967	164,967
Total assets	\$ 3,785,679	\$ 3,825,492

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY
COMPARATIVE STATEMENTS OF NET POSITION
JUNE 30, 2013 and 2012**

**Schedule 7
(Continued)**

	2013	2012
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 78,030	\$ 77,619
Payroll taxes payable	0	0
State sales and use tax payable	8,344	7,544
Salaries, vacation and sick leave payable	32,340	32,565
Due City of Harlan for collections & fees	25,044	24,259
Other accrued liabilities	312	318
Payable from restricted assets		
Current maturities of long-term debt	164,967	164,967
Interest Payable	12,063	13,553
Total current liabilities	321,100	320,825
NONCURRENT LIABILITIES		
Long-Term Debt, net of current maturities	1,319,734	1,484,700
Deferred Revenue - CABS	0	0
Intra-utility note payable, net of current maturities	0	0
Total noncurrent liabilities	1,319,734	1,484,700
NET POSITION		
Net investment in capital assets	687,402	391,614
Restricted	233,165	233,165
Unrestricted	1,224,278	1,395,188
Total net position	2,144,845	2,019,967
 Total liabilities and net position	\$ 3,785,679	\$ 3,825,492

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY**

Schedule 8

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED JUNE 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>	<u>2013</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	\$ 1,835,569	\$ 1,893,155	\$ 1,823,760	\$	11,809
Other operating revenue	<u>60,973</u>	<u>65,669</u>	<u>70,700</u>		<u>(9,727)</u>
Total operating revenue	1,896,542	1,958,824	1,894,460		2,082
OPERATING EXPENSES					
Plant operating expenses					
Cost of programming, line fees	842,590	817,389	777,100		(65,490)
Salaries and wages	27,028	18,053	19,600		(7,428)
Repairs and maintenance	45,033	33,055	33,400		(11,633)
Utilities	25,635	22,446	21,900		(3,735)
Insurance	21,270	17,699	12,000		(9,270)
Other	<u>63,886</u>	<u>49,362</u>	<u>68,800</u>		<u>4,914</u>
Total plant operating expenses	1,025,442	958,004	932,800		(92,642)
Distribution operation expenses					
Salaries and wages	77,910	75,747	91,500		13,590
Engineering	16,540	29,655	20,000		3,460
Repairs and maintenance	24,593	12,492	11,500		(13,093)
Other	<u>25,636</u>	<u>47,055</u>	<u>57,932</u>		<u>32,296</u>
Total distribution operation expense	144,679	164,949	180,932		36,253
Administration and general expenses					
Salaries and wages	86,002	77,745	75,485		(10,517)
Office supplies	6,722	33,332	38,300		31,578
Education and travel	726	1,879	2,000		1,274
Professional	6,162	18,166	10,700		4,538
Other	<u>59,160</u>	<u>29,717</u>	<u>31,270</u>		<u>(27,890)</u>
Total administrative and general expenses	158,772	160,839	157,755		(1,017)
Consumer services					
Bad debts (collected)	(824)	(237)	1,050		1,874
Other	<u>1,338</u>	<u>199</u>	<u>2,900</u>		<u>1,562</u>
Total consumer services	514	(38)	3,950		3,436
Marketing and stakeholder relations					
Salaries and wages	69,957	49,888	64,375		(5,582)
Advertising	16,815	9,579	19,300		2,485
Other	<u>3,085</u>	<u>2,479</u>	<u>7,910</u>		<u>4,825</u>
Total marketing and stakeholder relations	89,857	61,946	91,585		1,728

See accompanying independent auditors' report.

HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED JUNE 30, 2013 and 2012

Schedule 8
(Continued)

	2013 Actual	2012 Actual	2013 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Employee benefits				
Payroll taxes	\$ 53,827	\$ 39,121	\$ 48,441	\$ (5,386)
Health insurance	73,407	72,049	78,000	4,593
Compensated absences	34,204	27,250	34,450	246
Total employee benefits	161,438	138,420	160,891	(547)
Total operating expenses excluding amortization and depreciation	1,580,702	1,484,120	1,527,913	(52,789)
OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION				
	315,840	474,704	366,547	(50,707)
Amortization	0	0	0	0
Depreciation	141,581	211,661	215,000	73,419
	141,581	211,661	215,000	73,419
OPERATING INCOME	174,259	263,043	151,547	22,712
NON-OPERATING REVENUES (EXPENSES)				
Contributions to City-In lieu of taxes	(901)	(883)	(750)	(151)
Interest income	3,962	5,104	10,000	(6,038)
Interest expense	(52,422)	(75,787)	(50,000)	(2,422)
Total non-operating revenues (expenses)	(49,361)	(71,566)	(40,750)	(8,611)
CHANGE IN NET POSITION	124,898	191,477	\$ 110,797	\$ 14,101
TOTAL NET POSITION, BEGINNING	2,019,967	1,828,490		
TOTAL NET POSITION, ENDING	\$ 2,144,865	\$ 2,019,967		

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

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

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

To the Board of Trustees of the
Harlan Municipal Utilities:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States, the 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, 2013, and the related notes to financial statements, which collectively comprise the Utility's basic financial statements, and have issued our report thereon dated September 13, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Harlan Municipal Utility's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harlan Municipal Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of Harlan Municipal Utility's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not 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 Utility's 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 grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2013 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 Utility's Responses to Findings

Harlan Municipal Utility's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Harlan Municipal Utilities responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Utility's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Harlan Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



MAHONEY & GOTTO COMPANY
Certified Public Accountants

September 13, 2013
Denison, Iowa

**Independent Auditors' Report on Compliance
for Each Major Federal Program, on Internal Control over Compliance
and on the Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133**

MAHONEY & GOTTO COMPANY
Certified Public Accountants

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**Independent Auditors' Report on Compliance
for Each Major Federal Program, on Internal Control over Compliance
and on the Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133**

To the Board of Trustees of the
Harlan Municipal Utilities

Report on Compliance for Each Major Federal Program

We have audited Harlan Municipal Utility's 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 Utility's major federal program for the year ended June 30, 2013. Harlan Municipal Utility's major federal program is identified in Part I of the accompanying Schedule of Findings.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Harlan Municipal Utility's major federal program based on our audit of the types of compliance requirements referred to above. 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 Utility's 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 on compliance for the major federal program. However, our audit does not provide a legal determination on Harlan Municipal Utility's compliance.

Opinion on Each Major Federal Program

In our opinion, Harlan Municipal Utilities complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The management of Harlan Municipal Utilities is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Harlan Municipal Utility's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 Utility's 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



MAHONEY & GOTTO COMPANY
Certified Public Accountants

September 13, 2013
Denison, Iowa

**HARLAN MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013**

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

- (a) Unmodified 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 unmodified 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, 2013**

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-13 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, 2013 did not exceed the amounts budgeted.
- IV-B-13 Questionable Expenditures – Expenditures of Utility money appear to meet public purpose requirements.
- IV-C-13 Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utilities officials or employees were noted.
- IV-D-13 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>
David Tyrrel, Board Member, Owner of Harlan Radio Shack	Parts, Supplies	\$ <u>1,127</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-13 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-13 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 2012 as in accordance with an Attorney General’s opinion dated April 12, 1978.
- IV-G-13 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-13 Revenue Notes – No instances of non-compliance with the revenue note provisions were noted.
- IV-I-13 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.