

HARLAN MUNICIPAL UTILITIES
INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2014 and 2013

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>
David Tyrrel	Chairman	2017
Nella Seivert	Vice Chairman	2018
Mary Johnson	Board Member	2016
Michael Jones	Board Member	2019
Terry Arentsen	Board Member	2015
Darrel Wenzel	Chief Executive Officer & Board Secretary	2014
Krista Allen	Director of Finance	Indefinite
John Doonan	Director of Customer Relations & Support Services	2013
Robert Hall	Attorney	Indefinite
Jennifer Kelly	Assistant Board Secretary	2014

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, 2014, 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, 2014, 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 12 and 38 through 40 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 12, 2014 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.



MAHONEY & GOTTO COMPANY
Certified Public Accountants

September 12, 2014
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, 2014. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities increased 7.63%, or \$1,050,664, from fiscal 2013 to fiscal 2014.
- Operating expenses of the Utilities' activities increased 7.35%, or \$728,464 from fiscal 2013 to fiscal 2014.
- The Utilities' net assets of business type activities increased 5.07%, or \$1,639,971 from June 30, 2013 to June 30, 2014.

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.

Other Supplementary Information provides comparative financial data for each operating Utility.

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 years.

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		
	Year Ended	
	6-30-14	6-30-13
Current and other assets	\$ 19,016,130	\$ 18,115,813
Capital assets	<u>35,128,888</u>	<u>34,381,380</u>
Total Assets	<u>\$ 54,145,018</u>	<u>\$ 52,497,193</u>
Long-term liabilities	\$ 16,930,767	\$ 17,345,593
Other liabilities	<u>3,208,833</u>	<u>2,786,153</u>
Total Liabilities	<u>\$ 20,139,600</u>	<u>\$ 20,131,746</u>
Net position:		
Net investment in capital assets	\$ 17,259,832	\$ 16,194,820
Restricted	4,084,209	3,778,086
Unrestricted	<u>12,661,377</u>	<u>12,392,541</u>
Total net position	<u>\$ 34,005,418</u>	<u>\$ 32,365,447</u>

Net position of business type activities increased approximately \$1,640,000, or 5.0% over fiscal year 2013. 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 \$12,600,000 at the end of this year.

Changes in Net Position for the Year ended June 30,

Business Type Activities-Enterprise Funds

	<u>2014</u>	<u>2013</u>
Revenues:		
Charges for services	\$ 14,814,904	\$ 13,764,240
Interest Income	<u>46,559</u>	<u>51,631</u>
Total revenues	<u>14,861,463</u>	<u>13,815,871</u>
Operating expenses:		
Plant operations	7,752,179	7,126,150
Distribution operations	992,344	918,620
Administrative and general	748,275	709,855
Consumer services	86,399	81,794
Marketing and stakeholder relations	151,032	158,754
Employee benefits	<u>902,591</u>	<u>909,183</u>
Total operating expenses	<u>10,632,820</u>	<u>9,904,356</u>
Other expenses:		
Amortization	20,947	20,993
Depreciation	1,642,732	1,461,511
Contributions to City-In lieu of taxes	287,749	276,353
Interest expense	612,244	558,766
Industrial development contribution	<u>25,000</u>	<u>55,000</u>
Total other expenses	<u>2,588,672</u>	<u>2,372,623</u>
Increase in net position	1,639,971	1,538,892
Net position beginning of year	<u>32,365,447</u>	<u>30,826,555</u>
Net position end of year	<u>\$ 34,005,418</u>	<u>\$ 32,365,447</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 2014 with a \$22,942,216 net position balance compared to the prior year ending net position balance of \$21,811,079.

The Enterprise, Gas Fund, which accounts for the operating and maintenance of the Utilities' gas system, ended fiscal 2014 with a \$3,880,614 net position balance compared to the prior year ending net position balance of \$3,810,777.

The Enterprise, Water Fund, which accounts for the operating and maintenance of the Utilities' water system, ended fiscal 2014 with a \$4,892,223 net position balance compared to the prior year ending net position balance of \$4,598,746.

The Enterprise, Telecommunications Fund, which accounts for the operation and maintenance of the Utilities' cable and internet system, ended fiscal 2014 with a \$2,290,365 net position balance compared to the prior year ending net position balance of \$2,144,845.

Summary of Usage Statistics

ELECTRIC UTILITY

	2014		2013	
KWH purchased and generated	68,696,205	100.00%	66,726,094	100.00%
Less: KWH unaccounted for	(4,877,645)	(7.10)%	(4,093,017)	(6.13)%
KWH BILLED	63,818,560	92.90%	62,633,077	93.87%

Following is a schedule of the number of customers and the kilowatts used by customer class for the fiscal years June 30, 2014 and 2013:

Comparison of Customer Meters & Usage by Customer Class				
	2014		2013	
Rate Categories	Customers	KWH Billed	Customers	KWH Billed
Single Phase Small	2,655	29,509,264	2,670	28,473,866
Single Phase Large	40	2,099,637	39	2,337,457
Three Phase	96	9,510,107	96	8,315,470
Commercial	0	757,824	1	809,856
Demand	27	6,236,508	27	6,396,908
Time of Use	12	13,729,620	12	13,928,428
Municipal-City of Harlan, Demand	3	593,600	3	526,000
Street Lights	8	673,337	8	856,426
Water Plant – pumping	15	708,663	15	988,666
Total Customers & Billed	2,856	63,818,560	2,871	62,633,077

GAS UTILITY

	2014		2013	
CCF purchased	3,707,480	100.00%	3,621,950	100.00%
CCF unaccounted for	77,184	2.08%	(230,560)	(6.37)%
CCF BILLED	3,784,664	102.08%	3,391,390	93.63%

Following is a schedule of the number of customers and the centum cubic-feet used by customer class for the fiscal years June 30, 2014 and 2013:

Comparison of Customer Meters & Usage by Customer Class				
	2014		2013	
Rate Categories	Customers	CCF Billed	Customers	CCF Billed
Residential	1,911	1,548,268	1,924	1,194,742
Commercial	293	545,649	296	388,257
Large Commercial	36	715,661	39	604,149
Interruptible	4	975,086	4	1,204,242
Total Customers and Billed	2,244	3,784,664	2,263	3,391,390

Summary of Usage Statistics, Continued

WATER UTILITY

	2014		2013	
Gallons to account for	227,062,000	100.00%	209,445,000	100.00%
Less: Gallons unaccounted for	(55,062,138)	(24.25)%	(25,923,894)	(12.38)%
GALLONS BILLED	171,999,862	75.75%	183,521,106	87.62%

Following is a schedule of the number of customers and gallons used by customer class for the fiscal years June 30, 2014 and 2013:

Comparison of Customer Meters & Usage by Customer Class				
Rate Categories	2014		2013	
	Customers	Gallons Billed	Customers	Gallons Billed
Residential	2,077	87,917,512	2,096	91,963,998
Commercial	367	66,797,100	368	71,043,108
Interruptible	1	17,285,250	1	20,514,000
Total Customers and Billed	2,445	171,999,862	2,465	183,521,106

BUDGETARY HIGHLIGHTS

The Utility's revenues were \$897,907 more than budgeted revenues, a variance of 6%. The most significant variance resulted from the Utility receiving more revenue from Excess Sales in the Electric Utility than originally anticipated.

The Utility's operating expenses were \$430,208 more than budgeted expenses, a variance of 4%. The most significant variance resulted from the Utility paying more for Costs as they directly relate to the Excess Sales in the Electric Utility.

The Utilities' did exceed the budgeted amounts for the year ended June 30, 2014.

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 \$34,542,434 (net of accumulated depreciation/amortization) at June 30, 2014. This is a net increase (including additions and deletions) of \$8,131,844 or 13.76% 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>2014</u>	<u>June 30</u> <u>2013</u>
Intangible Plant	\$ 220,632	\$ 220,632
Production	19,448,034	12,299,017
Transmission & Pumping	5,888,930	5,818,186
Distribution	28,576,867	28,030,177
General	7,694,297	7,361,308
Fiber Optics	<u>5,410,423</u>	<u>5,378,018</u>
Total	67,239,183	59,107,338
Less: Accumulated Depreciation	<u>32,696,749</u>	<u>31,054,017</u>
Net Capital Assets	<u>\$ 34,542,434</u>	<u>\$ 28,053,321</u>
This year's additions by fund included:		
Electric Fund		\$ 761,890
Gas Fund		96,414
Water Fund		7,142,433
Telecommunication Fund		<u>131,107</u>
Total		<u>\$ 8,131,844</u>

The Utility had depreciation expense of \$1,642,732 in fiscal year June 30, 2014.

There were no disposals for June 30, 2014.

Long-Term Debt

At June 30, 2014, the Utility had \$18,287,989 in total debt outstanding for business type activities compared to \$18,186,560 at June 30, 2013 as shown below.

Outstanding Debt of Business Type Activities at Year-End		
	<u>June 30</u> <u>2014</u>	<u>June 30</u> <u>2013</u>
Revenue bonds	\$ 9,595,000	\$ 10,480,000
Capital loan notes	1,319,734	1,484,701
SRF Loan	6,954,322	6,221,859
Inter-fund loan	<u>418,933</u>	<u>0</u>
Total	<u>\$ 18,287,989</u>	<u>\$ 18,186,560</u>

During the fiscal year ended June 30, 2013, the Utility had 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.

Total principal payments were \$1,050,967 for the year ended June 30, 2014.

ECONOMIC FACTORS BEARING ON THE UTILITY'S FUTURE

Several economic factors affected decisions made by the Utility in setting its fiscal year 2015 budget. The Utility will experience an increase in revenues and expenditures from fiscal 2014 to fiscal 2015. The Total Proprietary Funds for the Utility is projected to end fiscal 2015 with a Total Net Position balance of approximately \$35,839,106 which is a 5.39% increase from fiscal 2014.

FUTURE FINANCIAL STATEMENT IMPACT

For the year ended June 30, 2014, interest income declined by 10.9% 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 Director of Finance, 2412 Southwest Avenue, Harlan, Iowa.

Basic Financial Statements

**HARLAN MUNICIPAL UTILITIES
STATEMENTS OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014 and 2013**

	Business Type Activities -		
	<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Water Utility</u>
ASSETS			
CURRENT ASSETS			
Designated			
Plant improvements, emergency and contingency funds:			
Cash and savings	\$ 405,000	\$ 409,062	\$ 0
Replacement funds bond requirement:			
Cash and savings	146,276	0	0
Restricted			
Consumers' deposit fund	45,444	0	0
Revenue bond retirement-savings	1,106,176	0	437,199
Capital improvement fund-savings	507,961	0	170,000
Unrestricted			
Cash and savings	7,003,259	2,543,341	568,259
Industrial development fund	152,063	123,633	0
Accounts receivable - net of allowance for doubtful accounts of \$35,000	566,651	380,939	467,782
Unbilled usage	218,445	52,882	68,561
Note Receivable - Telecom Utility	22,168	0	0
Employee loans receivable	0	0	0
Inventory	468,965	24,668	42,324
Prepaid expenses	52,555	40,298	43,898
Total current assets	<u>10,694,963</u>	<u>3,574,823</u>	<u>1,798,023</u>
CAPITAL ASSETS			
Utility plant			
Plant in service, at cost	44,593,238	2,797,348	15,218,391
Less accumulated depreciation	<u>23,559,305</u>	<u>1,793,132</u>	<u>4,871,035</u>
	21,033,933	1,004,216	10,347,356
Construction work in progress	<u>0</u>	<u>0</u>	<u>0</u>
Net capital assets	<u>21,033,933</u>	<u>1,004,216</u>	<u>10,347,356</u>
OTHER ASSETS			
Other accounts receivable	0	0	0
Note Receivable - Telecom Utility	396,765	0	0
Bond discount and issuance costs	89,106	0	59,973
Restricted investments for bonds:			
Debt Reserve	720,500	0	227,000
Total other assets	<u>1,206,371</u>	<u>0</u>	<u>286,973</u>
 Total assets	 <u>\$ 32,935,267</u>	 <u>\$ 4,579,039</u>	 <u>\$ 12,432,352</u>

Exhibit A

Enterprise Funds			
Telecommunications Utility	Elimination	Total 2014	Total 2013
\$ 194,000	\$ 0	\$ 1,008,062	\$ 1,446,553
0	0	146,276	146,276
0	0	45,444	45,425
62,687	0	1,606,062	1,244,540
0	0	677,961	677,961
800,907	0	10,915,766	10,166,165
0	0	275,696	275,504
204,651	0	1,620,023	1,631,204
1,031	0	340,919	325,300
0	0	22,168	-
0	0	0	0
4,079	0	540,036	735,476
22,655	0	159,406	138,916
<u>1,290,010</u>	<u>0</u>	<u>17,357,819</u>	<u>16,833,320</u>
4,630,206	0	67,239,183	59,107,338
<u>2,473,277</u>	<u>0</u>	<u>32,696,749</u>	<u>31,054,017</u>
2,156,929	0	34,542,434	28,053,321
<u>586,454</u>	<u>0</u>	<u>586,454</u>	<u>6,328,059</u>
<u>2,743,383</u>	<u>0</u>	<u>35,128,888</u>	<u>34,381,380</u>
0	0	0	0
0	0	396,765	0
0	0	149,079	170,026
0	0	0	0
164,967	0	1,112,467	1,112,467
<u>164,967</u>	<u>0</u>	<u>1,658,311</u>	<u>1,282,493</u>
\$ <u>4,198,360</u>	\$ <u>0</u>	\$ <u>54,145,018</u>	\$ <u>52,497,193</u>

See notes to financial statements.

**HARLAN MUNICIPAL UTILITIES
STATEMENTS OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014 and 2013**

	Business Type Activities -		
	Electric Utility	Gas Utility	Water Utility
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Customer credits	\$ 45,481	\$ 589,819	\$ 6,975
Accounts payable	201,876	82,164	48,853
Payroll taxes payable	6,495	0	0
State sales and use tax payable	955	1,522	10,519
Salaries, vacation and sick leave payable	57,968	24,920	39,464
Accrued property taxes	103,732	0	0
Bonds called not paid	0	0	0
Due City of Harlan for collections & fees	0	0	236,394
Other accrued liabilities	323	0	0
Payable from restricted assets		0	0
Current maturities of long-term debt	695,000	0	78,322
Interest Payable	85,491	0	103,602
Consumers' deposits	35,730	0	0
Total current liabilities	<u>1,233,051</u>	<u>698,425</u>	<u>524,129</u>
NONCURRENT LIABILITIES			
Long-Term Debt, net of current maturities	8,760,000	0	7,016,000
Contract Payable, net of current maturities	0	0	0
Intra-utility note payable, net of current maturities	0	0	0
Total noncurrent liabilities	<u>8,760,000</u>	<u>0</u>	<u>7,016,000</u>
NET POSITION			
Net investment in capital assets	11,975,698	1,004,216	3,253,034
Restricted for:			
Consumers' deposit fund	45,444	0	0
Customer credits	45,481	589,819	6,975
Revenue bond-debt reserve	720,500	0	227,000
Revenue bond retirement	1,106,176	0	437,199
Capital improvement fund	507,961	0	170,000
Unrestricted	8,540,956	2,286,579	798,015
Total net position	<u>22,942,216</u>	<u>3,880,614</u>	<u>4,892,223</u>
Total liabilities and net position	<u>\$ 32,935,267</u>	<u>\$ 4,579,039</u>	<u>\$ 12,432,352</u>

Enterprise Funds			
Telecommunications		Total	Total
Utility	Elimination	2014	2013
\$ 0	\$ 0	\$ 642,275	\$ 697,693
109,459	0	442,352	396,376
0	0	6,495	0
15,513	0	28,509	21,064
33,324	0	155,676	158,172
0	0	103,732	104,283
0	0	0	0
0	0	236,394	340,916
309	0	632	676
187,135	0	960,457	840,967
10,723	0	199,816	181,326
0	0	35,730	44,680
<u>356,463</u>	<u>0</u>	<u>2,812,068</u>	<u>2,786,153</u>
1,551,532	0	17,327,532	17,345,593
0	0	0	0
0	0	0	0
<u>1,551,532</u>	<u>0</u>	<u>17,327,532</u>	<u>17,345,593</u>
1,423,649	0	17,656,597	16,194,820
0	0	45,444	45,425
0	0	642,275	697,693
164,967	0	1,112,467	1,112,467
62,687	0	1,606,062	1,244,540
0	0	677,961	677,961
639,062	0	12,264,612	12,392,541
<u>2,290,365</u>	<u>0</u>	<u>34,005,418</u>	<u>32,365,447</u>
<u>\$ 4,198,360</u>	<u>\$ 0</u>	<u>\$ 54,145,018</u>	<u>\$ 52,497,193</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, 2014 and 2013

Exhibit B

	Business Type Activities - Enterprise Funds					Total 2014	Total 2013
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility			
OPERATING REVENUES							
Sales to consumers	\$ 6,447,619	\$ 3,136,226	\$ 1,910,519	\$ 1,886,285	\$ 13,380,649	\$ 12,565,065	
Other operating revenue	149,547	2,802	71,049	96,853	320,251	230,121	
Other sales - MISO	1,114,004	0	0	0	1,114,004	969,054	
Total operating revenue	<u>7,711,170</u>	<u>3,139,028</u>	<u>1,981,568</u>	<u>1,983,138</u>	<u>14,814,904</u>	<u>13,764,240</u>	
OPERATING EXPENSES							
Plant operating expenses							
Cost of gas, power, chemicals, programming, and line fees	2,343,900	2,320,557	162,596	865,734	5,692,787	5,268,339	
Cost of other sales	993,801	0	0	0	993,801	802,524	
Salaries and wages	27,156	18,879	152,571	20,180	218,786	257,697	
Repairs and maintenance	14,891	8,861	0	26,289	50,041	80,641	
Utilities	66,619	27,924	176,275	27,537	298,355	236,348	
Insurance	60,747	42,881	44,410	18,559	166,597	182,659	
Property taxes	103,732	0	0	0	103,732	106,587	
Other	64,691	35,769	69,146	58,474	228,080	191,355	
Total plant operating expenses	<u>3,675,537</u>	<u>2,454,871</u>	<u>604,998</u>	<u>1,016,773</u>	<u>7,752,179</u>	<u>7,126,150</u>	
Distribution operation expenses							
Salaries and wages	291,521	115,478	106,116	104,222	617,337	551,256	
Engineering	40,563	0	12,256	18,820	71,639	52,331	
Repairs and maintenance	85,333	30,797	66,117	30,890	213,137	196,963	
Other	39,053	19,836	5,910	25,432	90,231	118,070	
Total distribution operation expense	<u>456,470</u>	<u>166,111</u>	<u>190,399</u>	<u>179,364</u>	<u>992,344</u>	<u>918,620</u>	
Administration and general expenses							
Salaries and wages	116,181	98,649	100,090	109,771	424,691	385,938	
Office supplies	47,300	9,825	11,856	5,680	74,661	91,791	
Education and travel	9,835	5,203	4,654	2,699	22,391	18,112	
Professional	24,839	18,006	41,128	13,878	97,851	65,593	
Other	4,895	32,805	31,850	59,131	128,681	148,421	
Total administrative and general expenses	<u>203,050</u>	<u>164,488</u>	<u>189,578</u>	<u>191,159</u>	<u>748,275</u>	<u>709,855</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, 2014 and 2013

Exhibit B

	Business Type Activities - Enterprise Funds				Total 2014	Total 2013
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility		
OPERATING EXPENSES (Continued)						
Consumer services						
Salaries and wages	\$ 11,011	\$ 0	\$ 0	\$ 0	\$ 11,011	\$ 11,275
Bad debts	20,474	(241)	453	(1,211)	19,475	5,913
Other	38,816	17,097	0	0	55,913	64,606
Total consumer services	70,301	16,856	453	(1,211)	86,399	81,794
Marketing and stakeholder relations						
Salaries and wages	8,962	8,956	6,209	65,881	90,008	92,508
Advertising	5,396	3,613	6,653	18,870	34,532	33,809
Other	8,760	6,473	6,121	5,138	26,492	32,437
Total marketing and stakeholder relations	23,118	19,042	18,983	89,889	151,032	158,754
Employee benefits						
Payroll taxes	90,181	44,277	69,179	55,102	258,739	254,162
Health insurance	167,650	61,185	123,984	77,293	430,112	426,738
Compensated absences	86,065	29,785	62,561	35,329	213,740	228,283
Total employee benefits	343,896	135,247	255,724	167,724	902,591	909,183
Total operating expenses excluding amortization and depreciation	4,772,372	2,956,615	1,260,135	1,643,698	10,632,820	9,904,356
OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION	2,938,798	182,413	721,433	339,440	4,182,084	3,859,884
Amortization	14,278	0	6,669	0	20,947	20,993
Depreciation	1,269,608	57,184	169,658	146,282	1,642,732	1,461,511
	1,283,886	57,184	176,327	146,282	1,663,679	1,482,504
OPERATING INCOME	1,654,912	125,229	545,106	193,158	2,518,405	2,377,380

See notes to financial statements.

HARLAN MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2014 and 2013

Exhibit B

	Business Type Activities - Enterprise Funds					Total 2014	Total 2013
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility			
NON-OPERATING REVENUES (EXPENSES)							
Contributions to City-In lieu of taxes	\$ (199,074)	\$ (48,935)	\$ (38,755)	\$ (985)	\$ (287,749)	\$ (276,353)	
Gain on sale of asset	0	0	0	0	0	0	
Interest income	33,969	6,043	3,713	2,834	46,559	51,631	
Interest expense	(346,170)	0	(216,587)	(49,487)	(612,244)	(558,766)	
Industrial development contribution	(12,500)	(12,500)	0	0	(25,000)	(55,000)	
Total non-operating revenues (expenses)	<u>(523,775)</u>	<u>(55,392)</u>	<u>(251,629)</u>	<u>(47,638)</u>	<u>(878,434)</u>	<u>(838,488)</u>	
CHANGE IN NET POSITION	1,131,137	69,837	293,477	145,520	1,639,971	1,538,892	
TOTAL NET POSITION, BEGINNING	<u>21,811,079</u>	<u>3,810,777</u>	<u>4,598,746</u>	<u>2,144,845</u>	<u>32,365,447</u>	<u>30,826,575</u>	
TOTAL NET POSITION, ENDING	<u>\$ 22,942,216</u>	<u>\$ 3,880,614</u>	<u>\$ 4,892,223</u>	<u>\$ 2,290,365</u>	<u>\$ 34,005,418</u>	<u>\$ 32,365,467</u>	

See notes to financial statements.

**HARLAN MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2014 and 2013**

Exhibit C

	Business Type Activities - Enterprise Funds					Total 2014	Total 2013
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility			
Cash flows from operating activities:							
Cash received from customers and users	\$ 6,380,786	\$ 3,114,802	\$ 1,831,399	\$ 1,868,259	\$ 13,195,246	\$ 12,639,026	
Cash received from other revenues	1,263,551	2,802	71,049	96,853	1,434,255	1,199,175	
Cash paid to suppliers	(3,290,704)	(2,379,478)	(301,960)	(928,089)	(6,900,231)	(6,811,331)	
Cash paid for personal services	(704,749)	(307,534)	(553,557)	(351,326)	(1,917,166)	(1,996,847)	
Cash paid to employees	(531,345)	(273,463)	(432,366)	(334,399)	(1,571,573)	(1,466,502)	
Net cash provided by operating activities	3,117,539	157,129	614,565	351,298	4,240,531	3,563,521	
Cash flows from noncapital financing activities:							
Contributions to City-In lieu of taxes	(199,074)	(48,935)	(38,755)	(985)	(287,749)	(276,353)	
Net cash provided (used) by noncapital financing activities	(199,074)	(48,935)	(38,755)	(985)	(287,749)	(276,353)	
Cash flows from capital and related financing activities:							
Loan proceeds	0	0	733,463	0	733,463	4,848,159	
Bond issuance costs (paid)	0	0	0	0	0	0	
Acquisition of capital assets	(761,890)	(96,415)	(814,374)	(717,561)	(2,390,240)	(6,241,100)	
(Transfers) Proceeds of intra-utility notes	(422,548)	0	0	422,548	0	0	
Principal (payments) on long-term borrowings	(675,000)	0	(211,000)	(168,582)	(1,054,582)	(1,024,966)	
Interest paid on notes	(350,377)	0	(192,549)	(50,828)	(593,754)	(489,601)	
Net cash provided (used) by capital and related financing activities	(2,209,815)	(96,415)	(484,460)	(514,423)	(3,305,113)	(2,907,508)	
Cash flows from investing activities:							
Principal received (loaned) on Fairground Note	0	0	0	0	0	3,479	
Interest on investments	33,969	6,043	3,713	2,834	46,559	51,631	
Industrial development contribution	(12,500)	(12,500)	0	0	(25,000)	(55,000)	
Principal received on employee loans	0	0	0	0	0	1,046	
Principal received on intra-utility notes	3,615	0	0	0	3,615	0	
Net cash provided (used) by investing activities	25,084	(6,457)	3,713	2,834	25,174	1,156	
Net increase (decrease) in cash and cash equivalents	733,734	5,322	95,063	(161,276)	672,843	380,816	
Cash and cash equivalents beginning of year	9,352,945	3,070,714	1,307,395	1,383,837	15,114,891	14,734,075	
Cash and cash equivalents end of year	\$ 10,086,679	\$ 3,076,036	\$ 1,402,458	\$ 1,222,561	\$ 15,787,734	\$ 15,114,891	

See notes to financial statements.

**HARLAN MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2014 and 2013**

**Exhibit C
(Continued)**

	Business Type Activities - Enterprise Funds					Total 2014	Total 2013
	Electric Utility	Gas Utility	Water Utility	Telecommunications Utility			
Reconciliation of operating income to net cash provided by operating activities:							
Operating income	\$ 1,654,912	\$ 125,229	\$ 545,106	\$ 193,158	\$ 2,518,405	\$ 2,377,380	
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation expense	1,269,608	57,184	169,658	146,282	1,642,732	1,461,511	
Amortization expense	14,278	0	6,669	0	20,947	20,993	
(Increase) decrease in customer accounts receivable and unbilled usage and other accounts receivable	(23,733)	23,411	(2,758)	(1,357)	(4,437)	(268,540)	
(Increase) decrease in inventories	203,744	2,077	(9,173)	(1,208)	195,440	(95,927)	
(Increase) decrease in prepaid expenses	(6,357)	(5,849)	(8,173)	(111)	(20,490)	(100)	
(Increase) decrease in customer credits	(13,656)	(45,034)	3,272	0	(55,418)	274,326	
Increase (decrease) in accounts payable	18,714	1,869	(6,036)	31,429	45,976	(254,379)	
Increase (decrease) in payroll taxes payable	6,495	0	0	0	6,495	0	
Increase (decrease) in sales & use tax payable	21	(42)	297	7,169	7,445	(1,258)	
Increase (decrease) in salaries payable	3,055	(1,716)	(4,819)	984	(2,496)	(60,454)	
Increase (decrease) in property taxes payable	(551)	0	0	0	(551)	2,166	
Increase (decrease) in other payables	(8,991)	0	(79,478)	(25,048)	(113,517)	107,803	
Net cash provided by operating activities	<u>3,117,539</u>	<u>157,129</u>	<u>614,565</u>	<u>351,298</u>	<u>4,240,531</u>	<u>3,563,521</u>	
Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Position:							
Current assets:							
Cash and pooled investments	\$ 7,155,322	\$ 2,666,974	\$ 568,259	\$ 800,907	\$ 11,191,462	\$ 10,441,669	
Restricted assets:							
Cash and pooled investments:							
Revenue bond retirement	1,252,452	0	437,199	62,687	1,752,338	1,390,816	
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	677,961	
Designated contingency fund	405,000	409,062	0	194,000	1,008,062	1,446,553	
Consumers' deposit fund	45,444	0	0	0	45,444	45,425	
Cash and cash equivalents end of year	<u>\$ 10,086,679</u>	<u>\$ 3,076,036</u>	<u>\$ 1,402,458</u>	<u>\$ 1,222,561</u>	<u>\$ 15,787,734</u>	<u>\$ 15,114,891</u>	

See notes to financial statements.

Notes to Financial Statements

HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(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/amortization 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. Enabling legislation did not result in any restricted net position.

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

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2014**

D. Assets, Liabilities and Fund Equity

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

Cash, Investments, and Cash Equivalents – The cash balances of most Utility funds are pooled and invested. Interest earned on investments is divided among the Enterprise funds. For purposes of the statement of cash flows, the Utility considers all deposits to be cash equivalents. Investments are stated at cost which approximates market.

Customer Accounts and Unbilled Usage – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided. The allowance for doubtful accounts for all of the Enterprise Funds combined amounted to \$35,000 at June 30, 2014.

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 which 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, 2014

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, 2014 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, 2014 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, 2014 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, 2014, disbursements exceeded the amount budgeted for the business type activities.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2014 and June 30, 2013 were \$430,112 and \$426,738.

G. Advertising

Advertising costs are expenses as incurred. Advertising expenses were \$61,024 and \$66,246 for the years ended June 30, 2014 and June 30, 2013. Separate line item expenditures included under the general heading of "Advertising" include Advertising, Stakeholder Relations, Community Relations, and Employee Relations.

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, 2014 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, 2014**

(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, 2014 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Intangible Plant	\$ 220,632	\$ 0	\$ 0	\$ 220,632
Production	12,299,017	7,149,017	0	19,448,034
Transmission & Pumping	5,818,186	70,744	0	5,888,930
Distribution	28,030,177	546,689	0	28,576,867
General	7,361,308	332,989	0	7,694,297
Fiber Optics	<u>5,378,018</u>	<u>32,405</u>	<u>0</u>	<u>5,410,423</u>
Total property, plant & equipment	59,107,338	8,131,844	0	67,239,183
Less: accumulated depreciation	<u>31,054,017</u>	<u>1,642,732</u>	<u>0</u>	<u>32,696,749</u>
Net property, plant & equipment	<u>\$ 28,053,321</u>	<u>\$ 6,489,112</u>	<u>\$ 0</u>	<u>\$ 34,542,434</u>

Depreciation expense charged to operations as follows:

Business type activities:

Electric	\$ 1,269,608
Gas	57,184
Water	169,658
Telecommunications	<u>146,282</u>
Total depreciation expense – business type activities	<u>\$ 1,642,732</u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

(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, 2014 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, 2014</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	530,000
Electric Revenue Bond, Series 2010A	6/1/2010	3.0%-4.25%	10/1/2024	\$ 406,055	\$ 8,285,000	7,980,000
Electric Revenue Bond, Series 2010B	6/1/2010	2.0%-2.5%	10/1/2015	\$ 475,776	\$ 2,260,000	945,000
Total Electric Bonds & Contracts						<u>\$ 9,455,000</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	\$ 0
Water Revenue Bond, Series 2004	4/15/2004	1.40-4.10%	7/1/2016	\$ 69,003	\$ 670,000	140,000
Water State Revolving Fund	5/23/2012	3%	7/1/2032	\$ 520,000	\$ 7,035,000	6,954,322
Total Water Bonds						<u>\$ 7,094,322</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	\$ 1,319,734
Inter-Fund Electric Utility Note	4/1/2014	3.75%	12/1/2028	\$ 37,499	\$ 422,548	\$ 418,933
Total Telecommunications Fund						<u>\$ 1,738,667</u>

HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(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		Water Fund State Revolving Fund	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 695,000	\$ 333,295	\$ 70,000	\$ 4,235	\$ 78,322	\$ 103,602
2016	715,000	314,438	70,000	1,435	225,000	206,280
2017	750,000	292,325	0	0	235,000	199,530
2018	775,000	268,040	0	0	312,000	192,480
2019	810,000	242,315	0	0	322,000	183,120
2020	840,000	213,830	0	0	333,000	173,460
2021	885,000	181,895	0	0	344,000	163,470
2022	925,000	146,580	0	0	355,000	153,150
2023	975,000	108,093	0	0	366,000	142,500
2024	1,015,000	66,791	0	0	378,000	131,520
2025	1,070,000	22,738	0	0	390,000	120,180
2026	0	0	0	0	403,000	108,480
2027	0	0	0	0	416,000	96,390
2028	0	0	0	0	430,000	83,910
2029	0	0	0	0	444,000	71,010
2030	0	0	0	0	458,000	57,690
2031	0	0	0	0	473,000	43,950
2032	0	0	0	0	488,000	29,760
2033	0	0	0	0	504,000	15,120
Total	<u>\$ 9,455,000</u>	<u>\$ 2,190,340</u>	<u>\$ 140,000</u>	<u>\$ 5,670</u>	<u>\$ 6,954,322</u>	<u>\$ 2,275,602</u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

(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,	Telecommunications Revenue Capital Loan Notes		Telecommunications Inter-Fund Electric Note	
	Principal	Interest	Principal	Interest
2015	\$ 164,967	\$ 42,891	\$ 22,168	\$ 15,332
2016	164,967	37,530	23,014	14,486
2017	164,967	32,169	23,892	13,608
2018	164,967	26,807	24,803	12,696
2019	164,967	21,446	25,749	11,750
2020	164,967	16,084	26,732	10,768
2021	164,966	10,723	27,751	9,748
2022	164,966	5,361	28,810	8,689
2023	0	0	29,909	7,590
2024	0	0	31,050	6,449
2025	0	0	32,235	5,264
2026	0	0	33,465	4,035
2027	0	0	34,742	2,758
2028	0	0	36,067	1,432
2029	0	0	18,546	203
2030	0	0	0	0
2031	0	0	0	0
2032	0	0	0	0
2033	0	0	0	0
Total	<u>\$ 1,319,734</u>	<u>\$ 193,011</u>	<u>\$ 418,933</u>	<u>\$ 124,808</u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

(5) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2014 is as follows:

	Electric Revenue Bonds & Contracts	Water Revenue Bonds & SRF Loan	Telecommunications Capital Loan & Inter-Fund Notes	Total
Balance, beginning 7-1-13	\$ 10,130,000	\$ 6,571,859	\$ 1,484,701	\$ 14,363,367
Issued	0	733,463	422,548	4,848,159
Paid	<u>(675,000)</u>	<u>(211,000)</u>	<u>(168,582)</u>	<u>(1,024,966)</u>
Balance, ending 6-30-14	9,455,000	7,094,322	1,738,667	18,287,989
Less: Current Portion	<u>(695,000)</u>	<u>(78,322)</u>	<u>(187,135)</u>	<u>(960,457)</u>
Long-Term Debt, net of Current Portion	<u>\$ 8,760,000</u>	<u>\$ 7,016,000</u>	<u>\$ 1,551,532</u>	<u>\$ 17,327,532</u>

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

(6) Inter-Fund Borrowing between Electric and Telecom Utilities

During the fiscal year ended June 30, 2014; the Electric Utility advanced funds totaling \$422,548 to the Telecom Utility to upgrade its Telecommunications System. The loan bears an interest rate of 3.75% due in monthly installments of \$3,124.95 through December, 2028. Annual debt service requirements to maturity for the Inter-Fund loan are provided in Note 4. This transfer of Surplus Funds was done in accordance with Iowa Code Section 384.89.

(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, 2014 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>7,913,067</u>

(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 5.95% of their annual covered salary and the Utility is required to contribute 8.93% of covered salary. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$148,342, \$140,209 and \$124,728, respectively, equal to the required contributions for each year.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

(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, 2014 the project was complete and the Certificate of Completion had been accepted by the board. However, the general contractor still had subcontractors and material suppliers with balances owed to them even though the work had been completed in January, 2014. Subsequently in August, 2014; the contractor paid the subcontractors and suppliers the balance of what was owed them so lien waivers and releases could be obtained from the claimants. After a full release and waiver was received from the contractor, the final retainage was paid. The outstanding check as of June 30, 2014 for the final retainage due to the contractor was released and cleared the bank during August, 2014.

During February, 2014 the Telecom Utility started a project to upgrade the Telecommunications System with a total budget available of \$812,548. As of June 30, 2014, the Utility had incurred capital expenditures of \$586,454 for 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 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, 2014**

(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, 2014 and June 30, 2013 were \$287,749 and \$276,353.

(13) Subsequent Events

Management has evaluated subsequent events through September 12, 2014, 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 June 17, 2014.

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, 2014**

	Accrual Basis		
	Total Proprietary Funds-Actual	Final Budgeted Amounts	Variance Favorable (Unfavorable)
Operating Revenues			
Sales to consumers	\$ 13,380,649	\$ 13,319,880	\$ 60,769
Other operating revenue	320,251	267,117	53,134
Excess sales	1,114,004	330,000	784,004
Total operating revenue	<u>14,814,904</u>	<u>13,916,997</u>	<u>897,907</u>
Operating Expenses			
Plant operation expenses	7,752,179	6,935,006	(817,173)
Distribution operation	992,344	1,049,906	57,562
Administrative and general	748,275	809,070	60,795
Consumer services	86,399	126,000	39,601
Marketing and relations	151,032	175,766	24,734
Employee benefits	902,591	970,222	67,631
Amortization and depreciation	1,663,679	1,732,000	68,321
Total operating expenses	<u>12,296,499</u>	<u>11,797,970</u>	<u>(498,529)</u>
Operating Income	2,518,405	2,119,027	399,378
Other revenues (expenses), net	<u>(878,434)</u>	<u>(908,000)</u>	<u>29,566</u>
Change in net position	1,639,971	\$ <u><u>1,211,027</u></u>	\$ <u><u>428,944</u></u>
Total net position, beginning	<u>32,365,447</u>		
Total net position, ending	\$ <u><u>34,005,418</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, 2014

	Cash Basis		
	Total Proprietary Funds-Actual	Final Budgeted Amounts	Final to Actual Variance Favorable (Unfavorable)
Receipts:			
Charges for services	\$ 14,309,250	\$ 13,649,880	\$ 659,370
Miscellaneous	320,251	267,117	53,134
Total receipts	<u>14,629,501</u>	<u>13,916,997</u>	<u>712,504</u>
Disbursements:			
Business type activities	<u>10,388,970</u>	<u>10,065,970</u>	<u>(323,000)</u>
Excess of receipts over disbursements	4,240,531	3,851,027	389,504
Other financing sources (uses):			
Loan proceeds	733,463	0	733,463
Acquisition of capital assets	(2,390,240)	(1,906,700)	(483,540)
Interest received on investments	46,559	45,000	1,559
Principal/Interest payments on long term borrowings	(1,648,336)	(1,755,912)	107,576
Other sources (uses), net	<u>(312,749)</u>	<u>(326,000)</u>	<u>13,251</u>
Total other financing sources (uses)	<u>(3,571,303)</u>	<u>(3,943,612)</u>	<u>372,309</u>
Excess of receipts over disbursements over (under) Other financing sources (uses)	669,228	(92,585)	<u><u>\$ 761,813</u></u>
Balances, beginning of year	<u>15,114,891</u>	<u>18,292,765</u>	
Balances, end of year	<u>\$ 15,784,119</u>	<u>\$ 18,200,180</u>	

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2014**

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

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, 2014, disbursements in the Electric Utility exceeded the amount budgeted.

Other Supplementary Information

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
COMPARATIVE STATEMENTS OF NET POSITION
JUNE 30, 2014 and 2013**

Schedule 1

	<u>2014</u>	<u>2013</u>
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	45,444	45,425
Revenue bond retirement-savings	1,106,176	1,095,777
Capital improvement fund-savings	507,961	507,961
Unrestricted		
Cash and savings	7,003,259	6,280,049
Industrial development fund	152,063	151,957
Accounts receivable - net of allowance for doubtful accounts of \$9,500 for 2013 and \$10,000 for 2012	566,651	547,025
Unbilled usage	218,445	214,338
Note Receivable - Telecom Utility	22,168	
Employee loans receivable	0	0
Inventory	468,965	672,709
Prepaid expenses	52,555	46,198
Total current assets	<u>10,694,963</u>	<u>10,112,715</u>
CAPITAL ASSETS		
Utility plant		
Plant in service, at cost	44,593,238	43,831,348
Less accumulated depreciation	23,559,305	22,289,697
	<u>21,033,933</u>	<u>21,541,651</u>
Construction work in progress	0	0
Net capital assets	<u>21,033,933</u>	<u>21,541,651</u>
OTHER ASSETS		
Other account receivable	0	0
Note Receivable - Telecom Utility	396,765	
Bond discount and issuance costs	89,106	103,384
Restricted investments for bonds:		
Debt Reserve	720,500	720,500
Total other assets	<u>1,206,371</u>	<u>823,884</u>
Total assets	<u>\$ 32,935,267</u>	<u>\$ 32,478,250</u>

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
COMPARATIVE STATEMENTS OF NET POSITION
JUNE 30, 2014 and 2013**

**Schedule 1
(Continued)**

	2014	2013
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Customer credits	\$ 45,481	\$ 59,137
Accounts payable	201,876	183,162
Payroll taxes payable	6,495	0
State sales and use tax payable	955	934
Salaries, vacation and sick leave payable	57,968	54,913
Accrued property taxes	103,732	104,283
Bonds called not paid	0	0
Other accrued liabilities	323	364
Payable from restricted assets		
Current maturities of long-term debt	695,000	675,000
Interest Payable	85,491	89,698
Consumers' deposits	35,730	44,680
Total current liabilities	1,233,051	1,212,171
Long-Term Debt, net of current maturities	8,760,000	9,455,000
Contract Payable, net of current maturities	0	0
Total noncurrent liabilities	8,760,000	9,455,000
NET POSITION		
Net investment in capital assets	11,975,698	11,411,651
Restricted	2,425,562	2,428,800
Unrestricted	8,540,956	7,970,628
Total net position	22,942,216	21,811,079
 Total liabilities and net position	\$ 32,935,267	\$ 32,478,250

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, 2014 and 2013**

	<u>2014</u> <u>Actual</u>	<u>2013</u> <u>Actual</u>	<u>2014</u> <u>Budget</u>	<u>Budget</u> <u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
OPERATING REVENUES				
Sales to consumers	\$ 6,447,619	\$ 6,200,119	\$ 6,403,200	\$ 44,419
Other operating revenue	149,547	123,985	155,832	(6,285)
Other sales - MISO	<u>1,114,004</u>	<u>969,054</u>	<u>330,000</u>	<u>784,004</u>
Total operating revenue	7,711,170	7,293,158	6,889,032	822,138
OPERATING EXPENSES				
Plant operating expenses				
Cost of other sales	993,801	802,524	2,356,200	1,362,399
Cost of power	2,343,900	2,462,644	330,000	(2,013,900)
Salaries and wages	27,156	35,719	39,188	12,032
Repairs and maintenance	14,891	21,207	24,000	9,109
Utilities	66,619	68,149	65,300	(1,319)
Insurance	60,747	63,912	51,800	(8,947)
Property taxes	103,732	106,587	105,000	1,268
Other	<u>64,691</u>	<u>54,846</u>	<u>52,500</u>	<u>(12,191)</u>
Total plant operating expenses	3,675,537	3,615,588	3,023,988	(651,549)
Distribution operation expenses				
Salaries and wages	291,521	275,843	310,754	19,233
Engineering	40,563	24,896	31,500	(9,063)
Repairs and maintenance	85,333	91,433	125,500	40,167
Other	<u>39,053</u>	<u>40,509</u>	<u>28,400</u>	<u>(10,653)</u>
Total distribution operation expense	456,470	432,681	496,154	39,684
Administration and general expenses				
Salaries and wages	116,181	95,697	134,430	18,249
Office supplies	47,300	62,930	53,900	6,600
Education and travel	9,835	8,016	14,234	4,399
Professional	24,839	15,869	20,600	(4,239)
Other	<u>4,895</u>	<u>6,342</u>	<u>3,200</u>	<u>(1,695)</u>
Total administrative and general expenses	203,050	188,854	226,364	23,314
Consumer services				
Salaries and wages	11,011	11,275	24,000	12,989
Bad debts (collected)	20,474	6,412	30,000	9,526
Other	<u>38,816</u>	<u>42,264</u>	<u>35,000</u>	<u>(3,816)</u>
Total consumer services	70,301	59,951	89,000	18,699
Marketing and stakeholder relations				
Salaries and wages	8,962	8,375	8,925	(37)
Advertising	5,396	6,761	6,200	804
Other	<u>8,760</u>	<u>11,047</u>	<u>17,746</u>	<u>8,986</u>
Total marketing and stakeholder relations	23,118	26,183	32,871	9,753

See accompanying independent auditors' report.

HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED JUNE 30, 2014 and 2013

Schedule 2
(Continued)

	2014 <u>Actual</u>	2013 <u>Actual</u>	2014 <u>Budget</u>	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Employee benefits				
Payroll taxes	\$ 90,181	\$ 86,104	\$ 96,268	\$ 6,087
Health insurance	167,650	169,390	181,500	13,850
Compensated absences	86,065	99,947	99,085	13,020
Total employee benefits	<u>343,896</u>	<u>355,441</u>	<u>376,853</u>	<u>32,957</u>
 Total operating expenses excluding amortization and depreciation	 <u>4,772,372</u>	 <u>4,678,698</u>	 <u>4,245,230</u>	 <u>(527,142)</u>
 OPERATING INCOME (LOSS) BEFORE AMORTIZATION AND DEPRECIATION	 2,938,798	 2,614,460	 2,643,802	 294,996
 Amortization	 14,278	 14,777	 15,000	 722
Depreciation	1,269,608	1,094,004	1,325,000	55,392
	<u>1,283,886</u>	<u>1,108,781</u>	<u>1,340,000</u>	<u>56,114</u>
OPERATING INCOME (LOSS)	1,654,912	1,505,679	1,303,802	351,110
 NON-OPERATING REVENUES (EXPENSES)				
Capital Grants	0	0	0	0
Contributions to City-In lieu of taxes	(199,074)	(201,215)	(225,000)	25,926
Gain (Loss) on sale of assets	0	0	0	0
Interest income	33,969	32,611	25,000	8,969
Interest expense	(346,170)	(362,882)	(350,000)	3,830
Industrial development contribution	(12,500)	(29,000)	(15,000)	2,500
Total non-operating revenues (expenses)	<u>(523,775)</u>	<u>(560,486)</u>	<u>(565,000)</u>	<u>41,225</u>
 CHANGE IN NET POSITION	 1,131,137	 945,193	 \$ 738,802	 \$ 392,335
 TOTAL NET POSITION, BEGINNING	 <u>21,811,079</u>	 <u>19,865,886</u>		
 TOTAL NET POSITION, ENDING	 \$ <u>22,942,216</u>	 \$ <u>20,811,079</u>		

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL GAS UTILITY
COMPARATIVE STATEMENTS OF NET POSITION
JUNE 30, 2014 and 2013**

Schedule 3

	2014	2013
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 409,062	\$ 385,062
Unrestricted		
Cash and savings	2,543,341	2,562,105
Industrial development fund	123,633	123,547
Accounts receivable - net of allowance for doubtful accounts of \$9,000 for 2013 and \$9,500 for 2012	380,939	413,163
Unbilled usage	52,882	44,069
Inventory	24,668	26,745
Prepaid expenses	40,298	34,449
Total current assets	3,574,823	3,589,140
CAPITAL ASSETS		
Utility plant		
Plant in service, at cost	2,797,348	2,700,933
Less accumulated depreciation	1,793,132	1,735,948
Net capital assets	1,004,216	964,985
 Total assets	 \$ 4,579,039	 \$ 4,554,125
 LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Customer credits	\$ 589,819	\$ 634,853
Accounts payable	82,164	80,295
State sales and use tax payable	1,522	1,564
Salaries, vacation and sick leave payable	24,920	26,636
Total current liabilities	698,425	743,348
Contract Payable	0	0
NET POSITION		
Net investment in capital assets	1,004,216	964,985
Restricted	589,819	634,853
Unrestricted	2,286,579	2,210,939
Total net position	3,880,614	3,810,777
 Total liabilities and net position	 \$ 4,579,039	 \$ 4,554,125

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, 2014 and 2013**

	2014 Actual	2013 Actual	2014 Budget	Budget Variance Favorable (Unfavorable)
OPERATING REVENUES				
Sales to consumers	\$ 3,136,226	\$ 2,660,292	\$ 3,190,000	\$ (53,774)
Other operating revenue	2,802	3,210	8,650	(5,848)
Total operating revenue	3,139,028	2,663,502	3,198,650	(59,622)
OPERATING EXPENSES				
Plant operating expenses				
Cost of power	2,320,557	1,858,731	2,151,295	(169,262)
Salaries and wages	18,879	16,203	28,000	9,121
Repairs and maintenance	8,861	12,974	14,000	5,139
Utilities	27,924	25,291	20,500	(7,424)
Insurance	42,881	47,815	38,700	(4,181)
Other	35,769	31,986	25,850	(9,919)
Total plant operating expenses	2,454,871	1,993,000	2,278,345	(176,526)
Distribution operation expenses				
Salaries and wages	115,478	116,170	135,314	19,836
Engineering	0	0	0	0
Repairs and maintenance	30,797	27,234	36,000	5,203
Other	19,836	35,031	19,800	(36)
Total distribution operation expense	166,111	178,435	191,114	25,003
Administration and general expenses				
Salaries and wages	98,649	104,172	114,640	15,991
Office supplies	9,825	10,506	9,700	(125)
Education and travel	5,203	4,414	4,156	(1,047)
Professional	18,006	14,110	12,000	(6,006)
Other	32,805	39,615	38,950	6,145
Total administrative and general expenses	164,488	172,817	179,446	14,958
Consumer services				
Bad debts (collected)	(241)	(89)	10,000	10,241
Other	17,097	21,004	20,000	2,903
Total consumer services	16,856	20,915	30,000	13,144
Marketing and stakeholder relations				
Salaries and wages	8,956	8,375	8,925	(31)
Advertising	3,613	4,314	3,800	187
Other	6,473	13,003	10,722	4,249
Total marketing and stakeholder relations	19,042	25,692	23,447	4,405

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, 2014 and 2013**

	<u>2014</u> <u>Actual</u>	<u>2013</u> <u>Actual</u>	<u>2014</u> <u>Budget</u>	<u>Budget</u> <u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
OPERATING EXPENSES (Continued)				
Employee benefits				
Payroll taxes	\$ 44,277	\$ 44,355	\$ 52,903	\$ 8,626
Health insurance	61,185	60,586	64,400	3,215
Compensated absences	<u>29,785</u>	<u>32,013</u>	<u>35,839</u>	<u>6,054</u>
Total employee benefits	<u>135,247</u>	<u>136,954</u>	<u>153,142</u>	<u>17,895</u>
Total operating expenses excluding amortization and depreciation	<u>2,956,615</u>	<u>2,527,813</u>	<u>2,855,494</u>	<u>(101,121)</u>
OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION	182,413	135,689	343,156	(160,743)
Depreciation	<u>57,184</u>	<u>56,907</u>	<u>60,000</u>	<u>2,816</u>
	<u>57,184</u>	<u>56,907</u>	<u>60,000</u>	<u>2,816</u>
OPERATING INCOME (LOSS)	<u>125,229</u>	<u>78,782</u>	<u>283,156</u>	<u>(157,927)</u>
NON-OPERATING REVENUES (EXPENSES)				
Capital Grants	0	0	0	0
Contributions to City-In lieu of taxes	(48,935)	(38,403)	(45,000)	(3,935)
Gain (Loss) on sale of assets	0	0	0	0
Interest income	6,043	9,979	10,000	(3,957)
Industrial development contribution	<u>(12,500)</u>	<u>(26,000)</u>	<u>(15,000)</u>	<u>2,500</u>
Total non-operating revenues (expenses)	<u>(55,392)</u>	<u>(54,424)</u>	<u>(50,000)</u>	<u>(5,392)</u>
CHANGE IN NET POSITION	69,837	24,358	\$ <u>233,156</u>	\$ <u>(163,319)</u>
TOTAL NET POSITION, BEGINNING	<u>3,810,777</u>	<u>3,786,419</u>		
TOTAL NET POSITION, ENDING	\$ <u><u>3,880,614</u></u>	\$ <u><u>3,810,777</u></u>		

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY
COMPARATIVE STATEMENTS OF NET POSITION
JUNE 30, 2014 and 2013**

Schedule 5

	2014	2013
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 0	\$ 474,491
Restricted		
Revenue bond retirement-savings	437,199	80,565
Capital improvement fund-savings	170,000	170,000
Unrestricted		
Cash and savings	568,259	355,339
Accounts receivable - net of allowance for doubtful accounts of \$4,500 for 2013 and \$4,500 for 2012	467,782	468,264
Unbilled usage	68,561	65,321
Inventory	42,324	33,151
Prepaid expenses	43,898	35,725
Total current assets	1,798,023	1,682,856
CAPITAL ASSETS		
Utility plant		
Plant in service, at cost	15,218,391	8,075,958
Less accumulated depreciation	4,871,035	4,701,376
	10,347,356	3,374,582
Construction work in progress	0	6,328,059
Net capital assets	10,347,356	9,702,641
OTHER ASSETS		
Bond discount and issuance costs	59,973	66,642
Restricted investments for bonds:		
Debt reserve and sinking	227,000	227,000
Total other assets	286,973	293,642
Total assets	\$ 12,432,352	\$ 11,679,139

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY
COMPARATIVE STATEMENTS OF NET POSITION
JUNE 30, 2014 and 2013**

**Schedule 5
(Continued)**

	2014	2013
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Customer credits	\$ 6,975	\$ 3,703
Accounts payable	48,853	54,889
State sales and use tax payable	10,519	10,222
Salaries, vacation and sick leave payable	39,464	44,283
Due City of Harlan for collections & fees	236,394	315,872
Payable from restricted assets		
Current maturities of long-term debt	78,322	1,000
Interest Payable	103,602	79,565
Total current liabilities	524,129	509,534
Long-Term Debt, net of current maturities	7,016,000	6,570,859
NET POSITION		
Net investment in capital assets	3,253,034	3,130,782
Restricted	841,174	481,268
Unrestricted	798,015	986,696
Total net position	4,892,223	4,598,746
Total liabilities and net position	\$ 12,432,352	\$ 11,679,139

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, 2014 and 2013**

	<u>2014</u> Actual	<u>2013</u> Actual	<u>2014</u> Budget	Budget Variance Favorable (Unfavorable)
OPERATING REVENUES				
Sales to consumers	\$ 1,910,519	\$ 1,869,085	\$ 1,876,720	\$ 33,799
Other operating revenue	71,049	41,953	26,400	44,649
Total operating revenue	<u>1,981,568</u>	<u>1,911,038</u>	<u>1,903,120</u>	<u>78,448</u>
OPERATING EXPENSES				
Plant operating expenses				
Cost of chemicals	162,596	104,374	139,500	(23,096)
Salaries and wages	152,571	178,747	195,349	42,778
Repairs and maintenance	0	1,427	0	0
Utilities	176,275	117,273	146,500	(29,775)
Insurance	44,410	49,662	40,100	(4,310)
Other	69,146	40,637	68,024	(1,122)
Total plant operating expenses	<u>604,998</u>	<u>492,120</u>	<u>589,473</u>	<u>(15,525)</u>
Distribution operation expenses				
Salaries and wages	106,116	81,333	109,306	3,190
Engineering	12,256	10,895	15,000	2,744
Repairs and maintenance	66,117	53,703	68,000	1,883
Other	5,910	16,894	5,350	(560)
Total distribution operation expense	<u>190,399</u>	<u>162,825</u>	<u>197,656</u>	<u>7,257</u>
Administration and general expenses				
Salaries and wages	100,090	100,067	123,715	23,625
Office supplies	11,856	11,633	11,300	(556)
Education and travel	4,654	4,956	3,734	(920)
Professional	41,128	29,452	28,800	(12,328)
Other	31,850	43,304	38,320	6,470
Total administrative and general expenses	<u>189,578</u>	<u>189,412</u>	<u>205,869</u>	<u>16,291</u>
Consumer services				
Bad debts (collected)	453	414	6,000	5,547
Total consumer services	<u>453</u>	<u>414</u>	<u>6,000</u>	<u>5,547</u>
Marketing and stakeholder relations				
Salaries and wages	6,209	5,801	6,225	16
Advertising	6,653	5,919	5,350	(1,303)
Other	6,121	5,302	9,068	2,947
Total marketing and stakeholder relations	<u>18,983</u>	<u>17,022</u>	<u>20,643</u>	<u>1,660</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, 2014 and 2013**

	2014 Actual	2013 Actual	2014 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Employee benefits				
Payroll taxes	\$ 69,179	\$ 69,876	\$ 82,001	\$ 12,822
Health insurance	123,984	123,355	129,650	5,666
Compensated absences	62,561	62,119	64,979	2,418
Total employee benefits	255,724	255,350	276,630	20,906
Total operating expenses excluding amortization and depreciation	1,260,135	1,117,143	1,296,271	36,136
OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION				
	721,433	793,895	606,849	114,584
Amortization	6,669	6,216	7,000	331
Depreciation	169,658	169,019	175,000	5,342
	176,327	175,235	182,000	5,673
OPERATING INCOME	545,106	618,660	424,849	120,257
NON-OPERATING REVENUES (EXPENSES)				
Capital Grants	0	0	0	0
Contributions to City-In lieu of taxes	(38,755)	(35,834)	(25,000)	(13,755)
Gain (Loss) on sale of assets	0	0	0	0
Interest income	3,713	5,079	5,000	(1,287)
Interest expense	(216,587)	(143,462)	(230,000)	13,413
Total non-operating revenues (expenses)	(251,629)	(174,217)	(250,000)	(1,629)
CHANGE IN NET POSITION	293,477	444,443	\$ 174,849	\$ 118,628
TOTAL NET POSITION, BEGINNING	4,598,746	4,154,303		
TOTAL NET POSITION, ENDING	\$ 4,892,223	\$ 4,598,746		

See accompanying independent auditors' report.

HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY
COMPARATIVE STATEMENTS OF NET POSITION
JUNE 30, 2014 and 2013

Schedule 7

	2014	2013
ASSETS		
CURRENT ASSETS		
Designated		
Plant improvements, emergency and contingency funds:		
Cash and savings	\$ 194,000	\$ 171,000
Restricted		
Revenue bond retirement-savings	62,687	68,198
Capital improvement fund-savings	0	0
Unrestricted		
Cash and savings	800,907	968,672
Accounts receivable - net of allowance for doubtful accounts of \$10,500 for 2013 and \$11,000 for 2012	204,651	202,752
Unbilled Usage	1,031	1,572
Inventory	4,079	2,871
Prepaid expenses	22,655	22,544
Total current assets	1,290,010	1,448,609
CAPITAL ASSETS		
Utility plant		
Plant in service, at cost	4,630,206	4,499,099
Less accumulated depreciation	2,473,277	2,326,996
	2,156,929	2,172,103
Construction work in progress	586,454	0
Net capital assets	2,743,383	2,172,103
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	\$ 4,198,360	\$ 3,785,679

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY
COMPARATIVE STATEMENTS OF NET POSITION
JUNE 30, 2014 and 2013**

**Schedule 7
(Continued)**

	2014	2013
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 109,459	\$ 78,030
Payroll taxes payable	0	0
State sales and use tax payable	15,513	8,344
Salaries, vacation and sick leave payable	33,324	32,340
Due City of Harlan for collections & fees	0	25,044
Other accrued liabilities	309	312
Payable from restricted assets		
Current maturities of long-term debt	187,135	164,967
Interest Payable	10,723	12,063
Total current liabilities	356,463	321,100
NONCURRENT LIABILITIES		
Long-Term Debt, net of current maturities	1,551,532	1,319,734
Deferred Revenue - CABS	0	0
Intra-utility note payable, net of current maturities	0	0
Total noncurrent liabilities	1,551,532	1,319,734
NET POSITION		
Net investment in capital assets	1,423,649	687,402
Restricted	227,654	233,165
Unrestricted	639,062	1,224,278
Total net position	2,290,365	2,144,845
Total liabilities and net position	\$ 4,198,360	\$ 3,785,679

See accompanying independent auditors' report.

HARLAN MUNICIPAL UTILITIES

Schedule 8

MUNICIPAL TELECOMMUNICATIONS UTILITY

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED JUNE 30, 2014 and 2013

	2014 Actual	2013 Actual	2014 Budget	Budget Variance Favorable (Unfavorable)
OPERATING REVENUES				
Sales to consumers	\$ 1,886,285	\$ 1,835,569	\$ 1,849,960	\$ 36,325
Other operating revenue	96,853	60,973	76,235	20,618
Total operating revenue	<u>1,983,138</u>	<u>1,896,542</u>	<u>1,926,195</u>	<u>56,943</u>
OPERATING EXPENSES				
Plant operating expenses				
Cost of programming, line fees	865,734	842,590	838,600	(27,134)
Salaries and wages	20,180	27,028	22,900	2,720
Repairs and maintenance	26,289	45,033	56,500	30,211
Utilities	27,537	25,635	23,300	(4,237)
Insurance	18,559	21,270	12,900	(5,659)
Other	58,474	63,886	89,000	30,526
Total plant operating expenses	<u>1,016,773</u>	<u>1,025,442</u>	<u>1,043,200</u>	<u>26,427</u>
Distribution operation expenses				
Salaries and wages	104,222	77,910	94,250	(9,972)
Engineering	18,820	16,540	30,000	11,180
Repairs and maintenance	30,890	24,593	15,300	(15,590)
Other	25,432	25,636	25,432	0
Total distribution operation expense	<u>179,364</u>	<u>144,679</u>	<u>164,982</u>	<u>(14,382)</u>
Administration and general expenses				
Salaries and wages	109,771	86,002	119,775	10,004
Office supplies	5,680	6,722	4,300	(1,380)
Education and travel	2,699	726	2,456	(243)
Professional	13,878	6,162	12,900	(978)
Other	59,131	59,160	57,960	(1,171)
Total administrative and general expenses	<u>191,159</u>	<u>158,772</u>	<u>197,391</u>	<u>6,232</u>
Consumer services				
Bad debts (collected)	(1,211)	(824)	1,000	2,211
Other	0	1,338	0	0
Total consumer services	<u>(1,211)</u>	<u>514</u>	<u>1,000</u>	<u>2,211</u>
Marketing and stakeholder relations				
Salaries and wages	65,881	69,957	66,725	844
Advertising	18,870	16,815	16,700	(2,170)
Other	5,138	3,085	15,380	10,242
Total marketing and stakeholder relations	<u>89,889</u>	<u>89,857</u>	<u>98,805</u>	<u>8,916</u>

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, 2014 and 2013

Schedule 8
(Continued)

	2014 Actual	2013 Actual	2014 Budget	Budget Variance Favorable (Unfavorable)
OPERATING EXPENSES (Continued)				
Employee benefits				
Payroll taxes	\$ 55,102	\$ 53,827	\$ 51,087	\$ (4,015)
Health insurance	77,293	73,407	77,950	657
Compensated absences	35,329	34,204	34,560	(769)
Total employee benefits	167,724	161,438	163,597	(4,127)
Total operating expenses excluding amortization and depreciation	1,643,698	1,580,702	1,668,975	25,277
OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION	339,440	315,840	257,220	82,220
Amortization	0	0	0	0
Depreciation	146,282	141,581	150,000	3,718
	146,282	141,581	150,000	3,718
OPERATING INCOME	193,158	174,259	107,220	85,938
NON-OPERATING REVENUES (EXPENSES)				
Contributions to City-In lieu of taxes	(985)	(901)	(1,000)	15
Interest income	2,834	3,962	5,000	(2,166)
Interest expense	(49,487)	(52,422)	(47,000)	(2,487)
Total non-operating revenues (expenses)	(47,638)	(49,361)	(43,000)	(4,638)
CHANGE IN NET POSITION	145,520	124,898	64,220	81,300
TOTAL NET POSITION, BEGINNING	2,144,845	2,019,947		
TOTAL NET POSITION, ENDING	\$ 2,290,365	\$ 2,144,845		

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

201 South 7th Street
Denison, IA 51442

Phone 712-263-6189
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**Independent Auditors' Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Trustees of the
Harlan Municipal Utilities:

We have audited 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, 2014, and the related notes to financial statements, which collectively comprise the Utility's basic financial statements, and have issued our report thereon dated September 12, 2014.

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. According, 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 with governance. We consider the deficiency in Part II of the accompanying Schedule of Findings as item II-A-14 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 instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2014 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 12, 2014
Denison, Iowa

**HARLAN MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014**

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

- (a) Unmodified opinions were issued on the financial statements.
- (b) The audit did not disclose any non-compliance which is material to the financial statements.
- (c) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-14 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual from handling duties which are incompatible. A limited number of people have primary responsibility for accounting and financial duties. This is even more important to monitor in the absence of a Chief Executive Officer.

Recommendation – We realize that with staffing limitations, segregation of duties is difficult. It is recognized that the Utilities has made reasonable efforts to segregate these duties by having the Chairman of the Board involved. However, the Utilities should continue to monitor, update and review their control procedures. In addition, continued supervisory review of financial transactions and reports also remains extremely important when incompatible duties and responsibilities cannot be segregated.

Response - We are aware of the need to segregate incompatible duties. With the hiring of a Chief Executive Officer, we will evaluate and update control procedures and continue to monitor the results of implementing such procedures.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**HARLAN MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014**

Part III: Other Findings Related to Required Statutory Reporting:

III-A-14 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. Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The Costs of Excess Sales caused the budget to be exceeded. This cost is directly related to the revenues from Excess Sales. The revenues were higher than the budgeted amount therefore resulting in the costs being higher than budgeted amounts. The costs are a factored fee based on sales so the higher the revenues are, the higher the associated fee/costs are. Overall, the net revenue from Excess Sales was higher than budgeted. We understand the budget process and if applicable, we will amend the budget in the future.

Conclusion – Response accepted.

III-B-14 Questionable Expenditures – Expenditures of Utility money appear to meet public purpose requirements.

III-C-14 Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utilities officials or employees were noted.

III-D-14 Business Transactions – Business transactions between Harlan Municipal Utilities and Utility officials or employees are immaterial and meet the guidelines of the Code of Iowa.

III-E-14 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provision. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

III-F-14 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 2013 as in accordance with an Attorney General's opinion dated April 12, 1978.

III-G-14 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.

III-H-14 Revenue Notes – No instances of non-compliance with the revenue note provisions were noted.

III-I-14 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.