

HARLAN MUNICIPAL UTILITIES
INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2016 and 2015

MAHONEY & GOTTO COMPANY
Certified Public Accountants

Denison, Iowa

HARLAN MUNICIPAL UTILITIES

TABLE OF CONTENTS

| | | <u>Page</u> |
|--|-----------------|-------------|
| Officials | | 1 |
| Independent Auditors' Report | | 2-4 |
| Management's Discussion and Analysis | | 5-12 |
| Basic Financial Statements | | |
| | <u>Exhibit</u> | |
| Proprietary Fund Financial Statements: | | |
| Statements of Net Position | A | 13-16 |
| Statements of Revenues, Expenses, and Changes in Fund Net Position | B | 17-19 |
| Statements of Cash Flows | C | 20-21 |
| Notes to Financial Statements | | 22-38 |
| Required Supplementary Information: | | |
| Budgetary Comparison Schedule of Revenues, Expenses and Changes in Fund Net Position-Accrual Budget vs. Actual (Accrual Basis) – Proprietary Funds | | 39 |
| Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances-Budget & Actual (Cash Basis) – Proprietary Funds | | 40 |
| Notes to Required Supplementary Information – Budgetary Reporting | | 41 |
| Schedule of Utility's Proportionate Share of the Net Pension Liability | | 42 |
| Schedule of Utility Contributions | | 43 |
| Notes to Required Supplementary Information – Pension Liability | | 44 |
| Supplementary Information: | | |
| | <u>Schedule</u> | |
| Municipal Electric Utility – Comparative Statements of Net Position | 1 | 45-46 |
| Municipal Electric Utility – Comparative Statements of Revenues, Expenses and Changes in Fund Net Position | 2 | 47-48 |
| Municipal Gas Utility – Comparative Statements of Net Position | 3 | 49 |
| Municipal Gas Utility – Comparative Statements of Revenues, Expenses and Changes in Fund Net Position | 4 | 50-51 |
| Municipal Water Utility – Comparative Statements of Net Position | 5 | 52-53 |
| Municipal Water Utility – Comparative Statements of Revenues, Expenses and Changes in Fund Net Position | 6 | 54-55 |
| Municipal Telecommunications Utility – Comparative Statements of Net Position | 7 | 56-57 |
| Municipal Telecommunications Utility – Comparative Statements of Revenues, Expenses and Changes in Fund Net Position | 8 | 58-59 |

HARLAN MUNICIPAL UTILITIES

TABLE OF CONTENTS, (continued)

| | <u>Page</u> |
|--|-------------|
| Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u> | 60-61 |
| Schedule of Findings | 62-64 |

HARLAN MUNICIPAL UTILITIES

OFFICIALS

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--------------------------------|--|---------------------|
| Terry Arentson | Chairperson | 2021 |
| Michael Jones | Board Member | 2019 |
| Mary Johnson | Board Member | 2016 |
| David Tyrrel | Board Member | 2017 |
| Nella Seivert | Board Member | 2018 |
| Kenneth Weber | Chief Executive Officer & Board Secretary | Indefinite |
| Krista Allen | Director of Finance | Dec. 2015 |
| Hall Hudson Fischer PC | Attorneys At Law | Indefinite |
| Shane Isley CFO Systems LLC | Director of Accounting & Finance | Indefinite |

MAHONEY & GOTTO COMPANY

Certified Public Accountants

201 South 7th Street
Denison, IA 51442

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

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Harlan Municipal Utilities

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, 2016, 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, 2016, and the respective changes in its financial position and, where applicable, its cash flows there 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, the Schedule of the Utility's Proportionate Share of the Net Pension Liability, and the Schedule of Utility Contributions on pages 5 through 12 and 39 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harlan Municipal Utilities' basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the seven years ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 8 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 12, 2016 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

MAHONEY & GOTTO COMPANY
Certified Public Accountants

September 12, 2016
Denison, Iowa

Management's Discussion and Analysis



2412 Southwest Avenue
P.O. Box 71
Harlan, Iowa 51537-0071

Phone: (712)-755-5182
Fax: (712)-755-2320
E-mail: HMU@harlannet.com

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, 2016. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities decreased 5.73%, or \$852,333 from fiscal 2015 to fiscal 2016.
- Operating expenses of the Utilities' activities decreased 4.55%, or \$482,039 from fiscal 2015 to fiscal 2016.
- The Utilities' net position increased 4.06%, or \$1,402,375 from June 30, 2015 to June 30, 2016.

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 and the Utilities' proportionate share of the net pension liability and related contributions.

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, deferred outflows of resources, liabilities and deferred inflows of resources 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 financial information on all the Utilities' assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference 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 | |
| | 6-30-16 | 6-30-15 |
| Current and other assets | \$ 21,482,872 | \$ 20,190,551 |
| Capital assets | <u>33,996,500</u> | <u>34,728,561</u> |
| Total Assets | <u>\$ 55,479,372</u> | <u>\$ 54,919,112</u> |
| Deferred Outflows of Resources | <u>\$ 395,342</u> | <u>\$ 202,418</u> |
| Long-term liabilities | \$ 15,981,306 | \$ 16,861,343 |
| Other liabilities | <u>3,694,045</u> | <u>3,366,948</u> |
| Total Liabilities | <u>\$ 19,675,351</u> | <u>\$ 20,228,291</u> |
| Deferred Inflows of Resources | <u>\$ 287,707</u> | <u>\$ 383,961</u> |
| Net position: | | |
| Net investment in capital assets | \$ 18,585,700 | \$ 18,179,780 |
| Restricted | 8,995,062 | 7,875,390 |
| Unrestricted | <u>8,330,894</u> | <u>8,454,110</u> |
| Total net position | <u>\$ 35,911,656</u> | <u>\$ 34,509,280</u> |

Net position of business type activities increased approximately \$1,402,000, or 4.06% over fiscal year 2015. 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 \$8,331,000 at the end of this year.

Changes in Net Position for the Year ended June 30,

Business Type Activities-Enterprise Funds

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| Revenues: | | |
| Charges for services | \$ 14,023,224 | \$ 14,875,557 |
| Interest Income | <u>62,401</u> | <u>61,579</u> |
| Total revenues | <u>14,085,625</u> | <u>14,937,136</u> |
| Operating expenses: | | |
| Plant operations | 6,493,139 | 7,444,486 |
| Distribution operations | 1,414,233 | 1,111,273 |
| Transmission operations | 208,378 | 2,011 |
| Administrative and general | 835,206 | 765,346 |
| Consumer services | 114,779 | 234,740 |
| Marketing and stakeholder relations | 175,436 | 165,298 |
| Employee benefits | <u>881,642</u> | <u>881,698</u> |
| Total operating expenses | <u>10,122,813</u> | <u>10,604,852</u> |
| Other expenses: | | |
| Amortization | 18,092 | 21,572 |
| Depreciation | 1,713,065 | 1,662,649 |
| Contributions to City-In lieu of taxes | 257,339 | 258,211 |
| Interest expense | 546,941 | 593,610 |
| Industrial development contribution | <u>25,000</u> | <u>25,000</u> |
| Total other expenses | <u>2,560,437</u> | <u>2,561,042</u> |
| Increase in net position | 1,402,375 | 1,771,242 |
| Net position beginning of year | <u>34,509,280</u> | <u>32,738,038</u> |
| Net position end of year | <u>\$ 35,911,655</u> | <u>\$ 34,509,280</u> |

INDIVIDUAL PROPRIETARY FUND ANALYSIS

Proprietary Fund Highlights

The Enterprise, Electric Fund, which accounts for the operating and maintenance of the Utilities' electrical system, ended fiscal 2016 with a \$24,913,507 net position balance compared to the prior year ending net position balance of \$23,791,175.

The Enterprise, Gas Fund, which accounts for the operating and maintenance of the Utilities' gas system, ended fiscal 2016 with a \$3,890,993 net position balance compared to the prior year ending net position balance of \$3,735,983.

The Enterprise, Water Fund, which accounts for the operating and maintenance of the Utilities' water system, ended fiscal 2016 with a \$4,971,521 net position balance compared to the prior year ending net position balance of \$4,782,935.

The Enterprise, Telecommunications Fund, which accounts for the operation and maintenance of the Utilities' cable and internet system, ended fiscal 2016 with a \$2,135,634 net position balance compared to the prior year ending net position balance of \$2,199,187.

Summary of Usage Statistics

ELECTRIC UTILITY

| | 2016 | | 2015 | |
|-----------------------------|-------------------|--------------|-------------------|---------------|
| KWH purchased and generated | 66,377,199 | 100.00% | 64,247,376 | 100.00% |
| Less: KWH unaccounted for | (7,435,337) | (11.2)% | (5,521,454) | (8.59)% |
| KWH BILLED | 58,941,862 | 88.8% | 58,725,922 | 91.41% |

Following is a schedule of the number of customers and the kilowatts used by customer class for the fiscal years June 30, 2016 and 2015:

| Comparison of Customer Meters & Usage by Customer Class | | | | |
|--|--------------|-------------------|--------------|-------------------|
| | 2016 | | 2015 | |
| Rate Categories | Customers | KWH Billed | Customers | KWH Billed |
| Single Phase Small | 2,655 | 27,019,460 | 2,652 | 26,893,102 |
| Single Phase Large | 40 | 1,923,415 | 40 | 2,085,589 |
| Three Phase | 98 | 8,832,166 | 97 | 9,601,784 |
| Demand | 32 | 14,469,132 | 31 | 8,152,852 |
| Time of Use | 4 | 4,736,432 | 5 | 10,129,028 |
| Municipal-City of Harlan, Demand | 3 | 703,880 | 3 | 627,880 |
| Street Lights | 8 | 590,175 | 8 | 606,131 |
| Water Plant – pumping | 15 | 667,202 | 15 | 629,556 |
| Total Customers & Billed | 2,855 | 58,941,862 | 2,851 | 58,725,922 |

GAS UTILITY

| | 2016 | | 2015 | |
|---------------------|------------------|----------------|------------------|----------------|
| CCF purchased | 3,805,320 | 100.00% | 3,985,440 | 100.00% |
| CCF unaccounted for | 62,555 | 1.64% | 44,694 | 1.12% |
| CCF BILLED | 3,867,875 | 101.64% | 4,034,134 | 101.12% |

Following is a schedule of the number of customers and the centum cubic-feet used by customer class for the fiscal years June 30, 2016 and 2015:

| Comparison of Customer Meters & Usage by Customer Class | | | | |
|--|--------------|------------------|--------------|------------------|
| | 2016 | | 2015 | |
| Rate Categories | Customers | CCF Billed | Customers | CCF Billed |
| Residential | 1,911 | 1,133,069 | 1,911 | 1,314,219 |
| Commercial | 295 | 377,832 | 299 | 453,304 |
| Large Commercial | 37 | 605,616 | 37 | 644,477 |
| Interruptible | 4 | 1,751,358 | 4 | 1,622,134 |
| Total Customers and Billed | 2,247 | 3,867,875 | 2,252 | 4,034,134 |

Summary of Usage Statistics, Continued

WATER UTILITY

| | 2016 | | 2015 | |
|-------------------------------|--------------------|---------------|--------------------|---------------|
| Gallons to account for | 252,703,800 | 100.00% | 230,339,420 | 100.00% |
| Less: Gallons unaccounted for | (63,643,933) | (25.18)% | (32,920,477) | (14.29)% |
| GALLONS BILLED | 189,059,867 | 74.82% | 197,418,943 | 85.71% |

Following is a schedule of the number of customers and gallons used by customer class for the fiscal years June 30, 2016 and 2015:

| Comparison of Customer Meters & Usage by Customer Class | | | | |
|--|--------------|--------------------|--------------|--------------------|
| | 2016 | | 2015 | |
| Rate Categories | Customers | Gallons Billed | Customers | Gallons Billed |
| Residential | 2,090 | 82,317,867 | 2,089 | 82,533,419 |
| Commercial | 367 | 66,544,800 | 365 | 61,946,604 |
| Interruptible | 1 | 40,197,200 | 1 | 52,938,920 |
| Total Customers and Billed | 2,458 | 189,059,867 | 2,455 | 197,418,943 |

BUDGETARY HIGHLIGHTS

The Utility's revenues were \$1,134,750 less than budgeted revenues, a variance of 7.49%. One significant variance resulted from the Utility receiving less revenue from Excess Sales in the Electric Utility than originally anticipated.

The Utility's operating expenses were \$920,286 less than budgeted expenses, a variance of 7.20%.

The Utilities' did not exceed the budgeted amounts for the year ended June 30, 2016.

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 \$33,990,913 (net of accumulated depreciation/amortization) at June 30, 2016. This is a net decrease (including additions and deletions) of \$737,648. See Note 3 to the financial statements for more information about the Utility's capital assets.

| <u>Capital Assets at Year End</u> | | |
|---|-------------------------------|-------------------------------|
| | <u>June 30</u> <u>2016</u> | <u>June 30</u> <u>2015</u> |
| Intangible Plant | \$ 220,632 | \$ 220,632 |
| Production | 20,576,904 | 20,414,179 |
| Transmission & Pumping | 5,954,065 | 5,943,781 |
| Distribution | 29,438,524 | 29,017,785 |
| General | 8,393,802 | 8,050,148 |
| Fiber Optics | <u>5,479,449</u> | <u>5,441,433</u> |
| Total | 70,063,376 | 69,087,958 |
| Less: Accumulated Depreciation | <u>36,072,463</u> | <u>34,359,397</u> |
| Net Capital Assets | <u>\$ 33,990,913</u> | <u>\$ 34,728,561</u> |
| This year's additions by fund included: | | |
| Electric Fund | | \$ 654,480 |
| Gas Fund | | 56,271 |
| Water Fund | | 92,519 |
| Telecommunication Fund | | <u>172,147</u> |
| Total | | <u>\$ 975,417</u> |

The Utility had depreciation expense of \$1,713,065 in fiscal year June 30, 2016.

There were no disposals for June 30, 2016.

Long-Term Debt

At June 30, 2016, the Utility had \$15,784,552 in total debt outstanding for business type activities compared to \$16,899,517 at June 30, 2015 as shown below.

| Outstanding Debt of Business Type Activities at Year-End | | |
|--|-------------------------------|-------------------------------|
| | <u>June 30</u> <u>2016</u> | <u>June 30</u> <u>2015</u> |
| Revenue bonds | \$ 7,770,000 | \$ 8,495,000 |
| Capital loan notes | 989,800 | 1,154,767 |
| SRF Loan | 6,651,000 | 6,876,000 |
| Inter-fund loan | <u>373,752</u> | <u>373,750</u> |
| Total | <u>\$ 15,784,552</u> | <u>\$ 16,899,517</u> |

During the fiscal year ended June 30, 2015, the Utility approved and authorized the early redemption of the Electric Revenue Bonds, Series 2006 in the amount of \$405,000. Please see Note 4 for further information on the Utility's outstanding long term debt.

ECONOMIC FACTORS BEARING ON THE UTILITY'S FUTURE

Several economic factors affected decisions made by the Utility in setting its fiscal year 2017 budget. The Utility will experience an increase in revenues and expenditures from fiscal 2016 to fiscal 2017. The Total Proprietary Funds for the Utility is projected to end fiscal 2017 with a Total Net Position balance of approximately \$37,470,520 which is a 4.21% increase from fiscal 2016.

FUTURE FINANCIAL STATEMENT IMPACT

For the year ended June 30, 2016, interest income increased by 1.33%.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to present our citizens, rate payers, customers, investors and creditors with a general overview of the Utility's finances and operating activities. If you have any questions or require additional information, please contact the Chief Executive Officer, 2412 Southwest Avenue, Harlan, Iowa.

Basic Financial Statements

**HARLAN MUNICIPAL UTILITIES
STATEMENTS OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016 and 2015**

| | 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 | \$ 1,205,000 | \$ 1,057,062 | \$ 0 |
| Replacement funds bond requirement: | | | |
| Cash and savings | 146,666 | 0 | 0 |
| Restricted | | | |
| Consumers' deposit fund | 45,480 | 0 | 0 |
| Revenue bond retirement-savings | 2,248,085 | 0 | 634,662 |
| Capital improvement fund-savings | 3,014,497 | 0 | 170,000 |
| Unrestricted | | | |
| Cash and savings | 4,147,649 | 2,523,489 | 254,473 |
| Industrial development fund | 152,283 | 123,799 | 0 |
| Accounts receivable - net of allowance for doubtful accounts of \$35,000 | 668,386 | 700,640 | 505,639 |
| Unbilled usage | 186,370 | 81,621 | 78,153 |
| Inventory | 678,398 | 27,141 | 40,297 |
| Prepaid expenses | 45,855 | 29,642 | 34,719 |
| Total current assets | <u>12,538,669</u> | <u>4,543,394</u> | <u>1,717,943</u> |
| CAPITAL ASSETS | | | |
| Utility plant | | | |
| Plant in service, at cost | 45,793,913 | 2,962,575 | 15,548,562 |
| Less accumulated depreciation | <u>25,804,750</u> | <u>1,921,754</u> | <u>5,529,415</u> |
| | 19,989,163 | 1,040,821 | 10,019,147 |
| Construction work in progress | <u>4,454</u> | <u>0</u> | <u>0</u> |
| Net capital assets | <u>19,993,617</u> | <u>1,040,821</u> | <u>10,019,147</u> |
| OTHER ASSETS | | | |
| Other accounts receivable | 0 | 0 | 0 |
| Note Receivable - Telecom Utility | 373,751 | 0 | 0 |
| Bond discount and issuance costs | 61,694 | 0 | 47,721 |
| Restricted investments for bonds: | | | |
| Debt Reserve | <u>721,833</u> | <u>0</u> | <u>622,684</u> |
| Total other assets | <u>1,157,278</u> | <u>0</u> | <u>670,405</u> |
| Total assets | <u>\$ 33,689,564</u> | <u>\$ 5,584,215</u> | <u>\$ 12,407,495</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pension related deferred outflows | <u>130,463</u> | <u>106,742</u> | <u>110,696</u> |

Exhibit A

| Enterprise Funds | | | |
|-------------------------------|-------------|----------------------|----------------------|
| Telecommunications Utility | Elimination | Total 2016 | Total 2015 |
| \$ 68,000 | \$ 0 | \$ 2,330,062 | \$ 2,444,062 |
| 0 | 0 | 146,666 | 146,276 |
| 0 | 0 | 45,480 | 45,462 |
| 104,944 | 0 | 2,987,691 | 2,568,400 |
| 0 | 0 | 3,184,497 | 3,179,682 |
| 345,312 | 0 | 7,270,923 | 7,084,073 |
| 0 | 0 | 276,082 | 275,889 |
| 177,352 | 0 | 2,052,017 | 1,884,198 |
| 1,349 | 0 | 347,493 | 371,626 |
| 4,159 | 0 | 749,995 | 425,863 |
| 15,870 | 0 | 126,086 | 150,538 |
| <u>716,986</u> | <u>0</u> | <u>19,516,992</u> | <u>18,576,069</u> |
| 5,758,325 | 0 | 70,063,375 | 69,087,958 |
| <u>2,816,543</u> | <u>0</u> | <u>36,072,462</u> | <u>34,359,397</u> |
| 2,941,782 | 0 | 33,990,913 | 34,728,561 |
| 1,133 | 0 | 5,587 | - |
| <u>2,942,915</u> | <u>0</u> | <u>33,996,500</u> | <u>34,728,561</u> |
| 0 | 0 | 0 | 0 |
| 0 | 0 | 373,750 | 373,750 |
| 0 | 0 | 109,415 | 127,506 |
| | | 0 | 0 |
| 138,198 | 0 | 1,482,715 | 1,113,226 |
| <u>138,198</u> | <u>0</u> | <u>1,965,880</u> | <u>1,614,482</u> |
| \$ <u>3,798,099</u> | \$ <u>0</u> | \$ <u>55,479,372</u> | \$ <u>54,919,112</u> |
| <u>47,441</u> | <u>0</u> | <u>395,342</u> | <u>202,418</u> |

See notes to financial statements.

**HARLAN MUNICIPAL UTILITIES
STATEMENTS OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016 and 2015**

| | Business Type Activities - | | |
|--|----------------------------|---------------------|----------------------|
| | Electric Utility | Gas Utility | Water Utility |
| LIABILITIES AND NET POSITION | | | |
| CURRENT LIABILITIES | | | |
| Customer credits | \$ 0 | \$ 1,294,679 | \$ 0 |
| Accounts payable | 292,751 | 76,067 | 142,435 |
| Payroll taxes payable | 63,570 | 0 | 0 |
| State sales and use tax payable | 644 | 1,561 | 10,495 |
| Salaries, vacation and sick leave payable | 58,619 | 16,362 | 42,223 |
| Accrued property taxes | 103,043 | 0 | 0 |
| Bonds called not paid | 0 | 0 | 0 |
| Due City of Harlan for collections & fees | 0 | 0 | 174,222 |
| Other accrued liabilities | 134 | 0 | 0 |
| Payable from restricted assets | | 0 | 0 |
| Current maturities of long-term debt | 615,000 | 0 | 235,000 |
| Interest Payable | 73,295 | 0 | 99,765 |
| Consumers' deposits | 41,766 | 0 | 0 |
| Total current liabilities | <u>1,248,822</u> | <u>1,388,669</u> | <u>704,140</u> |
| NONCURRENT LIABILITIES | | | |
| Long-Term Debt, net of current maturities | 7,155,000 | 0 | 6,416,000 |
| Contract Payable, net of current maturities | 0 | 0 | 0 |
| Intra-utility note payable, net of current maturities | 0 | 0 | 0 |
| Net Pension Liability | 407,752 | 333,614 | 345,972 |
| Total noncurrent liabilities | <u>7,562,752</u> | <u>333,614</u> | <u>6,761,972</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenues: | | | |
| Pension related deferred inflows | 94,943 | 77,681 | 80,558 |
| Total deferred inflows of resources | <u>94,943</u> | <u>77,681</u> | <u>80,558</u> |
| NET POSITION | | | |
| Net investment in capital assets | 12,223,616 | 1,040,822 | 3,368,147 |
| Restricted for: | | | |
| Consumers' deposit fund | 45,480 | 0 | 0 |
| Customer credits | 0 | 1,294,679 | 0 |
| Revenue bond-debt reserve | 721,833 | 0 | 622,684 |
| Revenue bond retirement | 2,248,085 | 0 | 634,662 |
| Capital improvement fund | 3,014,497 | 0 | 170,000 |
| Unrestricted | 6,659,996 | 1,555,492 | 176,028 |
| Total net position | <u>24,913,507</u> | <u>3,890,993</u> | <u>4,971,521</u> |
| Total liabilities and net position | <u>\$ 33,725,081</u> | <u>\$ 5,613,276</u> | <u>\$ 12,437,633</u> |

| Enterprise Funds | | | |
|---------------------|-------------|----------------------|----------------------|
| Telecommunications | | Total | Total |
| Utility | Elimination | 2016 | 2015 |
| \$ 0 | \$ 0 | \$ 1,294,679 | \$ 968,620 |
| 122,612 | 0 | 633,865 | 562,043 |
| 0 | 0 | 63,570 | 0 |
| 6,917 | 0 | 19,617 | 196,361 |
| 25,798 | 0 | 143,002 | 183,034 |
| 0 | 0 | 103,043 | 105,937 |
| 0 | 0 | 0 | 0 |
| 0 | 0 | 174,222 | 225,337 |
| 409 | 0 | 543 | 613 |
| 188,859 | 0 | 1,038,859 | 1,067,981 |
| 7,819 | 0 | 180,879 | 192,411 |
| 0 | 0 | 41,766 | 41,341 |
| <u>352,414</u> | <u>0</u> | <u>3,694,045</u> | <u>3,543,678</u> |
| 824,834 | 0 | 14,395,834 | 15,854,551 |
| 0 | 0 | 0 | 0 |
| 349,860 | 0 | 349,860 | 0 |
| 0 | 0 | 0 | 0 |
| 148,274 | 0 | 1,235,612 | 1,006,792 |
| <u>1,322,968</u> | <u>0</u> | <u>15,981,306</u> | <u>16,861,343</u> |
| 34,525 | 0 | 287,707 | 383,961 |
| <u>34,525</u> | <u>0</u> | <u>287,707</u> | <u>383,961</u> |
| 1,953,115 | 0 | 18,585,700 | 18,179,780 |
| 0 | 0 | 45,480 | 45,462 |
| 0 | 0 | 1,294,679 | 968,620 |
| 138,198 | 0 | 1,482,715 | 1,113,226 |
| 104,944 | 0 | 2,987,691 | 2,568,400 |
| 0 | 0 | 3,184,497 | 3,179,682 |
| (60,622) | 0 | 8,330,894 | 8,454,110 |
| <u>2,135,635</u> | <u>0</u> | <u>35,911,656</u> | <u>34,509,280</u> |
| <u>\$ 3,811,017</u> | <u>\$ 0</u> | <u>\$ 55,587,007</u> | <u>\$ 54,914,301</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, 2016 and 2015

Exhibit B

| | Business Type Activities - Enterprise Funds | | | | | Total 2016 | Total 2015 |
|--|---|------------------|------------------|-------------------------------|-------------------|-------------------|---------------|
| | Electric Utility | Gas Utility | Water Utility | Telecommunications Utility | | | |
| OPERATING REVENUES | | | | | | | |
| Sales to consumers | \$ 6,051,132 | \$ 2,630,466 | \$ 1,997,541 | \$ 2,045,438 | \$ 12,724,577 | \$ 13,377,105 | |
| Other operating revenue | 627,271 | 2,271 | 60,149 | 72,446 | 762,137 | 461,895 | |
| Other sales - MISO | 536,510 | 0 | 0 | 0 | 536,510 | 1,036,557 | |
| Total operating revenue | <u>7,214,913</u> | <u>2,632,737</u> | <u>2,057,690</u> | <u>2,117,884</u> | <u>14,023,224</u> | <u>14,875,557</u> | |
| OPERATING EXPENSES | | | | | | | |
| Plant operating expenses | | | | | | | |
| Cost of gas, power, chemicals, programming, and line fees | 2,116,467 | 1,733,015 | 184,121 | 1,011,757 | 5,045,360 | 5,401,334 | |
| Cost of other sales | 392,575 | 0 | 0 | 0 | 392,575 | 990,812 | |
| Salaries and wages | 28,258 | 12,261 | 145,031 | 24,288 | 209,838 | 214,163 | |
| Repairs and maintenance | 10,697 | 0 | 0 | 2,307 | 13,004 | 32,489 | |
| Utilities | 70,599 | 26,654 | 201,618 | 18,764 | 317,635 | 326,665 | |
| Insurance | 56,446 | 41,086 | 42,345 | 18,148 | 158,025 | 171,275 | |
| Property taxes | 103,043 | 0 | 0 | 0 | 103,043 | 105,937 | |
| Other | 109,688 | 28,110 | 57,802 | 58,059 | 253,659 | 201,811 | |
| Total plant operating expenses | <u>2,887,773</u> | <u>1,841,126</u> | <u>630,917</u> | <u>1,133,323</u> | <u>6,493,139</u> | <u>7,444,486</u> | |
| Distribution operation expenses | | | | | | | |
| Salaries and wages | 266,940 | 114,241 | 112,962 | 107,098 | 601,241 | 618,664 | |
| Engineering | 105,002 | 0 | 0 | 5,297 | 110,299 | 213,092 | |
| Repairs and maintenance | 83,409 | 5,191 | 8,251 | 32,894 | 129,745 | 158,085 | |
| Other | 261,781 | 65,136 | 79,386 | 166,645 | 572,948 | 121,432 | |
| Total distribution operation expense | <u>717,132</u> | <u>184,568</u> | <u>200,599</u> | <u>311,934</u> | <u>1,414,233</u> | <u>1,111,273</u> | |
| Transmission operation expenses | | | | | | | |
| Salaries and wages | 246 | 0 | 0 | 0 | 246 | 0 | |
| Outside Contracts | 208,132 | 0 | 0 | 0 | 208,132 | 2,011 | |
| Total transmission operation expense | <u>208,378</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>208,378</u> | <u>2,011</u> | |
| Administration and general expenses | | | | | | | |
| Salaries and wages | 167,382 | 106,190 | 112,754 | 132,027 | 518,353 | 490,483 | |
| Office supplies | 32,554 | 10,837 | 12,490 | 2,941 | 58,822 | 68,164 | |
| Education and travel | 14,803 | 4,557 | 8,771 | 4,401 | 32,532 | 17,337 | |
| Professional | 36,949 | 11,810 | 31,233 | 9,224 | 89,216 | 88,329 | |
| Other | 18,316 | 32,841 | 27,727 | 57,399 | 136,283 | 101,033 | |
| Total administrative and general expenses | <u>270,004</u> | <u>166,235</u> | <u>192,975</u> | <u>205,992</u> | <u>835,206</u> | <u>765,346</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, 2016 and 2015

Exhibit B

| | Business Type Activities - Enterprise Funds | | | | | Total 2016 | Total 2015 |
|---|---|------------------|------------------|-------------------------------|-------------------|-------------------|---------------|
| | Electric Utility | Gas Utility | Water Utility | Telecommunications Utility | | | |
| OPERATING EXPENSES (Continued) | | | | | | | |
| Consumer services | | | | | | | |
| Salaries and wages | \$ 13,948 | \$ 1,658 | \$ 1,311 | \$ 1,274 | \$ 18,191 | \$ 31,778 | |
| Bad debts | 21,577 | 19,073 | 11,301 | 44,139 | 96,090 | 142,952 | |
| Other | 498 | 0 | 0 | 0 | 498 | 60,010 | |
| Total consumer services | <u>36,023</u> | <u>20,731</u> | <u>12,612</u> | <u>45,413</u> | <u>114,779</u> | <u>234,740</u> | |
| Marketing and stakeholder relations | | | | | | | |
| Salaries and wages | 19,902 | 16,195 | 17,259 | 44,972 | 98,328 | 94,026 | |
| Advertising | 4,646 | 3,710 | 6,653 | 21,096 | 36,105 | 36,293 | |
| Other | 12,022 | 15,142 | 8,918 | 4,921 | 41,003 | 34,979 | |
| Total marketing and stakeholder relations | <u>36,570</u> | <u>35,047</u> | <u>32,830</u> | <u>70,989</u> | <u>175,436</u> | <u>165,298</u> | |
| Employee benefits | | | | | | | |
| Payroll taxes | 103,923 | 47,994 | 74,220 | 57,806 | 283,943 | 267,998 | |
| Health insurance | 166,344 | 59,240 | 109,388 | 90,415 | 425,387 | 451,357 | |
| Compensated absences | 96,007 | 37,309 | 63,176 | 36,175 | 232,667 | 241,390 | |
| Pension expense | (19,917) | (16,296) | (16,899) | (7,243) | (60,355) | (79,047) | |
| Total employee benefits | <u>346,357</u> | <u>128,247</u> | <u>229,885</u> | <u>177,153</u> | <u>881,642</u> | <u>881,698</u> | |
| Total operating expenses excluding amortization and depreciation | <u>4,502,237</u> | <u>2,375,954</u> | <u>1,299,818</u> | <u>1,944,804</u> | <u>10,122,813</u> | <u>10,604,852</u> | |
| OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION | 2,712,676 | 256,783 | 757,872 | 173,080 | 3,900,411 | 4,270,705 | |
| Amortization | 12,134 | 0 | 5,958 | 0 | 18,092 | 21,572 | |
| Depreciation | 1,126,837 | 66,327 | 332,002 | 187,899 | 1,713,065 | 1,662,649 | |
| | <u>1,138,971</u> | <u>66,327</u> | <u>337,960</u> | <u>187,899</u> | <u>1,731,157</u> | <u>1,684,221</u> | |
| OPERATING INCOME | 1,573,705 | 190,456 | 419,912 | (14,819) | 2,169,254 | 2,586,484 | |

See notes to financial statements.

HARLAN MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2016 and 2015

Exhibit B

| | Business Type Activities - Enterprise Funds | | | | | Total 2015 |
|---|---|---------------------|---------------------|-------------------------------|----------------------|----------------------|
| | Electric Utility | Gas Utility | Water Utility | Telecommunications Utility | Total 2016 | |
| NON-OPERATING REVENUES (EXPENSES) | | | | | | |
| Contributions to City-In lieu of taxes | \$ (191,854) | \$ (29,156) | \$ (35,303) | \$ (1,026) | \$ (257,339) | \$ (258,211) |
| Gain on sale of asset | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest income | 49,955 | 6,210 | 3,507 | 2,729 | 62,401 | 61,579 |
| Interest expense | (296,974) | 0 | (199,530) | (50,437) | (546,941) | (593,610) |
| Industrial development contribution | (12,500) | (12,500) | 0 | 0 | (25,000) | (25,000) |
| Total non-operating revenues (expenses) | <u>(451,373)</u> | <u>(35,446)</u> | <u>(231,326)</u> | <u>(48,734)</u> | <u>(766,879)</u> | <u>(815,242)</u> |
| CHANGE IN NET POSITION | 1,122,332 | 155,010 | 188,586 | (63,553) | 1,402,375 | 1,771,242 |
| TOTAL NET POSITION, BEGINNING | <u>23,791,175</u> | <u>3,735,983</u> | <u>4,782,935</u> | <u>2,199,187</u> | <u>34,509,280</u> | <u>32,738,038</u> |
| TOTAL NET POSITION, ENDING | <u>\$ 24,913,507</u> | <u>\$ 3,890,993</u> | <u>\$ 4,971,521</u> | <u>\$ 2,135,634</u> | <u>\$ 35,911,655</u> | <u>\$ 34,509,280</u> |

See notes to financial statements.

**HARLAN MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2016 and 2015**

Exhibit C

| | Business Type Activities - Enterprise Funds | | | | | Total 2016 | Total 2015 |
|--|---|---------------------|---------------------|-------------------------------|----------------------|----------------------|---------------|
| | Electric Utility | Gas Utility | Water Utility | Telecommunications Utility | | | |
| Cash flows from operating activities: | | | | | | | |
| Cash received from customers and users | \$ 6,059,116 | \$ 2,791,414 | \$ 1,880,209 | \$ 2,029,348 | \$ 12,760,087 | \$ 13,195,246 | |
| Cash received from other revenues | 1,163,781 | 2,271 | 60,149 | 72,446 | 1,298,647 | 1,434,255 | |
| Cash paid to suppliers | (3,076,436) | (1,762,343) | (153,038) | (1,073,224) | (6,065,041) | (6,900,231) | |
| Cash paid for personal services | (1,142,511) | (322,106) | (615,562) | (493,746) | (2,573,925) | (1,917,166) | |
| Cash paid to employees | (544,018) | (295,185) | (457,416) | (358,710) | (1,655,329) | (1,571,573) | |
| Net cash provided by operating activities | <u>2,459,932</u> | <u>414,051</u> | <u>714,342</u> | <u>176,114</u> | <u>3,764,439</u> | <u>4,240,531</u> | |
| Cash flows from noncapital financing activities: | | | | | | | |
| Contributions to City-In lieu of taxes | (191,854) | (29,156) | (35,303) | (1,026) | (257,339) | (287,749) | |
| Net cash provided (used) by noncapital financing activities | <u>(191,854)</u> | <u>(29,156)</u> | <u>(35,303)</u> | <u>(1,026)</u> | <u>(257,339)</u> | <u>(287,749)</u> | |
| Cash flows from capital and related financing activities: | | | | | | | |
| Loan proceeds | 0 | 0 | 0 | 0 | 0 | 733,463 | |
| Bond issuance costs (paid) | 0 | 0 | 0 | 0 | 0 | 0 | |
| Acquisition of capital assets | (658,932) | (56,271) | (92,519) | (173,281) | (981,003) | (2,390,240) | |
| (Transfers) Proceeds of intra-utility notes | 0 | 0 | 0 | 0 | 0 | 0 | |
| Principal (payments) on long-term borrowings | (585,000) | 0 | (365,000) | (187,979) | (1,137,979) | (1,054,582) | |
| Interest paid on notes | (300,768) | 0 | (205,705) | (52,000) | (558,473) | (593,754) | |
| Net cash provided (used) by capital and related financing activities | <u>(1,544,700)</u> | <u>(56,271)</u> | <u>(663,224)</u> | <u>(413,260)</u> | <u>(2,677,455)</u> | <u>(3,305,113)</u> | |
| Cash flows from investing activities: | | | | | | | |
| Interest on investments | 49,955 | 6,210 | 3,507 | 2,729 | 62,401 | 46,559 | |
| Industrial development contribution | (12,500) | (12,500) | 0 | 0 | (25,000) | (25,000) | |
| Principal received on intra-utility notes | 0 | 0 | 0 | 0 | 0 | 3,615 | |
| Net cash provided (used) by investing activities | <u>37,455</u> | <u>(6,290)</u> | <u>3,507</u> | <u>2,729</u> | <u>37,401</u> | <u>25,174</u> | |
| Net increase (decrease) in cash and cash equivalents | 760,833 | 322,334 | 19,322 | (235,443) | 867,046 | 672,843 | |
| Cash and cash equivalents beginning of year | <u>10,920,660</u> | <u>3,382,016</u> | <u>1,662,497</u> | <u>891,897</u> | <u>16,857,070</u> | <u>15,114,891</u> | |
| Cash and cash equivalents end of year | <u>\$ 11,681,493</u> | <u>\$ 3,704,350</u> | <u>\$ 1,681,819</u> | <u>\$ 656,454</u> | <u>\$ 17,724,116</u> | <u>\$ 15,787,734</u> | |

See notes to financial statements.

**HARLAN MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2016 and 2015**

Exhibit C
(Continued)

| | Business Type Activities - Enterprise Funds | | | | Total 2016 | Total 2015 |
|--|---|---------------------|---------------------|-------------------------------|----------------------|----------------------|
| | Electric Utility | Gas Utility | Water Utility | Telecommunications Utility | | |
| Reconciliation of operating income to net cash provided by operating activities: | | | | | | |
| Operating income | \$ 1,573,705 | \$ 190,456 | \$ 419,912 | \$ (14,819) | \$ 2,169,254 | \$ 2,518,405 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | | | |
| Depreciation expense | 1,126,837 | 66,327 | 332,002 | 187,899 | 1,713,065 | 1,642,732 |
| Amortization expense | 12,134 | 0 | 5,958 | 0 | 18,092 | 20,947 |
| (Increase) decrease in customer accounts receivable and unbilled usage and other accounts receivable | 91,287 | (213,490) | (49,960) | 28,478 | (143,685) | (4,437) |
| (Increase) decrease in inventories | (321,571) | (5,943) | 2,656 | 726 | (324,132) | 195,440 |
| (Increase) decrease in prepaid expenses | 8,375 | 8,644 | 4,985 | 2,448 | 24,452 | (20,490) |
| (Increase) decrease in customer credits | (61,747) | 393,463 | (5,657) | 0 | 326,059 | (55,418) |
| Increase (decrease) in accounts payable | 5,037 | (1,827) | 76,682 | (8,070) | 71,822 | 45,976 |
| Increase (decrease) in payroll taxes payable | 63,570 | 0 | 0 | 0 | 63,570 | 6,495 |
| Increase (decrease) in sales & use tax payable | (256) | 48 | 701 | (507) | (14) | 7,445 |
| Increase (decrease) in salaries payable | (14,904) | (7,330) | (4,922) | (12,876) | (40,032) | (2,496) |
| Increase (decrease) in property taxes payable | (2,894) | 0 | 0 | 0 | (2,894) | (551) |
| Increase (decrease) in other payables | 277 | 0 | (51,115) | 78 | (50,760) | (113,517) |
| Increase (decrease) in net pension liability | 75,511 | 61,781 | 64,070 | 27,458 | 228,820 | 0 |
| Increase (decrease) in deferred inflows | (31,764) | (25,989) | (26,951) | (11,550) | (96,254) | 0 |
| (Increase) decrease in deferred outflows | (63,665) | (52,089) | (54,019) | (23,151) | (192,924) | 0 |
| Net cash provided by operating activities | <u>2,459,932</u> | <u>414,051</u> | <u>714,342</u> | <u>176,114</u> | <u>3,764,439</u> | <u>4,240,531</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 | \$ 4,299,932 | \$ 2,647,288 | \$ 254,473 | \$ 345,312 | \$ 7,547,005 | \$ 11,191,462 |
| Restricted assets: | | | | | | |
| Cash and pooled investments: | | | | | | |
| Revenue bond retirement | 2,394,751 | 0 | 634,662 | 104,944 | 3,134,357 | 1,752,338 |
| Revenue bond debt reserve | 721,833 | 0 | 622,684 | 138,198 | 1,482,715 | 1,112,467 |
| Capital improvements | 3,014,497 | 0 | 170,000 | 0 | 3,184,497 | 677,961 |
| Designated contingency fund | 1,205,000 | 1,057,062 | 0 | 68,000 | 2,330,062 | 1,008,062 |
| Consumers' deposit fund | 45,480 | 0 | 0 | 0 | 45,480 | 45,444 |
| Cash and cash equivalents end of year | <u>\$ 11,681,493</u> | <u>\$ 3,704,350</u> | <u>\$ 1,681,819</u> | <u>\$ 656,454</u> | <u>\$ 17,724,116</u> | <u>\$ 15,787,734</u> |

See notes to financial statements.

Notes to Financial Statements

HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(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 non-fiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, 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, 2016

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, Internet 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 a 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 are 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, 2016

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources 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, 2016.

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, 2016

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources 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, 2016 have been classified as work in process.

Deferred Outflows of Resources – Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer’s reporting period.

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, 2016 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, 2016 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.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees’ Retirement System (IPERS) and additions to/deductions from IPERS’ fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments including refunds of employee contributions are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources – Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Deferred Inflows of Resources, continued - the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year.

Deferred inflows of resources in the Statement of Net Position consist of the unamortized portion of the net difference between projected and actual earnings on IPERS' investments.

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, 2016, disbursements did not exceed the amount budgeted for the business type activities.

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, 2016 and June 30, 2015 were \$425,387 and \$451,357.

G. Advertising

Advertising costs are expenses as incurred. Advertising expenses were \$77,108 and \$71,272 for the years ended June 30, 2016 and June 30, 2015. 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.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(3) Capital Assets

Capital assets activity for the year ended June 30, 2016 was as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|-----------------------------------|---------------------------------|---------------------|-------------|---------------------------|
| Intangible Plant | \$ 220,632 | \$ 0 | \$ 0 | \$ 220,632 |
| Production | 20,414,179 | 162,725 | 0 | 20,576,904 |
| Transmission & Pumping | 5,943,781 | 10,284 | 0 | 5,954,065 |
| Distribution | 29,017,785 | 420,738 | 0 | 29,438,523 |
| General | 8,050,148 | 343,654 | 0 | 8,393,802 |
| Fiber Optics | <u>5,441,433</u> | <u>38,016</u> | <u>0</u> | <u>5,479,449</u> |
| Total property, plant & equipment | 69,087,958 | 975,417 | 0 | 70,063,375 |
| Less: accumulated depreciation | <u>34,359,398</u> | <u>1,713,065</u> | <u>0</u> | <u>36,072,463</u> |
| Net property, plant & equipment | \$ <u>34,728,560</u> | \$ <u>(737,648)</u> | \$ <u>0</u> | \$ <u>33,990,912</u> |

Depreciation expense charged to operations as follows:

Business type activities:

| | |
|---|---------------------|
| Electric | \$ 1,126,837 |
| Gas | 66,327 |
| Water | 332,002 |
| Telecommunications | <u>187,899</u> |
| Total depreciation expense – business type activities | <u>\$ 1,713,065</u> |

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(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, 2016 the Utility was in compliance with the revenue note provisions.

Details of revenue bonds notes and contracts payable at June 30, 2016 are as follows:

| | <u>Date of Issue</u> | <u>Interest Rates</u> | <u>Final Due Date</u> | | <u>Annual Payments</u> | <u>Amount Originally Issued</u> | <u>Outstanding June 30, 2016</u> |
|--|--------------------------|---------------------------|-------------------------------|----|----------------------------|---|--------------------------------------|
| <u>Electric Fund:</u> | | | | | | | |
| Electric Revenue Bond, Series 2010A | 6/1/2010 | 3.0%-4.25% | 10/1/2024 | \$ | 397,980 | \$ 8,285,000 | 7,770,000 |
| Electric Revenue Bond, Series 2010B | 6/1/2010 | 2.0%-2.5% | 10/1/2015 | \$ | 486,575 | \$ 2,260,000 | 0 |
| Total Electric Bonds & Contracts | | | | | | | <u>\$ 7,770,000</u> |
| | | | | | | | |
| <u>Water Fund:</u> | | | | | | | |
| Water Revenue Bond, Series 2004** | 4/15/2004 | 1.40-4.10% | 7/1/2016 | \$ | 4,003 | \$ 670,000 | 0 |
| Water State Revolving Fund | 5/23/2012 | 3% | 7/1/2032 | \$ | 181,462 | \$ 6,955,322 | 6,651,000 |
| Total Water Bonds | | | | | | | <u>\$ 6,651,000</u> |
| | | | | | | | |
| <u>Telecommunications Fund:</u> | | | | | | | |
| Communications Utility Revenue | | | | | | | |
| Capital Loan Notes, Series 2012 | 3/29/2012 | 3.25% | 4/1/2022 | \$ | 207,858 | \$ 1,649,667 | \$ 989,800 |
| Inter-Fund Electric Utility Note | 4/1/2014 | 3.75% | 12/1/2028 | \$ | 37,499 | \$ 422,548 | \$ 373,752 |
| Total Telecommunications Fund | | | | | | | <u>\$ 1,363,552</u> |

**Water Revenue Bond, Series 2004 was redeemed early on 7/1/2015 in the amount of \$140,000.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(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 |
| 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>\$ 7,770,000</u> | <u>\$ 1,531,402</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 6,651,000</u> | <u>\$ 1,965,720</u> |

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(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 |
| 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>\$ 989,800</u> | <u>\$ 112,590</u> | <u>\$ 373,752</u> | <u>\$ 94,990</u> |

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(5) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2016 is as follows:

| | Electric Revenue Bonds & Contracts | Water Revenue Bonds & SRF Loan | Telecommunications Capital Loan & Inter-Fund Notes | Total |
|--|---|---|---|-----------------------------|
| Balance, beginning 7-1-15 | \$ 8,355,000 | \$ 7,016,000 | \$ 1,551,532 | \$ 16,922,532 |
| Issued | 0 | 0 | 0 | 0 |
| Paid | <u>(585,000)</u> | <u>(365,000)</u> | <u>(187,981)</u> | <u>(1,137,981)</u> |
| Balance, ending 6-30-14 | 7,770,000 | 6,651,000 | 1,363,551 | 15,784,551 |
| Less: Current Portion | <u>(615,000)</u> | <u>(235,000)</u> | <u>(188,859)</u> | <u>(1,038,859)</u> |
| Long-Term Debt, net of Current Portion | <u><u>\$ 7,155,000</u></u> | <u><u>\$ 6,416,000</u></u> | <u><u>\$ 1,174,692</u></u> | <u><u>\$ 14,745,692</u></u> |

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(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, 2016 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>8,054,848</u> |

(8) Pension Plan

Plan Description – IPERS membership is mandatory for employees of the Utility, except for those covered by another retirement system. Employees of the Utility are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(8) Pension Plan, continued

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

* A multiplier based on years of service

* The member's highest five-year average salary except for members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50 percent for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(8) Pension Plan, continued

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95 percent of covered payroll and the Utility contributed 8.93 percent of covered payroll for a total rate of 14.88 percent.

The Utility's contributions to IPERS for the year ended June 30, 2016 were \$164,410.

Net Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the Utility reported a liability of \$1,235,612 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the net pension liability was based on the Utility's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the Utility's collective proportion was .0250099 percent which was a decrease of .0003763 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Utility recognized pension expense of \$104,054. At June 30, 2016, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual Experience | \$ 7,727 | |
| Changes of assumptions | \$(10,412) | |
| Net difference between projected and actual earnings on the Utility's investments | \$184,872 | \$ 96,254 |
| Changes in proportion and differences between Utility contributions and proportionate share of contributions | \$ (668) | |
| Utility contributions subsequent to the measurement date | \$ 164,410 | |
| Total | \$ 345,929 | \$ 96,254 |

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(8) Pension Plan, continued

\$164,410 reported as deferred outflows of resources related to pensions resulting from the Utility contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30, | Total |
|---------------------|---------------|
| 2017 | \$ (34,343) |
| 2018 | \$ (34,343) |
| 2019 | \$ (34,343) |
| 2020 | \$ 52,253 |
| 2021 | <u>\$ 628</u> |
| | \$(50,148) |

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement, as follows:

| | |
|--|--|
| Rate of inflation (effective June 30, 2014) | 3.00 percent per annum |
| Rates of salary increase (effective June 30, 2010) | 4.00 to 17.00 percent, average, including inflation. Rates vary by membership group. |
| Long-term Investment rate of return (effective June 30, 1996) | 7.50 percent, compounded annually, net of investment expense, including inflation |
| Wage growth (effective June 30, 1990) | 4.00 percent per annum based on 3% inflation and 1.00 percent real wage inflation |

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(8) Pension Plan, continued

| <u>Asset Class</u> | <u>Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------|-------------------------|---|
| Core Plus Fixed Income | 28% | 2.04 |
| Domestic Equity | 24 | 6.29 |
| International Equity | 16 | 6.75 |
| Private Equity/Debt | 11 | 11.32 |
| Real Estate | 8 | 3.48 |
| Credit Opportunities | 5 | 3.63 |
| U.S. TIPS | 5 | 1.91 |
| Other Real Assets | 2 | 6.24 |
| Cash | <u>1</u> | -0.71 |
| Total | <u>100%</u> | |

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Utility will be made at contractually required rates, actuarially determined. Based on those assumptions, the IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utility's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Utility's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percent lower (6.50 percent) or 1 percent higher (8.50 percent) than the current rate.

| | 1% Decrease <u>(6.50%)</u> | Discount Rate <u>(7.50%)</u> | 1% Increase <u>(8.50%)</u> |
|--|-------------------------------|---------------------------------|-------------------------------|
| Utility's proportionate share of the net pension liability | \$2,163,334 | \$1,235,612 | \$452,548 |

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to IPERS' - At June 30, 2016, the Utility reported payables to IPERS' of \$19,694 for legally required utility contributions and \$13,122 for legally required employee contributions withheld from employee wages which had not yet been remitted to IPERS.

**HARLAN MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(9) Construction and Other Commitments

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, 2015, the upgrade had been launched and the project had moved from Work in Progress to capital expenditures in the amount of \$804,039. This was \$8,510 under budget.

During June, 2016 the Telecom Utility started a project for Fiber to the Home (FTTH) with a total budget of \$1,976,641. As of June 30, 2016, the bids had been accepted and the materials and equipment ordered. The only item in Construction-in-Progress was for attorney services.

(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) 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, 2016 and June 30, 2015 were \$257,339 and \$258,212.

The Utility had business transactions between the Utility and Utility officials totaling \$9,615 during the year ended June 30, 2016.

(12) Subsequent Events

Management has evaluated subsequent events through September 12, 2016, the date on which the financial statements were available to be issued.

(13) 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 Amended and Restated and approved as of February 12, 2016.

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, 2016**

| | Accrual Basis | | |
|--------------------------------|--------------------------------------|------------------------------|--|
| | Total Proprietary Funds-Actual | Final Budgeted Amounts | Variance Favorable (Unfavorable) |
| Operating Revenues | | | |
| Sales to consumers | \$ 12,724,577 | \$ 13,731,694 | \$ (1,007,117) |
| Other operating revenue | 762,137 | 276,280 | 485,857 |
| Excess sales | 536,510 | 1,150,000 | (613,490) |
| Total operating revenue | <u>14,023,224</u> | <u>15,157,974</u> | <u>(1,134,750)</u> |
| Operating Expenses | | | |
| Plant operation expenses | 6,493,139 | 7,960,967 | 1,467,828 |
| Distribution operation | 1,414,233 | 1,024,165 | (390,068) |
| Transmission operation | 208,378 | 0 | (208,378) |
| Administrative and general | 835,206 | 797,670 | (37,536) |
| Consumer services | 114,779 | 83,060 | (31,719) |
| Marketing and relations | 175,436 | 187,752 | 12,316 |
| Employee benefits | 881,642 | 940,642 | 59,000 |
| Amortization and depreciation | 1,731,157 | 1,780,000 | 48,843 |
| Total operating expenses | <u>11,853,970</u> | <u>12,774,256</u> | <u>920,286</u> |
| Operating Income | 2,169,254 | 2,383,718 | (214,464) |
| Other revenues (expenses), net | <u>(766,879)</u> | <u>(853,600)</u> | <u>86,721</u> |
| Change in net position | 1,402,375 | \$ <u>1,530,118</u> | \$ <u>(127,743)</u> |
| Total net position, beginning | <u>34,509,280</u> | | |
| Total net position, ending | \$ <u>35,911,655</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, 2016

| | Cash Basis | | |
|--|--------------------------------------|------------------------------|---|
| | Total Proprietary Funds-Actual | Final Budgeted Amounts | Final to Actual Variance Favorable (Unfavorable) |
| Receipts: | | | |
| Charges for services | \$ 13,296,597 | \$ 14,881,694 | \$ (1,585,097) |
| Miscellaneous | 762,137 | 276,280 | 485,857 |
| Total receipts | <u>14,058,734</u> | <u>15,157,974</u> | <u>(1,099,240)</u> |
| Disbursements: | | | |
| Business type activities | <u>10,294,295</u> | <u>10,994,256</u> | <u>699,961</u> |
| Excess of receipts over disbursements | 3,764,439 | 4,163,718 | (399,279) |
| Other financing sources (uses): | | | |
| Loan proceeds | 0 | 0 | 0 |
| Acquisition of capital assets | (981,003) | (1,082,850) | 101,847 |
| Interest received on investments | 62,401 | 64,500 | (2,099) |
| Principal/Interest payments on long term borrowings | (1,696,452) | (1,775,080) | 78,628 |
| Other sources (uses), net | <u>(282,339)</u> | <u>(341,000)</u> | <u>58,661</u> |
| Total other financing sources (uses) | <u>(2,897,393)</u> | <u>(3,134,430)</u> | <u>237,037</u> |
| Excess of receipts over disbursements over (under) Other financing sources (uses) | 867,046 | 1,029,288 | <u><u>\$ (162,242)</u></u> |
| Balances, beginning of year | <u>16,162,059</u> | <u>18,158,523</u> | |
| Balances, end of year | <u><u>\$ 17,029,105</u></u> | <u><u>\$ 19,187,811</u></u> | |

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016**

Budgetary Reporting

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, 2016, disbursements did not exceed the amount budgeted.

HARLAN MUNICIPAL UTILITIES
Schedule of the Utility's Proportionate Share of the Net Pension Liability
Iowa Public Employees' Retirement System
For the Last Two Fiscal Years*
(In Thousands)
Required Supplementary Information

| | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|
| Utility's proportion of the net pension liability | .0250099 % | .0253862% |
| Utility's proportionate share of the net pension liability | \$ 1,235 | \$1,007 |
| Utility's covered-employee payroll | \$ 1,841 | \$1,713 |
| Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 67.08 % | 58.79% |
| Plan fiduciary net position as a percentage of the total pension liability | 85.19 % | 87.61% |

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditors' report.

HARLAN MUNICIPAL UTILITIES
Schedule of Utility Contributions
Iowa Public Employees' Retirement System
For the Last Ten Fiscal Years
(In Thousands)
Required Supplementary Information

| | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|
| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
| Statutorily required contribution | \$ 164 | 153 | 148 | 140 | 125 |
| Contributions in relation to the statutorily required contribution | <u>(164)</u> | <u>(153)</u> | <u>(148)</u> | <u>(140)</u> | <u>(125)</u> |
| Contribution deficiency (excess) | - | - | - | - | - |
| <hr/> | | | | | |
| Utility's covered-employee payroll | \$ 1,841 | 1,713 | 1,661 | 1,680 | 1,546 |
| Contributions as a percentage of covered employee payroll | 8.91 % | 8.93 % | 8.91 % | 8.33 % | 8.09 % |
| | | | | | |
| | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| Statutorily required contribution | \$ 106 | 96 | 88 | 86 | 82 |
| Contributions in relation to the statutorily required contribution | <u>(106)</u> | <u>(96)</u> | <u>(88)</u> | <u>(86)</u> | <u>(82)</u> |
| Contribution deficiency (excess) | - | - | - | - | - |
| <hr/> | | | | | |
| Utility's covered-employee payroll | \$ 1,525 | 1,453 | 1,443 | 1,414 | 1,421 |
| Contributions as a percentage of covered employee payroll | 6.95 % | 6.61 % | 6.10 % | 6.08 % | 5.77 % |

See accompanying independent auditors' report.

HARLAN MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
PENSION LIABILITY
YEAR ENDED JUNE 30, 2016

Changes to benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

Changes to assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of return of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the project salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate, in the calculation of the UAL amortization payments.

Supplementary Information

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
COMPARATIVE STATEMENTS OF NET POSITION
JUNE 30, 2016 and 2015**

Schedule 1

| | 2016 | 2015 |
|---|---------------|---------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Designated | | |
| Plant improvements, emergency and contingency funds: | | |
| Cash and savings | \$ 1,205,000 | \$ 1,205,000 |
| Replacement funds- bond: | | |
| Cash and savings | 146,666 | 146,276 |
| Restricted | | |
| Consumers' deposit fund | 45,480 | 45,462 |
| Revenue bond retirement-savings | 2,248,085 | 1,893,644 |
| Capital improvement fund-savings | 3,014,497 | 3,009,682 |
| Unrestricted | | |
| Cash and savings | 4,147,649 | 3,747,168 |
| Industrial development fund | 152,283 | 152,169 |
| Accounts receivable - net of allowance for doubtful accounts of \$9,500 | 668,386 | 713,878 |
| Unbilled usage | 186,370 | 232,165 |
| Inventory | 678,398 | 356,827 |
| Prepaid expenses | 45,855 | 54,230 |
| Total current assets | 12,538,669 | 11,556,501 |
| CAPITAL ASSETS | | |
| Utility plant | | |
| Plant in service, at cost | 45,793,913 | 45,139,433 |
| Less accumulated depreciation | 25,804,750 | 24,677,913 |
| | 19,989,163 | 20,461,520 |
| Construction work in progress | 4,454 | 0 |
| Net capital assets | 19,993,617 | 20,461,520 |
| OTHER ASSETS | | |
| Other account receivable | 0 | 0 |
| Note Receivable - Telecom Utility | 373,751 | 373,750 |
| Bond discount and issuance costs | 61,694 | 73,827 |
| Restricted investments for bonds: | | |
| Debt Reserve | 721,833 | 721,259 |
| Total other assets | 1,157,278 | 1,168,836 |
| Total assets | \$ 33,689,564 | \$ 33,186,857 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Pension related deferred outflows | 130,463 | 66,798 |

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY
COMPARATIVE STATEMENTS OF NET POSITION
JUNE 30, 2016 and 2015**

**Schedule 1
(Continued)**

| | 2016 | 2015 |
|---|---------------|---------------|
| LIABILITIES AND NET POSITION | | |
| CURRENT LIABILITIES | | |
| Customer credits | \$ 0 | \$ 61,747 |
| Accounts payable | 292,751 | 287,714 |
| Payroll taxes payable | 63,570 | 0 |
| State sales and use tax payable | 644 | 900 |
| Salaries, vacation and sick leave payable | 58,619 | 73,523 |
| Accrued property taxes | 103,043 | 105,937 |
| Bonds called not paid | 0 | 0 |
| Other accrued liabilities | 134 | 282 |
| Payable from restricted assets | | |
| Current maturities of long-term debt | 615,000 | 585,000 |
| Interest Payable | 73,295 | 77,089 |
| Consumers' deposits | 41,766 | 41,341 |
| Total current liabilities | 1,248,822 | 1,233,533 |
| Long-Term Debt, net of current maturities | 7,155,000 | 7,770,000 |
| Contract Payable, net of current maturities | 0 | 0 |
| Net Pension Liability | 407,752 | 332,241 |
| Total noncurrent liabilities | 7,562,752 | 8,102,241 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Unavailable revenues: | | |
| Pension related deferred inflows | 94,943 | 126,707 |
| Total deferred inflows of resources | 94,943 | 126,707 |
| NET POSITION | | |
| Net investment in capital assets | 12,223,616 | 12,480,271 |
| Restricted | 6,029,895 | 5,731,794 |
| Unrestricted | 6,659,996 | 5,579,110 |
| Total net position | 24,913,507 | 23,791,175 |
| Total liabilities and net position | \$ 33,725,081 | \$ 33,126,949 |

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, 2016 and 2015**

| | 2016 Actual | 2015 Actual | 2016 Budget | Budget Variance Favorable (Unfavorable) |
|--|----------------|----------------|----------------|--|
| OPERATING REVENUES | | | | |
| Sales to consumers | \$ 6,051,132 | \$ 6,469,874 | \$ 6,627,600 | \$ (576,468) |
| Other operating revenue | 627,271 | 274,014 | 184,530 | 442,741 |
| Other sales - MISO | 536,510 | 1,036,557 | 1,150,000 | (613,490) |
| Total operating revenue | 7,214,913 | 7,780,445 | 7,962,130 | (747,217) |
| OPERATING EXPENSES | | | | |
| Plant operating expenses | | | | |
| Cost of other sales | 392,575 | 990,812 | 1,000,000 | 607,425 |
| Cost of power | 2,116,467 | 2,252,791 | 2,718,000 | 601,533 |
| Salaries and wages | 28,258 | 32,753 | 31,113 | 2,855 |
| Repairs and maintenance | 10,697 | 13,279 | 16,396 | 5,699 |
| Utilities | 70,599 | 67,186 | 68,800 | (1,799) |
| Insurance | 56,446 | 58,695 | 63,000 | 6,554 |
| Property taxes | 103,043 | 105,937 | 110,000 | 6,957 |
| Other | 109,688 | 68,554 | 67,500 | (42,188) |
| Total plant operating expenses | 2,887,773 | 3,590,007 | 4,074,809 | 1,187,036 |
| Distribution operation expenses | | | | |
| Salaries and wages | 266,940 | 286,218 | 293,349 | 26,409 |
| Engineering | 105,002 | 195,085 | 30,000 | (75,002) |
| Repairs and maintenance | 83,409 | 61,619 | 101,500 | 18,091 |
| Other | 261,781 | 27,204 | 37,800 | (223,981) |
| Total distribution operation expense | 717,132 | 570,126 | 462,649 | (254,483) |
| Transmission operation expenses | | | | |
| Salaries and wages | 246 | 0 | 0 | (246) |
| Outside Contracts | 208,132 | 2,011 | 0 | (208,132) |
| Total transmission operation expense | 208,378 | 2,011 | 0 | (208,378) |
| Administration and general expenses | | | | |
| Salaries and wages | 167,382 | 148,240 | 150,800 | (16,582) |
| Office supplies | 32,554 | 40,346 | 52,200 | 19,646 |
| Education and travel | 14,803 | 6,625 | 12,000 | (2,803) |
| Professional | 36,949 | 37,337 | 19,000 | (17,949) |
| Other | 18,316 | 3,695 | 4,250 | (14,066) |
| Total administrative and general expenses | 270,004 | 236,243 | 238,250 | (31,754) |
| Consumer services | | | | |
| Salaries and wages | 13,948 | 31,778 | 11,560 | (2,388) |
| Bad debts (collected) | 21,577 | 54,328 | 25,000 | 3,423 |
| Other | 498 | 40,629 | 20,000 | 19,502 |
| Total consumer services | 36,023 | 126,735 | 56,560 | 20,537 |
| Marketing and stakeholder relations | | | | |
| Salaries and wages | 19,902 | 18,629 | 19,650 | (252) |
| Advertising | 4,646 | 5,180 | 7,400 | 2,754 |
| Other | 12,022 | 8,702 | 10,715 | (1,307) |
| Total marketing and stakeholder relations | 36,570 | 32,511 | 37,765 | 1,195 |

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITY**

**Schedule 2
(Continued)**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED JUNE 30, 2016 and 2015**

| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>Budget</u> | <u>Budget Variance Favorable (Unfavorable)</u> |
|---|----------------------|----------------------|------------------|---------------|--|
| OPERATING EXPENSES (Continued) | <u>Actual</u> | <u>Actual</u> | <u>Budget</u> | <u>Budget</u> | <u>(Unfavorable)</u> |
| Employee benefits | | | | | |
| Payroll taxes | \$ 103,923 | \$ 97,490 | \$ 101,642 | \$ | (2,281) |
| Health insurance | 166,344 | 176,511 | 170,000 | | 3,656 |
| Compensated absences | 96,007 | 99,770 | 97,321 | | 1,314 |
| Pension expense | <u>(19,917)</u> | <u>(26,086)</u> | <u>0</u> | | <u>19,917</u> |
| Total employee benefits | <u>346,357</u> | <u>347,685</u> | <u>368,963</u> | | <u>22,606</u> |
| | | | | | |
| Total operating expenses excluding amortization and depreciation | <u>4,502,237</u> | <u>4,905,318</u> | <u>5,238,996</u> | | <u>945,137</u> |
| | | | | | |
| OPERATING INCOME (LOSS) BEFORE AMORTIZATION AND DEPRECIATION | 2,712,676 | 2,875,127 | 2,723,134 | | (10,458) |
| | | | | | |
| Amortization | 12,134 | 15,279 | 13,000 | | 866 |
| Depreciation | <u>1,126,837</u> | <u>1,118,608</u> | <u>1,175,000</u> | | <u>48,163</u> |
| | <u>1,138,971</u> | <u>1,133,887</u> | <u>1,188,000</u> | | <u>49,029</u> |
| | | | | | |
| OPERATING INCOME (LOSS) | 1,573,705 | 1,741,240 | 1,535,134 | | 38,571 |
| | | | | | |
| NON-OPERATING REVENUES (EXPENSES) | | | | | |
| Capital Grants | 0 | 0 | 0 | | 0 |
| Contributions to City-In lieu of taxes | (191,854) | (186,279) | (225,000) | | 33,146 |
| Gain (Loss) on sale of assets | 0 | 0 | 0 | | 0 |
| Interest income | 49,955 | 49,625 | 50,500 | | (545) |
| Interest expense | (296,974) | (324,892) | (315,000) | | 18,026 |
| Industrial development contribution | <u>(12,500)</u> | <u>(12,500)</u> | <u>(12,500)</u> | | <u>0</u> |
| Total non-operating revenues (expenses) | <u>(451,373)</u> | <u>(474,046)</u> | <u>(502,000)</u> | | <u>50,627</u> |
| | | | | | |
| CHANGE IN NET POSITION | 1,122,332 | 1,267,194 | \$ 1,033,134 | \$ | <u>89,198</u> |
| | | | | | |
| TOTAL NET POSITION, BEGINNING | <u>23,791,175</u> | <u>22,523,981</u> | | | |
| | | | | | |
| TOTAL NET POSITION, ENDING | \$ <u>24,913,507</u> | \$ <u>23,791,175</u> | | | |

See accompanying independent auditors' report.

HARLAN MUNICIPAL UTILITIES
MUNICIPAL GAS UTILITY
COMPARATIVE STATEMENTS OF NET POSITION
JUNE 30, 2016 and 2015

Schedule 3

| | 2016 | 2015 |
|--|--------------|--------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Designated | | |
| Plant improvements, emergency and contingency funds: | | |
| Cash and savings | \$ 1,057,062 | \$ 1,033,062 |
| Unrestricted | | |
| Cash and savings | 2,523,489 | 2,225,234 |
| Industrial development fund | 123,799 | 123,720 |
| Accounts receivable - net of allowance for doubtful accounts of \$9,000 for 2015 and \$9,000 for 2014 | 700,640 | 510,064 |
| Unbilled usage | 81,621 | 58,707 |
| Inventory | 27,141 | 21,198 |
| Prepaid expenses | 29,642 | 38,286 |
| Total current assets | 4,543,394 | 4,010,271 |
| CAPITAL ASSETS | | |
| Utility plant | | |
| Plant in service, at cost | 2,962,575 | 2,906,304 |
| Less accumulated depreciation | 1,921,754 | 1,855,427 |
| Net capital assets | 1,040,821 | 1,050,877 |
| | | |
| Total assets | \$ 5,584,215 | \$ 5,061,148 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Pension related deferred outflows | 106,742 | 54,653 |
| LIABILITIES AND NET POSITION | | |
| CURRENT LIABILITIES | | |
| Customer credits | \$ 1,294,679 | \$ 901,216 |
| Accounts payable | 76,067 | 77,894 |
| State sales and use tax payable | 1,561 | 1,513 |
| Salaries, vacation and sick leave payable | 16,362 | 23,692 |
| Total current liabilities | 1,388,669 | 1,004,315 |
| | | |
| Contract Payable | 0 | 0 |
| Net Pension Liability | 333,614 | 271,833 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Unavailable revenues: | | |
| Pension related deferred inflows | 77,681 | 103,670 |
| Total deferred inflows of resources | 77,681 | 103,670 |
| NET POSITION | | |
| Net investment in capital assets | 1,040,822 | 1,050,877 |
| Restricted | 1,294,679 | 901,216 |
| Unrestricted | 1,555,492 | 1,783,890 |
| Total net position | 3,890,993 | 3,735,983 |
| | | |
| Total liabilities and net position | \$ 5,613,276 | \$ 5,012,131 |

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, 2016 and 2015**

| | 2016 Actual | 2015 Actual | 2016 Budget | Budget Variance Favorable (Unfavorable) |
|---|----------------|----------------|----------------|--|
| OPERATING REVENUES | | | | |
| Sales to consumers | \$ 2,630,466 | \$ 3,007,434 | \$ 2,850,000 | \$ (219,534) |
| Other operating revenue | 2,271 | 3,460 | 3,150 | (879) |
| Total operating revenue | 2,632,737 | 3,010,894 | 2,853,150 | (220,413) |
| OPERATING EXPENSES | | | | |
| Plant operating expenses | | | | |
| Cost of power | 1,733,015 | 2,003,474 | 1,800,000 | 66,985 |
| Salaries and wages | 12,261 | 17,118 | 20,731 | 8,470 |
| Repairs and maintenance | 0 | 9,545 | 14,324 | 14,324 |
| Utilities | 26,654 | 28,274 | 29,200 | 2,546 |
| Insurance | 41,086 | 45,485 | 52,000 | 10,914 |
| Other | 28,110 | 353,994 | 35,676 | 7,566 |
| Total plant operating expenses | 1,841,126 | 2,139,290 | 1,951,931 | 110,805 |
| Distribution operation expenses | | | | |
| Salaries and wages | 114,241 | 121,154 | 123,853 | 9,612 |
| Engineering | 0 | 0 | 0 | 0 |
| Repairs and maintenance | 5,191 | 18,607 | 29,500 | 24,309 |
| Other | 65,136 | 18,935 | 17,800 | (47,336) |
| Total distribution operation expense | 184,568 | 158,696 | 171,153 | (13,415) |
| Administration and general expenses | | | | |
| Salaries and wages | 106,190 | 106,664 | 115,500 | 9,310 |
| Office supplies | 10,837 | 9,768 | 10,300 | (537) |
| Education and travel | 4,557 | 3,328 | 7,500 | 2,943 |
| Professional | 11,810 | 10,914 | 13,750 | 1,940 |
| Other | 32,841 | 24,981 | 33,100 | 259 |
| Total administrative and general expenses | 166,235 | 155,655 | 180,150 | 13,915 |
| Consumer services | | | | |
| Bad debts (collected) | 19,073 | 75,896 | 21,000 | 1,927 |
| Other | 1,658 | 19,381 | 2,000 | 342 |
| Total consumer services | 20,731 | 95,277 | 23,000 | 2,269 |
| Marketing and stakeholder relations | | | | |
| Salaries and wages | 16,195 | 15,369 | 16,250 | 55 |
| Advertising | 3,710 | 3,756 | 4,450 | 740 |
| Other | 15,142 | 6,313 | 16,185 | 1,043 |
| Total marketing and stakeholder relations | 35,047 | 25,438 | 36,885 | 1,838 |

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, 2016 and 2015**

| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>Budget</u> | <u>Budget Variance Favorable (Unfavorable)</u> |
|---|---------------------|---------------------|------------------|---------------|--|
| OPERATING EXPENSES (Continued) | <u>Actual</u> | <u>Actual</u> | <u>Budget</u> | <u>Budget</u> | <u>(Unfavorable)</u> |
| Employee benefits | | | | | |
| Payroll taxes | \$ 47,994 | \$ 48,155 | \$ 47,605 | \$ | (389) |
| Health insurance | 59,240 | 62,886 | 65,000 | | 5,760 |
| Compensated absences | 37,309 | 41,036 | 32,705 | | (4,604) |
| Pension expense | <u>(16,296)</u> | <u>(21,343)</u> | <u>0</u> | | <u>16,296</u> |
| Total employee benefits | <u>128,247</u> | <u>130,734</u> | <u>145,310</u> | | <u>17,063</u> |
| | | | | | |
| Total operating expenses excluding amortization and depreciation | <u>2,375,954</u> | <u>2,705,090</u> | <u>2,508,429</u> | | <u>132,475</u> |
| | | | | | |
| OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION | 256,783 | 305,804 | 344,721 | | (87,938) |
| | | | | | |
| Depreciation | <u>66,327</u> | <u>62,296</u> | <u>65,000</u> | | <u>(1,327)</u> |
| | <u>66,327</u> | <u>62,296</u> | <u>65,000</u> | | <u>(1,327)</u> |
| OPERATING INCOME (LOSS) | 190,456 | 243,508 | 279,721 | | (89,265) |
| | | | | | |
| NON-OPERATING REVENUES (EXPENSES) | | | | | |
| Capital Grants | 0 | 0 | 0 | | 0 |
| Contributions to City-In lieu of taxes | (29,156) | (40,011) | (50,000) | | 20,844 |
| Gain (Loss) on sale of assets | 0 | 0 | 0 | | 0 |
| Interest income | 6,210 | 6,565 | 7,000 | | (790) |
| Industrial development contribution | <u>(12,500)</u> | <u>(12,500)</u> | <u>(12,500)</u> | | <u>0</u> |
| Total non-operating revenues (expenses) | <u>(35,446)</u> | <u>45,946</u> | <u>(55,500)</u> | | <u>20,054</u> |
| | | | | | |
| CHANGE IN NET POSITION | 155,010 | 197,562 | \$ 224,221 | \$ | <u>(69,211)</u> |
| | | | | | |
| TOTAL NET POSITION, BEGINNING | <u>3,735,983</u> | <u>3,538,421</u> | | | |
| | | | | | |
| TOTAL NET POSITION, ENDING | \$ <u>3,890,993</u> | \$ <u>3,735,983</u> | | | |

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY
COMPARATIVE STATEMENTS OF NET POSITION
JUNE 30, 2016 and 2015**

Schedule 5

| | 2016 | 2015 |
|--|---------------|---------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Designated | | |
| Plant improvements, emergency and contingency funds: | | |
| Cash and savings | \$ 0 | \$ 0 |
| Restricted | | |
| Revenue bond retirement-savings | 634,662 | 587,981 |
| Capital improvement fund-savings | 170,000 | 170,000 |
| Unrestricted | | |
| Cash and savings | 254,473 | 677,516 |
| Accounts receivable - net of allowance for doubtful accounts of \$5,000 for 2015 and \$5,000 for 2014 | 505,639 | 453,878 |
| Unbilled usage | 78,153 | 79,954 |
| Inventory | 40,297 | 42,953 |
| Prepaid expenses | 34,719 | 39,704 |
| Total current assets | 1,717,943 | 2,051,986 |
| CAPITAL ASSETS | | |
| Utility plant | | |
| Plant in service, at cost | 15,548,562 | 15,456,043 |
| Less accumulated depreciation | 5,529,415 | 5,197,413 |
| | 10,019,147 | 10,258,630 |
| Construction work in progress | 0 | 0 |
| Net capital assets | 10,019,147 | 10,258,630 |
| OTHER ASSETS | | |
| Bond discount and issuance costs | 47,721 | 53,679 |
| Restricted investments for bonds: | | |
| Debt reserve and sinking | 622,684 | 227,000 |
| Total other assets | 670,405 | 280,679 |
| Total assets | \$ 12,407,495 | \$ 12,591,295 |
| DEFERRED OUTFLOWS OF RESOURCES | 110,696 | 56,677 |
| Pension related deferred outflows | | |

See accompanying independent auditors' report.

**HARLAN MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITY
COMPARATIVE STATEMENTS OF NET POSITION
JUNE 30, 2016 and 2015**

**Schedule 5
(Continued)**

| | 2016 | 2015 |
|---|---------------|---------------|
| LIABILITIES AND NET POSITION | | |
| CURRENT LIABILITIES | | |
| Customer credits | \$ 0 | \$ 5,657 |
| Accounts payable | 142,435 | 65,753 |
| State sales and use tax payable | 10,495 | 9,794 |
| Salaries, vacation and sick leave payable | 42,223 | 47,145 |
| Due City of Harlan for collections & fees | 174,222 | 225,337 |
| Payable from restricted assets | | |
| Current maturities of long-term debt | 235,000 | 295,000 |
| Interest Payable | 99,765 | 105,940 |
| Total current liabilities | 704,140 | 754,626 |
| Long-Term Debt, net of current maturities | 6,416,000 | 6,721,000 |
| Net Pension Liability | 345,972 | 281,902 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Unavailable revenues: | | |
| Pension related deferred inflows | 80,558 | 107,509 |
| Total deferred inflows of resources | 80,558 | 107,509 |
| NET POSITION | | |
| Net investment in capital assets | 3,368,147 | 3,242,630 |
| Restricted | 1,427,346 | 990,638 |
| Unrestricted | 176,028 | 549,667 |
| Total net position | 4,971,521 | 4,782,935 |
| Total liabilities and net position | \$ 12,437,633 | \$ 12,540,463 |

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, 2016 and 2015**

| | 2016 Actual | 2015 Actual | 2016 Budget | Budget Variance Favorable (Unfavorable) |
|---|----------------|----------------|----------------|--|
| OPERATING REVENUES | | | | |
| Sales to consumers | \$ 1,997,541 | \$ 1,949,862 | \$ 2,076,148 | \$ (78,607) |
| Other operating revenue | 60,149 | 112,786 | 34,200 | 25,949 |
| Total operating revenue | 2,057,690 | 2,062,648 | 2,110,348 | (52,658) |
| OPERATING EXPENSES | | | | |
| Plant operating expenses | | | | |
| Cost of chemicals | 184,121 | 179,710 | 166,100 | (18,021) |
| Salaries and wages | 145,031 | 147,928 | 161,123 | 16,092 |
| Repairs and maintenance | 0 | 0 | 0 | 0 |
| Utilities | 201,618 | 205,842 | 176,800 | (24,818) |
| Insurance | 42,345 | 47,168 | 53,000 | 10,655 |
| Other | 57,802 | 48,149 | 64,024 | 6,222 |
| Total plant operating expenses | 630,917 | 628,797 | 621,047 | (9,870) |
| Distribution operation expenses | | | | |
| Salaries and wages | 112,962 | 108,137 | 93,603 | (19,359) |
| Engineering | 0 | 9,906 | 15,000 | 15,000 |
| Repairs and maintenance | 8,251 | 46,455 | 57,000 | 48,749 |
| Other | 79,386 | 9,273 | 7,900 | (71,486) |
| Total distribution operation expense | 200,599 | 173,771 | 173,503 | (27,096) |
| Administration and general expenses | | | | |
| Salaries and wages | 112,754 | 109,931 | 116,000 | 3,246 |
| Office supplies | 12,490 | 12,482 | 11,900 | (590) |
| Education and travel | 8,771 | 3,814 | 7,800 | (971) |
| Professional | 31,233 | 33,507 | 33,000 | 1,767 |
| Other | 27,727 | 23,326 | 30,650 | 2,923 |
| Total administrative and general expenses | 192,975 | 183,060 | 199,350 | 6,375 |
| Consumer services | | | | |
| Bad debts (collected) | 1,311 | 5,363 | 2,000 | 689 |
| Other | 11,301 | 0 | 0 | (11,301) |
| Total consumer services | 12,612 | 5,363 | 2,000 | (10,612) |
| Marketing and stakeholder relations | | | | |
| Salaries and wages | 17,259 | 15,912 | 16,750 | (509) |
| Advertising | 6,653 | 5,376 | 5,150 | (1,503) |
| Other | 8,918 | 5,539 | 7,438 | (1,480) |
| Total marketing and stakeholder relations | 32,830 | 26,827 | 29,338 | (3,492) |

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, 2016 and 2015**

| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>Budget</u> | <u>Budget Variance Favorable (Unfavorable)</u> |
|---|-------------------------|-------------------------|----------------------|---------------|--|
| OPERATING EXPENSES (Continued) | <u>Actual</u> | <u>Actual</u> | <u>Budget</u> | <u>Budget</u> | <u>(Unfavorable)</u> |
| Employee benefits | | | | | |
| Payroll taxes | \$ 74,220 | \$ 70,069 | \$ 75,101 | \$ | 881 |
| Health insurance | 109,388 | 116,065 | 124,500 | | 15,112 |
| Compensated absences | 63,176 | 62,724 | 56,368 | | (6,808) |
| Pension expense | (16,899) | (22,133) | 0 | | 16,899 |
| Total employee benefits | <u>229,885</u> | <u>226,725</u> | <u>255,969</u> | | <u>26,084</u> |
| Total operating expenses excluding amortization and depreciation | <u>1,299,818</u> | <u>1,244,543</u> | <u>1,281,207</u> | <u></u> | <u>(18,611)</u> |
| OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION | 757,872 | 818,105 | 829,141 | | (71,269) |
| Amortization | 5,958 | 6,293 | 7,000 | | 1,042 |
| Depreciation | <u>332,002</u> | <u>326,378</u> | <u>350,000</u> | <u></u> | <u>17,998</u> |
| | <u>337,960</u> | <u>332,671</u> | <u>357,000</u> | <u></u> | <u>19,040</u> |
| OPERATING INCOME | 419,912 | 485,434 | 472,141 | | (52,229) |
| NON-OPERATING REVENUES (EXPENSES) | | | | | |
| Capital Grants | 0 | 0 | 0 | | 0 |
| Contributions to City-In lieu of taxes | (35,303) | (30,864) | (40,000) | | 4,697 |
| Gain (Loss) on sale of assets | 0 | 0 | 0 | | 0 |
| Interest income | 3,507 | 2,889 | 3,800 | | (293) |
| Interest expense | (199,530) | (211,880) | (210,000) | | 10,470 |
| Total non-operating revenues (expenses) | <u>(231,326)</u> | <u>(239,855)</u> | <u>(246,200)</u> | <u></u> | <u>14,874</u> |
| CHANGE IN NET POSITION | 188,586 | 245,579 | \$ 225,941 | \$ | <u>(37,355)</u> |
| TOTAL NET POSITION, BEGINNING | <u>4,782,935</u> | <u>4,537,356</u> | | | |
| TOTAL NET POSITION, ENDING | \$ <u>4,971,521</u> | \$ <u>4,782,935</u> | | | |

See accompanying independent auditors' report.

HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY
COMPARATIVE STATEMENTS OF NET POSITION
JUNE 30, 2016 and 2015

Schedule 7

| | 2016 | 2015 |
|--|--------------|--------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Designated | | |
| Plant improvements, emergency and contingency funds: | | |
| Cash and savings | \$ 68,000 | \$ 206,000 |
| Restricted | | |
| Revenue bond retirement-savings | 104,944 | 86,775 |
| Capital improvement fund-savings | 0 | 0 |
| Unrestricted | | |
| Cash and savings | 345,312 | 434,155 |
| Accounts receivable - net of allowance for doubtful accounts of \$10,500 for 2015 and \$10,500 for 2014 | 177,352 | 206,378 |
| Unbilled Usage | 1,349 | 800 |
| Inventory | 4,159 | 4,885 |
| Prepaid expenses | 15,870 | 18,318 |
| Total current assets | 716,986 | 957,311 |
| CAPITAL ASSETS | | |
| Utility plant | | |
| Plant in service, at cost | 5,758,325 | 5,586,178 |
| Less accumulated depreciation | 2,816,543 | 2,628,644 |
| | 2,941,782 | 2,957,534 |
| Construction work in progress | 1,133 | 0 |
| Net capital assets | 2,942,915 | 2,957,534 |
| 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 | 138,198 | 164,967 |
| Total other assets | 138,198 | 164,967 |
| Total assets | \$ 3,798,099 | \$ 4,079,812 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Pension related deferred outflows | 47,441 | 24,290 |

See accompanying independent auditors' report.

HARLAN MUNICIPAL UTILITIES
MUNICIPAL TELECOMMUNICATIONS UTILITY
COMPARATIVE STATEMENTS OF NET POSITION
JUNE 30, 2016 and 2015

Schedule 7
(Continued)

| | 2016 | 2015 |
|---|--------------|--------------|
| LIABILITIES AND NET POSITION | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 122,612 | \$ 130,682 |
| Payroll taxes payable | 0 | 0 |
| State sales and use tax payable | 6,917 | 7,424 |
| Salaries, vacation and sick leave payable | 25,798 | 38,674 |
| Due City of Harlan for collections & fees | 0 | 0 |
| Other accrued liabilities | 409 | 331 |
| Payable from restricted assets | | |
| Current maturities of long-term debt | 188,859 | 187,981 |
| Interest Payable | 7,819 | 9,382 |
| Total current liabilities | 352,414 | 374,474 |
| NONCURRENT LIABILITIES | | |
| Long-Term Debt, net of current maturities | 824,834 | 1,363,551 |
| Deferred Revenue - CABS | 0 | 0 |
| Intra-utility note payable, net of current maturities | 349,860 | 0 |
| Net Pension Liability | 148,274 | 120,816 |
| Total noncurrent liabilities | 1,322,968 | 1,484,367 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Unavailable revenues: | | |
| Pension related deferred inflows | 34,525 | 46,075 |
| Total deferred inflows of resources | 34,525 | 46,075 |
| NET POSITION | | |
| Net investment in capital assets | 1,953,115 | 1,406,002 |
| Restricted | 243,142 | 251,742 |
| Unrestricted | (60,622) | 541,443 |
| Total net position | 2,135,635 | 2,199,187 |
| Total liabilities and net position | \$ 3,811,017 | \$ 4,058,028 |

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, 2016 and 2015

| | 2016 <u>Actual</u> | 2015 <u>Actual</u> | 2016 <u>Budget</u> | Budget Variance Favorable (Unfavorable) |
|---|-----------------------|-----------------------|-----------------------|--|
| OPERATING REVENUES | | | | |
| Sales to consumers | \$ 2,045,438 | \$ 1,949,935 | \$ 2,177,946 | \$ (132,508) |
| Other operating revenue | <u>72,446</u> | <u>71,635</u> | <u>54,400</u> | <u>18,046</u> |
| Total operating revenue | 2,117,884 | 2,021,570 | 2,232,346 | (114,462) |
| OPERATING EXPENSES | | | | |
| Plant operating expenses | | | | |
| Cost of programming, line fees | 1,011,757 | 965,359 | 1,149,288 | 137,531 |
| Salaries and wages | 24,288 | 16,364 | 20,917 | (3,371) |
| Repairs and maintenance | 2,307 | 9,665 | 33,144 | 30,837 |
| Utilities | 18,764 | 25,363 | 28,250 | 9,486 |
| Insurance | 18,148 | 19,927 | 19,750 | 1,602 |
| Other | 58,059 | 49,714 | 61,831 | 3,772 |
| Total plant operating expenses | <u>1,133,323</u> | <u>1,086,392</u> | <u>1,313,180</u> | <u>179,857</u> |
| Distribution operation expenses | | | | |
| Salaries and wages | 107,098 | 103,155 | 100,410 | (6,688) |
| Engineering | 5,297 | 8,101 | 15,800 | 10,503 |
| Repairs and maintenance | 32,894 | 31,404 | 25,200 | (7,694) |
| Other | 166,645 | 66,020 | 75,450 | (91,195) |
| Total distribution operation expense | <u>311,934</u> | <u>208,680</u> | <u>216,860</u> | <u>(95,074)</u> |
| Administration and general expenses | | | | |
| Salaries and wages | 132,027 | 125,648 | 115,790 | (16,237) |
| Office supplies | 2,941 | 5,568 | 6,150 | 3,209 |
| Education and travel | 4,401 | 3,570 | 4,500 | 99 |
| Professional | 9,224 | 6,571 | 7,350 | (1,874) |
| Other | 57,399 | 49,031 | 46,130 | (11,269) |
| Total administrative and general expenses | <u>205,992</u> | <u>190,388</u> | <u>179,920</u> | <u>(26,072)</u> |
| Consumer services | | | | |
| Bad debts (collected) | 44,139 | 7,365 | 1,500 | (42,639) |
| Other | 1,274 | 0 | 0 | (1,274) |
| Total consumer services | <u>45,413</u> | <u>7,365</u> | <u>1,500</u> | <u>(43,913)</u> |
| Marketing and stakeholder relations | | | | |
| Salaries and wages | 44,972 | 44,116 | 48,550 | 3,578 |
| Advertising | 21,096 | 21,981 | 24,600 | 3,504 |
| Other | 4,921 | 14,425 | 10,614 | 5,693 |
| Total marketing and stakeholder relations | <u>70,989</u> | <u>80,522</u> | <u>83,764</u> | <u>12,775</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, 2016 and 2015

Schedule 8
(Continued)

| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>Budget</u> | <u>Budget</u> <u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u> |
|---|---------------------|---------------------|------------------|---------------|--|
| OPERATING EXPENSES (Continued) | | | | | |
| Employee benefits | | | | | |
| Payroll taxes | \$ 57,806 | \$ 52,284 | \$ 53,772 | \$ | (4,034) |
| Health insurance | 90,415 | 95,895 | 84,000 | | (6,415) |
| Compensated absences | 36,175 | 37,860 | 32,628 | | (3,547) |
| Pension expense | <u>(7,243)</u> | <u>(9,485)</u> | <u>0</u> | | <u>7,243</u> |
| Total employee benefits | <u>177,153</u> | <u>176,554</u> | <u>170,400</u> | | <u>(6,753)</u> |
| | | | | | |
| Total operating expenses excluding amortization and depreciation | <u>1,944,804</u> | <u>1,749,901</u> | <u>1,965,624</u> | | <u>20,820</u> |
| | | | | | |
| OPERATING INCOME BEFORE AMORTIZATION AND DEPRECIATION | 173,080 | 271,669 | 266,722 | | (93,642) |
| | | | | | |
| Amortization | 0 | 0 | 0 | | 0 |
| Depreciation | <u>187,899</u> | <u>155,367</u> | <u>170,000</u> | | <u>(17,899)</u> |
| | <u>187,899</u> | <u>155,367</u> | <u>170,000</u> | | <u>(17,899)</u> |
| OPERATING INCOME | <u>(14,819)</u> | <u>116,302</u> | <u>96,722</u> | | <u>(111,541)</u> |
| | | | | | |
| NON-OPERATING REVENUES (EXPENSES) | | | | | |
| Contributions to City-In lieu of taxes | (1,026) | (1,057) | (1,000) | | (26) |
| Interest income | 2,729 | 2,500 | 3,200 | | (471) |
| Interest expense | <u>(50,437)</u> | <u>(56,838)</u> | <u>(52,100)</u> | | <u>1,663</u> |
| Total non-operating revenues (expenses) | <u>(48,734)</u> | <u>55,395</u> | <u>(49,900)</u> | | <u>1,166</u> |
| | | | | | |
| CHANGE IN NET POSITION | (63,553) | 60,907 | <u>46,822</u> | \$ | <u>(110,375)</u> |
| | | | | | |
| TOTAL NET POSITION, BEGINNING | <u>2,199,187</u> | <u>2,138,280</u> | | | |
| | | | | | |
| TOTAL NET POSITION, ENDING | \$ <u>2,135,634</u> | \$ <u>2,290,365</u> | | | |

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
Fax 712-263-2184

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

To the Board of Trustees of the
Harlan Municipal Utilities:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business type activities of the Harlan Municipal Utilities, a component unit of the City of Harlan, as of and for the year ended June 30, 2016, 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, 2016.

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-16 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, 2016 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

MAHONEY & GOTTO COMPANY
Certified Public Accountants

September 12, 2016
Denison, Iowa

**HARLAN MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2016**

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

- (a) Unmodified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-16 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.

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 and monitor responsibilities especially with the change in the Chief Financial Officer position. 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. We will continue to evaluate, update, and follow control procedures as they have been established as well as 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, 2016**

Part III: Other Findings Related to Required Statutory Reporting:

- III-A-16 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. Chapter 384.20 of the Code of Iowa states, in part, that public monies may not be expended or encumbered except under an annual or continuing appropriation. Disbursements did not exceed the certified budget during the fiscal year.
- III-B-16 Questionable Expenditures – Expenditures of Utility money appear to meet public purpose requirements.
- III-C-16 Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utilities officials or employees are detailed as follows:
- III-D-16 Business Transactions – Business transactions between Harlan Municipal Utilities and Utility officials or employees are detailed as follows:

| <u>Name, Title & Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|--|--|-----------------|
| Eric Rose Owner, Rose Masonry Employee | Laying block for various Well Houses | \$ <u>9,615</u> |

The transactions involving the labor for laying block at various Well Houses do not appear to represent a conflict of interest since the project was entered into before Eric was hired as an employee as in accordance with Chapter 362.5(3)(g). The initial payment to Rose Masonry was dated before Eric became an employee of Harlan Municipal Utilities.

Recommendation – The Utilities should use competitive bidding procedures in the future for any projects that include a Utility employee or official in accordance with Chapter 362.5(3)(d) of the Code of Iowa.

Response - We will do this.

Conclusion – Response accepted.

- III-E-16 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.

**HARLAN MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2016**

- III-F-16 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 2014 as in accordance with an Attorney General’s opinion dated April 12, 1978.
- III-G-16 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-16 Revenue Notes – No instances of non-compliance with the revenue note provisions were noted.
- III-I-16 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.