

HARLAN MUNICIPAL UTILITIES

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND RESPONSES

YEARS ENDED JUNE 30, 2017 AND 2016

HARLAN MUNICIPAL UTILITIES

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HARLAN MUNICIPAL UTILITIES
 Officials
 June 30, 2017

<u>Trustees</u>	<u>Title</u>	<u>Term Expires</u>
Michael Jones	Chairperson	November, 2019
David Tyrrel	Vice Chairperson	November, 2017
Terry Arentson	Board Member	November, 2021
Mary Johnson (Completed term November, 2016)	Board Member	November, 2016
Nella Seivert	Board Member	November, 2018
Connie Wees (Appointed November, 2016)	Board Member	November, 2022
Kenneth Weber	Chief Executive Officer & Board Secretary	Indefinite
Hall Hudson Fischer PC	Attorneys at Law	Indefinite
Shane Isley CFO Systems LLC	Director of Accounting & Finance	Indefinite

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Harlan Municipal Utilities
Harlan, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of Harlan Municipal Utilities (a component unit of the City of Harlan, Iowa) which comprise the statements of net position as of June 30, 2017, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves 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 Utilities' 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 Utilities' 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.

To the Board of Trustees
Harlan Municipal Utilities

We believe that 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 financial position of the business-type activities and each major fund of Harlan Municipal Utilities as of June 30, 2017 and the changes in its financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Schedule and the Schedule of the Utilities' Proportionate Share of the Net Pension Liability and the Schedule of Utilities' Contributions on pages 3 through 3d and on pages 35 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the 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.

Predecessor Auditors

The financial statements of Harlan Municipal Utilities as of June 30, 2016 were audited by other auditors whose report dated September 12, 2016, expressed unmodified opinions on those statements.

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. Other auditors previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the one year ended June 30, 2016 and expressed unmodified opinions on those financial statements. The supplementary information on pages 1 and 39 through 50 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

To the Board of Trustees
Harlan Municipal Utilities

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 auditing standards generally accepted in the United States of America. 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 October 4, 2017 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, grant agreements and other matters. The purpose of that report is solely 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 effectiveness of Harlan Municipal Utilities' 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.

Gene Wald, Ben, Kuhn & Co. P.C.

Atlantic, Iowa
October 4, 2017



Telecommunications
Electric
Water
Gas

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of 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 years ended June 30, 2017 and 2016. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2017 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities increased 5.74%, or \$805,455 from fiscal 2016 to fiscal 2017.
- Operating expenses of the Utilities' activities increased 3.59%, or \$425,574 from fiscal 2016 to fiscal 2017.
- The Utilities' net position increased 5.17%, or \$1,856,290 from June 30, 2016 to June 30, 2017.

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 3.54%, or \$435,110 from fiscal 2015 to fiscal 2016.
- The Utilities' net position increased 4.06%, or \$1,402,376 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.

The basic financial statements consist of Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows. These statements provide information about the activities of the Utilities on a comparative basis, including resources held by the Utilities but restricted for specific purposes by creditors, contributors, grantors or enabling legislation.

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

Supplementary Information provides detailed information about the operations of the Utilities.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about the Utilities' finances is "Are the Utilities as a whole better or worse off as a result of the year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information about the Utilities' resources and its activities in a way which helps answer this question. These statements include all assets (restricted and unrestricted), deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting, 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.

These two statements report the Utilities' net position, which is the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources as one way to measure the Utilities' financial health or financial position. Over time, increases or decreases in the Utilities' net position are one indicator of whether its financial position is improving or deteriorating. Additional factors, such as changes in the Utilities' consumer base, changes in legislation and regulations, measures of the quantity and quality of services provided to its consumers and local economic conditions, are also important in making this determination.

The Statements of Cash Flows

The Statements of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

FINANCIAL ANALYSIS OF THE UTILITIES

As noted earlier, net position may serve over time as a useful indicator of financial position. The Utilities' net position increased approximately \$1,402,000 from fiscal year 2015 to fiscal year 2016 and increased approximately \$1,856,000 (5.17%) from fiscal year 2016 to fiscal year 2017.

Statement of Net Position			
	2017	2016	2015
Current assets	\$ 8,804,575	\$ 10,822,595	\$ 10,192,187
Restricted assets	10,444,653	10,177,111	9,497,108
Capital assets	35,721,296	33,996,501	34,728,561
Other assets	<u>443,724</u>	<u>483,167</u>	<u>501,256</u>
Total assets	55,414,248	55,479,374	54,919,112
Deferred outflows of resources	665,597	395,340	202,418
Current liabilities	2,795,583	2,357,600	2,356,985
Long-term liabilities	15,220,471	15,981,306	16,861,343
Other liabilities	<u>76,780</u>	<u>1,336,445</u>	<u>1,009,961</u>
Total liabilities	18,092,834	19,675,351	20,228,289
Deferred inflows of resources	219,065	287,707	383,961
Net position:			
Net investment in capital assets	21,069,466	18,321,379	18,179,780
Restricted:			
Expendable	7,931,925	7,700,383	7,875,390
Unrestricted	<u>8,766,555</u>	<u>9,889,894</u>	<u>8,454,110</u>
Total net position	<u>\$ 37,767,946</u>	<u>\$ 35,911,656</u>	<u>\$ 34,509,280</u>

Restricted nonexpendable net assets increased \$232,000 from fiscal year 2016 to fiscal year 2017. Restricted expendable net assets decreased \$175,000 from fiscal year 2015 to fiscal year 2016.

Unrestricted net position decreased \$1,123,000 from fiscal year 2016 to fiscal year 2017, primarily due to a purchase of capital assets. Unrestricted net position increased \$1,436,000 from fiscal year 2015 to fiscal year 2016.

The following shows the changes in net position for the Utilities.

Statement of Revenues, Expenses and Changes in Net Position			
	2017	2016	2015
Operating revenues:			
Sales to consumers	\$ 12,811,165	\$ 12,763,906	\$ 13,377,105
Other operating revenues	1,155,157	722,802	461,895
Other sales - MISO	<u>862,351</u>	<u>536,510</u>	<u>1,036,557</u>
Total operating revenues	14,828,673	14,023,218	14,875,557
Operating expenses:			
Plant operating expenses	6,896,446	6,492,906	7,444,486
Distribution operation expense	1,312,508	1,414,233	1,111,273
Transmission operation expense	286,923	208,378	2,011
Administrative and general expense	872,801	835,440	765,346
Consumer services	59,129	114,779	234,740
Marketing and stakeholder relations	166,550	175,436	165,298
Employee benefits	963,001	881,634	881,698
Depreciation and amortization	<u>1,722,179</u>	<u>1,731,157</u>	<u>1,684,221</u>
Total operating expenses	<u>12,279,537</u>	<u>11,853,963</u>	<u>12,289,073</u>
Operating income	2,549,136	2,169,255	2,586,484
Non-operating revenues:			
Contributions to City - in lieu of taxes	(271,934)	(257,339)	(258,211)
Income from investments	72,810	62,401	61,579
Interest expense on revenue bonds	(468,722)	(546,941)	(593,610)
Industrial development contribution	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>
Non-operating revenues (expenses),net	<u>(692,846)</u>	<u>(766,879)</u>	<u>(815,242)</u>
Net income	1,856,290	1,402,376	1,771,242
Net position, beginning of year	<u>35,911,656</u>	<u>34,509,280</u>	<u>32,738,038</u>
Net position, end of year	<u>\$ 37,767,946</u>	<u>\$ 35,911,656</u>	<u>\$ 34,509,280</u>

Operating Income

The first component of the overall change in the Utilities' net position is its operating income, which is the sum of sales to consumers and other operating revenues reduced by the expenses incurred to perform those services. In each of the past two years, the Utilities has reported an operating income. This is consistent with the Utilities' recent operating history as the Utilities were formed and are operated primarily to serve residents of the City of Harlan and the surrounding area.

The operating income for fiscal year 2017 increased \$379,881, or 17.5%, compared to fiscal year 2016.

Non-operating revenues and expenses consist primarily of contributions to City-in lieu of taxes, interest expense and investment income. Investment income remained relatively constant in fiscal year 2017 as compared to fiscal year 2016, but primarily due to paying debt down. Interest expense decreased \$78,200, or 14.3%.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017, the Utilities had \$35,721,300 invested in capital assets, net of accumulated depreciation/amortization, as detailed in Note G to the financial statements. In fiscal year 2017, the Utilities acquired or constructed capital assets costing \$3,431,400, financed by funds designated by the Board of Trustees.

At June 30, 2016, the Utilities had \$33,996,500 invested in capital assets, net of accumulated depreciation/amortization, as detailed in Note G to the financial statements. In fiscal year 2016 the Utilities acquired or constructed capital assets costing \$981,000, financed by funds designated by the Board of Trustees.

Long-Term Debt

At June 30, 2017, the Utilities had outstanding revenue bonds and an equipment note totaling \$14,745,700, as detailed in Notes H-K to the financial statements. The Utilities issued no new debt in fiscal year 2017.

At June 30, 2016, the Utilities had outstanding revenue bonds and an equipment note totaling \$15,784,600, as detailed in Notes H-K to the financial statements. The Utilities issued no new debt in fiscal year 2016.

The Utilities' formal debt issuances, revenue bonds, are subject to limitations imposed by state law. There have been no changes in the Utilities' debt ratings during the past two years.

ECONOMIC FACTORS

Harlan Municipal Utilities continued to improve its financial position during the current fiscal year. However, the current condition of the economy in the state continues to be a concern for Utilities officials. Some of the realities which may potentially become challenges for the Utilities to meet are:

- Natural resource costs will continue to increase.
- Facilities at the Utilities require constant maintenance and upkeep.
- Shortages of qualified employees.

The Utilities anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the Utilities' ability to react to unknown issues.

CONTACTING THE UTILITIES'S FINANCIAL MANAGEMENT

This financial report is designed to provide our consumers, suppliers, and creditors with a general overview of the Utilities' finances and to show the Utilities' accountability for the money it receives. If you have questions about this report and or need additional financial information, contact Chief Executive Officer, 2412 Southwest Avenue, Harlan, Iowa 51537-0071.

HARLAN MUNICIPAL UTILITIES
Statements of Net Position
June 30, 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	Electric	Gas	Water
Capital Assets - net of depreciation	\$ 21,831,512	\$ 1,014,225	\$ 9,872,211
Special Purpose Funds:			
Restricted funds	6,157,813	--	1,527,113
Board designated funds	1,353,666	1,079,062	--
Total special purpose funds	7,511,479	1,079,062	1,527,113
Current Assets:			
Cash	3,809,765	1,964,704	523,768
Industrial development fund	152,395	123,886	--
Accounts receivable	440,816	41,518	177,763
Unbilled usage	235,993	63,437	80,692
Inventory	640,700	30,058	38,515
Prepaid expenses	52,002	30,837	35,959
Total current assets	5,331,671	2,254,440	856,697
Other Assets:			
Note receivable - Telecommunications	349,860	--	--
Other assets	51,196	--	42,668
Total other assets	401,056	--	42,668
Total assets	35,075,718	4,347,727	12,298,689
Deferred Outflows of Resources - Pension	219,647	179,710	186,368
Total assets and deferred outflows of resources	\$ 35,295,365	\$ 4,527,437	\$ 12,485,057

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Long-Term Debt, less current maturities	\$ 6,520,000	\$ --	\$ 6,101,000
Net Pension Liability	532,801	435,927	452,074
Current Liabilities:			
Current maturities of long-term debt	635,000	--	315,000
Accounts payable	442,504	102,615	162,626
Accrued employee compensation	106,616	39,508	71,893
Accrued property taxes	101,795	--	--
Accrued expenses	63,221	1,630	10,920
Due City of Harlan for collections and fees	--	--	198,193
Accrued interest	68,683	--	96,240
Total current liabilities	1,417,819	143,753	854,872
Other Liabilities:			
Consumer credits	--	30,541	--
Consumer deposits	46,239	--	--
Total other liabilities	46,239	30,541	--
Total liabilities	8,516,859	610,221	7,407,946
Deferred Inflows of Resources - Pension	72,291	59,148	61,338
Net Position:			
Invested in capital assets, net of related debt	14,727,708	1,014,225	3,498,879
Restricted - expendable	6,157,813	--	1,527,113
Unrestricted	5,820,694	2,843,843	(10,219)
Total net position	26,706,215	3,858,068	5,015,773
Total liabilities, deferred inflows of resources, and net position	\$ 35,295,365	\$ 4,527,437	\$ 12,485,057

The accompanying notes are an integral part of these statements.

<u>Telecommunications</u>	<u>Total</u>
\$ 3,003,348	\$ 35,721,296
246,999	7,931,925
<u>80,000</u>	<u>2,512,728</u>
326,999	10,444,653
116,336	6,414,573
--	276,281
197,068	857,165
1,453	381,575
3,513	712,786
<u>43,397</u>	<u>162,195</u>
361,767	8,804,575
--	349,860
<u>--</u>	<u>93,864</u>
<u>--</u>	<u>443,724</u>
3,692,114	55,414,248
<u>79,872</u>	<u>665,597</u>
<u>\$ 3,771,986</u>	<u>\$ 56,079,845</u>
\$ 984,923	\$ 13,605,923
193,746	1,614,548
189,771	1,139,771
130,354	838,099
46,419	264,436
--	101,795
5,893	81,664
--	198,193
<u>6,702</u>	<u>171,625</u>
379,139	2,795,583
--	30,541
<u>--</u>	<u>46,239</u>
<u>--</u>	<u>76,780</u>
1,557,808	18,092,834
26,288	219,065
1,828,654	21,069,466
246,999	7,931,925
<u>112,237</u>	<u>8,766,555</u>
<u>2,187,890</u>	<u>37,767,946</u>
<u>\$ 3,771,986</u>	<u>\$ 56,079,845</u>

HARLAN MUNICIPAL UTILITIES
Statements of Net Position
June 30, 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	Electric	Gas	Water
Capital Assets - net of depreciation	\$ 19,993,616	\$ 1,040,821	\$ 10,019,147
Special Purpose Funds:			
Restricted funds	6,029,895	--	1,427,346
Board designated funds	1,351,666	1,057,062	--
Total special purpose funds	7,381,561	1,057,062	1,427,346
Current Assets:			
Cash	4,147,648	2,523,489	254,473
Industrial development fund	152,283	123,799	--
Accounts receivable	668,385	700,641	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	5,878,939	3,486,333	913,281
Other Assets:			
Note receivable - Telecommunications	373,752	--	--
Other assets	61,694	--	47,721
Total other assets	435,446	--	47,721
Total assets	33,689,562	5,584,216	12,407,495
Deferred Outflows of Resources - Pension	130,462	106,741	110,696
Total assets and deferred outflows of resources	\$ 33,820,024	\$ 5,690,957	\$ 12,518,191

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Long-Term Debt, less current maturities	\$ 7,155,000	\$ --	\$ 6,416,000
Net Pension Liability	407,752	333,614	345,972
Current Liabilities:			
Current maturities of long-term debt	615,000	--	235,000
Accounts payable	292,751	76,067	142,435
Accrued employee compensation	58,619	16,362	42,223
Accrued property taxes	103,043	--	--
Accrued expenses	64,348	1,561	10,495
Due City of Harlan for collections and fees	--	--	174,222
Accrued interest	73,295	--	99,765
Total current liabilities	1,207,056	93,990	704,140
Other Liabilities:			
Consumer credits	--	1,294,679	--
Consumer deposits	41,766	--	--
Total other liabilities	41,766	1,294,679	--
Total liabilities	8,811,574	1,722,283	7,466,112
Deferred Inflows of Resources - Pension	94,943	77,681	80,558
Net Position:			
Invested in capital assets, net of related debt	12,285,310	1,040,821	3,415,868
Restricted - expendable	6,029,895	--	1,427,346
Unrestricted	6,598,302	2,850,172	128,307
Total net position	24,913,507	3,890,993	4,971,521
Total liabilities, deferred inflows of resources, and net position	\$ 33,820,024	\$ 5,690,957	\$ 12,518,191

The accompanying notes are an integral part of these statements.

<u>Telecommunications</u>	<u>Total</u>
\$ 2,942,917	\$ 33,996,501
243,142	7,700,383
<u>68,000</u>	<u>2,476,728</u>
311,142	10,177,111
345,312	7,270,922
--	276,082
177,352	2,052,017
1,349	347,493
4,159	749,995
<u>15,870</u>	<u>126,086</u>
544,042	10,822,595
--	373,752
<u>--</u>	<u>109,415</u>
<u>--</u>	<u>483,167</u>
3,798,101	55,479,374
<u>47,441</u>	<u>395,340</u>
<u>\$ 3,845,542</u>	<u>\$ 55,874,714</u>
\$ 1,174,694	\$ 14,745,694
148,274	1,235,612
188,858	1,038,858
122,613	633,866
25,798	143,002
--	103,043
7,326	83,730
--	174,222
<u>7,819</u>	<u>180,879</u>
352,414	2,357,600
--	1,294,679
<u>--</u>	<u>41,766</u>
<u>--</u>	<u>1,336,445</u>
1,675,382	19,675,351
34,525	287,707
1,579,380	18,321,379
243,142	7,700,383
<u>313,113</u>	<u>9,889,894</u>
<u>2,135,635</u>	<u>35,911,656</u>
<u>\$ 3,845,542</u>	<u>\$ 55,874,714</u>

HARLAN MUNICIPAL UTILITIES
Statements of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2017

	Electric	Gas	Water
Operating Revenues:			
Sales to consumers	\$ 6,074,740	\$ 2,583,384	\$ 1,959,824
Other operating revenue	1,049,993	3,721	54,080
Other sales - MISO	<u>862,351</u>	<u>--</u>	<u>--</u>
Total operating revenues	<u>7,987,084</u>	<u>2,587,105</u>	<u>2,013,904</u>
Operating Expenses:			
Plant operation	3,020,137	1,927,471	738,535
Distribution operation	653,014	200,474	191,105
Transmission operation	286,923	--	--
Administrative and general	262,316	186,181	206,342
Consumer services	32,775	25,053	4,416
Marketing and stakeholder relations	35,705	26,118	30,274
Employee benefits	381,813	150,009	236,221
Depreciation and amortization	<u>1,141,188</u>	<u>59,734</u>	<u>338,104</u>
Total operating expenses	<u>5,813,871</u>	<u>2,575,040</u>	<u>1,744,997</u>
Operating Income	2,173,213	12,065	268,907
Non-Operating Revenues (Expenses):			
Contributions to City in lieu of taxes	(193,317)	(40,675)	(37,006)
Income from investments	56,731	8,185	4,831
Interest expense on revenue bonds	(231,419)	--	(192,480)
Industrial development contribution	<u>(12,500)</u>	<u>(12,500)</u>	<u>--</u>
Non-Operating Expenses, net	<u>(380,505)</u>	<u>(44,990)</u>	<u>(224,655)</u>
Net Income (Loss)	1,792,708	(32,925)	44,252
Net Position, Beginning of Year	<u>24,913,507</u>	<u>3,890,993</u>	<u>4,971,521</u>
Net Position, End of Year	<u>\$ 26,706,215</u>	<u>\$ 3,858,068</u>	<u>\$ 5,015,773</u>

The accompanying notes are an integral part of these statements.

<u>Telecommunications</u>	<u>Total</u>
\$ 2,193,217	\$ 12,811,165
47,363	1,155,157
--	862,351
<u>2,240,580</u>	<u>14,828,673</u>
1,210,303	6,896,446
267,915	1,312,508
--	286,923
217,962	872,801
(3,115)	59,129
74,453	166,550
194,958	963,001
183,153	1,722,179
<u>2,145,629</u>	<u>12,279,537</u>
94,951	2,549,136
(936)	(271,934)
3,063	72,810
(44,823)	(468,722)
--	(25,000)
<u>(42,696)</u>	<u>(692,846)</u>
52,255	1,856,290
<u>2,135,635</u>	<u>35,911,656</u>
<u>\$ 2,187,890</u>	<u>\$ 37,767,946</u>

HARLAN MUNICIPAL UTILITIES
Statements of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2016

	Electric	Gas	Water
Operating Revenues:			
Sales to consumers	\$ 6,051,132	\$ 2,630,466	\$ 1,997,541
Other operating revenue	627,271	2,271	60,149
Other sales - MISO	536,510	--	--
Total operating revenues	7,214,913	2,632,737	2,057,690
Operating Expenses:			
Plant operation	2,887,539	1,841,126	630,917
Distribution operation	717,132	184,568	200,599
Transmission operation	208,378	--	--
Administrative and general	270,238	166,235	192,975
Consumer services	36,023	20,731	12,612
Marketing and stakeholder relations	36,570	35,047	32,830
Employee benefits	346,357	128,247	229,885
Depreciation and amortization	1,138,971	66,327	337,960
Total operating expenses	5,641,208	2,442,281	1,637,778
Operating Income (Loss)	1,573,705	190,456	419,912
Non-Operating Revenues (Expenses):			
Contributions to City in lieu of taxes	(191,854)	(29,156)	(35,303)
Income from investments	49,955	6,210	3,507
Interest expense on revenue bonds	(296,974)	--	(199,530)
Industrial development contribution	(12,500)	(12,500)	--
Non-Operating Expenses, net	(451,373)	(35,446)	(231,326)
Net Income (Loss)	1,122,332	155,010	188,586
Net Position, Beginning of Year	23,791,175	3,735,983	4,782,935
Net Position, End of Year	\$ 24,913,507	\$ 3,890,993	\$ 4,971,521

The accompanying notes are an integral part of these statements.

<u>Telecommunications</u>	<u>Total</u>
\$ 2,084,767	\$ 12,763,906
33,111	722,802
--	536,510
<u>2,117,878</u>	<u>14,023,218</u>
1,133,324	6,492,906
311,934	1,414,233
--	208,378
205,992	835,440
45,413	114,779
70,989	175,436
177,145	881,634
187,899	1,731,157
<u>2,132,696</u>	<u>11,853,963</u>
(14,818)	2,169,255
(1,026)	(257,339)
2,729	62,401
(50,437)	(546,941)
--	(25,000)
<u>(48,734)</u>	<u>(766,879)</u>
(63,552)	1,402,376
<u>2,199,187</u>	<u>34,509,280</u>
<u>\$ 2,135,635</u>	<u>\$ 35,911,656</u>

HARLAN MUNICIPAL UTILITIES
 Statements of Cash Flows
 Year ended June 30, 2017

	Electric	Gas	Water
Cash flows from operating activities:			
Cash received from consumers	\$ 6,240,142	\$ 1,972,238	\$ 2,281,373
Cash paid to suppliers	(3,900,116)	(2,184,686)	(921,790)
Cash paid to employees	(515,412)	(249,843)	(395,306)
Other operating revenue	<u>1,912,344</u>	<u>3,721</u>	<u>54,080</u>
Net cash provided by (used in) operating activities	3,736,958	(458,570)	1,018,357
Cash flows from noncapital financing activities:			
Contributions to City - in lieu of taxes	(193,317)	(40,675)	(37,006)
Cash flows from capital and related financing activities:			
Principal payments	(615,000)	--	(235,000)
Interest paid on revenue bonds	(283,953)	--	(196,005)
Capital expenditures	<u>(2,920,664)</u>	<u>(33,138)</u>	<u>(186,115)</u>
Net cash used in capital and related financing activities	(3,819,617)	(33,138)	(617,120)
Cash flows from investing activities:			
Special purpose fund investments:			
Acquisitions	(36,129)	--	--
Operating and capital reserves:			
Telecommunications department note proceeds	23,892	--	--
Income from investments	56,731	8,185	4,831
Industrial development contribution	<u>(12,500)</u>	<u>(12,500)</u>	<u>--</u>
Net cash provided by (used in) investing activities	<u>31,994</u>	<u>(4,315)</u>	<u>4,831</u>
Net increase (decrease) in cash	(243,982)	(536,698)	369,062
Cash at beginning of year	<u>7,895,326</u>	<u>3,104,350</u>	<u>1,284,819</u>
Cash at end of year	<u>\$ 7,651,344</u>	<u>\$ 2,567,652</u>	<u>\$ 1,653,881</u>

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<u>Telecommunications</u>	<u>Total</u>
\$ 2,177,038	\$ 12,670,791
(1,682,737)	(8,689,329)
(278,527)	(1,439,088)
<u>47,363</u>	<u>2,017,508</u>
263,137	4,559,882
(936)	(271,934)
(188,859)	(1,038,859)
(45,940)	(525,898)
<u>(243,584)</u>	<u>(3,383,501)</u>
(478,383)	(4,948,258)
--	(36,129)
--	23,892
3,063	72,810
<u>--</u>	<u>(25,000)</u>
<u>3,063</u>	<u>35,573</u>
(213,119)	(624,737)
<u>610,256</u>	<u>12,894,751</u>
<u>\$ 397,137</u>	<u>\$ 12,270,014</u>

HARLAN MUNICIPAL UTILITIES
Statements of Cash Flows - Continued
Year ended June 30, 2017

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>
Reconciliation of cash to the statements of net position:			
Cash in current assets	\$ 3,962,160	\$ 2,088,590	\$ 523,768
Cash in special purpose funds	<u>3,689,184</u>	<u>479,062</u>	<u>1,130,113</u>
Total cash	<u>\$ 7,651,344</u>	<u>\$ 2,567,652</u>	<u>\$ 1,653,881</u>
Reconciliation of income from operations to net cash provided by (used in) operating activities:			
Income from operations	\$ 2,173,213	\$ 12,065	\$ 268,907
Adjustments to reconcile income from operations to net cash provided by (used in) operating activities:			
Depreciation	1,130,690	59,734	333,051
Amortization	10,498	--	5,053
Changes in assets and liabilities:			
Receivables	177,946	677,307	325,337
Inventory	37,698	(2,917)	1,782
Prepaid expenses	(6,147)	(1,195)	(1,240)
Customer credits	--	(1,264,138)	--
Deferred outflows of resources	(89,185)	(72,969)	(75,672)
Net pension liability	125,049	102,313	106,102
Accounts payable:			
Trade	149,753	26,548	20,191
Accrued employee compensation	47,997	23,146	29,670
Accrued property taxes	(1,248)	--	--
Accrued expenses	(1,127)	69	425
Due to city sewer	--	--	23,971
Consumer deposits	4,473	--	--
Deferred inflows of resources	(22,652)	(18,533)	(19,220)
Total adjustments	<u>1,563,745</u>	<u>(470,635)</u>	<u>749,450</u>
Net cash provided by (used in) operating activities	<u>\$ 3,736,958</u>	<u>\$ (458,570)</u>	<u>\$ 1,018,357</u>

The accompanying notes are an integral part of these statements.

<u>Telecommunications</u>	<u>Total</u>
\$ 116,336	\$ 6,690,854
<u>280,801</u>	<u>5,579,160</u>
<u>\$ 397,137</u>	<u>\$ 12,270,014</u>
\$ 94,951	\$ 2,549,136
183,153	1,706,628
--	15,551
(19,820)	1,160,770
646	37,209
(27,527)	(36,109)
--	(1,264,138)
(32,431)	(270,257)
45,472	378,936
7,742	204,234
20,621	121,434
--	(1,248)
(1,433)	(2,066)
--	23,971
--	4,473
(8,237)	(68,642)
<u>168,186</u>	<u>2,010,746</u>
<u>\$ 263,137</u>	<u>\$ 4,559,882</u>

HARLAN MUNICIPAL UTILITIES
Statements of Cash Flows
Year ended June 30, 2016

	Electric	Gas	Water
Cash flows from operating activities:			
Cash received from consumers	\$ 6,059,116	\$ 2,791,413	\$ 1,880,209
Cash paid to suppliers	(4,251,385)	(2,121,758)	(831,777)
Cash paid to employees	(511,580)	(257,875)	(394,239)
Other operating revenue	<u>1,163,781</u>	<u>2,271</u>	<u>60,149</u>
Net cash provided by operating activities	2,459,932	414,051	714,342
Cash flows from noncapital financing activities:			
Contributions to City - in lieu of taxes	(191,854)	(29,156)	(35,303)
Cash flows from capital and related financing activities:			
Principal payments	(585,000)	--	(365,000)
Interest paid on revenue bonds	(300,768)	--	(205,705)
Capital expenditures	<u>(658,932)</u>	<u>(56,271)</u>	<u>(92,519)</u>
Net cash used in capital and related financing activities	(1,544,700)	(56,271)	(663,224)
Cash flows from investing activities:			
Special purpose fund investments:			
Acquisitions	(3,786,166)	(600,000)	(397,000)
Operating and capital reserves:			
Income from investments	49,955	6,210	3,507
Industrial development contribution	<u>(12,500)</u>	<u>(12,500)</u>	<u>--</u>
Net cash used in investing activities	<u>(3,748,711)</u>	<u>(606,290)</u>	<u>(393,493)</u>
Net decrease in cash	(3,025,333)	(277,666)	(377,678)
Cash at beginning of year	<u>10,920,659</u>	<u>3,382,016</u>	<u>1,662,497</u>
Cash at end of year	<u>\$ 7,895,326</u>	<u>\$ 3,104,350</u>	<u>\$ 1,284,819</u>

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<u>Telecommunications</u>	<u>Total</u>
\$ 2,068,661	\$ 12,799,399
(1,606,461)	(8,811,381)
(319,212)	(1,482,906)
<u>33,111</u>	<u>1,259,312</u>
176,099	3,764,424
(1,026)	(257,339)
(187,979)	(1,137,979)
(52,000)	(558,473)
<u>(173,266)</u>	<u>(980,988)</u>
(413,245)	(2,677,440)
(46,198)	(4,829,364)
2,729	62,401
--	(25,000)
<u>(43,469)</u>	<u>(4,791,963)</u>
(281,641)	(3,962,318)
<u>891,897</u>	<u>16,857,069</u>
<u>\$ 610,256</u>	<u>\$ 12,894,751</u>

HARLAN MUNICIPAL UTILITIES
Statements of Cash Flows - Continued
Year ended June 30, 2016

	Electric	Gas	Water
Reconciliation of cash to the statements of net position:			
Cash in current assets	\$ 4,299,931	\$ 2,647,288	\$ 254,473
Cash in special purpose funds	3,595,395	457,062	1,030,346
Total cash	\$ 7,895,326	\$ 3,104,350	\$ 1,284,819
Reconciliation of income (loss) from operations to net cash provided by operating activities:			
Income (loss) from operations	\$ 1,573,705	\$ 190,456	\$ 419,912
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:			
Depreciation	1,126,837	66,327	332,002
Amortization	12,134	--	5,958
Changes in assets and liabilities:			
Receivables	91,286	(213,491)	(49,960)
Inventory	(321,571)	(5,943)	2,656
Prepaid expenses	8,375	8,644	4,985
Customer credits	(61,747)	393,463	(5,657)
Deferred outflows of resources	(63,664)	(52,088)	(54,019)
Net pension liability	75,511	61,781	64,070
Accounts payable:			
Trade	5,037	(1,827)	76,682
Accrued employee compensation	(14,904)	(7,330)	(4,922)
Accrued property taxes	(2,894)	--	--
Accrued expenses	63,166	48	701
Consumer deposits	425	--	(51,115)
Deferred inflows of resources	(31,764)	(25,989)	(26,951)
Total adjustments	886,227	223,595	294,430
Net cash provided by operating activities	\$ 2,459,932	\$ 414,051	\$ 714,342

The accompanying notes are an integral part of these statements.

<u>Telecommunications</u>	<u>Total</u>
\$ 345,312	\$ 7,547,004
<u>264,944</u>	<u>5,347,747</u>
\$ <u>610,256</u>	\$ <u>12,894,751</u>
\$(14,818)	\$ 2,169,255
187,899	1,713,065
--	18,092
28,462	(143,703)
726	(324,132)
2,448	24,452
--	326,059
(23,151)	(192,922)
27,458	228,820
(8,070)	71,822
(12,876)	(40,032)
--	(2,894)
(429)	63,486
--	(50,690)
(11,550)	(96,254)
<u>190,917</u>	<u>1,595,169</u>
\$ <u>176,099</u>	\$ <u>3,764,424</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2017 and 2016

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

The Harlan Municipal Utilities is made up of four enterprise funds (departments) and is a component unit of the City of Harlan, Iowa (City). It was instituted to provide electric, gas, water, and telecommunications service to residents of the City and the surrounding area. The Utilities are operated as a separate entity under the direction of a Board of Trustees. The members of the Board are appointed by the Mayor and approved by the City Council.

The financial positions and operations of the four departments are accounted for and reported separately in these financial statements. The Utilities report in accordance with Governmental Accounting Standards and Uniform Systems of Accounts prescribed by the Federal Energy Regulatory Commission and the National Association of Regulatory Utility Commissioners.

2. Basis of Presentation

The Statement of Net Position displays the Utilities' assets, deferred outflows of resources, liabilities, deferred inflows of resources with the difference reported as net position. Net position is reported in the following categories/components:

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:

- a. *Nonexpendable* - Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Utilities.
- b. *Expendable* - Expendable net position results when constraints placed on net position use are either externally imposed or are 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 preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

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

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2017 and 2016

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

3. Measurement Focus and Basis of Accounting

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

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. Utility Plant and Depreciation

The straight-line method is used for computing depreciation with lives on machinery and equipment ranging from five to thirty-five years and lives on buildings of fifty years. Cost of labor, materials, supervision and other expenses incurred in making repairs and minor replacements and in maintaining the properties in efficient operating condition are charged to expense. Utility plant accounts are charged with the cost of improvements and replacements of the plant. 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.

6. Accounts Receivable and Revenue Recognition

Billings for electric, water, gas, and telecommunications revenues are rendered monthly on a cyclical basis. 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.

Accounts receivable reported in the statements of net position are shown net of the allowances for doubtful accounts (Electric: \$35,000 in 2017 and 2016) (Gas: \$28,000 in 2017 and 2016) (Water: \$16,300 in 2016 and 2015) (Telecommunications: \$56,000 in 2017 and 2016).

7. Inventory Valuation

Inventories (materials, supplies and fuel) are valued at the lower of cost or market. Cost is determined on a first-in, first-out method for materials and supplies and a weighted average basis for fuel.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2017 and 2016

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

8. Investments

Investments are carried at fair value except for short-term highly liquid investments with maturities of less than one year at the time of purchase. These investments are stated at amortized cost, which approximates fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in other non-operating revenue when earned.

9. Purpose of Special Funds

The Utilities have set aside certain assets for specific purposes. The board designated funds represent money designated by the Board of Trustees to be used in the payment of certain potential costs as identified in Note D. The restricted funds, as discussed in Note D, are the result of requirements established in bond issue documents and for customer deposits.

10. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) 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.

11. 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 the benefit terms. Investments are reported at fair value.

12. Compensated Absences

Utility employees earn vacation hours at varying rates depending on years of service. Vacation time accumulates to a maximum of 300 hours. Any excess over 300 hours is lost. The computed amount of vacation benefits earned by year end is recorded as part of accrued employee compensation.

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, 2017 at current pay rates.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2017 and 2016

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

13. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consists of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

14. Property Taxes

According to Iowa law, the Electric Utility is required to pay property taxes on transmission lines and related Utility property outside the Harlan city limits. The property taxes are recorded as of the date they become a liability.

15. Cash Equivalents

For purposes of the statement of cash flows, the Harlan Municipal Utilities considers all highly liquid debt instruments purchased with a maturity of less than three months to be cash equivalents.

16. Debt Costs During Periods of Construction

During construction, costs of related debt are accumulated and capitalized. Interest earned on invested debt proceeds is offset against the accumulated costs and the net amount is included in capitalized construction costs. The Utilities capitalized interest of \$47,922 in 2017. No interest was capitalized during 2016.

NOTE B - TRANSACTIONS WITH CITY OF HARLAN, IOWA

The Utilities provide electric, gas, water, and telecommunications services to the City without payment.

The Utilities act as the billing and collection agent for the City in the collection of sewer and landfill fees from the residents of Harlan. This service is provided for no charge to the City.

Following is a summary of activity between the Utilities and City during the year and amounts due to or receivable from the City at year end:

<u>Water Department</u>	<u>2017</u>	<u>2016</u>
Sewer Fees Collected for City	\$ 945,714	\$ 860,488
Landfill Fees Collected for City	\$ 128,568	\$ 116,982
Account Payable to City	\$ 295,279	\$ 253,439

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2017 and 2016

NOTE C - TRANSACTIONS BETWEEN ELECTRIC, GAS, WATER, AND
TELECOMMUNICATIONS DEPARTMENTS

Certain administrative costs are split between the Electric, Gas, Water, and Telecommunications Departments based on a formula applied consistently throughout the years. Other costs and all revenues are separately identified and accounted for within each Department.

Following is information about interdepartment transactions and amounts due between the Electric, Gas, Water, and Telecommunications Departments at June 30:

	2017	2016
Interest income (Electric) and expense (Telecommunications) during the year	<u>\$ 13,608</u>	<u>\$ 14,486</u>
Interest bearing note due to Electric from Telecommunications Department	\$ 349,860	\$ 373,752
Less current portion	<u>(24,804)</u>	<u>(23,892)</u>
	<u>\$ 325,056</u>	<u>\$ 349,860</u>
Current portion of interest bearing note due to Electric from Telecommunications Department	<u>\$ 24,804</u>	<u>\$ 23,892</u>

See Note K for details of the interest bearing note due to Electric from Telecommunications.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2017 and 2016

NOTE D - SPECIAL PURPOSE FUNDS

Restricted and board designated net assets are available for the following purposes:

Electric Department

	2017	2016
Restricted by Bond Resolution for:		
Payment of principal and interest	\$ 2,365,334	\$ 2,248,085
Capital improvements	3,020,784	3,014,497
Restricted by Debt Reserve	726,196	721,833
Consumer Deposit Fund	45,499	45,480
Total restricted	\$ 6,157,813	\$ 6,029,895

Board Designated for:

Plant improvements, emergency and contingency funds	\$ 1,205,000	\$ 1,205,000
Replacement funds bond requirement	148,666	146,666
Total board designated	\$ 1,353,666	\$ 1,351,666

Gas Department

	2017	2016
Board Designated for:		
System improvements	\$ 1,079,062	\$ 1,057,062
Total board designated	\$ 1,079,062	\$ 1,057,062

Water Department

	2017	2016
Restricted:		
Payment of principal and interest	\$ 734,429	\$ 634,662
Capital improvements	170,000	170,000
Debt reserve	622,684	622,684
Total restricted	\$ 1,527,113	\$ 1,427,346

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2017 and 2016

NOTE D - SPECIAL PURPOSE FUNDS - Continued

Telecommunications Department

	2017	2016
Restricted:		
Payment of principal and interest	\$ 108,801	\$ 104,944
Debt reserve	138,198	138,198
Total restricted	\$ 246,999	\$ 243,142
Board Designated for:		
Plant improvements, emergency and contingency funds	\$ 80,000	\$ 68,000
Total board designated	\$ 80,000	\$ 68,000

NOTE E - DEPOSITS AND INVESTMENTS

The Utilities' deposits at June 30, 2017 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. The investments are all insured, registered, or held by the Utilities or their agent in the Utilities' name. Investments are stated as indicated in Note A.

The Utilities are 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 of Trustees and the Treasurer of the State of Iowa; 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 Electric Department's investments are as follows:

	2017	2016
Invested Funds:		
Certificates of Deposit	\$ 3,822,295	\$ 3,786,166
Other Interest Bearing Accounts	3,689,184	3,595,395
Total Investments	\$ 7,511,479	\$ 7,381,561

The Gas Department's investments are as follows:

	2017	2016
Invested Funds:		
Certificates of Deposit	\$ 600,000	\$ 600,000
Other Interest Bearing Accounts	479,062	457,062
Total Investments	\$ 1,079,062	\$ 1,057,062

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2017 and 2016

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The Water Department's investments are as follows:

	<u>2017</u>	<u>2016</u>
Invested Funds:		
Certificates of Deposit	\$ 397,000	\$ 397,000
Other Interest Bearing Accounts	<u>1,130,113</u>	<u>1,030,346</u>
Total Investments	<u>\$ 1,527,113</u>	<u>\$ 1,427,346</u>

The Telecommunications Department's investments are as follows:

	<u>2017</u>	<u>2016</u>
Invested Funds:		
Certificates of Deposit	\$ 46,198	\$ 46,198
Other Interest Bearing Accounts	<u>280,801</u>	<u>264,944</u>
Total Investments	<u>\$ 326,999</u>	<u>\$ 311,142</u>

The Utilities' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Utilities.

NOTE F - FAIR VALUE MEASUREMENTS

The Utilities' investments are reported at fair value in the accompanying statements of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consist of observable inputs other than quoted prices for identical assets (Level 1). Level 3 inputs are unobservable and have the lowest priority. The Utilities uses appropriate valuation techniques based on the available inputs to measure the fair value of its note receivable. When available, the Utilities measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 1 or 2 inputs were available to the Utilities, therefore, Level 3 inputs were used to value its investments at June 30, 2017 and 2016.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2017 and 2016

NOTE F - FAIR VALUE MEASUREMENTS - Continued

Level 3 Fair Value Measurements

The Electric Utility's note receivable is not actively traded and significant other observable inputs are not available. The fair value of the note receivable is based on contract value. Level 3 fair value for the note receivable was \$349,860 at June 30, 2017 (\$373,752 at June 30, 2016). The Electric Utility's Due from Telecommunications Department is not actively traded and significant other observable inputs are not available. The fair value of the amount due from the Telecommunications Department is based on contract value. Management believes these values approximate current fair value.

The following table reconciles the beginning and ending balances of fair value measurement for the Utilities' Level 3 assets using unobservable inputs for the years ended June 30, 2017 and 2016:

<u>June 30, 2017</u>	<u>Note Receivable</u>
Beginning balance	\$ 373,752
Collections on note receivable	<u>(23,892)</u>
Ending balance	<u>\$ 349,860</u>
 <u>June 30, 2016</u>	
Beginning balance	\$ 396,766
Collections on note receivable	<u>(23,014)</u>
Ending balance	<u>\$ 373,752</u>

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals, and balances for the years ended June 30, 2017 and 2016 were as follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2017</u>
<u>Electric Department</u>				
Plant and Equipment	\$ 45,676,080	\$ 480,284	\$ --	\$ 46,156,364
Depreciation	<u>(25,804,750)</u>	<u>(1,130,690)</u>	<u>--</u>	<u>(26,935,440)</u>
Depreciable Capital Assets, Net	<u>\$ 19,871,330</u>	<u>\$(650,406)</u>	<u>\$ --</u>	<u>\$ 19,220,924</u>
Construction in Progress	\$ 4,454	\$ 2,488,302	\$ --	\$ 2,492,756
Land and Land Rights	<u>117,832</u>	<u>--</u>	<u>--</u>	<u>117,832</u>
Non-Depreciable Capital Assets	<u>\$ 122,286</u>	<u>\$ 2,488,302</u>	<u>\$ --</u>	<u>\$ 2,610,588</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2017 and 2016

NOTE G - CAPITAL ASSETS - Continued

	<u>Balance 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2016</u>
<u>Electric Department</u>				
Plant and Equipment	\$ 45,021,600	\$ 654,480	\$ --	\$ 45,676,080
Depreciation	<u>(24,677,913)</u>	<u>(1,126,837)</u>	<u>--</u>	<u>(25,804,750)</u>
Depreciable Capital Assets, Net	<u>\$ 20,343,687</u>	<u>\$(472,357)</u>	<u>\$ --</u>	<u>\$ 19,871,330</u>
Construction in Progress	\$ --	\$ 4,454	\$ --	\$ 4,454
Land and Land Rights	<u>117,832</u>	<u>--</u>	<u>--</u>	<u>117,832</u>
Non-Depreciable Capital Assets	<u>\$ 117,832</u>	<u>\$ 4,454</u>	<u>\$ --</u>	<u>\$ 122,286</u>
	<u>Balance 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2017</u>
<u>Gas Department</u>				
Plant and Equipment	\$ 2,955,075	\$ 33,138	\$ --	\$ 2,988,213
Depreciation	<u>(1,921,754)</u>	<u>(59,734)</u>	<u>--</u>	<u>(1,981,488)</u>
Depreciable Capital Assets, Net	<u>\$ 1,033,321</u>	<u>\$(26,596)</u>	<u>\$ --</u>	<u>\$ 1,006,725</u>
Land and Land Rights	<u>\$ 7,500</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 7,500</u>
Non-Depreciable Capital Assets	<u>\$ 7,500</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 7,500</u>
	<u>Balance 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2016</u>
<u>Gas Department</u>				
Plant and Equipment	\$ 2,898,804	\$ 56,271	\$ --	\$ 2,955,075
Depreciation	<u>(1,855,427)</u>	<u>(66,327)</u>	<u>--</u>	<u>(1,921,754)</u>
Depreciable Capital Assets, Net	<u>\$ 1,043,377</u>	<u>\$(10,056)</u>	<u>\$ --</u>	<u>\$ 1,033,321</u>
Land and Land Rights	<u>\$ 7,500</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 7,500</u>
Non-Depreciable Capital Assets	<u>\$ 7,500</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 7,500</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2017 and 2016

NOTE G - CAPITAL ASSETS - Continued

	<u>Balance 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2017</u>
<u>Water Department</u>				
Plant and Equipment	\$ 15,544,112	\$ 186,115	\$ --	\$ 15,730,227
Depreciation	<u>(5,529,415)</u>	<u>(333,051)</u>	<u>--</u>	<u>(5,862,466)</u>
Depreciable Capital Assets, Net	<u>\$ 10,014,697</u>	<u>\$ (146,936)</u>	<u>\$ --</u>	<u>\$ 9,867,761</u>
Land and Land Rights	\$ 4,450	\$ --	\$ --	\$ 4,450
Non-Depreciable Capital Assets	<u>\$ 4,450</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 4,450</u>
	<u>Balance 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2016</u>
<u>Water Department</u>				
Plant and Equipment	\$ 15,451,593	\$ 92,519	\$ --	\$ 15,544,112
Depreciation	<u>(5,197,413)</u>	<u>(332,002)</u>	<u>--</u>	<u>(5,529,415)</u>
Depreciable Capital Assets, Net	<u>\$ 10,254,180</u>	<u>\$ (239,483)</u>	<u>\$ --</u>	<u>\$ 10,014,697</u>
Land and Land Rights	\$ 4,450	\$ --	\$ --	\$ 4,450
Non-Depreciable Capital Assets	<u>\$ 4,450</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 4,450</u>
	<u>Balance 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2017</u>
<u>Telecommunications Department</u>				
Plant and Equipment	\$ 5,734,087	\$ 243,584	\$ --	\$ 5,977,671
Depreciation	<u>(2,816,543)</u>	<u>(183,153)</u>	<u>--</u>	<u>(2,999,696)</u>
Depreciable Capital Assets, Net	<u>\$ 2,917,544</u>	<u>\$ 60,431</u>	<u>\$ --</u>	<u>\$ 2,977,975</u>
Construction in Progress	\$ 1,133	\$ --	\$ --	\$ 1,133
Land and Land Rights	<u>24,240</u>	<u>--</u>	<u>--</u>	<u>24,240</u>
Non-Depreciable Capital Assets	<u>\$ 25,373</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 25,373</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2017 and 2016

NOTE G - CAPITAL ASSETS - Continued

	<u>Balance 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2016</u>
<u>Telecommunications Department</u>				
Plant and Equipment	\$ 5,561,954	\$ 172,133	\$ --	\$ 5,734,087
Depreciation	<u>(2,628,644)</u>	<u>(187,899)</u>	<u>--</u>	<u>(2,816,543)</u>
Depreciable Capital Assets, Net	<u>\$ 2,933,310</u>	<u>\$(15,766)</u>	<u>\$ --</u>	<u>\$ 2,917,544</u>
Construction in Progress	\$ --	\$ 1,133	\$ --	\$ 1,133
Land and Land Rights	<u>24,240</u>	<u>--</u>	<u>--</u>	<u>24,240</u>
Non-Depreciable Capital Assets	<u>\$ 24,240</u>	<u>\$ 1,133</u>	<u>\$ --</u>	<u>\$ 25,373</u>

NOTE H - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Electric Department non-current liabilities for the years ended June 30, 2017 and 2016 follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2017</u>
2010 Revenue Capital Loan Notes	\$ 7,770,000	\$ --	\$ 615,000	\$ 7,155,000
Less Current Portion	<u>(615,000)</u>	<u>(635,000)</u>	<u>(615,000)</u>	<u>(635,000)</u>
Long-Term Debt, Net	7,155,000	<u>(635,000)</u>	<u>--</u>	6,520,000
Net Pension Liability	407,752	125,049	--	532,801
Consumer Deposits, Net	<u>41,766</u>	<u>4,473</u>	<u>--</u>	<u>46,239</u>
Total Non-Current Liabilities	<u>\$ 7,604,518</u>	<u>\$(505,478)</u>	<u>\$ --</u>	<u>\$ 7,099,040</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2017 and 2016

NOTE H - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES - Continued

	<u>Balance 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2016</u>
2010A Revenue Capital Loan Notes	\$ 7,880,000	\$ --	\$ 110,000	\$ 7,770,000
2010B Revenue Capital Loan Notes	475,000	--	475,000	--
Less Current Portion	<u>(585,000)</u>	<u>(615,000)</u>	<u>(585,000)</u>	<u>(615,000)</u>
Long-Term Debt, Net	7,770,000	(615,000)	--	7,155,000
Net Pension Liability	332,241	75,511	--	407,752
Consumer Deposits, Net	<u>41,341</u>	<u>425</u>	<u>--</u>	<u>41,766</u>
Total Non-Current Liabilities	<u>\$ 8,143,582</u>	<u>\$(539,064)</u>	<u>\$ --</u>	<u>\$ 7,604,518</u>

Series 2010 Revenue Capital Loan Notes

The Series 2010 Revenue Capital Loan Notes were issued to provide funding for capital needs. The 2010 Revenue Capital Loan Notes constitute a lien on the net income of the Electric Department. They are not general obligations of the City of Harlan. The notes mature in increasing amounts ranging from \$635,000 to \$1,070,000. Interest rates range from 3.00% to 4.25%. The part of these notes maturing after October 1, 2018 are subject to early redemption on or after that date.

The annual debt service on the notes is expected to require less than 27% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$846,400 and \$3,152,100, respectively.

The resolutions of the Board of Trustees authorizing the issuance of the 2010 Electric Revenue Capital Loan Notes specify the creation and maintenance of a sinking fund, a debt service reserve fund, a capital improvement fund, and a surplus fund. Funding requirements have been fulfilled with the only remaining requirement being monthly accumulation of principal and interest for the next due date. Principal and interest payments required on Electric Department long-term debt during each of the five years ending June 30, 2018 through 2025 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 635,000	\$ 265,205	\$ 900,205
2019	810,000	242,315	1,052,315
2020	840,000	213,830	1,053,830
2021	885,000	181,895	1,066,895
2022	925,000	146,580	1,071,580
2023-2025	<u>3,060,000</u>	<u>197,621</u>	<u>3,257,621</u>
	<u>\$ 7,155,000</u>	<u>\$ 1,247,446</u>	<u>\$ 8,402,446</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2017 and 2016

NOTE I - GAS DEPARTMENT NON-CURRENT LIABILITIES

	<u>Balance 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2017</u>
Net Pension Liability	\$ 333,614	\$ 102,313	\$ --	\$ 435,927
Total Non-Current Liabilities	<u>\$ 333,614</u>	<u>\$ 102,313</u>	<u>\$ --</u>	<u>\$ 435,927</u>
	<u>Balance 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2016</u>
Net Pension Liability	\$ 271,833	\$ 61,781	\$ --	\$ 333,614
Total Non-Current Liabilities	<u>\$ 271,833</u>	<u>\$ 61,781</u>	<u>\$ --</u>	<u>\$ 333,614</u>

NOTE J - WATER DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Water Department non-current liabilities for the years ended June 30, 2017 and 2016 follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2017</u>
2012 Revenue Capital Loan Notes	\$ 6,651,000	\$ --	\$ 235,000	\$ 6,416,000
Less Current Portion Long-Term Debt, Net	<u>(235,000)</u>	<u>(315,000)</u>	<u>(235,000)</u>	<u>(315,000)</u>
	6,416,000	(315,000)	--	6,101,000
Net Pension Liability	<u>345,972</u>	<u>106,102</u>	<u>--</u>	<u>452,074</u>
Total Non-Current Liabilities	<u>\$ 6,761,972</u>	<u>\$ (208,898)</u>	<u>\$ --</u>	<u>\$ 6,553,074</u>
	<u>Balance 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2016</u>
2012 Revenue Capital Loan Notes	\$ 6,876,000	\$ --	\$ 225,000	\$ 6,651,000
2004 Revenue Capital Loan Notes	140,000	--	140,000	--
Less Current Portion Long-Term Debt, Net	<u>(295,000)</u>	<u>(305,000)</u>	<u>(365,000)</u>	<u>(235,000)</u>
	6,721,000	(305,000)	--	6,416,000
Net Pension Liability	<u>281,902</u>	<u>64,070</u>	<u>--</u>	<u>345,972</u>
Total Non-Current Liabilities	<u>\$ 7,002,902</u>	<u>\$ (240,930)</u>	<u>\$ --</u>	<u>\$ 6,761,972</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2017 and 2016

NOTE J - WATER DEPARTMENT NON-CURRENT LIABILITIES - Continued

Series 2012 Water Revenue Capital Loan Notes

The Series 2012 Water Revenue Capital Loan Notes were issued to advance refund the Series 1999 Water Revenue Bonds and the Series 2004 Water Revenue Refunding Capital Loan Notes and provide funding for capital needs. The Series 2012 Capital Loan Notes constitute a lien on the net income of the Water Department. They are not general obligations of the City of Harlan. The notes mature in increasing amounts ranging from \$315,000 to \$431,000. The interest rate is 3% for the life of the loan. The note is subject to early redemption at any point with 30 days notice given to the original purchaser.

The annual debt service on the notes is expected to require less than 76% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$427,500 and \$563,600, respectively.

The resolutions of the Board of Trustees authorizing the issuance of the 2012 Water Revenue Capital Loan Notes specify the creation and maintenance of a sinking fund, a debt service fund, a capital improvement fund, and a surplus fund. Funding requirements have been fulfilled with the only remaining requirement being monthly accumulation of principal and interest for the next due date. Principal and interest payments required on Water Department long-term debt during each of the five years ending June 30, 2018 through 2033 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 315,000	\$ 187,755	\$ 502,755
2019	325,000	178,155	503,155
2020	335,000	168,255	503,255
2021	350,000	157,980	507,980
2022	360,000	147,330	507,330
2023-2027	1,975,000	565,425	2,540,425
2028-2032	2,325,000	243,525	2,568,525
2033	431,000	6,465	437,465
	<u>\$ 6,416,000</u>	<u>\$ 1,654,890</u>	<u>\$ 8,070,890</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2017 and 2016

NOTE K - TELECOMMUNICATIONS DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Telecommunications Department non-current liabilities for the years ended June 30, 2017 and 2016 follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2017</u>
Due to Electric Department 2012 Revenue Capital Loan Notes	\$ 373,752	\$ --	\$ 23,892	\$ 349,860
	<u>989,800</u>	<u>--</u>	<u>164,966</u>	<u>824,834</u>
	1,363,552	--	188,858	1,174,694
Less Current Portion	<u>(188,858)</u>	<u>(189,771)</u>	<u>(188,858)</u>	<u>(189,771)</u>
Long-Term Debt, Net	1,174,694	(189,771)	--	984,923
Net Pension Liability	<u>148,274</u>	<u>45,472</u>	<u>--</u>	<u>193,746</u>
Total Non-Current Liabilities	<u>\$ 1,322,968</u>	<u>\$(144,299)</u>	<u>\$ --</u>	<u>\$ 1,178,669</u>
	<u>Balance 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2016</u>
Due to Electric Department 2012 Revenue Capital Loan Notes	\$ 396,766	\$ --	\$ 23,014	\$ 373,752
	<u>1,154,767</u>	<u>--</u>	<u>164,967</u>	<u>989,800</u>
	1,551,533	--	187,981	1,363,552
Less Current Portion	<u>(187,981)</u>	<u>(188,858)</u>	<u>(187,981)</u>	<u>(188,858)</u>
Long-Term Debt, Net	1,363,552	(188,858)	--	1,174,694
Net Pension Liability	<u>120,816</u>	<u>27,458</u>	<u>--</u>	<u>148,274</u>
Total Non-Current Liabilities	<u>\$ 1,484,368</u>	<u>\$(161,400)</u>	<u>\$ --</u>	<u>\$ 1,322,968</u>

Series 2012 Telecommunications Revenue Capital Loan Notes

The Series 2012 Telecommunications Revenue Capital Loan Notes were issued to advance refund the Series 2007 Communications Utility Revenue Capital Loan Notes and the Series 2008 Communications Utility Revenue Capital Loan Notes. The Series 2012 Capital Loan Notes constitute a lien on the net income of the Telecommunications Department. They are not general obligations of the City of Harlan. The notes mature with an annual payment of \$164,957. The interest rate is 3.25% for the life of the loan.

Due to Electric Department

The interest bearing note payable to the Electric Department resulted when the Electric Department paid off the Telecommunications Department Capital Loan Notes in 2014. The Board set the interest rate on the Note to 3.75%.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2017 and 2016

NOTE K - TELECOMMUNICATIONS DEPARTMENT NON-CURRENT LIABILITIES

The annual debt service on the notes is expected to require less than 85% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$233,700 and \$275,400, respectively.

Principal and interest payments required on Telecommunications Department long-term debt during each of the five years ending June 30, 2018 through 2029 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 189,771	\$ 39,502	\$ 229,273
2019	190,716	33,196	223,912
2020	191,698	26,852	218,550
2021	192,718	20,471	213,189
2022	193,777	14,051	207,828
2023-2027	161,402	26,096	187,498
2028-2029	<u>54,612</u>	<u>1,637</u>	<u>56,249</u>
	<u>\$ 1,174,694</u>	<u>\$ 161,805</u>	<u>\$ 1,336,499</u>

NOTE L - PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the Utilities, except for those covered by another retirement system. Employees of the Utilities 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, P.O. 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 by general informational purposes only. Refer to the plan documents for more information.

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, any time 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 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.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2017 and 2016

NOTE L - PENSION PLAN - Continued

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% for each month that 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% for each month that 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.

In fiscal year 2017, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the Utilities contributed 8.93% of covered payroll for a total rate of 14.88%.

The Utilities' contributions to IPERS for the year ended June 30, 2017 totaled \$154,595.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2017, the Utilities reported a liability of \$1,614,548 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utilities' proportion of the net pension liability was based on the Utilities' share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2016, the Utilities' proportion was .025655%, which was an increase of .000645% from its proportion measured as of June 30, 2015.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2017 and 2016

NOTE L - PENSION PLAN - Continued

For the year ended June 30, 2017, the Utilities recognized pension expense of \$185,617. At June 30, 2017, the Utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Electric		Gas		Water	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,709	\$ 6,359	\$ 3,853	\$ 5,203	\$ 3,995	\$ 5,395
Changes of assumptions	8,129	--	6,651	--	6,897	--
Net difference between projected and actual earnings on pension plan investments	141,840	65,932	116,051	53,945	120,349	55,943
Changes in proportion and differences between Utilities contributions and proportionate share of contributions	13,953	--	11,414	--	11,840	--
Utilities contributions subsequent to the measurement date	<u>51,016</u>	<u>--</u>	<u>41,741</u>	<u>--</u>	<u>43,287</u>	<u>--</u>
	<u>\$ 219,647</u>	<u>\$ 72,291</u>	<u>\$ 179,710</u>	<u>\$ 59,148</u>	<u>\$ 186,368</u>	<u>\$ 61,338</u>
			Telecommunications		Total All Utilities	
			Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience			\$ 1,712	\$ 2,312	\$ 14,269	\$ 19,269
Changes of assumptions			2,956	--	24,633	--
Net difference between projected and actual earnings on pension plan investments			51,578	23,976	429,818	199,796
Changes in proportion and differences between Utilities contributions and proportionate share of contributions			5,075	--	42,282	--
Utilities contributions subsequent to the measurement date			<u>18,551</u>	<u>--</u>	<u>154,595</u>	<u>--</u>
			<u>\$ 79,872</u>	<u>\$ 26,288</u>	<u>\$ 665,597</u>	<u>\$ 219,065</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2017 and 2016

NOTE L - PENSION PLAN - Continued

The \$154,595, reported as deferred outflows of resources related to pensions resulting from the Utilities contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. 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,	Electric	Gas	Water	Telecommunications	Total All Utilities
2018	\$ 13,513	\$ 11,056	\$ 11,465	\$ 4,914	\$ 40,948
2019	13,513	11,056	11,465	4,914	40,948
2020	43,232	35,372	36,682	15,721	131,007
2021	25,505	20,868	21,641	9,275	77,289
2022	577	469	490	209	1,745
	<u>\$ 96,340</u>	<u>\$ 78,821</u>	<u>\$ 81,743</u>	<u>\$ 35,033</u>	<u>\$ 291,937</u>

There were no non-employer contribution entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2016 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% per annum.
Rates of salary increases (effective June 30, 2010)	4.00% to 17.00%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2016 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.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2017 and 2016

NOTE L - PENSION PLAN - Continued

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 weighting 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:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	28%	1.90%
Domestic equity	24	5.85
International equity	16	6.32
Private equity/debt	11	10.31
Real estate	8	3.87
Credit opportunities	5	4.48
U.S. TIPS	5	1.36
Other real assets	2	6.42
Cash	1	(0.26)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Utilities will be made at contractually required rates, actuarially determined. Based on those assumptions, 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 Utilities' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Utilities' proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Utilities' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Electric	\$ 862,000	\$ 532,801	\$ 254,953
Gas	705,273	435,927	208,598
Water	731,394	452,074	216,324
Telecommunications	<u>313,454</u>	<u>193,746</u>	<u>92,710</u>
Utilities' proportionate share of the net pension liability	<u>\$ 2,612,121</u>	<u>\$ 1,614,548</u>	<u>\$ 772,585</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2017 and 2016

NOTE L - PENSION PLAN - Continued

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, 2017, the Utilities reported payables to IPERS of \$18,982 for legally required employer contributions and \$12,647 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

NOTE M - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: As required by state law, the Utilities offer health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Utilities employees, and the retirees must pay the full cost of the health insurance premium equal to that charged for current employees. There are 27 active employees and 3 retirees currently covered by the plan.

Funding Policy: The Utilities do not set aside funds to pay for any OPEB liability. Any Utilities costs of an implicit health insurance premium rate subsidy are charged to expense in the year paid.

Net OPEB Obligation: Management of the Utilities consider any OPEB obligation, which may exist, to be immaterial.

NOTE N - RECLASSIFICATIONS

Certain amounts or presentations in the June 30, 2016 statements may have been reclassified to conform to the June 30, 2016 presentation. Ending net position remained unchanged as a result of any reclassifications.

NOTE O - COMMITMENTS AND CONTINGENCIES

Power Supply

The Electric Utility participates with several other utility companies in the operation of a power plant located in Louisa and Muscatine Counties in Iowa to supply power. The project represents an ongoing commitment to provide operating and construction funds as they are needed to maintain and update the facility. The share applicable to Harlan is approximately 0.8% of the total costs.

Electric Department Construction in Progress

The construction in progress is for a fiber to the home project in and around Harlan. The Utilities has spent \$2,492,756 on this project. This project has an estimated cost to complete of \$180,000 for Phase 1. Phase 2 of the fiber to the home project has been approved with an estimated cost of \$2,500,000. Funds for the costs will be provided through existing and internally generated funds.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2017 and 2016

NOTE O - COMMITMENTS AND CONTINGENCIES - Continued

Risk Management

The Utilities are exposed to common business risks of loss. These risks are covered to the extent practical by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Environmental Regulations

The Utilities are subject to various federal and state environmental regulations. These regulations are continuously revised and updated, resulting in ongoing compliance requirements. Management has determined that the facility is currently in compliance with the applicable regulations. The Utilities anticipate that any future cost incurred relating to environmental regulations will be recovered through rates charged to customers.

NOTE P - SUBSEQUENT EVENTS

Electric Capital Loan Notes Refinancing

In August, 2017, the Utilities refinanced the 2010 Capital Loan Notes with an advance refunding note. The proceeds of the 2017 Capital Loan Notes will be used to advance refund the 2010 Capital Loan Notes. The refinancing will reduce the interest rate to 1.89%.

Subsequent Events

The Utilities has evaluated all subsequent events through October 4, 2017, the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

HARLAN MUNICIPAL UTILITIES
 Budgetary Comparison Schedule
 Year Ended June 30, 2017

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a comparison of reported amounts to the accrual basis budget for the year ended June 30, 2017.

	<u>Total Proprietary Funds - Actual</u>	<u>Final Budget Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues:			
Sales to consumers	\$ 12,811,165	\$ 13,380,446	\$(569,281)
Other operating revenue	1,155,157	298,230	856,927
Excess sales	862,351	1,050,000	(187,649)
Total operating revenue	<u>14,828,673</u>	<u>14,728,676</u>	<u>99,997</u>
Operating Expenses:			
Plant operation	6,896,446	7,809,440	912,994
Distribution operation	1,312,508	1,083,145	(229,363)
Transmission operation	286,923	22,000	(264,923)
Administrative and general	872,801	862,235	(10,566)
Consumer services	59,129	119,500	60,371
Marketing and relations	166,550	188,800	22,250
Employee benefits	963,001	898,288	(64,713)
Amortization and depreciation	1,722,179	1,777,800	55,621
Total operating expenses	<u>12,279,537</u>	<u>12,761,208</u>	<u>481,671</u>
Operating Income	2,549,136	1,967,468	581,668
Other Revenues (Expenses), Net	<u>(692,846)</u>	<u>(775,255)</u>	<u>82,409</u>
Change in Net Position	1,856,290	<u>\$ 1,192,213</u>	<u>\$ 664,077</u>
Total Net Position, Beginning	<u>35,911,656</u>		
Total net Position, Ending	<u>\$ 37,767,946</u>		

See accompanying independent auditor's report.

HARLAN MUNICIPAL UTILITIES
Schedule of the Utilities' Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Three Years

Required Supplementary Information

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Utilities' proportion of the net pension liability	0.025655%	0.025010%	0.025386%
Utilities' proportionate share of the net pension liability	\$ 1,615,000	\$ 1,235,000	\$ 1,007,000
Utilities' covered-employee payroll	\$ 1,841,000	\$ 1,713,000	1,661,000
Utilities' proportionate share of the net pension liability as a percentage of its covered-employee payroll	87.72%	72.10%	60.63%
Plan fiduciary net position as a percentage of the total pension liability	81.82%	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 year-end. Amounts reported are rounded.

See accompanying independent auditor's report.

HARLAN MUNICIPAL UTILITIES
Schedule of Utilities Contributions

Iowa Public Employees' Retirement System
For the Last Ten Years

Required Supplementary Information

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 155,000	\$ 164,000	\$ 153,000	\$ 148,000
Contributions in relation to the statutorily required contribution	<u>(155,000)</u>	<u>(164,000)</u>	<u>(153,000)</u>	<u>(148,000)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Utilities' covered-employee payroll	\$ 1,731,000	\$ 1,841,000	\$ 1,713,000	\$ 1,661,000
Contributions as a percentage of covered-employee payroll	8.95%	8.91%	8.93%	8.91%

Note - Amounts are rounded.

See accompanying independent auditor's report.

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 140,000	\$ 125,000	\$ 106,000	\$ 96,000	\$ 88,000	\$ 86,000
<u>(140,000)</u>	<u>(125,000)</u>	<u>(106,000)</u>	<u>(96,000)</u>	<u>(88,000)</u>	<u>(86,000)</u>
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
\$ 1,680,000	\$ 1,546,000	\$ 1,525,000	\$ 1,453,000	\$ 1,443,000	\$ 1,414,000
8.33%	8.09%	6.95%	6.61%	6.10%	6.08%

HARLAN MUNICIPAL UTILITIES
Notes to Required Supplementary Information - Pension Liability
Year Ended June 30, 2017

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for current 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% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL (unfunded actuarial liability) 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.

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See accompanying independent auditor's report.

SUPPLEMENTARY INFORMATION

HARLAN MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Operating Expenses
Year ended June 30,

	2017	2016
Plant Operation:		
Cost of power and line fees	\$ 2,104,056	\$ 2,116,467
Cost of other sales	514,312	392,575
Salaries and wages	77,846	28,258
Repairs and maintenance	4,339	10,697
Utilities	66,489	70,599
Insurance	45,298	56,446
Property taxes	101,927	103,043
Other	105,870	109,454
Total plant operation	3,020,137	2,887,539
Distribution Operation:		
Salaries and wages	290,831	266,940
Engineering	108,647	105,002
Repairs and maintenance	66,633	83,409
Other	186,903	261,781
Total distribution operation	653,014	717,132
Transmission Operation:		
Salaries and wages	7,527	246
Outside contracts	279,396	208,132
Total transmission operation	286,923	208,378
Administration and General:		
Salaries and wages	150,304	167,382
Office supplies	39,405	32,554
Education and travel	7,854	14,803
Professional	49,930	37,183
Other	14,823	18,316
Total administrative and general	262,316	270,238
Consumer Services:		
Salaries and wages	20,225	13,948
Bad debts	12,544	21,577
Other	6	498
Total consumer services	32,775	36,023
Marketing and Stakeholder Relations:		
Salaries and wages	16,676	19,902
Advertising	5,818	4,646
Other	13,211	12,022
Total marketing and stakeholder relations	35,705	36,570

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HARLAN MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Operating Expenses - Continued
Year ended June 30,

	2017	2016
Employee Benefits:		
Payroll taxes	\$ 102,986	\$ 103,923
Health insurance	138,559	166,344
Compensated absences	127,056	96,007
Pension expense	<u>13,212</u>	<u>(19,917)</u>
Total employee benefits	381,813	346,357
Depreciation and Amortization:		
Amortization	10,498	12,134
Depreciation	<u>1,130,690</u>	<u>1,126,837</u>
Total depreciation and amortization	<u>1,141,188</u>	<u>1,138,971</u>
Total operating expense	<u>\$ 5,813,871</u>	<u>\$ 5,641,208</u>

See accompanying independent auditor's report.

HARLAN MUNICIPAL UTILITIES
 GAS DEPARTMENT
 Operating Expenses
 Year ended June 30,

	2017	2016
Plant Operation:		
Cost of power and line fees	\$ 1,793,567	\$ 1,733,015
Salaries and wages	30,881	12,261
Utilities	27,381	26,654
Insurance	37,106	41,086
Other	38,536	28,110
Total plant operation	1,927,471	1,841,126
Distribution Operation:		
Salaries and wages	130,288	114,241
Repairs and maintenance	2,960	5,191
Other	67,226	65,136
Total distribution operation	200,474	184,568
Administration and General:		
Salaries and wages	97,783	106,190
Office supplies	11,418	10,837
Education and travel	7,901	4,557
Professional	34,779	13,627
Other	34,300	31,024
Total administrative and general	186,181	166,235
Consumer Services:		
Salaries and wages	738	1,658
Bad debts	24,315	19,073
Total consumer services	25,053	20,731
Marketing and Stakeholder Relations:		
Salaries and wages	13,299	16,195
Advertising	4,230	3,710
Other	8,589	15,142
Total marketing and stakeholder relations	26,118	35,047

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HARLAN MUNICIPAL UTILITIES
 GAS DEPARTMENT
 Operating Expenses - Continued
 Year ended June 30,

	2017	2016
Employee Benefits:		
Payroll taxes	\$ 47,335	\$ 47,994
Health insurance	51,331	59,240
Compensated absences	40,532	37,309
Pension expense	10,811	(16,296)
Total employee benefits	150,009	128,247
Depreciation	59,734	66,327
Total operating expense	\$ 2,575,040	\$ 2,442,281

See accompanying independent auditor's report.

HARLAN MUNICIPAL UTILITIES
WATER DEPARTMENT
Operating Expenses
Year ended June 30,

	<u>2017</u>	<u>2016</u>
Plant Operation:		
Cost of power and line fees	\$ 206,956	\$ 184,121
Salaries and wages	199,638	145,031
Utilities	208,825	201,618
Insurance	38,480	42,345
Other	<u>84,636</u>	<u>57,802</u>
Total plant operation	738,535	630,917
Distribution Operation:		
Salaries and wages	112,276	112,962
Repairs and maintenance	7,178	8,251
Other	<u>71,651</u>	<u>79,386</u>
Total distribution operation	191,105	200,599
Administration and General:		
Salaries and wages	98,023	112,754
Office supplies	12,161	12,490
Education and travel	8,091	8,771
Professional	52,139	31,233
Other	<u>35,928</u>	<u>27,727</u>
Total administrative and general	206,342	192,975
Consumer Services:		
Salaries and wages	628	1,311
Bad debts	<u>3,788</u>	<u>11,301</u>
Total consumer services	4,416	12,612
Marketing and Stakeholder Relations:		
Salaries and wages	14,411	17,259
Advertising	5,839	6,653
Other	<u>10,024</u>	<u>8,918</u>
Total marketing and stakeholder relations	30,274	32,830

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HARLAN MUNICIPAL UTILITIES
WATER DEPARTMENT
Operating Expenses - Continued
Year ended June 30,

	2017	2016
Employee Benefits:		
Payroll taxes	\$ 72,850	\$ 74,220
Health insurance	94,154	109,388
Compensated absences	58,006	63,176
Pension expense	11,211	(16,899)
Total employee benefits	236,221	229,885
Depreciation and Amortization:		
Amortization	5,053	5,958
Depreciation	333,051	332,002
Total depreciation and amortization	338,104	337,960
Total operating expense	\$ 1,744,997	\$ 1,637,778

See accompanying independent auditor's report.

HARLAN MUNICIPAL UTILITIES
TELECOMMUNICATIONS DEPARTMENT
Operating Expenses
Year ended June 30,

	2017	2016
Plant Operation:		
Cost of power and line fees	\$ 1,050,137	\$ 1,011,757
Salaries and wages	47,490	20,966
Repairs and maintenance	21,207	2,305
Utilities	20,952	18,764
Insurance	16,492	18,148
Other	54,025	61,384
Total plant operation	1,210,303	1,133,324
Distribution Operation:		
Salaries and wages	75,383	107,098
Engineering	--	5,297
Repairs and maintenance	39,525	32,894
Other	153,007	166,645
Total distribution operation	267,915	311,934
Administration and General:		
Salaries and wages	130,979	132,026
Office supplies	10,269	2,941
Education and travel	5,406	4,401
Professional	15,977	16,250
Other	55,331	50,374
Total administrative and general	217,962	205,992
Consumer Services:		
Salaries and wages	526	1,274
Bad debts (recoveries)	(3,641)	44,139
Total consumer services	(3,115)	45,413
Marketing and Stakeholder Relations:		
Salaries and wages	44,770	44,972
Advertising	21,722	21,096
Other	7,961	4,921
Total marketing and stakeholder relations	74,453	70,989

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HARLAN MUNICIPAL UTILITIES
 TELECOMMUNICATIONS DEPARTMENT
 Operating Expenses - Continued
 Year ended June 30,

	2017	2016
Employee Benefits:		
Payroll taxes	\$ 52,641	\$ 57,798
Health insurance	80,985	90,415
Compensated absences	56,528	36,175
Pension expense	4,804	(7,243)
Total employee benefits	194,958	177,145
Depreciation	183,153	187,899
Total operating expense	\$ 2,145,629	\$ 2,132,696

See accompanying independent auditor's report.

HARLAN MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Comparative Statements of Income
Year ended June 30,

	<u>2017</u>	<u>2016</u>
Operating Revenue:		
Sale of electricity	\$ 6,074,740	\$ 6,051,132
Other operating revenue	<u>1,912,344</u>	<u>1,163,781</u>
Total operating revenue	7,987,084	7,214,913
Operating Expenses (Not Including Depreciation)	<u>4,672,683</u>	<u>4,502,237</u>
Operating Income Before Depreciation	3,314,401	2,712,676
Provision for Depreciation	<u>1,141,188</u>	<u>1,138,971</u>
Income From Operations	2,173,213	1,573,705
Other Income (Deductions), Net	<u>(380,505)</u>	<u>(451,373)</u>
Net Income	<u>\$ 1,792,708</u>	<u>\$ 1,122,332</u>
Net Income as a Percent of Total Operating Revenue	<u>22.45%</u>	<u>15.56%</u>

See accompanying independent auditor's report.

HARLAN MUNICIPAL UTILITIES
GAS DEPARTMENT
Comparative Statements of Income
Year ended June 30,

	<u>2017</u>	<u>2016</u>
Operating Revenue:		
Sale of gas	\$ 2,583,384	\$ 2,630,466
Other operating revenue	<u>3,721</u>	<u>2,271</u>
Total operating revenue	2,587,105	2,632,737
Operating Expenses (Not Including Depreciation)	<u>2,515,306</u>	<u>2,375,954</u>
Operating Income Before Depreciation	71,799	256,783
Provision for Depreciation	<u>59,734</u>	<u>66,327</u>
Income From Operations	12,065	190,456
Other Income (Deductions), Net	<u>(44,990)</u>	<u>(35,446)</u>
Net Income (Loss)	<u>\$(32,925)</u>	<u>\$ 155,010</u>
Net Income (Loss) as a Percent of Total Operating Revenue	<u>(1.27%)</u>	<u>5.89%</u>

See accompanying independent auditor's report.

HARLAN MUNICIPAL UTILITIES
WATER DEPARTMENT
Comparative Statements of Income
Year ended June 30,

	<u>2017</u>	<u>2016</u>
Operating Revenue:		
Sale of water	\$ 1,959,824	\$ 1,997,541
Other operating revenue	<u>54,080</u>	<u>60,149</u>
Total operating revenue	2,013,904	2,057,690
Operating Expenses (Not Including Depreciation)	<u>1,406,893</u>	<u>1,299,818</u>
Operating Income Before Depreciation	607,011	757,872
Provision for Depreciation	<u>338,104</u>	<u>337,960</u>
Income From Operations	268,907	419,912
Other Income (Deductions), Net	<u>(224,655)</u>	<u>(231,326)</u>
Net Income	<u>\$ 44,252</u>	<u>\$ 188,586</u>
Net Income as a Percent of Total Operating Revenue	<u>2.20%</u>	<u>9.16%</u>

See accompanying independent auditor's report.

HARLAN MUNICIPAL UTILITIES
TELECOMMUNICATIONS DEPARTMENT
Comparative Statements of Income
Year ended June 30,

	<u>2017</u>	<u>2016</u>
Operating Revenue:		
Sale of telecommunications	\$ 2,193,217	\$ 2,084,767
Other operating revenue	<u>47,363</u>	<u>33,111</u>
Total operating revenue	2,240,580	2,117,878
Operating Expenses (Not Including Depreciation)	<u>1,962,476</u>	<u>1,944,797</u>
Operating Income Before Depreciation	278,104	173,081
Provision for Depreciation	<u>183,153</u>	<u>187,899</u>
Income (Loss) From Operations	94,951	(14,818)
Other Income (Deductions), Net	<u>(42,696)</u>	<u>(48,734)</u>
Net Income (Loss)	<u>\$ 52,255</u>	<u>\$ (63,552)</u>
Net Income (Loss) as a Percent of Total Operating Revenue	<u>2.33%</u>	<u>(3.00%)</u>

See accompanying independent auditor's report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

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

To the Board of Trustees
Harlan Municipal Utilities
Harlan, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of business-type activities and each major fund of Harlan Municipal Utilities as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated October 4, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Harlan Municipal Utilities' internal control over financial reporting (internal control) 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 the Harlan Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Harlan Municipal Utilities' internal control.

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 the Utilities' financial statements will not be prevented or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies: 17-I-A.

To the Board of Trustees
Harlan Municipal Utilities

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harlan Municipal Utilities' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2017 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Harlan Municipal Utilities' Responses to Findings

Harlan Municipal Utilities' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. 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 results of that testing, and not to provide an opinion on the effectiveness of the Utilities' internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gumerwald, Ben, Kyhn & W. P. C.

Atlantic, Iowa
October 4, 2017

HARLAN MUNICIPAL UTILITIES
Schedule of Findings and Responses
Year ended June 30, 2017

PART I - INTERNAL CONTROL DEFICIENCIES

17-I-A Segregation of Duties:

Criteria: Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Utilities' financial statements.

Condition: A limited number of people have the primary responsibility for most of the accounting and financial reporting duties.

Cause: The Utilities has a limited number of employees which does not allow procedures to be established to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect: Inadequate segregation of duties could adversely affect the Utilities' ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation: We recognize that it may not be economically feasible for the Utilities to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Utilities to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

17-II-A Certified Budget: Disbursements during the year ended June 30, 2017 did not exceed amounts budgeted.

17-II-B Questionable Expenditures: During the audit, we noted no expenditures of the Utilities' funds without proper documentation of public purpose.

HARLAN MUNICIPAL UTILITIES
Schedule of Findings and Responses - Continued
Year ended June 30, 2017

PART II - REQUIRED STATUTORY REPORTING (Continued)

17-II-C Travel Expense: No expenditures of Utilities' money for travel expenses of spouses of Utilities' officials and/or employees were noted.

17-II-D Business Transactions: No business transactions between the Utilities and Utilities' officials and/or employees were noted.

17-II-E Bond Coverage: Surety bond coverage of the Utilities' officials and employees appears to be in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

17-II-F Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not. However, the Board went into closed session on September 15, 2016 to discuss matters relating to the Utilities. The minutes do not document the vote of each member on the question of holding the closed session as required by Chapter 21.5(2) of the Code of Iowa.

Recommendation: The Board of Directors should ensure all closed meetings comply with Chapter 21 of the Code of Iowa.

Response: This was an oversight. We usually record the vote as required and will do so in the future.

Conclusion: Response accepted.

17-II-G Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Utilities' investment policy.

17-II-H Revenue Bonds and Notes: No violations of revenue bond or revenue note resolution requirements were noted.

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