

HARLAN MUNICIPAL UTILITIES

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEARS ENDED JUNE 30, 2025 AND 2024

HARLAN MUNICIPAL UTILITIES

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HARLAN MUNICIPAL UTILITIES
Officials
June 30, 2025

<u>Trustees</u>	<u>Title</u>	<u>Term Expires</u>
Michelle Erickson	Chairperson	November, 2028
Jim Shelton	Vice Chairperson	November, 2027
Doug Hammer (Resigned August, 2024)	Board Member	
Mike Maass (Resigned January, 2025)	Board Member	
Allan Ickes	Board Member	November, 2030
Kevin Lucke (Appointed March, 2025)	Board Member	November, 2029
Jenny Barnett (Appointed September, 2024)	Board Member	November, 2025
Joe Rueschenberg	Chief Executive Officer & Board Secretary	Indefinite
Curt Zimmerman	Director of Accounting & Finance	Indefinite
Law Office of Matt Hudson P.C.	Attorneys at Law	Indefinite

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Harlan Municipal Utilities
Harlan, Iowa

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business type activities, each major fund and the aggregate remaining fund information of Harlan Municipal Utilities (a component unit of the City of Harlan, Iowa) as of and for the years ended June 30, 2025 and 2024, and the related notes to financial statements which collectively comprise the Utilities' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities, each major fund and the aggregate remaining fund information of Harlan Municipal Utilities as of June 30, 2025 and 2024 and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Harlan Municipal Utilities, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Harlan Municipal Utilities' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

To the Board of Trustees of
Harlan Municipal Utilities

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Harlan Municipal Utilities' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Harlan Municipal Utilities' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Schedule of the Utilities' Proportionate Share of the Net Pension Liability and the Schedule of Utilities' Contributions on pages 3 through 3f and on pages 41 through 45 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who 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 GAAS, 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.

To the Board of Trustees of
Harlan Municipal Utilities

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harlan Municipal Utilities' basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2023 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information on pages 1 and 46 through 58, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary 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 GAAS. 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 December 18, 2025 on our consideration of Harlan Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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.

Gronevold, Reil, Kyhn & Co. P.C.

Atlantic, Iowa
December 18, 2025

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, 2025 and 2024. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2025 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities increased 2.58%, or \$447,852 from fiscal 2024 to fiscal 2025.
- Operating expenses of the Utilities' activities increased 9.56%, or \$1,293,035 from fiscal 2024 to fiscal 2025.
- The Utilities' net position increased 5.16%, or \$2,895,772 from June 30, 2024 to June 30, 2025.

2024 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities decreased 0.87%, or \$152,278 from fiscal 2023 to fiscal 2024.
- Operating expenses of the Utilities' activities decreased 3.27%, or \$456,914 from fiscal 2023 to fiscal 2024.
- The Utilities' net position increased 7.57%, or \$3,946,040 from June 30, 2023 to June 30, 2024.

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 and grant activity. The Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting 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 \$3,946,040 (7.57%) from fiscal year 2023 to fiscal year 2024 and increased \$2,895,772 (5.16%) from fiscal year 2024 to fiscal year 2025.

Statements of Net Position			
		June 30,	
	2025	2024	2023
Current assets	\$ 17,303,151	\$ 16,703,339	\$ 15,161,951
Special purpose funds	5,517,979	5,625,976	5,756,437
Capital assets	50,093,674	47,189,897	40,654,316
Other assets	<u>784,612</u>	<u>787,538</u>	<u>831,467</u>
Total assets	73,699,416	70,306,750	62,404,171
Deferred outflows of resources	407,548	457,883	248,256
Current liabilities	3,404,797	8,720,700	3,713,259
Long-term liabilities	11,579,187	5,769,046	6,466,576
Other liabilities	<u>69,144</u>	<u>64,286</u>	<u>61,661</u>
Total liabilities	15,053,128	14,554,032	10,241,496
Deferred inflows of resources	65,903	118,440	264,810
Net position:			
Net investment in capital assets	38,325,117	35,849,702	33,000,469
Restricted:			
Expendable	696,401	2,485,509	2,682,346
Unrestricted	<u>19,966,415</u>	<u>17,756,950</u>	<u>16,463,306</u>
Total net position	<u>\$ 58,987,933</u>	<u>\$ 56,092,161</u>	<u>\$ 52,146,121</u>

Restricted expendable net position decreased \$1,789,108 from fiscal year 2024 to fiscal year 2025. Restricted expendable net position decreased \$196,837 from fiscal year 2023 to fiscal year 2024.

Unrestricted net position increased \$2,209,465 from fiscal year 2024 to fiscal year 2025, primarily due to operations and funding capital asset purchases from restricted net position. Unrestricted net position increased \$1,293,644 from fiscal year 2023 to fiscal year 2024.

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

Statements of Revenues, Expenses and Changes in Net Position			
	Year ended June 30,		
	2025	2024	2023
Operating revenues:			
Sales to consumers	\$ 16,082,484	\$ 15,111,977	\$ 14,985,730
Other operating revenues	668,269	1,450,975	982,586
Other sales - MISO	1,082,666	822,615	1,569,529
Total operating revenues	17,833,419	17,385,567	17,537,845
Operating expenses:			
Plant operation	8,183,577	7,370,359	8,331,922
Distribution operation	1,810,671	1,601,922	1,312,890
Transmission operation	468,681	367,389	366,383
Administrative and general	1,057,741	999,717	1,093,858
Consumer services	(5,150)	18,708	(7,187)
Marketing and stakeholder relations	63,130	64,211	67,225
Employee benefits	1,060,210	975,683	749,077
Depreciation and amortization	2,172,825	2,120,661	2,061,396
Total operating expenses	14,811,685	13,518,650	13,975,564
Operating income	3,021,734	3,866,917	3,562,281
Non-operating revenues (expenses):			
Contributions to City - in lieu of taxes	(248,614)	(255,833)	(259,278)
Loss on capital asset impairment	(220,529)	--	--
Litigation settlement	--	--	700,000
Income from investments	723,500	588,323	195,226
Interest expense on revenue notes	(324,139)	(218,367)	(169,486)
Loss on disposal of equipment	(21,180)	--	--
Industrial development contribution	(35,000)	(35,000)	(35,000)
Non-operating revenues (expenses),net	(125,962)	79,123	431,462
Change in net position	2,895,772	3,946,040	3,993,743
Net position, beginning of year	56,092,161	52,146,121	48,152,378
Net position, end of year	\$ 58,987,933	\$ 56,092,161	\$ 52,146,121

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 three 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 2025 decreased \$845,183, or 21.86%, compared to fiscal year 2024.

Non-operating revenues and expenses consist primarily of contributions to City-in lieu of taxes, interest expense and investment income. Investment income increased \$135,177 in fiscal year 2025 as compared to fiscal year 2024 mainly due to increased investment rates. Interest expense increased \$105,772, or 48.44% primarily due to additional long-term debt being drawn during the year.

Statements of Cash Flows

The Statements of Cash Flows present information related to cash inflows and outflows, summarized by operating, noncapital financing, capital and related financing and investing activities. Cash provided by (used in) operating activities includes utility charges reduced by payments to employees and to suppliers. Cash used in noncapital financing activities includes contributions to City - in lieu of taxes. Cash used in capital and related financing activities includes note payments and the purchase of capital assets. Cash provided by (used in) investing activities includes the purchase of investments and interest income.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2025, the Utilities had \$50,093,674 invested in capital assets, net of accumulated depreciation/amortization, as detailed in Note G to the financial statements. In fiscal year 2025 the Utilities acquired or constructed capital assets costing approximately \$5,350,000.

At June 30, 2024, the Utilities had \$47,189,897 invested in capital assets, net of accumulated depreciation/amortization, as detailed in Note G to the financial statements. In fiscal year 2024 the Utilities acquired or constructed capital assets costing approximately \$8,653,000.

Long-Term Debt

At June 30, 2025, the Utilities had outstanding revenue notes totaling approximately \$11,448,500, as detailed in Notes I-L to the financial statements. During 2025 the Utilities entered into two new debt agreements of \$5,364,000 and \$2,644,000 of which \$5,364,000 and \$1,378,617 were drawn during the year and an additional \$1,762,967 and \$842,736 were drawn from the 2023 and 2024 notes. The Utilities paid down debt by \$7,592,797.

At June 30, 2024, the Utilities had outstanding revenue notes totaling approximately \$9,693,000, as detailed in Notes I-L to the financial statements. During 2024 the Utilities entered into a new note of \$50,001 and an additional \$3,551,032 was drawn from the 2023 note. The Utilities paid down debt by \$1,579,393.

The Utilities' formal debt issuances, revenue notes, 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.

Due to the substantial investment made through the Raw Water Improvement Project, Harlan Municipal Utilities has doubled both its production and source-water capabilities, marking a decisive turning point for the community. These upgrades, ranging from expanded wellfield capacity to modernized control systems, directly address the recurring water watches, boil advisories, and supply constraints that previously plagued Harlan and surrounding communities during peak demand and drought cycles. Unlike many similarly sized Iowa municipalities that continue to wrestle with outdated water systems and limited funding, Harlan's proactive investment ensures long-term resilience, greater reliability, and a water supply built to support future growth without the disruptions once endured.

ANALYSIS BY FUND

The Electric Utility accounts for the operation and maintenance of the electric system and ended fiscal year 2025 with a net position of \$42,219,608 compared to the prior year ending net position of \$40,439,724, an increase of \$1,779,884. Additional transmission rate recovery income and investment income contributed to the increase.

The Gas Utility accounts for the operation and maintenance of the natural gas distribution system and ended fiscal year 2025 with a net position of \$6,588,535 compared to the prior year ending net position of \$5,824,156, an increase of \$764,379. Natural gas usage increased approximately 8% from the prior year.

The Water Utility accounts for the operation and maintenance of the water treatment and distribution system and ended fiscal year 2025 with a net position of \$9,054,172 compared to the prior year ending net position of \$8,280,649, an increase of \$773,523.

The Telecommunication Utility accounts for the operation and maintenance of the Cable, Telephone and Internet systems and ended fiscal year 2025 with a net position of \$1,125,349 compared to the prior year ending net position of \$1,547,649, a decrease of \$422,300. The Utility will be selling the saleable Cable and headend equipment and transitioning to IPTV TV streaming. The Utility will also be selling voice equipment from Telephone.

COMMUNITY BENEFITS PROVIDED

Payment of utility bills based upon the costs associated with street and public recreation area lighting are remitted by the City monthly. The cash remittance of the same amount is returned to the City as payment in lieu of taxes.

The Utilities also provide free services to the City of Harlan such as street lights, Christmas lights and other services such as assistance with snow removal.

The Utilities also provide financial assistance to the Shelby County Chamber of Commerce.

The Board of Trustees approved a 3% reduction of Electric rates, effective June 1, 2025.

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, 2025

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	Electric	Gas	Water
Capital Assets - net of depreciation	\$ 27,598,933	\$ 2,076,896	\$ 17,747,440
Special Purpose Funds:			
Restricted funds	46,303	--	601,968
Board designated funds	4,088,516	671,062	--
Total special purpose funds	4,134,819	671,062	601,968
Current Assets:			
Cash	4,008,865	1,618,382	1,253,012
Certificates of deposit	5,436,102	2,197,181	--
Industrial development fund	153,749	124,793	--
Accrued interest	81,673	22,427	409
Accounts receivable, net	350,462	42,646	208,256
Unbilled usage	258,786	109,510	158,459
Inventory	404,040	26,233	62,370
Prepaid expenses	119,482	52,404	50,274
Total current assets	10,813,159	4,193,576	1,732,780
Other Assets:			
Note receivable - Telecommunications	773,257	--	--
Other assets	--	--	11,355
Total other assets	773,257	--	11,355
Total assets	43,320,168	6,941,534	20,093,543
Deferred Outflows of Resources - Pension	134,491	110,038	114,113
Total assets and deferred outflows of resources	\$ 43,454,659	\$ 7,051,572	\$ 20,207,656

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Long-Term Debt, less current maturities	\$ --	\$ --	\$ 9,749,863
Net Pension Liability	287,452	235,188	243,899
Current Liabilities:			
Current maturities of long-term debt	--	--	562,397
Checks issued in excess of cash balance	--	--	--
Accounts payable	599,707	138,318	450,043
Accrued employee compensation	122,448	64,976	90,501
Accrued property taxes	95,323	--	--
Accrued expenses	39,229	8	--
Consumer credits	--	6,753	--
Due City of Harlan for collections and fees	--	--	--
Accrued interest	--	--	38,328
Total current liabilities	856,707	210,055	1,141,269
Other Liabilities:			
Consumer deposits	69,144	--	--
Total liabilities	1,213,303	445,243	11,135,031
Deferred Inflows of Resources - Pension	21,748	17,794	18,453
Net Position:			
Net investment in capital assets	27,329,902	2,045,082	7,415,985
Restricted - expendable	46,303	--	601,968
Unrestricted	14,843,403	4,543,453	1,036,219
Total net position	42,219,608	6,588,535	9,054,172
Total liabilities, deferred inflows of resources, and net position	\$ 43,454,659	\$ 7,051,572	\$ 20,207,656

The accompanying notes are an integral part of these statements.

<u>Telecommunications</u>	<u>Non-Major Sewer/Landfill</u>	<u>Total</u>
\$ 2,670,405	\$ --	\$ 50,093,674
48,130	--	696,401
62,000	--	4,821,578
<u>110,130</u>	<u>--</u>	<u>5,517,979</u>
--	240,535	7,120,794
--	--	7,633,283
--	--	278,542
--	--	104,509
182,690	99,352	883,406
209	--	526,964
3,240	--	495,883
37,610	--	259,770
<u>223,749</u>	<u>339,887</u>	<u>17,303,151</u>
--	--	773,257
<u>--</u>	<u>--</u>	<u>11,355</u>
<u>--</u>	<u>--</u>	<u>784,612</u>
3,004,284	339,887	73,699,416
<u>48,906</u>	<u>--</u>	<u>407,548</u>
<u>\$ 3,053,190</u>	<u>\$ 339,887</u>	<u>\$ 74,106,964</u>
\$ 958,257	\$ --	\$ 10,708,120
104,528	--	871,067
178,000	--	740,397
512,796	--	512,796
115,491	1,495	1,305,054
46,768	--	324,693
--	--	95,323
463	--	39,700
--	--	6,753
--	338,123	338,123
3,630	--	41,958
<u>857,148</u>	<u>339,618</u>	<u>3,404,797</u>
--	--	69,144
1,919,933	339,618	15,053,128
7,908	--	65,903
1,534,148	--	38,325,117
48,130	--	696,401
(456,929)	269	19,966,415
<u>1,125,349</u>	<u>269</u>	<u>58,987,933</u>
<u>\$ 3,053,190</u>	<u>\$ 339,887</u>	<u>\$ 74,106,964</u>

HARLAN MUNICIPAL UTILITIES
Statements of Net Position
June 30, 2024

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	Electric	Gas	Water
Capital Assets - net of depreciation	\$ 26,001,602	\$ 1,960,060	\$ 16,103,211
Special Purpose Funds:			
Restricted funds	1,629,308	--	669,913
Board designated funds	2,443,405	647,062	--
Total special purpose funds	4,072,713	647,062	669,913
Current Assets:			
Cash	4,446,506	1,095,796	821,311
Certificates of deposit	5,196,743	2,088,828	--
Industrial development fund	153,352	124,474	--
Accrued interest	78,775	32,440	467
Accounts receivable, net	377,918	38,354	210,405
Unbilled usage	270,390	102,733	159,510
Inventory	563,137	29,319	63,441
Prepaid expenses	135,683	66,951	53,080
Notes receivable - Telecommunications	40,703	--	--
Total current assets	11,263,207	3,578,895	1,308,214
Other Assets:			
Note receivable - Telecommunications	773,257	--	--
Other assets	--	--	14,281
Total other assets	773,257	--	14,281
Total assets	42,110,779	6,186,017	18,095,619
Deferred Outflows of Resources	151,842	123,330	127,898
Total assets and deferred outflows of resources	\$ 42,262,621	\$ 6,309,347	\$ 18,223,517

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Long-Term Debt, less current maturities	\$ --	\$ --	\$ 3,616,000
Net Pension Liability	335,540	274,533	284,701
Current Liabilities:			
Current maturities of long-term debt	258,000	--	4,471,034
Checks issued in excess of cash balance	--	--	--
Accounts payable	849,051	101,052	1,376,631
Accrued employee compensation	131,737	69,059	99,768
Accrued property taxes	95,468	--	--
Accrued expenses	48,511	1,815	13,220
Consumer credits	--	6,753	--
Due City of Harlan for collections and fees	--	--	--
Accrued interest	1,219	--	48,351
Total current liabilities	1,383,986	178,679	6,009,004
Other Liabilities:			
Consumer deposits	64,286	--	--
Total liabilities	1,783,812	453,212	9,909,705
Deferred Inflows of Resources - Pension	39,085	31,979	33,163
Net Position:			
Net investment in capital assets	25,142,731	1,960,060	6,971,011
Restricted - expendable	1,629,308	--	669,913
Unrestricted	13,667,685	3,864,096	639,725
Total net position	40,439,724	5,824,156	8,280,649
Total liabilities, deferred inflows of resources, and net position	\$ 42,262,621	\$ 6,309,347	\$ 18,223,517

The accompanying notes are an integral part of these statements.

<u>Telecommunications</u>	<u>Non-Major Sewer/Landfill</u>	<u>Total</u>
\$ 3,125,024	\$ --	\$ 47,189,897
186,288	--	2,485,509
50,000	--	3,140,467
<u>236,288</u>	<u>--</u>	<u>5,625,976</u>
--	182,288	6,545,901
--	--	7,285,571
--	--	277,826
1,835	--	113,517
182,410	108,016	917,103
219	--	532,852
3,471	--	659,368
74,784	--	330,498
--	--	40,703
<u>262,719</u>	<u>290,304</u>	<u>16,703,339</u>
--	--	773,257
--	--	14,281
<u>--</u>	<u>--</u>	<u>787,538</u>
3,624,031	290,304	70,306,750
<u>54,813</u>	<u>--</u>	<u>457,883</u>
<u>\$ 3,678,844</u>	<u>\$ 290,304</u>	<u>\$ 70,764,633</u>
\$ 1,136,257	\$ --	\$ 4,752,257
122,015	--	1,016,789
211,703	--	4,940,737
479,683	--	479,683
105,522	70	2,432,326
50,659	--	351,223
--	--	95,468
5,803	1,186	70,535
--	--	6,753
--	289,065	289,065
<u>5,340</u>	<u>--</u>	<u>54,910</u>
<u>858,710</u>	<u>290,321</u>	<u>8,720,700</u>
--	--	64,286
2,116,982	290,321	14,554,032
14,213	--	118,440
1,775,900	--	35,849,702
186,288	--	2,485,509
(414,539)	(17)	17,756,950
<u>1,547,649</u>	<u>(17)</u>	<u>56,092,161</u>
<u>\$ 3,678,844</u>	<u>\$ 290,304</u>	<u>\$ 70,764,633</u>

HARLAN MUNICIPAL UTILITIES
Statements of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2025

	Electric	Gas	Water
Operating Revenues:			
Sales to consumers	\$ 6,235,947	\$ 4,337,066	\$ 3,597,724
Other operating revenue	565,066	4,121	27,295
Other sales - MISO	1,082,666	---	---
Total operating revenues	<u>7,883,679</u>	<u>4,341,187</u>	<u>3,625,019</u>
Operating Expenses:			
Plant operation	3,175,416	2,853,122	879,024
Distribution operation	833,623	278,034	534,395
Transmission operation	468,681	---	---
Administrative and general	292,658	249,942	298,502
Consumer services	(274)	(263)	(237)
Marketing and stakeholder relations	6,674	3,158	7,091
Employee benefits	353,603	141,374	327,619
Depreciation and amortization	<u>1,318,874</u>	<u>118,553</u>	<u>497,430</u>
Total operating expenses	<u>6,449,255</u>	<u>3,643,920</u>	<u>2,543,824</u>
Operating Income (Loss)	1,434,424	697,267	1,081,195
Non-Operating Revenues (Expenses):			
Contributions to City in lieu of taxes	(149,399)	(49,338)	(48,521)
Loss on capital asset impairment	---	---	---
Income from investments	542,527	132,873	21,939
Interest expense on revenue notes	(2,325)	---	(276,097)
Gain (loss) on disposal of equipment	(27,843)	1,077	(4,993)
Industrial development contribution	<u>(17,500)</u>	<u>(17,500)</u>	<u>---</u>
Non-Operating Revenues (Expenses), net	<u>345,460</u>	<u>67,112</u>	<u>(307,672)</u>
Change in Net Position	1,779,884	764,379	773,523
Net Position, Beginning of Year	<u>40,439,724</u>	<u>5,824,156</u>	<u>8,280,649</u>
Net Position, End of Year	<u>\$ 42,219,608</u>	<u>\$ 6,588,535</u>	<u>\$ 9,054,172</u>

The accompanying notes are an integral part of these statements.

<u>Telecommunications</u>	<u>Non-Major Sewer/Landfill</u>	<u>Total</u>
\$ 1,911,747	\$ --	\$ 16,082,484
71,787	--	668,269
--	--	1,082,666
<u>1,983,534</u>	<u>--</u>	<u>17,833,419</u>
1,276,015	--	8,183,577
164,619	--	1,810,671
--	--	468,681
216,639	--	1,057,741
(4,090)	(286)	(5,150)
46,207	--	63,130
237,614	--	1,060,210
237,968	--	2,172,825
<u>2,174,972</u>	<u>(286)</u>	<u>14,811,685</u>
(191,438)	286	3,021,734
(1,356)	--	(248,614)
(220,529)	--	(220,529)
26,161	--	723,500
(45,717)	--	(324,139)
10,579	--	(21,180)
--	--	(35,000)
<u>(230,862)</u>	<u>--</u>	<u>(125,962)</u>
(422,300)	286	2,895,772
<u>1,547,649</u>	<u>(17)</u>	<u>56,092,161</u>
<u>\$ 1,125,349</u>	<u>\$ 269</u>	<u>\$ 58,987,933</u>

HARLAN MUNICIPAL UTILITIES
Statements of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2024

	Electric	Gas	Water
Operating Revenues:			
Sales to consumers	\$ 6,160,559	\$ 3,583,227	\$ 3,366,108
Other operating revenue	771,482	81,119	520,895
Other sales - MISO	822,615	--	--
Total operating revenues	<u>7,754,656</u>	<u>3,664,346</u>	<u>3,887,003</u>
Operating Expenses:			
Plant operation	2,879,951	2,315,961	855,549
Distribution operation	753,614	262,882	415,841
Transmission operation	367,389	--	--
Administrative and general	272,770	235,623	295,180
Consumer services	(13,732)	1,047	579
Marketing and stakeholder relations	7,677	4,510	6,582
Employee benefits	334,966	129,157	264,972
Depreciation and amortization	1,289,607	107,573	478,538
Total operating expenses	<u>5,892,242</u>	<u>3,056,753</u>	<u>2,317,241</u>
Operating Income (Loss)	1,862,414	607,593	1,569,762
Non-Operating Revenues (Expenses):			
Contributions to City in lieu of taxes	(166,936)	(40,658)	(46,937)
Income from investments	454,074	96,979	19,483
Interest expense on revenue notes	(14,006)	--	(151,266)
Industrial development contribution	(17,500)	(17,500)	--
Non-Operating Revenues (Expenses), net	<u>255,632</u>	<u>38,821</u>	<u>(178,720)</u>
Change in Net Position	2,118,046	646,414	1,391,042
Net Position, Beginning of Year	<u>38,321,678</u>	<u>5,177,742</u>	<u>6,889,607</u>
Net Position, End of Year	<u>\$ 40,439,724</u>	<u>\$ 5,824,156</u>	<u>\$ 8,280,649</u>

The accompanying notes are an integral part of these statements.

<u>Telecommunications</u>	<u>Non-Major Sewer/Landfill</u>	<u>Total</u>
\$ 2,002,083	\$ --	\$ 15,111,977
77,479	--	1,450,975
--	--	822,615
<u>2,079,562</u>	<u>--</u>	<u>17,385,567</u>
1,318,898	--	7,370,359
169,585	--	1,601,922
--	--	367,389
196,144	--	999,717
30,560	254	18,708
45,442	--	64,211
246,588	--	975,683
244,943	--	2,120,661
<u>2,252,160</u>	<u>254</u>	<u>13,518,650</u>
(172,598)	(254)	3,866,917
(1,302)	--	(255,833)
17,787	--	588,323
(53,095)	--	(218,367)
--	--	(35,000)
<u>(36,610)</u>	<u>--</u>	<u>79,123</u>
(209,208)	(254)	3,946,040
<u>1,756,857</u>	<u>237</u>	<u>52,146,121</u>
<u>\$ 1,547,649</u>	<u>\$(17)</u>	<u>\$ 56,092,161</u>

HARLAN MUNICIPAL UTILITIES
Statements of Cash Flows
Year ended June 30, 2025

	Electric	Gas	Water
Cash flows from operating activities:			
Cash received from consumers	\$ 6,289,536	\$ 4,327,080	\$ 3,601,851
Cash paid to suppliers	(4,235,023)	(3,213,140)	(1,448,439)
Cash paid to employees	(718,449)	(336,353)	(556,910)
Other operating revenue	<u>1,647,732</u>	<u>4,121</u>	<u>27,295</u>
Net cash provided by operating activities	2,983,796	781,708	1,623,797
Cash flows from noncapital financing activities:			
Contributions to City - in lieu of taxes	(149,399)	(49,338)	(48,521)
Net cash used in noncapital financing activities	(149,399)	(49,338)	(48,521)
Cash flows from capital and related financing activities:			
Debt proceeds	--	--	9,348,320
Principal payments	(258,000)	--	(7,123,094)
Interest paid on revenue notes	880	--	(286,120)
Capital expenditures	(3,285,888)	(202,498)	(3,179,123)
Proceeds from sale of assets	10,000	--	6,500
Increase in checks issued in excess of cash balance	<u>--</u>	<u>--</u>	<u>--</u>
Net cash used in capital and related financing activities	(3,533,008)	(202,498)	(1,233,517)
Cash flows from investing activities:			
Special purpose fund investments:			
Acquisitions	(1,477,745)	--	--
Certificates of deposit:			
Acquisitions	(239,359)	(108,353)	--
Telecommunications department note proceeds	40,703	--	--
Income from investments	539,629	142,886	21,997
Industrial development contribution	<u>(17,500)</u>	<u>(17,500)</u>	<u>--</u>
Net cash provided by (used in) investing activities	<u>(1,154,272)</u>	<u>17,033</u>	<u>21,997</u>
Net increase (decrease) in cash	(1,852,883)	546,905	363,756
Cash at beginning of year	<u>6,610,170</u>	<u>1,867,332</u>	<u>1,491,224</u>
Cash at end of year	<u>\$ 4,757,287</u>	<u>\$ 2,414,237</u>	<u>\$ 1,854,980</u>

(continued next page)

<u>Telecommunications</u>	<u>Non-Major Sewer/Landfill</u>	<u>Total</u>
\$ 1,915,969	\$ 1,353,610	\$ 17,488,046
(1,571,470)	(1,295,363)	(11,763,435)
(348,604)	--	(1,960,316)
<u>71,787</u>	<u>--</u>	<u>1,750,935</u>
67,682	58,247	5,515,230
(1,356)	--	(248,614)
(1,356)	--	(248,614)
--	--	9,348,320
(211,703)	--	(7,592,797)
(47,427)	--	(332,667)
(12,513)	--	(6,680,022)
18,050	--	34,550
<u>33,113</u>	<u>--</u>	<u>33,113</u>
(220,480)	--	(5,189,503)
46,198	--	(1,431,547)
--	--	(347,712)
--	--	40,703
27,996	--	732,508
<u>--</u>	<u>--</u>	<u>(35,000)</u>
<u>74,194</u>	<u>--</u>	<u>(1,041,048)</u>
(79,960)	58,247	(963,935)
<u>190,090</u>	<u>182,288</u>	<u>10,341,104</u>
<u>\$ 110,130</u>	<u>\$ 240,535</u>	<u>\$ 9,377,169</u>

HARLAN MUNICIPAL UTILITIES
Statements of Cash Flows - Continued
Year ended June 30, 2025

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>
Reconciliation of cash to the statements of net position:			
Cash in current assets	\$ 4,162,614	\$ 1,743,175	\$ 1,253,012
Cash in special purpose funds	<u>594,673</u>	<u>671,062</u>	<u>601,968</u>
Total cash	<u>\$ 4,757,287</u>	<u>\$ 2,414,237</u>	<u>\$ 1,854,980</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 1,434,424	\$ 697,267	\$ 1,081,195
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	1,318,874	118,553	494,504
Amortization	--	--	2,926
Changes in assets and liabilities:			
Receivables	39,060	(11,069)	3,200
Inventory	159,097	3,086	1,071
Prepaid expenses	16,201	14,547	2,806
Deferred outflows of resources - pension	12,927	13,292	13,785
Net pension liability	(48,088)	(39,345)	(40,802)
Accounts payable:			
Trade	82,496	5,452	102,309
Accrued employee compensation	(9,289)	(4,083)	(9,267)
Accrued property taxes	(145)	--	--
Accrued expenses	(9,282)	(1,807)	(13,220)
Due to City sewer	--	--	--
Consumer deposits	4,858	--	--
Deferred inflows of resources - pension	(17,337)	(14,185)	(14,710)
Total adjustments	<u>1,549,372</u>	<u>84,441</u>	<u>542,602</u>
Net cash provided by operating activities	<u>\$ 2,983,796</u>	<u>\$ 781,708</u>	<u>\$ 1,623,797</u>

The accompanying notes are an integral part of these statements.

<u>Telecommunications</u>	<u>Non-Major Sewer/Landfill</u>	<u>Total</u>
\$ --	\$ 240,535	\$ 7,399,336
<u>110,130</u>	<u>--</u>	<u>1,977,833</u>
<u>\$ 110,130</u>	<u>\$ 240,535</u>	<u>\$ 9,377,169</u>
 \$ (191,438)	 \$ 286	 \$ 3,021,734
 237,968	 --	 2,169,899
--	--	2,926
(270)	8,664	39,585
231	--	163,485
37,174	--	70,728
5,907	--	45,911
(17,487)	--	(145,722)
11,133	1,425	202,815
(3,891)	--	(26,530)
--	--	(145)
(5,340)	(1,186)	(30,835)
--	49,058	49,058
--	--	4,858
(6,305)	--	(52,537)
<u>259,120</u>	<u>57,961</u>	<u>2,493,496</u>
<u>\$ 67,682</u>	<u>\$ 58,247</u>	<u>\$ 5,515,230</u>

HARLAN MUNICIPAL UTILITIES
Statements of Cash Flows
Year ended June 30, 2024

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>
Cash flows from operating activities:			
Cash received from consumers	\$ 6,298,802	\$ 3,582,912	\$ 3,346,395
Cash paid to suppliers	(4,151,165)	(2,660,132)	(1,219,650)
Cash paid to employees	(618,150)	(327,583)	(531,786)
Other operating revenue	<u>1,594,097</u>	<u>81,119</u>	<u>520,895</u>
Net cash provided by (used in) operating activities	3,123,584	676,316	2,115,854
Cash flows from noncapital financing activities:			
Contributions to City - in lieu of taxes	<u>(166,936)</u>	<u>(40,658)</u>	<u>(46,937)</u>
Net cash used in noncapital financing activities	(166,936)	(40,658)	(46,937)
Cash flows from capital and related financing activities:			
Debt proceeds	--	--	3,601,033
Principal payments	(996,000)	--	(378,000)
Interest paid on revenue notes	(14,288)	--	(141,275)
Capital expenditures	(1,615,403)	(880,393)	(4,442,914)
Increase in checks issued in excess of cash balance	<u>--</u>	<u>--</u>	<u>--</u>
Net cash used in capital and related financing activities	(2,625,691)	(880,393)	(1,361,156)
Cash flows from investing activities:			
Special purpose fund investments:			
Proceeds	212,157	--	--
Certificates of deposit:			
Acquisitions	(3,159,621)	(2,088,828)	--
Telecommunications department note proceeds	39,393	--	--
Income from investments	400,071	73,084	19,351
Industrial development contribution	<u>(17,500)</u>	<u>(17,500)</u>	<u>--</u>
Net cash provided by (used in) investing activities	<u>(2,525,500)</u>	<u>(2,033,244)</u>	<u>19,351</u>
Net increase (decrease) in cash	(2,194,543)	(2,277,979)	727,112
Cash at beginning of year	<u>8,804,713</u>	<u>4,145,311</u>	<u>764,112</u>
Cash at end of year	<u>\$ 6,610,170</u>	<u>\$ 1,867,332</u>	<u>\$ 1,491,224</u>

(continued next page)

<u>Telecommunications</u>	<u>Non-Major Sewer/Landfill</u>	<u>Total</u>
\$ 1,993,550	\$ 1,343,440	\$ 16,565,099
(1,711,333)	(1,369,269)	(11,111,549)
(341,430)	--	(1,818,949)
<u>77,479</u>	<u>--</u>	<u>2,273,590</u>
18,266	(25,829)	5,908,191
(1,302)	--	(255,833)
(1,302)	--	(255,833)
--	--	3,601,033
(205,393)	--	(1,579,393)
(54,548)	--	(210,111)
(52,824)	--	(6,991,534)
<u>257,297</u>	<u>--</u>	<u>257,297</u>
(55,468)	--	(4,922,708)
--	--	212,157
--	--	(5,248,449)
--	--	39,393
16,064	--	508,570
<u>--</u>	<u>--</u>	<u>(35,000)</u>
<u>16,064</u>	<u>--</u>	<u>(4,523,329)</u>
(22,440)	(25,829)	(3,793,679)
<u>212,530</u>	<u>208,117</u>	<u>14,134,783</u>
<u>\$ 190,090</u>	<u>\$ 182,288</u>	<u>\$ 10,341,104</u>

HARLAN MUNICIPAL UTILITIES
Statements of Cash Flows - Continued
Year ended June 30, 2024

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>
Reconciliation of cash to the statements of net position:			
Cash in current assets	\$ 4,599,858	\$ 1,220,270	\$ 821,311
Cash in special purpose funds	<u>2,010,312</u>	<u>647,062</u>	<u>669,913</u>
Total cash	<u>\$ 6,610,170</u>	<u>\$ 1,867,332</u>	<u>\$ 1,491,224</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 1,862,414	\$ 607,593	\$ 1,569,762
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	1,289,607	107,573	475,312
Amortization	--	--	3,226
Changes in assets and liabilities:			
Receivables	117,655	3,482	(19,883)
Inventory	(141,973)	(3,138)	(6,343)
Prepaid expenses	(23,436)	(23,978)	(8,446)
Customer credits	--	(3,660)	--
Deferred outflows of resources - pension	(70,637)	(57,794)	(59,934)
Net pension liability	70,017	57,287	59,409
Accounts payable:			
Trade	19,054	18,142	135,458
Accrued employee compensation	14,845	9,105	6,443
Accrued property taxes	(3,736)	--	--
Accrued expenses	33,966	9	574
Due to City sewer	--	--	--
Consumer deposits	2,625	--	--
Deferred inflows of resources - pension	(46,817)	(38,305)	(39,724)
Total adjustments	<u>1,261,170</u>	<u>68,723</u>	<u>546,092</u>
Net cash provided by (used in) operating activities	<u>\$ 3,123,584</u>	<u>\$ 676,316</u>	<u>\$ 2,115,854</u>

The accompanying notes are an integral part of these statements.

<u>Telecommunications</u>	<u>Non-Major Sewer/Landfill</u>	<u>Total</u>
\$ --	\$ 182,288	\$ 6,823,727
<u>190,090</u>	<u>--</u>	<u>3,517,377</u>
<u>\$ 190,090</u>	<u>\$ 182,288</u>	<u>\$ 10,341,104</u>
\$ (172,598)	\$ (254)	\$ 3,866,917
244,943	--	2,117,435
--	--	3,226
21,651	(966)	121,939
376	--	(151,078)
(2,252)	--	(58,112)
--	--	(3,660)
(25,686)	--	(214,051)
25,461	--	212,174
(25,702)	70	147,022
(23,482)	--	6,911
--	--	(3,736)
(2,921)	220	31,848
--	(24,899)	(24,899)
--	--	2,625
(21,524)	--	(146,370)
<u>190,864</u>	<u>(25,575)</u>	<u>2,041,274</u>
<u>\$ 18,266</u>	<u>\$ (25,829)</u>	<u>\$ 5,908,191</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

The Harlan Municipal Utilities is made up of enterprise funds (departments) 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.

Harlan Municipal Utilities has been identified as a component unit of the City of Harlan, Iowa. The Utilities, for financial statement purposes, include all of the funds and account groups relevant to the operation of the electric, gas, water and telecommunications services. Harlan Municipal Utilities provides billing and collection of sewer and landfill services for the City of Harlan, however, those amounts have been netted for financial statement purposes. These financial statements do not reflect any activity or transactions of the City of Harlan and do not present consolidated information.

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 Statements of Net Position display the Utilities' assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position:

- 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.

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, 2025 and 2024

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

3. Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Utilities distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utilities' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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. Capital Assets 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.

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: \$40,000 in 2025 and \$40,000 in 2024) (Gas: \$34,000 in 2025 and \$34,000 in 2024) (Water: \$17,400 in 2025 and \$17,400 in 2024) (Telecommunications: \$4,400 in 2025 and \$4,400 in 2024).

7. Inventory Valuation

Inventories (materials, supplies and fuel) are valued at the lower of cost or net realizable value. 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, 2025 and 2024

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

8. Investments

Investments are reported at fair value except for short-term highly liquid investments that have 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 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 consumer deposits. Use of restricted or unrestricted resources for individual projects is determined by the Utility Board of Trustees based on the facts regarding each specific situation.

10. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future year(s) which 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, contributions from the Utilities after the measurement date but before the end of the Utilities' reporting period and deferred refunding costs.

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 accumulate a limited amount of earned but unused vacation, sick leave and comp time hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when each of the following have occurred: the leave is attributable to services already rendered, the leave accumulates and carries forward from one reporting period to the next and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2025 and 2024, and is recorded in accrued employee compensation in the statements of net position.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

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 applicable to future year(s) which 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 unrecognized items not yet charged to pension expense and 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. Statements of Revenues, Expenses and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major or central to the Utilities' services are reported as operating revenues and expenses. Non-operating revenues and peripheral or incidental transactions are reported as non-operating revenues and expenses.

17. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2025, disbursements did not exceed the amounts budgeted in the business type activities function.

NOTE B - TRANSACTIONS WITH CITY OF HARLAN, IOWA

The Utilities provide electric, gas, water, and telecommunications services to the City of Harlan 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.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE B - TRANSACTIONS WITH CITY OF HARLAN, IOWA - Continued

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

<u>Sewer/Landfill Department</u>	<u>2025</u>	<u>2024</u>
Sewer Fees Collected for City	<u>\$ 1,440,818</u>	<u>\$ 1,209,868</u>
Landfill Fees Collected for City	<u>\$ 135,916</u>	<u>\$ 134,792</u>
Account Payable to City	<u>\$ 338,123</u>	<u>\$ 289,065</u>

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 and Telecommunications Departments at June 30:

	<u>2025</u>	<u>2024</u>
Interest income (Electric) and expense (Telecommunications) during the year	<u>\$ 26,067</u>	<u>\$ 27,378</u>
Interest bearing note due to Electric from Telecommunications Department	<u>\$ 773,257</u>	<u>\$ 813,960</u>
Less current portion	<u>---</u>	<u>(40,703)</u>
	<u>\$ 773,257</u>	<u>\$ 773,257</u>
Current portion of interest bearing note due to Electric from Telecommunications Department	<u>\$ --</u>	<u>\$ 40,703</u>

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

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE D - SPECIAL PURPOSE FUNDS

Restricted and board designated funds are available for the following purposes:

Electric Department

	<u>2025</u>	<u>2024</u>
Restricted by Bond Resolution for: Payment of principal and interest	\$ --	\$ 1,001,896
Restricted by Debt Reserve	---	581,428
Consumer Deposit Fund	<u>46,303</u>	<u>45,984</u>
Total restricted	<u>\$ 46,303</u>	<u>\$ 1,629,308</u>

Board Designated for:

Plant improvements, emergency and contingency funds	\$ 2,810,641	\$ 1,205,000
Capital improvements	1,129,209	1,089,739
Replacement funds bond requirement	<u>148,666</u>	<u>148,666</u>
Total board designated	<u>\$ 4,088,516</u>	<u>\$ 2,443,405</u>

Gas Department

	<u>2025</u>	<u>2024</u>
Board Designated for: System improvements	\$ 671,062	\$ 647,062
Total board designated	<u>\$ 671,062</u>	<u>\$ 647,062</u>

Water Department

	<u>2025</u>	<u>2024</u>
Restricted:		
Payment of principal and interest	\$ 485,104	\$ 559,913
Capital improvements	6,864	--
Debt reserve	<u>110,000</u>	<u>110,000</u>
Total restricted	<u>\$ 601,968</u>	<u>\$ 669,913</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE D - SPECIAL PURPOSE FUNDS - Continued

Telecommunications Department

	<u>2025</u>	<u>2024</u>
Restricted:		
Payment of principal and interest	\$ 48,130	\$ 48,090
Debt reserve	<u>--</u>	<u>138,198</u>
Total restricted	<u>\$ 48,130</u>	<u>\$ 186,288</u>
Board Designated for:		
System improvements, emergency and contingency funds	<u>\$ 62,000</u>	<u>\$ 50,000</u>
Total board designated	<u>\$ 62,000</u>	<u>\$ 50,000</u>

NOTE E - DEPOSITS AND INVESTMENTS

The Utilities' deposits at June 30, 2025 and 2024 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; 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.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The composition of restricted and designated assets is as follows:

Electric Department

	<u>2025</u>	<u>2024</u>
Invested Funds:		
Certificates of Deposit	\$ 3,540,146	\$ 2,062,401
Other Interest Bearing Accounts	<u>594,673</u>	<u>2,010,312</u>
Total Investments	<u>\$ 4,134,819</u>	<u>\$ 4,072,713</u>

Gas Department

	<u>2025</u>	<u>2024</u>
Invested Funds:		
Other Interest Bearing Accounts	\$ 671,062	\$ 647,062
Total Investments	<u>\$ 671,062</u>	<u>\$ 647,062</u>

Water Department

	<u>2025</u>	<u>2024</u>
Invested Funds:		
Other Interest Bearing Accounts	\$ 601,968	\$ 669,913
Total Investments	<u>\$ 601,968</u>	<u>\$ 669,913</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE E - DEPOSITS AND INVESTMENTS - Continued

Telecommunications Department

	<u>2025</u>	<u>2024</u>
Invested Funds:		
Certificates of Deposit	\$ --	\$ 46,198
Other Interest Bearing Accounts	<u>110,130</u>	<u>190,090</u>
Total Investments	<u>\$ 110,130</u>	<u>\$ 236,288</u>

Interest rate risk - 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) to 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 Electric fund's notes receivable from the Telecommunications fund is reported at fair value in the accompanying statements of net 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, 2025 and 2024.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE F - FAIR VALUE MEASUREMENTS - Continued

Level 3 Fair Value Measurements

The Electric Department'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.

The following tables set forth, by level within the fair value hierarchy, the Utilities' investments at fair value as of June 30, 2025 and 2024:

	Fair Value	Fair Value Measurements at Reporting Date Using: Contract Value (Level 3)
<u>June 30, 2025</u>		
Note receivable	\$ 773,257	\$ 773,257
<u>June 30, 2024</u>		
Note receivable	\$ 813,960	\$ 813,960

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, 2025 and 2024:

	Note Receivable
<u>June 30, 2025</u>	
Beginning balance	\$ 813,960
Collections on note receivable	(40,703)
Ending balance	\$ 773,257
<u>June 30, 2024</u>	
Beginning balance	\$ 853,353
Collections on note receivable	(39,393)
Ending balance	\$ 813,960

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2025 and 2024 were as follows:

	<u>Balance 2024</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2025</u>
<u>Electric Department</u>				
Plant and Equipment	\$ 59,577,766	\$ 631,144	\$ 421,894	\$ 59,787,016
Depreciation	<u>(35,279,707)</u>	<u>(1,318,874)</u>	<u>(384,051)</u>	<u>(36,214,530)</u>
Depreciable Capital Assets, Net	<u>\$ 24,298,059</u>	<u>\$ (687,730)</u>	<u>\$ 37,843</u>	<u>\$ 23,572,486</u>
Construction in Progress	\$ 1,585,711	\$ 2,322,904	\$ --	\$ 3,908,615
Land and Land Rights	<u>117,832</u>	<u>--</u>	<u>--</u>	<u>117,832</u>
Non-Depreciable Capital Assets	<u>\$ 1,703,543</u>	<u>\$ 2,322,904</u>	<u>\$ --</u>	<u>\$ 4,026,447</u>
	<u>Balance 2023</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2024</u>
<u>Electric Department</u>				
Plant and Equipment	\$ 58,945,548	\$ 632,218	\$ --	\$ 59,577,766
Depreciation	<u>(33,990,100)</u>	<u>(1,289,607)</u>	<u>--</u>	<u>(35,279,707)</u>
Depreciable Capital Assets, Net	<u>\$ 24,955,448</u>	<u>\$ (657,389)</u>	<u>\$ --</u>	<u>\$ 24,298,059</u>
Construction in Progress	\$ 1,655	\$ 1,632,341	\$ 48,285	\$ 1,585,711
Land and Land Rights	<u>117,832</u>	<u>--</u>	<u>--</u>	<u>117,832</u>
Non-Depreciable Capital Assets	<u>\$ 119,487</u>	<u>\$ 1,632,341</u>	<u>\$ 48,285</u>	<u>\$ 1,703,543</u>
	<u>Balance 2024</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2025</u>
<u>Gas Department</u>				
Plant and Equipment	\$ 3,728,664	\$ 234,312	\$ 169,430	\$ 3,793,546
Depreciation	<u>(2,560,390)</u>	<u>(118,553)</u>	<u>(170,507)</u>	<u>(2,508,436)</u>
Depreciable Capital Assets, Net	<u>\$ 1,168,274</u>	<u>\$ 115,759</u>	<u>\$ (1,077)</u>	<u>\$ 1,285,110</u>
Construction in Progress	\$ 784,286	\$ --	\$ --	\$ 784,286
Land and Land Rights	<u>7,500</u>	<u>--</u>	<u>--</u>	<u>7,500</u>
Non-Depreciable Capital Assets	<u>\$ 791,786</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 791,786</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE G - CAPITAL ASSETS - Continued

	<u>Balance 2023</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2024</u>
<u>Gas Department</u>				
Plant and Equipment	\$ 3,632,557	\$ 96,107	\$ --	\$ 3,728,664
Depreciation	<u>(2,452,817)</u>	<u>(107,573)</u>	<u>--</u>	<u>(2,560,390)</u>
Depreciable Capital Assets, Net	<u>\$ 1,179,740</u>	<u>\$ (11,466)</u>	<u>\$ --</u>	<u>\$ 1,168,274</u>
Construction in Progress	\$ --	\$ 784,286	\$ --	\$ 784,286
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>\$ 784,286</u>	<u>\$ --</u>	<u>\$ 791,786</u>
	<u>Balance 2024</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2025</u>
<u>Water Department</u>				
Plant and Equipment	\$ 18,496,624	\$ 226,341	\$ 211,035	\$ 18,511,930
Depreciation	<u>(8,736,024)</u>	<u>(494,504)</u>	<u>(199,542)</u>	<u>(9,030,986)</u>
Depreciable Capital Assets, Net	<u>\$ 9,760,600</u>	<u>\$ (268,163)</u>	<u>\$ 11,493</u>	<u>\$ 9,480,944</u>
Construction in Progress	\$ 6,338,161	\$ 1,923,885	\$ --	\$ 8,262,046
Land and Land Rights	<u>4,450</u>	<u>--</u>	<u>--</u>	<u>4,450</u>
Non-Depreciable Capital Assets	<u>\$ 6,342,611</u>	<u>\$ 1,923,885</u>	<u>\$ --</u>	<u>\$ 8,266,496</u>
	<u>Balance 2023</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2024</u>
<u>Water Department</u>				
Plant and Equipment	\$ 18,332,100	\$ 164,524	\$ --	\$ 18,496,624
Depreciation	<u>(8,260,712)</u>	<u>(475,312)</u>	<u>--</u>	<u>(8,736,024)</u>
Depreciable Capital Assets, Net	<u>\$ 10,071,388</u>	<u>\$ (310,788)</u>	<u>\$ --</u>	<u>\$ 9,760,600</u>
Construction in Progress	\$ 1,000,324	\$ 5,337,837	\$ --	\$ 6,338,161
Land and Land Rights	<u>4,450</u>	<u>--</u>	<u>--</u>	<u>4,450</u>
Non-Depreciable Capital Assets	<u>\$ 1,004,774</u>	<u>\$ 5,337,837</u>	<u>\$ --</u>	<u>\$ 6,342,611</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE G - CAPITAL ASSETS - Continued

	<u>Balance 2024</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2025</u>
<u>Telecommunications Department</u>				
Plant and Equipment	\$ 7,725,959	\$ 11,349	\$ 96,103	\$ 7,641,205
Depreciation	<u>(4,625,175)</u>	<u>(237,968)</u>	<u>131,897</u>	<u>(4,995,040)</u>
Depreciable Capital Assets, Net	<u>\$ 3,100,784</u>	<u>\$(226,619)</u>	<u>\$ 228,000</u>	<u>\$ 2,646,165</u>
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>\$ --</u>	<u>\$ --</u>	<u>\$ 24,240</u>
	<u>Balance 2023</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2024</u>
<u>Telecommunications Department</u>				
Plant and Equipment	\$ 7,671,971	\$ 53,988	\$ --	\$ 7,725,959
Depreciation	<u>(4,380,232)</u>	<u>(244,943)</u>	<u>--</u>	<u>(4,625,175)</u>
Depreciable Capital Assets, Net	<u>\$ 3,291,739</u>	<u>\$(190,955)</u>	<u>\$ --</u>	<u>\$ 3,100,784</u>
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>\$ --</u>	<u>\$ --</u>	<u>\$ 24,240</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE H - DEFERRED OUTFLOWS OF RESOURCES

The deferred outflows of resources include deferred refunding costs and pension items. The deferred refunding cost is the difference between the reacquisition price and the net carrying amount of the old debt through an advance refunding. The deferred pension items represent the differences between expected and actual experience, changes of assumptions, changes in proportion of contributions and contributions subsequent to the measurement date. A schedule of the balances for the years ended June 30, 2025 and 2024 follows:

<u>June 30, 2025</u>	<u>Electric</u>	<u>Gas</u>	<u>Water</u>	<u>Telecommunications</u>	<u>Total</u>
Pension	\$ 134,491	\$ 110,038	\$ 114,113	\$ 48,906	\$ 407,548
	<u>\$ 134,491</u>	<u>\$ 110,038</u>	<u>\$ 114,113</u>	<u>\$ 48,906</u>	<u>\$ 407,548</u>
<u>June 30, 2024</u>	<u>Electric</u>	<u>Gas</u>	<u>Water</u>	<u>Telecommunications</u>	<u>Total</u>
Refunding costs	\$ 1,106	\$ --	\$ --	\$ --	\$ 1,106
Pension	<u>150,736</u>	<u>123,330</u>	<u>127,898</u>	<u>54,813</u>	<u>456,777</u>
	<u>\$ 151,842</u>	<u>\$ 123,330</u>	<u>\$ 127,898</u>	<u>\$ 54,813</u>	<u>\$ 457,883</u>

NOTE I - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Electric Department non-current liabilities for the years ended June 30, 2025 and 2024 follows:

	<u>Balance 2024</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2025</u>
2017 Revenue Capital				
Loan Notes	\$ 258,000	\$ --	\$ 258,000	\$ --
Less Current Portion	<u>(258,000)</u>	<u>--</u>	<u>(258,000)</u>	<u>--</u>
Long-Term Debt, Net	--	--	--	--
Net Pension Liability	335,540	--	48,088	287,452
Consumer Deposits, Net	<u>64,286</u>	<u>4,858</u>	<u>--</u>	<u>69,144</u>
Total Non-Current Liabilities	<u>\$ 399,826</u>	<u>\$ 4,858</u>	<u>\$ 48,088</u>	<u>\$ 356,596</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE I - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES - Continued

	Balance 2023	Additions	Reductions	Balance 2024
2017 Revenue Capital Loan Notes	\$ 1,254,000	\$ --	\$ 996,000	\$ 258,000
Less Current Portion	(996,000)	(258,000)	(996,000)	(258,000)
Long-Term Debt, Net	258,000	(258,000)	--	--
Net Pension Liability	265,523	70,017	--	335,540
Consumer Deposits, Net	61,661	2,625	--	64,286
Total Non-Current Liabilities	<u>\$ 585,184</u>	<u>\$(185,358)</u>	<u>\$ --</u>	<u>\$ 399,826</u>

Series 2017 Revenue Capital Loan Notes

The Series 2017 Revenue Capital Loan Notes were issued to advance refund the Series 2010 Revenue Capital Loan Notes. The 2017 Series Revenue Capital Loan Notes constituted a lien on the net income of the Electric Department. They were not general obligations of the City of Harlan. The notes matured in increasing amounts ranging from \$54,000 to \$996,000. Interest rate was 1.89%. The notes matured in October, 2024 and were subject to early redemption at any time.

NOTE J - GAS DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Gas Department non-current liabilities for the years ended June 30, 2025 and 2024 follows:

	Balance 2024	Additions	Reductions	Balance 2025
Net Pension Liability	\$ 274,533	\$ --	\$ 39,345	\$ 235,188
Total Non-Current Liabilities	<u>\$ 274,533</u>	<u>\$ --</u>	<u>\$ 39,345</u>	<u>\$ 235,188</u>
	Balance 2023	Additions	Reductions	Balance 2024
Net Pension Liability	\$ 217,246	\$ 57,287	\$ --	\$ 274,533
Total Non-Current Liabilities	<u>\$ 217,246</u>	<u>\$ 57,287</u>	<u>\$ --</u>	<u>\$ 274,533</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE K - WATER DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Water Department non-current liabilities for the years ended June 30, 2025 and 2024 follows:

	Balance 2024	Additions	Reductions	Balance 2025
2012 Revenue Capital Loan Notes	\$ 4,006,000	\$ --	\$ 390,000	\$ 3,616,000
2021 Planning and Design Loan Note	430,000	--	430,000	--
2023 Water Revenue Capital Loan Notes	3,601,033	1,762,967	5,364,000	--
2024 Water Revenue Capital Loan Notes	50,001	842,736	892,737	--
2025 USDA Project Loan	--	5,364,000	24,558	5,339,442
2025 USDA Project Loan	--	1,378,617	21,799	1,356,818
	<u>8,087,034</u>	<u>9,348,320</u>	<u>7,123,094</u>	<u>10,312,260</u>
Less Current Portion	(4,471,034)	(562,397)	(4,471,034)	(562,397)
Long-Term Debt, Net	<u>3,616,000</u>	<u>8,785,923</u>	<u>2,652,060</u>	<u>9,749,863</u>
Net Pension Liability	<u>284,701</u>	<u>--</u>	<u>40,802</u>	<u>243,899</u>
Total Non-Current Liabilities	<u>\$ 3,900,701</u>	<u>\$ 8,785,923</u>	<u>\$ 2,692,862</u>	<u>\$ 9,993,762</u>
	Balance 2023	Additions	Reductions	Balance 2024
2012 Revenue Capital Loan Notes	\$ 4,384,000	\$ --	\$ 378,000	\$ 4,006,000
2021 Planning and Design Loan Note	430,000	--	--	430,000
2023 Water Revenue Capital Loan Notes	50,001	3,551,032	--	3,601,033
2024 Water Revenue Capital Loan Notes	--	50,001	--	50,001
	<u>4,864,001</u>	<u>3,601,033</u>	<u>378,000</u>	<u>8,087,034</u>
Less Current Portion	(808,000)	(4,041,034)	(378,000)	(4,471,034)
Long-Term Debt, Net	<u>4,056,001</u>	<u>(440,001)</u>	<u>--</u>	<u>3,616,000</u>
Net Pension Liability	<u>225,292</u>	<u>59,409</u>	<u>--</u>	<u>284,701</u>
Total Non-Current Liabilities	<u>\$ 4,281,293</u>	<u>\$ (380,592)</u>	<u>\$ --</u>	<u>\$ 3,900,701</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE K - 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 \$504,000. The interest rate is 1.75% for the life of the loan. The notes mature in July, 2032 and are subject to early redemption at any point with 30 days notice given to the original purchaser.

Series 2021 Planning and Design Loan Note

The Series 2021 Planning and Design Loan Note was issued to provide funding for capital needs with an agreement with Iowa Finance Authority. The Series 2021 Planning and Design Loan Note constituted a lien on the net income of the Water Department. They were not general obligations of the City of Harlan. The interest rate was 0% for the life of the loan. The note had a maximum funding of \$430,000. The note was scheduled to mature in June, 2024 and was extended until the end of the project and was refinanced from a construction loan into a 40 year loan in February, 2025.

Series 2023 Water Revenue Capital Loan Notes

The Series 2023 Water Revenue Capital Loan Notes were issued to provide funding for capital needs with an agreement with a local bank. The Series 2023 Water Revenue Capital Loan Notes constitutes a lien on the net income of the Water Department. They were not general obligations of the City of Harlan. The interest rate was 4.34% for the life of the loan. The note had a maximum funding of \$5,364,000. The note matured in February, 2025 and was refinanced from a construction loan into a 40 year loan.

Series 2024 Water Revenue Capital Loan Notes

The Series 2024 Water Revenue Capital Loan Notes were issued to provide funding for additional capital needs with an agreement with a local bank. The Series 2024 Water Revenue Capital Loan Notes constituted a lien on the net income of the Water Department. They were not general obligations of the City of Harlan. The interest rate was 5.34% for the life of the loan. The note had a maximum funding of \$2,644,000. The note matured in February, 2025 and was refinanced from a construction loan into a 40 year loan.

Series 2025 USDA Project Loan Notes #1

The Series 2025 USDA Water Project Loan Notes were issued to refund the 2023 Water Revenue Capital Loan Notes. The Series 2025 USDA Water Project 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 monthly installments of principal and interest of \$16,253. The interest rate is 2.00% for the life of the loan. The notes mature in March, 2065 and are subject to early redemption at any point.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE K - WATER DEPARTMENT NON-CURRENT LIABILITIES - Continued

Series 2025 USDA Project Loan Notes #2

The Series 2025 USDA Water Project Loan Notes were issued to refund the 2021 Planning and Design Loan Note and the 2024 Water Revenue Capital Loan Notes. The Series 2025 USDA Water Project 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 monthly installments of principal and interest of \$8,197. The interest rate is 2.125% for the life of the loan. The note has a maximum funding of \$2,644,000. The notes mature in March, 2065 and are subject to early redemption at any point.

The annual debt service on the notes is expected to require approximately 47% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$722,500 and \$1,542,100, respectively.

Principal and interest payments required on Water Department long-term debt during each of the five years ending June 30, 2026 through 2030 and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 562,397	\$ 193,757	\$ 756,154
2027	578,704	183,284	761,988
2028	596,079	172,506	768,585
2029	613,525	161,412	774,937
2030	631,042	150,003	781,045
2031-2035	2,385,578	585,421	2,970,999
2036-2040	1,020,131	446,869	1,467,000
2041-2045	755,619	350,719	1,106,338
2046-2050	692,196	282,984	975,180
2051-2055	764,931	210,249	975,180
2056-2060	845,308	129,872	975,180
2061-2065	866,750	41,246	907,996
	<u>\$ 10,312,260</u>	<u>\$ 2,908,322</u>	<u>\$ 13,220,582</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE L - TELECOMMUNICATIONS DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Telecommunications Department non-current liabilities for the years ended June 30, 2025 and 2024 follows:

	Balance 2024	Additions	Reductions	Balance 2025
Due to Electric Department 2018 Revenue Capital Loan Notes	\$ 813,960	\$ --	\$ 40,703	\$ 773,257
	<u>534,000</u>	<u>--</u>	<u>171,000</u>	<u>363,000</u>
	1,347,960	--	211,703	1,136,257
Less Current Portion	<u>(211,703)</u>	<u>(178,000)</u>	<u>(211,703)</u>	<u>(178,000)</u>
Long-Term Debt, Net	1,136,257	(178,000)	--	958,257
Net Pension Liability	<u>122,015</u>	<u>--</u>	<u>17,487</u>	<u>104,528</u>
Total Non-Current Liabilities	<u>\$ 1,258,272</u>	<u>\$(178,000)</u>	<u>\$ 17,487</u>	<u>\$ 1,062,785</u>
	Balance 2023	Additions	Reductions	Balance 2024
Due to Electric Department 2018 Revenue Capital Loan Notes	\$ 853,353	\$ --	\$ 39,393	\$ 813,960
	<u>700,000</u>	<u>--</u>	<u>166,000</u>	<u>534,000</u>
	1,553,353	--	205,393	1,347,960
Less Current Portion	<u>(205,393)</u>	<u>(211,703)</u>	<u>(205,393)</u>	<u>(211,703)</u>
Long-Term Debt, Net	1,347,960	(211,703)	--	1,136,257
Net Pension Liability	<u>96,554</u>	<u>25,461</u>	<u>--</u>	<u>122,015</u>
Total Non-Current Liabilities	<u>\$ 1,444,514</u>	<u>\$(186,242)</u>	<u>\$ --</u>	<u>\$ 1,258,272</u>

Series 2018 Telecommunications Revenue Capital Loan Notes

The Series 2018 Telecommunications Revenue Capital Loan Notes were issued to refinance the Series 2012 Communications Revenue Capital Loan Notes. The Series 2018 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 in April, 2027 with amounts ranging from \$151,000 to \$185,000. Interest rates range from 2.0% to 4.0%.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE L - TELECOMMUNICATIONS DEPARTMENT NON-CURRENT LIABILITIES -
Continued

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 and advanced funds in 2020. The Board set the interest rate on the Note to 3.25%. The Board approved deferring payments on this loan for two years. The Telecommunications Department will resume payments as of July 2027 and matures in March 2040.

The annual debt service on the notes is expected to require greater than 100% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$259,100 and \$92,500, respectively. The difference is being funded through existing reserves of the Utilities.

Principal and interest payments required on Telecommunications Department long-term debt during each of the five years ending June 30, 2026 through 2030 and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 178,000	\$ 14,520	\$ 192,520
2027	185,000	7,400	192,400
2028	53,174	26,120	79,294
2029	54,943	24,351	79,294
2030	56,771	22,523	79,294
2031-2035	313,471	82,997	396,468
2036-2040	294,898	27,376	322,274
	<u>\$ 1,136,257</u>	<u>\$ 205,287</u>	<u>\$ 1,341,544</u>

NOTE M - 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 the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 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.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE M - PENSION PLAN - Continued

Pension Benefits - A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, 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.

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 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 the member receives benefits before age 65.

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

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

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

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE M - PENSION PLAN - Continued

In fiscal years 2025 and 2024, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the Utilities contributed 9.44% of covered payroll, for a total rate of 15.73%.

The Utilities' contributions to IPERS for the years ended June 30, 2025 and 2024 totaled \$231,792 and \$208,365, respectively.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2025 and 2024, the Utilities reported a liability of \$871,067 and \$1,016,789, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024 and 2023, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. 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, 2024, the Utilities' proportion was 0.023921%, which was an increase of 0.001394% over its proportion measured as of June 30, 2023.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE M - PENSION PLAN - Continued

For the years ended June 30, 2025 and 2024, the Utilities recognized pension expense of \$70,061 and \$51,627, respectively. The Utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2025					
	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	\$ 22,873	\$ 179	\$ 18,714	\$ 146	\$ 19,407	\$ 151
Changes of assumptions	--	4	--	4	--	3
Net difference between projected and actual earnings on IPERS investments	3,595	--	2,941	--	3,050	--
Changes in proportion and differences between Utilities contributions and proportionate share of contributions	31,532	21,565	25,799	17,644	26,754	18,299
Utilities contributions subsequent to the measurement date	<u>76,491</u>	<u>--</u>	<u>62,584</u>	<u>--</u>	<u>64,902</u>	<u>--</u>
	<u>\$ 134,491</u>	<u>\$ 21,748</u>	<u>\$ 110,038</u>	<u>\$ 17,794</u>	<u>\$ 114,113</u>	<u>\$ 18,453</u>

	2025			
	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	\$ 8,318	\$ 65	\$ 69,312	\$ 541
Changes of assumptions	--	1	--	12
Net difference between projected and actual earnings on IPERS investments	1,307	--	10,893	--
Changes in proportion and differences between Utilities contributions and proportionate share of contributions	11,466	7,842	95,551	65,350
Utilities contributions subsequent to the measurement date	<u>27,815</u>	<u>--</u>	<u>231,792</u>	<u>--</u>
	<u>\$ 48,906</u>	<u>\$ 7,908</u>	<u>\$ 407,548</u>	<u>\$ 65,903</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE M - PENSION PLAN - Continued

	2024					
	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	\$ 28,387	\$ 1,379	\$ 23,226	\$ 1,128	\$ 24,086	\$ 1,170
Changes of assumptions	--	5	--	4	--	4
Net difference between projected and actual earnings on IPERS investments	31,075	--	25,425	--	26,368	--
Changes in proportion and differences between Utilities contributions and proportionate share of contributions	22,514	37,701	18,420	30,847	19,102	31,989
Utilities contributions subsequent to the measurement date	<u>68,760</u>	<u>--</u>	<u>56,259</u>	<u>--</u>	<u>58,342</u>	<u>--</u>
	<u>\$ 150,736</u>	<u>\$ 39,085</u>	<u>\$ 123,330</u>	<u>\$ 31,979</u>	<u>\$ 127,898</u>	<u>\$ 33,163</u>

	2024			
	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	\$ 10,323	\$ 501	\$ 86,022	\$ 4,178
Changes of assumptions	--	2	--	15
Net difference between projected and actual earnings on IPERS investments	11,299	--	94,167	--
Changes in proportion and differences between Utilities contributions and proportionate share of contributions	8,187	13,710	68,223	114,247
Utilities contributions subsequent to the measurement date	<u>25,004</u>	<u>--</u>	<u>208,365</u>	<u>--</u>
	<u>\$ 54,813</u>	<u>\$ 14,213</u>	<u>\$ 456,777</u>	<u>\$ 118,440</u>

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE M - PENSION PLAN - Continued

Deferred outflows of resources related to pensions of \$231,792 and \$208,365 represent the amount the Utilities contributed subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the years ending June 30, 2026 and June 30, 2025, respectively. 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 Ending June 30,	Electric	Gas	Water	Telecommunications	2025 Total
2026	\$(43,227)	\$(35,368)	\$(36,677)	\$(15,719)	\$(130,991)
2027	71,977	58,890	61,072	26,174	218,113
2028	10,009	8,189	8,492	3,640	30,330
2029	(3,864)	(3,161)	(3,278)	(1,405)	(11,708)
2030	1,357	1,110	1,149	493	4,109
	<u>\$ 36,252</u>	<u>\$ 29,660</u>	<u>\$ 30,758</u>	<u>\$ 13,183</u>	<u>\$ 109,853</u>

Year Ending June 30,	Electric	Gas	Water	Telecommunications	2024 Total
2025	\$(17,556)	\$(14,364)	\$(14,895)	\$(6,384)	\$(53,199)
2026	(33,932)	(27,762)	(28,790)	(12,339)	(102,823)
2027	74,181	60,694	62,941	26,975	224,791
2028	16,628	13,605	14,108	6,046	50,387
2029	3,570	2,919	3,029	1,298	10,816
	<u>\$ 42,891</u>	<u>\$ 35,092</u>	<u>\$ 36,393</u>	<u>\$ 15,596</u>	<u>\$ 129,972</u>

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2024 and 2023 actuarial valuations was determined using the following actuarial assumptions applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25% to 16.25%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2024 and 2023 valuations were based on the results of a quadrennial experience study covering the period of July 1, 2017 through June 30, 2021.

Mortality rates used in the 2024 and 2023 valuations were based on the PubG-2010 mortality tables with mortality improvements modeled using Scale MP-2021.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE M - 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 geometric 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>
Domestic equity	21.0%	3.52%
International equity	13.0	5.18
Global smart beta equity	5.0	4.12
Core plus fixed income	25.5	3.04
Public credit	3.0	4.53
Cash	1.0	1.69
Private equity	17.0	8.89
Private real assets	9.0	4.25
Private credit	5.5	6.62
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. 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 to 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 (Asset) to Changes in the Discount Rate - The following presents the Utilities' proportionate share of the net pension liability (asset) calculated using the discount rate of 7.00%, as well as what the Utilities' proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Electric	\$ 705,403	\$ 287,452	\$ (62,583)
Gas	577,147	235,188	(51,205)
Water	598,524	243,899	(53,101)
Telecommunications	256,510	104,528	(22,758)

Utilities' proportionate share of the net pension liability (asset) - June 30, 2025 \$ 2,137,584 \$ 871,067 \$(189,647)

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE M - PENSION PLAN - Continued

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Electric	\$ 713,433	\$ 335,540	\$ 18,860
Gas	583,718	274,533	15,430
Water	605,337	284,701	16,002
Telecommunications	259,430	122,015	6,858
Utilities' proportionate share of the net pension liability - June 30, 2024	<u>\$ 2,161,918</u>	<u>\$ 1,016,789</u>	<u>\$ 57,150</u>

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, 2025 and 2024, the Utilities reported payables to IPERS of \$19,297 and \$16,366, respectively, for legally required employer contributions and \$12,858 and \$10,905, respectively, for legally required employee contributions withheld from employee wages which had not yet remitted to IPERS.

NOTE N - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: The Utilities operate a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. At June 30, 2025 and 2024, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits: Individuals who are employed by the Utilities and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Retired participants must be age 55 or older at retirement. The following employees were covered by the benefit terms:

	June 30, 2025	June 30, 2024
Inactive employees or beneficiaries currently receiving benefit payments	0	0
Active employees	<u>32</u>	<u>29</u>
Total	<u>32</u>	<u>29</u>

Net OPEB Obligation: Management of the Utilities considers any OPEB obligation, which may exist, to be immaterial. No liability has been recorded.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

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 an overhead to underground project in and around Harlan. The Utilities has spent \$3,908,615 on this project. This project has an estimated total cost to complete of approximately \$4,434,000. Funds for the costs will be provided through existing and internally generated funds.

Gas Department Construction in Progress

The construction in progress is for construction cost for facility improvement projects in and around Harlan. The Utilities has spent \$784,286 on this project. This project is substantially paid, but some work is being completed before it can be put into service. Funds for the costs were provided through existing and internally generated funds.

Water Department Construction in Progress

The construction in progress is for engineering and construction cost for a waterwell water treatment development project in and around Harlan. The Utilities has spent \$8,262,046 on this project. This project has an estimated total cost to complete of approximately \$930,000. Funds for the costs will be provided through issuing capital loan notes and internally generated funds.

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.

Concentration of Credit Risk

Accounts receivable are due for electric, gas, water and telecommunications charges to customers of Harlan, Iowa and the surrounding area. None of the receivables are collateralized. To date, these concentrations of credit risk have not had an adverse effect on the results of operations of the Utilities.

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.

HARLAN MUNICIPAL UTILITIES
Notes to Financial Statements
June 30, 2025 and 2024

NOTE P - LOSS FROM IMPAIRMENT OF ASSET

During the year ended June 30, 2025, the Utilities Board has decided to replace cable TV with internet provided TV (IPTV) as of December, 2025. The Utilities had incurred the cost of plant and equipment for cable totaling \$648,615 and had recorded normal depreciation on the equipment totaling \$415,113 by June 30, 2025. The equipment will be sold/abandoned when the cable is retired. The remaining undepreciated cost was written off by recording an impairment loss of \$220,529 at June 30, 2025 and normal depreciation of \$12,973 will be as part of operations during the 2025-26 fiscal year.

NOTE Q - SUBSEQUENT EVENTS

Subsequent Events

The Utilities has evaluated all subsequent events through December 18, 2025, the date the financial statements were available to be issued.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

HARLAN MUNICIPAL UTILITIES
Budgetary Comparison Schedule
Year Ended June 30, 2025

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 cash basis budget for the year ended June 30, 2025.

	Total Proprietary Funds-Actual	Budget Adjustments	Budget Basis	Final Budget Amounts	Variance Favorable (Unfavorable)
Operating Revenues	\$ 17,833,419	\$ --	\$ 17,833,419	\$ 16,907,286	\$ 926,133
Operating Expenses:					
Plant operation	8,183,577	--	8,183,577	8,318,595	135,018
Distribution operation	1,810,671	--	1,810,671	2,400,280	589,609
Transmission operation	468,681	--	468,681	512,025	43,344
Administrative and general	1,057,741	--	1,057,741	2,410,513	1,352,772
Consumer services	(5,150)	--	(5,150)	43,727	48,877
Marketing and relations	63,130	--	63,130	77,496	14,366
Employee benefits	1,060,210	--	1,060,210	47,000	(1,013,210)
Amortization and depreciation	2,172,825	(2,172,825)	--	--	--
Total operating expenses	<u>14,811,685</u>	<u>(2,172,825)</u>	<u>12,638,860</u>	<u>13,809,636</u>	<u>1,170,776</u>
Operating Income	3,021,734	2,172,825	5,194,559	3,097,650	2,096,909
Other Revenues (Expenses), Net	<u>(125,962)</u>	<u>--</u>	<u>(125,962)</u>	<u>(7,387)</u>	<u>118,575</u>
Change in Net Position	2,895,772	<u>\$ 2,172,825</u>	<u>\$ 5,068,597</u>	<u>\$ 3,090,263</u>	<u>\$ 1,978,334</u>
Total Net Position, Beginning	<u>56,092,161</u>				
Total Net Position, Ending	<u>\$ 58,987,933</u>				

See accompanying independent auditor's report.

HARLAN MUNICIPAL UTILITIES
Notes to Required Supplementary Information - Budgetary Reporting
Year Ended June 30, 2025

The Harlan Municipal Utilities (Utilities) prepares a budget on the cash basis of accounting for all funds, except sewer and landfill fees collected for and remitted to the City, and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget, which includes the Utilities, on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements known as functions, not by fund. The Utilities disbursements are budgeted in the business type activities function. During the year, one budget amendment increased budget disbursements by \$1,363,650.

During the year ended June 30, 2025, disbursements did not exceed the amounts budgeted.

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 Ten Years*

Required Supplementary Information

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>
Utilities' proportion of the net pension liability	0.023921%	0.022527%	0.021297%	(0.008645%)**
Utilities' proportionate share of the net pension liability	\$ 871,000	\$ 1,017,000	\$ 805,000	\$ 30,000
Utilities' covered payroll	\$ 2,207,000	\$ 1,978,000	\$ 1,715,000	\$ 1,728,000
Utilities' proportionate share of the net pension liability as a percentage of its covered payroll	39.47%	51.42%	46.94%	1.74%
IPERS' net position as a percentage of the total pension liability	92.30%	90.13%	91.40%	100.81%

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

** Overall plan net pension asset.

See accompanying independent auditor's report.

<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
0.023271%	0.024839%	0.023409%	0.023192%	0.025655%	0.025010%
\$ 1,635,000	\$ 1,438,000	\$ 1,481,000	\$ 1,545,000	\$ 1,615,000	\$ 1,235,000
\$ 1,847,000	\$ 1,890,000	\$ 1,759,000	\$ 1,731,000	\$ 1,841,000	\$ 1,713,000
88.52%	76.08%	84.20%	89.25%	87.72%	72.10%
82.90%	85.45%	83.62%	82.21%	81.82%	85.19%

HARLAN MUNICIPAL UTILITIES
Schedule of Utilities' Contributions

Iowa Public Employees' Retirement System
For the Last Ten Years

Required Supplementary Information

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>
Statutorily required contribution	\$ 232,000	\$ 208,000	\$ 187,000	\$ 162,000
Contributions in relation to the statutorily required contribution	<u>(232,000)</u>	<u>(208,000)</u>	<u>(187,000)</u>	<u>(162,000)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Utilities' covered payroll	\$ 2,455,000	\$ 2,207,000	\$ 1,978,000	\$ 1,715,000
Contributions as a percentage of covered payroll	9.44%	9.44%	9.44%	9.44%

Note - Amounts are rounded.

See accompanying independent auditor's report.

<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
\$ 163,000	\$ 174,000	\$ 178,000	\$ 157,000	\$ 155,000	\$ 164,000
<u>(163,000)</u>	<u>(174,000)</u>	<u>(178,000)</u>	<u>(157,000)</u>	<u>(155,000)</u>	<u>(164,000)</u>
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
\$ 1,728,000	\$ 1,847,000	\$ 1,890,000	\$ 1,759,000	\$ 1,731,000	\$ 1,841,000
9.44%	9.44%	9.44%	8.93%	8.95%	8.91%

HARLAN MUNICIPAL UTILITIES
Notes to Required Supplementary Information - Pension Liability
Year ended June 30, 2025

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2022 valuation incorporated the following refinements after a quadrennial experience study:

- Changed mortality assumptions to the PubG-2010 mortality tables with mortality improvements modeled using Scale MP-2021.
- Adjusted retirement rates for Regular members.
- Lowered disability rates for Regular members.
- Adjusted termination rates for all membership groups.

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

* * *

See accompanying independent auditor's report.

SUPPLEMENTARY INFORMATION

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

	<u>2025</u>	<u>2024</u>
Plant Operation:		
Cost of power and line fees	\$ 2,163,020	\$ 2,028,112
Cost of other sales	583,172	483,335
Salaries and wages	26,261	56,207
Repairs and maintenance	10,514	16,065
Utilities	52,687	55,525
Insurance	95,646	73,269
Property taxes	95,356	91,901
Other	<u>148,760</u>	<u>75,537</u>
Total plant operation	3,175,416	2,879,951
Distribution Operation:		
Salaries and wages	473,344	393,676
Engineering	2,899	2,775
Repairs and maintenance	92,866	126,005
Other	<u>264,514</u>	<u>231,158</u>
Total distribution operation	833,623	753,614
Transmission Operation:		
Salaries and wages	661	257
Outside contracts	<u>468,020</u>	<u>367,132</u>
Total transmission operation	468,681	367,389
Administration and General:		
Salaries and wages	192,784	174,211
Office supplies	67,809	61,034
Education and travel	2,463	2,300
Professional	4,853	3,451
Other	<u>24,749</u>	<u>31,774</u>
Total administrative and general	292,658	272,770
Consumer Services:		
Salaries and wages	14,251	6,856
Bad debts (recoveries)	(14,529)	(20,588)
Other	<u>4</u>	<u>--</u>
Total consumer services	(274)	(13,732)
Marketing and Stakeholder Relations:		
Salaries and wages	1,859	1,788
Advertising	3,016	3,681
Other	<u>1,799</u>	<u>2,208</u>
Total marketing and stakeholder relations	6,674	7,677

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

	<u>2025</u>	<u>2024</u>
Employee Benefits:		
Payroll taxes	\$ 141,846	\$ 120,141
Health insurance	160,961	154,247
Compensated absences	99,976	108,014
Pension expense	(49,180)	(47,436)
Total employee benefits	<u>353,603</u>	<u>334,966</u>
Depreciation and Amortization:		
Depreciation	<u>1,318,874</u>	<u>1,289,607</u>
Total operating expenses	<u>\$ 6,449,255</u>	<u>\$ 5,892,242</u>

See accompanying independent auditor's report.

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

	<u>2025</u>	<u>2024</u>
Plant Operation:		
Cost of gas	\$ 2,680,908	\$ 2,168,255
Salaries and wages	10,847	25,855
Repairs and maintenance	299	858
Utilities	27,795	28,368
Insurance	70,068	55,189
Other	<u>63,205</u>	<u>37,436</u>
Total plant operation	2,853,122	2,315,961
Distribution Operation:		
Salaries and wages	154,620	156,689
Repairs and maintenance	6,394	2,612
Other	<u>117,020</u>	<u>103,581</u>
Total distribution operation	278,034	262,882
Administration and General:		
Salaries and wages	165,081	152,419
Office supplies	11,438	12,823
Education and travel	2,530	1,645
Professional	2,566	2,551
Other	<u>68,327</u>	<u>66,185</u>
Total administrative and general	249,942	235,623
Consumer Services:		
Salaries and wages	820	910
Bad debts (recoveries)	(1,083)	137
Total consumer services	(263)	1,047
Marketing and Stakeholder Relations:		
Salaries and wages	902	815
Advertising	2,256	3,687
Other	<u>--</u>	<u>8</u>
Total marketing and stakeholder relations	3,158	4,510

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

	<u>2025</u>	<u>2024</u>
Employee Benefits:		
Payroll taxes	\$ 64,779	\$ 61,421
Health insurance	74,399	69,140
Compensated absences	42,434	37,408
Pension expense	(40,238)	(38,812)
Total employee benefits	<u>141,374</u>	<u>129,157</u>
Depreciation and Amortization:		
Depreciation	<u>118,553</u>	<u>107,573</u>
Total operating expenses	<u>\$ 3,643,920</u>	<u>\$ 3,056,753</u>

See accompanying independent auditor's report.

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

	<u>2025</u>	<u>2024</u>
Plant Operation:		
Cost of chemicals	\$ 304,172	\$ 319,685
Salaries and wages	167,050	195,814
Repairs and maintenance	2,816	1,610
Utilities	196,112	194,942
Insurance	73,857	57,586
Other	<u>135,017</u>	<u>85,912</u>
Total plant operation	879,024	855,549
Distribution Operation:		
Salaries and wages	177,647	147,276
Repairs and maintenance	8,286	21,117
Other	<u>348,462</u>	<u>247,448</u>
Total distribution operation	534,395	415,841
Administration and General:		
Salaries and wages	200,542	192,749
Office supplies	11,317	15,327
Education and travel	3,186	3,800
Professional	17,486	18,586
Other	<u>65,971</u>	<u>64,718</u>
Total administrative and general	298,502	295,180
Consumer Services:		
Salaries and wages	690	749
Bad debts (recoveries)	(927)	(170)
Total consumer services	(237)	579
Marketing and Stakeholder Relations:		
Salaries and wages	1,714	1,641
Advertising	3,635	2,826
Other	<u>1,742</u>	<u>2,115</u>
Total marketing and stakeholder relations	7,091	6,582

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

	<u>2025</u>	<u>2024</u>
Employee Benefits:		
Payroll taxes	\$ 112,951	\$ 102,512
Health insurance	169,372	126,721
Compensated absences	87,023	75,988
Pension expense	<u>(41,727)</u>	<u>(40,249)</u>
Total employee benefits	327,619	264,972
Depreciation and Amortization:		
Amortization	2,926	3,226
Depreciation	<u>494,504</u>	<u>475,312</u>
Total depreciation and amortization	497,430	478,538
Total operating expenses	<u>\$ 2,543,824</u>	<u>\$ 2,317,241</u>

See accompanying independent auditor's report.

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

	<u>2025</u>	<u>2024</u>
Plant Operation:		
Cost of programming fees	\$ 967,964	\$ 1,010,796
Salaries and wages	70,853	75,568
Repairs and maintenance	4,559	5,000
Utilities	16,081	16,204
Insurance	30,720	23,525
Other	<u>185,838</u>	<u>187,805</u>
Total plant operation	1,276,015	1,318,898
Distribution Operation:		
Salaries and wages	71,746	74,574
Repairs and maintenance	5,145	6,272
Other	<u>87,728</u>	<u>88,739</u>
Total distribution operation	164,619	169,585
Administration and General:		
Salaries and wages	159,884	129,593
Office supplies	564	1,033
Education and travel	1,155	2,664
Professional	7,857	11,158
Other	<u>47,179</u>	<u>51,696</u>
Total administrative and general	216,639	196,144
Consumer Services:		
Salaries and wages	402	376
Bad debts (recoveries)	(4,492)	30,184
Total consumer services	(4,090)	30,560
Marketing and Stakeholder Relations:		
Salaries and wages	41,828	37,837
Advertising	3,696	6,009
Other	<u>683</u>	<u>1,596</u>
Total marketing and stakeholder relations	46,207	45,442

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

	<u>2025</u>	<u>2024</u>
Employee Benefits:		
Payroll taxes	\$ 74,647	\$ 69,699
Health insurance	114,756	111,833
Compensated absences	66,096	82,305
Pension expense	<u>(17,885)</u>	<u>(17,249)</u>
Total employee benefits	237,614	246,588
Depreciation and Amortization:		
Depreciation	<u>237,968</u>	<u>244,943</u>
Total operating expenses	<u>\$ 2,174,972</u>	<u>\$ 2,252,160</u>

See accompanying independent auditor's report.

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

	<u>2025</u>	<u>2024</u>
Operating Revenue:		
Sale of electricity	\$ 6,235,947	\$ 6,160,559
Other operating revenue	<u>1,647,732</u>	<u>1,594,097</u>
Total operating revenue	<u>7,883,679</u>	<u>7,754,656</u>
Operating Expenses (Not Including Depreciation and IPERS Adjustment)	<u>5,179,561</u>	<u>4,650,071</u>
Operating Income Before Depreciation and IPERS Adjustment	2,704,118	3,104,585
IPERS Adjustment	<u>49,180</u>	<u>47,436</u>
Operating Income Before Depreciation	2,753,298	3,152,021
Provision for Depreciation	<u>1,318,874</u>	<u>1,289,607</u>
Operating Income	1,434,424	1,862,414
Non-Operating Revenues (Expenses), Net	<u>345,460</u>	<u>255,632</u>
Net Income	<u>\$ 1,779,884</u>	<u>\$ 2,118,046</u>
Net Income as a Percent of Total Operating Revenue	<u>22.58%</u>	<u>27.31%</u>

See accompanying independent auditor's report.

<u>2023</u>	<u>2022</u>	<u>2021</u>
\$ 6,315,365	\$ 5,965,723	\$ 5,982,270
<u>2,373,573</u>	<u>2,437,027</u>	<u>1,524,035</u>
8,688,938	8,402,750	7,506,305
<u>5,012,377</u>	<u>4,767,020</u>	<u>4,234,344</u>
3,676,561	3,635,730	3,271,961
<u>79,681</u>	<u>103,348</u>	<u>(23,853)</u>
3,756,242	3,739,078	3,248,108
<u>1,260,134</u>	<u>1,228,679</u>	<u>1,289,495</u>
2,496,108	2,510,399	1,958,613
<u>(66,921)</u>	<u>(195,347)</u>	<u>(206,067)</u>
<u>\$ 2,429,187</u>	<u>\$ 2,315,052</u>	<u>\$ 1,752,546</u>
<u>27.96%</u>	<u>27.55%</u>	<u>23.35%</u>

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

	<u>2025</u>	<u>2024</u>
Operating Revenue:		
Sale of gas	\$ 4,337,066	\$ 3,583,227
Other operating revenue	<u>4,121</u>	<u>81,119</u>
Total operating revenue	<u>4,341,187</u>	<u>3,664,346</u>
Operating Expenses (Not Including Depreciation and IPERS Adjustment)	<u>3,565,605</u>	<u>2,987,992</u>
Operating Income Before Depreciation and IPERS Adjustment	775,582	676,354
IPERS Adjustment	<u>40,238</u>	<u>38,812</u>
Operating Income Before Depreciation	815,820	715,166
Provision for Depreciation	<u>118,553</u>	<u>107,573</u>
Operating Income	697,267	607,593
Non-Operating Revenues (Expenses), Net	<u>67,112</u>	<u>38,821</u>
Net Income	<u>\$ 764,379</u>	<u>\$ 646,414</u>
Net Income as a Percent of Total Operating Revenue	<u>17.61%</u>	<u>17.64%</u>

See accompanying independent auditor's report.

<u>2023</u>	<u>2022</u>	<u>2021</u>
\$ 3,704,523	\$ 3,505,617	\$ 4,068,340
<u>23,652</u>	<u>175,667</u>	<u>3,544</u>
3,728,175	3,681,284	4,071,884
<u>3,337,764</u>	<u>3,197,104</u>	<u>3,839,439</u>
390,411	484,180	232,445
<u>65,192</u>	<u>84,559</u>	<u>(19,516)</u>
455,603	568,739	212,929
<u>103,295</u>	<u>87,517</u>	<u>74,931</u>
352,308	481,222	137,998
<u>(30,390)</u>	<u>(58,871)</u>	<u>(63,962)</u>
<u>\$ 321,918</u>	<u>\$ 422,351</u>	<u>\$ 74,036</u>
<u>8.63%</u>	<u>11.47%</u>	<u>1.82%</u>

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

	<u>2025</u>	<u>2024</u>
Operating Revenue:		
Sale of water	\$ 3,597,724	\$ 3,366,108
Other operating revenue	<u>27,295</u>	<u>520,895</u>
Total operating revenue	<u>3,625,019</u>	<u>3,887,003</u>
Operating Expenses (Not Including Depreciation and IPERS Adjustment)	<u>2,088,121</u>	<u>1,878,952</u>
Operating Income Before Depreciation and IPERS Adjustment	1,536,898	2,008,051
IPERS Adjustment	<u>41,727</u>	<u>40,249</u>
Operating Income Before Depreciation	1,578,625	2,048,300
Provision for Depreciation	<u>497,430</u>	<u>478,538</u>
Operating Income	1,081,195	1,569,762
Non-Operating Revenues (Expenses), Net	<u>(307,672)</u>	<u>(178,720)</u>
Net Income	<u>\$ 773,523</u>	<u>\$ 1,391,042</u>
Net Income as a Percent of Total Operating Revenue	<u>21.34%</u>	<u>35.79%</u>

See accompanying independent auditor's report.

<u>2023</u>	<u>2022</u>	<u>2021</u>
\$ 2,929,781	\$ 2,442,054	\$ 2,282,986
59,035	--	83,665
<u>2,988,816</u>	<u>2,442,054</u>	<u>2,366,651</u>
<u>1,782,340</u>	<u>1,642,292</u>	<u>1,670,113</u>
1,206,476	799,762	696,538
<u>67,608</u>	<u>87,691</u>	<u>(20,239)</u>
1,274,084	887,453	676,299
<u>454,229</u>	<u>431,127</u>	<u>412,017</u>
819,855	456,326	264,282
<u>586,341</u>	<u>(179,914)</u>	<u>(195,499)</u>
<u>\$ 1,406,196</u>	<u>\$ 276,412</u>	<u>\$ 68,783</u>
<u>47.05%</u>	<u>11.32%</u>	<u>2.91%</u>

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

	<u>2025</u>	<u>2024</u>
Operating Revenue:		
Sale of telecommunications	\$ 1,911,747	\$ 2,002,083
Other operating revenue	<u>71,787</u>	<u>77,479</u>
Total operating revenue	<u>1,983,534</u>	<u>2,079,562</u>
Operating Expenses (Not Including Depreciation and IPERS Adjustment)	<u>1,954,889</u>	<u>2,024,466</u>
Operating Income Before Depreciation and IPERS Adjustment	28,645	55,096
IPERS Adjustment	<u>17,885</u>	<u>17,249</u>
Operating Income Before Depreciation	46,530	72,345
Provision for Depreciation	<u>237,968</u>	<u>244,943</u>
Operating Income (Loss)	(191,438)	(172,598)
Non-Operating Revenues (Expenses), Net	<u>(230,862)</u>	<u>(36,610)</u>
Net Income (Loss)	<u>\$(422,300)</u>	<u>\$(209,208)</u>
Net Income (Loss) as a Percent of Total Operating Revenue	<u>(21.29)%</u>	<u>(10.06)%</u>

See accompanying independent auditor's report.

<u>2023</u>	<u>2022</u>	<u>2021</u>
\$ 2,036,061	\$ 2,119,170	\$ 2,176,879
<u>95,595</u>	<u>127,481</u>	<u>116,447</u>
2,131,656	2,246,651	2,293,326
<u>2,023,120</u>	<u>1,938,583</u>	<u>1,999,356</u>
108,536	308,068	293,970
<u>28,975</u>	<u>37,581</u>	<u>(8,675)</u>
137,511	345,649	285,295
<u>243,738</u>	<u>276,004</u>	<u>270,465</u>
(106,227)	69,645	14,830
<u>(57,568)</u>	<u>(66,275)</u>	<u>(68,808)</u>
<u>\$(163,795)</u>	<u>\$ 3,370</u>	<u>\$(53,978)</u>
<u>(7.68%)</u>	<u>0.15%</u>	<u>(2.35%)</u>

HARLAN MUNICIPAL UTILITIES
Schedule of Expenditures of Federal Awards
Year ended June 30, 2025

<u>Grantor/Program</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Program Expenditures</u>
U.S. Department of Agriculture: Water and Waste Disposal Systems for Rural Communities	10.760		\$ 1,653,028
<i>Total U.S. Department of Agriculture</i>			<u>1,653,028</u>
Total Expenditures of Federal Awards			<u>\$ 1,653,028</u>

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Harlan Municipal Utilities under programs of the federal government for the year ended June 30, 2025. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Harlan Municipal Utilities, it is not intended to and does not present the financial position, changes in financial position, or cash flows of Harlan Municipal Utilities.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - SUBRECIPIENTS

No federal grant awards were passed through to subrecipients during the year ended June 30, 2025.

NOTE D - INDIRECT COST RATE

Harlan Municipal Utilities has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE E - WATER AND WASTE DISPOSAL SYSTEMS FOR RURAL COMMUNITIES PROGRAM

Harlan Municipal Utilities had outstanding loans of \$6,696,260 as of June 30, 2025.

See accompanying independent auditor's report.

COMMENTS AND RECOMMENDATIONS

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

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

To the Board of Trustees of
Harlan Municipal Utilities
Harlan, Iowa

We have audited, 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, the financial statements of business type activities, each major fund and the aggregate remaining fund information of Harlan Municipal Utilities as of and for the years ended June 30, 2025 and 2024, and the related notes to financial statements which collectively comprise the Utilities basic financial statements, and have issued our report thereon dated December 18, 2025.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harlan Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of 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 that 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 that 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 identified a certain deficiency in internal control, described in Part II of the accompanying Schedule of Findings and Questioned Costs as item 2025-001 that we consider to be a significant deficiency.

To the Board of Trustees of
Harlan Municipal Utilities

Report on 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, noncompliance with which could have a direct and material effect on the financial statements. 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 noncompliance or other matters which are required to be reported under Government Auditing Standards. However, we noted a certain immaterial instance of noncompliance or other matter which is described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2025 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

Government Auditing Standards requires the auditor to perform limited procedures on Harlan Municipal Utilities' responses to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. Harlan Municipal Utilities' responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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 or on 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.

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

Atlantic, Iowa
December 18, 2025

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

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Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Trustees of
Harlan Municipal Utilities
Harlan, Iowa

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Harlan Municipal Utilities' compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the Utilities' major federal program for the year ended June 30, 2025. The Utilities' major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, Harlan Municipal Utilities complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200 Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Harlan Municipal Utilities and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Utilities' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Harlan Municipal Utilities' federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Harlan Municipal Utilities' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, Government Auditing Standards and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence judgement made by a reasonable user of the report on compliance about Harlan Municipal Utilities' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Harlan Municipal Utilities' compliance with the compliance requirements referred to above and performing other such procedures as we considered necessary in the circumstances.
- Obtain an understanding of Harlan Municipal Utilities' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Harlan Municipal Utilities' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance we identified during the audit.

Report on Internal Control Over Compliance

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

To the Board of Trustees of
Harlan Municipal Utilities

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly no such opinion is expressed.

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

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

Atlantic, Iowa
December 18, 2025

HARLAN MUNICIPAL UTILITIES
Schedule of Findings and Questioned Costs
Year ended June 30, 2025

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

- (a) Unmodified opinions were issued on the financial statements prepared in accordance with accounting principles generally accepted in the United States of America.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements. The audit did not disclose any material weaknesses in internal control over financial reporting.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) The audit did not disclose any material weaknesses or significant deficiencies in internal control over the major program.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose any audit findings which are required to be reported in accordance with the Uniform Guidance, Section 200.516.
- (g) The major program was Assistance Listing Number 10.760 - Water and Waste Disposal Systems for Rural Communities.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) Harlan Municipal Utilities did not qualify as a low-risk auditee.

HARLAN MUNICIPAL UTILITIES
Schedule of Findings and Questioned Costs
Year ended June 30, 2025

Part II - Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES

2025-001 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.

INSTANCES OF NONCOMPLIANCE

No matters were noted.

* * *

IIARLAN MUNICIPAL UTILITIES
Schedule of Findings and Questioned Costs
Year ended June 30, 2025

Part III - Findings and Questioned Costs for Federal Awards:

INTERNAL CONTROL DEFICIENCIES

No matters were noted.

INSTANCES OF NONCOMPLIANCE

No matters were noted.

* * *

HARLAN MUNICIPAL UTILITIES
Schedule of Findings and Questioned Costs
Year ended June 30, 2025

Part IV - Other Findings Related to Required Statutory Reporting:

2025-A Certified Budget: Disbursements during the year ended June 30, 2025 did not exceed amounts budgeted in the business type activity function.

2025-B Questionable Expenditure: During the audit, we noted no expenses of the Utilities' funds without proper documentation of public purpose.

2025-C Travel Expense: No expenditures of Utilities' money for travel expenses of spouses of Utilities' officials or employees were noted.

2025-D Business Transactions: No business transactions between the Utilities and Utilities' officials or employees were noted.

2025-E Restricted Donor Activity: No transactions were noted between the Utilities, Utilities officials, Utilities employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.

2025-F 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.

2025-G Board Minutes: No transactions were found which we believe should have been approved in the Board minutes but were not.

2025-H Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Utilities' investment policy.

2025-I Revenue Notes: No violations of revenue note resolution requirements were noted.

2025-J Telecommunications Services: Chapter 388.10 of the Code of Iowa prohibits the use of funds or revenues generated from electric, gas, or water services for the ongoing support or subsidy of a telecommunications system. At times during the year, the telecommunications fund had a negative cash balance and had a negative cash balance at year end in the amount of \$450,796. As a result, the other funds provided an interim subsidy to the telecommunications fund.

Recommendation: We recommend that the Utilities investigate options and implement a plan to ensure that the telecommunications fund expenditures are not subsidized by the other utility funds.

Response: The Board acknowledges the finding related to the negative Telecommunications Fund cash balance and the statutory requirement under Iowa Code §388.10 prohibiting subsidy from electric, gas, or water revenues. We accept the recommendation and are implementing a focused strategy to ensure the Telecommunications Fund becomes fully self-sustaining.

Conclusion: Response accepted.

HARLAN MUNICIPAL UTILITIES
Schedule of Findings and Questioned Costs
Year ended June 30, 2025

Part IV - Other Findings Related to Required Statutory Reporting (Continued):

2025-K Economic Development: The Utilities provides funding to Shelby County Chamber of Commerce & Industry. The Utilities provided funding totaling \$35,000 to Shelby County Chamber of Commerce & Industry in 2025. In accordance with Chapter 15A of the Code of Iowa, the Utilities is providing oversight of these funds to determine the funds are being spent in accordance with the agreements and expenses meet the test of public purpose.

* * *