

DENISON MUNICIPAL UTILITIES

Independent Auditor's Report

Basic Financial Statements and
Supplemental Information

Schedule of Findings and Questioned Costs

June 30, 2004

DENISON MUNICIPAL UTILITIES

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DENISON MUNICIPAL UTILITIES

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Martens	Chairman	2006
Jimmie Thomas	Vice-Chairman	2007
Christy Siemer	Board Member	2009
Brad Nelson	Board Member	2004
Nancy Bradley	Board Member	2010
Larry Struck	Board Member	2008
Doug Nass	General Manager	Indefinite
Pat Stoll	Manager-Electric & Water Distribution	Indefinite
James Ahrenholtz	Manager-Finance & Customer Information	2004
Renee Vary	Manager-Finance & Customer Information	Indefinite
D.R. Franck	Attorney	Indefinite

Denison Municipal Utilities

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Denison Municipal Utilities

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of Denison Municipal Utilities, a component unit of the City of Denison, as of and for the year ended June 30, 2004. These basic financial statements are the responsibility of the management of the Denison Municipal Utilities. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements, referred to above, present fairly, in all material respects, the financial position of Denison Municipal Utilities as of June 30, 2004, and the results of its operations and the cash flows of its proprietary fund types and expendable trust funds for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 20, 2004 on our consideration of the Denison Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 10 and 32, 38, 42, 46 and 50 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Denison Municipal Utilities' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 9, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

MAHONEY & ASSOCIATES, L.L.P.
Certified Public Accountants

August 20, 2004
Denison, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Denison Municipal Utilities' annual financial report presents an analysis of the Utility's financial performance during the fiscal years ended June 30, 2004 and 2003. This information is presented in conjunction with the audited basic financial statements, which follow this section. The Utility is organized into four operating divisions. They are the electric division, water division, sewer division, and joint treatment division. This discussion and analysis not only points out the highlights of each division, but also reports and discusses highlights in combined form.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2004

The Utility's combined net assets decreased by \$1,608,083 or 5.65% from \$28,484,645 to \$26,876,562. The electric division's net assets increased from \$11,301,349 to \$11,562,621 or 2.31%. The water division's net assets increased from \$7,994,910 to \$8,257,719 or 3.29%. Net assets decreased to \$2,210,693 from \$2,237,852 or 1.21% for the sewer division. The joint treatment division's net assets decreased from \$6,950,534 to \$4,845,529 or 30.29%.

Combined operating revenues totaled \$9,063,264, an increase of 2.38%. Electric revenues totaled \$5,748,863, a .79% increase. Water revenues totaled \$2,042,416, a 1.48% increase. Sewer revenues totaled \$611,042, a 6.66% increase. Joint treatment revenues totaled \$660,943, a 17.29% increase.

Combined operating expenditures including depreciation totaled \$8,421,051 an increase of 7.32%. The electric division's operating expenditures totaled \$5,520,358, an increase of 4.1%. The water division's operating expenditures totaled \$1,595,328, a 4.24% increase. The sewer division's operating expenditures totaled \$647,508, a 12% increase. The joint treatment division's operating expenditures totaled \$657,857, a 16.74% increase.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following three parts: Management's Discussion and Analysis, Basic Financial Statements, and Other Required Supplementary Information. The Financial Statements include notes which explain in detail some of the information included in the basic financial statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the Utility report information utilizing the accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America.

The *Statements of Net Assets* includes all the Utility's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Utility creditors (liabilities). It also provides the basis for making a variety of financial assessments about the structure, liquidity, and financial flexibility of the Utility.

The *Statements of Revenues, Expenses, and Changes in Net Assets* identify the Utility's revenues and expenses for the fiscal years ended June 30, 2004 and 2003. This statement provides information on the Utility's operations over the past two fiscal years and can be used to determine whether the Utility has recovered all of its actual and projected costs through rates, fees, and other charges.

The third required financial statement is the *Statement of Cash Flows*. This statement provides information on the Utility's cash receipts, cash payments, and changes in cash resulting from operations, investments, and financing activities. From the *Statement of Cash Flows*, the reader can obtain comparative information on the source and use of cash and the change in the cash and cash equivalents balance for each of the last two fiscal years.

FINANCIAL ANALYSIS OF THE UTILITY

The Utility's combined net assets decreased from \$28.5 million to \$26.9 million. The analysis below focuses on the net assets and changes in net assets of the Utility.

	<u>Net Assets</u>		
	<u>2004</u>	<u>2003</u>	<u>Change</u>
Current and other assets	9,292,674	8,466,275	826,399
Capital assets	<u>24,732,201</u>	<u>27,413,860</u>	<u>(2,681,659)</u>
Total assets	<u>34,024,875</u>	<u>35,880,135</u>	<u>(1,855,260)</u>
Long-term debt outstanding	5,509,100	5,871,740	(362,640)
Other liabilities	<u>1,639,213</u>	<u>1,523,750</u>	<u>115,463</u>
Total liabilities	<u>7,148,313</u>	<u>7,395,490</u>	<u>(247,177)</u>
Restricted net assets	0	901,521	(901,521)
Unrestricted net assets, as restated	<u>26,876,562</u>	<u>27,583,124</u>	<u>(706,562)</u>
Total net assets	<u>26,876,562</u>	<u>28,484,645</u>	<u>(1,608,083)</u>

As the above table indicates, total assets decreased by \$1,855,260 from \$35.9 million to \$34.0 million during the fiscal year ended June 30, 2004. The increase in current and other assets reflects additional investments for debt retirement and future plant projects. The decrease in capital assets reflects the recognition of accumulated depreciation on the joint treatment facility as a result of the end of a 20-year agreement with industrial waste-water users.

Total liabilities decreased \$247,177. Long-term debt was reduced as scheduled debt payments were made. This reduction in long-term liabilities was offset by the increase in accounts payable and other liabilities.

The decrease of \$1,608,083 in net assets is the result of the net income of the Utility of \$516,805, offset by the accumulated depreciation recorded for the joint treatment facility. There were no capital contributions during the current year.

Changes in Net Assets

	<u>2004</u>	<u>2003</u>	<u>Change</u>
Program Revenues:			
Operating revenues	9,063,264	8,852,793	210,471
Miscellaneous	103,282	117,938	(14,928)
Unrestricted investment earnings	136,983	139,081	(1,826)
Contributed capital revenue	<u>0</u>	<u>275,087</u>	<u>(275,087)</u>
Total revenues	<u>9,303,529</u>	<u>9,384,899</u>	<u>(81,370)</u>
Program expenses:			
Operating expenses	7,253,547	6,867,390	386,159
Depreciation	1,167,504	1,105,115	62,387
Interest on long-term debt	230,700	250,309	(19,609)
Miscellaneous	<u>134,973</u>	<u>104,998</u>	<u>29,975</u>
Total expenses	<u>8,786,724</u>	<u>8,327,812</u>	<u>458,912</u>
Increase (decrease) in net assets	516,805	1,057,087	(540,282)
Unrestricted Net Assets July 1, as restated	27,583,124	16,982,073	10,601,051
Net effect of adjustments	<u>(1,223,367)</u>	<u>9,543,964</u>	<u>(10,767,331)</u>
Unrestricted Net Assets June 30	<u>26,876,562</u>	<u>27,583,124</u>	<u>(706,562)</u>

The Statement of Revenues, Expenses and Changes in Net Assets identify the various revenue and expense items which affect the change in net assets. The Utility's total revenues decreased by \$81,370 during the fiscal year ended June 30, 2004. There were no capital contributions received during the fiscal year ended June 30, 2004, which offset the increase in user charges. Total expenses for the Utility increased \$458,912 mainly due to an increase in operating expenses. Significant increases were experienced in power purchases and employee insurance. Additional information on the restatement of Unrestricted Net Assets is provided in Note 14 of the financial statements.

CAPITAL ASSETS

As of June 30, 2004, the Utility's investment in capital assets totaled \$24.7 million, which is a decrease of \$2,681,659 or 9.8% from June 30, 2003. There were no major projects or upgrades undertaken during the fiscal year ended June 30, 2004. The investment in capital assets includes land, buildings, improvements, service lines, automobiles and equipment, and street lights.

LONG-TERM DEBT

As of June 30, 2004, the Utility had \$5.5 million in outstanding debt compared to \$5.87 million as of June 30, 2003. The reduction of \$362,640 represents principal payments made during the fiscal year ended June 30, 2004. The outstanding debt consists of revenue bonds and state revolving fund notes, which are secured by specific revenue sources. Additional information on the Utility's long-term debt is provided in Note 7 of the financial statements.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearing for all funds, except agency funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated functional level, not at the fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The Utility budget is prepared on the cash basis. There were no amendments during the course of the fiscal year, nor was the budget exceeded.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

On March 9, 2004, the Board of Trustees adopted the Utility's budget for the fiscal year ending June 30, 2005.

Budgeted operating revenues of \$10,030,500 are expected to exceed prior year by approximately 4.5%. The electric division revenues are expected to exceed prior year by \$311,000 due to increased usage by consumers. The sewer division revenues are expected to exceed prior year by \$55,000 due to a sewer rate increase that was effective January 1, 2004. The joint treatment division revenues are expected to exceed prior year by \$65,000 due to the end of a 20-year contract with industrial users and a change to a rate/usage based billing system.

The 2005 capital spending budget for the electric division totals \$614,500. This amount includes \$225,000 for new uptown street lights, \$100,000 for an upgrade at the Bureau substation, \$75,000 for transformers, and \$125,000 for underground projects. The water division 2005 capital spending budget totals \$362,500. This amount includes \$250,000 for a new water line to a new industry and \$25,000 for plant upgrades. The 2005 capital spending budget for the sewer division totals \$310,000. Included in this amount is \$130,000 for a new digester cover, \$75,000 for sewer main improvements, and \$105,000 for plant upgrades. The joint treatment division 2005 capital spending budget totals \$750,000 for waste water treatment plant expansion. Capital additions will be covered by cash reserves and operating cash flows. There is no plan to issue revenue bonds to finance the budgeted capital expenditures.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the Utility's rate payers, creditors, and other interested parties with a general overview of the Utility's financial operations and financial condition. If you have any questions regarding the information included in this report or wish to request additional financial information, please contact the Denison Municipal Utilities' Manager of Finance and Customer Information at PO Box 518, Denison, Iowa 51442.

Financial Statements

DENISON MUNICIPAL UTILITIES

Exhibit A

Statement of Net Assets

June 30, 2004

ASSETS	Business-Type Activities
Utility plant	
Plant in service, at cost	\$41,662,564
Less accumulated depreciation	16,930,363
Net Utility Plant	<u>24,732,201</u>
OTHER ASSETS	
Restricted	
Revenue bond reserve	809,921
Loan origination fee, net of accum. amortization (Note 6)	42,279
Equipment replacement investment	961,722
Deferred compensation	137,908
Unrestricted	
Receivable-city of Denison (Note 3)	<u>0</u>
Total Other Assets	<u>1,951,830</u>
CURRENT ASSETS	
Restricted	
Consumers' deposit fund	49,176
Unrestricted	
Cash	293,612
Deposits and investments	5,472,179
Accounts receivable	569,653
Unbilled usage	472,620
Due from other funds	1,774
Interest receivable	32,210
Inventory	363,892
Prepaid insurance	<u>85,728</u>
Total Current Assets	<u>7,340,844</u>
Total Assets	<u><u>\$34,024,875</u></u>

DENISON MUNICIPAL UTILITIES

Exhibit A

Statement of Net Assets

June 30, 2004

LIABILITIES AND NET ASSETS	<u>Business-Type Activities</u>
Designated net assets	1,000,000
Unrestricted net assets (Note 14)	<u>25,876,562</u>
NET ASSETS	<u>26,876,562</u>
LONG-TERM DEBT	
Net of current maturities (Note 7)	<u>5,509,100</u>
CURRENT LIABILITIES	
Accounts payable	642,758
Due to other funds	1,774
Accrued vacation & sick leave	370,700
Other accrued liabilities	39,921
Payable from restricted assets	
Deferred compensation	137,908
Current maturities of long-term debt (Note 7)	365,000
Interest payable	36,142
Consumers' deposits	<u>45,010</u>
Total Current Liabilities	<u>1,639,213</u>
Total Liabilities and Net Assets	<u><u>\$34,024,875</u></u>

Denison Municipal Utilities
Statement of Activities
Year ended June 30, 2004

	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Service</u>	
Business type activities:			
Electric	5,520,358	5,748,863	228,505
Water	1,595,328	2,042,416	447,088
Sewer	647,508	611,042	(36,466)
Joint Treatment	657,857	660,943	3,086
Miscellaneous	134,973	103,282	(31,691)
Interest	230,700	136,983	(93,717)
	<u>8,786,724</u>	<u>9,303,529</u>	<u>516,805</u>
Total			516,805
Change in net assets			516,805
Net assets beginning of year, as restated			27,583,124
Net effect of adjustments (Note 14)			<u>(1,223,367)</u>
Net assets end of year			<u>26,876,562</u>

DENISON MUNICIPAL UTILITIES
Statement of Net Assets / Proprietary Funds
June 30, 2004

Exhibit C

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Expendable Trust Funds	Total 2004	Total 2003
ASSETS							
Utility plant							
Plant in service, at cost	15,505,817	16,368,444	3,710,504	6,077,799	0	41,662,564	41,001,304
Less accumulated depreciation	7,734,972	4,832,556	2,133,034	2,229,801	0	16,930,363	13,587,444
Net Utility Plant	<u>7,770,845</u>	<u>11,535,888</u>	<u>1,577,470</u>	<u>3,847,998</u>	<u>0</u>	<u>24,732,201</u>	<u>27,413,860</u>
OTHER ASSETS							
Restricted							
Revenue bond reserve	0	809,921	0	0	0	809,921	625,973
Loan origination fee, net of accum. amortization (Note 6)	0	42,279	0	0	0	42,279	44,766
Equipment replacement investment	0	0	0	961,722	0	961,722	845,937
Deferred compensation	0	0	0	0	137,908	137,908	152,090
Unrestricted							
Receivable-city of Denison (Note 3)	0	0	0	0	0	0	56,359
Total Other Assets	<u>0</u>	<u>852,200</u>	<u>0</u>	<u>961,722</u>	<u>137,908</u>	<u>1,951,830</u>	<u>1,725,125</u>
CURRENT ASSETS							
Restricted							
Consumers' deposit fund	49,176	0	0	0	0	49,176	38,682
Unrestricted							
Cash	319,684	(41,948)	35,342	(19,466)	0	293,612	538,382
Deposits and investments	3,252,545	1,639,201	580,433	0	0	5,472,179	4,877,668
Accounts receivable (Note 4)	282,103	176,220	55,368	55,962	0	569,653	326,290
Unbilled usage	294,583	124,551	53,486	0	0	472,620	493,526
Due from other funds	1,774	0	0	0	0	1,774	699
Interest receivable	15,688	9,685	1,324	5,513	0	32,210	32,150
Inventory	312,663	51,229	0	0	0	363,892	355,789
Prepaid insurance	34,286	30,027	7,726	13,689	0	85,728	77,964
Total Current Assets	<u>4,562,502</u>	<u>1,988,965</u>	<u>733,679</u>	<u>55,698</u>	<u>0</u>	<u>7,340,844</u>	<u>6,741,150</u>
Total Assets	<u>\$12,333,347</u>	<u>\$14,377,053</u>	<u>\$2,311,149</u>	<u>\$4,865,418</u>	<u>\$137,908</u>	<u>\$34,024,875</u>	<u>\$35,880,135</u>

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
Statement of Net Assets / Proprietary Funds
June 30, 2004

Exhibit C

LIABILITIES AND NET ASSETS	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Expendable Trust Funds	Total 2004	Total 2003
Designated net assets	1,000,000	0	0	0	0	1,000,000	1,000,000
Reserve for plant replacement	0	0	0	0	0	0	901,521
Unrestricted net assets (Note 14)	10,562,621	8,257,719	2,210,693	4,845,529	0	25,876,562	26,583,124
NET ASSETS	11,562,621	8,257,719	2,210,693	4,845,529	0	26,876,562	28,484,645
LONG-TERM DEBT							
Net of current maturities (Note 7)	0	5,509,100	0	0	0	5,509,100	5,871,740
CURRENT LIABILITIES							
Accounts payable	518,374	105,459	2,241	16,684	0	642,758	610,023
Due to other funds	0	930	525	319	0	1,774	699
Accrued vacation & sick leave	186,143	90,125	94,432	0	0	370,700	286,601
Other accrued liabilities	21,199	12,578	3,258	2,886	0	39,921	50,687
Payable from restricted assets							
Deferred compensation	0	0	0	0	137,908	137,908	152,090
Current maturities of long-term debt (Note 7)	0	365,000	0	0	0	365,000	350,000
Interest payable	0	36,142	0	0	0	36,142	38,425
Consumers' deposits	45,010	0	0	0	0	45,010	35,225
Total Current Liabilities	770,726	610,234	100,456	19,889	137,908	1,639,213	1,523,750
Total Liabilities and Net Assets	\$12,333,347	\$14,377,053	\$2,311,149	\$4,865,418	\$137,908	\$34,024,875	\$35,880,135

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds
Year Ended June 30, 2004

Exhibit D

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2004	Total 2003
OPERATING REVENUES						
Sales to consumers	5,721,465	2,042,416	611,042	660,943	9,035,866	8,825,786
Other operating revenue	27,398	0	0	0	27,398	27,007
Total Operating Revenue	5,748,863	2,042,416	611,042	660,943	9,063,264	8,852,793
OPERATING EXPENSES						
Cost of power	3,904,584	0	0	0	3,904,584	3,749,573
Plant & main repairs	110,081	0	176,489	0	286,570	269,866
Power & pumping	0	140,992	0	0	140,992	133,799
Distribution expense	343,117	147,076	0	0	490,193	587,284
Purification	0	369,348	0	0	369,348	350,496
Waste water processing expense	0	0	0	356,764	356,764	344,910
Joint treatment costs	0	0	167,467	0	167,467	164,327
Consumer accounting & collection	90,590	62,546	37,114	0	190,250	229,463
Administrative & general	409,526	211,108	117,317	180,482	918,433	689,303
Insurance	163,732	117,771	32,547	56,752	370,802	292,406
Transportation	31,117	10,266	7,287	9,474	58,144	55,963
Total Operating Expense excluding depreciation	5,052,747	1,059,107	538,221	603,472	7,253,547	6,867,390

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds
Year Ended June 30, 2004

Exhibit D

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2004	Total 2003
OPERATING INCOME BEFORE DEPRECIATION	696,116	983,309	72,821	57,471	1,809,717	1,985,403
DEPRECIATION	467,611	536,221	109,287	54,385	1,167,504	1,105,115
OPERATING INCOME (LOSS)	228,505	447,088	(36,466)	3,086	642,213	880,288
NON-OPERATING REVENUES (EXPENSES)						
Miscellaneous	96,381	6,629	272	0	103,282	117,938
Interest income	71,359	39,792	9,035	16,797	136,983	139,081
Interest expense	0	(230,700)	0	0	(230,700)	(250,309)
Economic development costs (Note 13)	(134,973)	0	0	0	(134,973)	(104,998)
Total Non-operating Revenues (Expenses)	32,767	(184,279)	9,307	16,797	(125,408)	(98,288)
NET INCOME (LOSS) BEFORE CONTRIBUTED CAPITAL	261,272	262,809	(27,159)	19,883	516,805	782,000
Contributed capital revenue	0	0	0	0	0	275,087
NET INCOME (LOSS)	261,272	262,809	(27,159)	19,883	516,805	1,057,087
NET ASSETS						
BEGINNING OF YEAR, AS RESTATED	11,301,349	7,994,910	2,237,852	6,049,013	27,583,124	16,982,073
NET EFFECT OF ADJUSTMENTS (Note 14)	0	0	0	(1,223,367)	(1,223,367)	9,543,964
NET ASSETS						
END OF YEAR	\$11,562,621	\$8,257,719	\$2,210,693	\$4,845,529	\$26,876,562	\$27,583,124

DENISON MUNICIPAL UTILITIES
Statement of Cash Flows - Proprietary Funds
June 30, 2004

Exhibit E

CASH FLOWS FROM OPERATING ACTIVITIES	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2004	Total 2003
Net income (loss)	261,272	262,809	(27,159)	19,883	516,805	1,057,087
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Depreciation	467,611	536,221	109,287	54,385	1,167,504	1,105,115
Amortization of discount	0	2,360	0	0	2,360	3,718
Amortization of origination fees	0	2,487	0	0	2,487	2,487
Changes in assets and liabilities:						
(Increase) decrease in consumers deposit fund	(10,494)	0	0	0	(10,494)	(292)
(Increase) decrease in trade receivables	(239,215)	(6,270)	(9,378)	11,500	(243,363)	376,878
(Increase) decrease in unbilled usage	32,893	(2,694)	(9,293)	0	20,906	(873)
(Increase) decrease in inventories	(16,940)	8,837	0	0	(8,103)	(1,245)
(Increase) decrease in prepaid expenses	(2,271)	(2,789)	(1,036)	(1,668)	(7,764)	(9,169)
(Increase) decrease in other current assets	(780)	(4,318)	3,176	787	(1,135)	(5,129)
(Increase) decrease in receivable - other assets	0	0	56,359	0	56,359	50,000
Increase (decrease) in accounts payable and accrued expenses	207,801	(134,106)	20,427	10,738	104,860	2,001
Increase (decrease) in customer deposits	9,785	0	0	0	9,785	1,580
Net cash provided by operating activities	709,662	662,537	142,383	95,625	1,610,207	2,582,158
 CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sale and maturities of investment securities	3,061,940	1,040,354	794,438	651,769	5,548,501	3,737,482
Purchase of investment securities	(3,280,471)	(1,463,672)	(931,049)	(767,554)	(6,442,746)	(4,942,078)
Purchase of property and equipment	(499,533)	(146,769)	(5,110)	(9,848)	(661,260)	(552,833)
Increase (decrease) in reserve for plant replacement	0	0	0	(901,521)	(901,521)	121,130
Retirement of equipment replacement reserve	0	0	0	952,049	952,049	0
Net cash (used in) investing activities	(718,064)	(570,087)	(141,721)	(75,105)	(1,504,977)	(1,636,299)

DENISON MUNICIPAL UTILITIES
Statement of Cash Flows - Proprietary Funds
June 30, 2004

Exhibit E

CASH FLOWS FROM FINANCING ACTIVITIES	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2004	Total 2003
Principal payments on long-term borrowings	0	(350,000)	0	0	(350,000)	(489,000)
Net cash (used in) financing activities	0	(350,000)	0	0	(350,000)	(489,000)
Net increase (decrease) in cash and cash equivalents	(8,402)	(257,550)	662	20,520	(244,770)	456,859
Cash and cash equivalents:						
Beginning	328,086	215,602	34,680	(39,986)	538,382	81,523
Ending	\$ 319,684	(\$41,948)	\$35,342	(\$19,466)	\$293,612	\$538,382

Denison Municipal Utilities
Statement of Fiduciary Assets and Liabilities
Expendable Trust Funds
June 30, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
None	\$ -	\$ -
OTHER ASSETS		
Restricted		
Deferred Compensation	<u>137,908</u>	<u>152,090</u>
Total Other Assets	<u>137,908</u>	<u>152,090</u>
Total Assets	<u><u>\$ 137,908</u></u>	<u><u>\$ 152,090</u></u>
LIABILITIES AND NET ASSETS		
None	\$ -	\$ -
CURRENT LIABILITIES		
Payable from restricted assets		
Deferred compensation	<u>137,908</u>	<u>152,090</u>
Total Current Liabilities	<u>137,908</u>	<u>152,090</u>
Total Liabilities and Net Assets	<u><u>\$ 137,908</u></u>	<u><u>\$ 152,090</u></u>

DENISON MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

I. Summary of Significant Accounting Policies

The Denison Municipal Utilities is governed by a Board of Trustees that are appointed by the Mayor of Denison, Iowa. Services provided are electric, sewer, water and joint treatment for industrial wastes. A Municipal Communication Utility has been established by referendum in November, 1997. To date, it has no assets and no customers.

The Utility's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

Criteria specified by the Governmental Accounting Standards Board have been applied in determining the scope of the reporting entity for financial reporting purposes. Specifically, those offices and activities over which the Board of Trustees exercises oversight responsibility are included in these financial statements. Manifestations of oversight responsibility over an entity include: (1) financial interdependency, (2) selection of governing authority, (3) designation of management, (4) ability to significantly influence operations and (5) accountability for fiscal matters.

In accordance with GASB 14, the Denison Municipal Utilities has been identified as a component unit of the City of Denison, due primarily to the fact that the City of Denison selects the Board of Trustees.

B. Basis of Presentation & Fund Accounting

Government-wide Financial Statements – The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

The statement of net assets presents the Utility's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Fund Accounting

The accounts of the Utility are organized on the basis of enterprise funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by a separate set of self-balancing accounts which comprise its assets, liabilities, retained earnings, revenues and expenses. The various funds are Electric, Water, Sewer and Joint Treatment.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Utility considers revenues to be available if they are collected within 60 days after year end.

Expenditures generally are recorded when a liability is incurred as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The proprietary funds of the Utility apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The Denison Municipal Utilities maintain all funds' financial records on the accrual basis of accounting. Under the method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

D. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget for Electric, Water, Sewer and Joint Treatment. The budget of the Utility is submitted following required public notice and hearing.

E. Investments

Investments are stated at cost, which approximates market.

F. Inventory

Inventory consists of material and supplies. The inventory is valued at average cost.

G. Property, Plant & Equipment

The electric plant was estimated at replacement cost at August 31, 1969 and the Water Fund fixed assets were valued by utility employees at March 31, 1951. The employees used estimated historical costs because original historical cost was not available and the difference between such amounts was believed to be immaterial. All subsequent additions are valued at historical cost.

Where additions are made by Utility personnel, the direct cost of materials and labor are capitalized.

Interest costs are capitalized when incurred by proprietary funds and similar component units on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is off set against interest costs in determining the amount to be capitalized. During the year ended June 30, 2004 the difference between interest earned and interest costs was insignificant and there were no interest costs capitalized.

Depreciation is calculated on the straight-line basis as follows:

Plant	20-40 Years
Distribution & Collection	15-40 Years
Machinery & Equipment	5-10 Years
General Buildings	30-40 Years
Transportation Equipment	5-10 Years

H. Loan Origination Fee

Loan origination fees are amortized over the life of the loan.

I. Joint Treatment Agreement

Until December 31, 2003, the Joint Treatment Plant was operated under a contract dated September 2, 1976, between Denison Municipal Utilities, Farmland Foods, and Iowa Beef Processors. During the year, anticipated expenses were billed on a monthly basis. On December 31, 2003, an independent engineer, retained by the Utilities, determined the allocation of operating expenses for each party according to agreed upon formulas. The agreement also provided for a capital replacement reserve to provide for future capital replacements. Beginning January 1, 2004, all users are charged established rates based on their monthly usage.

J. Designated Net Assets

The Board of Trustees has designated \$1,000,000 of Electric Fund Net Assets for future capital improvements.

K. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Utility's proprietary fund types consider only the general checking account for each fund to be cash and cash equivalents.

L. Compensated Absences

The Utility allows employees to accumulate up to a total of 60 working days of sick leave. If sick leave is not used during the year, a minimum of six days of unused sick leave must be carried forward. Employees may elect to take pay for unused sick leave in excess of the six days, which must be carried forward to the maximum of 60 days of accumulation. At such time as 60 days of sick leave have been accumulated, an employee may elect to take pay for all unused sick leave in a year. Pay shall be granted to an employee for unused sick leave upon separation from the Utility.

The Utility also allows employees to accumulate a maximum of 25 working days of vacation leave. An employee may carry forward a maximum of five days of each year's earned vacation. Any vacation leave in excess of these two limits will be lost. Upon separation from the Utility, unused vacation leave will be paid to the employee.

These accumulations are not recognized as disbursements by the Utility until used or paid. The Utility's approximate liability for earned vacation and sick leave payments payable to employees at June 30, 2004 was \$370,700 and at June 20, 2003 was \$286,601.

M. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

N. Long-term liabilities

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

O. Fund Equity

In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

P. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

(2) Deposits and Investments

The Utility's deposits at June 30, 2004 were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the Utility or the Utility's agent in the Utility's name, or by a multiple financial institution collateral pool in accordance with Chapter 12 C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The Utility had Deferred Compensation Plan investments with a fair value of \$136,229 and investments in the Iowa Public Agency Investment Trust with a fair value of \$139,594 at June 30, 2004 that are not subject to risk categorization.

(3) Receivable - City of Denison

On April 26, 1996, an agreement was signed with the City of Denison regarding the extension of water and sewer mains and fire hydrant systems by Denison Municipal Utilities to Valley View Business Park, which is owned by Crawford County Development Corporation. The agreement calls for the City of Denison to reimburse the Utilities for costs incurred on the project not to exceed \$110,000, payable beginning in the spring of 2002, from tax increment financing. The Utilities have completed the water and sewer mains and hydrant systems and submitted all necessary reports to the City of Denison requesting reimbursement. The total cost to the Utilities was \$101,390, which includes \$81,742 in the Sewer Utility, Plant in Service, and \$19,648 in the Water Utility, Plant in Service. The City of Denison has made the scheduled payments to Denison Municipal Utilities. These funds were received during the fiscal year.

(4) Receivable – Farmland Industries, Inc.

Farmland Industries, Inc. has a local processing plant and is a major customer of Denison Municipal Utilities. Farmland Industries, Inc. filed a complex Chapter Eleven Bankruptcy case as of May 31, 2002. Denison Municipal Utilities was owed \$198,948 on that date. \$100,000 was set aside in an allowance for possible loss. During February, 2003, Denison Municipal Utilities transferred its claim against Farmland Industries in return for a check totaling \$131,306 which resulted in recording \$31,306 as miscellaneous income for the year ending June 30, 2003.

(5) Property, Plant and Equipment

Property, plant and equipment is summarized by major classification as follows:

	<u>2004</u>	<u>2003</u>
Land	\$ 909,657	909,657
Plant	14,800,041	14,800,041
Distribution & Collection	16,332,553	15,835,491
Machinery & Equipment	513,602	391,836
General Buildings	1,971,744	1,971,744
Transportation Equipment	1,057,168	1,024,584
Joint Treatment	<u>6,077,799</u>	<u>6,067,951</u>
TOTAL	41,662,564	41,001,304
Less: Accumulated Depreciation	<u>16,930,363</u>	<u>13,587,444</u>
Net Property, Plant & Equipment	<u>\$24,732,201</u>	<u>\$27,413,860</u>
Depreciation Charged to Operations	<u>\$ 1,167,504</u>	<u>\$ 1,105,115</u>

(6) Loan Origination Fee

The original cost of the loan origination fee for the Water Revenue Capital Loan – Series 2001 was \$48,080, which was incurred in March 2002 and is being amortized over the remaining nineteen and one third year life of the loan.

(7) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2004 is as follows:

	Series 97 & 98 Water Revenue Bonds	Series 2001 Water Revenue Capital Loan Note	Total Bonds & Note
Balance beginning of year	1,805,000	4,445,000	6,250,000
Refunded & Redeemed during year	<u>(160,000)</u>	<u>(190,000)</u>	<u>(350,000)</u>
Balance end of year	1,645,000	4,255,000	5,900,000
Less unamortized discount	<u>(25,900)</u>	<u>0</u>	<u>(25,900)</u>
Net long-term bonds	1,619,100	4,255,000	5,874,100
Less current portion	<u>(170,000)</u>	<u>(195,000)</u>	<u>(365,000)</u>
Long-term bonds net of current portion	<u>1,449,100</u>	<u>4,060,000</u>	<u>5,509,100</u>

Revenue bond provisions include requirements to make sufficient monthly transfers to Water sinking fund accounts for the purpose of paying bond principal and interest when due. These requirements have been met.

(8) Pension and Retirement Benefits

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that included financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Plan members are required to contribute 3.7% of their annual salary and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contribution to IPERS for the year ended June 30, 2004 and 2003 were \$73,844 and \$64,303 respectively, and were equal to the required contributions for the year.

(9) Budget Controls

The Utility prepares an annual budget on a cash basis for management purposes. Exhibit D provides a comparison of actual to budget on this basis. The cash basis budget was not exceeded during the fiscal year. In addition, as required by the Code of Iowa, a budget is prepared on a disbursement basis and may not legally exceed budgeted appropriations at the program level. The total budget for Home and Community Environment for the fiscal year ended June 30, 2004 was \$12,316,700. Actual cash disbursements for the fiscal year were \$9,154,694. The statutory budget was not exceeded.

(10) Risk Management

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

(11) Post-employment Benefits

In addition to the pension benefits described in Note 8, the Utilities provide health insurance coverage for long-term employees after retirement. The benefits are 100% of premium costs for employees retiring with thirty years of employment, 75% for employees with twenty-five years of employment and 50% for employees with twenty years of employment. Benefits terminate once a retired employee qualifies for Medicare. During the fiscal year, there were two retired employees who qualified for this program. The Utility incurred \$6,182 during the current fiscal year as a result of this program.

(12) Construction and Other Commitments

On September 12, 1997, the Utility entered into a contract, for a period of 40 years, for the sale of an undivided interest in Capacity of Water Supply, Treatment Works and Transmission Facilities with West Central Iowa Rural Water Association (WCIRW). In April of 1999, WCIRW and DMU entered into an amended contract (first amendment) that arrives at the respective capital contribution of Water Production Capital expenditures. The amendment contemplates WCIRW paying for 1,500,000 MGD maximum plant capacity. In May of 2001 WCIRW and DMU entered into an amended contract (second amendment) which will be deemed completed upon WCIRW paying for booster improvements during the next fiscal year. In accordance with the contract, WCIRW has contributed capital in the amount of \$2,649,179 for its share of the capacity of the plant required by WCIRW. WCIRW has agreed to purchase water from Denison Municipal Utilities at Denison Municipal Utilities' cost of production.

Denison Municipal Utilities shall retain ownership of its line, appurtenances, altitude values, other values and meters up to and including the meter within the present corporate limits of the City of Denison. Denison Municipal Utilities may purchase portions of WCIRW's system if the city limits of Denison is expanded.

The cost of the Water Treatment and Raw Water Main improvements has been capitalized and is reflected in the balance sheet of the Water Utility. An entry has been made to Contributed Capital of the Water Utility for the contribution from WCIRW for their share of the improvements.

(13) Economic Development Costs - City of Denison

Resolution 536 was passed establishing a funds transfer program from electric revenues to support economic development in the City of Denison. This resolution established a policy of 6% of the five year weighted average of gross electric revenues minus the cost of utilities used by the city. The amount of this economic development cost for the years ended June 30, 2004 and 2003 were \$134,973 and \$104,998.

Required Supplementary Information

DENISON MUNICIPAL UTILITIES
 Budgetary Comparison Schedule
 Required Supplementary Information
 Year Ended June 30, 2004

	Original & Final Budget	Actual Amounts Budgetary Basis	Variance
OPERATING REVENUES			
Sales to consumers	10,083,000	8,813,409	(1,269,591)
Other operating revenue	30,000	27,398	(2,602)
Total operating revenue	<u>10,113,000</u>	<u>8,840,807</u>	<u>(1,272,193)</u>
OPERATING EXPENSES			
Cost of power	4,500,000	3,871,849	(628,151)
Plant & main repairs	369,500	286,570	(82,930)
Power & pumping	180,000	140,992	(39,008)
Distribution expense	547,000	490,193	(56,807)
Purification	460,000	369,348	(90,652)
Waste water processing expense	403,000	356,764	(46,236)
Joint treatment costs	170,000	167,467	(2,533)
Consumers accounting & collection	265,500	190,250	(75,250)
Administrative & general	815,700	845,100	29,400
Insurance	336,500	363,038	26,538
Transportation	55,000	58,144	3,144
Total operating expense excluding depreciation	<u>8,102,200</u>	<u>7,139,715</u>	<u>(962,485)</u>
OPERATING INCOME BEFORE DEPRECIATION	2,010,800	1,701,092	(309,708)
DEPRECIATION	1,065,000	1,167,504	102,504
OPERATING INCOME (LOSS)	<u>945,800</u>	<u>533,588</u>	<u>(412,212)</u>
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous income	85,000	103,282	18,282
Interest income	110,000	136,923	26,923
Interest expense	(265,000)	(228,417)	36,583
Economic development costs	0	(134,973)	(134,973)
Total nonoperating revenues (expenses)	<u>(70,000)</u>	<u>(123,185)</u>	<u>(53,185)</u>
NET INCOME (LOSS)	875,800	410,403	(465,397)
NET ASSETS, BEGINNING OF YEAR	15,780,656	15,780,656	
NET ASSETS, END OF YEAR	<u>\$ 16,656,456</u>	<u>\$ 16,191,059</u>	

DENISON MUNICIPAL UTILITIES
Statement of Revenues and Expenses - Budget and Actual
Required Supplementary Information
Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Budget to GAAP	Actual Amounts
	Original	Final	Budgetary Basis	Differences	GAAP Basis
OPERATING REVENUES					
Sales to consumers	10,083,000	10,083,000	8,813,409	(222,457)	9,035,866
Other operating revenue	30,000	30,000	27,398	0	27,398
Total operating revenue	10,113,000	10,113,000	8,840,807	(222,457)	9,063,264
OPERATING EXPENSES					
Cost of power	4,500,000	4,500,000	3,871,849	(32,735)	3,904,584
Plant & main repairs	369,500	369,500	286,570	0	286,570
Power & pumping	180,000	180,000	140,992	0	140,992
Distribution expense	547,000	547,000	490,193	0	490,193
Purification	460,000	460,000	369,348	0	369,348
Waste water processing expense	403,000	403,000	356,764	0	356,764
Joint treatment costs	170,000	170,000	167,467	0	167,467
Consumers accounting & collection	265,500	265,500	190,250	0	190,250
Administrative & general	815,700	815,700	845,100	(73,333)	918,433
Insurance	336,500	336,500	363,038	(7,764)	370,802
Transportation	55,000	55,000	58,144	0	58,144
Total operating expense excluding depreciation	8,102,200	8,102,200	7,139,715	(113,832)	7,253,547
OPERATING INCOME BEFORE DEPRECIATION	2,010,800	2,010,800	1,701,092	(108,625)	1,809,717
DEPRECIATION	1,065,000	1,065,000	1,167,504	0	1,167,504
OPERATING INCOME (LOSS)	945,800	945,800	533,588	(108,625)	642,213
NONOPERATING REVENUES (EXPENSES)					
Miscellaneous income	85,000	85,000	103,282	0	103,282
Interest income	110,000	110,000	136,923	(60)	136,983
Interest expense	(265,000)	(265,000)	(228,417)	2,283	(230,700)
Economic development costs	0	0	(134,973)	0	(134,973)
Total nonoperating revenues (expenses)	(70,000)	(70,000)	(123,185)	2,223	(125,408)
NET INCOME (LOSS)	875,800	875,800	410,403	(106,402)	516,805

See accompanying independent auditor's report.

DENISON MUNICIPAL UTILITIES
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2004

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds except Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated functional level, not at the fund type level. During the year ended June 30, 2004, there were no amendments nor was the budget exceeded.

Other Supplementary Information

DENISON MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITIES
COMPARATIVE BALANCE SHEET
June 30, 2004 and 2003

Schedule 1

ASSETS	<u>2004</u>	<u>2003</u>
ELECTRIC UTILITY PLANT		
Plant in service	\$ 15,505,817	\$ 15,006,284
Less: Accumulated depreciation	7,734,972	7,267,360
Net Electric Utility Plant	<u>7,770,845</u>	<u>7,738,924</u>
CURRENT ASSETS		
Restricted consumers' deposit fund	49,176	38,682
Unrestricted		
Cash	319,684	328,086
Deposits and investments	3,252,545	3,034,013
Accounts receivable	282,103	42,888
Unbilled usage	294,583	327,476
Due from other funds	1,774	682
Interest receivable	15,688	16,000
Inventory	312,663	295,723
Prepaid insurance	34,286	32,015
Total Current Assets	<u>4,562,502</u>	<u>4,115,565</u>
 Total Assets	 <u>\$ 12,333,347</u>	 <u>\$ 11,854,489</u>
 LIABILITIES AND NET ASSETS		
	<u>2004</u>	<u>2003</u>
NET ASSETS		
Designated net assets	\$ 1,000,000	\$ 1,000,000
Unrestricted net assets	10,562,621	10,301,349
Total Net Assets	<u>11,562,621</u>	<u>11,301,349</u>
CURRENT LIABILITIES		
Accounts payable	518,374	346,034
Accrued vacation and sick leave	186,143	140,146
Other accrued liabilities	21,199	31,735
Payable from restricted assets		
Consumers' deposits	45,010	35,225
Total current liabilities	<u>770,726</u>	<u>553,140</u>
 Total Liabilities & Net Assets	 <u>\$ 12,333,347</u>	 <u>\$ 11,854,489</u>

See accompanying independent auditor's report.

DENISON MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITIES
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
Years Ended June 30, 2004 and 2003

Schedule 1

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES		
Sales to consumers	\$ 5,721,465	\$ 5,676,695
Other operating revenues	27,398	27,007
Total operating revenues	5,748,863	5,703,702
OPERATING EXPENSES		
Cost of power	3,904,584	3,749,573
Maintenance	110,081	110,828
Distribution expense	343,117	408,304
Consumer accounting & collection	90,590	110,488
Administrative & general	409,526	304,069
Insurance	163,732	125,894
Transportation	31,117	30,838
Total operating expense excluding depreciation	5,052,747	4,839,994
OPERATING INCOME BEFORE DEPRECIATION	696,116	863,708
DEPRECIATION	467,611	460,498
OPERATING INCOME	228,505	403,210
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	96,381	113,210
Interest income	71,359	81,871
Economic development costs (Note 13)	(134,973)	(104,998)
Total nonoperating revenues (expenses)	32,767	90,083
NET INCOME (LOSS)	261,272	493,293
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	11,301,349	8,967,777
NET EFFECT OF ADJUSTMENTS (Note 14)	0	1,840,279
NET ASSETS, END OF YEAR	\$ 11,562,621	\$ 11,301,349

DENISON MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITIES
COMPARATIVE STATEMENTS OF CASH FLOWS
Years Ended June 30, 2004 and 2003

Schedule 1

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 261,272	\$ 493,293
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	467,611	460,497
Changes in assets and liabilities		
(Increase) decrease in consumers' deposit fund	(10,494)	(292)
(Increase) decrease in trade receivables	(239,215)	412,210
(Increase) decrease in unbilled usage	32,893	(6,037)
(Increase) decrease in inventories	(16,940)	11,922
(Increase) decrease in prepaid expenses	(2,271)	(5,082)
(Increase) decrease in other current assets	(780)	(1,268)
(Increase) decrease in other assets	0	50,000
Increase (decrease) in accounts payable and accrued expenses	207,801	(113,010)
Increase (decrease) in customer deposits	9,785	1,581
Net cash provided by (used in) operating activities	<u>709,662</u>	<u>1,303,814</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investment securities	3,061,940	1,775,934
Purchase of investment securities	(3,280,471)	(2,448,047)
Purchase of property and equipment	(499,533)	(346,193)
Net cash provided by (used in) investing activities	<u>(718,064)</u>	<u>(1,018,306)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
None	<u>0</u>	<u>0</u>
Net cash provided by (used in) financial activities	<u>0</u>	<u>0</u>
Net increase (decrease) in cash and cash equivalents	(8,402)	285,508
Cash and cash equivalents		
Beginning	328,086	42,578
Ending	<u>\$ 319,684</u>	<u>\$ 328,086</u>

DENISON MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITIES
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS-ACTUAL TO BUDGET
Years Ended June 30, 2004

Schedule 2

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to consumers	\$ 5,721,465	\$ 6,543,000	\$ (821,535)
Other operating revenues	27,398	30,000	(2,602)
Total operating revenues	5,748,863	6,573,000	(824,137)
OPERATING EXPENSES			
Cost of power	3,904,584	4,500,000	595,416
Maintenance & repair	110,081	167,500	57,419
Distribution expense	343,117	412,000	68,883
Consumer accounting & collection	90,590	135,000	44,410
Administrative & general	409,526	408,300	(1,226)
Insurance	163,732	135,000	(28,732)
Transportation	31,117	30,000	(1,117)
Total operating expense excluding depreciation	5,052,747	5,787,800	735,053
OPERATING INCOME BEFORE DEPRECIATION	696,116	785,200	(89,084)
DEPRECIATION	467,611	425,000	(42,611)
OPERATING INCOME	228,505	360,200	(131,695)
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	96,381	80,000	16,381
Interest income	71,359	50,000	21,359
Economic development costs	(134,973)	0	(134,973)
Total nonoperating revenues (expenses)	32,767	130,000	(97,233)
NET INCOME (LOSS)	261,272	490,200	\$ (228,928)
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	11,301,349	9,153,980	
NET EFFECT OF ADJUSTMENTS (Note 14)	0	0	
NET ASSETS, END OF YEAR	\$ 11,562,621	\$ 9,644,180	

DENISON MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITIES
COMPARATIVE BALANCE SHEETS
June 30, 2004 and 2003

Schedule 3

ASSETS	<u>2004</u>	<u>2003</u>
WATER UTILITY PLANT		
Plant in service	\$ 16,368,444	\$ 16,221,675
Less: accumulated depreciation	4,832,556	4,296,337
Net water utility	<u>11,535,888</u>	<u>11,925,338</u>
OTHER ASSETS		
Revenue bond reserve-restricted	809,921	625,973
Loan origination fee	42,279	44,766
Total Other Assets	<u>852,200</u>	<u>670,739</u>
CURRENT ASSETS		
Unrestricted		
Cash	(41,948)	215,602
Deposit and investments	1,639,201	1,399,833
Accounts receivable	176,220	169,950
Unbilled usage	124,551	121,857
Due from other funds	0	17
Interest receivable	9,685	5,350
Inventory	51,229	60,066
Prepaid insurance	30,027	27,238
Total Current Assets	<u>1,988,965</u>	<u>1,999,913</u>
Total Assets	<u>\$ 14,377,053</u>	<u>\$ 14,595,990</u>
LIABILITIES AND NET ASSETS		
NET ASSETS		
Unrestricted Net Assets (Note 14)	<u>8,257,719</u>	<u>7,994,910</u>
Total Net Assets	<u>8,257,719</u>	<u>7,994,910</u>
LONG-TERM DEBT - Net of Current Maturities	<u>5,509,100</u>	<u>5,871,740</u>
CURRENT LIABILITIES		
Accounts payable	105,459	249,392
Due to other funds	930	0
Accrued vacation & sick leave	90,125	78,095
Other accrued liabilities	12,578	13,428
Payable from Restricted Assets		
Current maturities of long-term debt	365,000	350,000
Interest payable	36,142	38,425
Total Current Liabilities	<u>610,234</u>	<u>729,340</u>
Total Liabilities & Net Assets	<u>\$ 14,377,053</u>	<u>\$ 14,595,990</u>

DENISON MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITIES
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
Years Ended June 30, 2004 and 2003

Schedule 3

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES		
Sales to consumers	\$ 2,042,416	\$ 2,012,662
<hr/>		
OPERATING EXPENSES		
Power & pumping	140,992	133,799
Distribution expense	147,076	178,980
Purification	369,348	350,496
Consumer accounting & collection	62,546	83,086
Administrative and general	211,108	157,114
Insurance	117,771	89,268
Transportation	10,266	8,231
Total operating expense excluding depreciation	<u>1,059,107</u>	<u>1,000,974</u>
<hr/>		
OPERATING INCOME BEFORE DEPRECIATION	983,309	1,011,688
DEPRECIATION	<u>536,221</u>	<u>529,437</u>
<hr/>		
OPERATING INCOME	<u>447,088</u>	<u>482,251</u>
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	6,629	4,683
Interest income	39,792	43,645
Interest expense	(230,700)	(250,309)
Total non-operating revenues (expenses)	<u>(184,279)</u>	<u>(201,981)</u>
<hr/>		
NET INCOME (LOSS) BEFORE CONTRIBUTED CAPITAL	262,809	280,270
Contributed capital revenue	0	275,087
NET INCOME (LOSS)	<u>262,809</u>	<u>555,357</u>
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	7,994,910	6,277,369
NET EFFECT OF ADJUSTMENTS (Note 14)	<u>0</u>	<u>1,162,184</u>
<hr/>		
NET ASSETS, END OF YEAR	<u>\$ 8,257,719</u>	<u>\$ 7,994,910</u>

DENISON MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITIES
COMPARATIVE STATEMENTS OF CASH FLOWS
June 30, 2004 and 2003

Schedule 3

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 262,809	\$ 555,357
Adjustments to reconcile operating income to net cash provided by (used in) net activities:		
Depreciation	536,221	529,437
Amortization of discount	2,360	3,718
Amortization of origination fees	2,487	2,487
Changes in assets and liabilities:		
(Increase) decrease in trade receivables	(6,270)	5,014
(Increase) decrease in unbilled usage	(2,694)	5,960
(Increase) decrease in inventories	8,837	(13,167)
(Increase) decrease in prepaid expenses	(2,789)	(4,087)
(Increase) decrease in other current assets	(4,318)	2,753
Increase (decrease) in accounts payable and accrued expenses	(134,106)	144,501
Net cash provided by operating activities	662,537	1,231,973
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investment securities	1,040,354	954,529
Purchase of investment securities	(1,463,672)	(1,358,621)
Purchase of property and equipment	(146,769)	(149,386)
Net cash (used in) investing activities	(570,087)	(553,478)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term borrowing	(350,000)	(489,000)
Net cash (used in) financial activities	(350,000)	(489,000)
Net increase (decrease) in cash and cash equivalents	(257,550)	189,495
Cash and cash equivalents:		
Beginning	215,602	26,107
Ending	\$ (41,948)	\$ 215,602

See accompanying independent auditor's report.

DENISON MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITIES
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS ACTUAL TO BUDGET
Year Ended June 30, 2004

Schedule 4

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to consumers	\$ 2,042,416	\$ 2,285,000	\$ (242,584)
OPERATING EXPENSES			
Power & pumping	140,992	180,000	39,008
Distribution expense	147,076	135,000	(12,076)
Purification	369,348	460,000	90,652
Consumer accounting & collection	62,546	90,000	27,454
Administrative & general	211,108	180,400	(30,708)
Insurance	117,771	110,000	(7,771)
Transportation	10,266	10,000	(266)
Total operating expense excluding depreciation	1,059,107	1,165,400	106,293
OPERATING INCOME BEFORE DEPRECIATION	983,309	1,119,600	(136,291)
DEPRECIATION	536,221	525,000	(11,221)
OPERATING INCOME	447,088	594,600	(147,512)
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	6,629	5,000	1,629
Interest income	39,792	50,000	(10,208)
Interest expense	(230,700)	(265,000)	34,300
Total nonoperating revenues (expenses)	(184,279)	(210,000)	25,721
NET INCOME (LOSS)	262,809	384,600	\$ (121,791)
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	7,994,910	4,855,576	
NET EFFECT OF ADJUSTMENTS (Note 14)	0	0	
NET ASSETS, END OF YEAR	\$ 8,257,719	\$ 5,240,176	

DENISON MUNICIPAL UTILITIES
MUNICIPAL SEWER UTILITIES
COMPARATIVE BALANCE SHEETS
June 30, 2004 and 2003

Schedule 5

ASSETS	<u>2004</u>	<u>2003</u>
UTILITY PLANT		
Plant in service	\$ 3,710,504	\$ 3,705,394
Less: accumulated depreciation	2,133,034	2,023,747
Net sewer utility	1,577,470	1,681,647
OTHER ASSETS		
Receivable - City of Denison	0	56,359
Total Other Assets	0	56,359
CURRENT ASSETS		
Unrestricted		
Cash	35,342	34,680
Deposits and investments	580,433	443,822
Accounts receivable	55,368	45,990
Unbilled usage	53,486	44,193
Prepaid insurance	7,726	6,690
Interest receivable	1,324	4,500
Total Current Assets	733,679	579,875
Total Assets	\$ 2,311,149	\$ 2,317,881
LIABILITIES AND NET ASSETS		
NET ASSETS		
Unrestricted Net Assets (Note 14)	\$ 2,210,693	\$ 2,237,852
Total Net Assets	2,210,693	2,237,852
CURRENT LIABILITIES		
Accounts payable	2,241	8,726
Due to other funds	525	150
Accrued vacation & sick leave	94,432	68,360
Other accrued liabilities	3,258	2,793
Total Current Liabilities	100,456	80,029
Total Liabilities & Net Assets	\$ 2,311,149	\$ 2,317,881

See accompanying independent auditor's report.

DENISON MUNICIPAL UTILITIES
MUNICIPAL SEWER UTILITIES
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
Years Ended June 30, 2004 and 2003

Schedule 5

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES		
Sales to consumers	\$ 611,042	\$ 572,911
OPERATING EXPENSES		
Plant & main maintenance	176,489	159,038
Joint treatment costs	167,467	164,327
Consumer accounting & collection	37,114	35,889
Administrative and general	117,317	66,424
Insurance	32,547	29,551
Transportation	7,287	7,675
Total operating expense excluding depreciation	538,221	462,904
OPERATING INCOME BEFORE DEPRECIATION	72,821	110,007
DEPRECIATION	109,287	115,180
OPERATING INCOME	(36,466)	(5,173)
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	272	45
Interest income	9,035	13,565
Total non-operating revenues (expenses)	9,307	13,610
NET INCOME (LOSS)	(27,159)	8,437
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	2,237,852	1,736,927
NET EFFECT OF ADJUSTMENTS (Note 14)	0	492,488
NET ASSETS, END OF YEAR	\$ 2,210,693	\$ 2,237,852

DENISON MUNICIPAL UTILITIES
MUNICIPAL SEWER UTILITIES
COMPARATIVE STATEMENTS OF CASH FLOWS
Years Ended June 30, 2004 and 2003

Schedule 5

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (27,159)	\$ 8,437
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	109,287	115,180
Changes in assets and liabilities:		
(Increase) decrease in trade receivables	(9,378)	(1,248)
(Increase) decrease in unbilled usage	(9,293)	(796)
(Increase) decrease in prepaid expense	(1,036)	0
(Increase) decrease in other current assets	3,176	(4,649)
(Increase) in other assets	56,359	0
Increase (decrease) in accounts payable and accrued expenses	20,427	(22,166)
Net cash provided by (used in) operating activities	142,383	94,758
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investment secur	794,438	381,072
Purchase of investment securities	(931,049)	(389,437)
Purchase of property and equipment	(5,110)	(57,254)
Net cash provided by (used in) investing activities	(141,721)	(65,619)
CASH FLOWS FROM FINANCING ACTIVITIES		
None	0	0
Net cash provided by (used in) financial activities	0	0
Net increase (decrease) in cash and cash equivalents	662	29,139
Cash and cash equivalents:		
Beginning	34,680	5,541
Ending	\$ 35,342	\$ 34,680

See accompanying independent auditor's report.

DENISON MUNICIPAL UTILITIES
MUNICIPAL SEWER UTILITIES
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS-ACTUAL TO BUDGET
Year ended June 30, 2004

Schedule 6

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to consumers	\$ 611,042	\$ 655,000	(43,958)
OPERATING EXPENSES			
Plant & main maintenance	176,489	202,000	25,511
Joint treatment costs	167,467	170,000	2,533
Consumer accounting & collection	37,114	40,500	3,386
Administrative & general	117,317	94,000	(23,317)
Insurance	32,547	35,000	2,453
Transportation	7,287	7,500	213
Total operating expense excluding depreciation	<u>538,221</u>	<u>549,000</u>	<u>10,779</u>
OPERATING INCOME BEFORE DEPRECIATION	72,821	106,000	(33,179)
DEPRECIATION	<u>109,287</u>	<u>115,000</u>	<u>5,713</u>
OPERATING INCOME	<u>(36,466)</u>	<u>(9,000)</u>	<u>(27,466)</u>
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	272	0	272
Interest income	9,035	10,000	(965)
Total nonoperating revenues (expenses)	<u>9,307</u>	<u>10,000</u>	<u>(693)</u>
NET INCOME (LOSS)	(27,159)	1,000	<u><u>\$ (28,159)</u></u>
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	2,237,852	1,771,100	
NET EFFECT OF ADJUSTMENTS (Note 14)	<u>0</u>	<u>0</u>	
NET ASSETS, END OF YEAR	<u><u>\$ 2,210,693</u></u>	<u><u>\$ 1,772,100</u></u>	

DENISON MUNICIPAL UTILITIES
 JOINT TREATMENT FUND
 COMPARATIVE BALANCE SHEETS
 June 30, 2004 and 2003

Schedule 7

ASSETS	<u>2004</u>	<u>2003</u>
UTILITY PLANT		
Plant in service	\$ 6,077,799	\$ 6,067,951
Less accumulated depreciation	2,229,801	0
Net utility plant	<u>3,847,998</u>	<u>6,067,951</u>
OTHER ASSETS		
Equipment replacement investment-restricted	<u>961,722</u>	<u>845,937</u>
CURRENT ASSETS		
Unrestricted		
Cash	(19,466)	(39,986)
Accounts receivable	55,962	67,462
Interest receivable	5,513	6,300
Prepaid insurance	13,689	12,021
Total Current Assets	<u>55,698</u>	<u>45,797</u>
Total Assets	<u>\$ 4,865,418</u>	<u>\$ 6,959,685</u>
LIABILITIES AND NET ASSETS		
NET ASSETS		
Unrestricted net assets (Note 14)	\$ 4,845,529	\$ 6,049,013
Reserve for plant replacement	0	901,521
Total Net Assets	<u>4,845,529</u>	<u>6,950,534</u>
CURRENT LIABILITIES		
Accounts payable	16,684	5,871
Due to other funds	319	549
Other accrued liabilities	2,886	2,731
Total Current Liabilities	<u>19,889</u>	<u>9,151</u>
Total Liabilities & Net Assets	<u>\$ 4,865,418</u>	<u>\$ 6,959,685</u>

DENISON MUNICIPAL UTILITIES
 JOINT TREATMENT FUND
 COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
 CHANGES IN NET ASSETS
 Years Ended June 30, 2004 and 2003

Schedule 7

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES		
Sales to consumers	\$ 660,943	\$ 563,518
OPERATING EXPENSES		
Waste water processing expense	356,764	344,910
Administrative and general	180,482	161,696
Insurance	56,752	47,693
Transportation	9,474	9,219
Total operating expense excluding depreciation	603,472	563,518
OPERATING INCOME BEFORE DEPRECIATION	57,471	0
DEPRECIATION	54,385	0
OPERATING INCOME	3,086	0
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	0	0
Interest income	16,797	0
Total non-operating revenues (expense)	16,797	0
NET INCOME (LOSS)	19,883	0
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	6,049,013	0
NET EFFECT OF ADJUSTMENTS (Note 14)	(1,223,367)	6,049,013
NET ASSETS, END OF YEAR	\$ 4,845,529	\$ 6,049,013

DENISON MUNICIPAL UTILITIES
 JOINT TREATMENT FUND
 COMPARATIVE STATEMENTS OF CASH FLOWS
 Years Ended June 30, 2004 and 2003

Schedule 7

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 19,883	\$0
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
Depreciation	54,385	0
(Increase) decrease in trade receivables	11,500	(39,098)
(Increase) decrease in prepaid expenses	(1,668)	0
(Increase) decrease in other current assets	787	(1,965)
Increase (decrease) in accounts payable and accrued expenses	10,738	(7,324)
Net cash provided by (used in) operating activities	95,625	(48,387)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/ maturities of investment securities	651,769	625,947
Purchase of investment securities	(767,554)	(745,973)
Purchase of property and equipment	(9,848)	0
Increase (decrease) in reserve for plant replacement	(901,521)	121,130
Retirement of equipment replacement reserve	952,049	0
Net cash provided by (used in) investing activities	(75,105)	1,104
CASH FLOWS FROM FINANCING ACTIVITIES		
None	0	0
Net cash provided by (used in) financial activities	0	0
Net increase (decrease) in cash and cash equivalents	20,520	(47,283)
Cash and cash equivalents:		
Beginning	(39,986)	7,297
Ending	\$ (19,466)	\$ (39,986)

DENISON MUNICIPAL UTILITIES

Schedule 8

JOINT TREATMENT FUND

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS-ACTUAL TO BUDGET

Year Ended June 30, 2004

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to consumers	\$ 660,943	\$ 600,000	\$ 60,943
OPERATING EXPENSES			
Waste water processing expense	356,764	403,000	46,236
Administrative & general	180,482	133,000	(47,482)
Insurance	56,752	56,500	(252)
Transportation	9,474	7,500	(1,974)
Total operating expense excluding depreciation	603,472	600,000	(3,472)
OPERATING INCOME BEFORE DEPRECIATION	57,471	0	57,471
DEPRECIATION	54,385	0	(54,385)
OPERATING INCOME	3,086	0	3,086
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	0	0	0
Interest income	16,797	0	16,797
Total nonoperating revenues (expenses)	16,797	0	16,797
NET INCOME (LOSS)	19,883	0	\$ 19,883
NET ASSETS, BEGINNING OF YEAR, AS RESTATE	6,049,013	0	
NET EFFECT OF ADJUSTMENTS (Note 14)	(1,223,367)	0	
NET ASSETS, END OF YEAR	\$ 4,845,529	\$0	

DENISON MUNICIPAL UTILITIES
Schedule of Meters KWH Used
Years Ended June 30, 2004 and 2003

Schedule 9

	<u>2004</u>		<u>2003</u>	
	<u>Meters</u>	<u>KWH</u>	<u>Meters</u>	<u>KWH</u>
Commercial	547	25,683,886	552	26,185,943
Commercial C1M	113	3,066,686	114	3,140,700
Commercial C2M	25	9,667,850	25	9,348,200
Residential R-1	1,176	12,046,702	1,263	12,295,138
Residential R-2M	1,386	19,051,109	1,345	19,155,794
Industrial/large user	5	62,201,712	5	60,097,296
Water plant		2,838,888		2,846,804
Sewer plant		3,900,620		3,819,362
City Government		2,628,245		2,814,395
Other DMU uses		738,518		680,110
Energy losses		4,616,866		3,548,344
Total KWH	3252	146,441,082	3,304	143,932,086
Less: Energy losses		4,616,866		3,548,344
KWH Billed	3252	141,824,216	3304	140,383,742

Summary of Community Benefits Provided
Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
KWH Billed (see above)	141,824,216	140,383,742
Rate difference between Iowa average utility rate and Denison Municipal Utilities	<u>0.022</u>	<u>0.02</u>
(1) Calculated total electric rate savings	3,120,133	2,807,675
(2) Transfer to city general fund in lieu of tax	218,167	204,624
(3) New lights for streetscape project	93,403	0
(4) New housing assistance programs	15,782	13,143
(5) Water heater rebates	23,193	19,150
Total Community Benefits	<u>3,470,678</u>	<u>3,044,592</u>

- (1) The Iowa average utility rate is arrived at by comparing the most recent data available from the US Energy Information Administration on Iowa investor owned utilities.
- (2) Payment of utility bills based upon the costs associated with street and public recreation area lighting are remitted by the city monthly. A cash remittance of the same amount is given to the city as a payment in lieu of taxes.
- (3) Denison Municipal Utilities has agreed to replace the street lights in the uptown area in conjunction with the streetscape project initiated by the City of Denison.
- (4) Denison Municipal Utilities has agreed to support local housing projects by reimbursing 90% of costs associated with installing electric, water, and sewer connections from main lines to the house or apartment; however, the costs are not to exceed \$2,000 per structure.
- (5) Denison Municipal Utilities has agreed to support an energy efficient water heater rebate program in January 2002. All participants in the water heater rebate program are required to be on the load management system.

Denison Municipal Utilities

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Trustees of the
Denison Municipal Utilities:

We have audited the financial statements of the Denison Municipal Utilities, a component unit of the City of Denison, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 20, 2004. We conducted our audit in accordance with generally accepted auditing standards in the United States, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Utility's compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part I of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Denison Municipal Utilities' operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Denison Municipal 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. Prior year statutory comments have been resolved except for items I-A-03 and I-B-03.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Denison Municipal Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Utility's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part I of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe items I-A-04 and I-B-04 are not material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Denison Municipal Utilities and other parties to whom Denison Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

MAHONEY & ASSOCIATES, L.L.P.
Certified Public Accountants

August 20, 2004
Denison, Iowa

DENISON MUNICIPAL UTILITIES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. It is recognized that the Utility has made reasonable efforts to segregate these duties. Because of staffing limitation, the Utility is not able to segregate all incompatible responsibilities.

Recommendation - We realize that with staffing limitations, segregation of duties is difficult. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances. Supervisory review of financial transactions and reports is extremely important when incompatible responsibilities cannot be segregated.

Response - We are aware of the need to segregate incompatible duties. We will continue to update and follow control procedures as they have been established.

Conclusion - Response accepted.

I-B-04 Disaster Recovery Plan - The Utility currently does not have a formal written disaster recovery plan.

Recommendation - The Utility should provide a formal written disaster recovery plan for contingency planning. Currently, there are verbal plans, however, the plan should be formalized in writing. The Disaster Recovery Plan should identify critical applications, staff responsibilities, steps for recovery of the computer system and the computer equipment needed for such temporary processing. The plan should also record inventory of all software applications and possess a requirement that copies of all user documentation and policy and procedures manuals be located off site. Finally, the plan should provide for determination of whether the disaster recovery plan is adequately tested.

Response - The formalized written Disaster Recovery Plan for the Utility is currently being reviewed by the new manager.

Conclusion - Response accepted.

Part II Findings Related to Statutory Reporting:

- II-A-04 Official Depositories – Official depositories have been approved by the governing board of the Utility. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.
- II-B-04 Certified Budget - Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation. Disbursements did not exceed the certified budget during the fiscal year.
- II-C-04 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 24, 1979.
- II-D-04 Travel Expense - No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- II-E-04 Business Transactions - Business transactions between the Utility and officials are immaterial and meet the guidelines of the Code of Iowa.
- II-F-04 Bond Coverage - Surety bond coverage of the Utility's officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-04 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-H-04 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and Utility's investment policy were noted.
- II-I-04 Revenue Bonds - The Utility has complied with all aspects of its bond covenants.