

**Denison Municipal Utilities**

Independent Auditor's Report

Financial Statements and  
Supplemental Information

Schedule of Findings & Questioned Costs

June 30, 2005 and 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
Larry Struck	Board Member	2008
Christy Siemer	Board Member	2009
Nancy Bradley	Board Member	2010
Doug Nass	General Manager	Indefinite
Pat Stoll	Manager-Electric & Water Distribution	Indefinite
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, 2005. 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 respective financial position of Denison Municipal Utilities as of June 30, 2005, 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 12, 2005 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, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards 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 27, 33, 37, 41 and 45 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 conducted 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, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other 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 12, 2005  
Denison, Iowa

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Management of Denison Municipal Utilities is providing the following discussion and analysis in order to provide an overall review of the Utility's financial activities for the fiscal years ended June 30, 2005, 2004 and 2003. We encourage readers to consider the information presented here in conjunction with the utility's financial statements and notes to the basic financial statements in order to enhance their understanding of the utility's financial performance.

### **2005 FINANCIAL HIGHLIGHTS**

- The Utilities operating revenues increased \$435,426 or 4.80% from the prior year. New sewer rates effective January 1, 2004 contributed to this increase.
- Operating expenses increased by \$363,198 or 5.00% from the prior year. The cost of power has continued to increase causing operating expenses to rise.
- Total assets increased \$343,932 and total liabilities decreased \$274,053, resulting in total net assets increasing \$617,985 or 2.30% from the prior year.
- Investment income increased 34% reflective of higher interest rates during the current year combined with increased amounts on deposit earning interest.

### **GENERAL INFORMATION ABOUT DENISON MUNICIPAL UTILITIES**

The Utility is organized into four operating divisions. They are the electric utility, water utility, sewer utility and the joint treatment division.

Originally all the utility systems were operated by the City of Denison. In an election on January 27, 1949 the citizens of Denison voted to place the management and control of the Utility system in a Board of Trustees. This management system continues today with the daily control and management vested in the General Manager hired by the Board of Trustees.

Denison Municipal Utilities has constructed a utility infrastructure that has kept up with the growth and demand of the community. The maintenance and growth of the Utility system have been accomplished while providing the community with low-cost, reliable, environmentally friendly power, water and wastewater treatment processing.

### **FINANCIAL ANALYSIS OF THE UTILITY**

The Statement of Net Assets includes all of the utility's assets and liabilities and provides information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the utility.

The analysis below focuses on the net assets and changes in net assets of the Utility.

The Utility's net assets increased to \$27.5 million, or 2.30% during the current year. Net assets have decreased 3.48% since 2003. This decrease is mainly due to the recognition of accumulated depreciation on the joint treatment facility during the fiscal year 2004.

<u>Condensed Statement of Net Assets</u>			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 9,427,211	\$ 9,292,674	\$ 8,466,275
Capital Assets	<u>24,941,597</u>	<u>24,732,201</u>	<u>27,413,860</u>
Total Assets	<u>34,368,808</u>	<u>34,024,875</u>	<u>35,880,135</u>
Long-term debt outstanding	5,130,663	5,509,100	5,871,740
Other liabilities	<u>1,743,598</u>	<u>1,639,213</u>	<u>1,523,750</u>
Total Liabilities	<u>6,874,261</u>	<u>7,148,313</u>	<u>7,395,490</u>
Restricted net assets	0	0	901,521
Unrestricted net assets	<u>27,494,547</u>	<u>26,876,562</u>	<u>27,583,124</u>
Total net assets	<u>\$ 27,494,547</u>	<u>\$ 26,876,562</u>	<u>\$ 28,484,645</u>

## 2005 OPERATING RESULTS

The Statement of Revenues, Expenses and Changes in Net Assets identify the various revenue and expense items which affect the change in net assets.

<u>Condensed Statements of Revenues, Expenses, and Changes in Net Assets</u>			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Program revenues			
Operating revenues	\$ 9,498,690	\$ 9,063,264	\$ 8,852,793
Miscellaneous	119,668	103,282	117,938
Unrestricted investment earnings	183,670	136,983	139,081
Contributed capital revenue	<u>0</u>	<u>0</u>	<u>275,087</u>
Total revenues	<u>9,802,028</u>	<u>9,303,529</u>	<u>9,384,899</u>
Program expenses			
Operating expenses	7,616,745	7,253,547	6,867,390
Depreciation	1,223,639	1,167,504	1,105,115
Interest on long-term debt	216,979	230,700	250,309
Miscellaneous	<u>126,680</u>	<u>134,973</u>	<u>104,998</u>
Total expenses	<u>9,184,043</u>	<u>8,786,724</u>	<u>8,327,812</u>
Increase (decrease) in net assets	617,985	516,805	1,057,087
Unrestricted Net assets July 1	<u>26,876,562</u>	<u>26,359,757</u>	<u>26,526,037</u>
Unrestricted Net assets June 30	<u>\$ 27,494,547</u>	<u>\$ 26,876,562</u>	<u>\$ 27,583,124</u>

The Utility's total revenues increased by \$498,499, or 5.6% during the fiscal year ended June 30, 2005. The majority of the increase, 44.9%, can be attributed to increased commercial and industrial electricity sales. The sewer utility and joint treatment fund instituted rate increases that were effective January 1, 2004. This rate increase generated 37% more revenue than the previous year.

Investment income increased 34% from the prior year, due to higher interest rates earned during the year ended June 30, 2005.

Total expenses for the Utility increased \$397,319, or 4.5% during the year ended June 30, 2005. A significant portion of this increase, 57.6%, can be attributed to the increased cost of power, which also caused the majority of the increase in total expenses during the fiscal year ended June 30, 2004. The cost of processing waste water increased 30.6%, during 2005, due to the mix and concentration of the waste water processed.

### **CAPITAL ASSETS**

The Utilities' capital assets include land, buildings, improvements, service lines, automobiles and equipment, and street lights. As of June 30, 2005, the Utility's investment in capital assets totaled \$24.9 million, which is an increase of \$209,396, or .85% from June 30, 2004. A major expansion project at the waste water treatment plant was undertaken during the fiscal year ended June 30, 2005. Approximately \$567,000 has been expended to date on this project. The project completion is estimated to be December, 2005 with a total cost of \$2,093,423.

### **LONG-TERM DEBT**

As of June 30, 2005, the Utility had \$5.1 million in outstanding debt compared to \$5.5 million as of June 30, 2004. The reduction represents principal payments made during the fiscal year ended June 30, 2005. The outstanding debt consists entirely of revenue bonds, which are secured by specific revenue sources.

Additional information on the Utility's long-term debt is provided in Note 5 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 a cash basis. There were no amendments during the course of the fiscal year, nor was the budget exceeded.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

Various economic factors were considered when establishing the Utilities' budget for fiscal 2006. Anticipated industry expansion and demographic changes are all considered in order to determine capital expenditures and expected revenues. During fiscal year 2006, the Utilities does not anticipate any rate increases to be necessary. Capital additions will be financed through cash reserves and operating cash flows.

## **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, IA 51442.

## **Financial Statements**

**DENISON MUNICIPAL UTILITIES**  
**STATEMENT OF NET ASSETS**  
**June 30, 2005 and 2004**

**Exhibit A**

ASSETS	BUSINESS-TYPE ACTIVITIES	
	2005	2004
<b>UTILITY PLANT</b>		
Plant in Service, at cost	\$ 43,054,829	\$ 41,662,564
Less: Accumulated depreciation	18,113,232	16,930,363
Net Utility Plant	\$ 24,941,597	\$ 24,732,201
<b>OTHER ASSETS</b>		
Restricted		
Revenue bond reserve	\$ 997,365	\$ 809,921
Loan origination fee, net of accumulated amortization (Note 4)	39,792	42,279
Equipment replacement investment	606,857	961,722
Deferred compensation	123,218	137,908
	\$ 1,767,232	\$ 1,951,830
<b>CURRENT ASSETS</b>		
Restricted		
Consumers' deposit fund	\$ 46,638	\$ 49,176
Unrestricted		
Cash	408,434	293,612
Deposits and investments	5,564,657	5,472,179
Accounts receivable	598,392	569,653
Unbilled usage	458,484	472,620
Due from other funds	36,472	1,774
Interest receivable	44,443	32,210
Inventory	415,618	363,892
Prepaid insurance	86,841	85,728
Total Current Assets	\$ 7,659,979	\$ 7,340,844
Total Assets	\$ 34,368,808	\$ 34,024,875

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**STATEMENT OF NET ASSETS**  
**June 30, 2005 and 2004**

**Exhibit A**

	BUSINESS-TYPE ACTIVITIES	
	2005	2004
<b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Designated net assets	\$ 1,000,000	\$ 1,000,000
Unrestricted net assets	26,494,547	25,876,562
Total Net Assets	\$ 27,494,547	\$ 26,876,562
<b>LONG-TERM DEBT</b>		
Net of current maturities (Note 5)	\$ 5,130,663	\$ 5,509,100
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 721,372	\$ 642,758
Due to other funds	36,472	1,774
Accrued vacation and sick leave	372,969	370,700
Other accrued liabilities	31,302	39,921
Payable from restricted assets		
Deferred compensation	123,218	137,908
Current maturities of long-term debt (Note 5)	381,000	365,000
Interest payable	33,708	36,142
Consumers' deposits	43,557	45,010
Total Current Liabilities	\$ 1,743,598	\$ 1,639,213
Total Liabilities and Net Assets	\$ 34,368,808	\$ 34,024,875

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES  
STATEMENT OF ACTIVITIES  
Years Ended June 30, 2005 and 2004**

**Exhibit B**

Functions/Programs	Expenses	Charges for service	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue 2005	Revenue 2004
<b>Business-type activities:</b>						
Electric Utility	\$ 5,721,738	5,973,521	0	0	251,783	228,505
Water Utility	1,623,780	2,068,565	0	0	444,785	447,088
Sewer Utility	719,567	705,145	0	0	(14,422)	(36,466)
Joint Treatment	775,299	751,459	0	0	(23,840)	3,086
Interest on long-term debt	216,979	0	0	0	(216,979)	(230,700)
<b>Total Business-type activities</b>	<b>\$ 9,057,363</b>	<b>9,498,690</b>	<b>0</b>	<b>0</b>	<b>441,327</b>	<b>411,513</b>
<b>General Revenues:</b>						
Unrestricted investment income					\$ 183,670	136,983
Miscellaneous					(7,012)	(31,691)
<b>Change in net assets</b>					<b>617,985</b>	<b>516,805</b>
<b>Net assets, beginning of year</b>					<b>26,876,562</b>	<b>26,359,757</b>
<b>Net assets, end of year</b>					<b>\$ 27,494,547</b>	<b>26,876,562</b>

**DENISON MUNICIPAL UTILITIES**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
**June 30, 2005 and 2004**

**Exhibit C**

	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Joint Treatment</u>	<u>Expendable Trust Funds</u>	<u>Total 2005</u>	<u>Total 2004</u>
<b>ASSETS</b>							
<b>UTILITY PLANT</b>							
Plant in Service	\$ 15,959,470	16,454,745	3,995,537	6,645,077	0	43,054,829	41,662,564
Less: Accumulated depreciation	8,168,022	5,368,068	2,237,993	2,339,149	0	18,113,232	16,930,363
Net Utility Plant	<u>\$ 7,791,448</u>	<u>11,086,677</u>	<u>1,757,544</u>	<u>4,305,928</u>	<u>0</u>	<u>24,941,597</u>	<u>24,732,201</u>
<b>OTHER ASSETS</b>							
Restricted							
Revenue bond reserve-restricted	\$ 0	997,365	0	0	0	997,365	809,921
Loan origination fee, net of accumulated amortization (Note 4)	0	39,792	0	0	0	39,792	42,279
Equipment replacement investment	0	0	0	606,857	0	606,857	961,722
Deferred compensation	0	0	0	0	123,218	123,218	137,908
Total Other Assets	<u>\$ 0</u>	<u>1,037,157</u>	<u>0</u>	<u>606,857</u>	<u>123,218</u>	<u>1,767,232</u>	<u>1,951,830</u>
<b>CURRENT ASSETS</b>							
Restricted							
Consumers' deposit fund	\$ 46,638	0	0	0	0	46,638	49,176
Unrestricted							
Cash	400,918	3,376	3,642	498	0	408,434	293,612
Deposits and investments	3,426,620	1,703,610	434,427	0	0	5,564,657	5,472,179
Accounts receivable	270,801	193,786	65,892	67,913	0	598,392	569,653
Unbilled usage	282,983	122,091	53,410	0	0	458,484	472,620
Due from other funds	21,798	2,273	6,009	6,392	0	36,472	1,774
Interest receivable	24,243	13,410	3,788	3,002	0	44,443	32,210
Inventory	359,365	56,253	0	0	0	415,618	363,892
Prepaid insurance	34,720	30,407	7,838	13,876	0	86,841	85,728
Total Current Assets	<u>\$ 4,868,086</u>	<u>2,125,206</u>	<u>575,006</u>	<u>91,681</u>	<u>0</u>	<u>7,659,979</u>	<u>7,340,844</u>
Total Assets	<u>\$ 12,659,534</u>	<u>14,249,040</u>	<u>2,332,550</u>	<u>5,004,466</u>	<u>123,218</u>	<u>34,368,808</u>	<u>34,024,875</u>

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
**June 30, 2005 and 2004**

**Exhibit C**

	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Joint Treatment</u>	<u>Expendable Trust Funds</u>	<u>Total 2005</u>	<u>Total 2004</u>
<b>LIABILITIES AND NET ASSETS</b>							
<b>NET ASSETS</b>							
Designated net assets	\$ 1,000,000	0	0	0	0	1,000,000	1,000,000
Unrestricted net assets	10,880,522	8,552,868	2,208,752	4,852,405	0	26,494,547	25,876,562
Total Net Assets	<u>\$ 11,880,522</u>	<u>8,552,868</u>	<u>2,208,752</u>	<u>4,852,405</u>	<u>0</u>	<u>27,494,547</u>	<u>26,876,562</u>
<b>LONG-TERM DEBT -</b>							
Net of current maturities (Note 5)	<u>\$ 0</u>	<u>5,130,663</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,130,663</u>	<u>5,509,100</u>
<b>CURRENT LIABILITIES</b>							
Accounts payable	\$ 546,082	28,798	9,210	137,282	0	721,372	642,758
Due to other funds	211	12,900	11,805	11,556	0	36,472	1,774
Accrued vacation and sick leave	179,965	93,085	99,919	0	0	372,969	370,700
Other accrued liabilities	9,197	16,018	2,864	3,223	0	31,302	39,921
Payable from restricted assets							
Deferred compensation	0	0	0	0	123,218	123,218	137,908
Current maturities of long-term debt (Note 5)	0	381,000	0	0	0	381,000	365,000
Interest payable	0	33,708	0	0	0	33,708	36,142
Consumers' deposits	43,557	0	0	0	0	43,557	45,010
Total Current Liabilities	<u>\$ 779,012</u>	<u>565,509</u>	<u>123,798</u>	<u>152,061</u>	<u>123,218</u>	<u>1,743,598</u>	<u>1,639,213</u>
Total Liabilities and Net Assets	<u>\$ 12,659,534</u>	<u>14,249,040</u>	<u>2,332,550</u>	<u>5,004,466</u>	<u>123,218</u>	<u>34,368,808</u>	<u>34,024,875</u>

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS**  
**Years Ended June 30, 2005 and 2004**

**Exhibit D**

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2005	Total 2004
<b>OPERATING REVENUES</b>						
Sales to consumers	\$ 5,945,346	2,068,565	705,145	751,459	9,470,515	9,035,866
Other operating revenues	28,175	0	0	0	28,175	27,398
Total operating revenues	<u>\$ 5,973,521</u>	<u>2,068,565</u>	<u>705,145</u>	<u>751,459</u>	<u>9,498,690</u>	<u>9,063,264</u>
<b>OPERATING EXPENSES</b>						
Cost of Power	\$ 4,133,505	0	0	0	4,133,505	3,904,584
Plant & main maintenance	88,144	0	199,950	0	288,094	286,570
Power & pumping	0	166,927	0	0	166,927	147,076
Distribution expense	403,894	194,710	0	0	598,604	484,109
Purification	0	327,997	0	0	327,997	369,348
Waste water processing expense	0	0	0	465,586	465,586	356,764
Joint treatment costs	0	0	218,688	0	218,688	167,467
Consumer accounting & collection	85,375	59,052	41,632	0	186,059	190,250
Administrative & general	335,971	201,096	103,052	131,980	772,099	918,433
Insurance	168,069	125,800	41,119	57,802	392,790	370,802
Transportation	32,963	12,685	10,166	10,582	66,396	58,144
Total operating expense excluding depreciation	<u>\$ 5,247,921</u>	<u>1,088,267</u>	<u>614,607</u>	<u>665,950</u>	<u>7,616,745</u>	<u>7,253,547</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 725,600	980,298	90,538	85,509	1,881,945	1,809,717
DEPRECIATION	<u>473,817</u>	<u>535,513</u>	<u>104,960</u>	<u>109,349</u>	<u>1,223,639</u>	<u>1,167,504</u>
OPERATING INCOME	\$ 251,783	444,785	(14,422)	(23,840)	658,306	642,213
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Miscellaneous	\$ 103,718	7,032	0	8,918	119,668	103,282
Interest income	89,080	60,311	12,481	21,798	183,670	136,983
Interest expense	0	(216,979)	0	0	(216,979)	(230,700)
Economic development costs (Note 9)	(126,680)	0	0	0	(126,680)	(134,973)
Total nonoperating revenues (expenses)	<u>\$ 66,118</u>	<u>(149,636)</u>	<u>12,481</u>	<u>30,716</u>	<u>(40,321)</u>	<u>(125,408)</u>
NET INCOME (LOSS)	\$ 317,901	295,149	(1,941)	6,876	617,985	516,805
NET ASSETS, BEGINNING OF YEAR	<u>11,562,621</u>	<u>8,257,719</u>	<u>2,210,693</u>	<u>4,845,529</u>	<u>26,876,562</u>	<u>26,359,757</u>
NET ASSETS, END OF YEAR	<u>\$ 11,880,522</u>	<u>8,552,868</u>	<u>2,208,752</u>	<u>4,852,405</u>	<u>27,494,547</u>	<u>26,876,562</u>

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**Years Ended June 30, 2005 and 2004**

**Exhibit E**

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2005	Total 2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Net income (loss)	\$ 317,901	295,149	(1,941)	6,876	617,985	516,805
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Depreciation	473,817	535,513	104,960	109,349	1,223,639	1,167,504
Amortization of discount	0	2,563	0	0	2,563	2,360
Amortization of origination fees	0	2,487	0	0	2,487	2,487
Changes in assets and liabilities						
(Increase) decrease in consumers' deposit fund	2,538	0	0	0	2,538	(10,494)
(Increase) decrease in trade receivables	11,302	(17,566)	(10,524)	(11,951)	(28,739)	(243,363)
(Increase) decrease in unbilled usage	11,600	2,460	76	0	14,136	20,906
(Increase) decrease in inventories	(46,702)	(5,024)	0	0	(51,726)	(8,103)
(Increase) decrease in prepaid expenses	(434)	(380)	(112)	(187)	(1,113)	(7,764)
(Increase) decrease in other current assets	(28,579)	(5,998)	(8,473)	(3,881)	(46,931)	(1,135)
(Increase) decrease in receivable - other assets	0	0	0	0	0	56,359
Increase (decrease) in accounts payable and accrued liabilities	9,739	(60,725)	23,342	132,172	104,528	104,860
Increase (decrease) in customer deposits	(1,453)	0	0	0	(1,453)	9,785
Net cash provided by (used in) operating activities	749,729	748,479	107,328	232,378	1,837,914	1,610,207
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Proceeds from sale/maturities of securities	4,757,423	2,746,541	997,219	2,339,405	10,840,588	5,548,501
Purchase of investment securities	(4,931,498)	(2,998,393)	(851,214)	(1,984,540)	(10,765,645)	(6,442,746)
Purchase of property and equipment	(494,420)	(86,303)	(285,033)	(567,279)	(1,433,035)	(661,260)
Increase (decrease) in reserve for plant replacement	0	0	0	0	0	(901,521)
Retirement of equipment replacement reserve	0	0	0	0	0	952,049
Net cash provided by (used in) investing activities	(668,495)	(338,155)	(139,028)	(212,414)	(1,358,092)	(1,504,977)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Principal payments on long-term borrowings	0	(365,000)	0	0	(365,000)	(350,000)
Net cash provided by (used in) financing activities	0	(365,000)	0	0	(365,000)	(350,000)
Net increase (decrease) in cash and cash equivalents	81,234	45,324	(31,700)	19,964	114,822	(244,770)
<b>Cash and cash equivalents:</b>						
Beginning	319,684	(41,948)	35,342	(19,466)	293,612	538,382
Ending	\$ 400,918	3,376	3,642	498	408,434	293,612

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**EXPENDABLE TRUST FUNDS**  
**June 30, 2005 and 2004**

**Exhibit F**

	2005	2004
ASSETS		
OTHER ASSETS		
Restricted		
Deferred compensation	\$ 123,218	\$ 137,908
CURRENT ASSETS		
None	\$ 0	\$ 0
Total Assets	\$ 123,218	\$ 137,908
 LIABILITIES AND NET ASSETS		
NET ASSETS		
None	\$ 0	\$ 0
CURRENT LIABILITIES		
Payable from restricted assets		
Deferred compensation	\$ 123,218	137,908
Total Current Liabilities	\$ 123,218	\$ 137,908
Total Liabilities and Net Assets	\$ 123,218	\$ 137,908

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DENISON MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

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**Note 1 – 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, water, sewer and joint treatment for industrial wastes. A communication utility was established by referendum in November, 1997. To date, it has no assets and no customers.

The financial statements of Denison Municipal Utilities have been prepared in conformity with U. S. generally accepted accounting principles as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the utilities are described below:

***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.

***Basis of Presentation***

The accounts of Denison Municipal Utilities 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, net assets, revenues and expenses. The various funds are Electric, Water, Sewer and Joint Treatment.

***Measurement Focus and Basis of Accounting***

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

Denison Municipal Utilities applies 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.

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

***Assets, Liabilities and Net Assets***

The following accounting policies are followed in preparing the Statement of Net Assets:

***Cash, Investments and Cash Equivalents*** - The Utilities considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months. There were no cash equivalents as of June 30, 2005. Investments are stated at cost, which approximates market.

***Restricted Investments*** - Funds set aside for payment of customer deposits are classified as restricted. Also, funds set aside for payment of bond principal and interest are classified as restricted.

***Inventories*** - Materials and supplies inventory are valued at average cost.

***Receivables and Credit Policies*** - Accounts receivable are uncollateralized customer obligations due under normal terms requiring payment twenty days after the billing date. Unpaid accounts receivable are considered delinquent and are assessed a penalty. Payments of accounts receivable are allocated to the specific bills identified by the customer, or if unspecified, are applied to the earliest unpaid bill.

Accounts receivable are stated at the amount billed to the customer plus any unpaid penalties. Management reviews all accounts receivable balances that are delinquent and charges those amounts to expense that are deemed to be uncollectible.

***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.

Major outlays for utility plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the utility plant constructed, net of interest earned on the invested proceeds over the same period. There were no qualifying assets acquired during the year ended June 30, 2005.

Capital assets in service are depreciated using the straight-line method over the following useful lives:

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

***Compensated Absences*** - The Utility 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.

The Utility also 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 accumulation of 60 days. 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.

***Long-Term Obligations*** - Long-term debt and other obligations are reported as utility liabilities. Bond premiums and discounts, as well as origination fee, are deferred and amortized over the life of the bonds.

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

### ***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.

### ***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.

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted.

## **Note 2 – Deposits and Investments**

The Utility's deposits at June 30, 2005 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 12C of the Code of Iowa. The 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 not currently needed for operating expenses 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 Utilities' investments are categorized to give an indication of the level of risk assumed by the Utility at year end. The Utility had Deferred Compensation Plan investments with a fair value of \$148,697

and investments in the Iowa Public Agency Investment Trust with a fair value of \$82,425 that are not subject to risk categorization. The balance of the Utilities' are category 1 which means the investments are insured or registered or the securities are held by the Utilities or its agent in the Utilities' name.

### Note 3 – Property, Plant and Equipment

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

	<u>2005</u>	<u>2004</u>
Land	\$ 909,657	909,657
Plant	15,012,936	14,746,623
Distribution & Collection	16,721,631	16,332,553
Machinery & Equipment	568,323	513,602
General Buildings	2,108,667	2,025,162
Transportation Equipment	1,090,338	1,057,168
Joint Treatment	<u>6,643,277</u>	<u>6,077,799</u>
 TOTAL	 43,054,829	 41,662,564
 Less: Accumulated Depreciation	 <u>18,113,232</u>	 <u>16,930,363</u>
 Net Property, Plant & Equipment	 <u>\$24,941,597</u>	 <u>24,732,201</u>
 Depreciation Charged to Operations	 <u>\$ 1,223,639</u>	 <u>1,167,504</u>

### Note 4 – 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 life of the loan.

### Note 5 – Revenue Bonds Payable

Following is a summary of changes in long-term debt for the year ended June 30, 2005:

	Series 97 Water Revenue Bonds	Series 2001 Water Revenue Capital Loan Note	Total Bonds Payable
Balance July 1, 2004	\$ 1,645,000	4,255,000	5,900,000
Redeemed	<u>(170,000)</u>	<u>(195,000)</u>	<u>(365,000)</u>
Balance June 30, 2005	1,475,000	4,060,000	5,535,000
Less: unamortized discount	<u>(23,337)</u>	<u>0</u>	<u>(23,337)</u>
Net long-term debt	1,451,663	4,060,000	5,511,663
Less: current portion	<u>(180,000)</u>	<u>(201,000)</u>	<u>(381,000)</u>
Long-term debt, net of current portion	<u>\$ 1,271,663</u>	<u>3,859,000</u>	<u>5,130,663</u>

## Note 5 – Revenue Bonds Payable (continued)

Annual debt service requirements to maturity for revenue notes are as follows:

Year Ending June 30	Series 97		Series 2001		Service Fees
	Principal	Interest	Principal	Interest	
2006	\$ 180,000	80,445	201,000	121,800	10,150
2007	190,000	70,995	207,000	115,770	9,648
2008	200,000	60,830	214,000	109,560	9,130
2009	210,000	50,030	220,000	103,140	8,595
2010	220,000	38,585	227,000	96,540	8,045
2011	230,000	26,485	233,000	89,730	7,478
2012	245,000	13,720	240,000	82,740	6,895
2013	-	-	248,000	75,540	6,295
2014	-	-	255,000	68,100	5,675
2015	-	-	263,000	60,450	5,038
2016	-	-	271,000	52,560	4,380
2017	-	-	279,000	44,430	3,703
2018	-	-	287,000	36,060	3,005
2019	-	-	296,000	27,450	2,287
2020	-	-	305,000	18,570	1,547
2021	-	-	314,000	9,420	785
	<u>\$ 1,475,000</u>	<u>341,090</u>	<u>4,060,000</u>	<u>1,111,860</u>	<u>92,656</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.

## Note 6 – Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the Utilities is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the years ended June 30, 2005 and 2004 were \$72,946 and \$73,844 respectively, equal to the required contributions for the year.

## Note 7 – Post-employment Benefits

In addition to the pension benefits described in Note 6, 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 was one retired employee who qualified for this program. The Utility incurred \$3,521 during the current fiscal year as a result of this program.

## **Note 8 – Construction and Other Commitments**

The Utility has entered into construction contracts totaling \$2,133,421 for Waste Water Plant Improvements, \$34,591 for a sanitary sewer main extension and \$158,165 for sewer lift station improvements. At June 30, 2005, \$429,117 of the Waste Water Plant Improvements was completed. The remaining amounts of the contracts will be paid as work on the projects progresses.

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 1.5 MGD maximum plant capacity. 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 valves, other valves 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 for the Water Utility for the contribution from WCIRW for their share of the improvements.

## **Note 9 – Economic Development Costs – City of Denison**

On March 11, 2003 a resolution was passed establishing a funds transfer program from electric revenues to support economic development in the City of Denison. This resolution established a transfer of 6% of the five year weighted average of gross electric revenues minus the cost of utilities used by the City. The amounts transferred to the Denison Foundation for economic development for the years ended June 30, 2005 and 2004 were \$126,680 and \$134,973, respectively.

## **Note 10 – Risk Management**

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

## **Note 11 – Reclassification of Prior Year Amounts**

Prior year amounts have been reclassified to conform with current year presentation.

## **Required Supplementary Information**

**DENISON MUNICIPAL UTILITIES  
 BUDGETARY COMPARISON SCHEDULE OF  
 RECEIPTS, DISBURSEMENTS AND CHANGES IN NET ASSETS -  
 BUDGET AND ACTUAL (CASH BASIS)  
 REQUIRED SUPPLEMENTARY INFORMATION  
 Year Ended June 30, 2005**

	Actual	Budgeted Amounts Original & Final	Variance Favorable (Unfavorable)
Receipts			
Charges for service	\$ 9,484,087	10,030,500	(546,413)
Interest income	171,437	165,000	6,437
Miscellaneous	119,668	142,500	(22,832)
Total Receipts	9,775,192	10,338,000	(562,808)
Disbursements	9,113,100	10,901,900	1,788,800
Excess of Receipts Over (Under) Disbursements	662,092	(563,900)	1,225,992
Beginning net assets	6,999,587		
Ending net assets	\$ 7,661,679		

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES  
BUDGET TO GAAP RECONCILIATION  
REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended June 30, 2005**

	Proprietary Funds		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues			
Charges for service	\$ 9,484,087	14,603	9,498,690
Interest income	171,437	12,233	183,670
Miscellaneous	119,668	0	119,668
Total Revenue	<u>9,775,192</u>	<u>26,836</u>	<u>9,802,028</u>
Expenditures/expenses	<u>9,113,100</u>	<u>70,943</u>	<u>9,184,043</u>
Excess of Revenues Over (Under) Expenditures	662,092	(44,107)	617,985
Beginning net assets	<u>6,999,587</u>	<u>19,876,975</u>	<u>26,876,562</u>
Ending net assets	<u>\$ 7,661,679</u>	<u>19,832,868</u>	<u>27,494,547</u>

See accompanying independent auditor's report.

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DENISON MUNICIPAL UTILITIES  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
JUNE 30, 2005

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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, 2005, there were no amendments nor was the budget exceeded.

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES  
MUNICIPAL ELECTRIC UTILITIES  
COMPARATIVE BALANCE SHEETS  
June 30, 2005 and 2004**

**Schedule 1**

	2005	2004
<b>ASSETS</b>		
<b>ELECTRIC UTILITY PLANT</b>		
Plant in Service	\$ 15,959,470	\$ 15,505,817
Less: Accumulated depreciation	8,168,022	7,734,972
Net Electric Utility Plant	\$ 7,791,448	\$ 7,770,845
<b>CURRENT ASSETS</b>		
Restricted		
Consumers' deposit fund	\$ 46,638	\$ 49,176
Unrestricted		
Cash	400,918	319,684
Deposits and investments	3,426,620	3,252,545
Accounts receivable	270,801	282,103
Unbilled usage	282,983	294,583
Due from other funds	21,798	1,774
Interest receivable	24,243	15,688
Inventory	359,365	312,663
Prepaid insurance	34,720	34,286
Total Current Assets	\$ 4,868,086	\$ 4,562,502
Total Assets	\$ 12,659,534	\$ 12,333,347
 <b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Designated net assets	\$ 1,000,000	\$ 1,000,000
Unrestricted net assets	10,880,522	10,562,621
Total Net Assets	\$ 11,880,522	\$ 11,562,621
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 546,082	\$ 518,278
Due to other funds	211	96
Accrued vacation and sick leave	179,965	186,143
Other accrued liabilities	9,197	21,199
Payable from restricted assets		
Consumers' deposits	43,557	45,010
Total Current Liabilities	\$ 779,012	\$ 770,726
Total Liabilities and Net Assets	\$ 12,659,534	\$ 12,333,347

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES  
MUNICIPAL ELECTRIC UTILITIES  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NETS ASSETS  
Years Ended June 30, 2005 and 2004**

**Schedule 1**

	2005	2004
<b>OPERATING REVENUES</b>		
Sales to consumers	\$ 5,945,346	\$ 5,721,465
Other operating revenues	28,175	27,398
Total operating revenues	\$ 5,973,521	\$ 5,748,863
 <b>OPERATING EXPENSES</b>		
Cost of Power	\$ 4,133,505	\$ 3,904,584
Maintenance	88,144	78,644
Distribution expense	403,894	374,554
Consumer accounting & collection	85,375	90,590
Administrative & general	335,971	409,526
Insurance	168,069	163,732
Transportation	32,963	31,117
Total operating expense excluding depreciation	\$ 5,247,921	\$ 5,052,747
<b>OPERATING INCOME BEFORE DEPRECIATION</b>	\$ 725,600	\$ 696,116
<b>DEPRECIATION</b>	473,817	467,611
<b>OPERATING INCOME</b>	\$ 251,783	\$ 228,505
 <b>NONOPERATING REVENUES (EXPENSES)</b>		
Miscellaneous	\$ 103,718	\$ 96,381
Interest income	89,080	71,359
Economic development costs (Note 9)	(126,680)	(134,973)
Total nonoperating revenues (expenses)	\$ 66,118	\$ 32,767
<b>NET INCOME (LOSS)</b>	\$ 317,901	\$ 261,272
<b>NET ASSETS, BEGINNING OF YEAR</b>	11,562,621	11,301,349
<b>NET ASSETS, END OF YEAR</b>	\$ 11,880,522	\$ 11,562,621

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES  
MUNICIPAL ELECTRIC UTILITIES  
COMPARATIVE STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2005 and 2004**

**Schedule 1**

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 317,901	\$ 261,272
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	473,817	467,611
Changes in assets and liabilities		
(Increase) decrease in consumers' deposit fund	2,538	(10,494)
(Increase) decrease in trade receivables	11,302	(239,215)
(Increase) decrease in unbilled usage	11,600	32,893
(Increase) decrease in inventories	(46,702)	(16,940)
(Increase) decrease in prepaid expenses	(434)	(2,271)
(Increase) decrease in other current assets	(28,579)	(780)
Increase (decrease) in accounts payable and accrued liabilities	9,739	207,801
Increase (decrease) in customer deposits	(1,453)	9,785
Net cash provided by (used in) operating activities	\$ 749,729	\$ 709,662
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale/maturities of securities	\$ 4,757,423	\$ 3,061,940
Purchase of investment securities	(4,931,498)	(3,280,471)
Purchase of property and equipment	(494,420)	(499,533)
Net cash provided by (used in) investing activities	\$ (668,495)	\$ (718,064)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
None	\$ 0	\$ 0
Net cash provided by (used in) financing activities	\$ 0	\$ 0
Net increase (decrease) in cash and cash equivalents	\$ 81,234	\$ (8,402)
Cash and cash equivalents:		
Beginning	319,684	328,086
Ending	\$ 400,918	\$ 319,684

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES  
MUNICIPAL ELECTRIC UTILITIES  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS-ACTUAL TO BUDGET  
Year Ended June 30, 2005**

**Schedule 2**

	Actual	Budget	Variance
<b>OPERATING REVENUES</b>			
Sales to consumers	\$ 5,945,346	6,370,500	(425,154)
Other operating revenues	28,175	30,000	(1,825)
Total operating revenues	\$ 5,973,521	6,400,500	(426,979)
 <b>OPERATING EXPENSES</b>			
Cost of Power	\$ 4,133,505	4,250,000	116,495
Maintenance	88,144	107,500	19,356
Distribution expense	403,894	477,000	73,106
Consumer accounting & collection	85,375	130,000	44,625
Administrative & general	335,971	462,500	126,529
Insurance	168,069	170,000	1,931
Transportation	32,963	30,000	(2,963)
Total operating expense excluding depreciation	\$ 5,247,921	5,627,000	379,079
 <b>OPERATING INCOME BEFORE DEPRECIATION</b>	\$ 725,600	773,500	47,900
 <b>DEPRECIATION</b>	473,817	460,000	(13,817)
 <b>OPERATING INCOME</b>	\$ 251,783	313,500	61,717
 <b>NONOPERATING REVENUES (EXPENSES)</b>			
Miscellaneous	\$ 103,718	105,000	(1,282)
Interest income	89,080	75,000	14,080
Economic development costs (Note 9)	(126,680)	(150,000)	23,320
Total nonoperating revenues (expenses)	\$ 66,118	30,000	36,118
 <b>NET INCOME (LOSS)</b>	\$ 317,901	343,500	(25,599)
 <b>NET ASSETS, BEGINNING OF YEAR</b>	11,562,621	9,644,180	
 <b>NET ASSETS, END OF YEAR</b>	\$ 11,880,522	9,987,680	

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES  
MUNICIPAL WATER UTILITIES  
COMPARATIVE BALANCE SHEETS  
June 30, 2005 and 2004**

**Schedule 3**

	2005	2004
<b>ASSETS</b>		
<b>WATER UTILITY PLANT</b>		
Plant in Service	\$ 16,454,745	\$ 16,368,444
Less: Accumulated depreciation	5,368,068	4,832,556
Net Water Utility Plant	\$ 11,086,677	\$ 11,535,888
<b>OTHER ASSETS</b>		
Revenue bond reserve-restricted	\$ 997,365	\$ 809,921
Loan origination fee	39,792	42,279
Total Other Assets	\$ 1,037,157	\$ 852,200
<b>CURRENT ASSETS</b>		
Unrestricted		
Cash	\$ 3,376	\$ (41,948)
Deposits and investments	1,703,610	1,639,201
Accounts receivable	193,786	176,220
Unbilled usage	122,091	124,551
Due from other funds	2,273	0
Interest receivable	13,410	9,685
Inventory	56,253	51,229
Prepaid insurance	30,407	30,027
Total Current Assets	\$ 2,125,206	\$ 1,988,965
Total Assets	\$ 14,249,040	\$ 14,377,053
 <b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Unrestricted net assets	\$ 8,552,868	\$ 8,257,719
Total Net Assets	\$ 8,552,868	\$ 8,257,719
LONG-TERM DEBT - Net of current maturities	\$ 5,130,663	\$ 5,509,100
 <b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 28,798	\$ 105,459
Due to other funds	12,900	930
Accrued vacation and sick leave	93,085	90,125
Other accrued liabilities	16,018	12,578
Payable from restricted assets		
Current maturities of long-term debt	381,000	365,000
Interest payable	33,708	36,142
Total Current Liabilities	\$ 565,509	\$ 610,234
Total Liabilities and Net Assets	\$ 14,249,040	\$ 14,377,053

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES**  
**MUNICIPAL WATER UTILITIES**  
**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**Years Ended June 30, 2005 and 2004**

**Schedule 3**

	2005	2004
OPERATING REVENUES		
Sales to consumers	\$ <u>2,068,565</u>	\$ <u>2,042,416</u>
 OPERATING EXPENSES		
Power & pumping	\$ 166,927	\$ 147,076
Distribution expense	194,710	140,992
Purification	327,997	369,348
Consumer accounting & collection	59,052	62,546
Administrative & general	201,096	211,108
Insurance	125,800	117,771
Transportation	12,685	10,266
Total operating expense excluding depreciation	\$ <u>1,088,267</u>	\$ <u>1,059,107</u>
 OPERATING INCOME BEFORE DEPRECIATION	\$ 980,298	\$ 983,309
 DEPRECIATION	<u>535,513</u>	<u>536,221</u>
 OPERATING INCOME	\$ <u>444,785</u>	\$ <u>447,088</u>
 NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 7,032	\$ 6,629
Interest income	60,311	39,792
Interest expense	<u>(216,979)</u>	<u>(230,700)</u>
Total nonoperating revenues (expenses)	\$ <u>(149,636)</u>	\$ <u>(184,279)</u>
 NET INCOME (LOSS)	\$ 295,149	\$ 262,809
 NET ASSETS, BEGINNING OF YEAR	<u>8,257,719</u>	<u>7,994,910</u>
 NET ASSETS, END OF YEAR	<u><u>8,552,868</u></u>	<u><u>8,257,719</u></u>

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES  
MUNICIPAL WATER UTILITIES  
COMPARATIVE STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2005 and 2004**

**Schedule 3**

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 295,149	\$ 262,809
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	535,513	536,221
Amortization of discount	2,563	2,360
Amortization of origination fees	2,487	2,487
Changes in assets and liabilities		
(Increase) decrease in trade receivables	(17,566)	(6,270)
(Increase) decrease in unbilled usage	2,460	(2,694)
(Increase) decrease in inventories	(5,024)	8,837
(Increase) decrease in prepaid expenses	(380)	(2,789)
(Increase) decrease in other current assets	(5,998)	(4,318)
Increase (decrease) in accounts payable and accrued liabilities	(60,725)	(134,106)
Net cash provided by (used in) operating activities	\$ 748,479	\$ 662,537
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale/maturities of securities	\$ 2,746,541	\$ 1,040,354
Purchase of investment securities	(2,998,393)	(1,463,672)
Purchase of property and equipment	(86,303)	(146,769)
Net cash provided by (used in) investing activities	\$ (338,155)	\$ (570,087)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on long-term borrowing	\$ (365,000)	\$ (350,000)
Net cash provided by (used in) financing activities	\$ (365,000)	\$ (350,000)
Net increase (decrease) in cash and cash equivalents	\$ 45,324	\$ (257,550)
Cash and cash equivalents:		
Beginning	(41,948)	215,602
Ending	\$ 3,376	\$ (41,948)

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, 2005**

**Schedule 4**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to consumers	\$ 2,068,565	2,225,000	(156,435)
OPERATING EXPENSES			
Power & pumping	\$ 166,927	200,000	33,073
Distribution expense	194,710	180,000	(14,710)
Purification	327,997	435,000	107,003
Consumer accounting & collection	59,052	92,500	33,448
Administrative & general	201,096	215,400	14,304
Insurance	125,800	120,000	(5,800)
Transportation	12,685	10,000	(2,685)
Total operating expense excluding depreciation	\$ 1,088,267	1,252,900	164,633
OPERATING INCOME BEFORE DEPRECIATION	\$ 980,298	972,100	(8,198)
DEPRECIATION	535,513	550,000	14,487
OPERATING INCOME	\$ 444,785	422,100	(22,685)
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 7,032	7,500	(468)
Interest income	60,311	55,000	5,311
Interest expense	(216,979)	(225,000)	8,021
Total nonoperating revenues (expenses)	\$ (149,636)	(162,500)	12,864
NET INCOME (LOSS)	\$ 295,149	259,600	35,549
NET ASSETS, BEGINNING OF YEAR	8,257,719	5,240,176	
NET ASSETS, END OF YEAR	\$ 8,552,868	5,499,776	

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES  
MUNICIPAL SEWER UTILITIES  
COMPARATIVE BALANCE SHEETS  
June 30, 2005 and 2004**

**Schedule 5**

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
<b>SEWER UTILITY PLANT</b>		
Plant in Service	\$ 3,995,537	\$ 3,710,504
Less: Accumulated depreciation	2,237,993	2,133,034
Net Sewer Utility Plant	<u>\$ 1,757,544</u>	<u>\$ 1,577,470</u>
 <b>CURRENT ASSETS</b>		
Unrestricted		
Cash	3,642	35,342
Deposits and investments	434,427	580,433
Accounts receivable	65,892	55,368
Unbilled usage	53,410	53,486
Due from other funds	6,009	0
Interest receivable	3,788	1,324
Prepaid insurance	7,838	7,726
Total Current Assets	<u>\$ 575,006</u>	<u>\$ 733,679</u>
Total Assets	<u>\$ 2,332,550</u>	<u>\$ 2,311,149</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Unrestricted net assets	<u>\$ 2,208,752</u>	<u>\$ 2,210,693</u>
Total Net Assets	<u>\$ 2,208,752</u>	<u>\$ 2,210,693</u>
 <b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 9,210	\$ 2,241
Due to other funds	11,805	525
Accrued vacation and sick leave	99,919	94,432
Other accrued liabilities	2,864	3,258
Total Current Liabilities	<u>\$ 123,798</u>	<u>\$ 100,456</u>
Total Liabilities and Net Assets	<u>\$ 2,332,550</u>	<u>\$ 2,311,149</u>

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES  
MUNICIPAL SEWER UTILITIES  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
Years Ended June 30, 2005 and 2004**

**Schedule 5**

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
Sales to consumers	\$ <u>705,145</u>	\$ <u>611,042</u>
 OPERATING EXPENSES		
Plant & main maintenance	\$ 199,950	\$ 176,489
Joint treatment costs	218,688	167,467
Consumer accounting & collection	41,632	37,114
Administrative & general	103,052	117,317
Insurance	41,119	32,547
Transportation	10,166	7,287
Total operating expense excluding depreciation	\$ <u>614,607</u>	\$ <u>538,221</u>
 OPERATING INCOME BEFORE DEPRECIATION	 \$ 90,538	 \$ 72,821
 DEPRECIATION	 <u>104,960</u>	 <u>109,287</u>
 OPERATING INCOME	 \$ <u>(14,422)</u>	 \$ <u>(36,466)</u>
 NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 0	\$ 272
Interest income	12,481	9,035
Total nonoperating revenues (expenses)	\$ <u>12,481</u>	\$ <u>9,307</u>
 NET INCOME (LOSS)	 \$ (1,941)	 \$ (27,159)
 NET ASSETS, BEGINNING OF YEAR	 <u>2,210,693</u>	 <u>2,237,852</u>
 NET ASSETS, END OF YEAR	 <u><u>2,208,752</u></u>	 <u><u>2,210,693</u></u>

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES  
MUNICIPAL SEWER UTILITIES  
COMPARATIVE STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2005 and 2004**

**Schedule 5**

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ (1,941)	\$ (27,159)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	104,960	109,287
Changes in assets and liabilities		
(Increase) decrease in trade receivables	(10,524)	(9,378)
(Increase) decrease in unbilled usage	76	(9,293)
(Increase) decrease in prepaid expenses	(112)	(1,036)
(Increase) decrease in other current assets	(8,473)	3,176
(Increase) decrease in other assets		56,359
Increase (decrease) in accounts payable and accrued liabilities	23,342	20,427
Net cash provided by (used in) operating activities	\$ 107,328	\$ 142,383
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale/maturities of securities	\$ 997,219	\$ 794,438
Purchase of investment securities	(851,214)	(931,049)
Purchase of property and equipment	(285,033)	(5,110)
Net cash provided by (used in) investing activities	\$ (139,028)	\$ (141,721)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
None	\$ 0	\$ 0
Net cash provided by (used in) financing activities	\$ 0	\$ 0
Net increase (decrease) in cash and cash equivalents	\$ (31,700)	\$ 662
Cash and cash equivalents:		
Beginning	35,342	34,680
Ending	\$ 3,642	\$ 35,342

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, 2005**

**Schedule 6**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to consumers	\$ 705,145	710,000	(4,855)
OPERATING EXPENSES			
Plant & main maintenance	\$ 199,950	198,000	(1,950)
Joint treatment costs	218,688	175,000	(43,688)
Consumer accounting & collection	41,632	45,500	3,868
Administrative & general	103,052	126,000	22,948
Insurance	41,119	40,000	(1,119)
Transportation	10,166	10,000	(166)
Total operating expense excluding depreciation	\$ 614,607	594,500	(20,107)
OPERATING INCOME BEFORE DEPRECIATION	\$ 90,538	115,500	24,962
DEPRECIATION	104,960	120,000	15,040
OPERATING INCOME	\$ (14,422)	(4,500)	9,922
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 0	0	0
Interest income	12,481	10,000	2,481
Total nonoperating revenues (expenses)	\$ 12,481	10,000	2,481
NET INCOME (LOSS)	\$ (1,941)	5,500	(7,441)
NET ASSETS, BEGINNING OF YEAR	2,210,693	1,772,100	
NET ASSETS, END OF YEAR	\$ 2,208,752	1,777,600	

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES  
JOINT TREATMENT FUND  
COMPARATIVE BALANCE SHEETS  
June 30, 2005 and 2004**

**Schedule 7**

	2005	2004
<b>ASSETS</b>		
<b>JOINT TREATMENT PLANT</b>		
Plant in Service	\$ 6,645,077	\$ 6,077,799
Less: Accumulated depreciation	2,339,149	2,229,801
Net Joint Treatment Plant	\$ 4,305,928	\$ 3,847,998
<b>OTHER ASSETS</b>		
Equipment replacement investment-restricted	\$ 606,857	\$ 961,722
<b>CURRENT ASSETS</b>		
Unrestricted		
Cash	\$ 498	\$ (19,466)
Accounts receivable	67,913	55,962
Due from other funds	6,392	0
Interest receivable	3,002	5,513
Prepaid insurance	13,876	13,689
Total Current Assets	\$ 91,681	\$ 55,698
 Total Assets	 \$ 5,004,466	 \$ 4,865,418
 <b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Unrestricted net assets	\$ 4,852,405	\$ 4,845,529
Total Net Assets	\$ 4,852,405	\$ 4,845,529
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 137,282	\$ 16,684
Due to other funds	11,556	319
Other accrued liabilities	3,223	2,886
Total Current Liabilities	\$ 152,061	\$ 19,889
 Total Liabilities and Net Assets	 \$ 5,004,466	 \$ 4,865,418

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES**  
**JOINT TREATMENT FUND**  
**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**Years Ended June 30, 2005 and 2004**

**Schedule 7**

	2005	2004
OPERATING REVENUES		
Sales to consumers	\$ <u>751,459</u>	\$ <u>660,943</u>
 OPERATING EXPENSES		
Waste water processing expense	\$ 465,586	\$ 356,764
Administrative & general	131,980	180,482
Insurance	57,802	56,752
Transportation	10,582	9,474
Total operating expense excluding depreciation	\$ <u>665,950</u>	\$ <u>603,472</u>
 OPERATING INCOME BEFORE DEPRECIATION	\$ 85,509	\$ 57,471
 DEPRECIATION	<u>109,349</u>	<u>54,385</u>
 OPERATING INCOME	\$ <u>(23,840)</u>	\$ <u>3,086</u>
 NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 8,918	\$ 0
Interest income	21,798	16,797
Total nonoperating revenues (expenses)	\$ <u>30,716</u>	\$ <u>16,797</u>
 NET INCOME (LOSS)	\$ 6,876	\$ 19,883
 NET ASSETS, BEGINNING OF YEAR	<u>4,845,529</u>	<u>4,825,646</u>
 NET ASSETS, END OF YEAR	<u><u>4,852,405</u></u>	<u><u>4,845,529</u></u>

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES**  
**JOINT TREATMENT FUND**  
**COMPARATIVE STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2005 and 2004**

**Schedule 7**

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 6,876	\$ 19,883
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	109,349	54,385
Changes in assets and liabilities		
(Increase) decrease in trade receivables	(11,951)	11,500
(Increase) decrease in prepaid expenses	(187)	(1,668)
(Increase) decrease in other current assets	(3,881)	787
Increase (decrease) in accounts payable and accrued liabilities	132,172	10,738
Net cash provided by (used in) operating activities	\$ 232,378	\$ 95,625
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale/maturities of securities	\$ 2,339,405	\$ 651,769
Purchase of investment securities	(1,984,540)	(767,554)
Purchase of property and equipment	(567,279)	(9,848)
Increase (decrease) in reserve for plant replacement	0	(901,521)
Retirement of equipment replacement reserve	0	952,049
Net cash provided by (used in) investing activities	\$ (212,414)	\$ (75,105)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
None	\$ 0	\$ 0
Net cash provided by (used in) financing activities	\$ 0	\$ 0
Net increase (decrease) in cash and cash equivalents	\$ 19,964	\$ 20,520
Cash and cash equivalents:		
Beginning	(19,466)	(39,986)
Ending	\$ 498	\$ (19,466)

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES**  
**JOINT TREATMENT FUND**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS-ACTUAL TO BUDGET**  
**Year Ended June 30, 2005**

**Schedule 8**

	Actual	Budget	Variance
OPERATING REVENUES			
Sales to consumers	\$ 751,459	725,000	26,459
OPERATING EXPENSES			
Waste water processing expense	\$ 465,586	423,000	(42,586)
Administrative & general	131,980	157,500	25,520
Insurance	57,802	60,000	2,198
Transportation	10,582	10,000	(582)
Total operating expense excluding depreciation	\$ 665,950	650,500	(15,450)
OPERATING INCOME BEFORE DEPRECIATION	\$ 85,509	74,500	(11,009)
DEPRECIATION	109,349	147,500	38,151
OPERATING INCOME	\$ (23,840)	(73,000)	(49,160)
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 8,918	0	8,918
Interest income	21,798	25,000	(3,202)
Total nonoperating revenues (expenses)	\$ 30,716	25,000	5,716
NET INCOME (LOSS)	\$ 6,876	(48,000)	54,876
NET ASSETS, BEGINNING OF YEAR	4,845,529	0	
NET ASSETS, END OF YEAR	\$ 4,852,405	(48,000)	

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES**  
**Schedule of Meters & KWH Used**  
**Years Ended June 30, 2005 and 2004**

**Schedule 9**

	<u>2005</u>		<u>2004</u>	
	<u>Meters</u>	<u>KWH</u>	<u>Meters</u>	<u>KWH</u>
Commercial C1	555	25,402,678	547	25,683,886
Commercial C1M	117	3,124,825	113	3,066,686
Commercial C2M	25	9,203,820	25	9,667,850
Residential R1	1,188	11,580,000	1,176	12,046,702
Residential R2M	1,408	18,574,928	1,386	19,051,109
Industrial	5	64,179,472	5	62,201,712
Water plant		2,868,789		2,838,888
Sewer plant		3,819,642		3,900,620
City Government		2,942,482		2,628,245
Other DMU uses		705,450		738,518
Energy losses		<u>5,993,963</u>		<u>4,616,866</u>
<b>Total</b>	<u>3,298</u>	<u>148,396,049</u>	<u>3,252</u>	<u>146,441,082</u>
Less: Energy losses		<u>5,993,963</u>		<u>4,616,866</u>
<b>Total Meters &amp; KWH Billed</b>	<u><u>3,298</u></u>	<u><u>142,402,086</u></u>	<u><u>3,252</u></u>	<u><u>141,824,216</u></u>

**Summary of Community Benefits Provided**  
**Years Ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
KWH Billed (from above)	142,402,086	141,824,216
Rate difference between Iowa average utility rate and Denison Municipal Utilities	<u>0.0174</u>	<u>0.022</u>
(1) Calculated total electric savings	2,477,796	3,120,133
(2) Transfer to city general fund in lieu of tax	297,552	218,167
(3) New lights for streetscape project	74,203	93,403
(4) New housing assistance program	21,949	15,782
(5) Water heater rebates	<u>20,058</u>	<u>23,193</u>
<b>Total Community Benefits</b>	<u><u>2,891,558</u></u>	<u><u>3,470,678</u></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 owner 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. All participants in the water heater rebate program are required to be on the load management system.

See accompanying independent auditor's report.

## **Denison Municipal Utilities**

**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 the  
Denison Municipal Utilities:

We have audited the accompanying financial statements of the Denison Municipal Utilities, a component unit of the City of Denison, as of and for the year ended June 30, 2005, which collectively comprise the Utility's basic financial statements listed in the table of contents and have issued our report thereon dated August 12, 2005. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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 an opinion 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. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of other matters that are described in Part II 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, 2005 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.

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, including federal awarding agencies and pass-through entities. 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 12, 2005  
Denison, Iowa

**DENISON MUNICIPAL UTILITIES**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2005**

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, none of which are considered to be material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control were noted.
- (e) Denison Municipal Utilities did not qualify as a low-risk auditee.

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NONCOMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

II-A-05      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.

**DENISON MUNICIPAL UTILITIES**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2005**

II-B-05      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 being finalized and will be presented for board approval.

Conclusion - Response accepted.

II-C-05      Unclaimed Property– The Utility had unclaimed utility deposits that were not reported to the State Treasurer before November 1<sup>st</sup> per Chapter 556.11 of the Code of Iowa.

Recommendation - We recommend that Denison Municipal Utilities review Chapter 556.11 of the Code of Iowa and submit all unclaimed deposits to the State Treasurer by the deadline in subsequent years.

Response – The Utility is reviewing the Code Section and will submit unclaimed property by the November 1<sup>st</sup> deadline.

Conclusion – Response accepted.

II-D-05      Computer Systems – Each employee of the Utility has two passwords to access the main computer system. One of these passwords is an identical pattern resulting in all employees knowing each other's password allowing them to access restricted files and applications when a workstation becomes idle.

Recommendation – We recommend that this password be unique for all employees so no employee can access an idle workstation and gain restricted access.

**DENISON MUNICIPAL UTILITIES**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2005**

Response – The Utility is going to review the problem with their IT director and also with the software company to figure out a way to reset these passwords and enable each employee to create their own distinctive password.

Conclusion – Response accepted.

**Part III: Other Findings Related to Statutory Reporting:**

- III-A-05      Official Depositories – A resolution naming official depositories has been approved by the governing board of the Utility. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
  
- III-B-05      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.
  
- III-C-05      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.
  
- III-D-05      Travel Expense - No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.
  
- III-E-05      Business Transactions - Business transactions between the Utility and officials are immaterial and meet the guidelines of the Code of Iowa.
  
- III-F-05      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.
  
- III-G-05      Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
  
- III-H-05      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.
  
- III-I-05      Revenue Bonds - The Utility has complied with all aspects of its bond covenants.