

Denison Municipal Utilities

Independent Auditor's Report

Financial Statements and
Supplemental Information

Schedule of Findings & Questioned Costs

June 30, 2006 and 2005

DENISON MUNICIPAL UTILITIES

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DENISON MUNICIPAL UTILITIES

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Martens	Chairman	2012
Larry Struck	Vice-Chairman	2008
Mark Way	Board Member	2007
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, 2006. 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, 2006, 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 25, 2006 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 11 and 29, 35, 39, 43 and 47 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, 2005 (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 25, 2006
Denison, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Denison Municipal Utilities annual report presents an analysis of the Utility's financial performance for the fiscal year ended June 30, 2006. The Utility is organized into four operating divisions. They are the electric utility, water utility, sewer utility, and the joint treatment facility. This discussion and analysis not only points out the highlights of each utility but also reports and discusses highlights in combined form. 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.

2006 FINANCIAL HIGHLIGHTS

- The Utilities operating revenues increased \$602,489 or 6.30% from the prior year. Increased sales of electricity and water contributed to this increase. Also, the gallons of waste treated by the joint treatment facility have increased from prior years.
- Operating expenses increased by \$247,275 or 3.20% from the prior year. Increased sales of electricity and the cost of power have continued to increase causing operating expenses to rise.
- Total assets increased \$1,939,285 and total liabilities increased \$784,302, resulting in total net assets increasing \$1,154,983 or 4.20% from the prior year. An expansion of the joint treatment facility contributed to the increase in total assets. This expansion was funded through the use of replacement reserve funds and also through a loan from the electric utility.
- Investment income increased 62% reflective of higher interest rates during the current year combined with increased amounts on deposit earning interest.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

Denison Municipal Utilities presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

The *Statement of Net Assets* presents information on the Utility's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses and Changes in Net Assets*. This statement measures the success of the Utility's operations. It can be used to determine whether the Utility has successfully recovered all its costs through its rates, fees and other revenues. This statement also measures the Utility's profitability and credit worthiness.

The *Statement of Cash Flows* presents the change in the Utility's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Utility financed its activities and how it met its cash requirements.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year. It also schedules the adjustments needed to arrive at the cash basis of accounting needed for budget purposes from the accrual basis accounting which the financial statements are prepared on.

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 \$28.6 million, or 4.20% during the current year. Net assets have increased 6.60% since 2004. This increase is mainly due to the expansion of the joint treatment facility started during the fiscal year 2005 and completed during the fiscal year 2006.

<u>Condensed Statement of Net Assets</u>			
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 10,093,300	\$ 9,427,211	\$ 9,292,674
Capital Assets	<u>26,214,793</u>	<u>24,941,597</u>	<u>24,732,201</u>
Total Assets	<u>36,308,093</u>	<u>34,368,808</u>	<u>34,024,875</u>
Long-term debt outstanding	5,861,423	5,130,663	5,509,100
Other liabilities	<u>1,797,140</u>	<u>1,743,598</u>	<u>1,639,213</u>
Total Liabilities	<u>7,658,563</u>	<u>6,874,261</u>	<u>7,148,313</u>
Invested in Capital Assets, net of related debt	19,868,675	19,469,726	18,900,380
Restricted net assets	1,138,041	968,657	773,779
Unrestricted net assets	<u>7,642,814</u>	<u>7,056,164</u>	<u>7,202,403</u>
Total net assets	\$ <u>28,649,530</u>	\$ <u>27,494,547</u>	\$ <u>26,876,562</u>

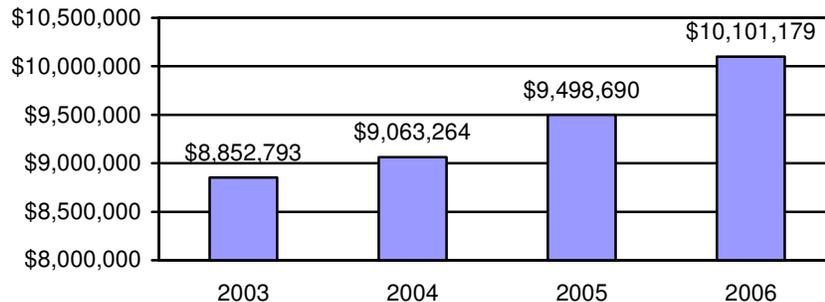
2006 OPERATING RESULTS

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>2006</u>	<u>2005</u>	<u>2004</u>
Program revenues			
Operating revenues	\$10,101,179	\$ 9,498,690	\$ 9,063,264
Miscellaneous	160,298	119,668	103,282
Unrestricted investment earnings	<u>297,886</u>	<u>183,670</u>	<u>136,983</u>
Total revenues	<u>10,559,363</u>	<u>9,802,028</u>	<u>9,303,529</u>
Program expenses			
Operating expenses	7,864,020	7,616,745	7,253,547
Depreciation	1,236,368	1,223,639	1,167,504
Interest on long-term debt	235,758	216,979	230,700
Miscellaneous	<u>68,234</u>	<u>126,680</u>	<u>134,973</u>
Total expenses	<u>9,404,380</u>	<u>9,184,043</u>	<u>8,786,724</u>
Increase (decrease) in net assets	1,154,983	617,985	516,805
Unrestricted Net assets July 1	<u>27,494,547</u>	<u>26,876,562</u>	<u>26,359,757</u>
Unrestricted Net assets June 30	<u>\$28,649,530</u>	<u>\$27,494,547</u>	<u>\$26,876,562</u>

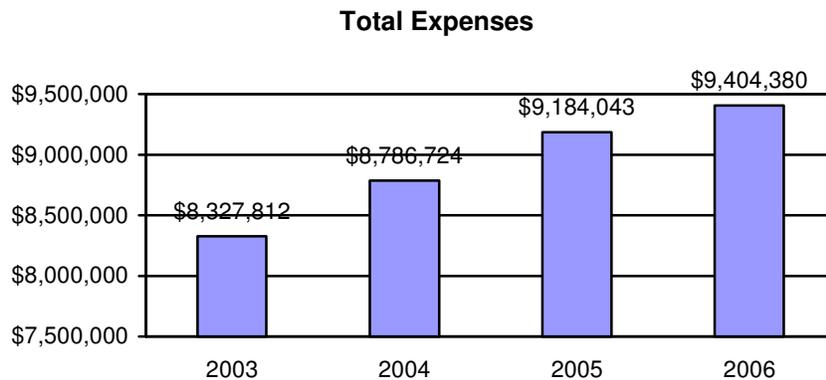
The Utility's operating revenues increased by \$602,489, or 6.3% during the fiscal year ended June 30, 2006. Approximately 90% of the increase is due to increased sales of electricity and water. The sewer utility and joint treatment fund instituted rate increases that were effective January 1, 2004. This rate increase generated 37% more revenue than the previous year.

Operating Revenues



Investment income increased 62% from the prior year, due to higher interest rates earned during the year ended June 30, 2006.

Total expenses for the Utility increased \$220,337, or 2.4% during the year ended June 30, 2006. Though DMU experienced a 5.7% increase in the cost of power, this increase was somewhat offset by decreases in other areas of the utility.



CAPITAL ASSETS

The Utilities' capital assets include land, buildings, improvements, service lines, automobiles and equipment, and street lights. As of June 30, 2006, the Utility's investment in capital assets totaled \$26.2 million, which is an increase of \$1.27 million, or 5.1% from June 30, 2005. A major expansion project at the waste water treatment plant was undertaken during the fiscal year ended June 30, 2005 and was completed during the fiscal year ended June 30, 2006. The total cost of the expansion was \$2,310,247 which includes engineering fees.

LONG-TERM DEBT

As of June 30, 2006, the Utility had \$5.86 million in outstanding debt compared to \$5.1 million as of June 30, 2005. The increase represents funds advanced from the electric utility to the joint treatment utility to fund the waste water treatment plant expansion during the fiscal year ended June 30, 2006. The outstanding debt of the water utility 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 2007. Anticipated industry expansion and demographic changes are all considered in order to determine capital expenditures and expected revenues. During fiscal year 2007, the Utilities will implement a rate

increase for all operating divisions. 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, 2006 and 2005

Exhibit A

ASSETS	BUSINESS-TYPE ACTIVITIES	
	2006	2005
UTILITY PLANT		
Plant in Service, at cost	\$ 45,564,392	\$ 43,054,829
Less: Accumulated depreciation	19,349,599	18,113,232
Net Utility Plant	\$ 26,214,793	\$ 24,941,597
OTHER ASSETS		
Restricted		
Revenue bond reserve	\$ 1,169,169	\$ 997,365
Loan origination fee, net of accumulated amortization (Note 4)	37,305	39,792
Note Receivable	1,250,000	0
Equipment replacement investment	156,076	606,857
Deferred compensation	130,368	123,218
	\$ 2,742,918	\$ 1,767,232
CURRENT ASSETS		
Restricted		
Consumers' deposit fund	\$ 50,897	\$ 46,638
Unrestricted		
Cash	562,829	408,434
Deposits and investments	4,825,994	5,564,657
Accounts receivable	624,370	598,392
Unbilled usage	535,070	458,484
Due from other funds	6,572	36,472
Interest receivable	106,929	44,443
Inventory	547,089	415,618
Prepaid insurance	90,632	86,841
Total Current Assets	\$ 7,350,382	\$ 7,659,979
Total Assets	\$ 36,308,093	\$ 34,368,808

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
June 30, 2006 and 2005

Exhibit A

	BUSINESS-TYPE ACTIVITIES	
	2006	2005
LIABILITIES AND NET ASSETS		
NET ASSETS		
Invested in Capital Assets, net of related debt	\$ 19,868,675	\$ 19,469,726
Restricted net assets	1,138,041	968,657
Unrestricted net assets	7,642,814	7,056,164
Total Net Assets	\$ 28,649,530	\$ 27,494,547
LONG-TERM DEBT		
Net of current maturities (Note 5)	\$ 5,861,423	\$ 5,130,663
CURRENT LIABILITIES		
Accounts payable	\$ 645,793	\$ 721,372
Due to other funds	6,572	36,472
Accrued vacation and sick leave	355,135	372,969
Other accrued liabilities	26,787	31,302
Payable from restricted assets		
Deferred compensation	130,368	123,218
Current maturities of long-term debt (Note 5)	522,000	381,000
Interest payable	64,461	33,708
Consumers' deposits	46,024	43,557
Total Current Liabilities	\$ 1,797,140	\$ 1,743,598
Total Liabilities and Net Assets	\$ 36,308,093	\$ 34,368,808

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
STATEMENT OF ACTIVITIES
Years Ended June 30, 2006 and 2005

Exhibit B

Functions/Programs	Expenses	Charges for service	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue 2006	Revenue 2005
Business-type activities:						
Electric Utility	\$ 6,019,047	6,389,624	0	0	370,577	251,783
Water Utility	1,633,272	2,211,031	0	0	577,759	444,785
Sewer Utility	699,608	711,428	0	0	11,820	(14,422)
Joint Treatment	748,461	789,096	0	0	40,635	(23,840)
Interest on long-term debt	235,758	0	0	0	(235,758)	(216,979)
Total Business-type activities	\$ 9,336,146	10,101,179	0	0	765,033	441,327
General Revenues:						
Unrestricted investment income					\$ 297,886	183,670
Miscellaneous					92,064	(7,012)
Change in net assets					1,154,983	617,985
Net assets, beginning of year					27,494,547	26,876,562
Net assets, end of year					\$ 28,649,530	27,494,547

DENISON MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2006 and 2005

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 2006</u>	<u>Total 2005</u>
ASSETS							
UTILITY PLANT							
Plant in Service	\$ 16,405,818	16,567,504	4,203,078	8,387,992	0	45,564,392	43,054,829
Less: Accumulated depreciation	8,635,729	5,911,635	2,348,297	2,453,938	0	19,349,599	18,113,232
Net Utility Plant	<u>\$ 7,770,089</u>	<u>10,655,869</u>	<u>1,854,781</u>	<u>5,934,054</u>	<u>0</u>	<u>26,214,793</u>	<u>24,941,597</u>
OTHER ASSETS							
Restricted							
Revenue bond reserve-restricted	\$ 0	1,169,169	0	0	0	1,169,169	997,365
Loan origination fee, net of accumulated amortization (Note 4)	0	37,305	0	0	0	37,305	39,792
Note receivable - Joint Treatment Fund	1,250,000	0	0	0	0	1,250,000	0
Equipment replacement investment	0	0	0	156,076	0	156,076	606,857
Deferred compensation	0	0	0	0	130,368	130,368	123,218
Total Other Assets	<u>\$ 1,250,000</u>	<u>1,206,474</u>	<u>0</u>	<u>156,076</u>	<u>130,368</u>	<u>2,742,918</u>	<u>1,767,232</u>
CURRENT ASSETS							
Restricted							
Consumers' deposit fund	\$ 50,897	0	0	0	0	50,897	46,638
Unrestricted							
Cash	459,236	19,798	72,205	11,590	0	562,829	408,434
Deposits and investments	2,507,066	2,022,000	296,928	0	0	4,825,994	5,564,657
Accounts receivable	319,620	180,453	54,787	69,510	0	624,370	598,392
Unbilled usage	339,085	141,070	54,915	0	0	535,070	458,484
Due from other funds	2,258	2,414	1,235	665	0	6,572	36,472
Interest receivable	69,172	36,399	1,358	0	0	106,929	44,443
Inventory	488,769	58,320	0	0	0	547,089	415,618
Prepaid insurance	36,231	31,730	8,185	14,486	0	90,632	86,841
Total Current Assets	<u>\$ 4,272,334</u>	<u>2,492,184</u>	<u>489,613</u>	<u>96,251</u>	<u>0</u>	<u>7,350,382</u>	<u>7,659,979</u>
Total Assets	<u>\$ 13,292,423</u>	<u>14,354,527</u>	<u>2,344,394</u>	<u>6,186,381</u>	<u>130,368</u>	<u>36,308,093</u>	<u>34,368,808</u>

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2006 and 2005

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 2006</u>	<u>Total 2005</u>
LIABILITIES AND NET ASSETS							
NET ASSETS							
Invested in Capital Assets, net of related debt	\$ 7,770,089	5,559,751	1,854,781	4,684,054	0	19,868,675	19,469,726
Restricted net assets	0	1,138,041	0	0	0	1,138,041	968,657
Unrestricted net assets	4,706,237	2,353,373	387,054	196,150	0	7,642,814	7,056,164
Total Net Assets	<u>\$ 12,476,326</u>	<u>9,051,165</u>	<u>2,241,835</u>	<u>4,880,204</u>	<u>0</u>	<u>28,649,530</u>	<u>27,494,547</u>
LONG-TERM DEBT -							
Net of current maturities (Note 5)	<u>\$ 0</u>	<u>4,736,423</u>	<u>0</u>	<u>1,125,000</u>	<u>0</u>	<u>5,861,423</u>	<u>5,130,663</u>
CURRENT LIABILITIES							
Accounts payable	\$ 587,758	24,572	13,510	19,953	0	645,793	721,372
Due to other funds	2,854	1,353	1,453	912	0	6,572	36,472
Accrued vacation and sick leave	169,514	100,649	84,972	0	0	355,135	372,969
Other accrued liabilities	9,947	12,237	2,624	1,979	0	26,787	31,302
Payable from restricted assets							
Deferred compensation	0	0	0	0	130,368	130,368	123,218
Current maturities of long-term debt (Note 5)	0	397,000	0	125,000	0	522,000	381,000
Interest payable	0	31,128	0	33,333	0	64,461	33,708
Consumers' deposits	46,024	0	0	0	0	46,024	43,557
Total Current Liabilities	<u>\$ 816,097</u>	<u>566,939</u>	<u>102,559</u>	<u>181,177</u>	<u>130,368</u>	<u>1,797,140</u>	<u>1,743,598</u>
Total Liabilities and Net Assets	<u>\$ 13,292,423</u>	<u>14,354,527</u>	<u>2,344,394</u>	<u>6,186,381</u>	<u>130,368</u>	<u>36,308,093</u>	<u>34,368,808</u>

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS
Years Ended June 30, 2006 and 2005

Exhibit D

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2006	Total 2005
OPERATING REVENUES						
Sales to consumers	\$ 6,360,811	2,211,031	711,428	789,096	10,072,366	9,470,515
Other operating revenues	28,813	0	0	0	28,813	28,175
Total operating revenues	<u>\$ 6,389,624</u>	<u>2,211,031</u>	<u>711,428</u>	<u>789,096</u>	<u>10,101,179</u>	<u>9,498,690</u>
OPERATING EXPENSES						
Cost of Power	\$ 4,370,841	0	0	0	4,370,841	4,133,505
Plant & main maintenance	98,160	0	175,959	0	274,119	288,094
Power & pumping	0	139,474	0	0	139,474	166,927
Distribution expense	446,818	165,606	0	0	612,424	598,604
Purification	0	368,314	0	0	368,314	327,997
Waste water processing expense	0	0	0	437,197	437,197	465,586
Joint treatment costs	0	0	227,373	0	227,373	218,688
Consumer accounting & collection	86,926	62,291	41,065	0	190,282	182,937
Administrative & general	352,266	225,177	93,980	141,821	813,244	775,221
Insurance	164,029	117,580	39,027	45,285	365,921	392,790
Transportation	32,299	11,263	11,900	9,369	64,831	66,396
Total operating expense excluding depreciation	<u>\$ 5,551,339</u>	<u>1,089,705</u>	<u>589,304</u>	<u>633,672</u>	<u>7,864,020</u>	<u>7,616,745</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 838,285	1,121,326	122,124	155,424	2,237,159	1,881,945
DEPRECIATION	<u>467,708</u>	<u>543,567</u>	<u>110,304</u>	<u>114,789</u>	<u>1,236,368</u>	<u>1,223,639</u>
OPERATING INCOME	\$ 370,577	577,759	11,820	40,635	1,000,791	658,306
NONOPERATING REVENUES (EXPENSES)						
Miscellaneous	\$ 137,655	7,169	5,874	9,600	160,298	119,668
Interest income	155,806	115,794	15,389	10,897	297,886	183,670
Interest expense	0	(202,425)	0	(33,333)	(235,758)	(216,979)
Economic development costs (Note 9)	(68,234)	0	0	0	(68,234)	(126,680)
Total nonoperating revenues (expenses)	<u>\$ 225,227</u>	<u>(79,462)</u>	<u>21,263</u>	<u>(12,836)</u>	<u>154,192</u>	<u>(40,321)</u>
NET INCOME (LOSS)	\$ 595,804	498,297	33,083	27,799	1,154,983	617,985
NET ASSETS, BEGINNING 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>
NET ASSETS, END OF YEAR	<u>\$ 12,476,326</u>	<u>9,051,165</u>	<u>2,241,835</u>	<u>4,880,204</u>	<u>28,649,530</u>	<u>27,494,547</u>

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Years Ended June 30, 2006 and 2005

Exhibit E

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2006	Total 2005
CASH FLOWS FROM OPERATING ACTIVITIES						
Net income (loss)	\$ 595,804	498,297	33,083	27,799	1,154,983	617,985
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Depreciation	467,708	543,567	110,304	114,789	1,236,368	1,223,639
Amortization of discount	0	2,760	0	0	2,760	2,563
Amortization of origination fees	0	2,487	0	0	2,487	2,487
Changes in assets and liabilities						
(Increase) decrease in consumers' deposit fund	(4,259)	0	0	0	(4,259)	2,538
(Increase) decrease in trade receivables	(48,819)	13,192	15,879	4,130	(15,618)	(28,739)
(Increase) decrease in unbilled usage	(56,102)	(18,979)	(1,505)	0	(76,586)	14,136
(Increase) decrease in inventories	(129,404)	(2,067)	0	0	(131,471)	(51,726)
(Increase) decrease in prepaid expenses	(1,511)	(1,323)	(347)	(610)	(3,791)	(1,113)
(Increase) decrease in other current assets	(25,389)	(22,989)	2,430	3,002	(42,946)	(46,931)
Increase (decrease) in accounts payable and accrued liabilities	34,618	(14,570)	(21,239)	(95,884)	(97,075)	104,528
Increase (decrease) in customer deposits	2,467	0	0	0	2,467	(1,453)
Net cash provided by (used in) operating activities	<u>835,113</u>	<u>1,000,375</u>	<u>138,605</u>	<u>53,226</u>	<u>2,027,319</u>	<u>1,837,914</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sale/maturities of securities	5,498,088	4,786,538	694,349	1,783,318	12,762,293	10,840,588
Purchase of investment securities	(4,578,534)	(5,276,732)	(556,850)	(1,332,537)	(11,744,653)	(10,765,645)
Purchase of property and equipment	(446,349)	(112,759)	(207,541)	(1,742,915)	(2,509,564)	(1,433,035)
Interfund loan to Joint Treatment	(1,250,000)	0	0	0	(1,250,000)	0
Net cash provided by (used in) investing activities	<u>(776,795)</u>	<u>(602,953)</u>	<u>(70,042)</u>	<u>(1,292,134)</u>	<u>(2,741,924)</u>	<u>(1,358,092)</u>
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from interfund loan	0	0	0	1,250,000	1,250,000	0
Principal payments on long-term borrowings	0	(381,000)	0	0	(381,000)	(365,000)
Net cash provided by (used in) financing activities	<u>0</u>	<u>(381,000)</u>	<u>0</u>	<u>1,250,000</u>	<u>869,000</u>	<u>(365,000)</u>
Net increase (decrease) in cash and cash equivalents	58,318	16,422	68,563	11,092	154,395	114,822
Cash and cash equivalents:						
Beginning	400,918	3,376	3,642	498	408,434	293,612
Ending	<u>\$ 459,236</u>	<u>19,798</u>	<u>72,205</u>	<u>11,590</u>	<u>562,829</u>	<u>408,434</u>

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
EXPENDABLE TRUST FUNDS
June 30, 2006 and 2005

Exhibit F

	2006	2005
ASSETS		
OTHER ASSETS		
Restricted		
Deferred compensation	\$ 130,368	\$ 123,218
CURRENT ASSETS		
None	\$ 0	\$ 0
Total Assets	\$ 130,368	\$ 123,218
 LIABILITIES AND NET ASSETS		
NET ASSETS		
None	\$ 0	\$ 0
CURRENT LIABILITIES		
Payable from restricted assets		
Deferred compensation	\$ 130,368	123,218
Total Current Liabilities	\$ 130,368	\$ 123,218
Total Liabilities and Net Assets	\$ 130,368	\$ 123,218

DENISON MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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 accounting principles generally accepted in the United States of America 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.

The Statement of Net Assets displays the Utility's 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 attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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, 2006. 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, 2006.

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 accounting principles generally accepted in the United States of America 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, 2006, disbursements did not exceed the amounts budgeted.

Note 2 – Deposits and Investments

The Utility's deposits at June 30, 2006 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 \$165,942 and investments in the Iowa Public Agency Investment Trust with a fair value of \$85,520 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>2006</u>	<u>2005</u>
Land	\$ 909,657	909,657
Plant	15,072,851	14,996,568
Distribution & Collection	17,254,093	16,662,736
Machinery & Equipment	738,239	643,586
General Buildings	2,113,022	2,108,667
Transportation Equipment	1,090,338	1,090,338
Joint Treatment	<u>8,386,192</u>	<u>6,643,277</u>
 TOTAL	 45,564,392	 43,054,829
 Less: Accumulated Depreciation	 <u>19,349,599</u>	 <u>18,113,232</u>
 Net Property, Plant & Equipment	 <u>\$26,214,793</u>	 <u>24,941,597</u>
 Depreciation Charged to Operations	 <u>\$ 1,236,368</u>	 <u>1,223,639</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 – Long-Term Debt

Following is a summary of changes in the water utility long-term debt for the year ended June 30, 2006:

	Series 97 Water Revenue Bonds	Series 2001 Water Revenue Capital Loan Note	Total Bonds Payable
Balance July 1, 2005	\$ 1,475,000	4,060,000	5,535,000
Redeemed	<u>(180,000)</u>	<u>(201,000)</u>	<u>(381,000)</u>
Balance June 30, 2006	1,295,000	3,859,000	5,154,000
Less: unamortized discount	<u>(20,577)</u>	<u>0</u>	<u>(20,577)</u>
Net long-term debt	1,274,423	3,859,000	5,133,423
Less: current portion	<u>(190,000)</u>	<u>(207,000)</u>	<u>(397,000)</u>
Long-term debt, net of current portion	\$ <u>1,084,423</u>	<u>3,652,000</u>	<u>4,736,423</u>

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

Year Ending June 30	Series 97		Series 2001		Service Fees
	Principal	Interest	Principal	Interest	
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>1,295,000</u>	<u>260,645</u>	<u>3,859,000</u>	<u>990,060</u>	<u>82,506</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.

The electric utility has advanced \$1,250,000 to the joint treatment fund for the expansion of the joint treatment facility that was completed during the fiscal year ended June 30, 2006. The terms include a 4.0% interest rate with principal payments to begin January 1, 2007.

Note 5 – Long-Term Debt (continued)

Long-term liability activity for the fiscal year ended June 30, 2006:

	<u>Notes Payable</u>
Balance July 1, 2005	\$ 0
Advanced	<u>1,250,000</u>
Balance June 30, 2006	1,250,000
Less: current portion	<u>(125,000)</u>
Long-term debt, net of current portion	<u>\$ 1,125,000</u>

Annual debt service requirements to maturity for the inter-fund loan are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 125,000	58,333
2008	125,000	45,000
2009	125,000	40,000
2010	125,000	35,000
2011	125,000	30,000
2012	125,000	25,000
2013	125,000	20,000
2014	125,000	15,000
2015	125,000	10,000
2016	<u>125,000</u>	<u>5,000</u>
	<u>\$ 1,250,000</u>	<u>283,333</u>

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, 2006 and 2005 were \$74,019 and \$72,946 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 were three retired employees who qualified for this program. The Utility incurred \$5,332 during the current fiscal year for retiree health premiums as a result of this program. Also, the Utility self-funds a portion of the deductible and coinsurance for all participants in the health plan. Costs incurred for retiree health benefits totaled \$6,579 for the fiscal year ended June 30, 2006.

Note 8 – 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 1.5 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.

As of June 30, 2006 there were no construction contracts outstanding.

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, 2006 and 2005 were \$68,234 and \$126,680, 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, 2006**

	<u>Actual</u>	<u>Budgeted Amounts Original & Final</u>	<u>Variance Favorable (Unfavorable)</u>
Receipts			
Charges for service	\$ 9,998,615	10,038,000	(39,385)
Interest income	235,400	147,500	87,900
Miscellaneous	160,298	152,500	7,798
Total Receipts	<u>10,394,313</u>	<u>10,338,000</u>	<u>56,313</u>
Disbursements	<u>9,467,764</u>	<u>9,777,000</u>	<u>309,236</u>
Excess of Receipts Over (Under) Disbursements	926,549	<u><u>561,000</u></u>	<u><u>365,549</u></u>
Beginning net assets	<u>7,661,679</u>		
Ending net assets	<u><u>\$ 8,588,228</u></u>		

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES
BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2006**

	Proprietary Funds		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues			
Charges for service	\$ 9,998,615	102,564	10,101,179
Interest income	235,400	62,486	297,886
Miscellaneous	160,298	0	160,298
Total Revenue	<u>10,394,313</u>	<u>165,050</u>	<u>10,559,363</u>
Expenditures/expenses	<u>9,467,764</u>	<u>(63,384)</u>	<u>9,404,380</u>
Excess of Revenues Over (Under) Expenditures	926,549	228,434	1,154,983
Beginning net assets	<u>7,661,679</u>	<u>19,832,868</u>	<u>27,494,547</u>
Ending net assets	<u>\$ 8,588,228</u>	<u>20,061,302</u>	<u>28,649,530</u>

See accompanying independent auditor's report.

DENISON MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
JUNE 30, 2006

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, 2006, 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, 2006 and 2005**

Schedule 1

	2006	2005
ASSETS		
ELECTRIC UTILITY PLANT		
Plant in Service	\$ 16,405,818	\$ 15,959,470
Less: Accumulated depreciation	8,635,729	8,168,022
Net Electric Utility Plant	\$ 7,770,089	\$ 7,791,448
OTHER ASSETS		
Note Receivable-Joint Treatment Fund	\$ 1,250,000	\$ 0
CURRENT ASSETS		
Restricted		
Consumers' deposit fund	\$ 50,897	\$ 46,638
Unrestricted		
Cash	459,236	400,918
Deposits and investments	2,507,066	3,426,620
Accounts receivable	319,620	270,801
Unbilled usage	339,085	282,983
Due from other funds	2,258	21,798
Interest receivable	69,172	24,243
Inventory	488,769	359,365
Prepaid insurance	36,231	34,720
Total Current Assets	\$ 4,272,334	\$ 4,868,086
Total Assets	\$ 13,292,423	\$ 12,659,534
 LIABILITIES AND NET ASSETS		
NET ASSETS		
Invested in Capital Assets, net of related debt	\$ 7,770,089	\$ 7,791,448
Restricted net assets	0	0
Unrestricted net assets	4,706,237	4,089,074
Total Net Assets	\$ 12,476,326	\$ 11,880,522
CURRENT LIABILITIES		
Accounts payable	\$ 587,758	\$ 546,082
Due to other funds	2,854	211
Accrued vacation and sick leave	169,514	179,965
Other accrued liabilities	9,947	9,197
Payable from restricted assets		
Consumers' deposits	46,024	43,557
Total Current Liabilities	\$ 816,097	\$ 779,012
Total Liabilities and Net Assets	\$ 13,292,423	\$ 12,659,534

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, 2006 and 2005**

Schedule 1

	2006	2005
OPERATING REVENUES		
Sales to consumers	\$ 6,360,811	\$ 5,945,346
Other operating revenues	28,813	28,175
Total operating revenues	\$ 6,389,624	\$ 5,973,521
 OPERATING EXPENSES		
Cost of Power	\$ 4,370,841	\$ 4,133,505
Maintenance	98,160	88,144
Distribution expense	446,818	403,894
Consumer accounting & collection	86,926	85,375
Administrative & general	352,266	335,971
Insurance	164,029	168,069
Transportation	32,299	32,963
Total operating expense excluding depreciation	\$ 5,551,339	\$ 5,247,921
 OPERATING INCOME BEFORE DEPRECIATION	\$ 838,285	\$ 725,600
 DEPRECIATION	467,708	473,817
 OPERATING INCOME	\$ 370,577	\$ 251,783
 NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 137,655	\$ 103,718
Interest income	155,806	89,080
Economic development costs	(68,234)	(126,680)
Total nonoperating revenues (expenses)	\$ 225,227	\$ 66,118
 NET INCOME (LOSS)	\$ 595,804	\$ 317,901
 NET ASSETS, BEGINNING OF YEAR	11,880,522	11,562,621
 NET ASSETS, END OF YEAR	\$ 12,476,326	\$ 11,880,522

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITIES
COMPARATIVE STATEMENTS OF CASH FLOWS
Years Ended June 30, 2006 and 2005**

Schedule 1

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 595,804	\$ 317,901
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	467,708	473,817
Changes in assets and liabilities		
(Increase) decrease in consumers' deposit fund	(4,259)	2,538
(Increase) decrease in trade receivables	(48,819)	11,302
(Increase) decrease in unbilled usage	(56,102)	11,600
(Increase) decrease in inventories	(129,404)	(46,702)
(Increase) decrease in prepaid expenses	(1,511)	(434)
(Increase) decrease in other current assets	(25,389)	(28,579)
Increase (decrease) in accounts payable and accrued liabilities	34,618	9,739
Increase (decrease) in customer deposits	2,467	(1,453)
Net cash provided by (used in) operating activities	\$ 835,113	\$ 749,729
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of securities	\$ 5,498,088	\$ 4,757,423
Purchase of investment securities	(4,578,534)	(4,931,498)
Interfund loan to Joint Treatment	(1,250,000)	0
Purchase of property and equipment	(446,349)	(494,420)
Net cash provided by (used in) investing activities	\$ (776,795)	\$ (668,495)
CASH FLOWS FROM FINANCING ACTIVITIES		
None	\$ 0	\$ 0
Net cash provided by (used in) financing activities	\$ 0	\$ 0
Net increase (decrease) in cash and cash equivalents	\$ 58,318	\$ 81,234
Cash and cash equivalents:		
Beginning	400,918	319,684
Ending	\$ 459,236	\$ 400,918

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, 2006**

Schedule 2

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to consumers	\$ 6,360,811	6,425,500	(64,689)
Other operating revenues	28,813	30,000	(1,187)
Total operating revenues	<u>\$ 6,389,624</u>	<u>6,455,500</u>	<u>(65,876)</u>
 OPERATING EXPENSES			
Cost of Power	\$ 4,370,841	4,400,000	29,159
Maintenance	98,160	100,000	1,840
Distribution expense	446,818	458,500	11,682
Consumer accounting & collection	86,926	120,000	33,074
Administrative & general	352,266	425,000	72,734
Insurance	164,029	182,500	18,471
Transportation	32,299	30,000	(2,299)
Total operating expense excluding depreciation	<u>\$ 5,551,339</u>	<u>5,716,000</u>	<u>164,661</u>
 OPERATING INCOME BEFORE DEPRECIATION	 \$ 838,285	 739,500	 98,785
 DEPRECIATION	 <u>467,708</u>	 <u>475,000</u>	 <u>7,292</u>
 OPERATING INCOME	 <u>\$ 370,577</u>	 <u>264,500</u>	 <u>106,077</u>
 NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 137,655	105,000	32,655
Interest income	155,806	75,000	80,806
Economic development costs	(68,234)	(135,000)	66,766
Total nonoperating revenues (expenses)	<u>\$ 225,227</u>	<u>45,000</u>	<u>180,227</u>
 NET INCOME (LOSS)	 \$ 595,804	 309,500	 <u>286,304</u>
 NET ASSETS, BEGINNING OF YEAR	 <u>11,880,522</u>	 <u>9,987,680</u>	
 NET ASSETS, END OF YEAR	 <u>\$ 12,476,326</u>	 <u>10,297,180</u>	

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITIES
COMPARATIVE BALANCE SHEETS
June 30, 2006 and 2005**

Schedule 3

	2006	2005
ASSETS		
WATER UTILITY PLANT		
Plant in Service	\$ 16,567,504	\$ 16,454,745
Less: Accumulated depreciation	5,911,635	5,368,068
Net Water Utility Plant	\$ 10,655,869	\$ 11,086,677
OTHER ASSETS		
Revenue bond reserve-restricted	\$ 1,169,169	\$ 997,365
Loan origination fee	37,305	39,792
Total Other Assets	\$ 1,206,474	\$ 1,037,157
CURRENT ASSETS		
Unrestricted		
Cash	\$ 19,798	\$ 3,376
Deposits and investments	2,022,000	1,703,610
Accounts receivable	180,453	193,786
Unbilled usage	141,070	122,091
Due from other funds	2,414	2,273
Interest receivable	36,399	13,410
Inventory	58,320	56,253
Prepaid insurance	31,730	30,407
Total Current Assets	\$ 2,492,184	\$ 2,125,206
Total Assets	\$ 14,354,527	\$ 14,249,040
LIABILITIES AND NET ASSETS		
NET ASSETS		
Invested in Capital Assets, net of related debt	\$ 5,559,751	\$ 5,614,806
Restricted nets assets	1,138,041	968,657
Unrestricted net assets	2,353,373	1,969,405
Total Net Assets	\$ 9,051,165	\$ 8,552,868
LONG-TERM DEBT - Net of current maturities	\$ 4,736,423	\$ 5,130,663
CURRENT LIABILITIES		
Accounts payable	\$ 24,572	\$ 28,798
Due to other funds	1,353	12,900
Accrued vacation and sick leave	100,649	93,085
Other accrued liabilities	12,237	16,018
Payable from restricted assets		
Current maturities of long-term debt	397,000	381,000
Interest payable	31,128	33,708
Total Current Liabilities	\$ 566,939	\$ 565,509
Total Liabilities and Net Assets	\$ 14,354,527	\$ 14,249,040

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, 2006 and 2005

Schedule 3

	2006	2005
OPERATING REVENUES		
Sales to consumers	\$ <u>2,211,031</u>	\$ <u>2,068,565</u>
 OPERATING EXPENSES		
Power & pumping	\$ 139,474	\$ 166,927
Distribution expense	165,606	194,710
Purification	368,314	327,997
Consumer accounting & collection	62,291	59,052
Administrative & general	225,177	201,096
Insurance	117,580	125,800
Transportation	11,263	12,685
Total operating expense excluding depreciation	\$ <u>1,089,705</u>	\$ <u>1,088,267</u>
 OPERATING INCOME BEFORE DEPRECIATION	\$ 1,121,326	\$ 980,298
 DEPRECIATION	<u>543,567</u>	<u>535,513</u>
 OPERATING INCOME	\$ <u>577,759</u>	\$ <u>444,785</u>
 NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 7,169	\$ 7,032
Interest income	115,794	60,311
Interest expense	<u>(202,425)</u>	<u>(216,979)</u>
Total nonoperating revenues (expenses)	\$ <u>(79,462)</u>	\$ <u>(149,636)</u>
 NET INCOME (LOSS)	\$ 498,297	\$ 295,149
 NET ASSETS, BEGINNING OF YEAR	<u>8,552,868</u>	<u>8,257,719</u>
 NET ASSETS, END OF YEAR	<u><u>\$ 9,051,165</u></u>	<u><u>\$ 8,552,868</u></u>

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITIES
COMPARATIVE STATEMENTS OF CASH FLOWS
Years Ended June 30, 2006 and 2005**

Schedule 3

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 498,297	\$ 295,149
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	543,567	535,513
Amortization of discount	2,760	2,563
Amortization of origination fees	2,487	2,487
Changes in assets and liabilities		
(Increase) decrease in trade receivables	13,192	(17,566)
(Increase) decrease in unbilled usage	(18,979)	2,460
(Increase) decrease in inventories	(2,067)	(5,024)
(Increase) decrease in prepaid expenses	(1,323)	(380)
(Increase) decrease in other current assets	(22,989)	(5,998)
Increase (decrease) in accounts payable and accrued liabilities	(14,570)	(60,725)
Net cash provided by (used in) operating activities	\$ 1,000,375	\$ 748,479
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of securities	\$ 4,786,538	\$ 2,746,541
Purchase of investment securities	(5,276,732)	(2,998,393)
Purchase of property and equipment	(112,759)	(86,303)
Net cash provided by (used in) investing activities	\$ (602,953)	\$ (338,155)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term borrowing	\$ (381,000)	\$ (365,000)
Net cash provided by (used in) financing activities	\$ (381,000)	\$ (365,000)
Net increase (decrease) in cash and cash equivalents	\$ 16,422	\$ 45,324
Cash and cash equivalents:		
Beginning	3,376	(41,948)
Ending	\$ 19,798	\$ 3,376

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, 2006

Schedule 4

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to consumers	\$ 2,211,031	2,150,000	61,031
OPERATING EXPENSES			
Power & pumping	\$ 139,474	178,500	39,026
Distribution expense	165,606	160,000	(5,606)
Purification	368,314	370,000	1,686
Consumer accounting & collection	62,291	80,000	17,709
Administrative & general	225,177	226,000	823
Insurance	117,580	130,000	12,420
Transportation	11,263	10,000	(1,263)
Total operating expense excluding depreciation	<u>\$ 1,089,705</u>	<u>1,154,500</u>	<u>64,795</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 1,121,326	995,500	125,826
DEPRECIATION	<u>543,567</u>	<u>550,000</u>	<u>6,433</u>
OPERATING INCOME	<u>\$ 577,759</u>	<u>445,500</u>	<u>132,259</u>
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 7,169	7,500	(331)
Interest income	115,794	55,000	60,794
Interest expense	(202,425)	(215,000)	12,575
Total nonoperating revenues (expenses)	<u>\$ (79,462)</u>	<u>(152,500)</u>	<u>73,038</u>
NET INCOME (LOSS)	\$ 498,297	293,000	<u>205,297</u>
NET ASSETS, BEGINNING OF YEAR	<u>8,552,868</u>	<u>5,499,776</u>	
NET ASSETS, END OF YEAR	<u>\$ 9,051,165</u>	<u>5,792,776</u>	

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES
MUNICIPAL SEWER UTILITIES
COMPARATIVE BALANCE SHEETS
June 30, 2006 and 2005**

Schedule 5

	2006	2005
ASSETS		
SEWER UTILITY PLANT		
Plant in Service	\$ 4,203,078	\$ 3,995,537
Less: Accumulated depreciation	2,348,297	2,237,993
Net Sewer Utility Plant	\$ 1,854,781	\$ 1,757,544
 CURRENT ASSETS		
Unrestricted		
Cash	72,205	3,642
Deposits and investments	296,928	434,427
Accounts receivable	54,787	65,892
Unbilled usage	54,915	53,410
Due from other funds	1,235	6,009
Interest receivable	1,358	3,788
Prepaid insurance	8,185	7,838
Total Current Assets	\$ 489,613	\$ 575,006
Total Assets	\$ 2,344,394	\$ 2,332,550
 LIABILITIES AND NET ASSETS		
NET ASSETS		
Invested in Capital Assets, net of related debt	\$ 1,854,781	\$ 1,757,544
Restricted net assets	0	0
Unrestricted net assets	387,054	451,208
Total Net Assets	\$ 2,241,835	\$ 2,208,752
 CURRENT LIABILITIES		
Accounts payable	\$ 13,510	\$ 9,210
Due to other funds	1,453	11,805
Accrued vacation and sick leave	84,972	99,919
Other accrued liabilities	2,624	2,864
Total Current Liabilities	\$ 102,559	\$ 123,798
Total Liabilities and Net Assets	\$ 2,344,394	\$ 2,332,550

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, 2006 and 2005**

Schedule 5

	2006	2005
OPERATING REVENUES		
Sales to consumers	\$ 711,428	\$ 705,145
OPERATING EXPENSES		
Plant & main maintenance	\$ 175,959	\$ 199,950
Joint treatment costs	227,373	218,688
Consumer accounting & collection	41,065	38,510
Administrative & general	93,980	106,174
Insurance	39,027	41,119
Transportation	11,900	10,166
Total operating expense excluding depreciation	\$ 589,304	\$ 614,607
OPERATING INCOME BEFORE DEPRECIATION	\$ 122,124	\$ 90,538
DEPRECIATION	110,304	104,960
OPERATING INCOME	\$ 11,820	\$ (14,422)
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 5,874	\$ 0
Interest income	15,389	12,481
Total nonoperating revenues (expenses)	\$ 21,263	\$ 12,481
NET INCOME (LOSS)	\$ 33,083	\$ (1,941)
NET ASSETS, BEGINNING OF YEAR	2,208,752	2,210,693
NET ASSETS, END OF YEAR	\$ 2,241,835	\$ 2,208,752

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES
MUNICIPAL SEWER UTILITIES
COMPARATIVE STATEMENTS OF CASH FLOWS
Years Ended June 30, 2006 and 2005**

Schedule 5

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 33,083	\$ (1,941)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	110,304	104,960
Changes in assets and liabilities		
(Increase) decrease in trade receivables	15,879	(10,524)
(Increase) decrease in unbilled usage	(1,505)	76
(Increase) decrease in prepaid expenses	(347)	(112)
(Increase) decrease in other current assets	2,430	(8,473)
Increase (decrease) in accounts payable and accrued liabilities	(21,239)	23,342
Net cash provided by (used in) operating activities	\$ 138,605	\$ 107,328
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of securities	\$ 694,349	\$ 997,219
Purchase of investment securities	(556,850)	(851,214)
Purchase of property and equipment	(207,541)	(285,033)
Net cash provided by (used in) investing activities	\$ (70,042)	\$ (139,028)
CASH FLOWS FROM FINANCING ACTIVITIES		
None	\$ 0	\$ 0
Net cash provided by (used in) financing activities	\$ 0	\$ 0
Net increase (decrease) in cash and cash equivalents	\$ 68,563	\$ (31,700)
Cash and cash equivalents:		
Beginning	3,642	35,342
Ending	\$ 72,205	\$ 3,642

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, 2006**

Schedule 6

	Actual	Budget	Variance
OPERATING REVENUES			
Sales to consumers	\$ 711,428	742,500	(31,072)
OPERATING EXPENSES			
Plant & main maintenance	\$ 175,959	205,000	29,041
Joint treatment costs	227,373	190,000	(37,373)
Consumer accounting & collection	41,065	45,000	3,935
Administrative & general	93,980	89,000	(4,980)
Insurance	39,027	45,000	5,973
Transportation	11,900	7,500	(4,400)
Total operating expense excluding depreciation	\$ 589,304	581,500	(7,804)
OPERATING INCOME BEFORE DEPRECIATION	\$ 122,124	161,000	(38,876)
DEPRECIATION	110,304	125,000	14,696
OPERATING INCOME	\$ 11,820	36,000	(24,180)
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 5,874	0	5,874
Interest income	15,389	10,000	5,389
Total nonoperating revenues (expenses)	\$ 21,263	10,000	11,263
NET INCOME (LOSS)	\$ 33,083	46,000	(12,917)
NET ASSETS, BEGINNING OF YEAR	2,208,752	1,777,600	
NET ASSETS, END OF YEAR	\$ 2,241,835	1,823,600	

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES
JOINT TREATMENT FUND
COMPARATIVE BALANCE SHEETS
June 30, 2006 and 2005**

Schedule 7

	2006	2005
ASSETS		
JOINT TREATMENT PLANT		
Plant in Service	\$ 8,387,992	\$ 6,645,077
Less: Accumulated depreciation	2,453,938	2,339,149
Net Joint Treatment Plant	\$ 5,934,054	\$ 4,305,928
OTHER ASSETS		
Equipment replacement investment-restricted	\$ 156,076	\$ 606,857
CURRENT ASSETS		
Unrestricted		
Cash	\$ 11,590	\$ 498
Accounts receivable	69,510	67,913
Due from other funds	665	6,392
Interest receivable	0	3,002
Prepaid insurance	14,486	13,876
Total Current Assets	\$ 96,251	\$ 91,681
Total Assets	\$ 6,186,381	\$ 5,004,466
 LIABILITIES AND NET ASSETS		
NET ASSETS		
Invested in Capital Assets, net of related debt	\$ 4,684,054	\$ 4,305,928
Restricted net assets	0	0
Unrestricted net assets	196,150	546,477
Total Net Assets	\$ 4,880,204	\$ 4,852,405
LONG-TERM DEBT - Net of current maturities	\$ 1,125,000	\$ 0
CURRENT LIABILITIES		
Accounts payable	\$ 19,953	\$ 137,282
Due to other funds	912	11,556
Other accrued liabilities	1,979	3,223
Current maturities of long-term debt	125,000	0
Interest payable	33,333	0
Total Current Liabilities	\$ 181,177	\$ 152,061
Total Liabilities and Net Assets	\$ 6,186,381	\$ 5,004,466

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, 2006 and 2005

Schedule 7

	2006	2005
OPERATING REVENUES		
Sales to consumers	\$ 789,096	\$ 751,459
OPERATING EXPENSES		
Waste water processing expense	\$ 437,197	\$ 465,586
Administrative & general	141,821	131,980
Insurance	45,285	57,802
Transportation	9,369	10,582
Total operating expense excluding depreciation	\$ 633,672	\$ 665,950
OPERATING INCOME BEFORE DEPRECIATION	\$ 155,424	\$ 85,509
DEPRECIATION	114,789	109,349
OPERATING INCOME	\$ 40,635	\$ (23,840)
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 9,600	\$ 8,918
Interest income	10,897	21,798
Interest expense	(33,333)	0
Total nonoperating revenues (expenses)	\$ (12,836)	\$ 30,716
NET INCOME (LOSS)	\$ 27,799	\$ 6,876
NET ASSETS, BEGINNING OF YEAR	4,852,405	4,845,529
NET ASSETS, END OF YEAR	\$ 4,880,204	\$ 4,852,405

See accompanying independent auditor's report.

DENISON MUNICIPAL UTILITIES
JOINT TREATMENT FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
Years Ended June 30, 2006 and 2005

Schedule 7

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 27,799	\$ 6,876
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	114,789	109,349
Changes in assets and liabilities		
(Increase) decrease in trade receivables	4,130	(11,951)
(Increase) decrease in prepaid expenses	(610)	(187)
(Increase) decrease in other current assets	3,002	(3,881)
Increase (decrease) in accounts payable and accrued liabilities	(95,884)	132,172
Net cash provided by (used in) operating activities	\$ 53,226	\$ 232,378
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of securities	\$ 1,783,318	\$ 2,339,405
Purchase of investment securities	(1,332,537)	(1,984,540)
Purchase of property and equipment	(1,742,915)	(567,279)
Net cash provided by (used in) investing activities	\$ (1,292,134)	\$ (212,414)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from interfund loan	\$ 1,250,000	\$ 0
Principal payments on long-term borrowing	0	0
Net cash provided by (used in) financing activities	\$ 1,250,000	\$ 0
 Net increase (decrease) in cash and cash equivalents	\$ 11,092	\$ 19,964
 Cash and cash equivalents:		
Beginning	498	(19,466)
Ending	\$ 11,590	\$ 498

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, 2006

Schedule 8

	Actual	Budget	Variance
OPERATING REVENUES			
Sales to consumers	\$ 789,096	720,000	69,096
OPERATING EXPENSES			
Waste water processing expense	\$ 437,197	473,000	35,803
Administrative & general	141,821	148,500	6,679
Insurance	45,285	64,000	18,715
Transportation	9,369	9,500	131
Total operating expense excluding depreciation	\$ 633,672	695,000	61,328
OPERATING INCOME BEFORE DEPRECIATION	\$ 155,424	25,000	130,424
DEPRECIATION	114,789	130,000	15,211
OPERATING INCOME	\$ 40,635	(105,000)	145,635
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 9,600	10,000	(400)
Interest income	10,897	7,500	3,397
Interest expense	(33,333)	0	(33,333)
Total nonoperating revenues (expenses)	\$ (12,836)	17,500	(30,336)
NET INCOME (LOSS)	\$ 27,799	(87,500)	115,299
NET ASSETS, BEGINNING OF YEAR	4,852,405	(48,000)	
NET ASSETS, END OF YEAR	\$ 4,880,204	(135,500)	

See accompanying independent auditor's report.

DENISON MUNICIPAL UTILITIES
Schedule of Meters & KWH Used
Years Ended June 30, 2006 and 2005

Schedule 9

	2006		2005	
	Meters	KWH	Meters	KWH
Commercial C1	558	27,569,475	555	25,402,678
Commercial C1M	114	3,293,189	117	3,124,825
Commercial C2M	26	9,056,320	25	9,203,820
Residential R1	1,181	12,428,098	1,188	11,580,000
Residential R2M	1,445	20,173,105	1,408	18,574,928
Industrial	5	65,200,724	5	64,179,472
Water plant		2,945,330		2,868,789
Sewer plant		3,858,328		3,819,642
City Government		2,851,853		2,942,482
Other DMU uses		575,530		705,450
Energy losses		<u>4,683,703</u>		<u>5,993,963</u>
Total	<u>3,329</u>	<u>152,635,655</u>	<u>3,298</u>	<u>148,396,049</u>
Less: Energy losses		<u>4,683,703</u>		<u>5,993,963</u>
Total Meters & KWH Billed	<u><u>3,329</u></u>	<u><u>147,951,952</u></u>	<u><u>3,298</u></u>	<u><u>142,402,086</u></u>

Summary of Community Benefits Provided
Years Ended June 30, 2006 and 2005

	2006	2005
KWH Billed (from above)	147,951,952	142,402,086
Rate difference between Iowa average utility rate and Denison Municipal Utilities	<u>0.0207</u>	<u>0.0174</u>
(1) Calculated total electric savings	3,062,605	2,477,796
(2) Transfer to city general fund in lieu of tax	243,373	297,552
(3) New lights for streetscape project	0	74,203
(4) New housing assistance program	18,677	21,949
(5) Water heater rebates	<u>15,673</u>	<u>20,058</u>
Total Community Benefits	<u>\$ 3,340,328</u>	<u>\$ 2,891,558</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 duplex; however, the costs are not to exceed \$2,000 per structure. In the case of multi-family dwellings, in excess of two dwelling units, the costs are not to exceed \$500 per dwelling unit.
- (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, 2006, which collectively comprise the Utility's basic financial statements listed in the table of contents and have issued our report thereon dated August 25, 2006. 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, 2006 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 25, 2006
Denison, Iowa

DENISON MUNICIPAL UTILITIES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

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-06 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, 2006

II-B-06 Financial Policy – The Utility issued various checks not in accordance with the financial policy.

Recommendation – The Utility should follow policy regarding payment of certain expenditures made throughout the month. The checks should be properly signed according to policy.

Response – The Utility will follow the financial policy regarding check signing for future disbursements.

Conclusion - Response accepted.

DENISON MUNICIPAL UTILITIES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Part III: Other Findings Related to Statutory Reporting:

- III-A-06 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-B-06 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-C-06 Travel Expense - No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- III-D-06 Business Transactions - Business transactions between the Utility and officials are immaterial and meet the guidelines of the Code of Iowa.
- III-E-06 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-F-06 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-G-06 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-H-06 Revenue Bonds - The Utility has complied with all aspects of its bond covenants.