

**Denison Municipal Utilities**

Independent Auditor's Report

Financial Statements and  
Supplemental Information

Schedule of Findings & Questioned Costs

June 30, 2007 and 2006

# 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	2013
Christy Siemer	Board Member	2009
Nancy Bradley	Board Member	2010
Doug Nass	General Manager	2006
Mark Ramthun	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**

**MAHONEY & GOTTO COMPANY**  
*Certified Public Accountants*

201 South 7<sup>th</sup> Street  
Denison, IA 51442

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**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, 2007. 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, 2007, 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 29, 2007 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 12 and 36, 40, 44 and 48 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, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 8, 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 & Gotto Company*

MAHONEY & GOTTO COMPANY  
Certified Public Accountants

August 29, 2007  
Denison, Iowa

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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*This section of Denison Municipal Utilities annual report presents an analysis of the Utility's financial performance for the fiscal year ended June 30, 2007. 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.*

### **2007 FINANCIAL HIGHLIGHTS**

- The Utilities operating revenues increased \$968,643 or 9.59% 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. A rate increase implemented in October 2006 for electric and wastewater usage also contributed to the increase in revenues.
- Operating expenses increased by \$685,955 or 8.72% from the prior year. Increased sales of electricity and the cost of power have continued to increase causing operating expenses to rise. The amount and type of waste treated by the sewer utility has increased from prior years which have also contributed to the increase in operating expenses.
- Total assets increased \$982,910 and total liabilities decreased \$427,862, resulting in total net assets increasing \$1,410,772 or 4.92% from the prior year. Additional funds generated by the rate changes have been set aside in reserve funds to fund future replacement of equipment and infrastructure.
- Investment income increased 44% 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.

<u>Condensed Statement of Net Assets</u>			
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 11,872,322	\$ 10,093,300	\$ 9,427,211
Capital Assets	<u>25,418,681</u>	<u>26,214,793</u>	<u>24,941,597</u>
Total Assets	<u>37,291,003</u>	<u>36,308,093</u>	<u>34,368,808</u>
Long-term debt outstanding	5,343,000	5,861,423	5,130,663
Other liabilities	<u>1,887,701</u>	<u>1,797,140</u>	<u>1,743,598</u>
Total Liabilities	<u>7,230,701</u>	<u>7,658,563</u>	<u>6,874,261</u>
Invested in Capital Assets, net of related debt	19,571,500	19,868,675	19,469,726
Restricted net assets	1,208,058	1,138,041	968,657
Unrestricted net assets	<u>9,280,744</u>	<u>7,642,814</u>	<u>7,056,164</u>
Total net assets	<u>\$ 30,060,302</u>	<u>\$ 28,649,530</u>	<u>\$ 27,494,547</u>

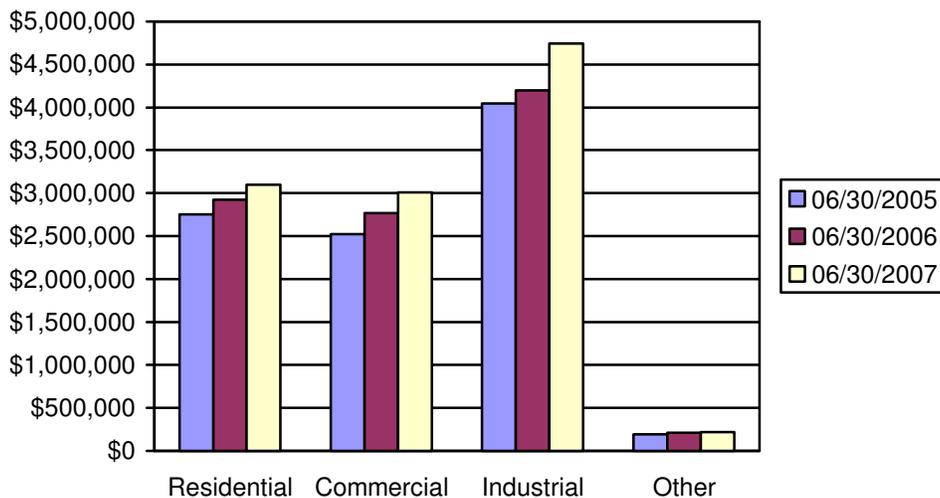
## 2007 OPERATING RESULTS

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>2007</u>	<u>2006</u>	<u>2005</u>
Program revenues			
Operating revenues	\$11,069,822	\$ 10,101,179	\$ 9,498,690
Miscellaneous	124,464	160,298	119,668
Unrestricted investment earnings	<u>429,153</u>	<u>297,886</u>	<u>183,670</u>
Total revenues	<u>11,623,439</u>	<u>10,559,363</u>	<u>9,802,028</u>
Program expenses			
Operating expenses	8,549,975	7,864,020	7,616,745
Depreciation	1,295,260	1,236,368	1,223,639
Interest on long-term debt	256,020	235,758	216,979
Miscellaneous	<u>111,412</u>	<u>68,234</u>	<u>126,680</u>
Total expenses	<u>10,212,667</u>	<u>9,404,380</u>	<u>9,184,043</u>
Increase (decrease) in net assets	1,410,772	1,154,983	617,985
Unrestricted Net assets July 1	<u>28,649,530</u>	<u>27,494,547</u>	<u>26,876,562</u>
Unrestricted Net assets June 30	<u>\$30,060,302</u>	<u>\$28,649,530</u>	<u>\$27,494,547</u>

The following graph shows a comparison of total operating revenue by customer category for the fiscal years ended June 30, 2007, 2006 and 2005.

**Comparison of Total Operating Revenues**



Following is a schedule of the number of electric meters and the kilowatts used by customer class for the fiscal years ended June 30, 2007, 2006 and 2005:

	<b>Comparison of Electric Meters &amp; Usage by Customer Class</b>					
	2007		2006		2005	
	<u>Meters</u>	<u>KWH</u>	<u>Meters</u>	<u>KWH</u>	<u>Meters</u>	<u>KWH</u>
Commercial C1	556	29,158,490	558	27,569,475	555	25,402,678
Commercial C1M	118	3,308,750	114	3,293,189	117	3,124,825
Commercial C2M	26	9,380,230	26	9,056,320	25	9,203,820
Residential R1	1,184	12,667,132	1,181	12,428,098	1,188	11,580,000
Residential R2M	1,470	21,078,255	1,445	20,173,105	1,408	18,574,925
Industrial	5	65,784,080	5	65,200,724	5	64,179,472
Water plant		3,112,590		2,945,330		2,868,789
Sewer plant		3,915,760		3,858,328		3,819,642
City Government		3,120,480		2,851,853		2,942,482
Other DMU uses		<u>624,840</u>		<u>575,530</u>		<u>705,450</u>
<b>Total Meters &amp; KWH Billed</b>	<u>3,359</u>	<u>152,150,607</u>	<u>3,329</u>	<u>147,951,952</u>	<u>3,298</u>	<u>142,402,086</u>

The number of water meters and gallons used by customer class for the fiscal years ended June 30, 2007, 2006 and 2005 is as follows:

	<b>Comparison of Water Meters &amp; Usage by Customer Class</b>					
	2007		2006		2005	
	<u>Meters</u>	<u>Gals.</u>	<u>Meters</u>	<u>Gals.</u>	<u>Meters</u>	<u>Gals.</u>
Residential	2,211	124,735,000	2,199	130,576,000	2,186	131,956,000
Commercial	394	104,795,000	388	94,692,000	377	83,708,000
West Central Rural Water	4	161,829,000	4	155,850,000	4	141,080,000
Residential Outside City	124	10,775,000	123	11,101,000	118	9,670,000
Commercial Outside City	16	31,897,000	17	30,214,000	14	27,082,000
Industrial	8	436,946,000	10	422,779,000	9	396,906,000
Electric Department		790,000		1,169,000		1,168,000
Sewer plant		1,584,000		2,171,000		3,320,000
City Government		<u>7,118,000</u>		<u>7,576,000</u>		<u>7,521,000</u>
<b>Total Meters &amp; KWH Billed</b>	<u>2,757</u>	<u>880,469,000</u>	<u>2,741</u>	<u>856,128,000</u>	<u>2,708</u>	<u>802,411,000</u>

## **CAPITAL ASSETS**

The Utilities' capital assets include land, buildings, improvements, service lines, automobiles and equipment, and street lights. A total of \$493,848 was invested in new capital assets, but after accounting for depreciation, there was a decrease of \$796,112 in Capital Assets from June 30, 2006.

## **LONG-TERM DEBT**

As of June 30, 2007, the Utility had \$5.34 million in outstanding debt compared to \$5.86 million as of June 30, 2006. The decrease represents principal payments made during the fiscal year ended June 30, 2007. The outstanding debt of the water utility consists entirely of revenue bonds, which are secured by specific revenue sources. Due to favorable interest rates, the remaining balance of the Series 97 Water Revenue Bonds was refunded with Water Revenue Loan Notes bearing a lower interest rate.

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 2008, the Utilities will implement a rate changes for the water and wastewater operating divisions. Capital additions will be financed through cash reserves and operating cash flows.

**COMMUNITY BENEFITS PROVIDED**

As a municipal utility, DMU is able to provide the citizens of Denison with a variety of community benefits through lower rates and various customer programs. Following is a schedule of community benefits provided during the fiscal years ended June 30, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
KWH Billed	152,150,607	147,951,952
Rate difference between Iowa average utility rate and Denison Municipal Utilities	<u>0.0228</u>	<u>0.0207</u>
(1) Calculated total electric savings	\$ 3,469,034	\$ 3,062,605
(2) Transfer to City general fund in lieu of taxes	254,105	243,373
(3) New housing assistance program	12,486	18,677
(4) Water heater rebates	<u>19,545</u>	<u>15,673</u>
<b>Total Community Benefits</b>	<b><u>\$ 3,755,170</u></b>	<b><u>\$ 3,340,328</u></b>

- (1) The Iowa average utility rate is arrived at by comparing the most recent data available from the US Energy Information Administration on Iowa investor owned utilities.
- (2) Payment of utility bills based upon the costs associated with street and public recreation area lighting are remitted by the city monthly. A cash remittance of the same amount is given to the city as a payment in lieu of taxes.
- (3) Denison Municipal Utilities has agreed to 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 reimbursement amount is not to exceed \$2,000 per structure. In the cash of multi-family dwellings, in excess of two units, the reimbursement amount is not to exceed \$500 per dwelling unit.
- (4) 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.

## **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, 2007 and 2006**

**Exhibit A**

ASSETS	BUSINESS-TYPE ACTIVITIES	
	2007	2006
<b>UTILITY PLANT</b>		
Plant in Service, at cost	\$ 46,058,240	\$ 45,564,392
Less: Accumulated depreciation	20,639,559	19,349,599
Net Utility Plant	\$ 25,418,681	\$ 26,214,793
<b>OTHER ASSETS</b>		
Restricted		
Revenue bond reserve	\$ 1,229,939	\$ 1,169,169
Loan origination fee, net of accumulated amortization (Note 4)	34,818	37,305
Note Receivable	1,125,000	1,250,000
Equipment replacement investment	241,337	156,076
Deferred compensation	148,453	130,368
	\$ 2,779,547	\$ 2,742,918
<b>CURRENT ASSETS</b>		
Restricted		
Consumers' deposit fund	\$ 59,366	\$ 50,897
Unrestricted		
Cash	1,234,218	562,829
Deposits and investments	5,811,686	4,825,994
Accounts receivable	752,035	624,370
Unbilled usage	585,677	535,070
Due from other funds	6,045	6,572
Interest receivable	97,793	106,929
Inventory	451,379	547,089
Prepaid insurance	94,576	90,632
Total Current Assets	\$ 9,092,775	\$ 7,350,382
Total Assets	\$ 37,291,003	\$ 36,308,093

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**STATEMENT OF NET ASSETS**  
**June 30, 2007 and 2006**

**Exhibit A**

	BUSINESS-TYPE ACTIVITIES	
	2007	2006
<b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets, net of related debt	\$ 19,571,500	\$ 19,868,675
Restricted net assets	1,208,058	1,138,041
Unrestricted net assets	9,280,744	7,642,814
Total Net Assets	\$ 30,060,302	\$ 28,649,530
<b>LONG-TERM DEBT</b>		
Net of current maturities (Note 5)	\$ 5,343,000	\$ 5,861,423
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 688,986	\$ 645,793
Due to other funds	6,045	6,572
Accrued vacation and sick leave	364,128	355,135
Other accrued liabilities	43,246	26,787
Payable from restricted assets		
Deferred compensation	148,453	130,368
Current maturities of long-term debt (Note 5)	539,000	522,000
Interest payable	44,381	64,461
Consumers' deposits	53,462	46,024
Total Current Liabilities	\$ 1,887,701	\$ 1,797,140
Total Liabilities and Net Assets	\$ 37,291,003	\$ 36,308,093

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**STATEMENT OF ACTIVITIES**  
**Years Ended June 30, 2007 and 2006**

**Exhibit B**

Functions/Programs	Expenses	Charges for service	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue 2007	Revenue 2006
<b>Business-type activities:</b>						
Electric Utility	\$ 6,382,324	6,832,199	0	0	449,875	370,577
Water Utility	1,767,850	2,236,015	0	0	468,165	577,759
Sewer Utility	861,040	966,218	0	0	105,178	11,820
Joint Treatment	834,021	1,035,390	0	0	201,369	40,635
Interest on long-term debt	256,020	0	0	0	(256,020)	(235,758)
<b>Total Business-type activities</b>	<b>\$ 10,101,255</b>	<b>11,069,822</b>	<b>0</b>	<b>0</b>	<b>968,567</b>	<b>765,033</b>
<b>General Revenues:</b>						
Unrestricted investment income					\$ 429,153	297,886
Miscellaneous					13,052	92,064
<b>Change in net assets</b>					<b>1,410,772</b>	<b>1,154,983</b>
<b>Net assets, beginning of year</b>					<b>28,649,530</b>	<b>27,494,547</b>
<b>Net assets, end of year</b>					<b>\$ 30,060,302</b>	<b>28,649,530</b>

**DENISON MUNICIPAL UTILITIES**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
**June 30, 2007 and 2006**

**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 2007</u>	<u>Total 2006</u>
<b>ASSETS</b>							
<b>UTILITY PLANT</b>							
Plant in Service	\$ 16,645,777	16,735,454	4,285,225	8,391,784	0	46,058,240	45,564,392
Less: Accumulated depreciation	9,097,911	6,459,707	2,460,402	2,621,539	0	20,639,559	19,349,599
Net Utility Plant	<u>\$ 7,547,866</u>	<u>10,275,747</u>	<u>1,824,823</u>	<u>5,770,245</u>	<u>0</u>	<u>25,418,681</u>	<u>26,214,793</u>
<b>OTHER ASSETS</b>							
Restricted							
Revenue bond reserve-restricted	\$ 0	1,229,939	0	0	0	1,229,939	1,169,169
Loan origination fee, net of accumulated amortization (Note 4)	0	34,818	0	0	0	34,818	37,305
Note receivable - Joint Treatment Fund	1,125,000	0	0	0	0	1,125,000	1,250,000
Equipment replacement investment	0	0	0	241,337	0	241,337	156,076
Deferred compensation	0	0	0	0	148,453	148,453	130,368
Total Other Assets	<u>\$ 1,125,000</u>	<u>1,264,757</u>	<u>0</u>	<u>241,337</u>	<u>148,453</u>	<u>2,779,547</u>	<u>2,742,918</u>
<b>CURRENT ASSETS</b>							
Restricted							
Consumers' deposit fund	\$ 59,366	0	0	0	0	59,366	50,897
Unrestricted							
Cash	969,382	63,265	111,543	90,028	0	1,234,218	562,829
Deposits and investments	2,955,605	2,420,634	435,447	0	0	5,811,686	4,825,994
Accounts receivable	391,582	168,446	76,877	115,130	0	752,035	624,370
Unbilled usage	378,468	138,826	68,383	0	0	585,677	535,070
Due from other funds	2,303	1,685	1,287	770	0	6,045	6,572
Interest receivable	51,532	41,262	4,999	0	0	97,793	106,929
Inventory	380,287	71,092	0	0	0	451,379	547,089
Prepaid insurance	37,802	33,106	8,547	15,121	0	94,576	90,632
Total Current Assets	<u>\$ 5,226,327</u>	<u>2,938,316</u>	<u>707,083</u>	<u>221,049</u>	<u>0</u>	<u>9,092,775</u>	<u>7,350,382</u>
Total Assets	<u>\$ 13,899,193</u>	<u>14,478,820</u>	<u>2,531,906</u>	<u>6,232,631</u>	<u>148,453</u>	<u>37,291,003</u>	<u>36,308,093</u>

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
**June 30, 2007 and 2006**

**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 2007</u>	<u>Total 2006</u>
<b>LIABILITIES AND NET ASSETS</b>							
<b>NET ASSETS</b>							
Invested in Capital Assets, net of related debt	\$ 7,547,866	5,553,565	1,824,823	4,645,246	0	19,571,500	19,868,675
Restricted net assets	0	1,208,058	0	0	0	1,208,058	1,138,041
Unrestricted net assets	<u>5,578,657</u>	<u>2,743,762</u>	<u>549,943</u>	<u>408,382</u>	<u>0</u>	<u>9,280,744</u>	<u>7,642,814</u>
Total Net Assets	<u>\$ 13,126,523</u>	<u>9,505,385</u>	<u>2,374,766</u>	<u>5,053,628</u>	<u>0</u>	<u>30,060,302</u>	<u>28,649,530</u>
<b>LONG-TERM DEBT -</b>							
Net of current maturities (Note 5)	<u>\$ 0</u>	<u>4,343,000</u>	<u>0</u>	<u>1,000,000</u>	<u>0</u>	<u>5,343,000</u>	<u>5,861,423</u>
<b>CURRENT LIABILITIES</b>							
Accounts payable	\$ 523,931	70,900	67,569	26,586	0	688,986	645,793
Due to other funds	1,994	1,668	1,472	911	0	6,045	6,572
Accrued vacation and sick leave	174,261	106,114	83,753	0	0	364,128	355,135
Other accrued liabilities	19,022	15,872	4,346	4,006	0	43,246	26,787
Payable from restricted assets							
Deferred compensation	0	0	0	0	148,453	148,453	130,368
Current maturities of long-term debt (Note 5)	0	414,000	0	125,000	0	539,000	522,000
Interest payable	0	21,881	0	22,500	0	44,381	64,461
Consumers' deposits	53,462	0	0	0	0	53,462	46,024
Total Current Liabilities	<u>\$ 772,670</u>	<u>630,435</u>	<u>157,140</u>	<u>179,003</u>	<u>148,453</u>	<u>1,887,701</u>	<u>1,797,140</u>
Total Liabilities and Net Assets	<u>\$ 13,899,193</u>	<u>14,478,820</u>	<u>2,531,906</u>	<u>6,232,631</u>	<u>148,453</u>	<u>37,291,003</u>	<u>36,308,093</u>

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS**  
**Years Ended June 30, 2007 and 2006**

**Exhibit D**

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2007	Total 2006
<b>OPERATING REVENUES</b>						
Sales to consumers	\$ 6,801,799	2,236,015	966,218	1,035,390	11,039,422	10,072,366
Other operating revenues	30,400	0	0	0	30,400	28,813
Total operating revenues	<u>\$ 6,832,199</u>	<u>2,236,015</u>	<u>966,218</u>	<u>1,035,390</u>	<u>11,069,822</u>	<u>10,101,179</u>
<b>OPERATING EXPENSES</b>						
Cost of Power	\$ 4,752,905	0	0	0	4,752,905	4,370,841
Plant & main maintenance	87,764	0	260,072	0	347,836	274,119
Power & pumping	0	162,370	0	0	162,370	139,474
Distribution expense	414,662	214,217	0	0	628,879	612,424
Purification	0	433,724	0	0	433,724	368,314
Waste water processing expense	0	0	0	460,763	460,763	437,197
Joint treatment costs	0	0	303,813	0	303,813	227,373
Consumer accounting & collection	76,791	61,757	44,937	0	183,485	190,282
Administrative & general	361,504	209,759	80,849	139,361	791,473	813,244
Insurance	185,983	123,658	49,385	56,412	415,438	365,921
Transportation	37,233	12,293	9,879	9,884	69,289	64,831
Total operating expense excluding depreciation	<u>\$ 5,916,842</u>	<u>1,217,778</u>	<u>748,935</u>	<u>666,420</u>	<u>8,549,975</u>	<u>7,864,020</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 915,357	1,018,237	217,283	368,970	2,519,847	2,237,159
DEPRECIATION	<u>465,482</u>	<u>550,072</u>	<u>112,105</u>	<u>167,601</u>	<u>1,295,260</u>	<u>1,236,368</u>
OPERATING INCOME	\$ 449,875	468,165	105,178	201,369	1,224,587	1,000,791
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Miscellaneous	\$ 105,307	6,259	4,907	7,991	124,464	160,298
Interest income	206,427	188,316	22,846	11,564	429,153	297,886
Interest expense	0	(208,520)	0	(47,500)	(256,020)	(235,758)
Economic development costs (Note 9)	(111,412)	0	0	0	(111,412)	(68,234)
Total nonoperating revenues (expenses)	<u>\$ 200,322</u>	<u>(13,945)</u>	<u>27,753</u>	<u>(27,945)</u>	<u>186,185</u>	<u>154,192</u>
NET INCOME (LOSS)	\$ 650,197	454,220	132,931	173,424	1,410,772	1,154,983
NET ASSETS, BEGINNING 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>
NET ASSETS, END OF YEAR	<u>\$ 13,126,523</u>	<u>9,505,385</u>	<u>2,374,766</u>	<u>5,053,628</u>	<u>30,060,302</u>	<u>28,649,530</u>

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**Years Ended June 30, 2007 and 2006**

**Exhibit E**

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2007	Total 2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Net income (loss)	\$ 650,197	454,220	132,931	173,424	1,410,772	1,154,983
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Depreciation	465,482	550,072	112,105	167,601	1,295,260	1,236,368
Amortization of discount	0	26,102	0	0	26,102	2,760
Amortization of origination fees	0	2,487	0	0	2,487	2,487
Changes in assets and liabilities						
(Increase) decrease in consumers' deposit fund	(8,469)	0	0	0	(8,469)	(4,259)
(Increase) decrease in trade receivables	(71,962)	12,007	(22,090)	(45,620)	(127,665)	(15,618)
(Increase) decrease in unbilled usage	(39,383)	2,244	(13,468)	0	(50,607)	(76,586)
(Increase) decrease in inventories	108,482	(12,772)	0	0	95,710	(131,471)
(Increase) decrease in prepaid expenses	(1,571)	(1,376)	(362)	(635)	(3,944)	(3,791)
(Increase) decrease in other current assets	17,595	(4,134)	(3,693)	(105)	9,663	(42,946)
Increase (decrease) in accounts payable and accrued liabilities	(50,865)	46,496	54,581	(2,174)	48,038	(97,075)
Increase (decrease) in customer deposits	7,438	0	0	0	7,438	2,467
Net cash provided by (used in) operating activities	<u>1,076,944</u>	<u>1,075,346</u>	<u>260,004</u>	<u>292,491</u>	<u>2,704,785</u>	<u>2,027,319</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Proceeds from sale/maturities of securities	5,219,526	5,901,769	438,957	35,000	11,595,252	12,762,293
Purchase of investment securities	(5,668,065)	(6,361,173)	(577,476)	(120,261)	(12,726,975)	(11,744,653)
Purchase of property and equipment	(243,259)	(169,950)	(82,147)	(3,792)	(499,148)	(2,509,564)
Interfund loan to Joint Treatment	125,000	0	0	0	125,000	(1,250,000)
Net cash provided by (used in) investing activities	<u>(566,798)</u>	<u>(629,354)</u>	<u>(220,666)</u>	<u>(89,053)</u>	<u>(1,505,871)</u>	<u>(2,741,924)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Proceeds from interfund loan	0	0	0	0	0	1,250,000
Proceeds from long-term borrowing	0	1,099,475	0	0	1,099,475	0
Principal payments on long-term borrowings	0	(1,502,000)	0	(125,000)	(1,627,000)	(381,000)
Net cash provided by (used in) financing activities	<u>0</u>	<u>(402,525)</u>	<u>0</u>	<u>(125,000)</u>	<u>(527,525)</u>	<u>869,000</u>
Net increase (decrease) in cash and cash equivalents	510,146	43,467	39,338	78,438	671,389	154,395
<b>Cash and cash equivalents:</b>						
Beginning	459,236	19,798	72,205	11,590	562,829	408,434
Ending	<u>\$ 969,382</u>	<u>63,265</u>	<u>111,543</u>	<u>90,028</u>	<u>1,234,218</u>	<u>562,829</u>

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**EXPENDABLE TRUST FUNDS**  
**June 30, 2007 and 2006**

**Exhibit F**

	2007	2006
<b>ASSETS</b>		
<b>OTHER ASSETS</b>		
Restricted		
Deferred compensation	\$ 148,453	\$ 130,368
<b>CURRENT ASSETS</b>		
None	\$ <u>0</u>	\$ <u>0</u>
Total Assets	\$ <u><u>148,453</u></u>	\$ <u><u>130,368</u></u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
None	\$ <u>0</u>	\$ <u>0</u>
<b>CURRENT LIABILITIES</b>		
Payable from restricted assets		
Deferred compensation	\$ <u>148,453</u>	<u>130,368</u>
Total Current Liabilities	\$ <u>148,453</u>	\$ <u>130,368</u>
Total Liabilities and Net Assets	\$ <u><u>148,453</u></u>	\$ <u><u>130,368</u></u>

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DENISON MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

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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 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, 2007. 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, 2007.

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, 2007, disbursements did not exceed the amounts budgeted.

## Note 2 – Deposits and Investments

The Utility's deposits at June 30, 2007 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>2007</u>	<u>2006</u>
Land	\$ 909,657	909,657
Plant	15,198,713	15,072,851
Distribution & Collection	17,574,419	17,254,093
Machinery & Equipment	748,719	738,239
General Buildings	2,132,268	2,113,022
Transportation Equipment	1,104,479	1,090,338
Joint Treatment	<u>8,389,985</u>	<u>8,386,192</u>
 TOTAL	 46,058,240	 45,564,392
 Less: Accumulated Depreciation	 <u>20,639,559</u>	 <u>19,349,599</u>
 Net Property, Plant & Equipment	 <u>\$25,418,681</u>	 <u>26,214,793</u>
 Depreciation Charged to Operations	 <u>\$ 1,295,260</u>	 <u>1,236,368</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

In April 2007, the Board of Trustees approved the redemption of the Series 97 Water Revenue Bonds with Water Revenue Refunding Capital Loan Notes. Denison Municipal Utilities was able to achieve a savings of approximately \$47,000 in interest costs by refunding the Revenue Bonds.

Following is a summary of changes in the water utility long-term debt for the year ended June 30, 2007:

	Series 97 Water Revenue Bonds	Series 2001 Water Revenue Capital Loan Note	Series 2007 Water Revenue Refunding Capital Loan Notes	Total Bonds Payable
Balance July 1, 2006	\$ 1,295,000	3,859,000	0	5,154,000
Issued	0	0	1,105,000	1,105,000
Redeemed & Refunded	(1,295,000)	(207,000)	0	(1,502,000)
Balance June 30, 2007	0	3,652,000	1,105,000	4,757,000
Less: current portion	0	(214,000)	(200,000)	(397,000)
Long-term debt, net of current portion	\$ 0	3,438,000	905,000	4,343,000

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

Year Ending June 30	Series 2007		Series 2001		Service Fees
	Principal	Interest	Principal	Interest	
2008	\$ 200,000	38,658	214,000	109,560	9,130
2009	210,000	34,645	220,000	103,140	8,595
2010	220,000	26,770	227,000	96,540	8,045
2011	230,000	18,410	233,000	89,730	7,478
2012	245,000	9,555	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
	\$ 1,105,000	128,038	3,652,000	874,290	72,858

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.

During the fiscal year ended June 30, 2006, the electric utility had advanced funds to the joint treatment utility to expand the waste treatment facility. The loan bears an interest rate of 4.0% and is due in annual installments payable on January 1 of each year. Following is the summary of changes in the joint treatment utility long-term debt for the year ended June 30, 2007.

## Note 5 – Long-Term Debt (continued)

Long-term liability activity for the fiscal year ended June 30, 2007:

	<u>Notes Payable</u>
Balance July 1, 2006	\$ 1,250,000
Redeemed	<u>125,000</u>
Balance June 30, 2007	1,125,000
Less: current portion	<u>(125,000)</u>
Long-term debt, net of current portion	<u>\$ 1,000,000</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>
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>\$ 1,125,000</u>	<u>225,000</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. The contribution rates for the employee and employer will be changing to 3.90% and 6.05%, respectively, July 1, 2007. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the years ended June 30, 2007 and 2006 were \$75,035 and \$74,019 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 \$9,616 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 \$520 for the fiscal year ended June 30, 2007.

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

The Utility has entered into a construction contract totaling \$94,255 for a sanitary sewer & water main extension. At June 30, 2007, \$88,509 had been paid and the work was 98.9% complete. The remaining amount of the contract will be paid as work on the project 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, 2007 and 2006 were \$111,412 and \$68,234, 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.

## **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, 2007**

	Actual	Budgeted Amounts Original & Final	Variance Favorable (Unfavorable)
Receipts			
Charges for service	\$ 10,891,550	10,495,300	396,250
Interest income	438,289	175,000	263,289
Miscellaneous	124,464	132,500	(8,036)
Total Receipts	11,454,303	10,802,800	651,503
 Disbursements	 10,160,158	 10,121,100	 (39,058)
Excess of Receipts Over (Under) Disbursements	1,294,145	681,700	612,445
 Beginning net assets	 8,588,228		
Ending net assets	\$ 9,882,373		

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES  
BUDGET TO GAAP RECONCILIATION  
REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended June 30, 2007**

	Proprietary Funds		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues			
Charges for service	\$ 10,891,550	178,272	11,069,822
Interest income	438,289	(9,136)	429,153
Miscellaneous	124,464	0	124,464
Total Revenue	<u>11,454,303</u>	<u>169,136</u>	<u>11,623,439</u>
Expenditures/expenses	<u>10,160,158</u>	<u>52,509</u>	<u>10,212,667</u>
Excess of Revenues Over (Under) Expenditures	1,294,145	116,627	1,410,772
Beginning net assets	<u>8,588,228</u>	<u>20,061,302</u>	<u>28,649,530</u>
Ending net assets	<u>\$ 9,882,373</u>	<u>20,177,929</u>	<u>30,060,302</u>

See accompanying independent auditor's report.

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DENISON MUNICIPAL UTILITIES  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
JUNE 30, 2007

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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, 2007, 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, 2007 and 2006**

**Schedule 1**

	2007	2006
<b>ASSETS</b>		
<b>ELECTRIC UTILITY PLANT</b>		
Plant in Service	\$ 16,645,777	\$ 16,405,818
Less: Accumulated depreciation	9,097,911	8,635,729
Net Electric Utility Plant	\$ 7,547,866	\$ 7,770,089
<b>OTHER ASSETS</b>		
Note Receivable-Joint Treatment Fund	\$ 1,125,000	\$ 1,250,000
<b>CURRENT ASSETS</b>		
Restricted		
Consumers' deposit fund	\$ 59,366	\$ 50,897
Unrestricted		
Cash	969,382	459,236
Deposits and investments	2,955,605	2,507,066
Accounts receivable	391,582	319,620
Unbilled usage	378,468	339,085
Due from other funds	2,303	2,258
Interest receivable	51,532	69,172
Inventory	380,287	488,769
Prepaid insurance	37,802	36,231
Total Current Assets	\$ 5,226,327	\$ 4,272,334
Total Assets	\$ 13,899,193	\$ 13,292,423
 <b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets, net of related debt	\$ 7,547,866	\$ 7,770,089
Restricted net assets	0	0
Unrestricted net assets	5,578,657	4,706,237
Total Net Assets	\$ 13,126,523	\$ 12,476,326
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 523,931	\$ 587,758
Due to other funds	1,994	2,854
Accrued vacation and sick leave	174,261	169,514
Other accrued liabilities	19,022	9,947
Payable from restricted assets		
Consumers' deposits	53,462	46,024
Total Current Liabilities	\$ 772,670	\$ 816,097
Total Liabilities and Net Assets	\$ 13,899,193	\$ 13,292,423

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, 2007 and 2006**

**Schedule 1**

	2007	2006
<b>OPERATING REVENUES</b>		
Sales to consumers	\$ 6,801,799	\$ 6,360,811
Other operating revenues	30,400	28,813
Total operating revenues	\$ 6,832,199	\$ 6,389,624
 <b>OPERATING EXPENSES</b>		
Cost of Power	\$ 4,752,905	\$ 4,370,841
Maintenance	87,764	98,160
Distribution expense	414,662	446,818
Consumer accounting & collection	76,791	86,926
Administrative & general	361,504	352,266
Insurance	185,983	164,029
Transportation	37,233	32,299
Total operating expense excluding depreciation	\$ 5,916,842	\$ 5,551,339
 <b>OPERATING INCOME BEFORE DEPRECIATION</b>	\$ 915,357	\$ 838,285
 <b>DEPRECIATION</b>	465,482	467,708
 <b>OPERATING INCOME</b>	\$ 449,875	\$ 370,577
 <b>NONOPERATING REVENUES (EXPENSES)</b>		
Miscellaneous	\$ 105,307	\$ 137,655
Interest income	206,427	155,806
Economic development costs	(111,412)	(68,234)
Total nonoperating revenues (expenses)	\$ 200,322	\$ 225,227
 <b>NET INCOME (LOSS)</b>	\$ 650,197	\$ 595,804
 <b>NET ASSETS, BEGINNING OF YEAR</b>	12,476,326	11,880,522
 <b>NET ASSETS, END OF YEAR</b>	\$ 13,126,523	\$ 12,476,326

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES  
MUNICIPAL ELECTRIC UTILITIES  
COMPARATIVE STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2007 and 2006**

**Schedule 1**

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 650,197	\$ 595,804
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	465,482	467,708
Changes in assets and liabilities		
(Increase) decrease in consumers' deposit fund	(8,469)	(4,259)
(Increase) decrease in trade receivables	(71,962)	(48,819)
(Increase) decrease in unbilled usage	(39,383)	(56,102)
(Increase) decrease in inventories	108,482	(129,404)
(Increase) decrease in prepaid expenses	(1,571)	(1,511)
(Increase) decrease in other current assets	17,595	(25,389)
Increase (decrease) in accounts payable and accrued liabilities	(50,865)	34,618
Increase (decrease) in customer deposits	7,438	2,467
Net cash provided by (used in) operating activities	\$ 1,076,944	\$ 835,113
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale/maturities of securities	\$ 5,219,526	\$ 5,498,088
Purchase of investment securities	(5,668,065)	(4,578,534)
Interfund loan to Joint Treatment	125,000	(1,250,000)
Purchase of property and equipment	(243,259)	(446,349)
Net cash provided by (used in) investing activities	\$ (566,798)	\$ (776,795)
<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	\$ 510,146	\$ 58,318
Cash and cash equivalents:		
Beginning	459,236	400,918
Ending	\$ 969,382	\$ 459,236

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, 2007**

**Schedule 2**

	Actual	Budget	Variance
OPERATING REVENUES			
Sales to consumers	\$ 6,801,799	6,668,300	133,499
Other operating revenues	30,400	29,000	1,400
Total operating revenues	\$ 6,832,199	6,697,300	134,899
 OPERATING EXPENSES			
Cost of Power	\$ 4,752,905	4,750,000	(2,905)
Maintenance	87,764	101,500	13,736
Distribution expense	414,662	411,250	(3,412)
Consumer accounting & collection	76,791	102,500	25,709
Administrative & general	361,504	424,000	62,496
Insurance	185,983	180,000	(5,983)
Transportation	37,233	31,000	(6,233)
Total operating expense excluding depreciation	\$ 5,916,842	6,000,250	83,408
 OPERATING INCOME BEFORE DEPRECIATION	\$ 915,357	697,050	218,307
 DEPRECIATION	465,482	450,000	(15,482)
 OPERATING INCOME	\$ 449,875	247,050	202,825
 NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 105,307	105,000	307
Interest income	206,427	95,000	111,427
Economic development costs	(111,412)	(135,000)	23,588
Total nonoperating revenues (expenses)	\$ 200,322	65,000	135,322
 NET INCOME (LOSS)	\$ 650,197	312,050	338,147
 NET ASSETS, BEGINNING OF YEAR	12,476,326	10,297,180	
 NET ASSETS, END OF YEAR	\$ 13,126,523	10,609,230	

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES  
MUNICIPAL WATER UTILITIES  
COMPARATIVE BALANCE SHEETS  
June 30, 2007 and 2006**

**Schedule 3**

	2007	2006
<b>ASSETS</b>		
<b>WATER UTILITY PLANT</b>		
Plant in Service	\$ 16,735,454	\$ 16,567,504
Less: Accumulated depreciation	6,459,707	5,911,635
Net Water Utility Plant	\$ 10,275,747	\$ 10,655,869
<b>OTHER ASSETS</b>		
Revenue bond reserve-restricted	\$ 1,229,939	\$ 1,169,169
Loan origination fee	34,818	37,305
Total Other Assets	\$ 1,264,757	\$ 1,206,474
<b>CURRENT ASSETS</b>		
Unrestricted		
Cash	\$ 63,265	\$ 19,798
Deposits and investments	2,420,634	2,022,000
Accounts receivable	168,446	180,453
Unbilled usage	138,826	141,070
Due from other funds	1,685	2,414
Interest receivable	41,262	36,399
Inventory	71,092	58,320
Prepaid insurance	33,106	31,730
Total Current Assets	\$ 2,938,316	\$ 2,492,184
Total Assets	\$ 14,478,820	\$ 14,354,527
 <b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets, net of related debt	\$ 5,553,565	\$ 5,559,751
Restricted nets assets	1,208,058	1,138,041
Unrestricted net assets	2,743,762	2,353,373
Total Net Assets	\$ 9,505,385	\$ 9,051,165
LONG-TERM DEBT - Net of current maturities	\$ 4,343,000	\$ 4,736,423
 <b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 70,900	\$ 24,572
Due to other funds	1,668	1,353
Accrued vacation and sick leave	106,114	100,649
Other accrued liabilities	15,872	12,237
Payable from restricted assets		
Current maturities of long-term debt	414,000	397,000
Interest payable	21,881	31,128
Total Current Liabilities	\$ 630,435	\$ 566,939
Total Liabilities and Net Assets	\$ 14,478,820	\$ 14,354,527

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, 2007 and 2006**

**Schedule 3**

	2007	2006
OPERATING REVENUES		
Sales to consumers	\$ <u>2,236,015</u>	\$ <u>2,211,031</u>
OPERATING EXPENSES		
Power & pumping	\$ 162,370	\$ 139,474
Distribution expense	214,217	165,606
Purification	433,724	368,314
Consumer accounting & collection	61,757	62,291
Administrative & general	209,759	225,177
Insurance	123,658	117,580
Transportation	12,293	11,263
Total operating expense excluding depreciation	\$ <u>1,217,778</u>	\$ <u>1,089,705</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 1,018,237	\$ 1,121,326
DEPRECIATION	<u>550,072</u>	<u>543,567</u>
OPERATING INCOME	\$ <u>468,165</u>	\$ <u>577,759</u>
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 6,259	\$ 7,169
Interest income	188,316	115,794
Interest expense	<u>(208,520)</u>	<u>(202,425)</u>
Total nonoperating revenues (expenses)	\$ <u>(13,945)</u>	\$ <u>(79,462)</u>
NET INCOME (LOSS)	\$ 454,220	\$ 498,297
NET ASSETS, BEGINNING OF YEAR	<u>9,051,165</u>	<u>8,552,868</u>
NET ASSETS, END OF YEAR	<u><u>9,505,385</u></u>	<u><u>9,051,165</u></u>

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES  
MUNICIPAL WATER UTILITIES  
COMPARATIVE STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2007 and 2006**

**Schedule 3**

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 454,220	\$ 498,297
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	550,072	543,567
Amortization of discount	26,102	2,760
Amortization of origination fees	2,487	2,487
Changes in assets and liabilities		
(Increase) decrease in trade receivables	12,007	13,192
(Increase) decrease in unbilled usage	2,244	(18,979)
(Increase) decrease in inventories	(12,772)	(2,067)
(Increase) decrease in prepaid expenses	(1,376)	(1,323)
(Increase) decrease in other current assets	(4,134)	(22,989)
Increase (decrease) in accounts payable and accrued liabilities	46,496	(14,570)
Net cash provided by (used in) operating activities	\$ 1,075,346	\$ 1,000,375
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale/maturities of securities	\$ 5,901,769	\$ 4,786,538
Purchase of investment securities	(6,361,173)	(5,276,732)
Purchase of property and equipment	(169,950)	(112,759)
Net cash provided by (used in) investing activities	\$ (629,354)	\$ (602,953)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term borrowing	\$ 1,099,475	\$ 0
Principal payments on long-term borrowing	(1,502,000)	(381,000)
Net cash provided by (used in) financing activities	\$ (402,525)	\$ (381,000)
Net increase (decrease) in cash and cash equivalents	\$ 43,467	\$ 16,422
Cash and cash equivalents:		
Beginning	19,798	3,376
Ending	\$ 63,265	\$ 19,798

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, 2007**

**Schedule 4**

	Actual	Budget	Variance
OPERATING REVENUES			
Sales to consumers	\$ 2,236,015	2,268,500	(32,485)
OPERATING EXPENSES			
Power & pumping	\$ 162,370	151,500	(10,870)
Distribution expense	214,217	188,000	(26,217)
Purification	433,724	390,000	(43,724)
Consumer accounting & collection	61,757	75,000	13,243
Administrative & general	209,759	200,100	(9,659)
Insurance	123,658	139,750	16,092
Transportation	12,293	10,000	(2,293)
Total operating expense excluding depreciation	\$ 1,217,778	1,154,350	(63,428)
OPERATING INCOME BEFORE DEPRECIATION	\$ 1,018,237	1,114,150	(95,913)
DEPRECIATION	550,072	545,000	(5,072)
OPERATING INCOME	\$ 468,165	569,150	(100,985)
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 6,259	7,500	(1,241)
Interest income	188,316	75,000	113,316
Interest expense	(208,520)	(187,000)	(21,520)
Total nonoperating revenues (expenses)	\$ (13,945)	(104,500)	90,555
NET INCOME (LOSS)	\$ 454,220	464,650	(10,430)
NET ASSETS, BEGINNING OF YEAR	9,051,165	5,792,776	
NET ASSETS, END OF YEAR	\$ 9,505,385	6,257,426	

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES  
MUNICIPAL SEWER UTILITIES  
COMPARATIVE BALANCE SHEETS  
June 30, 2007 and 2006**

**Schedule 5**

	2007	2006
<b>ASSETS</b>		
<b>SEWER UTILITY PLANT</b>		
Plant in Service	\$ 4,285,225	\$ 4,203,078
Less: Accumulated depreciation	2,460,402	2,348,297
Net Sewer Utility Plant	\$ 1,824,823	\$ 1,854,781
 <b>CURRENT ASSETS</b>		
Unrestricted		
Cash	111,543	72,205
Deposits and investments	435,447	296,928
Accounts receivable	76,877	54,787
Unbilled usage	68,383	54,915
Due from other funds	1,287	1,235
Interest receivable	4,999	1,358
Prepaid insurance	8,547	8,185
Total Current Assets	\$ 707,083	\$ 489,613
Total Assets	\$ 2,531,906	\$ 2,344,394
 <b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets, net of related debt	\$ 1,824,823	\$ 1,854,781
Restricted net assets	0	0
Unrestricted net assets	549,943	387,054
Total Net Assets	\$ 2,374,766	\$ 2,241,835
 <b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 67,569	\$ 13,510
Due to other funds	1,472	1,453
Accrued vacation and sick leave	83,753	84,972
Other accrued liabilities	4,346	2,624
Total Current Liabilities	\$ 157,140	\$ 102,559
Total Liabilities and Net Assets	\$ 2,531,906	\$ 2,344,394

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, 2007 and 2006**

**Schedule 5**

	2007	2006
OPERATING REVENUES		
Sales to consumers	\$ 966,218	\$ 711,428
 OPERATING EXPENSES		
Plant & main maintenance	\$ 260,072	\$ 175,959
Joint treatment costs	303,813	227,373
Consumer accounting & collection	44,937	41,065
Administrative & general	80,849	93,980
Insurance	49,385	39,027
Transportation	9,879	11,900
Total operating expense excluding depreciation	\$ 748,935	\$ 589,304
 OPERATING INCOME BEFORE DEPRECIATION	\$ 217,283	\$ 122,124
 DEPRECIATION	112,105	110,304
 OPERATING INCOME	\$ 105,178	\$ 11,820
 NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 4,907	\$ 5,874
Interest income	22,846	15,389
Total nonoperating revenues (expenses)	\$ 27,753	\$ 21,263
 NET INCOME (LOSS)	\$ 132,931	\$ 33,083
 NET ASSETS, BEGINNING OF YEAR	2,241,835	2,208,752
 NET ASSETS, END OF YEAR	\$ 2,374,766	\$ 2,241,835

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES  
MUNICIPAL SEWER UTILITIES  
COMPARATIVE STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2007 and 2006**

**Schedule 5**

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 132,931	\$ 33,083
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	112,105	110,304
Changes in assets and liabilities		
(Increase) decrease in trade receivables	(22,090)	15,879
(Increase) decrease in unbilled usage	(13,468)	(1,505)
(Increase) decrease in prepaid expenses	(362)	(347)
(Increase) decrease in other current assets	(3,693)	2,430
Increase (decrease) in accounts payable and accrued liabilities	54,581	(21,239)
Net cash provided by (used in) operating activities	\$ 260,004	\$ 138,605
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale/maturities of securities	\$ 438,957	\$ 694,349
Purchase of investment securities	(577,476)	(556,850)
Purchase of property and equipment	(82,147)	(207,541)
Net cash provided by (used in) investing activities	\$ (220,666)	\$ (70,042)
<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	\$ 39,338	\$ 68,563
Cash and cash equivalents:		
Beginning	72,205	3,642
Ending	\$ 111,543	\$ 72,205

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, 2007**

**Schedule 6**

	Actual	Budget	Variance
OPERATING REVENUES			
Sales to consumers	\$ 966,218	747,000	219,218
OPERATING EXPENSES			
Plant & main maintenance	\$ 260,072	189,500	(70,572)
Joint treatment costs	303,813	225,000	(78,813)
Consumer accounting & collection	44,937	45,000	63
Administrative & general	80,849	103,500	22,651
Insurance	49,385	42,000	(7,385)
Transportation	9,879	11,000	1,121
Total operating expense excluding depreciation	\$ 748,935	616,000	(132,935)
OPERATING INCOME BEFORE DEPRECIATION	\$ 217,283	131,000	86,283
DEPRECIATION	112,105	120,000	7,895
OPERATING INCOME	\$ 105,178	11,000	94,178
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 4,907	10,000	(5,093)
Interest income	22,846	2,500	20,346
Total nonoperating revenues (expenses)	\$ 27,753	12,500	15,253
NET INCOME (LOSS)	\$ 132,931	23,500	109,431
NET ASSETS, BEGINNING OF YEAR	2,241,835	1,823,600	
NET ASSETS, END OF YEAR	\$ 2,374,766	1,847,100	

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES  
JOINT TREATMENT FUND  
COMPARATIVE BALANCE SHEETS  
June 30, 2007 and 2006**

**Schedule 7**

	2007	2006
<b>ASSETS</b>		
<b>JOINT TREATMENT PLANT</b>		
Plant in Service	\$ 8,391,784	\$ 8,387,992
Less: Accumulated depreciation	2,621,539	2,453,938
Net Joint Treatment Plant	\$ 5,770,245	\$ 5,934,054
<b>OTHER ASSETS</b>		
Equipment replacement investment-restricted	\$ 241,337	\$ 156,076
<b>CURRENT ASSETS</b>		
Unrestricted		
Cash	\$ 90,028	\$ 11,590
Accounts receivable	115,130	69,510
Due from other funds	770	665
Interest receivable	0	0
Prepaid insurance	15,121	14,486
Total Current Assets	\$ 221,049	\$ 96,251
Total Assets	\$ 6,232,631	\$ 6,186,381
 <b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets, net of related debt	\$ 4,645,246	\$ 4,684,054
Restricted net assets	0	0
Unrestricted net assets	408,382	196,150
Total Net Assets	\$ 5,053,628	\$ 4,880,204
<b>LONG-TERM DEBT - Net of current maturities</b>	\$ 1,000,000	\$ 1,125,000
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 26,586	\$ 19,953
Due to other funds	911	912
Other accrued liabilities	4,006	1,979
Current maturities of long-term debt	125,000	125,000
Interest payable	22,500	33,333
Total Current Liabilities	\$ 179,003	\$ 181,177
Total Liabilities and Net Assets	\$ 6,232,631	\$ 6,186,381

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, 2007 and 2006**

**Schedule 7**

	2007	2006
OPERATING REVENUES		
Sales to consumers	\$ <u>1,035,390</u>	\$ <u>789,096</u>
OPERATING EXPENSES		
Waste water processing expense	\$ 460,763	\$ 437,197
Administrative & general	139,361	141,821
Insurance	56,412	45,285
Transportation	9,884	9,369
Total operating expense excluding depreciation	\$ <u>666,420</u>	\$ <u>633,672</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 368,970	\$ 155,424
DEPRECIATION	<u>167,601</u>	<u>114,789</u>
OPERATING INCOME	\$ <u>201,369</u>	\$ <u>40,635</u>
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 7,991	\$ 9,600
Interest income	11,564	10,897
Interest expense	(47,500)	(33,333)
Total nonoperating revenues (expenses)	\$ <u>(27,945)</u>	\$ <u>(12,836)</u>
NET INCOME (LOSS)	\$ 173,424	\$ 27,799
NET ASSETS, BEGINNING OF YEAR	<u>4,880,204</u>	<u>4,852,405</u>
NET ASSETS, END OF YEAR	<u><u>5,053,628</u></u>	<u><u>4,880,204</u></u>

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES**  
**JOINT TREATMENT FUND**  
**COMPARATIVE STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2007 and 2006**

**Schedule 7**

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 173,424	\$ 27,799
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	167,601	114,789
Changes in assets and liabilities		
(Increase) decrease in trade receivables	(45,620)	4,130
(Increase) decrease in prepaid expenses	(635)	(610)
(Increase) decrease in other current assets	(105)	3,002
Increase (decrease) in accounts payable and accrued liabilities	(2,174)	(95,884)
Net cash provided by (used in) operating activities	\$ 292,491	\$ 53,226
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale/maturities of securities	\$ 35,000	\$ 1,783,318
Purchase of investment securities	(120,261)	(1,332,537)
Purchase of property and equipment	(3,792)	(1,742,915)
Net cash provided by (used in) investing activities	\$ (89,053)	\$ (1,292,134)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from interfund loan	\$ 0	\$ 1,250,000
Principal payments on long-term borrowing	(125,000)	0
Net cash provided by (used in) financing activities	\$ (125,000)	\$ 1,250,000
Net increase (decrease) in cash and cash equivalents	\$ 78,438	\$ 11,092
Cash and cash equivalents:		
Beginning	11,590	498
Ending	\$ 90,028	\$ 11,590

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, 2007**

**Schedule 8**

	Actual	Budget	Variance
OPERATING REVENUES			
Sales to consumers	\$ 1,035,390	782,500	252,890
OPERATING EXPENSES			
Waste water processing expense	\$ 460,763	505,500	44,737
Administrative & general	139,361	134,000	(5,361)
Insurance	56,412	49,000	(7,412)
Transportation	9,884	10,000	116
Total operating expense excluding depreciation	\$ 666,420	698,500	32,080
OPERATING INCOME BEFORE DEPRECIATION	\$ 368,970	84,000	284,970
DEPRECIATION	167,601	165,000	(2,601)
OPERATING INCOME	\$ 201,369	(81,000)	282,369
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 7,991	10,000	(2,009)
Interest income	11,564	2,500	9,064
Interest expense	(47,500)	(50,000)	2,500
Total nonoperating revenues (expenses)	\$ (27,945)	(37,500)	9,555
NET INCOME (LOSS)	\$ 173,424	(118,500)	291,924
NET ASSETS, BEGINNING OF YEAR	4,880,204	(135,500)	
NET ASSETS, END OF YEAR	\$ 5,053,628	(254,000)	

See accompanying independent auditor's report.

**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**

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*Certified Public Accountants*

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of 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, 2007, which collectively comprise the Utility's basic financial statements listed in the table of contents and have issued our report thereon dated August 29, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Denison Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Denison Municipal Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects Denison Municipal Utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Denison Municipal Utilities' financial statements that is more inconsequential will not be prevented or detected by Denison Municipal Utilities' internal control. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Denison Municipal Utilities' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting 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 grants 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 test disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters 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, 2007 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.

Denison Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utility's responses, we did not audit Denison Municipal Utilities' responses and, accordingly, we express no opinion on them.

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 & Gotto Company***

MAHONEY & GOTTO COMPANY  
Certified Public Accountants

August 29, 2007  
Denison, Iowa

**DENISON MUNICIPAL UTILITIES**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2007**

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies 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.

**SIGNIFICANT DEFICIENCIES:**

II-A-07 Segregation of Duties – One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual from handling duties which are incompatible. It is recognized that the Utility has made reasonable efforts to segregate these duties. Because of staffing limitations, 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 controls possible under the circumstances. During the fiscal year audited, the Utility began using one electronic signature to replace the two manual signatures previously required on each check. Because of this signature change, it is recommended that the checking accounts be reconciled by a person completely independent of any other check signing responsibilities. Also, it is recommended that the Board of Trustees review check registers noting any unusual charges or undocumented skips in check number sequence. 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, 2007**

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

- III-A-07      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-07      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-07      Travel Expense - No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.
  
- III-D-07      Business Transactions - Business transactions between the Utility and officials are immaterial and meet the guidelines of the Code of Iowa.
  
- III-E-07      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-07      Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
  
- III-G-07      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-07      Revenue Bonds - The Utility has complied with all aspects of its bond covenants.