

**Denison Municipal Utilities**

Independent Auditor's Report

Financial Statements and  
Supplemental Information

Schedule of Findings & Questioned Costs

June 30, 2008 and 2007

# DENISON MUNICIPAL UTILITIES

## Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-12
Basic Financial Statements:		
	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	14-15
Statement of Activities	B	16
Proprietary Fund Financial Statements:		
Statement of Net Assets – Proprietary Fund	C	17-18
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund	D	19
Statement of Cash Flows – Proprietary Fund	E	20
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Assets and Liabilities – Agency Funds	F	21
Notes to Financial Statements		22-28
Required Supplementary Information:		
Budgetary Comparison Schedule		30
	<u>Schedule</u>	
Supplementary Information:		
Municipal Electric Utility comparative financial statements	1	32-34
Municipal Electric Utility statement of budgeted and actual results	2	35
Municipal Water Utility comparative financial statements	3	36-38
Municipal Water Utility statement of budgeted and actual results	4	39
Municipal Sewer Utility comparative financial statements	5	40-42
Municipal Sewer Utility statement of budgeted and actual results	6	43
Joint Treatment Fund comparative financial statements	7	44-46
Joint Treatment Fund statement of budgeted and actual results	8	47
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		48-49
Schedule of Findings and Questioned Costs		50-51

## DENISON MUNICIPAL UTILITIES

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Martens	Chairman	2012
Christy Siemer	Vice Chairman	2009
Larry Struck	Board Member	2008
Mark Way	Board Member	2008
Nancy Bradley	Board Member	2010
Brad Nelson	Board Member	2013
Dane Dammen	Board Member	2014
Mark Ramthun	General Manager	Indefinite
Renee Vary	Manager-Finance & Customer Information	Indefinite
D. R. Franck	Attorney	Indefinite

## **Denison Municipal Utilities**

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

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Denison, IA 51442

Phone 712-263-6189  
Fax 712-263-2184

**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, 2008. 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, 2008, 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 September 25, 2008 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 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, 2007 (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

September 25, 2008  
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, 2008. 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.*

### **2008 FINANCIAL HIGHLIGHTS**

- The Utilities operating revenues increased \$896,378 or 8.10% from the prior year. Increased sales of electricity and an increase in the gallons of waste treated by the sewer and joint treatment facility contributed to this increase. A rate increase implemented in October 2007 for wastewater usage also contributed to the increase in revenues.
- Operating expenses increased by \$771,219 or 9.02% 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 and joint treatment facility has increased from prior years which have also contributed to the increase in operating expenses.
- Total assets increased \$1,088,144 and total liabilities decreased \$620,826, resulting in total net assets increasing \$1,708,970 or 5.69% 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.

### **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 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.

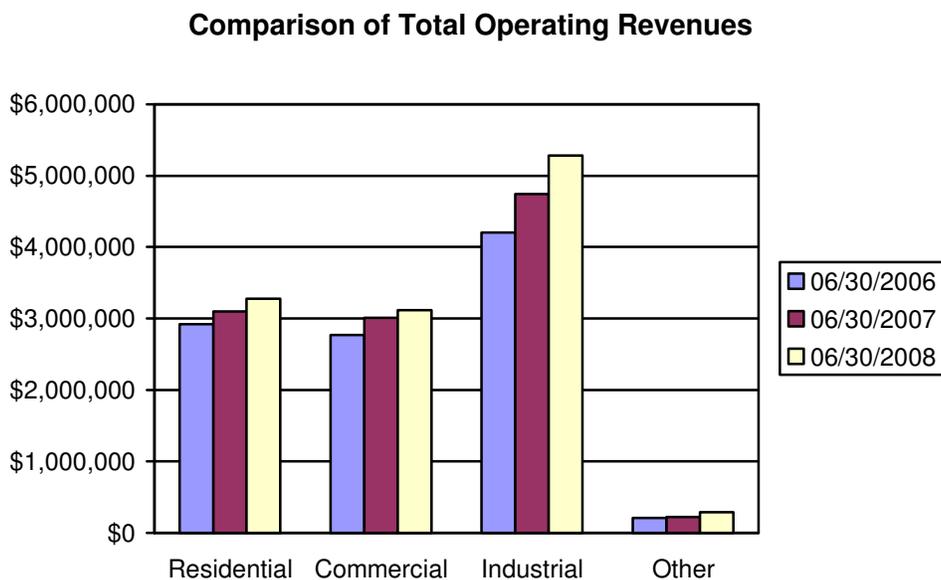
<u>Condensed Statement of Net Assets</u>			
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 13,500,084	\$ 11,872,322	\$ 10,093,300
Capital Assets	<u>24,879,063</u>	<u>25,418,681</u>	<u>26,214,793</u>
Total Assets	<u>38,379,147</u>	<u>37,291,003</u>	<u>36,308,093</u>
Long-term debt outstanding	4,788,000	5,343,000	5,861,423
Other liabilities	<u>1,821,875</u>	<u>1,887,701</u>	<u>1,797,140</u>
Total Liabilities	<u>6,609,875</u>	<u>7,230,701</u>	<u>7,658,563</u>
Invested in Capital Assets, net of related debt	19,568,394	19,571,500	19,868,675
Restricted net assets	1,278,921	1,208,058	1,138,041
Unrestricted net assets	<u>10,921,957</u>	<u>9,280,744</u>	<u>7,642,814</u>
Total net assets	<u>\$ 31,769,272</u>	<u>\$ 30,060,302</u>	<u>\$ 28,649,530</u>

## 2008 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>2008</u>	<u>2007</u>	<u>2006</u>
Program revenues			
Operating revenues	\$11,966,200	\$ 11,069,822	\$ 10,101,179
Miscellaneous	205,068	124,464	160,298
Unrestricted investment earnings	<u>463,832</u>	<u>429,153</u>	<u>297,886</u>
Total revenues	<u>12,635,100</u>	<u>11,623,439</u>	<u>10,559,363</u>
Program expenses			
Operating expenses	9,321,194	8,549,975	7,864,020
Depreciation	1,299,464	1,295,260	1,236,368
Interest on long-term debt	191,802	256,020	235,758
Miscellaneous	<u>113,670</u>	<u>111,412</u>	<u>68,234</u>
Total expenses	<u>10,926,130</u>	<u>10,212,667</u>	<u>9,404,380</u>
Increase (decrease) in net assets	1,708,970	1,410,772	1,154,983
Unrestricted Net assets July 1	<u>30,060,302</u>	<u>28,649,530</u>	<u>27,494,547</u>
Unrestricted Net assets June 30	<u>\$31,769,272</u>	<u>\$30,060,302</u>	<u>\$28,649,530</u>

The following graph shows a comparison of total operating revenue by customer category for the fiscal years ended June 30, 2008, 2007 and 2006.



Following is a schedule of the number of electric meters and the kilowatts used by customer class for the fiscal years ended June 30, 2008, 2007 and 2006:

<b>Comparison of Electric Meters &amp; Usage by Customer Class</b>						
	2008		2007		2006	
	<u>Meters</u>	<u>KWH</u>	<u>Meters</u>	<u>KWH</u>	<u>Meters</u>	<u>KWH</u>
Commercial C1	554	32,559,527	556	29,158,490	558	27,569,475
Commercial C1M	119	3,480,220	118	3,308,750	114	3,293,189
Commercial C2M	21	7,464,800	26	9,380,230	26	9,056,320
Residential R1	1,185	13,085,967	1,184	12,667,132	1,181	12,428,098
Residential R2M	1,486	22,011,086	1,470	21,078,255	1,445	20,173,105
Industrial	5	68,931,320	5	65,784,080	5	65,200,724
Water plant		2,973,990		3,112,590		2,945,330
Sewer plant		4,143,025		3,915,760		3,858,328
City Government		3,090,620		3,120,480		2,851,853
Other DMU uses		<u>628,320</u>		<u>624,840</u>		<u>575,530</u>
<b>Total Meters &amp; KWH Billed</b>	<u>3,370</u>	<u>158,368,875</u>	<u>3,359</u>	<u>152,150,607</u>	<u>3,329</u>	<u>147,951,952</u>

The number of water meters and gallons used by customer class for the fiscal years ended June 30, 2008, 2007 and 2006 is as follows:

<b>Comparison of Water Meters &amp; Usage by Customer Class</b>						
	2008		2007		2006	
	<u>Meters</u>	<u>Gals.</u>	<u>Meters</u>	<u>Gals.</u>	<u>Meters</u>	<u>Gals.</u>
Residential	2,226	124,685,000	2,211	124,735,000	2,199	130,576,000
Commercial	388	95,970,000	394	104,795,000	388	94,692,000
West Central Rural Water	4	170,175,000	4	161,829,000	4	155,850,000
Residential Outside City	129	10,245,000	124	10,775,000	123	11,101,000
Commercial Outside City	17	33,236,000	16	31,897,000	17	30,214,000
Industrial	8	436,647,000	8	436,946,000	10	422,779,000
Electric Department		966,000		790,000		1,169,000
Sewer plant		1,358,000		1,584,000		2,171,000
City Government		5,996,000		7,118,000		7,576,000
Other DMU uses		<u>1,092,000</u>		<u>1,067,000</u>		<u>1,151,000</u>
<b>Total Meters &amp; KWH Billed</b>	<u>2,772</u>	<u>880,370,000</u>	<u>2,741</u>	<u>881,536,000</u>	<u>2,708</u>	<u>857,279,000</u>

## **CAPITAL ASSETS**

The Utilities' capital assets include land, buildings, improvements, service lines, automobiles and equipment, and street lights. A total of \$759,846 was invested in new capital assets, but after accounting for depreciation, there was a decrease of \$539,618 in Capital Assets from June 30, 2007.

## **LONG-TERM DEBT**

As of June 30, 2008, the Utility had \$4.788 million in outstanding debt compared to \$5.343 million as of June 30, 2007. The decrease represents principal payments made during the fiscal year ended June 30, 2008. 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. 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 2008. Anticipated industry expansion and demographic changes are all considered in order to determine capital expenditures and expected revenues. During fiscal year 2009, the Utilities will implement a rate change for all 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, 2008 and 2007.

	<u>2008</u>	<u>2007</u>
KWH Billed	158,368,875	152,150,607
Rate difference between Iowa average utility rate and Denison Municipal Utilities	<u>0.0220</u>	<u>0.0228</u>
(1) Calculated total electric savings	\$ 3,484,115	\$ 3,469,034
(2) Transfer to City general fund in lieu of taxes	316,314	254,105
(3) New housing assistance program	7,540	12,486
(4) Water heater rebates	<u>18,400</u>	<u>19,545</u>
<b>Total Community Benefits</b>	<u>\$ 3,826,369</u>	<u>\$ 3,755,170</u>

- (1) The Iowa average utility rate is arrived at by comparing the most recent data available from the US Energy Information Administration on Iowa investor owned utilities.
- (2) Payment of utility bills based upon the costs associated with street and public recreation area lighting are remitted by the city monthly. A cash remittance of the same amount is given to the city as a payment in lieu of taxes.
- (3) Denison Municipal Utilities has agreed to 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, 2008 and 2007**

**Exhibit A**

ASSETS	BUSINESS-TYPE ACTIVITIES	
	2008	2007
<b>UTILITY PLANT</b>		
Plant in Service, at cost	\$ 46,680,263	\$ 46,058,240
Less: Accumulated depreciation	21,801,200	20,639,559
Net Utility Plant	\$ 24,879,063	\$ 25,418,681
<b>OTHER ASSETS</b>		
Restricted		
Revenue bond reserve	\$ 1,301,885	\$ 1,229,939
Loan origination fee, net of accumulated amortization (Note 4)	32,331	34,818
Note Receivable	1,000,000	1,125,000
Deferred compensation	160,919	148,453
Unrestricted		
Equipment replacement investment	313,683	241,337
	\$ 2,808,818	\$ 2,779,547
<b>CURRENT ASSETS</b>		
Restricted		
Consumers' deposit fund	\$ 61,813	\$ 59,366
Unrestricted		
Cash	1,132,258	1,234,218
Deposits and investments	7,294,905	5,811,686
Accounts receivable	984,489	752,035
Unbilled usage	570,650	585,677
Due from other funds	15,857	6,045
Interest receivable	87,455	97,793
Inventory	452,557	451,379
Prepaid insurance	91,282	94,576
Total Current Assets	\$ 10,691,266	\$ 9,092,775
Total Assets	\$ 38,379,147	\$ 37,291,003

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**STATEMENT OF NET ASSETS**  
**June 30, 2008 and 2007**

**Exhibit A**

	BUSINESS-TYPE ACTIVITIES	
	2008	2007
<b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets, net of related debt	\$ 19,568,394	\$ 19,571,500
Restricted net assets	1,278,921	1,208,058
Unrestricted net assets	10,921,957	9,280,744
Total Net Assets	\$ 31,769,272	\$ 30,060,302
<b>LONG-TERM DEBT</b>		
Net of current maturities (Note 5)	\$ 4,788,000	\$ 5,343,000
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 602,964	\$ 688,986
Due to other funds	15,857	6,045
Accrued vacation and sick leave	340,308	364,128
Other accrued liabilities	48,174	43,246
Payable from restricted assets		
Deferred compensation	160,919	148,453
Current maturities of long-term debt (Note 5)	555,000	539,000
Interest payable	42,964	44,381
Consumers' deposits	55,689	53,462
Total Current Liabilities	\$ 1,821,875	\$ 1,887,701
Total Liabilities and Net Assets	\$ 38,379,147	\$ 37,291,003

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**STATEMENT OF ACTIVITIES**  
**Years Ended June 30, 2008 and 2007**

**Exhibit B**

Functions/Programs	Expenses	Charges for service	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue 2008	Revenue 2007
<b>Business-type activities:</b>						
Electric Utility	\$ 7,144,922	7,538,657	0	0	393,735	449,875
Water Utility	1,791,479	2,206,528	0	0	415,049	468,165
Sewer Utility	803,952	1,122,220	0	0	318,268	105,178
Joint Treatment	880,305	1,098,795	0	0	218,490	201,369
Interest on long-term debt	191,802	0	0	0	(191,802)	(256,020)
<b>Total Business-type activities</b>	<b>\$ 10,812,460</b>	<b>11,966,200</b>	<b>0</b>	<b>0</b>	<b>1,153,740</b>	<b>968,567</b>
<b>General Revenues:</b>						
Unrestricted investment income					\$ 463,832	429,153
Miscellaneous					91,398	13,052
<b>Change in net assets</b>					<b>1,708,970</b>	<b>1,410,772</b>
<b>Net assets, beginning of year</b>					<b>30,060,302</b>	<b>28,649,530</b>
<b>Net assets, end of year</b>					<b>\$ 31,769,272</b>	<b>30,060,302</b>

**DENISON MUNICIPAL UTILITIES**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
**June 30, 2008 and 2007**

**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 2008</u>	<u>Total 2007</u>
<b>ASSETS</b>							
<b>UTILITY PLANT</b>							
Plant in Service	\$ 16,963,502	16,849,030	4,307,793	8,559,938	0	46,680,263	46,058,240
Less: Accumulated depreciation	9,439,485	7,017,956	2,549,730	2,794,029	0	21,801,200	20,639,559
Net Utility Plant	<u>\$ 7,524,017</u>	<u>9,831,074</u>	<u>1,758,063</u>	<u>5,765,909</u>	<u>0</u>	<u>24,879,063</u>	<u>25,418,681</u>
<b>OTHER ASSETS</b>							
Restricted							
Revenue bond reserve-restricted	\$ 0	1,301,885	0	0	0	1,301,885	1,229,939
Loan origination fee, net of accumulated amortization (Note 4)	0	32,331	0	0	0	32,331	34,818
Note receivable - Joint Treatment Fund	1,000,000	0	0	0	0	1,000,000	1,125,000
Deferred compensation	0	0	0		160,919	160,919	148,453
Unrestricted							
Equipment replacement investment	0	0	0	313,683	0	313,683	241,337
Total Other Assets	<u>\$ 1,000,000</u>	<u>1,334,216</u>	<u>0</u>	<u>313,683</u>	<u>160,919</u>	<u>2,808,818</u>	<u>2,779,547</u>
<b>CURRENT ASSETS</b>							
Restricted							
Consumers' deposit fund	\$ 61,813	0	0	0	0	61,813	59,366
Unrestricted							
Cash	845,373	36,426	166,507	83,952	0	1,132,258	1,234,218
Deposits and investments	3,813,750	2,882,769	598,386	0	0	7,294,905	5,811,686
Accounts receivable	491,681	169,103	211,227	112,478	0	984,489	752,035
Unbilled usage	382,508	115,396	72,746	0	0	570,650	585,677
Due from other funds	4,780	7,730	2,730	617	0	15,857	6,045
Interest receivable	43,788	40,502	3,165	0	0	87,455	97,793
Inventory	387,012	65,545	0	0	0	452,557	451,379
Prepaid insurance	36,458	31,929	8,277	14,618	0	91,282	94,576
Total Current Assets	<u>\$ 6,067,163</u>	<u>3,349,400</u>	<u>1,063,038</u>	<u>211,665</u>	<u>0</u>	<u>10,691,266</u>	<u>9,092,775</u>
Total Assets	<u>\$ 14,591,180</u>	<u>14,514,690</u>	<u>2,821,101</u>	<u>6,291,257</u>	<u>160,919</u>	<u>38,379,147</u>	<u>37,291,003</u>

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
**June 30, 2008 and 2007**

**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 2008</u>	<u>Total 2007</u>
<b>LIABILITIES AND NET ASSETS</b>							
<b>NET ASSETS</b>							
Invested in Capital Assets, net of related debt	\$ 7,524,017	5,520,405	1,758,063	4,765,909	0	19,568,394	19,571,500
Restricted net assets	0	1,278,921	0	0	0	1,278,921	1,208,058
Unrestricted net assets	6,258,008	3,201,666	971,696	490,587	0	10,921,957	9,280,744
<b>Total Net Assets</b>	<b>\$ 13,782,025</b>	<b>10,000,992</b>	<b>2,729,759</b>	<b>5,256,496</b>	<b>0</b>	<b>31,769,272</b>	<b>30,060,302</b>
<b>LONG-TERM DEBT -</b>							
Net of current maturities (Note 5)	\$ 0	3,913,000	0	875,000	0	4,788,000	5,343,000
<b>CURRENT LIABILITIES</b>							
Accounts payable	\$ 563,778	22,484	7,369	9,333	0	602,964	688,986
Due to other funds	8,782	3,697	2,264	1,114	0	15,857	6,045
Accrued vacation and sick leave	160,009	106,130	74,169	0	0	340,308	364,128
Other accrued liabilities	20,897	15,423	7,540	4,314	0	48,174	43,246
Payable from restricted assets							
Deferred compensation	0	0	0	0	160,919	160,919	148,453
Current maturities of long-term debt (Note 5)	0	430,000	0	125,000	0	555,000	539,000
Interest payable	0	22,964	0	20,000	0	42,964	44,381
Consumers' deposits	55,689	0	0	0	0	55,689	53,462
<b>Total Current Liabilities</b>	<b>\$ 809,155</b>	<b>600,698</b>	<b>91,342</b>	<b>159,761</b>	<b>160,919</b>	<b>1,821,875</b>	<b>1,887,701</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 14,591,180</b>	<b>14,514,690</b>	<b>2,821,101</b>	<b>6,291,257</b>	<b>160,919</b>	<b>38,379,147</b>	<b>37,291,003</b>

**DENISON MUNICIPAL UTILITIES**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS**  
**Years Ended June 30, 2008 and 2007**

**Exhibit D**

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2008	Total 2007
<b>OPERATING REVENUES</b>						
Sales to consumers	\$ 7,503,767	2,206,528	1,122,220	1,098,795	11,931,310	11,039,422
Other operating revenues	34,890	0	0	0	34,890	30,400
Total operating revenues	<u>\$ 7,538,657</u>	<u>2,206,528</u>	<u>1,122,220</u>	<u>1,098,795</u>	<u>11,966,200</u>	<u>11,069,822</u>
<b>OPERATING EXPENSES</b>						
Cost of Power	\$ 5,494,937	0	0	0	5,494,937	4,752,905
Plant & main maintenance	105,175	0	263,563	0	368,738	347,836
Power & pumping	0	172,436	0	0	172,436	162,370
Distribution expense	418,766	224,211	0	0	642,977	628,879
Purification	0	415,935	0	0	415,935	433,724
Waste water processing expense	0	0	0	503,509	503,509	460,763
Joint treatment costs	0	0	255,530	0	255,530	303,813
Consumer accounting & collection	92,356	70,140	48,368	0	210,864	183,485
Administrative & general	328,765	212,812	75,995	130,336	747,908	791,473
Insurance	200,047	121,146	48,321	60,798	430,312	415,438
Transportation	40,353	16,550	7,972	13,173	78,048	69,289
Total operating expense excluding depreciation	<u>\$ 6,680,399</u>	<u>1,233,230</u>	<u>699,749</u>	<u>707,816</u>	<u>9,321,194</u>	<u>8,549,975</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 858,258	973,298	422,471	390,979	2,645,006	2,519,847
DEPRECIATION	<u>464,523</u>	<u>558,249</u>	<u>104,203</u>	<u>172,489</u>	<u>1,299,464</u>	<u>1,295,260</u>
OPERATING INCOME	\$ 393,735	415,049	318,268	218,490	1,345,542	1,224,587
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Miscellaneous	\$ 152,966	28,210	10,548	13,344	205,068	124,464
Interest income	222,471	201,650	26,177	13,534	463,832	429,153
Interest expense	0	(149,302)	0	(42,500)	(191,802)	(256,020)
Economic development costs (Note 9)	(113,670)	0	0	0	(113,670)	(111,412)
Total nonoperating revenues (expenses)	<u>\$ 261,767</u>	<u>80,558</u>	<u>36,725</u>	<u>(15,622)</u>	<u>363,428</u>	<u>186,185</u>
NET INCOME (LOSS)	\$ 655,502	495,607	354,993	202,868	1,708,970	1,410,772
NET ASSETS, BEGINNING 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>
NET ASSETS, END OF YEAR	<u>\$ 13,782,025</u>	<u>10,000,992</u>	<u>2,729,759</u>	<u>5,256,496</u>	<u>31,769,272</u>	<u>30,060,302</u>

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**Years Ended June 30, 2008 and 2007**

**Exhibit E**

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2008	Total 2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Net income (loss)	\$ 655,502	495,607	354,993	202,868	1,708,970	1,410,772
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Depreciation	464,523	558,249	104,203	172,489	1,299,464	1,295,260
Amortization of discount	0	0	0	0	0	26,102
Amortization of origination fees	0	2,487	0	0	2,487	2,487
Changes in assets and liabilities						
(Increase) decrease in consumers' deposit fund	(2,447)	0	0	0	(2,447)	(8,469)
(Increase) decrease in trade receivables	(100,099)	(657)	(134,350)	2,652	(232,454)	(127,665)
(Increase) decrease in unbilled usage	(4,040)	23,430	(4,363)	0	15,027	(50,607)
(Increase) decrease in inventories	(6,725)	5,547	0	0	(1,178)	95,710
(Increase) decrease in prepaid expenses	1,344	1,177	270	503	3,294	(3,944)
(Increase) decrease in other current assets	5,267	(5,285)	391	153	526	9,663
Increase (decrease) in accounts payable and accrued liabilities	34,258	(45,737)	(65,798)	(19,242)	(96,519)	48,038
Increase (decrease) in customer deposits	2,227	0	0	0	2,227	7,438
Net cash provided by (used in) operating activities	<u>1,049,810</u>	<u>1,034,818</u>	<u>255,346</u>	<u>359,423</u>	<u>2,699,397</u>	<u>2,704,785</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Proceeds from sale/maturities of securities	4,143,394	4,443,767	361,385	162,500	9,111,046	11,595,252
Purchase of investment securities	(5,001,539)	(4,977,848)	(524,324)	(234,846)	(10,738,557)	(12,726,975)
Purchase of property and equipment	(440,674)	(113,576)	(37,443)	(168,153)	(759,846)	(499,148)
Interfund loan to Joint Treatment	125,000	0	0	0	125,000	125,000
Net cash provided by (used in) investing activities	<u>(1,173,819)</u>	<u>(647,657)</u>	<u>(200,382)</u>	<u>(240,499)</u>	<u>(2,262,357)</u>	<u>(1,505,871)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Proceeds from interfund loan	0	0	0	0	0	0
Proceeds from long-term borrowing	0	0	0	0	0	1,099,475
Principal payments on long-term borrowings	0	(414,000)	0	(125,000)	(539,000)	(1,627,000)
Net cash provided by (used in) financing activities	<u>0</u>	<u>(414,000)</u>	<u>0</u>	<u>(125,000)</u>	<u>(539,000)</u>	<u>(527,525)</u>
Net increase (decrease) in cash and cash equivalents	(124,009)	(26,839)	54,964	(6,076)	(101,960)	671,389
<b>Cash and cash equivalents:</b>						
Beginning	969,382	63,265	111,543	90,028	1,234,218	562,829
Ending	<u>\$ 845,373</u>	<u>36,426</u>	<u>166,507</u>	<u>83,952</u>	<u>1,132,258</u>	<u>1,234,218</u>

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**EXPENDABLE TRUST FUNDS**  
**June 30, 2008 and 2007**

**Exhibit F**

	2008	2007
ASSETS		
OTHER ASSETS		
Restricted		
Deferred compensation	\$ 160,919	\$ 148,453
CURRENT ASSETS		
None	\$ 0	\$ 0
Total Assets	\$ 160,919	\$ 148,453
 LIABILITIES AND NET ASSETS		
NET ASSETS		
None	\$ 0	\$ 0
CURRENT LIABILITIES		
Payable from restricted assets		
Deferred compensation	\$ 160,919	148,453
Total Current Liabilities	\$ 160,919	\$ 148,453
Total Liabilities and Net Assets	\$ 160,919	\$ 148,453

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DENISON MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

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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, 2008. 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, 2008.

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 ten 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, 2008, disbursements did not exceed the amounts budgeted.

## Note 2 – Deposits and Investments

The Utility's deposits at June 30, 2008 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 \$209,001 and investments in the Iowa Public Agency Investment Trust with a fair value of \$531,509 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>2008</u>	<u>2007</u>
Land	\$ 909,657	909,657
Plant	15,218,578	15,198,713
Distribution & Collection	17,915,033	17,574,419
Machinery & Equipment	769,213	748,719
General Buildings	2,132,268	2,132,268
Transportation Equipment	1,221,838	1,104,479
Joint Treatment	<u>8,513,676</u>	<u>8,389,985</u>
TOTAL	46,680,263	46,058,240
Less: Accumulated Depreciation	<u>21,801,200</u>	<u>20,639,559</u>
Net Property, Plant & Equipment	<u>\$24,879,063</u>	<u>25,418,681</u>
Depreciation Charged to Operations	<u>\$ 1,299,464</u>	<u>1,295,260</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, 2008:

	Series 2001 Water Revenue Capital Loan Note	Series 2007 Water Revenue Refunding Capital Loan Notes	Total Bonds Payable
Balance July 1, 2007	3,652,000	1,105,000	4,757,000
Issued	0	0	0
Redeemed & Refunded	<u>(214,000)</u>	<u>(200,000)</u>	<u>(414,000)</u>
Balance June 30, 2008	3,438,000	905,000	4,343,000
Less: current portion	<u>(220,000)</u>	<u>(210,000)</u>	<u>(430,000)</u>
Long-term debt, net of current portion	<u>3,218,000</u>	<u>695,000</u>	<u>3,913,000</u>

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	
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
	<u>\$ 905,000</u>	<u>89,380</u>	<u>3,438,000</u>	<u>764,730</u>	<u>63,728</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.

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, 2008.

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

Long-term liability activity for the fiscal year ended June 30, 2008:

	<u>Notes Payable</u>
Balance July 1, 2007	\$ 1,125,000
Redeemed	<u>125,000</u>
Balance June 30, 2008	1,000,000
Less: current portion	<u>(125,000)</u>
Long-term debt, net of current portion	<u>\$ 875,000</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>
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>\$ 1,000,000</u>	<u>180,000</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 3.90% of their annual covered salary and the Utilities is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the years ended June 30, 2008 and 2007 were \$83,216 and \$75,035 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 \$9,371 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 \$5,826 for the fiscal year ended June 30, 2008.

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

The Utility has entered into a construction contract totaling \$329,309 for an on-site chlorine generation system. At June 30, 2008, \$0 had been paid and the work was not yet started. The 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, 2008 and 2007 were \$113,670 and \$111,412, 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  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2008

	<u>Per Financial Statements</u>	<u>Accrual Adjustments</u>	<u>Budget Adjustments</u>	<u>Cash Basis</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
Revenue/Receipts						
Charges for services	\$ 11,966,200	(217,427)	0	11,748,773	10,919,800	828,973
Interest income	463,832	10,339	0	474,171	287,500	186,671
Miscellaneous	<u>205,068</u>	<u>0</u>	<u>125,000</u>	<u>330,068</u>	<u>280,000</u>	<u>50,068</u>
Total Revenue/Receipts	12,635,100	(207,088)	125,000	12,553,012	11,487,300	1,065,712
Expenses/Expenditures						
Operating expenses	9,321,194	89,316	0	9,410,510	8,839,000	(571,510)
Interest expense & economic development costs	305,472	1,417	0	306,889	342,500	35,611
Debt payments	0	0	539,000	539,000	539,000	0
Depreciation & capital expenditures	<u>1,299,464</u>	<u>0</u>	<u>(539,618)</u>	<u>759,846</u>	<u>1,305,000</u>	<u>545,154</u>
Total Expenses/Expenditures	10,926,130	90,733	(618)	11,016,245	11,025,500	9,255
Net	1,708,970	(297,821)	125,618	1,536,767	<u>461,800</u>	<u>1,074,967</u>
Beginning Net Assets	<u>30,060,302</u>	<u>(20,177,929)</u>	<u>0</u>	<u>9,882,373</u>		
Ending Net Assets	\$ <u>31,769,272</u>	<u>(20,475,750)</u>	<u>125,618</u>	<u>11,419,140</u>		

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and 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. There were no amendments during the course of the fiscal year, nor was the budget exceeded.

See accompanying independent auditor's report.

## **Supplementary Information**

**DENISON MUNICIPAL UTILITIES  
MUNICIPAL ELECTRIC UTILITIES  
COMPARATIVE BALANCE SHEETS  
June 30, 2008 and 2007**

**Schedule 1**

	2008	2007
<b>ASSETS</b>		
<b>ELECTRIC UTILITY PLANT</b>		
Plant in Service	\$ 16,963,502	\$ 16,645,777
Less: Accumulated depreciation	9,439,485	9,097,911
Net Electric Utility Plant	\$ 7,524,017	\$ 7,547,866
<b>OTHER ASSETS</b>		
Note Receivable-Joint Treatment Fund	\$ 1,000,000	\$ 1,125,000
<b>CURRENT ASSETS</b>		
Restricted		
Consumers' deposit fund	\$ 61,813	\$ 59,366
Unrestricted		
Cash	845,373	969,382
Deposits and investments	3,813,750	2,955,605
Accounts receivable	491,681	391,582
Unbilled usage	382,508	378,468
Due from other funds	4,780	2,303
Interest receivable	43,788	51,532
Inventory	387,012	380,287
Prepaid insurance	36,458	37,802
Total Current Assets	\$ 6,067,163	\$ 5,226,327
Total Assets	\$ 14,591,180	\$ 13,899,193
 <b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets, net of related debt	\$ 7,524,017	\$ 7,547,866
Restricted net assets	0	0
Unrestricted net assets	6,258,008	5,578,657
Total Net Assets	\$ 13,782,025	\$ 13,126,523
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 563,778	\$ 523,931
Due to other funds	8,782	1,994
Accrued vacation and sick leave	160,009	174,261
Other accrued liabilities	20,897	19,022
Payable from restricted assets		
Consumers' deposits	55,689	53,462
Total Current Liabilities	\$ 809,155	\$ 772,670
Total Liabilities and Net Assets	\$ 14,591,180	\$ 13,899,193

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, 2008 and 2007**

**Schedule 1**

	2008	2007
<b>OPERATING REVENUES</b>		
Sales to consumers	\$ 7,503,767	\$ 6,801,799
Other operating revenues	34,890	30,400
Total operating revenues	\$ 7,538,657	\$ 6,832,199
 <b>OPERATING EXPENSES</b>		
Cost of Power	\$ 5,494,937	\$ 4,752,905
Maintenance	105,175	87,764
Distribution expense	418,766	414,662
Consumer accounting & collection	92,356	76,791
Administrative & general	328,765	361,504
Insurance	200,047	185,983
Transportation	40,353	37,233
Total operating expense excluding depreciation	\$ 6,680,399	\$ 5,916,842
 <b>OPERATING INCOME BEFORE DEPRECIATION</b>	\$ 858,258	\$ 915,357
 <b>DEPRECIATION</b>	464,523	465,482
 <b>OPERATING INCOME</b>	\$ 393,735	\$ 449,875
 <b>NONOPERATING REVENUES (EXPENSES)</b>		
Miscellaneous	\$ 152,966	\$ 105,307
Interest income	222,471	206,427
Economic development costs	(113,670)	(111,412)
Total nonoperating revenues (expenses)	\$ 261,767	\$ 200,322
 <b>NET INCOME (LOSS)</b>	\$ 655,502	\$ 650,197
 <b>NET ASSETS, BEGINNING OF YEAR</b>	13,126,523	12,476,326
 <b>NET ASSETS, END OF YEAR</b>	\$ 13,782,025	\$ 13,126,523

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES  
MUNICIPAL ELECTRIC UTILITIES  
COMPARATIVE STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2008 and 2007**

**Schedule 1**

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 655,502	\$ 650,197
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	464,523	465,482
Changes in assets and liabilities		
(Increase) decrease in consumers' deposit fund	(2,447)	(8,469)
(Increase) decrease in trade receivables	(100,099)	(71,962)
(Increase) decrease in unbilled usage	(4,040)	(39,383)
(Increase) decrease in inventories	(6,725)	108,482
(Increase) decrease in prepaid expenses	1,344	(1,571)
(Increase) decrease in other current assets	5,267	17,595
Increase (decrease) in accounts payable and accrued liabilities	34,258	(50,865)
Increase (decrease) in customer deposits	2,227	7,438
Net cash provided by (used in) operating activities	\$ 1,049,810	\$ 1,076,944
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale/maturities of securities	\$ 4,143,394	\$ 5,219,526
Purchase of investment securities	(5,001,539)	(5,668,065)
Interfund loan to Joint Treatment	125,000	125,000
Purchase of property and equipment	(440,674)	(243,259)
Net cash provided by (used in) investing activities	\$ (1,173,819)	\$ (566,798)
<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	\$ (124,009)	\$ 510,146
Cash and cash equivalents:		
Beginning	969,382	459,236
Ending	\$ 845,373	\$ 969,382

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, 2008**

**Schedule 2**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to consumers	\$ 7,503,767	6,908,800	594,967
Other operating revenues	34,890	30,000	4,890
Total operating revenues	<u>\$ 7,538,657</u>	<u>6,938,800</u>	<u>599,857</u>
 OPERATING EXPENSES			
Cost of Power	\$ 5,494,937	5,100,000	(394,937)
Maintenance	105,175	99,000	(6,175)
Distribution expense	418,766	434,500	15,734
Consumer accounting & collection	92,356	92,500	144
Administrative & general	328,765	388,000	59,235
Insurance	200,047	187,500	(12,547)
Transportation	40,353	32,500	(7,853)
Total operating expense excluding depreciation	<u>\$ 6,680,399</u>	<u>6,334,000</u>	<u>(346,399)</u>
 OPERATING INCOME BEFORE DEPRECIATION	 \$ 858,258	 604,800	 253,458
 DEPRECIATION	 <u>464,523</u>	 <u>460,000</u>	 <u>(4,523)</u>
 OPERATING INCOME	 <u>\$ 393,735</u>	 <u>144,800</u>	 <u>248,935</u>
 NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 152,966	105,000	47,966
Interest income	222,471	150,000	72,471
Economic development costs	(113,670)	(130,000)	16,330
Total nonoperating revenues (expenses)	<u>\$ 261,767</u>	<u>125,000</u>	<u>136,767</u>
 NET INCOME (LOSS)	 \$ 655,502	 269,800	 <u>385,702</u>
 NET ASSETS, BEGINNING OF YEAR	 <u>13,126,523</u>	 <u>10,297,180</u>	
 NET ASSETS, END OF YEAR	 <u>\$ 13,782,025</u>	 <u>10,566,980</u>	

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES  
MUNICIPAL WATER UTILITIES  
COMPARATIVE BALANCE SHEETS  
June 30, 2008 and 2007**

**Schedule 3**

	2008	2007
<b>ASSETS</b>		
<b>WATER UTILITY PLANT</b>		
Plant in Service	\$ 16,849,030	\$ 16,735,454
Less: Accumulated depreciation	7,017,956	6,459,707
Net Water Utility Plant	\$ 9,831,074	\$ 10,275,747
<b>OTHER ASSETS</b>		
Revenue bond reserve-restricted	\$ 1,301,885	\$ 1,229,939
Loan origination fee	32,331	34,818
Total Other Assets	\$ 1,334,216	\$ 1,264,757
<b>CURRENT ASSETS</b>		
Unrestricted		
Cash	\$ 36,426	\$ 63,265
Deposits and investments	2,882,769	2,420,634
Accounts receivable	169,103	168,446
Unbilled usage	115,396	138,826
Due from other funds	7,730	1,685
Interest receivable	40,502	41,262
Inventory	65,545	71,092
Prepaid insurance	31,929	33,106
Total Current Assets	\$ 3,349,400	\$ 2,938,316
Total Assets	\$ 14,514,690	\$ 14,478,820
<b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets, net of related debt	\$ 5,520,405	\$ 5,553,565
Restricted nets assets	1,278,921	1,208,058
Unrestricted net assets	3,201,666	2,743,762
Total Net Assets	\$ 10,000,992	\$ 9,505,385
LONG-TERM DEBT - Net of current maturities	\$ 3,913,000	\$ 4,343,000
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 22,484	\$ 70,900
Due to other funds	3,697	1,668
Accrued vacation and sick leave	106,130	106,114
Other accrued liabilities	15,423	15,872
Payable from restricted assets		
Current maturities of long-term debt	430,000	414,000
Interest payable	22,964	21,881
Total Current Liabilities	\$ 600,698	\$ 630,435
Total Liabilities and Net Assets	\$ 14,514,690	\$ 14,478,820

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, 2008 and 2007**

**Schedule 3**

	2008	2007
OPERATING REVENUES		
Sales to consumers	\$ <u>2,206,528</u>	\$ <u>2,236,015</u>
 OPERATING EXPENSES		
Power & pumping	\$ 172,436	\$ 162,370
Distribution expense	224,211	214,217
Purification	415,935	433,724
Consumer accounting & collection	70,140	61,757
Administrative & general	212,812	209,759
Insurance	121,146	123,658
Transportation	16,550	12,293
Total operating expense excluding depreciation	\$ <u>1,233,230</u>	\$ <u>1,217,778</u>
 OPERATING INCOME BEFORE DEPRECIATION	\$ 973,298	\$ 1,018,237
 DEPRECIATION	<u>558,249</u>	<u>550,072</u>
 OPERATING INCOME	\$ <u>415,049</u>	\$ <u>468,165</u>
 NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 28,210	\$ 6,259
Interest income	201,650	188,316
Interest expense	(149,302)	(208,520)
Total nonoperating revenues (expenses)	\$ <u>80,558</u>	\$ <u>(13,945)</u>
 NET INCOME (LOSS)	\$ 495,607	\$ 454,220
 NET ASSETS, BEGINNING OF YEAR	<u>9,505,385</u>	<u>9,051,165</u>
 NET ASSETS, END OF YEAR	<u>\$ 10,000,992</u>	<u>\$ 9,505,385</u>

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES  
MUNICIPAL WATER UTILITIES  
COMPARATIVE STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2008 and 2007**

**Schedule 3**

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 495,607	\$ 454,220
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	558,249	550,072
Amortization of discount	0	26,102
Amortization of origination fees	2,487	2,487
Changes in assets and liabilities		
(Increase) decrease in trade receivables	(657)	12,007
(Increase) decrease in unbilled usage	23,430	2,244
(Increase) decrease in inventories	5,547	(12,772)
(Increase) decrease in prepaid expenses	1,177	(1,376)
(Increase) decrease in other current assets	(5,285)	(4,134)
Increase (decrease) in accounts payable and accrued liabilities	(45,737)	46,496
Net cash provided by (used in) operating activities	\$ 1,034,818	\$ 1,075,346
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale/maturities of securities	\$ 4,443,767	\$ 5,901,769
Purchase of investment securities	(4,977,848)	(6,361,173)
Purchase of property and equipment	(113,576)	(169,950)
Net cash provided by (used in) investing activities	\$ (647,657)	\$ (629,354)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term borrowing	\$ 0	\$ 1,099,475
Principal payments on long-term borrowing	(414,000)	(1,502,000)
Net cash provided by (used in) financing activities	\$ (414,000)	\$ (402,525)
Net increase (decrease) in cash and cash equivalents	\$ (26,839)	\$ 43,467
Cash and cash equivalents:		
Beginning	63,265	19,798
Ending	\$ 36,426	\$ 63,265

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, 2008**

**Schedule 4**

	Actual	Budget	Variance
OPERATING REVENUES			
Sales to consumers	\$ 2,206,528	2,283,000	(76,472)
OPERATING EXPENSES			
Power & pumping	\$ 172,436	160,000	(12,436)
Distribution expense	224,211	168,500	(55,711)
Purification	415,935	407,500	(8,435)
Consumer accounting & collection	70,140	70,000	(140)
Administrative & general	212,812	206,000	(6,812)
Insurance	121,146	130,000	8,854
Transportation	16,550	11,500	(5,050)
Total operating expense excluding depreciation	\$ 1,233,230	1,153,500	(79,730)
OPERATING INCOME BEFORE DEPRECIATION	\$ 973,298	1,129,500	(156,202)
DEPRECIATION	558,249	555,000	(3,249)
OPERATING INCOME	\$ 415,049	574,500	(159,451)
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 28,210	7,500	20,710
Interest income	201,650	115,000	86,650
Interest expense	(149,302)	(170,000)	20,698
Total nonoperating revenues (expenses)	\$ 80,558	(47,500)	128,058
NET INCOME (LOSS)	\$ 495,607	527,000	(31,393)
NET ASSETS, BEGINNING OF YEAR	9,505,385	6,257,426	
NET ASSETS, END OF YEAR	\$ 10,000,992	6,784,426	

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES  
MUNICIPAL SEWER UTILITIES  
COMPARATIVE BALANCE SHEETS  
June 30, 2008 and 2007**

**Schedule 5**

	2008	2007
<b>ASSETS</b>		
<b>SEWER UTILITY PLANT</b>		
Plant in Service	\$ 4,307,793	\$ 4,285,225
Less: Accumulated depreciation	2,549,730	2,460,402
Net Sewer Utility Plant	\$ 1,758,063	\$ 1,824,823
<b>CURRENT ASSETS</b>		
Unrestricted		
Cash	166,507	111,543
Deposits and investments	598,386	435,447
Accounts receivable	211,227	76,877
Unbilled usage	72,746	68,383
Due from other funds	2,730	1,287
Interest receivable	3,165	4,999
Prepaid insurance	8,277	8,547
Total Current Assets	\$ 1,063,038	\$ 707,083
Total Assets	\$ 2,821,101	\$ 2,531,906
<b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets, net of related debt	\$ 1,758,063	\$ 1,824,823
Restricted net assets	0	0
Unrestricted net assets	971,696	549,943
Total Net Assets	\$ 2,729,759	\$ 2,374,766
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 7,369	\$ 67,569
Due to other funds	2,264	1,472
Accrued vacation and sick leave	74,169	83,753
Other accrued liabilities	7,540	4,346
Total Current Liabilities	\$ 91,342	\$ 157,140
Total Liabilities and Net Assets	\$ 2,821,101	\$ 2,531,906

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, 2008 and 2007**

**Schedule 5**

	2008	2007
OPERATING REVENUES		
Sales to consumers	\$ 1,122,220	\$ 966,218
 OPERATING EXPENSES		
Plant & main maintenance	\$ 263,563	\$ 260,072
Joint treatment costs	255,530	303,813
Consumer accounting & collection	48,368	44,937
Administrative & general	75,995	80,849
Insurance	48,321	49,385
Transportation	7,972	9,879
Total operating expense excluding depreciation	\$ 699,749	\$ 748,935
 OPERATING INCOME BEFORE DEPRECIATION	\$ 422,471	\$ 217,283
 DEPRECIATION	104,203	112,105
 OPERATING INCOME	\$ 318,268	\$ 105,178
 NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 10,548	\$ 4,907
Interest income	26,177	22,846
Total nonoperating revenues (expenses)	\$ 36,725	\$ 27,753
 NET INCOME (LOSS)	\$ 354,993	\$ 132,931
 NET ASSETS, BEGINNING OF YEAR	2,374,766	2,241,835
 NET ASSETS, END OF YEAR	\$ 2,729,759	\$ 2,374,766

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES  
MUNICIPAL SEWER UTILITIES  
COMPARATIVE STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2008 and 2007**

**Schedule 5**

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 354,993	\$ 132,931
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	104,203	112,105
Changes in assets and liabilities		
(Increase) decrease in trade receivables	(134,350)	(22,090)
(Increase) decrease in unbilled usage	(4,363)	(13,468)
(Increase) decrease in prepaid expenses	270	(362)
(Increase) decrease in other current assets	391	(3,693)
Increase (decrease) in accounts payable and accrued liabilities	(65,798)	54,581
Net cash provided by (used in) operating activities	\$ 255,346	\$ 260,004
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale/maturities of securities	\$ 361,385	\$ 438,957
Purchase of investment securities	(524,324)	(577,476)
Purchase of property and equipment	(37,443)	(82,147)
Net cash provided by (used in) investing activities	\$ (200,382)	\$ (220,666)
<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	\$ 54,964	\$ 39,338
Cash and cash equivalents:		
Beginning	111,543	72,205
Ending	\$ 166,507	\$ 111,543

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, 2008**

**Schedule 6**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to consumers	\$ <u>1,122,220</u>	<u>843,000</u>	<u>279,220</u>
OPERATING EXPENSES			
Plant & main maintenance	\$ 263,563	204,000	(59,563)
Joint treatment costs	255,530	250,000	(5,530)
Consumer accounting & collection	48,368	45,000	(3,368)
Administrative & general	75,995	99,500	23,505
Insurance	48,321	45,000	(3,321)
Transportation	<u>7,972</u>	<u>10,000</u>	<u>2,028</u>
Total operating expense excluding depreciation	\$ <u>699,749</u>	<u>653,500</u>	<u>(46,249)</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 422,471	189,500	232,971
DEPRECIATION	<u>104,203</u>	<u>110,000</u>	<u>5,797</u>
OPERATING INCOME	\$ <u>318,268</u>	<u>79,500</u>	<u>238,768</u>
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 10,548	2,500	8,048
Interest income	26,177	12,500	13,677
Total nonoperating revenues (expenses)	\$ <u>36,725</u>	<u>15,000</u>	<u>21,725</u>
NET INCOME (LOSS)	\$ 354,993	94,500	<u><u>260,493</u></u>
NET ASSETS, BEGINNING OF YEAR	<u>2,374,766</u>	<u>1,847,100</u>	
NET ASSETS, END OF YEAR	\$ <u><u>2,729,759</u></u>	<u><u>1,941,600</u></u>	

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES  
JOINT TREATMENT FUND  
COMPARATIVE BALANCE SHEETS  
June 30, 2008 and 2007**

**Schedule 7**

	2008	2007
<b>ASSETS</b>		
<b>JOINT TREATMENT PLANT</b>		
Plant in Service	\$ 8,559,938	\$ 8,391,784
Less: Accumulated depreciation	2,794,029	2,621,539
Net Joint Treatment Plant	\$ 5,765,909	\$ 5,770,245
<b>OTHER ASSETS</b>		
Unrestricted		
Equipment replacement investment	\$ 313,683	\$ 241,337
<b>CURRENT ASSETS</b>		
Unrestricted		
Cash	\$ 83,952	\$ 90,028
Accounts receivable	112,478	115,130
Due from other funds	617	770
Interest receivable	0	0
Prepaid insurance	14,618	15,121
Total Current Assets	\$ 211,665	\$ 221,049
Total Assets	\$ 6,291,257	\$ 6,232,631
 <b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets, net of related debt	\$ 4,765,909	\$ 4,645,246
Restricted net assets	0	0
Unrestricted net assets	490,587	408,382
Total Net Assets	\$ 5,256,496	\$ 5,053,628
<b>LONG-TERM DEBT - Net of current maturities</b>	\$ 875,000	\$ 1,000,000
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 9,333	\$ 26,586
Due to other funds	1,114	911
Other accrued liabilities	4,314	4,006
Current maturities of long-term debt	125,000	125,000
Interest payable	20,000	22,500
Total Current Liabilities	\$ 159,761	\$ 179,003
Total Liabilities and Net Assets	\$ 6,291,257	\$ 6,232,631

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, 2008 and 2007**

**Schedule 7**

	2008	2007
OPERATING REVENUES		
Sales to consumers	\$ <u>1,098,795</u>	\$ <u>1,035,390</u>
 OPERATING EXPENSES		
Waste water processing expense	\$ 503,509	\$ 460,763
Administrative & general	130,336	139,361
Insurance	60,798	56,412
Transportation	13,173	9,884
Total operating expense excluding depreciation	\$ <u>707,816</u>	\$ <u>666,420</u>
 OPERATING INCOME BEFORE DEPRECIATION	\$ 390,979	\$ 368,970
 DEPRECIATION	<u>172,489</u>	<u>167,601</u>
 OPERATING INCOME	\$ <u>218,490</u>	\$ <u>201,369</u>
 NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 13,344	\$ 7,991
Interest income	13,534	11,564
Interest expense	(42,500)	(47,500)
Total nonoperating revenues (expenses)	\$ <u>(15,622)</u>	\$ <u>(27,945)</u>
 NET INCOME (LOSS)	\$ 202,868	\$ 173,424
 NET ASSETS, BEGINNING OF YEAR	<u>5,053,628</u>	<u>4,880,204</u>
 NET ASSETS, END OF YEAR	<u><u>5,256,496</u></u>	<u><u>5,053,628</u></u>

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES**  
**JOINT TREATMENT FUND**  
**COMPARATIVE STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2008 and 2007**

**Schedule 7**

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 202,868	\$ 173,424
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	172,489	167,601
Changes in assets and liabilities		
(Increase) decrease in trade receivables	2,652	(45,620)
(Increase) decrease in prepaid expenses	503	(635)
(Increase) decrease in other current assets	153	(105)
Increase (decrease) in accounts payable and accrued liabilities	(19,242)	(2,174)
Net cash provided by (used in) operating activities	\$ 359,423	\$ 292,491
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale/maturities of securities	\$ 162,500	\$ 35,000
Purchase of investment securities	(234,846)	(120,261)
Purchase of property and equipment	(168,153)	(3,792)
Net cash provided by (used in) investing activities	\$ (240,499)	\$ (89,053)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from interfund loan	\$ 0	\$ 0
Principal payments on long-term borrowing	(125,000)	(125,000)
Net cash provided by (used in) financing activities	\$ (125,000)	\$ (125,000)
 Net increase (decrease) in cash and cash equivalents	 \$ (6,076)	 \$ 78,438
 Cash and cash equivalents:		
Beginning	90,028	11,590
Ending	\$ 83,952	\$ 90,028

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, 2008**

**Schedule 8**

	Actual	Budget	Variance
OPERATING REVENUES			
Sales to consumers	\$ 1,098,795	885,000	213,795
OPERATING EXPENSES			
Waste water processing expense	\$ 503,509	500,000	(3,509)
Administrative & general	130,336	131,000	664
Insurance	60,798	57,000	(3,798)
Transportation	13,173	10,000	(3,173)
Total operating expense excluding depreciation	\$ 707,816	698,000	(9,816)
OPERATING INCOME BEFORE DEPRECIATION	\$ 390,979	187,000	203,979
DEPRECIATION	172,489	170,000	(2,489)
OPERATING INCOME	\$ 218,490	17,000	201,490
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 13,344	10,000	3,344
Interest income	13,534	10,000	3,534
Interest expense	(42,500)	(42,500)	-
Total nonoperating revenues (expenses)	\$ (15,622)	(22,500)	6,878
NET INCOME (LOSS)	\$ 202,868	(5,500)	208,368
NET ASSETS, BEGINNING OF YEAR	5,053,628	(254,000)	
NET ASSETS, END OF YEAR	\$ 5,256,496	(259,500)	

See accompanying independent auditor's report.

**MAHONEY & GOTTO COMPANY**  
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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, 2008, which collectively comprise the Utility's basic financial statements listed in the table of contents and have issued our report thereon dated September 25, 2008. 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, 2008 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

September 25, 2008  
Denison, Iowa

**DENISON MUNICIPAL UTILITIES**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2008**

**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:**

**SIGNIFICANT DEFICIENCIES:**

II-A-08 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. Supervisory review of financial transactions and reports is extremely important when incompatible responsibilities cannot be segregated. Additionally, the Board of Trustees should continue to review check registers noting any unusual charges or undocumented skips in check number sequence.

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.

**INSTANCES OF NONCOMPLIANCE:**

No matters were noted.

**DENISON MUNICIPAL UTILITIES**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2008**

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

- III-A-08      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-08      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 25, 1979.
  
- III-C-08      Travel Expense - No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.
  
- III-D-08      Business Transactions - Business transactions between the Utility and officials are immaterial and meet the guidelines of the Code of Iowa.
  
- III-E-08      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-08      Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
  
- III-G-08      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-08      Revenue Bonds - The Utility has complied with all aspects of its bond covenants.