

Denison Municipal Utilities

Independent Auditor's Report

Financial Statements and
Supplemental Information

Schedule of Findings & Questioned Costs

June 30, 2009 and 2008

MAHONEY & GOTTO COMPANY

Certified Public Accountants

Denison, Iowa

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 |
| Brad Nelson | Vice Chairman | 2013 |
| Christy Siemer | Board Member | 2009 |
| Nancy Bradley | Board Member | 2010 |
| Dane Dammen | Board Member | 2014 |
| Chad Langenfeld | Board Member | 2015 |
| 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

**201 South 7th Street
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, 2009. 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, 2009, 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 11, 2009 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 38, 42, 46 and 50 are not required parts of the basic financial

statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was 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, 2008 (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 11, 2009
Denison, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Denison Municipal Utilities annual report presents an analysis of the Utility's financial performance for the fiscal year ended June 30, 2009. 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.

2009 FINANCIAL HIGHLIGHTS

- The Utilities operating revenues increased \$356,548 or 2.98% from the prior year. Increased gallons of waste treated by the joint treatment facility contributed to this increase. A rate increase implemented in February 2009 for electric usage also contributed to the increase in revenues.
- Operating expenses increased by \$995,026 or 10.67% from the prior year. The cost of wholesale power has 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 \$1,107,021 and total liabilities increased \$51,802, resulting in total net assets increasing \$1,055,219 or 3.32% 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, as well as presenting the schedule of funding progress for the retiree health plan.

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>2009</u> | <u>2008</u> | <u>2007</u> |
| Current and other assets | \$ 14,320,559 | \$ 13,500,084 | \$ 11,872,322 |
| Capital Assets | <u>25,165,609</u> | <u>24,879,063</u> | <u>25,418,681</u> |
| Total Assets | <u>39,486,168</u> | <u>38,379,147</u> | <u>37,291,003</u> |
| Long-term debt outstanding | 4,216,000 | 4,788,000 | 5,343,000 |
| Other liabilities | <u>2,445,677</u> | <u>1,821,875</u> | <u>1,887,701</u> |
| Total Liabilities | <u>6,661,677</u> | <u>6,609,875</u> | <u>7,230,701</u> |
| Invested in Capital Assets, net of related debt | 20,347,765 | 19,568,394 | 19,571,500 |
| Restricted net assets | 1,149,889 | 1,285,045 | 1,208,058 |
| Unrestricted net assets | <u>11,326,837</u> | <u>10,915,833</u> | <u>9,280,744</u> |
| Total net assets | <u>\$ 32,824,491</u> | <u>\$ 31,769,272</u> | <u>\$ 30,060,302</u> |

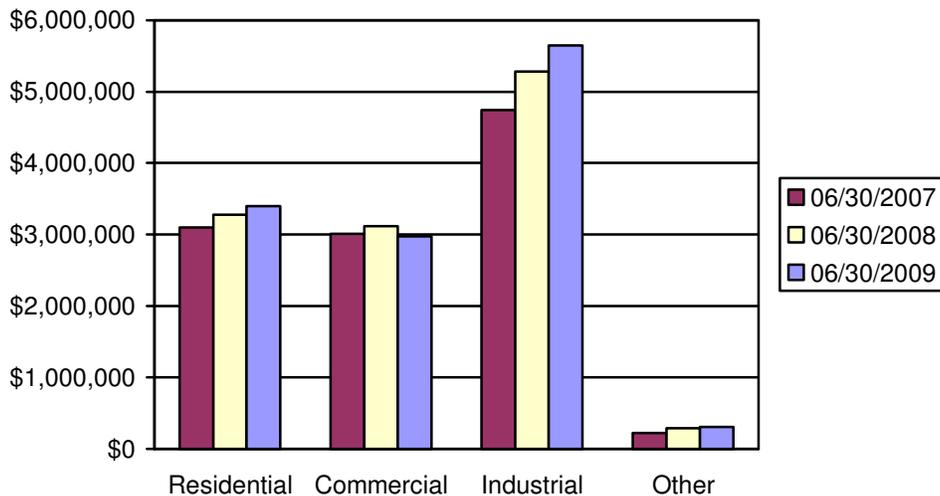
2009 OPERATING RESULTS

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>2009</u> | <u>2008</u> | <u>2007</u> |
| Program revenues | | | |
| Operating revenues | \$12,322,748 | \$ 11,966,200 | \$ 11,069,822 |
| Miscellaneous | 239,697 | 205,068 | 124,464 |
| Unrestricted investment earnings | <u>344,733</u> | <u>463,832</u> | <u>429,153</u> |
| Total revenues | <u>12,907,178</u> | <u>12,635,100</u> | <u>11,623,439</u> |
| Program expenses | | | |
| Operating expenses | 10,316,220 | 9,321,194 | 8,549,975 |
| Depreciation | 1,295,386 | 1,299,464 | 1,295,260 |
| Interest on long-term debt | 172,873 | 191,802 | 256,020 |
| Miscellaneous | <u>67,480</u> | <u>113,670</u> | <u>111,412</u> |
| Total expenses | <u>11,851,959</u> | <u>10,926,130</u> | <u>10,212,667</u> |
| Increase (decrease) in net assets | 1,055,219 | 1,708,970 | 1,410,772 |
| Unrestricted Net assets July 1 | <u>31,769,272</u> | <u>30,060,302</u> | <u>28,649,530</u> |
| Unrestricted Net assets June 30 | <u>\$32,824,491</u> | <u>\$31,769,272</u> | <u>\$30,060,302</u> |

The following graph shows a comparison of total operating revenue by customer category for the fiscal years ended June 30, 2009, 2008 and 2007.

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, 2009, 2008 and 2007:

| | Comparison of Electric Meters & Usage by Customer Class | | | | | |
|--------------------------------------|--|--------------------|---------------|--------------------|---------------|--------------------|
| | 2009 | | 2008 | | 2007 | |
| | <u>Meters</u> | <u>KWH</u> | <u>Meters</u> | <u>KWH</u> | <u>Meters</u> | <u>KWH</u> |
| Commercial C1 | 554 | 27,280,359 | 554 | 32,559,527 | 556 | 29,158,490 |
| Commercial C1M | 116 | 3,387,028 | 119 | 3,480,220 | 118 | 3,308,750 |
| Commercial C2M | 21 | 6,850,700 | 21 | 7,464,800 | 26 | 9,380,230 |
| Residential R1 | 1,187 | 12,570,051 | 1,185 | 13,085,967 | 1,184 | 12,667,132 |
| Residential R2M | 1,499 | 21,798,654 | 1,486 | 22,011,086 | 1,470 | 21,078,255 |
| Industrial | 9 | 73,316,960 | 5 | 68,931,320 | 5 | 65,784,080 |
| Water plant | | 3,111,140 | | 2,973,990 | | 3,112,590 |
| Sewer plant | | 4,359,250 | | 4,143,025 | | 3,915,760 |
| City Government | | 3,019,010 | | 3,090,620 | | 3,120,480 |
| Other DMU uses | | <u>603,620</u> | | <u>628,320</u> | | <u>624,840</u> |
| Total Meters & KWH Billed | <u>3,386</u> | <u>156,296,772</u> | <u>3,359</u> | <u>158,368,875</u> | <u>3,359</u> | <u>152,150,607</u> |

The number of water meters and gallons used by customer class for the fiscal years ended June 30, 2009, 2008 and 2007 is as follows:

| | Comparison of Water Meters & Usage by Customer Class | | | | | |
|--------------------------------------|---|--------------------|---------------|--------------------|---------------|--------------------|
| | 2009 | | 2008 | | 2007 | |
| | <u>Meters</u> | <u>Gals.</u> | <u>Meters</u> | <u>Gals.</u> | <u>Meters</u> | <u>Gals.</u> |
| Residential | 2,243 | 121,448,000 | 2,226 | 124,685,000 | 2,211 | 124,735,000 |
| Commercial | 395 | 90,075,000 | 388 | 95,970,000 | 394 | 104,795,000 |
| West Central Rural Water | 4 | 169,036,000 | 4 | 170,175,000 | 4 | 161,829,000 |
| Residential Outside City | 129 | 10,826,000 | 129 | 10,245,000 | 124 | 10,775,000 |
| Commercial Outside City | 18 | 31,273,000 | 17 | 33,236,000 | 16 | 31,897,000 |
| Industrial | 8 | 409,225,000 | 8 | 436,647,000 | 8 | 436,946,000 |
| Electric Department | | 718,000 | | 966,000 | | 790,000 |
| Sewer plant | | 1,526,000 | | 1,358,000 | | 1,584,000 |
| City Government | | 5,003,000 | | 5,996,000 | | 7,118,000 |
| Other DMU uses | | <u>866,000</u> | | <u>1,092,000</u> | | <u>1,067,000</u> |
| Total Meters & KWH Billed | <u>2,797</u> | <u>839,996,000</u> | <u>2,772</u> | <u>880,370,000</u> | <u>2,741</u> | <u>881,536,000</u> |

CAPITAL ASSETS

The Utilities' capital assets include land, buildings, improvements, service lines, automobiles and equipment, and street lights. A total of \$1,581,932 was invested in new capital assets, after accounting for depreciation, there was an increase of \$286,546 in Capital Assets from June 30, 2008.

LONG-TERM DEBT

As of June 30, 2009, the Utility had \$4.216 million in outstanding debt compared to \$4.788 million as of June 30, 2008. The decrease represents principal payments made during the fiscal year ended June 30, 2009. 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 2009. Anticipated industry expansion and demographic changes are all considered in order to determine capital expenditures and expected revenues. During fiscal year 2010, the Utilities will review all rate structures to determine if any rate changes will be needed. 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, 2009 and 2008.

| | <u>2009</u> | <u>2008</u> |
|---|---------------------|---------------------|
| KWH Billed | 156,296,772 | 158,368,875 |
| Rate difference between Iowa average utility rate and Denison Municipal Utilities | <u>0.0185</u> | <u>0.0220</u> |
| (1) Calculated total electric savings | \$ 2,891,490 | \$ 3,484,115 |
| (2) Transfer to City general fund in lieu of taxes | 254,455 | 316,314 |
| (3) New housing assistance program | 2,570 | 7,540 |
| (4) Water heater rebates | <u>8,750</u> | <u>18,400</u> |
| Total Community Benefits | <u>\$ 3,157,265</u> | <u>\$ 3,826,369</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, 2009 and 2008

Exhibit A

| ASSETS | BUSINESS-TYPE ACTIVITIES | |
|--|--------------------------|---------------|
| | 2009 | 2008 |
| UTILITY PLANT | | |
| Plant in Service, at cost | \$ 48,255,900 | \$ 46,680,263 |
| Less: Accumulated depreciation | 23,090,291 | 21,801,200 |
| Net Utility Plant | \$ 25,165,609 | \$ 24,879,063 |
| OTHER ASSETS | | |
| Restricted | | |
| Revenue bond reserve | \$ 1,156,075 | \$ 1,301,885 |
| Loan origination fee, net of accumulated amortization (Note 4) | 29,844 | 32,331 |
| Deferred compensation | 182,679 | 160,919 |
| Unrestricted | | |
| Note Receivable | 875,000 | 1,000,000 |
| Equipment replacement investment | 543,856 | 313,683 |
| | \$ 2,787,454 | \$ 2,808,818 |
| CURRENT ASSETS | | |
| Restricted | | |
| Consumers' deposit fund | \$ 77,016 | \$ 61,813 |
| Unrestricted | | |
| Cash | 911,605 | 1,132,258 |
| Deposits and investments | 8,330,045 | 7,294,905 |
| Accounts receivable | 870,971 | 984,489 |
| Unbilled usage | 621,085 | 570,650 |
| Due from other funds | 63,899 | 15,857 |
| Interest receivable | 72,942 | 87,455 |
| Inventory | 481,066 | 452,557 |
| Prepaid insurance | 104,476 | 91,282 |
| Total Current Assets | \$ 11,533,105 | \$ 10,691,266 |
| Total Assets | \$ 39,486,168 | \$ 38,379,147 |

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
June 30, 2009 and 2008

Exhibit A

| | BUSINESS-TYPE ACTIVITIES | |
|---|--------------------------|---------------|
| | 2009 | 2008 |
| LIABILITIES AND NET ASSETS | | |
| NET ASSETS | | |
| Invested in Capital Assets, net of related debt | \$ 20,347,765 | \$ 19,568,394 |
| Restricted net assets | 1,149,889 | 1,285,045 |
| Unrestricted net assets | 11,326,837 | 10,915,833 |
| Total Net Assets | \$ 32,824,491 | \$ 31,769,272 |
| LONG-TERM DEBT | | |
| Net of current maturities (Note 5) | \$ 4,216,000 | \$ 4,788,000 |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 1,165,613 | \$ 602,964 |
| Due to other funds | 63,899 | 15,857 |
| Accrued vacation and sick leave | 315,399 | 340,308 |
| Other accrued liabilities | 45,385 | 48,174 |
| Payable from restricted assets | | |
| Deferred compensation | 182,679 | 160,919 |
| Current maturities of long-term debt (Note 5) | 572,000 | 555,000 |
| Interest payable | 38,052 | 42,964 |
| Consumers' deposits | 62,650 | 55,689 |
| Total Current Liabilities | \$ 2,445,677 | \$ 1,821,875 |
| Total Liabilities and Net Assets | \$ 39,486,168 | \$ 38,379,147 |

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES
STATEMENT OF ACTIVITIES
Years Ended June 30, 2009 and 2008**

Exhibit B

| Functions/Programs | Expenses | Charges for service | Operating Grants and Contributions | Capital Grants and Contributions | Net (Expense) Revenue 2009 | Revenue 2008 |
|---------------------------------------|----------------------|------------------------|---------------------------------------|-------------------------------------|-------------------------------|-------------------|
| Business-type activities: | | | | | | |
| Electric Utility | \$ 7,961,560 | 7,831,682 | 0 | 0 | (129,878) | 393,735 |
| Water Utility | 1,862,331 | 2,222,321 | 0 | 0 | 359,990 | 415,049 |
| Sewer Utility | 835,226 | 1,095,035 | 0 | 0 | 259,809 | 318,268 |
| Joint Treatment | 952,489 | 1,173,710 | 0 | 0 | 221,221 | 218,490 |
| Interest on long-term debt | 172,873 | 0 | 0 | 0 | (172,873) | (191,802) |
| Total Business-type activities | \$ 11,784,479 | 12,322,748 | 0 | 0 | 538,269 | 1,153,740 |
| General Revenues: | | | | | | |
| Unrestricted investment income | | | | | \$ 344,733 | 463,832 |
| Miscellaneous | | | | | 172,217 | 91,398 |
| Change in net assets | | | | | 1,055,219 | 1,708,970 |
| Net assets, beginning of year | | | | | 31,769,272 | 30,060,302 |
| Net assets, end of year | | | | | \$ 32,824,491 | 31,769,272 |

DENISON MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2009 and 2008

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 2009</u> | <u>Total 2008</u> |
|---|-----------------------------|--------------------------|--------------------------|----------------------------|-----------------------------------|-----------------------|-----------------------|
| ASSETS | | | | | | | |
| UTILITY PLANT | | | | | | | |
| Plant in Service | \$ 18,023,839 | 17,264,125 | 4,397,636 | 8,570,300 | 0 | 48,255,900 | 46,680,263 |
| Less: Accumulated depreciation | 9,895,555 | 7,575,704 | 2,649,691 | 2,969,341 | 0 | 23,090,291 | 21,801,200 |
| Net Utility Plant | <u>\$ 8,128,284</u> | <u>9,688,421</u> | <u>1,747,945</u> | <u>5,600,959</u> | <u>0</u> | <u>25,165,609</u> | <u>24,879,063</u> |
| OTHER ASSETS | | | | | | | |
| Restricted | | | | | | | |
| Revenue bond reserve-restricted | \$ 0 | 1,156,075 | 0 | 0 | 0 | 1,156,075 | 1,301,885 |
| Loan origination fee, net of accumulated amortization (Note 4) | 0 | 29,844 | 0 | 0 | 0 | 29,844 | 32,331 |
| Deferred compensation | 0 | 0 | 0 | 0 | 182,679 | 182,679 | 160,919 |
| Unrestricted | | | | | | | |
| Note receivable - Joint Treatment Fund | 875,000 | 0 | 0 | 0 | 0 | 875,000 | 1,000,000 |
| Equipment replacement investment | 0 | 0 | 0 | 543,856 | 0 | 543,856 | 313,683 |
| Total Other Assets | <u>\$ 875,000</u> | <u>1,185,919</u> | <u>0</u> | <u>543,856</u> | <u>182,679</u> | <u>2,787,454</u> | <u>2,808,818</u> |
| CURRENT ASSETS | | | | | | | |
| Restricted | | | | | | | |
| Consumers' deposit fund | \$ 77,016 | 0 | 0 | 0 | 0 | 77,016 | 61,813 |
| Unrestricted | | | | | | | |
| Cash | 549,903 | 84,887 | 127,777 | 149,038 | 0 | 911,605 | 1,132,258 |
| Deposits and investments | 4,248,167 | 3,090,241 | 991,637 | 0 | 0 | 8,330,045 | 7,294,905 |
| Accounts receivable | 476,164 | 168,803 | 128,973 | 97,031 | 0 | 870,971 | 984,489 |
| Unbilled usage | 423,165 | 122,071 | 75,849 | 0 | 0 | 621,085 | 570,650 |
| Due from other funds | 22,879 | 12,581 | 27,593 | 846 | 0 | 63,899 | 15,857 |
| Interest receivable | 39,413 | 27,111 | 6,418 | 0 | 0 | 72,942 | 87,455 |
| Inventory | 399,559 | 81,507 | 0 | 0 | 0 | 481,066 | 452,557 |
| Prepaid insurance | 41,417 | 36,756 | 9,502 | 16,801 | 0 | 104,476 | 91,282 |
| Total Current Assets | <u>\$ 6,277,683</u> | <u>3,623,957</u> | <u>1,367,749</u> | <u>263,716</u> | <u>0</u> | <u>11,533,105</u> | <u>10,691,266</u> |
| Total Assets | <u>\$ 15,280,967</u> | <u>14,498,297</u> | <u>3,115,694</u> | <u>6,408,531</u> | <u>182,679</u> | <u>39,486,168</u> | <u>38,379,147</u> |

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2009 and 2008

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 2009</u> | <u>Total 2008</u> |
|---|-----------------------------|--------------------------|--------------------------|----------------------------|-----------------------------------|-----------------------|-----------------------|
| LIABILITIES AND NET ASSETS | | | | | | | |
| NET ASSETS | | | | | | | |
| Invested in Capital Assets, net of related debt | \$ 8,128,284 | 5,745,577 | 1,747,945 | 4,725,959 | 0 | 20,347,765 | 19,568,394 |
| Restricted net assets | 14,366 | 1,135,523 | 0 | 0 | 0 | 1,149,889 | 1,285,045 |
| Unrestricted net assets | 5,776,958 | 3,522,228 | 1,274,414 | 753,237 | 0 | 11,326,837 | 10,915,833 |
| Total Net Assets | <u>\$ 13,919,608</u> | <u>10,403,328</u> | <u>3,022,359</u> | <u>5,479,196</u> | <u>0</u> | <u>32,824,491</u> | <u>31,769,272</u> |
| LONG-TERM DEBT - | | | | | | | |
| Net of current maturities (Note 5) | <u>\$ 0</u> | <u>3,466,000</u> | <u>0</u> | <u>750,000</u> | <u>0</u> | <u>4,216,000</u> | <u>4,788,000</u> |
| CURRENT LIABILITIES | | | | | | | |
| Accounts payable | \$ 1,086,229 | 37,173 | 9,486 | 32,725 | 0 | 1,165,613 | 602,964 |
| Due to other funds | 32,267 | 9,852 | 20,782 | 998 | 0 | 63,899 | 15,857 |
| Accrued vacation and sick leave | 159,304 | 98,166 | 57,929 | 0 | 0 | 315,399 | 340,308 |
| Other accrued liabilities | 20,909 | 16,226 | 5,138 | 3,112 | 0 | 45,385 | 48,174 |
| Payable from restricted assets | | | | | | | |
| Deferred compensation | 0 | 0 | 0 | 0 | 182,679 | 182,679 | 160,919 |
| Current maturities of long-term debt (Note 5) | 0 | 447,000 | 0 | 125,000 | 0 | 572,000 | 555,000 |
| Interest payable | 0 | 20,552 | 0 | 17,500 | 0 | 38,052 | 42,964 |
| Consumers' deposits | 62,650 | 0 | 0 | 0 | 0 | 62,650 | 55,689 |
| Total Current Liabilities | <u>\$ 1,361,359</u> | <u>628,969</u> | <u>93,335</u> | <u>179,335</u> | <u>182,679</u> | <u>2,445,677</u> | <u>1,821,875</u> |
| Total Liabilities and Net Assets | <u>\$ 15,280,967</u> | <u>14,498,297</u> | <u>3,115,694</u> | <u>6,408,531</u> | <u>182,679</u> | <u>39,486,168</u> | <u>38,379,147</u> |

DENISON MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS
Years Ended June 30, 2009 and 2008

Exhibit D

| | Electric Utility | Water Utility | Sewer Utility | Joint Treatment | Total 2009 | Total 2008 |
|--|----------------------|-------------------|------------------|--------------------|-------------------|-------------------|
| OPERATING REVENUES | | | | | | |
| Sales to consumers | \$ 7,784,086 | 2,222,321 | 1,095,035 | 1,173,710 | 12,275,152 | 11,931,310 |
| Other operating revenues | 47,596 | 0 | 0 | 0 | 47,596 | 34,890 |
| Total operating revenues | <u>\$ 7,831,682</u> | <u>2,222,321</u> | <u>1,095,035</u> | <u>1,173,710</u> | <u>12,322,748</u> | <u>11,966,200</u> |
| OPERATING EXPENSES | | | | | | |
| Cost of Power | \$ 6,217,535 | 0 | 0 | 0 | 6,217,535 | 5,494,937 |
| Plant & main maintenance | 87,167 | 0 | 248,676 | 0 | 335,843 | 368,738 |
| Power & pumping | 0 | 173,749 | 0 | 0 | 173,749 | 172,436 |
| Distribution expense | 418,384 | 241,515 | 0 | 0 | 659,899 | 642,977 |
| Purification | 0 | 476,459 | 0 | 0 | 476,459 | 415,935 |
| Waste water processing expense | 0 | 0 | 0 | 556,262 | 556,262 | 503,509 |
| Joint treatment costs | 0 | 0 | 285,809 | 0 | 285,809 | 255,530 |
| Consumer accounting & collection | 91,540 | 69,182 | 49,762 | 0 | 210,484 | 210,864 |
| Administrative & general | 464,904 | 202,670 | 95,345 | 143,289 | 906,208 | 747,908 |
| Insurance | 184,247 | 130,903 | 44,922 | 63,742 | 423,814 | 430,312 |
| Transportation | 35,418 | 10,105 | 10,751 | 13,884 | 70,158 | 78,048 |
| Total operating expense excluding depreciation | <u>\$ 7,499,195</u> | <u>1,304,583</u> | <u>735,265</u> | <u>777,177</u> | <u>10,316,220</u> | <u>9,321,194</u> |
| OPERATING INCOME BEFORE DEPRECIATION | \$ 332,487 | 917,738 | 359,770 | 396,533 | 2,006,528 | 2,645,006 |
| DEPRECIATION | <u>462,365</u> | <u>557,748</u> | <u>99,961</u> | <u>175,312</u> | <u>1,295,386</u> | <u>1,299,464</u> |
| OPERATING INCOME | \$ (129,878) | 359,990 | 259,809 | 221,221 | 711,142 | 1,345,542 |
| NONOPERATING REVENUES (EXPENSES) | | | | | | |
| Miscellaneous | \$ 167,644 | 28,335 | 11,476 | 32,242 | 239,697 | 205,068 |
| Interest income | 167,297 | 149,384 | 21,315 | 6,737 | 344,733 | 463,832 |
| Interest expense | 0 | (135,373) | 0 | (37,500) | (172,873) | (191,802) |
| Economic development costs (Note 9) | (67,480) | 0 | 0 | 0 | (67,480) | (113,670) |
| Total nonoperating revenues (expenses) | <u>\$ 267,461</u> | <u>42,346</u> | <u>32,791</u> | <u>1,479</u> | <u>344,077</u> | <u>363,428</u> |
| NET INCOME (LOSS) | \$ 137,583 | 402,336 | 292,600 | 222,700 | 1,055,219 | 1,708,970 |
| NET ASSETS, BEGINNING 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> |
| NET ASSETS, END OF YEAR | <u>\$ 13,919,608</u> | <u>10,403,328</u> | <u>3,022,359</u> | <u>5,479,196</u> | <u>32,824,491</u> | <u>31,769,272</u> |

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Years Ended June 30, 2009 and 2008

Exhibit E

| | Electric Utility | Water Utility | Sewer Utility | Joint Treatment | Total 2009 | Total 2008 |
|--|---------------------|------------------|------------------|--------------------|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | |
| Net income (loss) | \$ 137,583 | 402,336 | 292,600 | 222,700 | 1,055,219 | 1,708,970 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | | | | |
| Depreciation | 462,365 | 557,748 | 99,961 | 175,312 | 1,295,386 | 1,299,464 |
| Amortization of origination fees | 0 | 2,487 | 0 | 0 | 2,487 | 2,487 |
| Changes in assets and liabilities | | | | | | |
| (Increase) decrease in consumers' deposit fund | (15,203) | 0 | 0 | 0 | (15,203) | (2,447) |
| (Increase) decrease in trade receivables | 15,517 | 300 | 82,254 | 15,447 | 113,518 | (232,454) |
| (Increase) decrease in unbilled usage | (40,657) | (6,675) | (3,103) | 0 | (50,435) | 15,027 |
| (Increase) decrease in inventories | (12,547) | (15,962) | 0 | 0 | (28,509) | (1,178) |
| (Increase) decrease in prepaid expenses | (4,959) | (4,827) | (1,225) | (2,183) | (13,194) | 3,294 |
| (Increase) decrease in other current assets | (13,724) | 8,540 | (28,116) | (229) | (33,529) | 526 |
| Increase (decrease) in accounts payable and accrued liabilities | 545,243 | 11,271 | 1,993 | 19,574 | 578,081 | (96,519) |
| Increase (decrease) in customer deposits | 6,961 | 0 | 0 | 0 | 6,961 | 2,227 |
| Net cash provided by (used in) operating activities | <u>1,080,579</u> | <u>955,218</u> | <u>444,364</u> | <u>430,621</u> | <u>2,910,782</u> | <u>2,699,397</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | |
| Proceeds from sale/maturities of securities | 3,462,560 | 3,908,211 | 589,590 | 0 | 7,960,361 | 9,111,046 |
| Purchase of investment securities | (3,896,977) | (3,969,873) | (982,841) | (230,173) | (9,079,864) | (10,738,557) |
| Purchase of property and equipment | (1,066,632) | (415,095) | (89,843) | (10,362) | (1,581,932) | (759,846) |
| Interfund loan to Joint Treatment | 125,000 | 0 | 0 | 0 | 125,000 | 125,000 |
| Net cash provided by (used in) investing activities | <u>(1,376,049)</u> | <u>(476,757)</u> | <u>(483,094)</u> | <u>(240,535)</u> | <u>(2,576,435)</u> | <u>(2,262,357)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | | |
| Proceeds from interfund loan | 0 | 0 | 0 | 0 | 0 | 0 |
| Proceeds from long-term borrowing | 0 | 0 | 0 | 0 | 0 | 0 |
| Principal payments on long-term borrowings | 0 | (430,000) | 0 | (125,000) | (555,000) | (539,000) |
| Net cash provided by (used in) financing activities | <u>0</u> | <u>(430,000)</u> | <u>0</u> | <u>(125,000)</u> | <u>(555,000)</u> | <u>(539,000)</u> |
| Net increase (decrease) in cash and cash equivalents | (295,470) | 48,461 | (38,730) | 65,086 | (220,653) | (101,960) |
| Cash and cash equivalents: | | | | | | |
| Beginning | 845,373 | 36,426 | 166,507 | 83,952 | 1,132,258 | 1,234,218 |
| Ending | <u>\$ 549,903</u> | <u>84,887</u> | <u>127,777</u> | <u>149,038</u> | <u>911,605</u> | <u>1,132,258</u> |

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
EXPENDABLE TRUST FUNDS
June 30, 2009 and 2008

Exhibit F

| | 2009 | 2008 |
|----------------------------------|------------|------------|
| ASSETS | | |
| OTHER ASSETS | | |
| Restricted | | |
| Deferred compensation | \$ 182,679 | \$ 160,919 |
| CURRENT ASSETS | | |
| None | \$ 0 | \$ 0 |
| Total Assets | \$ 182,679 | \$ 160,919 |
| LIABILITIES AND NET ASSETS | | |
| NET ASSETS | | |
| None | \$ 0 | \$ 0 |
| CURRENT LIABILITIES | | |
| Payable from restricted assets | | |
| Deferred compensation | \$ 182,679 | 160,919 |
| Total Current Liabilities | \$ 182,679 | \$ 160,919 |
| Total Liabilities and Net Assets | \$ 182,679 | \$ 160,919 |

DENISON MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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 and approved by the City Council. 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, 2009. 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, 2009.

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 certain funds to be placed in cash reserve funds. These cash reserve funds, which are from unrestricted net assets, are designated as emergency funds and shall only be expended for that purpose. The cash reserve funds are not to be used to pay for ongoing operating expenditures or capital improvements unless approved by the Board.

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, 2009, disbursements did not exceed the amounts budgeted.

Note 2 – Deposits and Investments

The Utility's deposits at June 30, 2009 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 \$182,318 and investments in the Iowa Public Agency Investment Trust with a fair value of \$671,116 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>2009</u> | <u>2008</u> |
|--|-------------------------|-----------------------|
| Land | \$ 909,657 | 909,657 |
| Plant | 15,578,545 | 15,218,578 |
| Distribution & Collection | 19,095,475 | 17,915,033 |
| Machinery & Equipment | 804,441 | 769,213 |
| General Buildings | 2,132,268 | 2,132,268 |
| Transportation Equipment | 1,221,838 | 1,221,838 |
| Joint Treatment | <u>8,513,676</u> | <u>8,513,676</u> |
| TOTAL | 48,255,900 | 46,680,263 |
| Less: Accumulated Depreciation | <u>23,090,291</u> | <u>21,801,200</u> |
| Net Property, Plant & Equipment | <u>\$25,165,609</u> | <u>24,879,063</u> |
| Depreciation Charged to Operations | <u>\$ 1,295,386</u> | <u>1,299,464</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, 2009:

| | Series 2001 Water Revenue Capital Loan Note | Series 2007 Water Revenue Refunding Capital Loan Notes | Total Bonds Payable |
|---|---|--|------------------------|
| Balance July 1, 2008 | 3,438,000 | 905,000 | 4,343,000 |
| Issued | 0 | 0 | 0 |
| Redeemed | <u>(220,000)</u> | <u>(210,000)</u> | <u>(430,000)</u> |
| Balance June 30, 2009 | 3,218,000 | 695,000 | 3,913,000 |
| Less: current portion | <u>(227,000)</u> | <u>(220,000)</u> | <u>(447,000)</u> |
| Long-term debt, net of current portion | <u>2,991,000</u> | <u>475,000</u> | <u>3,466,000</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 | |
| 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>\$ 695,000</u> | <u>54,735</u> | <u>3,218,000</u> | <u>661,590</u> | <u>55,133</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, 2009.

Long-term liability activity for the fiscal year ended June 30, 2009:

| | Notes Payable |
|---|-------------------|
| Balance July 1, 2008 | \$ 1,000,000 |
| Redeemed | <u>(125,000)</u> |
| Balance June 30, 2009 | 875,000 |
| Less: current portion | <u>(125,000)</u> |
| Long-term debt, net of current portion | <u>\$ 750,000</u> |

Note 5 – Long-Term Debt (continued)

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> |
|-----------------------------|-------------------|-----------------|
| 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 | 125,000 | 5,000 |
| | <u>\$ 875,000</u> | <u>140,000</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 4.10% of their annual covered salary and the Utilities is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the years ended June 30, 2009 and 2008 were \$87,631 and \$83,216 respectively, equal to the required contributions for the year.

The Utility sponsors a deferred compensation plan under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary to future years. All full-time employees who have completed six months of continuous employment and are 18 years of age are eligible to participate. The Utility will contribute up to \$50 per month for all employees contributing at least \$50 per month of their salary. The Utilities' contribution for the year ended June 30, 2009 was \$13,175.

Note 7 – Post-employment Benefits (OPEB)

The Utility implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions during the year ended June 30, 2009.

Plan Description - In addition to the pension benefits described in Note 6, the Utilities provide health insurance coverage for long-term employees after retirement. The health insurance coverage provided is through the Utility's group health insurance plan, which covers both active and retired members. 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. Benefit provisions are established by the Utility Board of Trustees.

Funding Policy – The Utility currently finances the retiree benefit plan on a pay-as-you-go basis. The Utility incurred \$9,717 for retiree health premiums and \$1,848 of self-funding costs during the current fiscal year as a result of this program.

Note 7 – Post-employment Benefits (continued)

Annual OPEB Cost and Net OPEB Obligation - The Utility's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Utility. The Utility has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Utility's annual OPEB cost for the year ended June 30, 2009, the amount actually contributed to the plan and changes in the Utility's net OPEB obligation:

| | |
|--|-----------------|
| Annual required contribution | \$ 16,521 |
| Interest on net OPEB obligation | 0 |
| Adjustment to annual required contribution | <u>0</u> |
| Annual OPEB cost | 16,521 |
| Contributions made | <u>(9,717)</u> |
| Increase in net OPEB obligation | 6,804 |
| Net OPEB obligation beginning of year | <u>0</u> |
| Net OPEB obligation end of year | <u>\$ 6,804</u> |

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2009 are summarized as follows:

| <u>Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|-------------------|-------------------------|---|----------------------------|
| 6/30/09 | \$ 16,521 | 58.8% | \$ 6,804 |

Funded Status and Funding Progress - As of June 30, 2009, the actuarial accrued liability for benefits was \$145,817, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,436,882, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 10.1%. As of June 30, 2009 there were no trust fund assets.

Methods and Assumptions - The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and plan members and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Note 8 – Construction and Other Commitments

The Utility has entered into a construction contract totaling \$1,040,235 for the reconstruction of the #1 69kV transmission line. At June 30, 2009, costs of \$686,201 have been incurred on the project. The remaining balance of the contract will be paid as the project progresses.

The Utility has entered into an agreement with Crawford County Memorial Hospital to place a portion of the #2 69kV transmission line underground. Denison Municipal Utilities will retain ownership of the transmission line and will contract and manage the project of placing the transmission line underground. Crawford County Memorial Hospital will reimburse Denison Municipal Utilities for the final costs of the project.

The Utility has entered into a construction contract totaling \$161,644 for furnishing of materials for the 69kV underground transmission line. At June 30, 2009, \$0 had been paid and the material had not yet been delivered. The amount of the contract will be paid as the material is received.

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, 2009 and 2008 were \$67,480 and \$113,670, respectively.

Note 10 – Risk Management

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

Note 11 – Subsequent Events

In July 2009, the Utility entered into a contract for \$116,716 for the installation of the 69kV underground transmission line. This contract will be reimbursed by Crawford County Memorial Hospital as discussed in Note 8.

Required Supplementary Information

DENISON MUNICIPAL UTILITIES
 BUDGETARY COMPARISON SCHEDULE
 REQUIRED SUPPLEMENTARY INFORMATION
 JUNE 30, 2009

| | <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 | \$ 12,322,748 | 63,082 | 0 | 12,385,830 | 11,810,150 | 575,680 |
| Interest income | 344,733 | 14,512 | 0 | 359,245 | 245,000 | 114,245 |
| Miscellaneous | <u>239,697</u> | <u>0</u> | <u>125,000</u> | <u>364,697</u> | <u>282,500</u> | <u>82,197</u> |
| Total Revenue/Receipts | 12,907,178 | 77,594 | 125,000 | 13,109,772 | 12,337,650 | 772,122 |
| Expenses/Expenditures | | | | | | |
| Operating expenses | 10,316,220 | (575,843) | 0 | 9,740,377 | 10,411,500 | 671,123 |
| Interest expense & economic development costs | 240,353 | 4,912 | 0 | 245,265 | 294,100 | 48,835 |
| Debt payments | 0 | 0 | 555,000 | 555,000 | 555,000 | 0 |
| Depreciation & capital expenditures | <u>1,295,386</u> | <u>0</u> | <u>286,546</u> | <u>1,581,932</u> | <u>2,281,500</u> | <u>699,568</u> |
| Total Expenses/Expenditures | 11,851,959 | (570,931) | 841,546 | 12,122,574 | 13,542,100 | 1,419,526 |
| Net | 1,055,219 | 648,525 | (716,546) | 987,198 | <u>(1,204,450)</u> | <u>2,191,648</u> |
| Beginning Net Assets | <u>31,769,272</u> | <u>(20,475,750)</u> | <u>125,618</u> | <u>11,419,140</u> | | |
| Ending Net Assets | \$ <u>32,824,491</u> | <u>(19,827,225)</u> | <u>(667,360)</u> | <u>12,406,338</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.

DENISON MUNICIPAL UTILITIES
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2009

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|-----------------------------|-------------------------------------|---|---------------------------------|-----------------------|---------------------------|---|
| June 30, 2009 | \$ 0 | \$ 145,817 | \$ 145,817 | 0.00% | \$1,436,882 | 10.1% |

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

See accompanying independent auditor's report.

Supplementary Information

**DENISON MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITIES
COMPARATIVE STATEMENT OF NET ASSETS
June 30, 2009 and 2008**

Schedule 1

| | 2009 | 2008 |
|---|---------------|---------------|
| ASSETS | | |
| ELECTRIC UTILITY PLANT | | |
| Plant in Service | \$ 18,023,839 | \$ 16,963,502 |
| Less: Accumulated depreciation | 9,895,555 | 9,439,485 |
| Net Electric Utility Plant | \$ 8,128,284 | \$ 7,524,017 |
| OTHER ASSETS | | |
| Note Receivable-Joint Treatment Fund | \$ 875,000 | \$ 1,000,000 |
| CURRENT ASSETS | | |
| Restricted | | |
| Consumers' deposit fund | \$ 77,016 | \$ 61,813 |
| Unrestricted | | |
| Cash | 549,903 | 845,373 |
| Deposits and investments | 4,248,167 | 3,813,750 |
| Accounts receivable | 476,164 | 491,681 |
| Unbilled usage | 423,165 | 382,508 |
| Due from other funds | 22,879 | 4,780 |
| Interest receivable | 39,413 | 43,788 |
| Inventory | 399,559 | 387,012 |
| Prepaid insurance | 41,417 | 36,458 |
| Total Current Assets | \$ 6,277,683 | \$ 6,067,163 |
| Total Assets | \$ 15,280,967 | \$ 14,591,180 |
| LIABILITIES AND NET ASSETS | | |
| NET ASSETS | | |
| Invested in Capital Assets, net of related debt | \$ 8,128,284 | \$ 7,524,017 |
| Restricted net assets | 14,366 | 6,124 |
| Unrestricted net assets | 5,776,958 | 6,251,884 |
| Total Net Assets | \$ 13,919,608 | \$ 13,782,025 |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 1,086,229 | \$ 563,778 |
| Due to other funds | 32,267 | 8,782 |
| Accrued vacation and sick leave | 159,304 | 160,009 |
| Other accrued liabilities | 20,909 | 20,897 |
| Payable from restricted assets | | |
| Consumers' deposits | 62,650 | 55,689 |
| Total Current Liabilities | \$ 1,361,359 | \$ 809,155 |
| Total Liabilities and Net Assets | \$ 15,280,967 | \$ 14,591,180 |

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, 2009 and 2008**

Schedule 1

| | 2009 | 2008 |
|---|---------------|---------------|
| OPERATING REVENUES | | |
| Sales to consumers | \$ 7,784,086 | \$ 7,503,767 |
| Other operating revenues | 47,596 | 34,890 |
| Total operating revenues | \$ 7,831,682 | \$ 7,538,657 |
| OPERATING EXPENSES | | |
| Cost of Power | \$ 6,217,535 | \$ 5,494,937 |
| Maintenance | 87,167 | 105,175 |
| Distribution expense | 418,384 | 418,766 |
| Consumer accounting & collection | 91,540 | 92,356 |
| Administrative & general | 464,904 | 328,765 |
| Insurance | 184,247 | 200,047 |
| Transportation | 35,418 | 40,353 |
| Total operating expense excluding depreciation | \$ 7,499,195 | \$ 6,680,399 |
| OPERATING INCOME BEFORE DEPRECIATION | \$ 332,487 | \$ 858,258 |
| DEPRECIATION | 462,365 | 464,523 |
| OPERATING INCOME | \$ (129,878) | \$ 393,735 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Miscellaneous | \$ 167,644 | \$ 152,966 |
| Interest income | 167,297 | 222,471 |
| Economic development costs | (67,480) | (113,670) |
| Total nonoperating revenues (expenses) | \$ 267,461 | \$ 261,767 |
| NET INCOME (LOSS) | \$ 137,583 | \$ 655,502 |
| NET ASSETS, BEGINNING OF YEAR | 13,782,025 | 13,126,523 |
| NET ASSETS, END OF YEAR | \$ 13,919,608 | \$ 13,782,025 |

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITIES
COMPARATIVE STATEMENTS OF CASH FLOWS
Years Ended June 30, 2009 and 2008**

Schedule 1

| | 2009 | 2008 |
|---|----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | \$ 137,583 | \$ 655,502 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 462,365 | 464,523 |
| Changes in assets and liabilities | | |
| (Increase) decrease in consumers' deposit fund | (15,203) | (2,447) |
| (Increase) decrease in trade receivables | 15,517 | (100,099) |
| (Increase) decrease in unbilled usage | (40,657) | (4,040) |
| (Increase) decrease in inventories | (12,547) | (6,725) |
| (Increase) decrease in prepaid expenses | (4,959) | 1,344 |
| (Increase) decrease in other current assets | (13,724) | 5,267 |
| Increase (decrease) in accounts payable and accrued liabilities | 545,243 | 34,258 |
| Increase (decrease) in customer deposits | 6,961 | 2,227 |
| Net cash provided by (used in) operating activities | \$ 1,080,579 | \$ 1,049,810 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale/maturities of securities | \$ 3,462,560 | \$ 4,143,394 |
| Purchase of investment securities | (3,896,977) | (5,001,539) |
| Interfund loan to Joint Treatment | 125,000 | 125,000 |
| Purchase of property and equipment | (1,066,632) | (440,674) |
| Net cash provided by (used in) investing activities | \$ (1,376,049) | \$ (1,173,819) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| None | \$ 0 | \$ 0 |
| Net cash provided by (used in) financing activities | \$ 0 | \$ 0 |
| Net increase (decrease) in cash and cash equivalents | \$ (295,470) | \$ (124,009) |
| Cash and cash equivalents: | | |
| Beginning | 845,373 | 969,382 |
| Ending | \$ 549,903 | \$ 845,373 |

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, 2009**

Schedule 2

| | <u>Actual</u> | <u>Budget</u> | <u>Variance</u> |
|---|--------------------------|-----------------------|--------------------|
| OPERATING REVENUES | | | |
| Sales to consumers | \$ 7,784,086 | 7,457,350 | 326,736 |
| Other operating revenues | 47,596 | 31,000 | 16,596 |
| Total operating revenues | <u>\$ 7,831,682</u> | <u>7,488,350</u> | <u>343,332</u> |
| OPERATING EXPENSES | | | |
| Cost of Power | \$ 6,217,535 | 6,010,000 | (207,535) |
| Maintenance | 87,167 | 97,500 | 10,333 |
| Distribution expense | 418,384 | 482,000 | 63,616 |
| Consumer accounting & collection | 91,540 | 98,000 | 6,460 |
| Administrative & general | 464,904 | 366,000 | (98,904) |
| Insurance | 184,247 | 192,000 | 7,753 |
| Transportation | 35,418 | 40,000 | 4,582 |
| Total operating expense excluding depreciation | <u>\$ 7,499,195</u> | <u>7,285,500</u> | <u>(213,695)</u> |
| OPERATING INCOME BEFORE DEPRECIATION | \$ 332,487 | 202,850 | 129,637 |
| DEPRECIATION | <u>462,365</u> | <u>465,000</u> | <u>2,635</u> |
| OPERATING INCOME | <u>\$ (129,878)</u> | <u>(262,150)</u> | <u>132,272</u> |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Miscellaneous | \$ 167,644 | 135,000 | 32,644 |
| Interest income | 167,297 | 95,000 | 72,297 |
| Economic development costs | (67,480) | (120,000) | 52,520 |
| Total nonoperating revenues (expenses) | <u>\$ 267,461</u> | <u>110,000</u> | <u>157,461</u> |
| NET INCOME (LOSS) | \$ 137,583 | (152,150) | <u>289,733</u> |
| NET ASSETS, BEGINNING OF YEAR | <u>13,782,025</u> | <u>10,566,980</u> | |
| NET ASSETS, END OF YEAR | <u>\$ 13,919,608</u> | <u>10,414,830</u> | |

See accompanying independent auditor's report.

DENISON MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITIES
COMPARATIVE STATEMENT OF NET ASSETS
June 30, 2009 and 2008

Schedule 3

| | 2009 | 2008 |
|---|---------------|---------------|
| ASSETS | | |
| WATER UTILITY PLANT | | |
| Plant in Service | \$ 17,264,125 | \$ 16,849,030 |
| Less: Accumulated depreciation | 7,575,704 | 7,017,956 |
| Net Water Utility Plant | \$ 9,688,421 | \$ 9,831,074 |
| OTHER ASSETS | | |
| Revenue bond reserve-restricted | \$ 1,156,075 | \$ 1,301,885 |
| Loan origination fee | 29,844 | 32,331 |
| Total Other Assets | \$ 1,185,919 | \$ 1,334,216 |
| CURRENT ASSETS | | |
| Unrestricted | | |
| Cash | \$ 84,887 | \$ 36,426 |
| Deposits and investments | 3,090,241 | 2,882,769 |
| Accounts receivable | 168,803 | 169,103 |
| Unbilled usage | 122,071 | 115,396 |
| Due from other funds | 12,581 | 7,730 |
| Interest receivable | 27,111 | 40,502 |
| Inventory | 81,507 | 65,545 |
| Prepaid insurance | 36,756 | 31,929 |
| Total Current Assets | \$ 3,623,957 | \$ 3,349,400 |
| | | |
| Total Assets | \$ 14,498,297 | \$ 14,514,690 |
| LIABILITIES AND NET ASSETS | | |
| NET ASSETS | | |
| Invested in Capital Assets, net of related debt | \$ 5,805,265 | \$ 5,520,405 |
| Restricted nets assets | 1,135,523 | 1,278,921 |
| Unrestricted net assets | 3,462,540 | 3,201,666 |
| Total Net Assets | \$ 10,403,328 | \$ 10,000,992 |
| | | |
| LONG-TERM DEBT - Net of current maturities | \$ 3,466,000 | \$ 3,913,000 |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 37,173 | \$ 22,484 |
| Due to other funds | 9,852 | 3,697 |
| Accrued vacation and sick leave | 98,166 | 106,130 |
| Other accrued liabilities | 16,226 | 15,423 |
| Payable from restricted assets | | |
| Current maturities of long-term debt | 447,000 | 430,000 |
| Interest payable | 20,552 | 22,964 |
| Total Current Liabilities | \$ 628,969 | \$ 600,698 |
| | | |
| Total Liabilities and Net Assets | \$ 14,498,297 | \$ 14,514,690 |

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, 2009 and 2008

Schedule 3

| | 2009 | 2008 |
|--|-----------------------------|-----------------------------|
| OPERATING REVENUES | | |
| Sales to consumers | \$ <u>2,222,321</u> | \$ <u>2,206,528</u> |
| | | |
| OPERATING EXPENSES | | |
| Power & pumping | \$ 173,749 | \$ 172,436 |
| Distribution expense | 241,515 | 224,211 |
| Purification | 476,459 | 415,935 |
| Consumer accounting & collection | 69,182 | 70,140 |
| Administrative & general | 202,670 | 212,812 |
| Insurance | 130,903 | 121,146 |
| Transportation | 10,105 | 16,550 |
| Total operating expense excluding depreciation | \$ <u>1,304,583</u> | \$ <u>1,233,230</u> |
| | | |
| OPERATING INCOME BEFORE DEPRECIATION | \$ 917,738 | \$ 973,298 |
| | | |
| DEPRECIATION | <u>557,748</u> | <u>558,249</u> |
| | | |
| OPERATING INCOME | \$ <u>359,990</u> | \$ <u>415,049</u> |
| | | |
| NONOPERATING REVENUES (EXPENSES) | | |
| Miscellaneous | \$ 28,335 | \$ 28,210 |
| Interest income | 149,384 | 201,650 |
| Interest expense | <u>(135,373)</u> | <u>(149,302)</u> |
| Total nonoperating revenues (expenses) | \$ <u>42,346</u> | \$ <u>80,558</u> |
| | | |
| NET INCOME (LOSS) | \$ 402,336 | \$ 495,607 |
| | | |
| NET ASSETS, BEGINNING OF YEAR | <u>10,000,992</u> | <u>9,505,385</u> |
| | | |
| NET ASSETS, END OF YEAR | <u><u>\$ 10,403,328</u></u> | <u><u>\$ 10,000,992</u></u> |

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITIES
COMPARATIVE STATEMENTS OF CASH FLOWS
Years Ended June 30, 2009 and 2008**

Schedule 3

| | 2009 | 2008 |
|---|---------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | \$ 402,336 | \$ 495,607 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 557,748 | 558,249 |
| Amortization of origination fees | 2,487 | 2,487 |
| Changes in assets and liabilities | | |
| (Increase) decrease in trade receivables | 300 | (657) |
| (Increase) decrease in unbilled usage | (6,675) | 23,430 |
| (Increase) decrease in inventories | (15,962) | 5,547 |
| (Increase) decrease in prepaid expenses | (4,827) | 1,177 |
| (Increase) decrease in other current assets | 8,540 | (5,285) |
| Increase (decrease) in accounts payable and accrued liabilities | 11,271 | (45,737) |
| Net cash provided by (used in) operating activities | \$ 955,218 | \$ 1,034,818 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale/maturities of securities | \$ 3,908,211 | \$ 4,443,767 |
| Purchase of investment securities | (3,969,873) | (4,977,848) |
| Purchase of property and equipment | (415,095) | (113,576) |
| Net cash provided by (used in) investing activities | \$ (476,757) | \$ (647,657) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from long-term borrowing | \$ 0 | \$ 0 |
| Principal payments on long-term borrowing | (430,000) | (414,000) |
| Net cash provided by (used in) financing activities | \$ (430,000) | \$ (414,000) |
| Net increase (decrease) in cash and cash equivalents | \$ 48,461 | \$ (26,839) |
| Cash and cash equivalents: | | |
| Beginning | 36,426 | 63,265 |
| Ending | \$ 84,887 | \$ 36,426 |

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, 2009**

Schedule 4

| | <u>Actual</u> | <u>Budget</u> | <u>Variance</u> |
|---|-----------------------------|-------------------------|------------------|
| OPERATING REVENUES | | | |
| Sales to consumers | \$ <u>2,222,321</u> | <u>2,340,000</u> | <u>(117,679)</u> |
| | | | |
| OPERATING EXPENSES | | | |
| Power & pumping | \$ 173,749 | 167,000 | (6,749) |
| Distribution expense | 241,515 | 208,500 | (33,015) |
| Purification | 476,459 | 410,000 | (66,459) |
| Consumer accounting & collection | 69,182 | 73,000 | 3,818 |
| Administrative & general | 202,670 | 207,000 | 4,330 |
| Insurance | 130,903 | 125,500 | (5,403) |
| Transportation | <u>10,105</u> | <u>12,000</u> | <u>1,895</u> |
| Total operating expense excluding depreciation | \$ <u>1,304,583</u> | <u>1,203,000</u> | <u>(101,583)</u> |
| | | | |
| OPERATING INCOME BEFORE DEPRECIATION | \$ 917,738 | 1,137,000 | (219,262) |
| | | | |
| DEPRECIATION | <u>557,748</u> | <u>555,000</u> | <u>(2,748)</u> |
| | | | |
| OPERATING INCOME | \$ <u>359,990</u> | <u>582,000</u> | <u>(222,010)</u> |
| | | | |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Miscellaneous | \$ 28,335 | 7,500 | 20,835 |
| Interest income | 149,384 | 120,000 | 29,384 |
| Interest expense | <u>(135,373)</u> | <u>(136,600)</u> | <u>1,227</u> |
| Total nonoperating revenues (expenses) | \$ <u>42,346</u> | <u>(9,100)</u> | <u>51,446</u> |
| | | | |
| NET INCOME (LOSS) | \$ 402,336 | 572,900 | <u>(170,564)</u> |
| | | | |
| NET ASSETS, BEGINNING OF YEAR | <u>10,000,992</u> | <u>6,784,426</u> | |
| | | | |
| NET ASSETS, END OF YEAR | \$ <u><u>10,403,328</u></u> | <u><u>7,357,326</u></u> | |

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES
MUNICIPAL SEWER UTILITIES
COMPARATIVE STATEMENT OF NET ASSETS
June 30, 2009 and 2008**

Schedule 5

| | 2009 | 2008 |
|---|--------------|--------------|
| ASSETS | | |
| SEWER UTILITY PLANT | | |
| Plant in Service | \$ 4,397,636 | \$ 4,307,793 |
| Less: Accumulated depreciation | 2,649,691 | 2,549,730 |
| Net Sewer Utility Plant | \$ 1,747,945 | \$ 1,758,063 |
| CURRENT ASSETS | | |
| Unrestricted | | |
| Cash | 127,777 | 166,507 |
| Deposits and investments | 991,637 | 598,386 |
| Accounts receivable | 128,973 | 211,227 |
| Unbilled usage | 75,849 | 72,746 |
| Due from other funds | 27,593 | 2,730 |
| Interest receivable | 6,418 | 3,165 |
| Prepaid insurance | 9,502 | 8,277 |
| Total Current Assets | \$ 1,367,749 | \$ 1,063,038 |
| Total Assets | \$ 3,115,694 | \$ 2,821,101 |
| LIABILITIES AND NET ASSETS | | |
| NET ASSETS | | |
| Invested in Capital Assets, net of related debt | \$ 1,747,945 | \$ 1,758,063 |
| Restricted net assets | 0 | 0 |
| Unrestricted net assets | 1,274,414 | 971,696 |
| Total Net Assets | \$ 3,022,359 | \$ 2,729,759 |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 9,486 | \$ 7,369 |
| Due to other funds | 20,782 | 2,264 |
| Accrued vacation and sick leave | 57,929 | 74,169 |
| Other accrued liabilities | 5,138 | 7,540 |
| Total Current Liabilities | \$ 93,335 | \$ 91,342 |
| Total Liabilities and Net Assets | \$ 3,115,694 | \$ 2,821,101 |

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, 2009 and 2008**

Schedule 5

| | 2009 | 2008 |
|--|--------------|--------------|
| OPERATING REVENUES | | |
| Sales to consumers | \$ 1,095,035 | \$ 1,122,220 |
| | | |
| OPERATING EXPENSES | | |
| Plant & main maintenance | \$ 248,676 | \$ 263,563 |
| Joint treatment costs | 285,809 | 255,530 |
| Consumer accounting & collection | 49,762 | 48,368 |
| Administrative & general | 95,345 | 75,995 |
| Insurance | 44,922 | 48,321 |
| Transportation | 10,751 | 7,972 |
| Total operating expense excluding depreciation | \$ 735,265 | \$ 699,749 |
| | | |
| OPERATING INCOME BEFORE DEPRECIATION | \$ 359,770 | \$ 422,471 |
| | | |
| DEPRECIATION | 99,961 | 104,203 |
| | | |
| OPERATING INCOME | \$ 259,809 | \$ 318,268 |
| | | |
| NONOPERATING REVENUES (EXPENSES) | | |
| Miscellaneous | \$ 11,476 | \$ 10,548 |
| Interest income | 21,315 | 26,177 |
| Total nonoperating revenues (expenses) | \$ 32,791 | \$ 36,725 |
| | | |
| NET INCOME (LOSS) | \$ 292,600 | \$ 354,993 |
| | | |
| NET ASSETS, BEGINNING OF YEAR | 2,729,759 | 2,374,766 |
| | | |
| NET ASSETS, END OF YEAR | \$ 3,022,359 | \$ 2,729,759 |

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES
MUNICIPAL SEWER UTILITIES
COMPARATIVE STATEMENTS OF CASH FLOWS
Years Ended June 30, 2009 and 2008**

Schedule 5

| | 2009 | 2008 |
|---|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | \$ 292,600 | \$ 354,993 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 99,961 | 104,203 |
| Changes in assets and liabilities | | |
| (Increase) decrease in trade receivables | 82,254 | (134,350) |
| (Increase) decrease in unbilled usage | (3,103) | (4,363) |
| (Increase) decrease in prepaid expenses | (1,225) | 270 |
| (Increase) decrease in other current assets | (28,116) | 391 |
| Increase (decrease) in accounts payable and accrued liabilities | 1,993 | (65,798) |
| Net cash provided by (used in) operating activities | \$ 444,364 | \$ 255,346 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale/maturities of securities | \$ 589,590 | \$ 361,385 |
| Purchase of investment securities | (982,841) | (524,324) |
| Purchase of property and equipment | (89,843) | (37,443) |
| Net cash provided by (used in) investing activities | \$ (483,094) | \$ (200,382) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| None | \$ 0 | \$ 0 |
| Net cash provided by (used in) financing activities | \$ 0 | \$ 0 |
| Net increase (decrease) in cash and cash equivalents | \$ (38,730) | \$ 54,964 |
| Cash and cash equivalents: | | |
| Beginning | 166,507 | 111,543 |
| Ending | \$ 127,777 | \$ 166,507 |

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, 2009**

Schedule 6

| | <u>Actual</u> | <u>Budget</u> | <u>Variance</u> |
|---|---------------------|------------------|-----------------|
| OPERATING REVENUES | | | |
| Sales to consumers | \$ 1,095,035 | 936,800 | 158,235 |
| | | | |
| OPERATING EXPENSES | | | |
| Plant & main maintenance | \$ 248,676 | 232,000 | (16,676) |
| Joint treatment costs | 285,809 | 250,000 | (35,809) |
| Consumer accounting & collection | 49,762 | 47,000 | (2,762) |
| Administrative & general | 95,345 | 97,500 | 2,155 |
| Insurance | 44,922 | 49,500 | 4,578 |
| Transportation | 10,751 | 10,000 | (751) |
| Total operating expense excluding depreciation | \$ 735,265 | 686,000 | (49,265) |
| | | | |
| OPERATING INCOME BEFORE DEPRECIATION | \$ 359,770 | 250,800 | 108,970 |
| | | | |
| DEPRECIATION | 99,961 | 110,000 | 10,039 |
| | | | |
| OPERATING INCOME | \$ 259,809 | 140,800 | 119,009 |
| | | | |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Miscellaneous | \$ 11,476 | 5,000 | 6,476 |
| Interest income | 21,315 | 15,000 | 6,315 |
| Total nonoperating revenues (expenses) | \$ 32,791 | 20,000 | 12,791 |
| | | | |
| NET INCOME (LOSS) | \$ 292,600 | 160,800 | <u>131,800</u> |
| | | | |
| NET ASSETS, BEGINNING OF YEAR | 2,729,759 | 1,941,600 | |
| | | | |
| NET ASSETS, END OF YEAR | \$ <u>3,022,359</u> | <u>2,102,400</u> | |

See accompanying independent auditor's report.

DENISON MUNICIPAL UTILITIES
JOINT TREATMENT FUND
COMPARATIVE STATEMENT OF NET ASSETS
June 30, 2009 and 2008

Schedule 7

| | 2009 | 2008 |
|---|--------------|--------------|
| ASSETS | | |
| JOINT TREATMENT PLANT | | |
| Plant in Service | \$ 8,570,300 | \$ 8,559,938 |
| Less: Accumulated depreciation | 2,969,341 | 2,794,029 |
| Net Joint Treatment Plant | \$ 5,600,959 | \$ 5,765,909 |
| OTHER ASSETS | | |
| Unrestricted | | |
| Equipment replacement investment | \$ 543,856 | \$ 313,683 |
| CURRENT ASSETS | | |
| Unrestricted | | |
| Cash | \$ 149,038 | \$ 83,952 |
| Accounts receivable | 97,031 | 112,478 |
| Due from other funds | 846 | 617 |
| Interest receivable | 0 | 0 |
| Prepaid insurance | 16,801 | 14,618 |
| Total Current Assets | \$ 263,716 | \$ 211,665 |
| Total Assets | \$ 6,408,531 | \$ 6,291,257 |
| LIABILITIES AND NET ASSETS | | |
| NET ASSETS | | |
| Invested in Capital Assets, net of related debt | \$ 4,725,959 | \$ 4,765,909 |
| Restricted net assets | 0 | 0 |
| Unrestricted net assets | 753,237 | 490,587 |
| Total Net Assets | \$ 5,479,196 | \$ 5,256,496 |
| LONG-TERM DEBT - Net of current maturities | \$ 750,000 | \$ 875,000 |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 32,725 | \$ 9,333 |
| Due to other funds | 998 | 1,114 |
| Other accrued liabilities | 3,112 | 4,314 |
| Current maturities of long-term debt | 125,000 | 125,000 |
| Interest payable | 17,500 | 20,000 |
| Total Current Liabilities | \$ 179,335 | \$ 159,761 |
| Total Liabilities and Net Assets | \$ 6,408,531 | \$ 6,291,257 |

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, 2009 and 2008

Schedule 7

| | 2009 | 2008 |
|--|-------------------------|-------------------------|
| OPERATING REVENUES | | |
| Sales to consumers | \$ <u>1,173,710</u> | \$ <u>1,098,795</u> |
| | | |
| OPERATING EXPENSES | | |
| Waste water processing expense | \$ 556,262 | \$ 503,509 |
| Administrative & general | 143,289 | 130,336 |
| Insurance | 63,742 | 60,798 |
| Transportation | 13,884 | 13,173 |
| Total operating expense excluding depreciation | \$ <u>777,177</u> | \$ <u>707,816</u> |
| | | |
| OPERATING INCOME BEFORE DEPRECIATION | \$ 396,533 | \$ 390,979 |
| | | |
| DEPRECIATION | <u>175,312</u> | <u>172,489</u> |
| | | |
| OPERATING INCOME | \$ <u>221,221</u> | \$ <u>218,490</u> |
| | | |
| NONOPERATING REVENUES (EXPENSES) | | |
| Miscellaneous | \$ 32,242 | \$ 13,344 |
| Interest income | 6,737 | 13,534 |
| Interest expense | (37,500) | (42,500) |
| Total nonoperating revenues (expenses) | \$ <u>1,479</u> | \$ <u>(15,622)</u> |
| | | |
| NET INCOME (LOSS) | \$ 222,700 | \$ 202,868 |
| | | |
| NET ASSETS, BEGINNING OF YEAR | <u>5,256,496</u> | <u>5,053,628</u> |
| | | |
| NET ASSETS, END OF YEAR | <u><u>5,479,196</u></u> | <u><u>5,256,496</u></u> |

See accompanying independent auditor's report.

DENISON MUNICIPAL UTILITIES
JOINT TREATMENT FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
Years Ended June 30, 2009 and 2008

Schedule 7

| | 2009 | 2008 |
|---|---------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | \$ 222,700 | \$ 202,868 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 175,312 | 172,489 |
| Changes in assets and liabilities | | |
| (Increase) decrease in trade receivables | 15,447 | 2,652 |
| (Increase) decrease in prepaid expenses | (2,183) | 503 |
| (Increase) decrease in other current assets | (229) | 153 |
| Increase (decrease) in accounts payable and accrued liabilities | 19,574 | (19,242) |
| Net cash provided by (used in) operating activities | \$ 430,621 | \$ 359,423 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale/maturities of securities | \$ 0 | \$ 162,500 |
| Purchase of investment securities | (230,173) | (234,846) |
| Purchase of property and equipment | (10,362) | (168,153) |
| Net cash provided by (used in) investing activities | \$ (240,535) | \$ (240,499) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| 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 | \$ 65,086 | \$ (6,076) |
| Cash and cash equivalents: | | |
| Beginning | 83,952 | 90,028 |
| Ending | \$ 149,038 | \$ 83,952 |

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, 2009

Schedule 8

| | Actual | Budget | Variance |
|---|--------------|-----------|----------|
| OPERATING REVENUES | | | |
| Sales to consumers | \$ 1,173,710 | 1,045,000 | 128,710 |
| OPERATING EXPENSES | | | |
| Waste water processing expense | \$ 556,262 | 534,500 | (21,762) |
| Administrative & general | 143,289 | 132,500 | (10,789) |
| Insurance | 63,742 | 60,000 | (3,742) |
| Transportation | 13,884 | 10,000 | (3,884) |
| Total operating expense excluding depreciation | \$ 777,177 | 737,000 | (40,177) |
| OPERATING INCOME BEFORE DEPRECIATION | \$ 396,533 | 308,000 | 88,533 |
| DEPRECIATION | 175,312 | 170,000 | (5,312) |
| OPERATING INCOME | \$ 221,221 | 138,000 | 83,221 |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Miscellaneous | \$ 32,242 | 10,000 | 22,242 |
| Interest income | 6,737 | 15,000 | (8,263) |
| Interest expense | (37,500) | (37,500) | - |
| Total nonoperating revenues (expenses) | \$ 1,479 | (12,500) | 13,979 |
| NET INCOME (LOSS) | \$ 222,700 | 125,500 | 97,200 |
| NET ASSETS, BEGINNING OF YEAR | 5,256,496 | (259,500) | |
| NET ASSETS, END OF YEAR | \$ 5,479,196 | (134,000) | |

See accompanying independent auditor's report.

MAHONEY & GOTTO COMPANY

Certified Public Accountants

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Denison, IA 51442**

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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, 2009, which collectively comprise the Utility's basic financial statements listed in the table of contents and have issued our report thereon dated September 11, 2009. 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 noncompliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Denison Municipal Utilities' operations for the year ended June 30, 2009 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 11, 2009
Denison, Iowa

DENISON MUNICIPAL UTILITIES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

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-09 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. The placing of orders, receiving of shipments, approving vouchers for payment and check writing capabilities should all have adequate separation.

Recommendation – We realize that with staffing limitations, segregation of duties is difficult. It is recognized that the Utility has made reasonable efforts to segregate these duties. However, the Utility should review its control procedures to obtain the maximum internal controls possible under the circumstances. In addition, supervisory review of financial transactions and reports also remains 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 including control procedures relating to cross-training.

Conclusion – Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

DENISON MUNICIPAL UTILITIES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

Part III Other Findings Related to Statutory Reporting:

- III-A-09 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-09 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-09 Travel Expense - No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- III-D-09 Business Transactions - Business transactions between the Utility and officials are immaterial and meet the guidelines of the Code of Iowa.
- III-E-09 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-09 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-G-09 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-09 Revenue Bonds - The Utility has complied with all aspects of its bond covenants.