

DENISON MUNICIPAL UTILITIES

INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

SCHEDULE OF FINDINGS

JUNE 30, 2016 and 2015

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>
Nancy Bradley	Chairperson	2022
Dane Dammen	Vice Chairman	2020
Tonya Eller	Board Member	2018
Brian Ettleman	Board Member	2019
Chad Langenfeld	Board Member	2021
Mark Ramthun	General Manager	Indefinite
Renee Vary	Manager-Finance & Customer Information	Indefinite
D. R. Franck	Attorney	Indefinite

MAHONEY & GOTTO COMPANY

Certified Public Accountants

**201 South 7th Street
Denison, IA 51442**

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Denison Municipal Utilities

Report on the Financial Statements

We have audited the accompanying financial statements of the proprietary fund types and the fiduciary fund information of Denison Municipal Utilities, a component unit of the City of Denison, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities and the fiduciary fund of Denison Municipal Utilities as of June 30, 2016, and the respective changes in financial position and cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Utility's Proportionate Share of the Net Pension Liability, the Schedule of Utility Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 10 and 30 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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 third paragraph of this report, the financial statements for the six years ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements. The 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.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2016 on our consideration of 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 in considering Denison Municipal Utilities' internal control over financial reporting and compliance.

Mahoney & Gotto Company

MAHONEY & GOTTO COMPANY
Certified Public Accountants

September 30, 2016
Denison, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Denison Municipal Utilities annual report presents an analysis of the Utilities financial performance for the fiscal year ended June 30, 2016. Denison Municipal Utilities is organized into four operating divisions. They are the electric utility, water utility, sewer utility, and the joint treatment utility. 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 utilities financial statements and notes to the basic financial statements in order to enhance their understanding of the utilities financial performance.

2016 FINANCIAL HIGHLIGHTS

- Total combined operating revenues increased \$2,393,318 or 16.44% from the prior year. Increases in usage for all operating divisions along with significant penalty assessments for industrial treatment (ITA) violations for the discharge to the wastewater plant contributed to the overall increase in operating revenues.
- Interest income increased \$8,399 or 22.21% from the prior year. This increase is a direct result of increased interest rates.
- Operating expenses increased \$581,155 or 4.64% from the prior year. Increases in the cost of electric purchases contributed to the increase.
- Total assets and deferred outflows increased \$2,588,109 and total liabilities and deferred inflows decreased \$239,691, resulting in total net position increasing \$2,827,800 or 7.35% from the prior year amount. Investments in capital assets increased \$1,475,960 funded by amounts set aside in cash reserve funds.

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 proprietary funds financial statements using the flow of economic resources focus to determine net income and financial position. The accounting principles used are similar to those applicable to businesses in the private sector and, thus, these funds are maintained on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. 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 Utilities financial activities.

The *Statement of Net Position* presents information on the Utilities assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position

may serve as a useful indicator of whether the financial position of each 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 Position*. This statement measures the success of the Utilities operations. It can be used to determine whether each utility has successfully recovered all its costs through its rates, fees and other revenues. This statement also measures the Utilities profitability and credit worthiness.

The *Statement of Cash Flows* presents the change in the Utilities cash and cash equivalents during the year. This information can assist the user of the report in determining how the Utilities 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 Utilities budget for the year, the Utilities proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides comparative financial information for each operating division.

FINANCIAL ANALYSIS OF THE UTILITIES

The Statement of Net Position includes all of the Utilities 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 utilities. The analysis that follows focuses on the change in net position of the Utilities.

<u>Condensed Statement of Net Position</u>			
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 13,892,573	\$ 11,373,255	\$ 11,454,710
Capital Assets	<u>31,766,144</u>	<u>31,879,769</u>	<u>32,012,745</u>
Total Assets	<u>45,658,717</u>	<u>43,253,024</u>	<u>43,467,455</u>
Deferred outflows of resources	<u>385,697</u>	<u>203,281</u>	<u>143,559</u>
Long-term debt outstanding	1,352,000	1,666,000	2,095,000
Other liabilities	<u>3,088,174</u>	<u>2,920,022</u>	<u>3,603,404</u>
Total Liabilities	<u>4,440,174</u>	<u>4,586,022</u>	<u>5,698,404</u>
Deferred inflows of resources	<u>277,738</u>	<u>371,581</u>	<u>0</u>
Net Investment in Capital Assets	30,115,063	29,799,691	29,515,155
Restricted Net Position	744,346	739,969	734,925
Unrestricted Net Position	<u>10,467,093</u>	<u>7,959,042</u>	<u>7,662,530</u>
Total Net Position	<u>\$ 41,326,502</u>	<u>\$ 38,498,702</u>	<u>\$ 37,912,610</u>

2016 OPERATING RESULTS

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

<u>Condensed Statements of Revenues, Expenses, and Changes in Net Position</u>			
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Program revenues			
Operating revenues	\$16,947,565	\$14,554,247	\$ 14,858,755
Miscellaneous	732,876	236,924	460,341
Gain (Loss) sale of property & equip	29,892	0	0
Unrestricted investment earnings	46,210	37,811	40,862
Total revenues	<u>17,756,543</u>	<u>14,828,982</u>	<u>15,359,958</u>
Program expenses			
Operating expenses	13,112,834	12,531,679	12,485,857
Depreciation	1,702,164	1,661,876	1,600,416
Interest on long-term debt	38,745	49,335	59,756
Economic development	75,000	0	100,000
Total expenses	<u>14,928,743</u>	<u>14,242,890</u>	<u>14,246,029</u>
Change in net position	2,827,800	586,092	1,113,929
Unrestricted Net Position July 1, as restated	<u>38,498,702</u>	<u>37,912,610</u>	<u>38,015,634</u>
Unrestricted Net Position June 30	<u>\$ 41,326,502</u>	<u>\$ 38,498,702</u>	<u>\$ 39,129,563</u>

Following is a schedule of the number of electric meters and the kilowatts used by customer class for the fiscal years ended June 30, 2016, 2015 and 2014:

Comparison of Electric Meters & Usage by Customer Class						
	<u>2016</u>		<u>2015</u>		<u>2014</u>	
	<u>Meters</u>	<u>KWH</u>	<u>Meters</u>	<u>KWH</u>	<u>Meters</u>	<u>KWH</u>
Commercial C1	617	13,543,915	608	13,892,970	615	14,557,276
Commercial C1M	13	378,272	13	400,735	16	431,780
Residential R1	2,467	28,713,351	2,452	28,187,150	2,438	30,667,441
Residential R2M	254	4,428,115	257	4,622,346	253	5,025,843
Industrial	72	100,271,335	73	97,187,613	72	96,472,545
Water plant		2,984,033		3,030,157		3,303,082
Sewer plant		7,607,858		6,744,644		6,566,683
City Government		2,498,709		2,484,724		2,660,640
Other DMU uses		574,899		583,440		598,270
Total Meters & KWH Billed	<u>3,423</u>	<u>161,000,487</u>	<u>3,403</u>	<u>157,133,779</u>	<u>3,394</u>	<u>160,283,560</u>

The number of water meters and gallons used by customer class for the fiscal years ended June 30, 2016, 2015 and 2013 is as follows:

	Comparison of Water Meters & Usage by Customer Class					
	2016		2015		2014	
	<u>Meters</u>	<u>Gals.</u>	<u>Meters</u>	<u>Gals.</u>	<u>Meters</u>	<u>Gals.</u>
Residential	2,272	106,124,000	2,256	103,908,000	2,238	112,600,000
Commercial	410	84,467,000	411	83,826,000	396	106,996,000
West Central Rural Water	4	206,718,000	4	201,048,000	4	220,266,000
Residential Outside City	130	6,674,000	127	5,975,000	129	8,362,000
Commercial Outside City	18	33,800,000	20	29,540,000	20	33,329,000
Industrial	7	395,888,000	8	379,181,000	8	375,357,000
Electric Department		355,000		91,000		454,000
Sewer plant		1,610,000		1,240,000		1,118,000
City Government		<u>3,255,000</u>		<u>3,893,000</u>		<u>4,469,000</u>
Total Meters & Gals. Billed	<u>2,841</u>	<u>838,891,000</u>	<u>2,826</u>	<u>808,702,000</u>	<u>2,795</u>	<u>862,951,000</u>

ANALYSIS BY FUND

The Electric Utility, which accounts for the operation and maintenance of the electric system, ended fiscal year 2016 with a net position of \$13,981,382 compared to the prior year ending net position of \$13,965,363, an increase of 0.11%. An increase in current assets contributed to the increase.

The Water Utility, which accounts for the operation and maintenance of the water treatment and distribution system, ended fiscal year 2016 with an \$11,839,945 net position compared to the prior year ending net position of \$11,629,806, an increase of 1.81%. A decrease in outstanding debt contributed to the increase in net position.

The Sewer Utility, which accounts for the operation and maintenance of the wastewater treatment and sanitary sewer system, ended fiscal year 2016 with a net position of \$4,868,100 compared to \$4,635,044 for the previous fiscal year, an increase of 5.03%. An increase in current assets contributed to the increase.

The Joint Treatment Utility, which accounts for the operation and maintenance of the waste water treatment system to which the major industries in the City of Denison discharge their pretreated waste water, ended the fiscal year 2016 with a net position of \$10,637,075 compared to the prior year ending net position of \$8,268,489, an increase of 28.65%. An increase in current assets, amounts invested in capital assets and a decrease in current liabilities contributed to the increase in the net asset balance.

CAPITAL ASSETS

The Utilities capital assets include land, buildings, improvements, service lines, automobiles and equipment, and street lights. A total of \$1,597,039 was invested in new capital assets, after accounting for depreciation, there was a decrease of \$113,625 in Capital Assets from June 30, 2015.

LONG-TERM DEBT

As of June 30, 2016, the Utilities had \$1.666 million in outstanding debt compared to \$2.095 million as of June 30, 2015. The decrease represents principal payments made during the fiscal year ended June

30, 2016. The outstanding debt of the Water Utility consists entirely of revenue bonds, which are secured by future water revenues.

Additional information on the Utilities 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 was not amended during the year and the budget was not exceeded.

The Utilities receipts were \$508,132 more than budgeted. Charges for utility services were more than anticipated due to an increase in the discharge to the waste water joint treatment facility. A bond issue of \$1,550,000 was anticipated during the year, but was not received due to a delay in the construction project.

Total expenditures were \$2,422,150 less than budgeted. Delays in capital projects in the Water and Sewer utilities’ contributed to this variance.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

Various economic factors were considered when establishing the Utilities budget for fiscal 2016. Anticipated industry expansion and demographic changes are all considered in order to determine capital expenditures and expected revenues. During fiscal year 2017, the Utilities will review all rate structures to determine if any rate changes will be needed. Planned capital additions will be financed through the issuance of long-term debt, cash reserves and operating cash flows thereby reducing the assets that bear interest and reducing interest income for the coming fiscal years.

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, 2016, 2015 and 2014.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
KWH Billed	161,000,487	157,133,779	160,283,560
Rate difference between Iowa average utility rate and Denison Municipal Utilities	<u>0.0154</u>	<u>0.0166</u>	<u>0.0167</u>
(1) Calculated total electric savings	\$ 2,479,407	\$ 2,608,421	\$ 2,676,735
(2) Transfer to City general fund in lieu of taxes	280,259	268,526	243,150
(3) New housing assistance program	6,000	0	2,000
(4) Energy efficiency rebates	<u>24,670</u>	<u>13,488</u>	<u>41,820</u>
Total Community Benefits	<u>\$ 2,790,336</u>	<u>\$ 2,890,435</u>	<u>\$ 2,963,705</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. Additional funds are also provided to the City to achieve a contribution amount to the City in an amount determined by the Board of Trustees.

- (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 case 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 efficiency rebate program offered by Missouri River Energy Services and an energy efficient water heater rebate program. Participants in the energy efficiency rebate program receive cash rebates for installing energy efficient equipment in their home or business. All participants in the water heater rebate program are required to be on the load management system.

The Board of Trustees has designated certain funds to be placed in an Economic Development Savings Account to be used for future economic development with the City of Denison. The effects of the use of the Economic Development Fund have not been quantified above. The Utility has also provided in-kind donations of labor and materials for a variety of projects affecting City properties, which also have not been quantified.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the Utilities rate payers, creditors and other interested parties with a general overview of the Utilities finances and operating activities. If you have any questions regarding the information included in this report or wish to request additional financial information, please contact the Manager of Finance and Customer Information at PO Box 518, Denison, IA 51442.

BASIC FINANCIAL STATEMENTS

**DENISON MUNICIPAL UTILITIES
STATEMENTS OF NET POSITION
June 30, 2016 and 2015**

Exhibit A

ASSETS	BUSINESS-TYPE ACTIVITIES	
	2016	2015
CURRENT ASSETS		
Restricted		
Consumers' deposit fund	\$ 78,839	\$ 77,673
Unrestricted		
Cash	4,456,734	2,711,006
Deposits and investments	4,185,870	3,877,252
Accounts receivable	(21,704)	(1,933)
Unbilled usage	1,640,638	1,222,521
Due from other funds	30,837	31,409
Interest receivable	9,402	6,337
Inventory	947,566	912,538
Prepaid insurance	185,325	186,135
Note receivable	0	125,000
Total Current Assets	\$ 11,513,507	\$ 9,147,938
OTHER ASSETS		
Restricted		
Revenue bond reserve	\$ 749,591	\$ 746,169
Loan origination fee, net of accumulated amortization	12,435	14,922
Unrestricted		
Note receivable	0	0
Equipment replacement investment	1,617,040	1,464,226
	\$ 2,379,066	\$ 2,225,317
UTILITY PLANT		
Plant in Service, at cost	\$ 65,013,327	\$ 63,537,367
Less: Accumulated depreciation	33,247,183	31,657,598
Net Utility Plant	\$ 31,766,144	\$ 31,879,769
Total Assets	\$ 45,658,717	\$ 43,253,024
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows	\$ 385,697	\$ 203,281

See notes to financial statements.

**DENISON MUNICIPAL UTILITIES
STATEMENTS OF NET POSITION
June 30, 2016 and 2015**

Exhibit A

LIABILITIES	BUSINESS-TYPE ACTIVITIES	
	2016	2015
CURRENT LIABILITIES		
Accounts payable	\$ 1,017,370	\$ 955,954
Due to other funds	30,837	31,409
Accrued vacation and sick leave	339,476	325,568
Other accrued liabilities	108,959	116,767
Payable from restricted assets		
Current maturities of long-term debt	314,000	429,000
Interest payable	5,245	8,700
Consumers' deposits	79,490	78,296
Total Current Liabilities	\$ 1,895,377	\$ 1,945,694
LONG-TERM DEBT		
Net of current maturities	\$ 1,352,000	\$ 1,666,000
NONCURRENT LIABILITIES		
Net pension liability	\$ 1,192,797	\$ 974,328
Total Liabilities	\$ 4,440,174	\$ 4,586,022
DEFERRED INFLOWS OF RESOURCES		
Pension related deferred inflows	\$ 277,738	\$ 371,581
NET POSITION		
Net Investment in Capital Assets	\$ 30,112,578	\$ 29,799,691
Restricted:		
Debt Service	744,346	739,969
Consumer Deposits	0	0
Unrestricted net assets	10,469,578	7,959,042
Total Net Position	\$ 41,326,502	\$ 38,498,702

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
COMBINING STATEMENTS OF NET POSITION - PROPRIETARY FUNDS
June 30, 2016 and 2015

Exhibit B

	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Joint Treatment</u>	<u>Total 2016</u>	<u>Total 2015</u>
ASSETS						
CURRENT ASSETS						
Restricted						
Consumers' deposit fund	\$ 78,839	0	0	0	78,839	77,673
Unrestricted						
Cash	1,845,491	425,717	676,020	1,509,506	4,456,734	2,711,006
Deposits and investments	3,375,834	622,367	187,669	0	4,185,870	3,877,252
Accounts receivable	(80,122)	31,449	26,969	0	(21,704)	(1,933)
Unbilled usage	956,739	219,851	121,965	342,083	1,640,638	1,222,521
Due from other funds	5,056	8,950	15,625	1,206	30,837	31,409
Interest receivable	8,297	1,105	0	0	9,402	6,337
Inventory	879,306	68,260	0	0	947,566	912,538
Prepaid insurance	73,780	64,615	18,059	28,871	185,325	186,135
Note receivable - Joint Treatment Utility	0	0	0	0	0	125,000
Total Current Assets	<u>\$ 7,143,220</u>	<u>1,442,314</u>	<u>1,046,307</u>	<u>1,881,666</u>	<u>11,513,507</u>	<u>9,147,938</u>
OTHER ASSETS						
Restricted						
Revenue bond reserve	\$ 0	749,591	0	0	749,591	746,169
Loan origination fee, net of accumulated amortization	0	12,435	0	0	12,435	14,922
Unrestricted						
Note receivable - Joint Treatment Utility	0	0	0	0	0	0
Equipment replacement investment	0	0	0	1,617,040	1,617,040	1,464,226
Total Other Assets	<u>\$ 0</u>	<u>762,026</u>	<u>0</u>	<u>1,617,040</u>	<u>2,379,066</u>	<u>2,225,317</u>
UTILITY PLANT						
Plant in Service, at cost	\$ 21,988,017	23,630,364	7,600,270	11,794,676	65,013,327	63,537,367
Less: Accumulated depreciation	13,431,523	11,842,461	3,514,138	4,459,061	33,247,183	31,657,598
Net Utility Plant	<u>\$ 8,556,494</u>	<u>11,787,903</u>	<u>4,086,132</u>	<u>7,335,615</u>	<u>31,766,144</u>	<u>31,879,769</u>
Total Assets	<u>\$ 15,699,714</u>	<u>13,992,243</u>	<u>5,132,439</u>	<u>10,834,321</u>	<u>45,658,717</u>	<u>43,253,024</u>
DEFERRED OUTFLOWS OF RESOURCES						
Pension related deferred outflows	\$ 157,294	111,388	57,305	59,710	385,697	203,281

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
COMBINING STATEMENTS OF NET POSITION - PROPRIETARY FUNDS
June 30, 2016 and 2015

Exhibit B

	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Joint Treatment</u>	<u>Total 2016</u>	<u>Total 2015</u>
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable	\$ 922,020	65,096	8,091	22,163	1,017,370	955,954
Due to other funds	21,266	3,163	4,039	2,369	30,837	31,409
Accrued vacation and sick leave	189,891	85,361	64,224	0	339,476	325,568
Other accrued liabilities	49,853	31,534	13,421	14,151	108,959	116,767
Payable from restricted assets						
Current maturities of long-term debt	0	314,000	0	0	314,000	429,000
Interest payable	0	5,245	0	0	5,245	8,700
Consumers' deposits	79,490	0	0	0	79,490	78,296
Total Current Liabilities	<u>\$ 1,262,520</u>	<u>504,399</u>	<u>89,775</u>	<u>38,683</u>	<u>1,895,377</u>	<u>1,945,694</u>
LONG-TERM DEBT -						
Net of current maturities	<u>\$ 0</u>	<u>1,352,000</u>	<u>0</u>	<u>0</u>	<u>1,352,000</u>	<u>1,666,000</u>
NONCURRENT LIABILITIES						
Net pension liability	<u>\$ 496,738</u>	<u>331,546</u>	<u>187,077</u>	<u>177,436</u>	<u>1,192,797</u>	<u>974,328</u>
Total Liabilities	<u>\$ 1,759,258</u>	<u>2,187,945</u>	<u>276,852</u>	<u>216,119</u>	<u>4,440,174</u>	<u>4,586,022</u>
DEFERRED INFLOWS OF RESOURCES						
Pension related deferred inflows	<u>\$ 116,368</u>	<u>75,741</u>	<u>44,792</u>	<u>40,837</u>	<u>277,738</u>	<u>371,581</u>
NET POSITION						
Net Investment in Capital Assets	\$ 8,556,494	10,134,338	4,086,132	7,335,614	30,112,578	29,799,691
Restricted:						
Debt Service	0	744,346	0	0	744,346	739,969
Consumer Deposits	0	0	0	0	0	0
Unrestricted	5,424,888	961,261	781,968	3,301,461	10,469,578	7,959,042
Total Net Position	<u>\$ 13,981,382</u>	<u>11,839,945</u>	<u>4,868,100</u>	<u>10,637,075</u>	<u>41,326,502</u>	<u>38,498,702</u>

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS
Years Ended June 30, 2016 and 2015

Exhibit C

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2016	Total 2015
OPERATING REVENUES						
Sales to consumers	\$ 10,004,799	2,324,047	1,343,949	3,247,857	16,920,652	14,533,067
Other operating revenues	26,913	0	0	0	26,913	21,180
Total operating revenues	<u>\$ 10,031,712</u>	<u>2,324,047</u>	<u>1,343,949</u>	<u>3,247,857</u>	<u>16,947,565</u>	<u>14,554,247</u>
OPERATING EXPENSES						
Cost of Power	\$ 8,087,811	0	0	0	8,087,811	7,627,155
Administrative & general	392,496	194,049	120,293	126,679	833,517	841,792
Transportation	40,082	10,625	10,060	13,776	74,543	78,935
Property, liability & work comp Insurance	95,257	83,143	22,612	37,803	238,815	222,449
Payroll tax expense	109,414	76,117	36,522	42,220	264,273	229,463
Employee insurance	208,176	121,129	62,137	61,114	452,556	372,801
Waste water processing expense	0	0	0	749,711	749,711	770,888
Joint treatment costs	0	0	405,251	0	405,251	340,444
Repair & maintenance	97,898	0	101,399	0	199,297	211,219
Power & pumping	0	211,273	19,494	0	230,767	253,225
Transmission & distribution	433,533	249,909	141,298	0	824,740	849,458
Purification	0	517,084	0	0	517,084	505,118
Consumer accounting & collection	79,708	84,996	69,765	0	234,469	228,732
Total operating expenses excluding depreciation	<u>\$ 9,544,375</u>	<u>1,548,325</u>	<u>988,831</u>	<u>1,031,303</u>	<u>13,112,834</u>	<u>12,531,679</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 487,337	775,722	355,118	2,216,554	3,834,731	2,022,568
DEPRECIATION	<u>615,331</u>	<u>650,850</u>	<u>174,917</u>	<u>261,066</u>	<u>1,702,164</u>	<u>1,661,876</u>
OPERATING INCOME (LOSS)	\$ (127,994)	124,872	180,201	1,955,488	2,132,567	360,692
NONOPERATING REVENUES (EXPENSES)						
Miscellaneous	\$ 155,644	112,739	52,293	412,192	732,868	236,924
Interest income	33,161	8,873	770	3,406	46,210	37,811
Interest expense	0	(36,245)	0	(2,500)	(38,745)	(49,335)
Gain (Loss) on the sale of property and equipment	30,208	(100)	(208)	0	29,900	0
Economic Development expense	(75,000)	0	0	0	(75,000)	0
Total nonoperating revenues (expenses)	<u>\$ 144,013</u>	<u>85,267</u>	<u>52,855</u>	<u>413,098</u>	<u>695,233</u>	<u>225,400</u>
CHANGE IN NET POSITION	\$ 16,019	210,139	233,056	2,368,586	2,827,800	586,092
NET POSITION, BEGINNING OF YEAR	<u>13,965,363</u>	<u>11,629,806</u>	<u>4,635,044</u>	<u>8,268,489</u>	<u>38,498,702</u>	<u>37,912,610</u>
NET POSITION, END OF YEAR	<u>\$ 13,981,382</u>	<u>11,839,945</u>	<u>4,868,100</u>	<u>10,637,075</u>	<u>41,326,502</u>	<u>38,498,702</u>

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
COMBINING STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS
Years Ended June 30, 2016 and 2015

Exhibit D

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2016	Total 2015
CASH FLOWS FROM OPERATING ACTIVITIES						
Change in Net Position	\$ 16,019	210,139	233,056	2,368,586	2,827,800	586,092
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:						
Depreciation	615,331	650,850	174,917	261,066	1,702,164	1,661,876
Amortization of origination fees	0	2,487	0	0	2,487	2,487
(Gain) Loss on the sale of property and equipment	(30,208)	100	208	0	(29,900)	0
Changes in assets and liabilities						
(Increase) decrease in consumers' deposit fund	(1,166)	0	0	0	(1,166)	(8,231)
(Increase) decrease in trade receivables	17,234	(1,333)	3,870	0	19,771	126,163
(Increase) decrease in unbilled usage	(158,582)	(27,309)	(20,444)	(211,782)	(418,117)	(101,182)
(Increase) decrease in inventories	(39,732)	4,704	0	0	(35,028)	(90,149)
(Increase) decrease in prepaid expenses	585	512	(1,204)	917	810	(40,091)
(Increase) decrease in other current assets	(3,818)	(1,284)	2,349	260	(2,493)	5,006
Increase (decrease) in accounts payable and accrued liabilities	108,739	(4,089)	(6,349)	(34,812)	63,489	(314,529)
Increase (decrease) in customer deposits	1,194	0	0	0	1,194	8,331
Increase (decrease) in net pension liability	90,112	62,524	32,744	33,089	218,469	(386,184)
(Increase) decrease in deferred outflows of resources	(73,176)	(53,771)	(26,364)	(29,105)	(182,416)	(59,722)
Increase (decrease) in deferred inflows of resources	(38,708)	(26,856)	(14,066)	(14,213)	(93,843)	371,581
Net cash provided by (used in) operating activities	<u>503,824</u>	<u>816,674</u>	<u>378,717</u>	<u>2,374,006</u>	<u>4,073,221</u>	<u>1,761,448</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sale/maturities of securities	2,890,702	962,582	0	0	3,853,284	3,291,692
Purchase of investment securities	(2,938,897)	(1,226,242)	(185)	(152,814)	(4,318,138)	(3,385,553)
Purchase of property and equipment	(501,248)	(153,271)	(181,378)	(761,142)	(1,597,039)	(1,528,900)
Interfund loan to Joint Treatment	125,000	0	0	0	125,000	125,000
Proceeds from sale of property and equipment	30,200	5,200	3,000	0	38,400	0
Net cash provided by (used in) investing activities	<u>(394,243)</u>	<u>(411,731)</u>	<u>(178,563)</u>	<u>(913,956)</u>	<u>(1,898,493)</u>	<u>(1,497,761)</u>
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from long-term borrowing	0	0	0	0	0	0
Principal payments on long-term borrowings	0	(304,000)	0	(125,000)	(429,000)	(420,000)
Net cash provided by (used in) financing activities	<u>0</u>	<u>(304,000)</u>	<u>0</u>	<u>(125,000)</u>	<u>(429,000)</u>	<u>(420,000)</u>
Net increase (decrease) in cash and cash equivalents	109,581	100,943	200,154	1,335,050	1,745,728	(156,313)
Cash and cash equivalents:						
Beginning	1,735,910	324,774	475,866	174,456	2,711,006	2,867,319
Ending	<u>\$ 1,845,491</u>	<u>425,717</u>	<u>676,020</u>	<u>1,509,506</u>	<u>4,456,734</u>	<u>2,711,006</u>

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
STATEMENTS OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2016 and 2015

Exhibit E

	2016	2015
ASSETS		
OTHER ASSETS		
Restricted		
Deferred compensation	\$ 459,605	\$ 384,238
CURRENT ASSETS		
None	\$ <u>0</u>	\$ <u>0</u>
Total Assets	\$ <u><u>459,605</u></u>	\$ <u><u>384,238</u></u>
 LIABILITIES AND NET POSITION		
NET POSITION		
None	\$ <u>0</u>	\$ <u>0</u>
CURRENT LIABILITIES		
Payable from restricted assets		
Deferred compensation	\$ <u>459,605</u>	\$ <u>384,238</u>
Total Current Liabilities	\$ <u>459,605</u>	\$ <u>384,238</u>
Total Liabilities and Net Position	\$ <u><u>459,605</u></u>	\$ <u><u>384,238</u></u>

DENISON MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1 – Summary of Significant Accounting Policies

The Denison Municipal Utilities (the Utilities) is governed by a Board of Trustees who 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 waste. A communication utility was established by referendum in November, 1997. To date, it has no assets and no customers.

The financial statements of Denison Municipal Utilities have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board. 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 these criteria the Denison Municipal Utilities has been identified as a component unit of the City of Denison, Iowa, 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 position, revenues and expenses. The various funds are Electric, Water, Sewer and Joint Treatment.

The Statement of Net Position (previously referred to as net assets) displays the Utilities assets and liabilities, with the difference reported as net position. Net position is reported in the following categories:

Net Investment in capital assets 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 position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position that does not meet the definition of “restricted” or “invested in capital assets.” Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

Measurement Focus and Basis of Accounting

The proprietary funds financial statements are reported using the flow of economic resources focus to determine net income and financial position. The accounting principles used are similar to those applicable to businesses in the private sector and, thus, these funds are maintained on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred regardless of the timing of related cash flows.

GASB pronouncements and non-conflicting pronouncements of the Financial Accounting Standards Board (FASB) issued before November 30, 1989 are applied in the preparation of the accompanying financial statements. Management does not apply FASB pronouncements issued after November 30, 1989.

Denison Municipal Utilities distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with Denison Municipal Utilities’ principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

The following accounting policies are followed in preparing the financial statements:

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, 2016. Investments consist of non-negotiable certificates of deposit which are stated at cost.

Restricted Assets - 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. Funds classified as restricted are not available to pay expenses other than those expenses for which the fund is restricted in accordance with the Utilities policy. The amount and purpose of the restricted net assets are as follows:

Restricted For	2016	2015	2014
Debt Service	\$ 744,346	\$ 739,969	\$ 734,925
Consumer Deposits	0	0	0

Receivables, Unbilled Usage 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 and are recorded in the period the service is rendered. Management reviews all accounts receivable balances that are delinquent and charges those amounts to expense that are deemed to be uncollectible.

Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Inventories - Materials and supplies inventory are held for consumption and are valued at average cost.

Utility Plant - The electric plant was estimated at replacement cost at August 31, 1969 and the Water Utility 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 Utilities personnel, the direct cost of materials and labor are capitalized.

Major costs 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, 2016.

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

Deferred Outflows of Resources – Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer’s reporting period.

Compensated Absences - The Utilities 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 Utilities, unused vacation leave will be paid to the employee.

The Utilities 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 Utilities.

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

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees’ Retirement System (IPERS) and additions to/deductions from IPERS’ fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources – Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

Designated Net Position - The Board of Trustees has designated certain funds to be placed in cash reserve funds. These cash reserve funds, which are from unrestricted net position, 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. The Board has also designated certain funds to be placed in an Economic Development Savings Account to be used for future economic development within the City of Denison.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. As of the date of issuance of the accompanying financial statements, no material changes to the estimates used therein were anticipated by management in the near term.

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 Utilities 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, 2016, disbursements did not exceed the amounts budgeted.

Note 2 – Deposits and Investments

The Utilities deposits, in banks, at June 30, 2016 were entirely covered by Federal depository insurance or by the State Sinking Fund 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 Utilities is authorized by statute to invest public funds 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; 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 had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

Note 3 – Utility Plant

Capital asset activity for the year ended June 30, 2016 is as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	Reclassified <u>and Retired</u>	Ending <u>Balance</u>
Land	\$ 1,689,881	\$ 0	\$ (62,769)	\$ 1,627,112
Transmission Land & Land Rights	25,133	0	57,469	82,602
River Levee	<u>212,153</u>	<u>0</u>	<u>0</u>	<u>212,153</u>
Non-Depreciable Capital Assets	<u>1,927,167</u>	<u>0</u>	<u>(5,300)</u>	<u>1,921,867</u>
Plant	19,077,256	67,085	(642,070)	18,502,271
Transmission Plant	1,739,301	0	642,070	2,381,371
Distribution & Collection	25,341,764	394,927	0	25,736,691
Machinery & Equipment	1,239,698	146,254	(15,970)	1,369,982
General Buildings	2,163,733	8,263	0	2,171,996
Transportation Equipment	1,535,325	225,896	(99,810)	1,661,411
Joint Treatment Facility	<u>10,513,123</u>	<u>754,614</u>	<u>0</u>	<u>11,267,737</u>
Depreciable Capital Assets	61,610,200	1,597,039	(115,780)	63,091,459
Less Accumulated Depreciation	<u>31,657,598</u>	<u>1,702,164</u>	<u>(112,580)</u>	<u>33,247,182</u>
Depreciable Capital Assets-Net	<u>29,952,602</u>	<u>(105,125)</u>	<u>(3,200)</u>	<u>29,844,276</u>
Net Capital Assets	<u>\$31,879,769</u>	<u>\$ (105,125)</u>	<u>\$ (8,500)</u>	<u>\$31,766,144</u>

Depreciation charged to operations for the years ended June 30, 2016, 2015, and 2014 was \$1,702,164, \$1,661,876, and \$1,600,416 respectively. Construction in progress included in the above amounts is \$435,436, \$102,762, and \$27,949 for June 30, 2016, 2015, and 2014 respectively. No depreciation was taken on the construction in progress amounts.

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, 2016:

	Series 2001 Water Revenue Capital Loan Note	Series 2010 Water Revenue Capital Loan Note	Total Debt Payable
Balance July 1, 2015	1,752,000	218,000	1,970,000
Redeemed	<u>(271,000)</u>	<u>(33,000)</u>	<u>(304,000)</u>
Balance June 30, 2016	1,481,000	185,000	1,666,000
Less: current portion	<u>(279,000)</u>	<u>(35,000)</u>	<u>(314,000)</u>
Long-term debt, net of current portion	<u>1,202,000</u>	<u>150,000</u>	<u>1,352,000</u>

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

Year Ending June 30	Series 2001			Series 2010		
	Principal	Interest	Service Fees	Principal	Interest	Service Fees
2017	\$ 279,000	25,918	3,703	\$ 35,000	5,550	463
2018	287,000	21,035	3,005	36,000	4,500	375
2019	296,000	16,012	2,287	37,000	3,420	285
2020	305,000	10,833	1,547	38,000	2,310	193
2021	<u>314,000</u>	<u>5,495</u>	<u>785</u>	<u>39,000</u>	<u>1,170</u>	<u>97</u>
	\$ <u>1,481,000</u>	<u>79,293</u>	<u>11,327</u>	\$ <u>185,000</u>	<u>16,950</u>	<u>1,413</u>

The Utilities has pledged future water utility revenue, net of specified operating expenses, to repay outstanding water revenue bonds. The bonds are payable solely from the water utility's net revenues. 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. The final payment was made during the current fiscal year.

Note 6 – Pension and Retirement Benefits

Plan Description – Employees of the Utility are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS membership is mandatory for employees of the Utility. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, IA 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan document for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member’s years of service plus the member’s age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member’s first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member’s monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member’s highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member’s monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member’s earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member’s lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claims IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member’s beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member’s accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS’ Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the “entry age normal” actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, members contributed 5.95% of their annual covered salary and the Utilities contributed 8.93% of annual covered payroll for a total rate of 14.88%. The Utilities’ total contributions to IPERS for the years ended June 30, 2016, 2015, and 2014 were \$158,002, \$147,706, and \$143,559 respectively, equal to the required contributions for the year.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the Utility reported a liability of \$1,192,797 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30,

2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the net pension liability was based on the Utility's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the Utility's collective proportion was 0.0241433% which was a decrease of 0.000424% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Utility recognized pension expense of \$97,256. At June 30, 2016, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 18,022	\$ 0
Changes of assumptions	32,841	0
Net difference between projected and actual earnings on IPERS' investments	178,466	277,738
Changes in proportion and differences between Utility contributions and the Utility's proportionate share of contributions	1,235	3,245
Utility contributions subsequent to the measurement date	<u>158,002</u>	<u>0</u>
Total	<u>\$ 388,566</u>	<u>\$ 280,983</u>

\$158,002 reported as deferred outflows of resources related to pensions resulting from the Utility contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Total</u>
2017	\$ (33,539)
2018	(33,539)
2019	(33,539)
2020	49,787
2021	<u>411</u>
	<u>\$ (50,419)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00% per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00%, average, including inflation. Rates vary by membership group
Long-term Investment rate of return (effective June 30, 1996)	7.50%, compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 1990)	4.00% per annum based on 3.00% inflation and 1.00% real wage inflation

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improved based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset association percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core Plus Fixed Income	28%	2.04%
Domestic Equity	24	6.29
International Equity	16	6.75
Private Equity/debt	11	11.32
Real Estate	8	3.48
Credit Opportunities	5	3.63
US TIPS	5	1.91
Other Real Assets	2	6.24
Cash	1	(0.71)
Total	<u>100%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rates and contributions from the Utility's will be made at the contractually required rates, actuarially determined. Based on those assumptions, the IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utility's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Utility's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.5%) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Utility's proportionate share of the net pension liability	\$ 2,088,373	\$ 1,192,797	\$ 436,867

Pension Plan Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to IPERS – At June 30, 2016, the Utility reported payables to IPERS of \$18,546 for legally required employer contributions and \$12,357 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

The Utilities 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 Utilities will contribute up to \$100 per month for employees contributing at least \$100 per month of their salary and the Utilities will contribute up to \$185 per month for management employees contributing at least \$185 per month of their salary. The Utilities' contribution for the year ended June 30, 2016, 2015 and 2014 was \$34,230, \$27,180 and \$22,823 respectively.

Note 7 – Major Customers

A significant portion of the Electric Utility and Water Utility revenue is derived from a single customer. This customer accounted for approximately 35.4% of the Electric Utility usage and 43.4% of the Water Utility usage for the year ended June 30, 2016.

Note 8 – Concentrations

Denison Municipal Utilities provides utility services to residential, commercial, and industrial customers in a specified service area in and around the City of Denison, Iowa. Credit is granted to substantially all customers, all of whom are local businesses and residents. All new customers of the Utilities are required to pay a deposit to start service unless the customer provides a credit reference from a previous utility company. The deposit is applied to the customer's utility account after seven months of timely payments or refunded to a customer if a deposit remains when they move out of the Utilities service area. Possible credit risks have been anticipated and management believes that adequate provision has been made for doubtful accounts.

Note 9 – Post-employment Benefits (OPEB)

Plan Description - In addition to the pension benefits described in Note 6, the Utilities provides health insurance coverage for long-term employees after retirement. The health insurance coverage provided is through the Utilities 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 Board of Trustees.

Funding Policy – The Utilities currently finances the retiree benefit plan on a pay-as-you-go basis. The Utilities incurred \$12,324 for retiree health premiums and \$1,435 of self-funding costs during the current fiscal year as a result of this program.

Annual OPEB Cost and Net OPEB Obligation - The Utilities annual OPEB cost is calculated based on the annual required contribution (ARC) of the Utilities. Denison Municipal Utilities has elected to calculate the ARC and related information using the alternative measurement method permitted by the Government Accounting Standards Board for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding which, 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 Utilities annual OPEB cost for the year ended June 30, 2016, the amount actually contributed to the plan and changes in the Utilities net OPEB obligation:

Annual required contribution	\$ 30,802
Interest on net OPEB obligation	2,922
Adjustment to annual required contribution	<u>(3,350)</u>
Annual OPEB cost	30,374
Contributions made	<u>(12,324)</u>
Increase in net OPEB obligation	18,050
Net OPEB obligation beginning of year	<u>73,050</u>
Net OPEB obligation end of year	<u>\$ 91,100</u>

The Utilities annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2016 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>
6/30/12	\$ 23,864	53.4%	\$ 23,607
6/30/13	\$ 23,864	29.0%	\$ 40,555
6/30/14	\$ 23,864	44.0%	\$ 53,919
6/30/15	\$ 30,267	37.4%	\$ 72,859
6/30/16	\$ 30,374	40.7%	\$ 91,100

Funded Status and Funding Progress - As of June 30, 2016, the actuarial accrued liability for benefits was \$295,703, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,754,045, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 16.9%. As of June 30, 2016 there were no trust fund assets.

Actuarial Methods and Assumptions - The actuarial valuations of an ongoing plan involve 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 Utilities 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 Utilities and plan members to that point. The actuarial 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 10 – Related Party Transactions

The Utilities had business transactions between the Utilities and Utility officials totaling \$16,218 during the year ended June 30, 2016.

Note 11 – Construction and Other Commitments

The Utilities has entered into construction contracts totaling \$1,255,499 for the installation of three drinking water wells, well houses, access roads and raw water mains. At June 30, 2016, no funds had been paid under the construction contracts.

On March 10, 2003, the Utilities entered into an amended, substituted and restated contract, for the sale and purchase of water and 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). The term of the contract extends for a period of 40 years from the date of the initial delivery of water as shown by the first water bill submitted by DMU to WCIRW under the original agreement dated September 12, 1996. WCIRW may obtain up to 1.5 million gallons per day excluding water needed during fire emergencies. 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 (21.43%). WCIRW has agreed to purchase water from Denison Municipal Utilities at Denison Municipal Utilities' cost of production.

The WCIRW contract also provides that 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 are expanded.

Note 12 – Risk Management

The Utilities 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 13 – Subsequent Events

In July 2016, the Board of Trustees approved Resolution #768, a resolution approving and authorizing a form of loan and disbursement agreement by and between Denison Municipal Utilities and the Iowa Finance Authority, authorizing and providing for the issuance and securing the payment of \$1,648,000 Water Revenue Capital Loan Notes, Series 2016. This provides financing for the drinking water wells project discussed in Footnote 11 above.

REQUIRED SUPPLEMENTARY INFORMATION

DENISON MUNICIPAL UTILITIES
 BUDGETARY COMPARISON SCHEDULE
 REQUIRED SUPPLEMENTARY INFORMATION
 JUNE 30, 2016

	<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	\$ 16,947,565	(397,746)	0	16,549,819	14,868,600	1,681,219
Interest income	46,210	(3,065)	0	43,145	40,000	3,145
Miscellaneous	762,768	0	125,000	887,768	514,000	373,768
Bond Proceeds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,550,000</u>	<u>(1,550,000)</u>
Total Revenue/Receipts	17,756,543	(400,811)	125,000	17,480,732	16,972,600	508,132
Expenses/Expenditures						
Operating expenses	13,112,834	22,577	0	13,135,411	12,912,500	(222,911)
Interest expense & Economic Development	113,745	3,455	0	117,200	141,300	24,100
Debt payments	0	0	429,000	429,000	429,000	0
Depreciation & capital expenditures	<u>1,702,164</u>	<u>0</u>	<u>(105,125)</u>	<u>1,597,039</u>	<u>4,218,000</u>	<u>2,620,961</u>
Total Expenses/Expenditures	14,928,743	26,032	323,875	15,278,650	17,700,800	2,422,150
Change in Net Position	2,827,800	(426,843)	(198,875)	2,202,082	<u>(728,200)</u>	<u>2,930,282</u>
Beginning Net Position	<u>38,498,702</u>	<u>(19,892,227)</u>	<u>(9,596,881)</u>	<u>9,009,594</u>		
Ending Net Position	\$ <u>41,326,502</u>	<u>(20,319,070)</u>	<u>(9,795,756)</u>	<u>11,211,676</u>		

This budgetary comparison is presented as Required Supplementary Information in accordance with governmental generally accepted accounting principles. 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 adopted budget was not exceeded.

DENISON MUNICIPAL UTILITIES
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	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)
2009	June 30, 2009	\$ 0	\$ 145,817	\$ 145,817	0.00%	\$1,436,882	10.1%
2010	June 30, 2009	\$ 0	\$ 145,817	\$ 145,817	0.00%	\$1,491,370	9.8%
2011	June 30, 2009	\$ 0	\$ 145,817	\$ 145,817	0.00%	\$1,533,107	9.5%
2012	June 30, 2012	\$ 0	\$ 280,831	\$ 280,831	0.00%	\$1,510,275	18.6%
2013	June 30, 2012	\$ 0	\$ 280,831	\$ 280,831	0.00%	\$1,547,689	18.1%
2014	June 30, 2012	\$ 0	\$ 280,831	\$ 280,831	0.00%	\$1,591,026	17.7%
2015	June 30, 2015	\$ 0	\$ 295,703	\$ 295,703	0.00%	\$1,636,721	18.1%
2016	June 30, 2015	\$ 0	\$ 295,703	\$ 295,703	0.00%	\$1,754,045	16.9%

See Note 9 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.

DENISON MUNICIPAL UTILITIES
SCHEDULE OF THE UTILITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST FISCAL YEAR*
REQUIRED SUPPLEMENTARY INFORMATION

	<u>2016</u>	<u>2015</u>
Utility's proportion of the net pension liability (asset)	0.0241433%	0.0245676%
Utility's proportionate share of the net pension liability	\$ 1,192,797	\$ 974,328
Utility's covered-employee payroll	\$ 1,769,341	\$ 1,654,039
Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll	67.41%	58.91%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

*The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Utility will present information for those years for which information is available.

DENISON MUNICIPAL UTILITIES
 SCHEDULE OF UTILITY CONTRIBUTIONS
 IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
 LAST 10 FISCAL YEARS
 REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Statutorily Required Contribution	Contributions in relation to Statutorily Required Contribution	Contribution Deficiency (Excess)	Utility's Covered-Employee Payroll	Contributions as a percentage of Covered-Employee Payroll
2016	\$ 158,002	\$ 158,002	\$ 0	\$1,769,341	8.93%
2015	\$ 147,706	\$ 147,706	\$ 0	\$1,654,039	8.93%
2014	\$ 143,559	\$ 143,559	\$ 0	\$1,607,600	8.93%
2013	\$ 135,073	\$ 135,073	\$ 0	\$1,554,100	8.69%
2012	\$ 123,430	\$ 123,430	\$ 0	\$1,521,591	8.11%
2011	\$ 104,388	\$ 104,388	\$ 0	\$1,501,982	6.95%
2010	\$ 95,436	\$ 95,436	\$ 0	\$1,435,123	6.65%
2009	\$ 87,631	\$ 87,631	\$ 0	\$1,380,012	6.35%
2008	\$ 83,216	\$ 83,216	\$ 0	\$1,375,482	6.05%
2007	\$ 75,035	\$ 75,035	\$ 0	\$1,304,544	5.75%

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
PENSION LIABILITY
JUNE 30, 2016

Changes of benefit terms

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Changes of assumptions

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service durations.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

SUPPLEMENTARY INFORMATION

**DENISON MUNICIPAL UTILITIES
ELECTRIC UTILITY
COMPARATIVE STATEMENT OF NET POSITION
June 30, 2016 and 2015**

Schedule 1

	2016	2015
ASSETS		
CURRENT ASSETS		
Restricted		
Consumers' deposit fund	\$ 78,839	\$ 77,673
Unrestricted		
Cash	1,845,491	1,735,910
Deposits and investments	3,375,834	3,327,639
Accounts receivable	(80,122)	(62,888)
Unbilled usage	956,739	798,157
Due from other funds	5,056	3,800
Interest receivable	8,297	5,735
Inventory	879,306	839,574
Prepaid insurance	73,780	74,365
Note receivable-Joint Treatment Utility	0	125,000
Total Current Assets	\$ 7,143,220	\$ 6,924,965
OTHER ASSETS		
Note receivable-Joint Treatment Utility	\$ 0	\$ 0
ELECTRIC UTILITY PLANT		
Plant in Service, at cost	\$ 21,988,017	\$ 21,597,049
Less: Accumulated depreciation	13,431,523	12,926,480
Net Electric Utility Plant	\$ 8,556,494	\$ 8,670,569
Total Assets	\$ 15,699,714	\$ 15,595,534
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows	\$ 157,294	\$ 84,118
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 922,020	\$ 811,316
Due to other funds	21,266	24,880
Accrued vacation and sick leave	189,891	187,648
Other accrued liabilities	49,853	50,447
Payable from restricted assets		
Consumers' deposits	79,490	78,296
Total Current Liabilities	\$ 1,262,520	\$ 1,152,587
NONCURRENT LIABILITIES		
Net pension liability	\$ 496,738	\$ 406,626
Total Liabilities	\$ 1,759,258	\$ 1,559,213
DEFERRED INFLOWS OF RESOURCES		
Pension related deferred inflows	\$ 116,368	\$ 155,076
NET POSITION		
Net Investment in Capital Assets	\$ 8,556,494	\$ 8,670,569
Restricted for Consumer Deposits	0	0
Unrestricted	5,424,888	5,294,794
Total Net Position	\$ 13,981,382	\$ 13,965,363

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
ELECTRIC UTILITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Years Ended June 30, 2016 and 2015

Schedule 1

	2016	2015
OPERATING REVENUES		
Sales to consumers	\$ 10,004,799	\$ 9,531,145
Other operating revenues	26,913	21,180
Total operating revenues	\$ 10,031,712	\$ 9,552,325
OPERATING EXPENSES		
Cost of Power	\$ 8,087,811	\$ 7,627,155
Administrative & general	392,496	421,557
Transportation	40,082	46,229
Property, liability, work comp insurance	95,257	89,180
Payroll tax expense	109,414	98,571
Employee insurance	208,176	175,507
Repair & maintenance	97,898	99,673
Transmission & distribution	433,533	491,624
Consumer accounting & collection	79,708	80,600
Total operating expenses excluding depreciation	\$ 9,544,375	\$ 9,130,096
OPERATING INCOME BEFORE DEPRECIATION	\$ 487,337	\$ 422,229
DEPRECIATION	615,331	594,700
OPERATING INCOME (LOSS)	\$ (127,994)	\$ (172,471)
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 155,644	\$ 143,489
Gain on sale of property and equipment	30,208	0
Interest income	33,161	27,799
Economic Development expense	(75,000)	0
Total nonoperating revenues (expenses)	\$ 144,013	\$ 171,288
CHANGE IN NET POSITION	\$ 16,019	\$ (1,183)
NET POSITION, BEGINNING OF YEAR	13,965,363	13,966,546
NET POSITION, END OF YEAR	\$ 13,981,382	\$ 13,965,363

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
ELECTRIC UTILITY
COMPARATIVE STATEMENT OF CASH FLOWS
Years Ended June 30, 2016 and 2015

Schedule 1

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Position	\$ 16,019	\$ (1,183)
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:		
Depreciation	615,331	594,700
Gain on sale of property and equipment	(30,208)	0
Changes in assets and liabilities		
(Increase) decrease in consumers' deposit fund	(1,166)	(8,231)
(Increase) decrease in trade receivables	17,234	14,059
(Increase) decrease in unbilled usage	(158,582)	(108,744)
(Increase) decrease in inventories	(39,732)	(116,431)
(Increase) decrease in prepaid expenses	585	(16,103)
(Increase) decrease in other current assets	(3,818)	2,463
Increase (decrease) in accounts payable and accrued liabilities	108,739	15,583
Increase (decrease) in customer deposits	1,194	8,331
Increase (decrease) in net pension liability	90,112	(161,170)
(Increase) decrease in deferred outflows of resources	(73,176)	(24,205)
Increase (decrease) in deferred inflows of resources	(38,708)	155,076
Net cash provided by (used in) operating activities	\$ 503,824	\$ 354,145
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of securities	\$ 2,890,702	\$ 1,894,977
Purchase of investment securities	(2,938,897)	(2,012,532)
Interfund loan to Joint Treatment	125,000	125,000
Purchase of property and equipment	(501,248)	(334,492)
Proceeds from sale of property and equipment	30,200	0
Net cash provided by (used in) investing activities	\$ (394,243)	\$ (327,047)
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	\$ 109,581	\$ 27,098
Cash and cash equivalents:		
Beginning	1,735,910	1,708,812
Ending	\$ 1,845,491	\$ 1,735,910

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
ELECTRIC UTILITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION-ACTUAL TO BUDGET
Year Ended June 30, 2016

Schedule 2

	Actual	Budget	Variance
OPERATING REVENUES			
Sales to consumers	\$ 10,004,799	9,950,100	54,699
Other operating revenues	26,913	23,000	3,913
Total operating revenues	\$ 10,031,712	9,973,100	58,612
 OPERATING EXPENSES			
Cost of Power	\$ 8,087,811	8,000,000	(87,811)
Administrative & general	392,496	378,500	(13,996)
Transportation	40,082	45,000	4,918
Property, liability, work comp insurance	95,257	92,000	(3,257)
Payroll tax expense	109,414	134,300	24,886
Employee insurance	208,176	169,500	(38,676)
Repair & maintenance	97,898	92,500	(5,398)
Transmission & distribution	433,533	501,500	67,967
Consumer accounting & collection	79,708	80,000	292
Total operating expenses excluding depreciation	\$ 9,544,375	9,493,300	(51,075)
 OPERATING INCOME BEFORE DEPRECIATION	\$ 487,337	479,800	7,537
 DEPRECIATION	615,331	600,000	(15,331)
 OPERATING INCOME (LOSS)	\$ (127,994)	(120,200)	(7,794)
 NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 155,644	166,500	(10,856)
Interest income	33,161	28,000	5,161
Gain on sale of property and equipment	30,208	20,000	10,208
Economic Development expense	(75,000)	(100,000)	25,000
Total nonoperating revenues (expenses)	\$ 144,013	114,500	29,513
 CHANGE IN NET POSITION	\$ 16,019	(5,700)	21,719
 NET POSITION, BEGINNING OF YEAR	13,965,363	11,573,330	
 NET POSITION, END OF YEAR	\$ 13,981,382	11,567,630	

See accompanying independent auditors' report.

**DENISON MUNICIPAL UTILITIES
WATER UTILITY
COMPARATIVE STATEMENT OF NET POSITION
June 30, 2016 and 2015**

Schedule 3

	2016	2015
ASSETS		
CURRENT ASSETS		
Unrestricted		
Cash	\$ 425,717	\$ 324,774
Deposits and investments	622,367	362,129
Accounts receivable	31,449	30,116
Unbilled usage	219,851	192,542
Due from other funds	8,950	8,169
Interest receivable	1,105	602
Inventory	68,260	72,964
Prepaid insurance	64,615	65,127
Total Current Assets	\$ 1,442,314	\$ 1,056,423
OTHER ASSETS		
Revenue bond reserve	\$ 749,591	\$ 746,169
Loan origination fee	12,435	14,922
Total Other Assets	\$ 762,026	\$ 761,091
WATER UTILITY PLANT		
Plant in Service, at cost	\$ 23,630,364	\$ 23,482,393
Less: Accumulated depreciation	11,842,461	11,191,611
Net Water Utility Plant	\$ 11,787,903	\$ 12,290,782
 Total Assets	 \$ 13,992,243	 \$ 14,108,296
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows	\$ 111,388	\$ 57,617
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 65,096	\$ 65,282
Due to other funds	3,163	1,926
Accrued vacation and sick leave	85,361	84,690
Other accrued liabilities	31,534	36,390
Payable from restricted assets		
Current maturities of long-term debt	314,000	304,000
Interest payable	5,245	6,200
Total Current Liabilities	\$ 504,399	\$ 498,488
LONG-TERM DEBT - Net of current maturities	\$ 1,352,000	\$ 1,666,000
NONCURRENT LIABILITIES		
Net pension liability	\$ 331,546	\$ 269,022
Total Liabilities	\$ 2,187,945	\$ 2,433,510
DEFERRED INFLOWS OF RESOURCES		
Pension related deferred inflows	\$ 75,741	\$ 102,597
NET POSITION		
Net Investment in Capital Assets	\$ 10,134,338	\$ 10,335,704
Restricted for Debt Service	744,346	739,969
Unrestricted	961,261	554,133
Total Net Position	\$ 11,839,945	\$ 11,629,806

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
WATER UTILITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Years Ended June 30, 2016 and 2015

Schedule 3

	2016	2015
OPERATING REVENUES		
Sales to consumers	\$ 2,324,047	\$ 2,199,484
OPERATING EXPENSES		
Administrative & general	\$ 194,049	\$ 201,287
Transportation	10,625	12,403
Property, liability, work comp insurance	83,143	76,545
Payroll tax expense	76,117	62,928
Employee insurance	121,129	98,946
Power & pumping	211,273	234,486
Transmission & distribution	249,909	231,618
Purification	517,084	505,118
Consumer accounting & collection	84,996	81,812
Total operating expenses excluding depreciation	\$ 1,548,325	\$ 1,505,143
OPERATING INCOME BEFORE DEPRECIATION	\$ 775,722	\$ 694,341
DEPRECIATION	650,850	649,548
OPERATING INCOME (LOSS)	\$ 124,872	\$ 44,793
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 112,739	\$ 67,646
Interest income	8,873	6,341
Loss on the sale of property and equipment	(100)	0
Interest expense	(36,245)	(41,835)
Total nonoperating revenues (expenses)	\$ 85,267	\$ 32,152
CHANGE IN NET POSITION	\$ 210,139	\$ 76,945
NET POSITION, BEGINNING OF YEAR	11,629,806	11,552,861
NET POSITION, END OF YEAR	\$ 11,839,945	\$ 11,629,806

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
WATER UTILITY
COMPARATIVE STATEMENT OF CASH FLOWS
Years Ended June 30, 2016 and 2015

Schedule 3

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Position	\$ 210,139	\$ 76,945
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:		
Depreciation	650,850	649,548
Amortization of origination fees	2,487	2,487
Loss on sale of property and equipment	100	0
Changes in assets and liabilities		
(Increase) decrease in trade receivables	(1,333)	58,981
(Increase) decrease in unbilled usage	(27,309)	(14,098)
(Increase) decrease in inventories	4,704	26,282
(Increase) decrease in prepaid expenses	512	(14,155)
(Increase) decrease in other current assets	(1,284)	(842)
Increase (decrease) in accounts payable and accrued liabilities	(4,089)	(6,115)
Increase (decrease) in net pension liability	62,524	(106,629)
(Increase) decrease in deferred outflows of resources	(53,771)	(17,979)
Increase (decrease) in deferred inflows of resources	(26,856)	102,597
Net cash provided by (used in) operating activities	\$ 816,674	\$ 757,022
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of securities	\$ 962,582	\$ 1,396,715
Purchase of investment securities	(1,226,242)	(1,220,359)
Purchase of property and equipment	(153,271)	(994,858)
Proceeds from the sale of property and equipment	5,200	0
Net cash provided by (used in) investing activities	\$ (411,731)	\$ (818,502)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowing	\$ 0	\$ 0
Principal payments on long-term borrowing	(304,000)	(295,000)
Net cash provided by (used in) financing activities	\$ (304,000)	\$ (295,000)
Net increase (decrease) in cash and cash equivalents	\$ 100,943	\$ (356,480)
Cash and cash equivalents:		
Beginning	324,774	681,254
Ending	\$ 425,717	\$ 324,774

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
WATER UTILITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION-ACTUAL TO BUDGET
Year Ended June 30, 2016

Schedule 4

	Actual	Budget	Variance
OPERATING REVENUES			
Sales to consumers	\$ <u>2,324,047</u>	<u>2,328,000</u>	<u>(3,953)</u>
OPERATING EXPENSES			
Administrative & general	\$ 194,049	172,500	(21,549)
Transportation	10,625	14,000	3,375
Property, liability, work comp insurance	83,143	85,000	1,857
Payroll tax expense	76,117	87,200	11,083
Employee insurance	121,129	95,000	(26,129)
Power & pumping	211,273	240,500	29,227
Transmission & distribution	249,909	223,500	(26,409)
Purification	517,084	517,000	(84)
Consumer accounting & collection	<u>84,996</u>	<u>82,000</u>	<u>(2,996)</u>
Total operating expenses excluding depreciation	<u>\$ 1,548,325</u>	<u>1,516,700</u>	<u>(31,625)</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 775,722	811,300	(35,578)
DEPRECIATION	<u>650,850</u>	<u>650,000</u>	<u>(850)</u>
OPERATING INCOME (LOSS)	<u>\$ 124,872</u>	<u>161,300</u>	<u>(36,428)</u>
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 112,739	130,000	(17,261)
Interest income	8,873	7,000	1,873
Loss on the sale of property and equipment	(100)	0	(100)
Interest expense	<u>(36,245)</u>	<u>(36,300)</u>	<u>55</u>
Total nonoperating revenues (expenses)	<u>\$ 85,267</u>	<u>100,700</u>	<u>(15,433)</u>
CHANGE IN NET POSITION	\$ 210,139	262,000	<u>(51,861)</u>
NET POSITION, BEGINNING OF YEAR	<u>11,629,806</u>	<u>9,468,326</u>	
NET POSITION, END OF YEAR	<u>\$ 11,839,945</u>	<u>9,730,326</u>	

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
SEWER UTILITY
COMPARATIVE STATEMENT OF NET POSITION
June 30, 2016 and 2015

Schedule 5

	2016	2015
ASSETS		
CURRENT ASSETS		
Unrestricted		
Cash	676,020	475,866
Deposits and investments	187,669	187,484
Accounts receivable	26,969	30,839
Unbilled usage	121,965	101,521
Due from other funds	15,625	17,974
Interest receivable	0	0
Prepaid insurance	18,059	16,855
Total Current Assets	\$ 1,046,307	\$ 830,539
SEWER UTILITY PLANT		
Plant in Service, at cost	\$ 7,600,270	\$ 7,424,391
Less: Accumulated depreciation	3,514,138	3,341,512
Net Sewer Utility Plant	\$ 4,086,132	\$ 4,082,879
Total Assets	\$ 5,132,439	\$ 4,913,418
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows	\$ 57,305	\$ 30,941
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 8,091	\$ 23,850
Due to other funds	4,039	3,334
Accrued vacation and sick leave	64,224	53,230
Other accrued liabilities	13,421	15,710
Total Current Liabilities	\$ 89,775	\$ 96,124
NONCURRENT LIABILITIES		
Net pension liability	\$ 187,077	\$ 154,333
Total Liabilities	\$ 276,852	\$ 250,457
DEFERRED INFLOWS OF RESOURCES		
Pension related deferred inflows	\$ 44,792	\$ 58,858
NET POSITION		
Net Investment in Capital Assets	\$ 4,086,132	\$ 4,082,879
Restricted	0	0
Unrestricted	781,968	552,165
Total Net Position	\$ 4,868,100	\$ 4,635,044

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
SEWER UTILITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Years Ended June 30, 2016 and 2015

Schedule 5

	2016	2015
OPERATING REVENUES		
Sales to consumers	\$ 1,343,949	\$ 1,255,145
OPERATING EXPENSES		
Administrative & general	\$ 120,293	\$ 92,851
Transportation	10,060	11,531
Property, liability, work comp insurance	22,612	21,211
Payroll tax expense	36,522	32,644
Employee insurance	62,137	53,494
Joint treatment processing	405,251	340,444
Repair & maintenance	101,399	111,546
Power & pumping	19,494	18,739
Plant & main maintenance	141,298	126,216
Consumer accounting & collection	69,765	66,320
Total operating expenses excluding depreciation	\$ 988,831	\$ 874,996
OPERATING INCOME BEFORE DEPRECIATION	\$ 355,118	\$ 380,149
DEPRECIATION	174,917	168,573
OPERATING INCOME (LOSS)	\$ 180,201	\$ 211,576
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 52,293	\$ 7,410
Loss on the sale of property and equipment	(208)	0
Interest income	770	679
Total nonoperating revenues (expenses)	\$ 52,855	\$ 8,089
CHANGE IN NET POSITION	\$ 233,056	\$ 219,665
NET POSITION, BEGINNING OF YEAR	4,635,044	4,415,379
NET POSITION, END OF YEAR	\$ 4,868,100	\$ 4,635,044

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
SEWER UTILITY
COMPARATIVE STATEMENT OF CASH FLOWS
Years Ended June 30, 2016 and 2015

Schedule 5

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Position	\$ 233,056	\$ 219,665
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:		
Depreciation	174,917	168,573
Loss on sale of property and equipment	208	0
Changes in assets and liabilities		
(Increase) decrease in trade receivables	3,870	(4,329)
(Increase) decrease in unbilled usage	(20,444)	18,859
(Increase) decrease in prepaid expenses	(1,204)	(3,511)
(Increase) decrease in other current assets	2,349	3,223
Increase (decrease) in accounts payable and accrued liabilities	(6,349)	(265,407)
Increase (decrease) in net pension liability	32,744	(61,172)
(Increase) decrease in deferred outflows of resources	(26,364)	(8,201)
Increase (decrease) in deferred inflows of resources	(14,066)	58,858
Net cash provided by (used in) operating activities	\$ 378,717	\$ 126,558
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of securities	\$ 0	\$ 0
Purchase of investment securities	(185)	(175)
Purchase of property and equipment	(181,378)	(24,280)
Proceeds from the sale of property and equipment	3,000	0
Net cash provided by (used in) investing activities	\$ (178,563)	\$ (24,455)
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	\$ 200,154	\$ 102,103
Cash and cash equivalents:		
Beginning	475,866	373,763
Ending	\$ 676,020	\$ 475,866

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
SEWER UTILITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION-ACTUAL TO BUDGET
Year Ended June 30, 2016

Schedule 6

	Actual	Budget	Variance
OPERATING REVENUES			
Sales to consumers	\$ 1,343,949	1,187,500	156,449
 OPERATING EXPENSES			
Administrative & general	\$ 120,293	97,000	(23,293)
Transportation	10,060	14,500	4,440
Property, liability, work comp insurance	22,612	22,000	(612)
Payroll tax expense	36,522	48,000	11,478
Employee insurance	62,137	47,500	(14,637)
Joint treatment processing	405,251	275,000	(130,251)
Repair & maintenance	101,399	153,500	52,101
Power & pumping	19,494	20,000	506
Plant & main maintenance	141,298	150,000	8,702
Consumer accounting & collection	69,765	66,500	(3,265)
Total operating expenses excluding depreciation	\$ 988,831	894,000	(94,831)
 OPERATING INCOME BEFORE DEPRECIATION	\$ 355,118	293,500	61,618
 DEPRECIATION	174,917	170,000	(4,917)
 OPERATING INCOME (LOSS)	\$ 180,201	123,500	56,701
 NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 52,293	57,500	(5,207)
Loss on the sale of property and equipment	(208)	0	(208)
Interest income	770	1,000	(230)
Total nonoperating revenues (expenses)	\$ 52,855	58,500	(5,645)
 CHANGE IN NET POSITION	\$ 233,056	182,000	51,056
 NET POSITION, BEGINNING OF YEAR	4,635,044	3,873,850	
 NET POSITION, END OF YEAR	\$ 4,868,100	4,055,850	

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
JOINT TREATMENT UTILITY
COMPARATIVE STATEMENT OF NET POSITION
June 30, 2016 and 2015

Schedule 7

	2016	2015
ASSETS		
CURRENT ASSETS		
Unrestricted		
Cash	\$ 1,509,506	\$ 174,456
Accounts receivable	0	0
Unbilled usage	342,083	130,301
Due from other funds	1,206	1,466
Interest receivable	0	0
Prepaid insurance	28,871	29,788
Total Current Assets	\$ 1,881,666	\$ 336,011
OTHER ASSETS		
Unrestricted		
Equipment replacement investment	\$ 1,617,040	\$ 1,464,226
JOINT TREATMENT PLANT		
Plant in Service, at cost	\$ 11,794,676	\$ 11,033,534
Less: Accumulated depreciation	4,459,061	4,197,995
Net Joint Treatment Plant	\$ 7,335,615	\$ 6,835,539
 Total Assets	 \$ 10,834,321	 \$ 8,635,776
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows	\$ 59,710	\$ 30,605
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 22,163	\$ 55,506
Due to other funds	2,369	1,269
Other accrued liabilities	14,151	14,220
Current maturities of long-term debt	0	125,000
Interest payable	0	2,500
Total Current Liabilities	\$ 38,683	\$ 198,495
LONG-TERM DEBT - Net of current maturities	\$ 0	\$ 0
NONCURRENT LIABILITIES		
Net pension liability	\$ 177,436	\$ 144,347
 Total Liabilities	 \$ 216,119	 \$ 342,842
DEFERRED INFLOWS OF RESOURCES		
Pension related deferred inflows	\$ 40,837	\$ 55,050
NET POSITION		
Net Investment in Capital Assets	\$ 7,335,614	\$ 6,710,539
Restricted	0	0
Unrestricted	3,301,461	1,557,950
Total Net Position	\$ 10,637,075	\$ 8,268,489

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
JOINT TREATMENT UTILITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Years Ended June 30, 2016 and 2015

Schedule 7

	2016	2015
OPERATING REVENUES		
Sales to consumers	\$ 3,247,857	\$ 1,547,293
OPERATING EXPENSES		
Administrative & general	\$ 126,679	\$ 126,097
Transportation	13,776	8,772
Property, liability, work comp insurance	37,803	35,513
Payroll tax expense	42,220	35,320
Employee insurance	61,114	44,854
Waste water processing	749,711	770,888
Total operating expenses excluding depreciation	\$ 1,031,303	\$ 1,021,444
OPERATING INCOME BEFORE DEPRECIATION	\$ 2,216,554	\$ 525,849
DEPRECIATION	261,066	249,055
OPERATING INCOME (LOSS)	\$ 1,955,488	\$ 276,794
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 412,192	\$ 18,379
Interest income	3,406	2,992
Interest expense	(2,500)	(7,500)
Total nonoperating revenues (expenses)	\$ 413,098	\$ 13,871
CHANGE IN NET POSITION	\$ 2,368,586	\$ 290,665
NET POSITION, BEGINNING OF YEAR	8,268,489	7,977,824
NET POSITION, END OF YEAR	\$ 10,637,075	\$ 8,268,489

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
JOINT TREATMENT UTILITY
COMPARATIVE STATEMENT OF CASH FLOWS
Years Ended June 30, 2016 and 2015

Schedule 7

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Position	\$ 2,368,586	\$ 290,665
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:		
Depreciation	261,066	249,055
Changes in assets and liabilities		
(Increase) decrease in trade receivables	0	57,452
(Increase) decrease in unbilled usage	(211,782)	2,801
(Increase) decrease in prepaid expenses	917	(6,322)
(Increase) decrease in other current assets	260	162
Increase (decrease) in accounts payable and accrued liabilities	(34,812)	(58,590)
Increase (decrease) in net pension liability	33,089	(57,213)
(Increase) decrease in deferred outflows of resources	(29,105)	(9,337)
Increase (decrease) in deferred inflows of resources	(14,213)	55,050
Net cash provided by (used in) operating activities	\$ 2,374,006	\$ 523,723
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of securities	\$ 0	\$ 0
Purchase of investment securities	(152,814)	(152,487)
Purchase of property and equipment	(761,142)	(175,270)
Net cash provided by (used in) investing activities	\$ (913,956)	\$ (327,757)
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	 \$ 1,335,050	 \$ 70,966
 Cash and cash equivalents:		
Beginning	174,456	103,490
Ending	\$ 1,509,506	\$ 174,456

See accompanying independent auditors' report.

DENISON MUNICIPAL UTILITIES
JOINT TREATMENT UTILITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION-ACTUAL TO BUDGET
Year Ended June 30, 2016

Schedule 8

	Actual	Budget	Variance
OPERATING REVENUES			
Sales to consumers	\$ 3,247,857	1,380,000	1,867,857
OPERATING EXPENSES			
Administrative & general	\$ 126,679	124,000	(2,679)
Transportation	13,776	12,500	(1,276)
Property, liability, work comp insurance	37,803	38,000	197
Payroll tax expense	42,220	49,000	6,780
Employee insurance	61,114	52,500	(8,614)
Waste water processing	749,711	732,500	(17,211)
Total operating expenses excluding depreciation	\$ 1,031,303	1,008,500	(22,803)
OPERATING INCOME BEFORE DEPRECIATION	\$ 2,216,554	371,500	1,845,054
DEPRECIATION	261,066	255,000	(6,066)
OPERATING INCOME (LOSS)	\$ 1,955,488	116,500	1,838,988
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 412,192	15,000	397,192
Interest income	3,406	4,000	(594)
Interest expense	(2,500)	(5,000)	2,500
Total nonoperating revenues (expenses)	\$ 413,098	14,000	399,098
CHANGE IN NET POSITION	\$ 2,368,586	130,500	2,238,086
NET POSITION, BEGINNING OF YEAR	8,268,489	2,314,200	
NET POSITION, END OF YEAR	\$ 10,637,075	2,444,700	

See accompanying independent auditors' report.

MAHONEY & GOTTO COMPANY

Certified Public Accountants

**201 South 7th Street
Denison, IA 51442**

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Independent Auditors' 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 in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business type activities, each major enterprise fund, and the fiduciary fund information of the Denison Municipal Utilities, a component unit of the City of Denison, as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the Utilities' basic financial statements, and have issued our report thereon dated September 30, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Denison Municipal Utilities' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Denison Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of Denison Municipal Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Denison Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We did not find any deficiencies in internal control to be a material weakness.

A significant deficiency is a deficiency or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in Part II of the accompanying Schedule of Findings as item II-A-16 to be a significant deficiency.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the 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

Denison Municipal Utilities' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Denison Municipal Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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 30, 2016
Denison, Iowa

DENISON MUNICIPAL UTILITIES
Schedule of Findings
Year Ended June 30, 2016

Part I: Summary of the Independent Auditors' Results:

- (a) Unmodified 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.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-16 Segregation of Duties – One important aspect of the internal control structure is the segregation of duties among employees to prevent individuals from handling tasks that are incompatible. A limited number of people have primary responsibility for accounting and financial duties.

Recommendation – We realize that with staffing limitations, segregation of duties is difficult. It is recognized that the Utilities has made reasonable efforts and improvements to segregate these duties. However, the Utilities should continue to monitor, update and review their control procedures. In addition, continued 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 evaluate, update and follow control procedures as they have been established as well as monitor the results of implementing new or updated procedures.

Conclusion – Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

DENISON MUNICIPAL UTILITIES
Schedule of Findings
Year Ended June 30, 2016

Part III: Other Findings Related to Required Statutory Reporting:

- III-A-16 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-16 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-16 Travel Expense - No disbursements of Utilities money for travel expenses of spouses of Utilities officials or employees were noted.
- III-D-16 Business Transactions – Business transactions between Denison Municipal Utilities and Utility officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jim Langenfeld Owner, Langenfeld Contracting Father of Board Member	Purchase, hauling and beneficial reuse of municipal lime solids	\$ <u>16,218</u>

This transaction involving the purchase, hauling and beneficial reuse of municipal lime solids does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa.

Recommendation - The Utilities should continue to use competitive bidding procedures in accordance with Chapter 362.5(4) of the Code of Iowa.

Response – We will do this.

Conclusion – Response accepted.

- III-E-16 Bond Coverage – Surety bond coverage of Utilities officials and employees is in accordance with statutory provision. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- III-F-16 Board Minutes – No transactions were found that we believe should have been approved in the board minutes but were not. Minutes of the Utilities proceedings were all properly and timely published. Also, the Utilities did publish annual gross salaries for 2015 as in accordance with an Attorney General’s opinion dated April 12, 1978.

DENISON MUNICIPAL UTILITIES
Schedule of Findings
Year Ended June 30, 2016

Part III: Other Findings Related to Required Statutory Reporting, (continued):

III-G-16 Deposits and Investments – An instance of non-compliance with regards to the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Utilities’ investment policy was noted. The Utilities went over their approved bank limit during the year.

Recommendation – The Utilities should be aware of their bank limits and have the Board approve new limits when circumstances deem it to be necessary.

Response – The funds were subsequently moved once the overage was discovered. We will continue to closely monitor the balance of funds.

Conclusion – Response accepted.

III-H-16 Revenue Notes – No instances of non-compliance with the revenue note provisions were noted.