

MUSCATINE POWER AND WATER

FINANCIAL STATEMENTS

December 31, 2004 and 2003

MUSCATINE POWER AND WATER

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INDEPENDENT AUDITORS' REPORT

To the Board of Water, Electric, and Communications Trustees
Muscatine Power and Water:

We have audited the accompanying financial statements of Muscatine Power and Water (utility), a component unit of the City of Muscatine, Iowa as of December 31, 2004 and 2003, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and Chapter 11 of the Code of Iowa. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Muscatine Power and Water as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis information on pages 2 through 11 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Muscatine Power and Water. Such information for the year ended December 31, 2004 and 2003 has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Madison, Wisconsin
February 17, 2005

Virchow, Krause & Company, LLP

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MANAGEMENT'S DISCUSSION AND ANALYSIS

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The following is provided as a narrative analysis of the electric, water and communications utilities' financial activities based on currently known facts, decisions, and conditions. This should be read in conjunction with the Balance Sheets, the Statements of Revenues, Expenses, and Changes in Net Assets (Deficit), and the Statements of Cash Flows, which follow.

The Statements of Revenues, Expenses, and Changes in Net Assets (Deficit) report all revenues and expenses for the year. The Balance Sheets include all assets and liabilities, and indicate those that are restricted by the Board of Water, Electric & Communications Trustees (the Board). The Statements of Cash Flows report the cash from operating activities, as well as cash from capital and related financing activities, and investing activities.

In 2004, Principal Financial Group, Muscatine Power and Water's (MP&W's) actuarial consulting group for our pension plan, proposed a change to our method of asset valuation. This change allows the difference between the market value of assets and the expected value of assets to be spread over four years to avoid large fluctuations in the annual required contribution.

MP&W's expected rate of return has been 8.0% on pension fund investments. In 2003, the realized rate of return was 15.1%. This increase in return is a result of changing the pension investment policy to allow for investments in equities. Prior to May 2001, Iowa Code allowed MP&W's pension funds to be invested in fixed income securities exclusively. Greater return fluctuation is expected with the new investment policy; therefore, a four-year smoothing method was suggested by Principal Financial Group. The impact for 2004 was to increase the pension contribution from \$590,401 to \$728,752. The difference will offset future year contributions.

Two bills were passed during the 2004 Iowa legislative session that had an impact on MP&W. Provisions of the bills prohibited offering any electric or water billing discounts when the discount is only made available if the customer is a communications utility customer. This affected MP&W's Advantage One program. In addition, as of July 1, 2004, funds or revenue generated from the electric and water utilities are prohibited to be used for loans or grants for the communications utility's operating costs. They are permissible for capital purposes only.

ELECTRIC UTILITY

OVERVIEW

Financial results for the year 2004 have surpassed expectations. The electric utility recorded net income, before a transfer to the extraordinary operation and maintenance account, of \$6.7 million compared to a budgeted net income of \$2.6 million.

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

OVERVIEW (CONT.)

Electric Utility Financial Highlights:

In thousands \$	2004	2003
Cash and Investments	41,362	35,761
Total Capital Assets	160,706	167,945
Total Assets	256,048	258,712
Outstanding Debt	96,365	105,978
Total Net Assets	137,460	137,460
Operating Revenues	61,153	59,380
Operating Expenses	57,808	55,671
Nonoperating Revenues	1,971	2,219
Interest on Long-Term Debt	5,292	5,929
Loss on Land Disposal	24	---
Change in Net Assets	---	---

RESULTS OF OPERATION (As reported in the Statements of Revenues, Expenses, and Changes in Net Assets)

Retail electric sales of \$41.5 million were 3.3% (\$1.3 million) greater than the year 2003. Wholesale electric sales were \$18.1 million for the year, compared to the previous year's sales of \$17.5 million. The improvement in wholesale sales was due to a 2.4% increase in prices (\$0.0304/kWh compared to \$0.0297/kWh), plus 1.0% greater kWh sales.

September 2004 began the fifth year of a 10-year steam sale agreement with MP&W's neighboring plant, Grain Processing Corporation (GPC). Pounds of steam sold to GPC decreased slightly and the price increased from 2003, resulting in an increase of \$50,121 in revenue.

Total 2004 operating expenses were \$2.1 million greater than the prior year's. Production fuel and purchased power was approximately \$329,000 or 1.8% higher than in 2003 due to a larger amount of coal burned. Maintenance expenses for the generation plant (primarily related to the boiler plant) were higher in 2004 by \$1.6 million or 26.0% than in 2003.

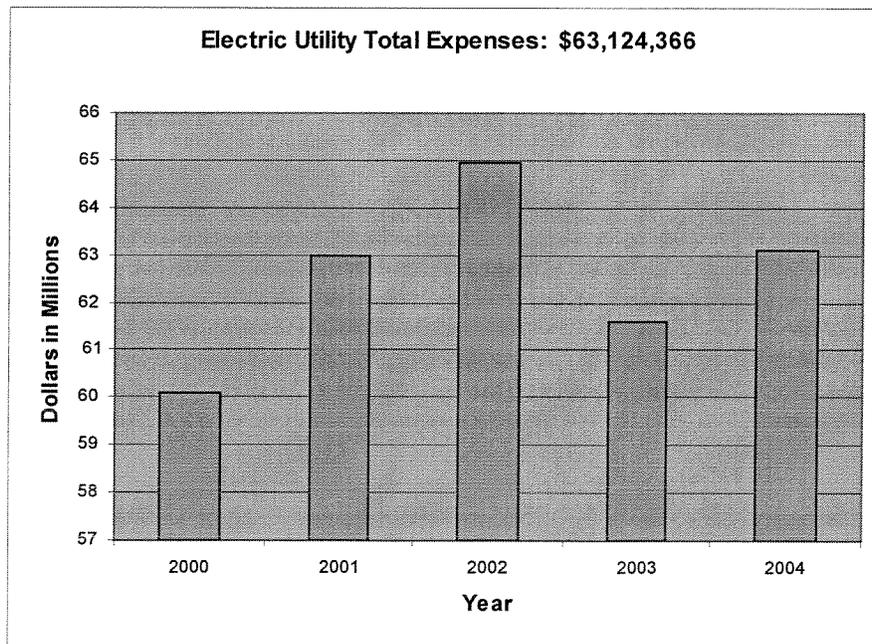
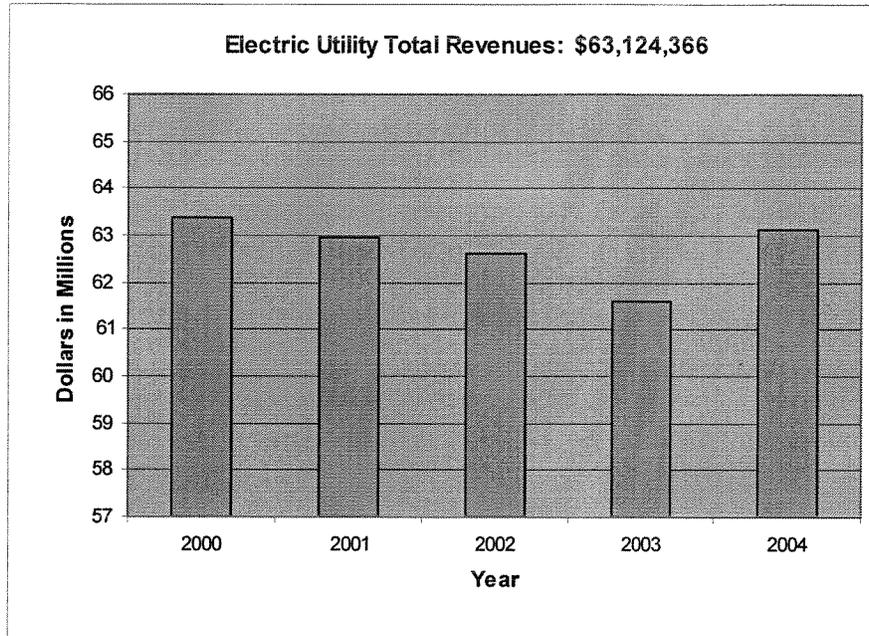
Investment income is greater than last year due to higher investment balances. Mark-to-market adjustments were a negative \$354,398 in 2004 and a negative \$343,784 in 2003. The interest rate on the note receivable from the communications utility loan was lowered from 5.0% to 3.5% beginning January 1, 2004.

Land was transferred to the City of Muscatine for a hiking/biking trail and a park expansion resulting in a loss of \$25,030. Certain substation sites no longer in use were sold and others conveyed to the City of Muscatine resulting in a gain of \$1,015. The net of these transactions is a \$24,014 loss on land disposal.

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

RESULTS OF OPERATION (As reported in the Statements of Revenues, Expenses, and Changes in Net Assets) (cont.)



MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FINANCIAL POSITION (As reported in the Balance Sheets)

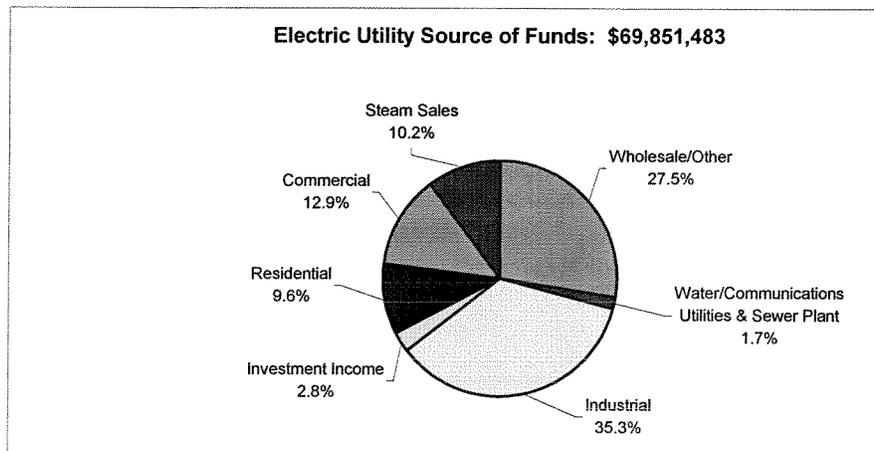
Restricted assets, \$38,216,221 at December 31, 2004, include the rate stabilization fund, the bond sinking fund, and the extraordinary operation & maintenance account. These funds have been set aside for uses specified by the Board or by bond covenants. The increase of \$3,780,005 is mainly due to the transfer of surplus funds to the extraordinary operation & maintenance account from the revenue fund (\$5,720,932) less the transfer from the rate stabilization fund (\$2,549,200) to the surplus fund for partial reimbursement of capital expenditures made during 2004.

Total capital assets represent 62.8% of the total assets. Depreciation less retirements exceeded capital expenditures resulting in a reduction in net utility plant of 4.3%.

The note receivable from the communications utility increased by \$352,000 in June 2004. The loan was made for the communications utility's construction, expansion and operations.

MP&W, the City of Muscatine and Muscatine County organized the Muscatine Area Geographic Information Consortium (MAGIC) under a 28E agreement in December 2001. As a separate entity, MAGIC's purpose is to improve the efficiency and effectiveness of its member organizations through the coordinated development of geographic and land information systems (GIS/LIS) technology and data. Joint venture rights represent MP&W's contributions less amortization.

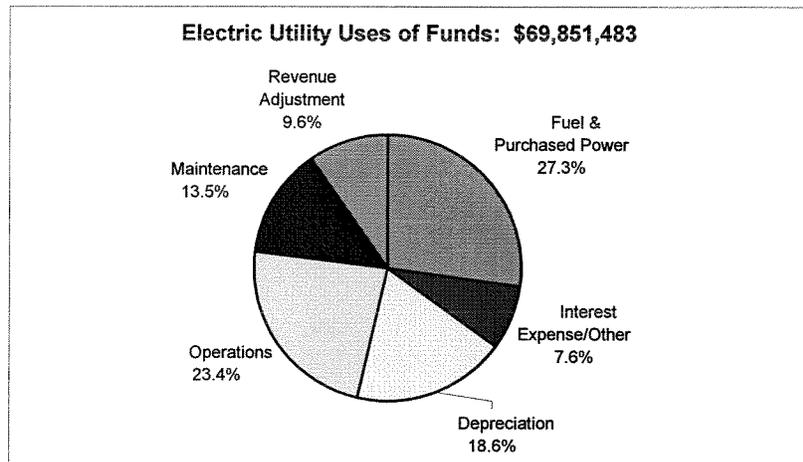
No new debt was issued in the years 2004 or 2003. The debt service coverage ratio, prior to the revenue adjustment, was 1.60 for 2004 and 1.71 for 2003. MP&W's most current bond ratings from Standard & Poor's and Fitch were "A-".



MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FINANCIAL POSITION (As reported in the Balance Sheets) (cont.)



WATER UTILITY

OVERVIEW

The water utility ended the years 2004 and 2003 with positive changes in net assets (\$33,749 in 2004 and \$105,528 in 2003). No price adjustments took place in 2004, however a 5.0% overall increase is effective with water usage starting January 1, 2005. This adjustment is in response to an increase in capital requirements, and a cost-of-service study.

Water Utility Financial Highlights:

In thousands \$	<u>2004</u>	<u>2003</u>
Cash and Investments	2,689	2,842
Total Capital Assets	10,951	9,661
Total Assets	14,251	13,069
Total Net Assets	11,403	11,369
Operating Revenues	3,682	3,697
Operating Expenses	3,722	3,697
Investment Income	77	106
Loss on Land Disposal	3	---
Change in Net Assets	34	106

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

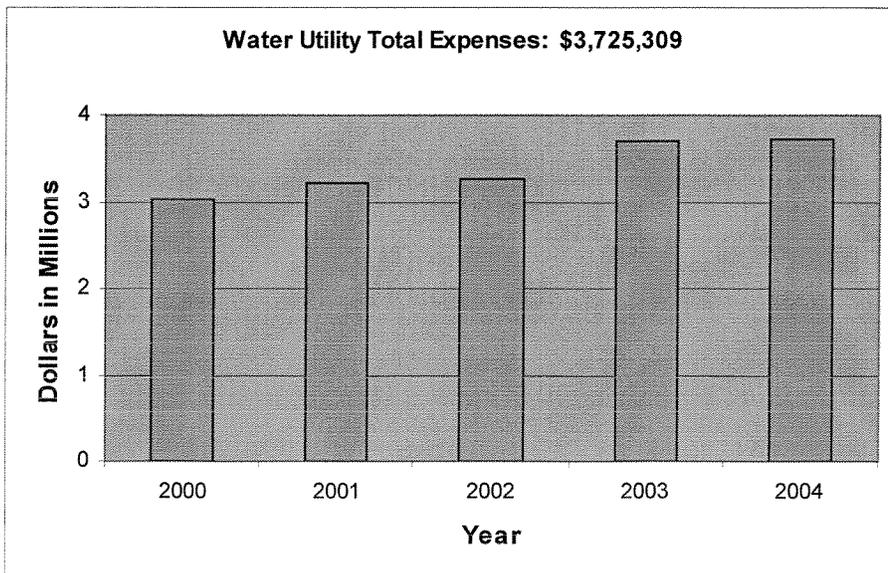
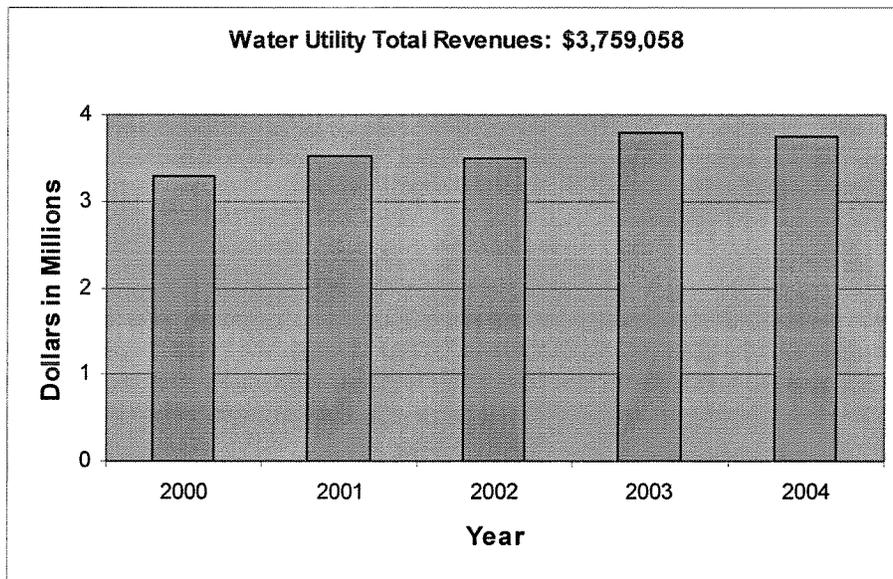
RESULTS OF OPERATION (As Reported in the Statements of Revenues, Expenses, and Changes in Net Assets)

Revenue from water sales for the year 2004 was slightly lower than the previous year (0.3%). Total metered customers usage was 2.2% lower than the year 2003 level. MP&W's two, large industrial customers account for 53.2% of total 2004 water sales.

Maintenance expenses were 11.8% lower than the previous year. In 2004, there were five wells cleaned, compared to fourteen in 2003. Maintenance on purification equipment, mains and hydrants was considerably lower than the prior year due to fewer failures.

Investment income is less than last year due to a negative mark-to-market adjustment of \$8,079 and lower cash and investment balances. The water utility has been debt-free since 1994.

The Iowa Department of Transportation purchased 12 acres of land from MP&W along Highway 61 south (Grandview Well Field) in 2004, which resulted in a loss of \$3,019.



MUSCATINE POWER AND WATER

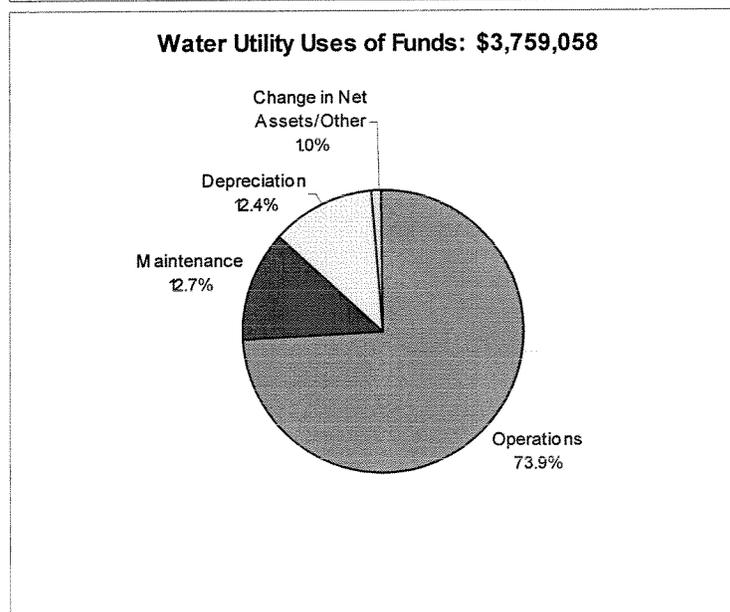
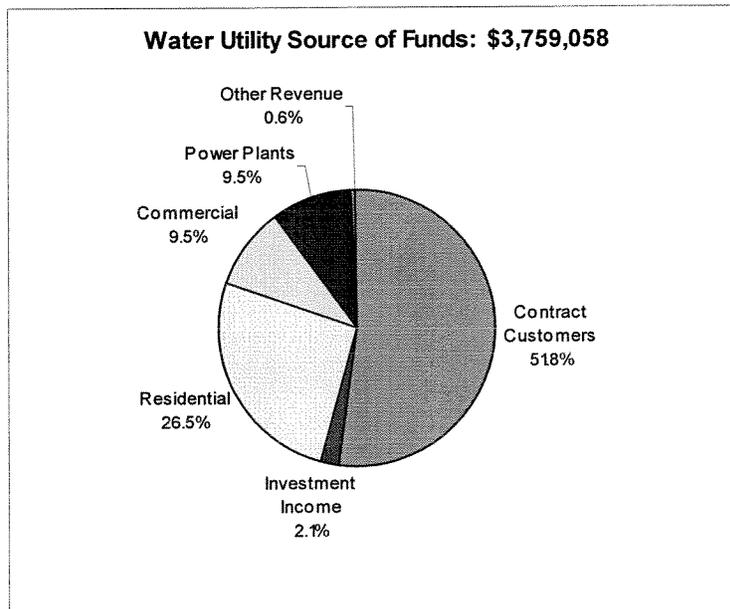
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FINANCIAL POSITION (As reported in the Balance Sheets) (cont.)

Funds appropriated for specific purposes, \$1,518,455 at December 31, 2004, consist entirely of the depreciation, extension, and improvement fund. This fund has been set aside for uses specified by the Board.

Total capital assets represent 76.8% of the total assets. The increase from the prior year is primarily due to the south end water main project (\$1,034,569) that was financed by the City of Muscatine in 2004.

Customer deposits for construction includes the City of Muscatine's contributions for the south end water main project less MP&W's refunds of \$200 for each customer that attached directly to the water main extension; this amount was \$1,027,484 at the end of 2004.



MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

COMMUNICATIONS UTILITY

OVERVIEW

The communications utility posted a net loss of \$2.2 million, which was within 2.7% of the budget. This is an improvement of \$1.0 million, compared to 2003's net loss of \$3.2 million. Total operating revenues were up 9.3% from 2003, while operating expenses were up only 1.5%. The operating results for the communications utility continue to improve.

Price adjustments became effective September 1, 2004 for both CATV and Internet services. Total basic and expanded-basic cable service increased from \$34.75 to \$38.75/month, while cable-modem Internet service decreased from \$40.55 to \$39.00/month, and dial-up Internet service decreased \$3.00/month to \$21.95 monthly. The increase in CATV charges was primarily due to rising programming costs.

Communications Utility Financial Highlights:

In thousands \$	<u>2004</u>	<u>2003</u>
Cash and Investments	1,826	1,353
Total Capital Assets	13,844	15,550
Total Assets	22,947	25,111
Note Payable to electric utility	35,327	34,975
Total Net Deficit - Unrestricted	(13,543)	(11,345)
Operating Revenues	8,032	7,351
Operating Expenses	9,016	8,886
Investment Income	17	35
Interest on Long-Term Debt	1,231	1,730
Change in Net Deficit	(2,198)	(3,230)

RESULTS OF OPERATION (As Reported in the Statements of Revenues, Expenses, and Changes in Net Deficit)

Although the total number of subscribers decreased, 2004 operating revenues were 9.3% greater than the prior year. Basic and expanded-basic cable revenues increased 18.2% as a result of price increases.

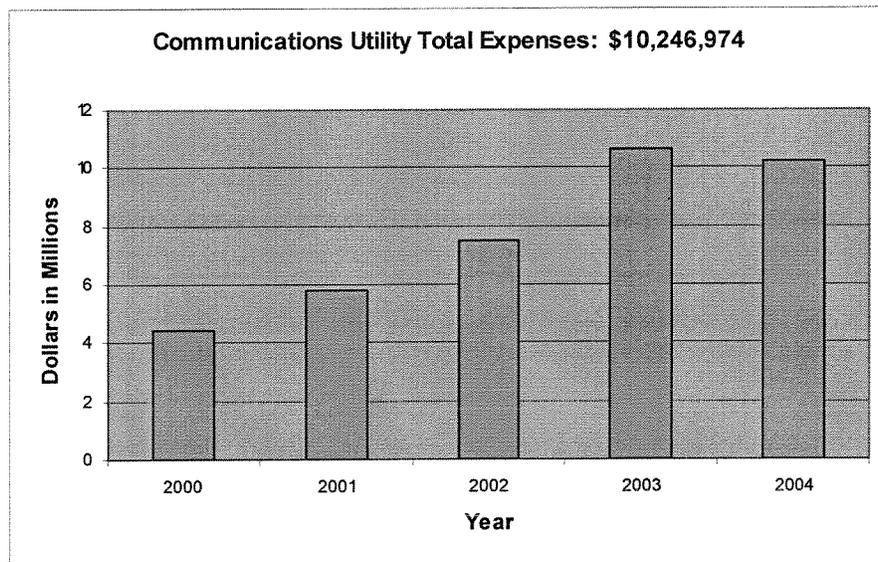
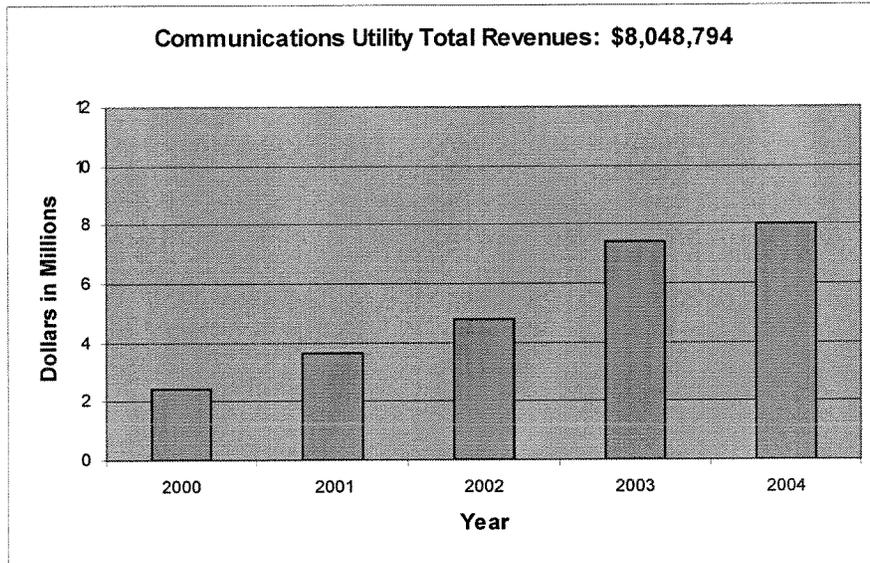
Total 2004 operating expenses were slightly greater than in 2003. Operation expenses were lower than 2003 by \$149,425 or 2.7%. The 2003 operation expenses included \$106,159 for transition services associated with the Mediacom acquisition. Maintenance expenses were 19.9% (\$78,290) more for the year 2004, and depreciation expense was also greater by \$189,570 or 8.9%. Amortization expense is attributable to the acquisition of an Internet customer base in October 2001, which was amortized over a period of 36 months, and the Mediacom acquisition in January 2003, which is being amortized over 10 years.

Investment income is less than last year primarily due to lower cash and investment balances. Interest charges are lower than the previous year due to the change in interest rate from 5.0% to 3.5% on the total loan from the electric utility.

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

RESULTS OF OPERATION (As Reported in the Statements of Revenues, Expenses, and Changes in Net Deficit) (cont.)



MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FINANCIAL POSITION (As Reported in the Balance Sheet)

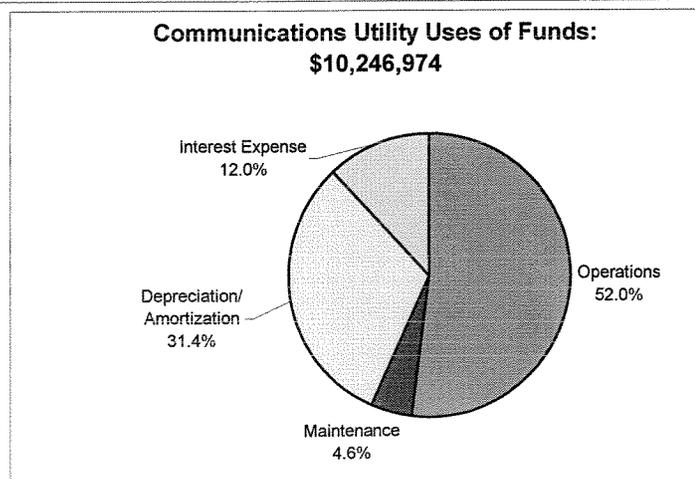
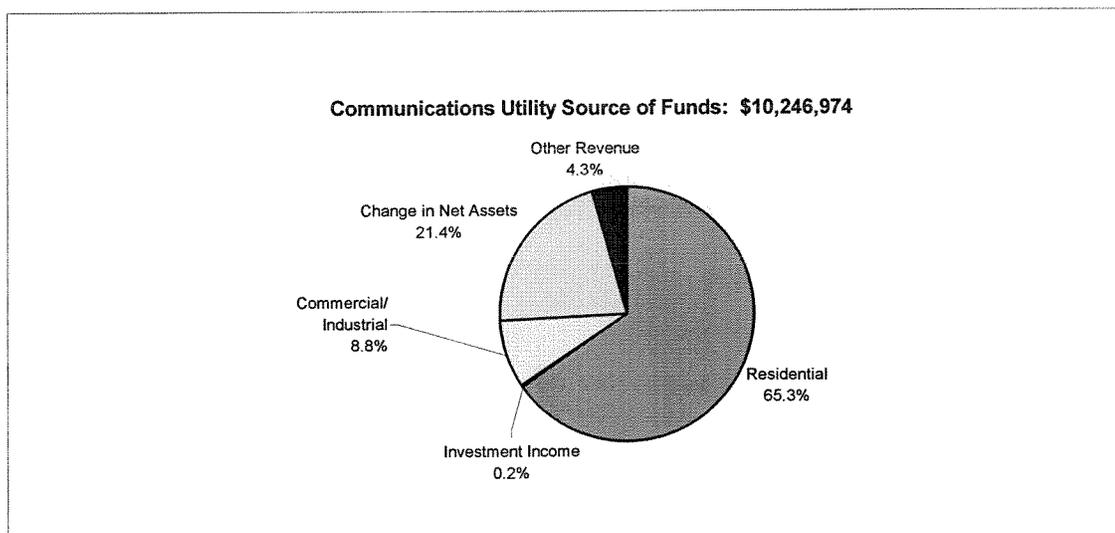
Total capital assets represent 60.3% of the total assets.

The 2004 intangible asset is the unamortized value of the customer base acquired from Mediacom in 2003. The 2003 intangible asset also includes the unamortized value of the Internet customer base acquired in 2001.

The 2003 prepaid expenses included \$124,665 for services to be performed in connection with the Internet customer acquisition of 2001. The 2004 prepaid expenses include \$57,182 for property taxes.

Other long-term obligations in 2003 are those attributable to the customer base acquired in 2001. Final payment occurred in March 2004.

The note payable due to the electric utility increased in June by \$352,000. The loan was made for the expansion and operations of the communications utility. The interest rate on the loan was lowered to 3.5% for 2004. It will be adjusted annually based on the three-year treasury note rate as of the prior July 1.



Electric Utility – Balance Sheets
Follows

**MUSCATINE POWER AND WATER
ELECTRIC UTILITY**

BALANCE SHEETS
December 31, 2004 and 2003

	2004	2003
ASSETS		
CURRENT ASSETS		
Unrestricted Assets		
Cash	\$ 8,161	\$ 9,690
Investments	3,137,752	1,314,990
Receivables:		
Customer accounts, less allowance for doubtful accounts:		
2004 - \$3,400; 2003 - \$4,100	6,775,679	6,676,056
Interest	846,470	1,028,739
Inventories:		
Fuel	4,063,662	5,035,808
Material and supplies	5,588,259	5,523,497
Prepaid and deferred expenses	530,166	631,126
Total Unrestricted Assets	20,950,149	20,219,906
Restricted Assets		
Cash	934	9,019
Investments	38,215,287	34,427,197
Total Restricted Assets	38,216,221	34,436,216
Total Current Assets	59,166,370	54,656,122
NON-CURRENT ASSETS		
Capital assets		
Utility plant in service	375,302,603	370,694,066
Construction work in progress	1,154,391	1,360,634
Less: accumulated depreciation	(215,750,641)	(204,109,929)
Total Capital Assets	160,706,353	167,944,771
Other assets		
Unamortized bond issuance costs	616,833	870,245
Note receivable from communications utility	35,327,000	34,975,000
Joint venture rights	231,305	266,092
Total Other Assets	36,175,138	36,111,337
Total Non-Current Assets	196,881,491	204,056,108
TOTAL ASSETS	\$ 256,047,861	\$ 258,712,230

	<u>2004</u>	<u>2003</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Payable From Unrestricted Assets		
Trade accounts payable	\$ 1,767,502	\$ 1,252,746
Accrued expenses	2,498,884	2,585,245
Customer deposits	537,797	437,455
Total Payable From Unrestricted Assets	<u>4,804,183</u>	<u>4,275,446</u>
Payable From Restricted Assets		
Current portion of long-term debt	11,465,000	10,230,000
Accrued interest payable	2,165,623	2,472,524
Total Payable From Restricted Assets	<u>13,630,623</u>	<u>12,702,524</u>
Total Current Liabilities	<u>18,434,806</u>	<u>16,977,970</u>
NON-CURRENT LIABILITIES		
Long term debt, net of current portion	84,899,551	95,747,873
Deferred revenue	15,253,895	8,526,778
Total Non-Current Liabilities	<u>100,153,446</u>	<u>104,274,651</u>
NET ASSETS		
Invested in capital assets, net of related debt	65,211,987	63,138,327
Restricted	36,050,598	31,963,692
Unrestricted	36,197,024	42,357,590
Total Net Assets	<u>137,459,609</u>	<u>137,459,609</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 256,047,861</u>	<u>\$ 258,712,230</u>

See accompanying notes to financial statements.

**MUSCATINE POWER AND WATER
ELECTRIC UTILITY**

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
For the Years Ended December 31, 2004 and 2003

	2004	2003
OPERATING REVENUES		
Retail electric sales	\$ 41,532,324	\$ 40,201,571
Wholesale electric sales	18,098,433	17,492,815
Steam sales	7,123,240	7,073,119
Other	1,126,371	1,320,529
Total Operating Revenues	67,880,368	66,088,034
OPERATING EXPENSES		
Production fuel and purchased power	19,082,859	18,753,691
Other operating expenses	16,312,817	16,368,674
Maintenance	9,456,911	7,710,967
Depreciation	12,955,818	12,837,263
Total Operating Expenses	57,808,405	55,670,595
Operating Income	10,071,963	10,417,439
NONOPERATING REVENUES (EXPENSES)		
Investment income	740,796	491,900
Interest income on note receivable from communications utility	1,230,319	1,727,594
Interest on long-term debt	(5,291,947)	(5,928,774)
Loss on land disposal	(24,014)	-
Net Nonoperating Expenses	(3,344,846)	(3,709,280)
Net income before deferred revenue	6,727,117	6,708,159
Deferred revenue to be recognized in future periods	(6,727,117)	(6,708,159)
Change in Net Assets	-	-
NET ASSETS AT BEGINNING OF YEAR	137,459,609	137,459,609
NET ASSETS AT END OF YEAR	\$ 137,459,609	\$ 137,459,609

See accompanying notes to financial statements.

Electric Utility – Statements of Cash Flows
Follows

**MUSCATINE POWER AND WATER
ELECTRIC UTILITY**

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2004 and 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from retail electric sales	\$ 41,430,994	\$ 40,290,123
Cash received from wholesale electric sales	18,153,658	17,940,193
Cash received from steam sales	7,154,503	7,021,912
Cash paid for coal	(15,206,853)	(16,285,981)
Cash paid to suppliers	(12,479,357)	(11,106,790)
Cash paid for employee payroll, taxes and benefits	(17,957,172)	(17,763,084)
Reimbursements by related parties for expenses paid	704,281	564,669
Other	2,845,958	2,263,994
Net Cash Flows From Operating Activities	24,646,012	22,925,036
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Loan to communications utility	(352,000)	(875,000)
Interest received note receivable	1,486,471	1,462,569
Net Cash Flows From Noncapital Financing Activities	1,134,471	587,569
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments matured and sold	64,240,460	51,061,285
Investments purchased	(70,327,416)	(56,775,679)
Purchase of joint venture rights	(28,427)	(74,571)
Interest received on investments	1,185,539	957,363
Accrued interest purchased	(42,521)	(1,692)
Net Cash Flows From Investing Activities	(4,972,365)	(4,833,294)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(5,967,964)	(4,498,458)
Proceeds from sale of assets	18,378	32,931
2002 bond issue costs	-	(5,231)
Bond principal payments	(10,230,000)	(9,650,000)
Bond interest payments	(4,638,146)	(4,582,028)
Net Cash Flows From Capital and Related Financing Activities	(20,817,732)	(18,702,786)
Net Decrease in Cash and Cash Equivalents	(9,614)	(23,475)
CASH AND CASH EQUIVALENTS - Beginning of Year		
Current unrestricted cash	9,690	16,390
Current restricted cash	9,019	25,794
	18,709	42,184
CASH AND CASH EQUIVALENTS - END OF YEAR		
Current unrestricted cash	8,161	9,690
Current restricted cash	934	9,019
	\$ 9,095	\$ 18,709

	<u>2004</u>	<u>2003</u>
RECONCILIATION OF OPERATING INCOME TO NET		
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 10,071,963	\$ 10,417,439
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation of electric utility plant	12,955,818	12,837,263
Amortization of joint venture rights	63,213	45,718
Changes in assets and liabilities:		
Customer accounts receivable	(99,623)	(443,893)
Other receivables	-	227,760
Inventories	907,384	(598,663)
Prepaid and deferred expenses	53,127	10,804
Trade accounts payable	722,929	98,601
Accrued expenses	(129,141)	219,102
Customer deposits	<u>100,342</u>	<u>110,905</u>
 NET CASH FLOWS FROM OPERATING ACTIVITIES	 <u>\$ 24,646,012</u>	 <u>\$ 22,925,036</u>
 SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES		
Unrealized loss in investments	\$ (476,105)	\$ (423,553)
Amortization of bond discounts/premium, deferred loss on debt refunding and bond issue costs	917,922	962,690
Unpaid capital expenditures	179,821	387,994

See accompanying notes to financial statements.

Water Utility – Balance Sheets
Follows

**MUSCATINE POWER AND WATER
WATER UTILITY**

BALANCE SHEETS
December 31, 2004 and 2003

	2004	2003
ASSETS		
CURRENT ASSETS		
Unrestricted Assets		
Cash	\$ 2,365	\$ 10,226
Investments	1,167,795	1,303,996
Receivables:		
Customer accounts, less allowance for doubtful accounts:		
2004 - \$500; 2003 - \$400	430,641	374,634
Interest	1,023	4,542
Inventories	170,198	176,851
Prepaid and deferred expenses	9,292	9,842
Total Unrestricted Assets	1,781,314	1,880,091
Restricted Assets		
Cash	-	613
Investments	1,518,455	1,527,000
Total Restricted Assets	1,518,455	1,527,613
Total Current Assets	3,299,769	3,407,704
NON-CURRENT ASSETS		
Capital Assets		
Utility plant in service	18,273,681	16,233,159
Construction work in progress	5,793	415,029
Less: accumulated depreciation	(7,328,144)	(6,987,246)
Total Non-Current Assets	10,951,330	9,660,942
TOTAL ASSETS	\$ 14,251,099	\$ 13,068,646

	<u>2004</u>	<u>2003</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Trade accounts payable	\$ 393,458	\$ 340,432
Customer deposits for construction	2,295,055	1,205,134
Accrued expenses	<u>159,397</u>	<u>153,640</u>
Total Current Liabilities	<u>2,847,910</u>	<u>1,699,206</u>
NET ASSETS		
Invested in capital assets	8,656,275	8,455,808
Restricted	1,518,455	1,527,613
Unrestricted	<u>1,228,459</u>	<u>1,386,019</u>
Total Net Assets	<u>11,403,189</u>	<u>11,369,440</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,251,099</u>	<u>\$ 13,068,646</u>

See accompanying notes to financial statements.

**MUSCATINE POWER AND WATER
WATER UTILITY**

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
For the Years Ended December 31, 2004 and 2003

	2004	2003
OPERATING REVENUES		
Water sales	\$ 3,660,306	\$ 3,672,032
Other	21,400	24,543
Total Operating Revenues	3,681,706	3,696,575
 OPERATING EXPENSES		
Operations	2,778,850	2,711,457
Maintenance	478,380	542,149
Depreciation	465,060	443,208
Total Operating Expenses	3,722,290	3,696,814
 Operating Loss	(40,584)	(239)
 NONOPERATING REVENUES (EXPENSES)		
Investment income	77,352	105,767
Loss on land disposal	(3,019)	-
Net Nonoperating Revenues	74,333	105,767
 Change in Net Assets	33,749	105,528
 NET ASSETS AT BEGINNING OF YEAR	11,369,440	11,263,912
 NET ASSETS AT END OF YEAR	\$ 11,403,189	\$ 11,369,440

See accompanying notes to financial statements.

Water Utility – Statements of Cash Flows
Follows

**MUSCATINE POWER AND WATER
WATER UTILITY**

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2004 and 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from water sales	\$ 3,674,272	\$ 3,628,877
Cash paid to suppliers	(1,528,342)	(1,955,970)
Cash paid for employee payroll, taxes and benefits	(1,647,658)	(1,388,469)
Other	(78,708)	42,507
Net Cash Flows From Operating Activities	419,564	326,945
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments matured and sold	3,759,994	741,599
Investments purchased	(3,623,328)	(264,994)
Interest received on investments	101,117	106,192
Accrued interest purchased	(12,166)	(414)
Net Cash Flows From Investing Activities	225,617	582,383
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(777,626)	(899,107)
Proceeds from sale of assets	123,971	-
Net Cash Flows From Capital and Related Financing Activities	(653,655)	(899,107)
Net Increase (Decrease) in Cash and Cash Equivalents	(8,474)	10,221
CASH AND CASH EQUIVALENTS - Beginning of Year		
Current unrestricted cash	10,226	604
Current restricted cash	613	14
	10,839	618
CASH AND CASH EQUIVALENTS - END OF YEAR		
Current unrestricted cash	2,365	10,226
Current restricted cash	-	613
	\$ 2,365	\$ 10,839

	<u>2004</u>	<u>2003</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$ (40,584)	\$ (239)
Adjustments to reconcile operating loss to net cash flows from operating activities		
Depreciation of water utility plant	465,060	443,208
Changes in assets and liabilities:		
Customer accounts receivable	(56,007)	(56,533)
Inventories	6,653	(3,823)
Prepaid and deferred expenses	550	4,523
Trade accounts payable	71,046	(22,754)
Accrued expenses	5,757	27,448
Customer deposits for construction	(32,911)	(64,885)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 419,564</u>	<u>\$ 326,945</u>

**SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND
RELATED FINANCING AND INVESTING ACTIVITIES**

Contributions in aid of construction	\$ 1,122,831	\$ 215,122
Unrealized gain (loss) in investments	(8,080)	1
Loss on land disposal	(3,019)	-
Unpaid capital expenditures	101,257	119,278

See accompanying notes to financial statements.

Communications Utility – Balance Sheets
Follows

**MUSCATINE POWER AND WATER
COMMUNICATIONS UTILITY**

BALANCE SHEETS
December 31, 2004 and 2003

	2004	2003
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,564	\$ 20,332
Investments	1,824,930	1,332,973
Receivables:		
Customer accounts, less allowance for doubtful accounts:		
2004 - \$4,100; 2003 - \$4,000	692,841	668,877
Interest	608	1,085
Inventories	303,156	307,525
Prepaid and deferred expenses	95,592	155,200
Total Current Assets	2,918,691	2,485,992
NON-CURRENT ASSETS		
Capital assets		
Utility plant in service	22,619,401	22,287,367
Construction work in progress	14,307	23,148
Less: accumulated depreciation	(8,789,669)	(6,760,841)
Total Capital Assets	13,844,039	15,549,674
Intangible assets, net of accumulated amortization:		
2004 - \$1,970,450; 2003 - \$1,079,507	6,184,736	7,075,678
Total Non-Current Assets	20,028,775	22,625,352
 TOTAL ASSETS	 \$ 22,947,466	 \$ 25,111,344

	<u>2004</u>	<u>2003</u>
LIABILITIES AND NET DEFICIT		
CURRENT LIABILITIES		
Current portion of other long-term obligations	\$ -	\$ 30,959
Trade accounts payable	306,569	350,327
Accrued interest payable	618,222	874,375
Accrued expenses	<u>238,637</u>	<u>225,465</u>
Total Current Liabilities	<u>1,163,428</u>	<u>1,481,126</u>
NON-CURRENT LIABILITIES		
Note payable to electric utility	<u>35,327,000</u>	<u>34,975,000</u>
Total Non-Current Liabilities	<u>35,327,000</u>	<u>34,975,000</u>
NET DEFICIT - Unrestricted	<u>(13,542,962)</u>	<u>(11,344,782)</u>
TOTAL LIABILITIES AND NET DEFICIT	<u>\$ 22,947,466</u>	<u>\$ 25,111,344</u>

See accompanying notes to financial statements.

**MUSCATINE POWER AND WATER
COMMUNICATIONS UTILITY**

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET DEFICIT
For the Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES		
Cable (CATV)	\$ 5,127,968	\$ 4,507,671
Municipal area network (MAN)	341,928	327,712
Internet	2,517,720	2,475,245
Other	43,971	40,166
Total Operating Revenues	<u>8,031,587</u>	<u>7,350,794</u>
 OPERATING EXPENSES		
Operations	5,331,750	5,481,175
Maintenance	471,225	392,935
Depreciation	2,322,521	2,132,951
Amortization	890,942	879,352
Total Operating Expenses	<u>9,016,438</u>	<u>8,886,413</u>
 Operating Loss	<u>(984,851)</u>	<u>(1,535,619)</u>
 NONOPERATING REVENUES (EXPENSES)		
Investment income	17,207	35,142
Interest on note payable	<u>(1,230,536)</u>	<u>(1,729,543)</u>
Net Nonoperating Expenses	<u>(1,213,329)</u>	<u>(1,694,401)</u>
 Change in Net Deficit	(2,198,180)	(3,230,020)
 NET DEFICIT AT BEGINNING OF YEAR	<u>(11,344,782)</u>	<u>(8,114,762)</u>
 NET DEFICIT AT END OF YEAR	<u><u>\$(13,542,962)</u></u>	<u><u>\$(11,344,782)</u></u>

See accompanying notes to financial statements.

**Communications Utility – Statements of
Cash Flows Follows**

**MUSCATINE POWER AND WATER
COMMUNICATIONS UTILITY**

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2004 and 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from communications sales	\$ 8,011,278	\$ 7,471,820
Cash paid to suppliers	(3,917,651)	(4,964,628)
Cash paid for employee payroll, taxes and benefits	(1,942,963)	(1,518,503)
Other	334,426	174,242
Net Cash Flows From Operating Activities	2,485,090	1,162,931
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments matured and sold	1,577,949	10,616,496
Investments purchased	(2,074,582)	(704,949)
Interest received on investments	29,417	40,493
Accrued interest purchased	(7,058)	(311)
Net Cash Flows From Investing Activities	(474,274)	9,951,729
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(917,379)	(1,345,443)
Proceeds from sale of assets	53,440	-
Proceeds from note payable to electric utility	352,000	875,000
Interest paid to electric utility	(1,486,471)	(1,462,569)
2003 asset purchase	-	(9,000,000)
Payments for other long-term obligations	(30,959)	(160,124)
Contract interest payments	(215)	(1,949)
Net Cash Flows From Capital and Related Financing Activities	(2,029,584)	(11,095,085)
 Net Increase (Decrease) in Cash and Cash Equivalents	(18,768)	19,575
 CASH AND CASH EQUIVALENTS - Beginning of Year	20,332	757
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,564	\$ 20,332

	<u>2004</u>	<u>2003</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$ (984,851)	\$ (1,535,619)
Adjustments to reconcile operating loss to net cash flows from operating activities		
Depreciation of communications utility plant	2,322,521	2,132,951
Amortization of intangible assets	890,942	879,352
Converter/modem write-off	193,039	-
Changes in assets and liabilities:		
Customer accounts receivable	(23,964)	(222,312)
Inventories	4,369	38,880
Prepaid and deferred expenses	59,608	(94,192)
Trade accounts payable	10,254	(97,593)
Accrued expenses	13,172	61,464
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 2,485,090</u>	<u>\$ 1,162,931</u>
SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES		
Unpaid capital expenditures	\$ 23,523	\$ 77,535
Adjustment for Intangible assets acquired with other long-term obligations	-	(90,413)
Unrealized loss in investments	(4,675)	(3,481)

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND BASIS OF ACCOUNTING

Muscatine Power and Water (utility) is a municipal utility serving the City of Muscatine, Iowa and surrounding areas whose rates are set by the Board of Water, Electric, and Communications Trustees (Board). The electric utility is engaged in the generation, transmission, and distribution of electric power and energy and other related activities. The water utility is engaged in the supply, purification, and distribution of water and other related activities. The communications utility is engaged in providing cable, Internet, and network services and other related activities. The equity of the utility is vested in the City of Muscatine, Iowa. The utility follows the accounting practices prescribed for regulated enterprises under accounting principles generally accepted in the United States of America applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," the utility applies all GASB pronouncements as well as the Financial Accounting Standards Board (and its predecessors) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. In addition, the electric and water utilities meet the criteria and, accordingly, follow the accounting and reporting requirements of Statement of Financial Accounting Standards (FAS) No. 71, "Accounting for the Effects of Certain Types of Regulation."

REPORTING ENTITY

The utility is reported as a component unit in the City of Muscatine, Iowa's Comprehensive Annual Financial Report.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place, except when the utility applies the accounting and reporting requirements of FAS 71 in deferring revenues for recognition in future periods or recognition of deferred revenues in the current period.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

OPERATING REVENUES AND EXPENSES

The utility distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the utility's principal ongoing operations. The principal operating revenues of the utility 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 nonoperating revenues and expenses.

Revenues are recorded as services are rendered to customers. The electric and water utilities' revenues do not include unbilled revenues for services rendered only to certain residential and small commercial customers from the date of the last meter reading to year-end. The communications utility's revenues include amounts billed to customers for cable and Internet services provided, installations, advertising and other services. Revenues from cable and Internet services, installation, and other services are recognized when the services are provided to the customers. Advertising sales are recognized in the period that the advertisements are exhibited. The communications utility's revenues do not include unbilled revenues for service rendered only to certain residential and small commercial customers from the date of their previous bill's generation to year-end.

CAPITAL ASSETS

Capital assets are stated at original cost, which includes the cost of contracted services, material, labor, overhead and, on significant projects, an allowance for borrowed funds used during construction.

Capital assets are generally defined by the utilities as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year.

Replacements and betterments of depreciable property units are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred. At the time depreciable property units are retired, the original cost of the unit less salvage are charged to the accumulated provision for depreciation.

Depreciation of capital assets is provided using the straight-line method over the estimated useful lives of the respective assets. The composite depreciation rates for 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Electric Utility		
Generation plant	3.3%	3.3%
Transmission and distribution plant	3.8	3.8
General plant	7.3	7.5

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

CAPITAL ASSETS (cont.)

Water Utility

Source of supply	3.3%	3.3%
Pumping equipment	3.3	3.3
Purification system	2.7	2.7
Distribution system	2.2	2.2
General plant	10.9	11.0

Communications Utility

CATV	10.4%	11.2%
Data/Internet	13.6	13.9
MAN	8.2	8.2
General plant	10.9	11.8

On an ongoing basis, the utility reviews capital assets for impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. If such events or changes in circumstances occur, the utility will recognize an impairment loss. No such loss was recognized in 2004 or 2003.

CASH AND INVESTMENTS

The utility's deposits at year-end were covered by federal depository insurance and the Iowa State Public Sinking Fund.

State statute, the 1992 bond resolution and the utility's written investment policy authorize the utility to invest in certain certificates of deposit, interest bearing savings accounts, money market accounts, obligations of the United States of America or any of its agencies and instrumentalities, prime bankers' acceptances, commercial paper and perfected repurchase agreements. The utility's written investment policy provides additional guidelines as to portfolio mix, maturity and quality of investments.

Investments consist primarily of U.S. Treasury obligations, Federal agency obligations and certificates of deposit. Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income.

INVENTORIES

Inventories consist of fuel (coal) and materials and supplies valued at weighted-average cost. Materials and supplies are generally used for construction, operation and maintenance work, not for resale.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

AMORTIZATION OF DEBT DISCOUNTS/PREMIUMS AND BOND ISSUANCE COSTS

Debt discounts/premiums and bond issuance costs are being amortized over the life of the bonds using the effective interest method.

COMPENSATED ABSENCES

Under terms of employment, employees are granted vacation in varying amounts. Only benefits considered to be vested are disclosed in these statements.

CUSTOMER DEPOSITS FOR CONSTRUCTION

Customer deposits for construction are recorded as water utility plant and deposits at the time the asset is contributed to the utility. The utility reimburses the customer by annually refunding 50% of the customers' (who are connected to the water main) water utility bill over a contracted period of time. At the end of the contract, any remaining liability is reclassified as a reduction of the cost of the water utility plant.

DEFERRED REVENUE

The Board may, at its discretion, set aside earnings that have exceeded financial performance targets in order to help maintain stability in the utility's long-term rate structure. These earnings may be used for extraordinary operating expenses when deemed necessary by the Board. The Board approved the deferral of revenue and a reservation of assets equal to net earnings prior to such deferral for 2004.

INCOME TAX STATUS

The utility is exempt from federal and state income taxes under the applicable tax codes.

NET ASSETS

GASB 34 requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

NET ASSETS (cont.)

Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

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

When both restricted and unrestricted resources are available for use for the same purpose, it is the utility's policy to use restricted resources first, then unrestricted resources as they are needed.

The following calculation supports the electric net assets invested in capital assets, net of related debt:

	<u>2004</u>	<u>2003</u>
Plant in Service	\$ 375,302,603	\$ 370,694,066
Construction Work in Progress	1,154,391	1,360,634
Accumulated Depreciation	<u>(215,750,641)</u>	<u>(204,109,929)</u>
Sub-Total	<u>160,706,353</u>	<u>167,944,771</u>
Less Capital Related Debt		
Current portion of capital related long term debt	11,465,000	10,230,000
Long-term portion of capital related long term debt	85,625,000	97,090,000
Unamortized debt issuance costs	(616,833)	(870,245)
Current portions of unamortized debt issuance costs	(253,352)	(301,184)
Unamortized debt premium	1,819,898	2,156,330
Unamortized loss on advance refunding	<u>(2,545,347)</u>	<u>(3,498,457)</u>
Sub-Total	<u>95,494,366</u>	<u>104,806,444</u>
Total Net Assets Invested in Capital Assets, Net of related debt	<u>\$ 65,211,987</u>	<u>\$ 63,138,327</u>

The following calculation supports the water net assets invested in capital assets:

	<u>2004</u>	<u>2003</u>
Plant in Service	\$ 18,273,681	\$ 16,233,159
Construction Work in Progress	5,793	415,029
Accumulated Depreciation	<u>(7,328,144)</u>	<u>(6,987,246)</u>
Sub-Total	<u>10,951,330</u>	<u>9,660,942</u>
Less: Capital Related Debt		
Customer deposits for construction	<u>2,295,055</u>	<u>1,205,134</u>
Total Net Assets Invested in Capital Assets	<u>\$ 8,656,275</u>	<u>\$ 8,455,808</u>

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2004 and 2003

NOTE 2 – CAPITAL ASSETS

ELECTRIC UTILITY

A summary of changes in electric capital assets for 2004 follows:

	Beginning Balance	Additions/ Reclassifications	Retirements	Transfers	Ending Balance
Land and land rights ⁽¹⁾	\$ 1,923,869	\$ -	\$ (42,393)	\$ -	\$ 1,881,476
Generation plant	305,581,352	51,943	(1,024,109)	4,005,828	308,615,014
Transmission and distribution plant	46,470,893	629,117	(314,276)	1,003,378	47,789,112
General plant	16,717,952	147,113	(248,147)	400,083	17,017,001
Total Utility Plant in Service	370,694,066	828,173	(1,628,925)	5,409,289	375,302,603
Construction work in progress ⁽¹⁾	1,360,634	5,203,046	-	(5,409,289)	1,154,391
Total Electric Utility Plant	372,054,700	\$ 6,031,219	\$ (1,628,925)	\$ -	376,456,994
Less: Accumulated depreciation:					
Generation plant	166,506,832	9,962,916	(746,192)	-	175,723,556
Transmission and distribution plant	27,972,732	1,775,868	(347,807)	-	29,400,793
General plant	8,969,877	1,217,034	(221,107)	-	9,965,804
Unallocated contributions in aid of construction	660,488	-	-	-	660,488
Total Accumulated Depreciation	204,109,929	\$ 12,955,818	\$ (1,315,106)	\$ -	215,750,641
Net Electric Capital Assets	\$ 167,944,771				\$ 160,706,353

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE 2 – CAPITAL ASSETS (cont.)

ELECTRIC UTILITY (cont.)

A summary of changes in electric capital assets for 2003 follows:

	Beginning Balance	Additions/ Reclassifications	Retirements	Transfers	Ending Balance
Land and land rights ⁽¹⁾	\$ 1,923,869	\$ -	\$ -	\$ -	\$ 1,923,869
Generation plant	303,022,147	14,432	(668,299)	3,213,072	305,581,352
Transmission and distribution plant	44,892,937	576,419	(111,080)	1,112,617	46,470,893
General plant	16,436,467	86,637	(473,958)	668,806	16,717,952
Total Utility Plant in Service	366,275,420	677,488	(1,253,337)	4,994,495	370,694,066
Construction work in progress ⁽¹⁾	2,255,994	4,099,135	-	(4,994,495)	1,360,634
Total Electric Utility Plant	368,531,414	\$ 4,776,623	\$ (1,253,337)	\$ -	372,054,700
Less: Accumulated depreciation:					
Generation plant	157,274,606	9,900,525	(668,299)	-	166,506,832
Transmission and distribution plant	26,359,678	1,724,134	(111,080)	-	27,972,732
General plant	8,143,375	1,300,460	(473,958)	-	8,969,877
Unallocated contributions in aid of construction	660,488	-	-	-	660,488
Total Accumulated Depreciation	192,438,147	\$ 12,925,119	\$ (1,253,337)	\$ -	204,109,929
Net Electric Capital Assets	\$ 176,093,267				\$ 167,944,771

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE 2 – CAPITAL ASSETS (cont.)

WATER UTILITY

A summary of changes in water capital assets for 2004 follows:

	Beginning Balance	Additions/ Reclassifications	Retirements	Transfers	Ending Balance
Land and land rights ⁽¹⁾	\$ 1,150,635	\$ -	\$ (126,989)	\$ 28,675	\$ 1,052,321
Source of supply	1,447,542	-	-	-	1,447,542
Pumping equipment	1,037,491	16,344	(26,130)	84,867	1,112,572
Purification equipment	976,036	7,743	-	17,094	1,000,873
Distribution system	10,474,232	284,466	(30,004)	1,729,443	12,458,137
General plant	1,147,223	11,348	(91,802)	135,467	1,202,236
Total Utility Plant in Service	16,233,159	319,901	(274,925)	1,995,546	18,273,681
Construction work in progress ⁽¹⁾	415,029	1,586,310	-	(1,995,546)	5,793
Total Water Utility Plant	16,648,188	\$ 1,906,211	\$ (274,925)	\$ -	18,279,474
Less: Accumulated depreciation:					
Source of supply	842,089	48,252	-	-	890,341
Pumping equipment	484,521	33,888	(26,131)	-	492,278
Purification system	556,340	26,052	-	-	582,392
Distribution system	4,186,430	232,140	(29,114)	-	4,389,456
General plant	917,866	124,728	(68,917)	-	973,677
Total Accumulated Depreciation	6,987,246	\$ 465,060	\$ (124,162)	\$ -	7,328,144
Net Water Capital Assets	\$ 9,660,942				\$ 10,951,330

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2004 and 2003

NOTE 2 – CAPITAL ASSETS (cont.)

WATER UTILITY (cont.)

A summary of changes in water capital assets for 2003 follows:

	Beginning Balance	Additions/ Reclassifications	Retirements	Transfers	Ending Balance
Land and land rights ⁽¹⁾	\$ 1,150,635	\$ -	\$ -	\$ -	\$ 1,150,635
Source of supply	1,446,849	-	-	693	1,447,542
Pumping equipment	997,131	31,823	(970)	9,507	1,037,491
Purification equipment	970,331	5,705	-	-	976,036
Distribution system	9,840,081	250,557	(38,543)	422,137	10,474,232
General plant	<u>1,070,213</u>	<u>24,833</u>	<u>(1,275)</u>	<u>53,452</u>	<u>1,147,223</u>
Total Utility Plant in Service	15,475,240	312,918	(40,788)	485,789	16,233,159
Construction work in progress ⁽¹⁾	<u>26,593</u>	<u>874,225</u>	<u>-</u>	<u>(485,789)</u>	<u>415,029</u>
Total Water Utility Plant	<u>15,501,833</u>	<u>\$ 1,187,143</u>	<u>\$ (40,788)</u>	<u>\$ -</u>	<u>16,648,188</u>
Less: Accumulated depreciation:					
Source of supply	793,861	48,228	-	-	842,089
Pumping equipment	452,851	32,640	(970)	-	484,521
Purification system	530,432	25,908	-	-	556,340
Distribution system	4,006,009	218,963	(38,542)	-	4,186,430
General plant	<u>845,043</u>	<u>74,099</u>	<u>(1,276)</u>	<u>-</u>	<u>917,866</u>
Total Accumulated Depreciation	<u>6,628,196</u>	<u>\$ 399,838</u>	<u>\$ (40,788)</u>	<u>\$ -</u>	<u>6,987,246</u>
Net Water Capital Assets	<u>\$ 8,873,637</u>				<u>\$ 9,660,942</u>

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2004 and 2003

NOTE 2 – CAPITAL ASSETS (cont.)

COMMUNICATIONS UTILITY

A summary of changes in communications capital assets for 2004 follows:

	Beginning Balance	Additions/ Reclassifications	Retirements	Transfers	Ending Balance
CATV	\$ 14,476,616	\$ 407,296	\$ (403,751)	\$ 44,825	\$ 14,524,986
Data/Internet	2,787,432	215,541	(77,914)	747	2,925,806
MAN	4,196,856	3,111	-	-	4,199,967
General plant	<u>826,463</u>	<u>41,271</u>	<u>(17,505)</u>	<u>118,413</u>	<u>968,642</u>
Total Utility Plant in Service	22,287,367	667,219	(499,170)	163,985	22,619,401
Construction work in progress ⁽¹⁾	<u>23,148</u>	<u>155,144</u>	<u>-</u>	<u>(163,985)</u>	<u>14,307</u>
Total Communications Utility Plant	22,310,515	<u>\$ 822,363</u>	<u>\$ (499,170)</u>	<u>\$ -</u>	22,633,708
Less: Accumulated depreciation	<u>6,760,841</u>	<u>\$ 2,322,524</u>	<u>\$ (293,696)</u>	<u>\$ -</u>	<u>8,789,669</u>
Net Communications Capital Assets	<u>\$ 15,549,674</u>				<u>\$ 13,844,039</u>

A summary of changes in communications capital assets for 2003 follows:

	Beginning Balance	Additions/ Reclassifications	Retirements	Transfers	Ending Balance
CATV	\$ 12,232,018	\$ 947,076	\$ (30,478)	\$ 1,328,000	\$ 14,476,616
Data/Internet	2,395,492	439,930	(110,688)	62,698	2,787,432
MAN	4,158,345	33,440	-	5,071	4,196,856
General plant	<u>745,660</u>	<u>5,483</u>	<u>(38,779)</u>	<u>114,099</u>	<u>826,463</u>
Total Utility Plant in Service	19,531,515	1,425,929	(179,945)	1,509,868	22,287,367
Construction work in progress ⁽¹⁾	<u>237,391</u>	<u>1,295,625</u>	<u>-</u>	<u>(1,509,868)</u>	<u>23,148</u>
Total Communications Utility Plant	19,768,906	<u>\$ 2,721,554</u>	<u>\$ (179,945)</u>	<u>\$ -</u>	22,310,515
Less: Accumulated depreciation	<u>4,683,951</u>	<u>\$ 2,256,835</u>	<u>\$ (179,945)</u>	<u>\$ -</u>	<u>6,760,841</u>
Net Communications Capital Assets	<u>\$ 15,084,955</u>				<u>\$ 15,549,674</u>

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2004 and 2003

NOTE 3 – RESTRICTED ASSETS

Restricted assets represent amounts set aside under the terms of the bond resolutions relating to the utility's revenue bonds or by the Board. In accordance with the covenants of the bond resolutions, the amounts have been segregated into various funds or accounts. The rate stabilization fund and the depreciation, extension, and improvement fund may be used for capital or other funding requirements, and the extraordinary operation and maintenance account may be used for extraordinary operating expenses at the discretion of the Board. The composition of the restricted assets at December 31, 2004 and 2003 is as follows:

	Electric Utility		Water Utility	
	2004	2003	2004	2003
Restricted Assets:				
Bond sinking fund	\$ 13,630,659	\$ 12,706,925	\$ -	\$ -
Depreciation, extension and improvement fund	-	-	1,518,455	1,527,613
Rate stabilization fund	10,468,962	13,650,146	-	-
Extraordinary operation and maintenance account	<u>14,116,600</u>	<u>8,079,145</u>	-	-
Total Restricted Assets	<u>\$ 38,216,221</u>	<u>\$ 34,436,216</u>	<u>\$ 1,518,455</u>	<u>\$ 1,527,613</u>

NOTE 4 – LONG-TERM OBLIGATIONS

LONG-TERM OBLIGATIONS SUMMARY - ELECTRIC

The following revenue bonds have been issued:

Issue Date	Purpose
October 2, 2001	Advance Refunding of a portion of the 1992 Series bonds
November 25, 2002	Advance Refunding of a portion of the 1986 Series bonds

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE 4 – LONG-TERM OBLIGATIONS (cont.)

LONG-TERM OBLIGATIONS SUMMARY – ELECTRIC (cont.)

Long-term debt activity for the year ended December 31, 2004:

	Beginning Balance	Additions	Payments/ Amortization/ Reclassifications	Ending Balance
Series 1998 revenue bonds	\$ 10,230,000	\$ -	\$ (10,230,000)	\$ -
Series 2001 revenue bonds	49,090,000	-	-	49,090,000
Series 2002 revenue bonds	48,000,000	-	-	48,000,000
	<u>107,320,000</u>	<u>-</u>	<u>(10,230,000)</u>	<u>97,090,000</u>
Unamortized portion of deferred loss on refundings	(3,498,457)	-	953,110	(2,545,347)
Unamortized portion of revenue bond premiums	2,156,330	-	(336,432)	1,819,898
Total Long-Term Debt	105,977,873	-	(9,613,322)	96,364,551
Less: Current installments	(10,230,000)	-	(1,235,000)	(11,465,000)
Long-Term Debt, Net of Current Portion	95,747,873	-	(10,848,322)	84,899,551
Deferred revenue	8,526,778	6,727,117	-	15,253,895
	<u>95,747,873</u>	<u>6,727,117</u>	<u>(10,848,322)</u>	<u>84,899,551</u>
Non-Current Liabilities	<u>\$ 104,274,651</u>	<u>\$ 6,727,117</u>	<u>\$ (10,848,322)</u>	<u>\$100,153,446</u>

Long-term debt activity for the year ended December 31, 2003:

	Beginning Balance	Additions	Payments/ Amortization/ Reclassifications	Ending Balance
Series 1998 revenue bonds	\$ 19,880,000	\$ -	\$ (9,650,000)	\$ 10,230,000
Series 2001 revenue bonds	49,090,000	-	-	49,090,000
Series 2002 revenue bonds	48,000,000	-	-	48,000,000
	<u>116,970,000</u>	<u>-</u>	<u>(9,650,000)</u>	<u>107,320,000</u>
Unamortized portion of deferred loss on refundings	(4,451,567)	-	953,110	(3,498,457)
Unamortized portion of revenue bond discounts	(7,897)	-	7,897	-
Unamortized portion of revenue bond premiums	2,492,761	-	(336,431)	2,156,330
Total Long-Term Debt	115,003,297	-	(9,025,424)	105,977,873
Less: Current installments	(9,650,000)	-	(580,000)	(10,230,000)
Long-Term Debt, Net of Current Portion	105,353,297	-	(9,605,424)	95,747,873
Deferred revenue	1,818,619	6,708,159	-	8,526,778
	<u>105,353,297</u>	<u>6,708,159</u>	<u>(9,605,424)</u>	<u>95,747,873</u>
Non-Current Liabilities	<u>\$ 107,171,916</u>	<u>\$ 6,708,159</u>	<u>\$ (9,605,424)</u>	<u>\$ 104,274,651</u>

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE 4 – LONG-TERM OBLIGATIONS (cont.)

LONG-TERM OBLIGATIONS SUMMARY – ELECTRIC (cont.)

Long-Term Obligations Maturity Schedule – Electric

The revenue bonds, which rank on a parity with each other, are secured by future net revenues of the electric utility as defined in the bond resolutions. At December 31, 2004 they mature and bear interest as follows:

<u>Maturity Date</u>	<u>Series 2002</u>		<u>Series 2001</u>	
	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
January 1,				
2005	\$ 11,465,000	2.7%		
2006	11,780,000	3.2		
2007	12,160,000	3.6		
2008	12,595,000	4.0		
2009	-		\$ 11,305,000	5.5%
2010	-		11,930,000	5.5
2011	-		12,585,000	5.5
2012	-		13,270,000	5.5
Totals	<u>\$ 48,000,000</u>		<u>\$ 49,090,000</u>	

In prior years, the utility provided for the advance refunding of certain revenue bonds. In connection with these advance refundings, the utility deposited certain amounts in irrevocable trust funds for the repayment of all principal and interest on the advance refunded bonds. The utility is contingently liable for repayment of these bonds, which in the aggregate amounted to \$91,400,000, at December 31, 2004. The bonds and corresponding trust funds are not included on the Balance Sheets at December 31, 2004 and 2003 as the outstanding bonds are considered defeased.

The bond resolutions contain certain covenants, which among others, require the collection, segregation and distribution of utility plant revenue into various segregated funds, place certain restrictions on future borrowing and leasing or disposition of assets, require the maintenance of a minimum debt service coverage ratio, and require that minimum insurance coverage be maintained.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2004 and 2003

NOTE 4 – LONG-TERM OBLIGATIONS (cont.)

LONG-TERM OBLIGATIONS SUMMARY – COMMUNICATIONS

The electric utility has advanced \$35,327,000 to the communications utility for capital improvements and acquisition of a cable television system. The original terms included a 5.0% interest rate. Effective January 1, 2004, an interest rate of 3.5% per annum was approved by the Board through December 31, 2004 to be adjusted on January 1, 2005 and annually thereafter, to reflect the three year treasury note rate as of the prior July 1. The annual rate adjustment will not exceed one-half of one percent per annum and the maximum rate will not exceed five percent. It is anticipated that principal payments will begin in 2007.

Long-term liability activity for the year ended December 31, 2004:

	Beginning Balance	Additions	Payments/ Amortization/ Reclassifications	Ending Balance
Note payable to electric utility	\$ 34,975,000	\$ 352,000	\$ -	\$ 35,327,000
Other long-term obligations	30,959	-	30,959	-
Total Long-Term Liabilities	35,005,959	<u>\$ 352,000</u>	<u>\$ 30,959</u>	35,327,000
Less: Current portion	30,959			-
Long-Term Liabilities, Net of Current Portion	<u>\$ 34,975,000</u>			<u>\$ 35,327,000</u>

Long-term liability activity for the year ended December 31, 2003:

	Beginning Balance	Additions	Payments/ Amortization/ Reclassifications	Ending Balance
Note payable to electric utility	\$ 34,100,000	\$ 875,000	\$ -	\$ 34,975,000
Other long-term obligations	281,496	-	250,537	30,959
Total Long-Term Liabilities	34,381,496	<u>\$ 875,000</u>	<u>\$ 250,537</u>	35,005,959
Less: Current portion	179,636			30,959
Long-Term Liabilities, Net of Current Portion	<u>\$ 34,201,860</u>			<u>\$ 34,975,000</u>

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE 5 – PENSION PLAN

The utility participates in the Muscatine Water and Electric Employees' Pension Plan, a defined benefit plan providing retirement, death and termination benefits to substantially all vested full-time utility employees who are not participants in the Iowa Public Employees' Retirement System (IPERS). For participants hired prior to 9/1/2002, vesting begins at 20% upon completion of two years of service and increases 10% each year thereafter until reaching 100%. For participants hired after 9/1/2002, 100% vesting is attained at the completion of 5 years of service. Benefits are generally equal to 1.5% of the employee's average highest five years of compensation multiplied by credited years of service plus 0.5% of the employee's average highest five years of compensation over their Social Security Covered Compensation, if any, multiplied by credited years of service up to 35 years. Benefit provisions are established under the Plan as adopted by the utility's Board of Trustees. The funding policy is established by the utility's Board of Trustees. All contributions are made by the utility. Employees do not contribute to the Plan.

The 2004 annual pension cost of \$724,234 for the Plan was equal both to the utility's annual required contribution and actual contributions made by the utility. Accordingly, the utility has no net pension obligation at December 31, 2004. The electric, water, and communications utilities' portions of the 2004 Plan contribution were \$622,865, \$36,219, and \$65,150, respectively.

The annual required contribution for 2004 was determined as part of the January 1, 2004 actuarial valuation using the projected unit credit cost method. The actuarial assumptions included; (a) an 8.0% investment rate of return (net of administrative expenses), (b) projected salary increases of 5.0%, and (c) normal retirement age of 65.

Six -Year Trend Information for the entire Plan:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/99	\$ 669,841	100%	\$ -
12/31/00	978,384	100	-
12/31/01	800,513	100	-
12/31/02	673,405	100	-
12/31/03	781,312	100	-
12/31/04	724,234	100	-

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE 5 – PENSION PLAN (cont.)

Schedule of Funding Progress of the entire Plan:

Actuarial Valuation Date	Market Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL/OAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL/OAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/99	\$ 17,170,705	\$ 16,504,311	\$ (666,394)	104.0%	\$ 10,844,361	(6.1)%
01/01/00	17,130,834	18,466,790	1,335,956	92.8	12,265,205	10.9
01/01/01	19,992,994	19,617,557	(375,437)	101.9	12,360,014	(3.0)
01/01/02	23,758,368	21,291,664	(2,466,704)	111.6	13,732,092	(18.0)
01/01/03	26,002,592	23,654,587	(2,348,005)	109.9	14,957,313	(15.7)
01/01/04	28,663,321	25,457,875	(3,205,446)	112.6	15,047,000	(21.3)

The water utility also contributes to IPERS for full time utility employees who have elected not to participate in the Plan sponsored by the utility. IPERS is a cost-sharing multi-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

IPERS members are required to contribute 3.7% of their annual covered salary and the utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The utility's contributions to IPERS for the years ended December 31, 2004 and 2003 were \$28,344 and \$27,111, respectively, equal to the required contributions for those years.

NOTE 6 – SIGNIFICANT CUSTOMERS

Approximately \$21,150,000 or 31% in 2004 and \$20,643,000 or 31% in 2003 of the electric utility's operating revenues were derived from sales to one customer. Approximately \$1,763,000 or 48% in 2004 and \$1,728,000 or 47% in 2003 of the water utility's operating revenues were derived from sales to one customer.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2004 and 2003

NOTE 7 – COMMITMENTS AND CONTINGENCIES

The utility has a coal supply contract for a total contract annual minimum of 500,000 tons of coal for the years 2005 and 2006.

The utility has rail transportation agreements with two separate companies for the delivery of coal through December 31, 2006 and December 31, 2012. The utility's first agreement is for coal shipped from Campbell and Converse Counties, Wyoming to an interchange with the local delivery carrier. The price is subject to an annual adjustment. The utility's minimum requirement is that all tons shipped, up to 1,100,000 tons annually, from Campbell and Converse Counties, Wyoming shall be covered by this agreement. In the event the utility does not meet their minimum requirement, the utility has agreed to pay a per ton penalty for up to 1,100,000 tons annually. The second agreement covers the shipment of coal from the interchange to the utility's electric generating station by the local delivery carrier. The contract rate is determined by the interchange that the train travels through, and is adjusted quarterly. There is no annual minimum tonnage requirement.

The utility has an energy supply agreement to sell 10 megawatts of annual capacity with an 85% minimum load factor through May 31, 2007, and also has contracted to sell 22 megawatts of annual capacity with an 85% minimum load factor through April 30, 2005 to two unaffiliated utilities. The contracts require the delivery of energy only if utility capacity is available or energy can otherwise be acquired by the utility from other sources.

The utility has contracted to sell steam to a local customer. The ten-year agreement began July 1, 2000. The customer is obligated to take a minimum annual quantity of steam each year (2,338,920 kilo pounds). As part of the contract, the utility made capital improvements of approximately \$12 million, which are expected to be recovered in revenues from the customer under the terms of the agreement. If the customer elects to terminate the agreement before the end of the contract, the customer has agreed to reimburse the utility for any unrecovered capital improvements.

NOTE 8 – ENVIRONMENTAL REGULATIONS

All generating units are in compliance with current state and federal regulations. Management anticipates that any additional costs incurred related to on-going compliance with the Clean Air Act will be recovered through rates charged to its customers.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE 9 – RELATED PARTY TRANSACTIONS

The electric utility sold power to the water utility amounting to approximately \$911,100 in 2004 and \$919,200 in 2003. The electric utility sold power to the communications utility amounting to approximately \$15,700 and \$26,600 in 2004 and 2003, respectively. The electric utility purchased water from the water utility amounting to approximately \$358,400 and \$383,700 for 2004 and 2003, respectively. The electric utility purchased Internet service from the communications utility amounting to approximately \$22,800 and \$16,800 for 2004 and 2003, respectively.

The electric utility rents space to the water utility and the communications utility at the Administration/Operations Center. This amounted to \$62,304 in 2004 and \$60,396 in 2003 for the water utility's rent, and \$85,440 in 2004 and \$71,796 in 2003 for the communications utility's rent.

Electric utility amounts receivable from the water utility were \$100,235 and \$103,974 at December 31, 2004 and 2003, respectively. Electric utility amounts payable to the water utility were \$29,367 and \$31,063 at December 31, 2004 and 2003, respectively. Electric utility amounts receivable from the communications utility were \$36,456 and \$26,758 at December 31, 2004 and 2003, respectively. Electric utility amounts payable to the communications utility were not significant at December 31, 2004 and 2003.

Prior to 2001, the electric utility loaned the communications utility \$19,500,000 for the financing of the initial construction and operation of the communications utility. In 2001, an additional \$1,900,000 was approved for the same purpose. In 2002, 2003 and 2004, additional amounts of \$12,700,000, \$875,000 and \$352,000, respectively, were approved for the financing of the expansion and operation of the communications utility, increasing the total loan to \$35,327,000.

Beginning January 1, 2004, the principal amount outstanding of the entire loan bears interest at the rate of 3.5% per annum. The rate will be adjusted each January 1 to reflect the three-year treasury note rate as of the prior July 1, the increase not to exceed 0.5% per annum and the maximum rate not to exceed 5%. The rate beginning January 1, 2005 is 3.03%. Semi-annual payments of interest only are due each January 1 and July 1 until January 1, 2007. Thereafter, in addition to the semi-annual interest payments, annual principal payments based on a 20-year debt service amortization schedule, shall be required on January 1.

All or any portion of such loan may be prepaid at any time by the communications utility without penalty.

At December 31, 2004 and 2003, electric utility interest receivable from the communications utility was \$618,223 and \$874,375, respectively. Interest income on the loan amounted to \$1,230,319 for 2004 and \$1,727,594 for 2003.

Costs incurred on a combined basis among the utilities are allocated to each utility on the basis of either revenues or number of customers.

Members of the Board of Trustees are also officers of companies who are customers of the utility.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2004 and 2003

NOTE 10 – ACQUISITION

On January 3, 2003 the utility acquired a cable television system and the related assets serving subscribers in and around the Cities of Muscatine and Fruitland, Iowa at a price of \$9,000,000. Of this amount, \$7.7 million was considered an intangible asset and is being amortized over 10 years, ending in 2012. Under FAS 142 *“Goodwill and Other Intangible Assets,”* the utility is required to amortize an intangible asset over its useful life if its life is determined to be finite.

NOTE 11 – RISK MANAGEMENT

The utility is exposed to various risks of loss related to destruction of assets and natural disasters. The utility is also exposed to various risks of loss relating to torts, errors and omissions, health, and injuries to employees. The utility purchases commercial insurance for claims related to these risks subject to certain deductibles. Open claims and an estimate for incurred but not reported claims are accrued up to deductible limits.

NOTE 12 – JOINT VENTURES

The utility is a member organization along with the City of Muscatine and the County of Muscatine in a joint venture under Chapter 28E of the Iowa Code to develop and operate the Muscatine Area Geographic Information Consortium (MAGIC). The purpose of MAGIC is to improve the efficiency and effectiveness of its member organizations through the coordinated development of geographic and land information systems technology and data. MAGIC is governed by a six-member board composed of two appointees from each member organization. Each member organization has one vote on all matters. MAGIC's board determines the funding required by each member organization. Each member organization is responsible for one-third of the operating expenses incurred by MAGIC. Upon dissolution of the joint venture, the net assets of MAGIC will be distributed on a prorata basis based on funding. Complete financial statements for MAGIC can be obtained from the Muscatine Power and Water Administration Center, 3205 Cedar Street, Muscatine, Iowa 52761.

The utility does not have an explicit equity interest in the joint venture. The utility has rights to the information systems technology and data and the cost of such rights are amortized over their expected useful life of 26 years. The utility's one-third share of MAGIC's operating expenses is expensed as incurred.

S U P P L E M E N T A L I N F O R M A T I O N

MUSCATINE POWER AND WATER

Schedule of Insurance Coverage

December 31, 2004

Insurer	Type of Coverage	Policy's Expiration Date	Amount of Coverage		
FM Global Insurance Company	All risks:	4/1/2005			
	Named locations		\$ 430,000,000	Blanket	\$ 250,000 Deductible per occurrence
	Gross Earnings-Communications Utility			Included in Blanket	
	Acts of Terrorism-Certified			Included in Blanket	
	Acts of Terrorism-Non Certified		250,000,000		
	Earth movement		100,000,000		
	Flood		100,000,000		All perils, except:
	Miscellaneous unnamed locations		10,000,000		
	Automatic coverage (90 days)		10,000,000		50,000 Administration building
	Errors and omissions		10,000,000		350,000 Unit 9 160 MW steam turbine generator
	Valuable papers and records		10,000,000		25,000 Water treatment plants
	Data Programs or Software		10,000,000		100,000 Mobile equipment (ACV)
	Railroad rolling stock		5,000,000	ACV	250,000 Minimum/\$1.50 per KVA-Transformers
	Accounts receivable		25,000,000		100,000 Railroad rolling stock (ACV)
	Debris Removal		25,000,000		10,000 Miscellaneous unnamed locations
	Demolition & Increased Cost of Construction		25,000,000		250,000 Minimum/48 hr waiting period- Data
	Expediting expense and extra expense		25,000,000		Programs and Software
	Fine arts		25,000,000		
	Transportation		10,000,000		
	Mobile equipment (FKA contractors equipment)		2,500,000	ACV	
	Decontamination costs		1,000,000		
	Professional fees		1,000,000		
	Land and water cleanup		50,000		
Cincinnati Insurance Company	Money & Securities	4/1/2006			100,000 No deductible
Cincinnati Insurance Company	Blanket Fidelity Bond, All Employees except Treasurer	4/1/2006			250,000 No deductible
Cincinnati Insurance Company	Treasurer's Bond	4/1/2006			250,000 No deductible

MUSCATINE POWER AND WATER

Schedule of Insurance Coverage (cont.)

December 31, 2004

Insurer	Type of Coverage	Policy's Expiration Date		Amount of Coverage
Aegis	Excess liability: Premises operations Product liability and completed operations Failure to supply Pollution liability Medical Malpractice Employment practices Emergency assistance agreements Joint venture liability (pro rata ownership) Employers Liability	12/31/2004	\$ 35,000,000	\$ 500,000 Retention
	Fiduciary & employee benefit liability	4/1/2005	20,000,000	250,000 Retention
	Excess workers compensation	12/31/2004	35,000,000	500,000 Each accident SIR

MUSCATINE POWER AND WATER

SCHEDULE OF FINDINGS Year Ended December 31, 2004

PART I – FINDINGS RELATED TO THE FINANCIAL STATEMENTS

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

None.

PART II – OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

- 04-II-A** Official Depositories – A resolution naming official depositories has been approved by the utility. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2004.
- 04-II-B** Certified Budget – Disbursements during the year ended December 31, 2004, did not exceed the amounts budgeted.
- 04-II-C** Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 04-II-D** Travel Expense – No disbursements of utility money for travel expenses of spouses of utility officials or employees were noted.
- 04-II-E** Business Transactions – We noted no business transactions between the utility and utility officials or employees.
- 04-II-F** Bond Coverage – Surety bond coverage of utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 04-II-G** Board Minutes – No transactions were found that we believe should have been approved in the board minutes but were not.
- 04-II-H** Revenue Bonds – The utility has complied with all provisions of the 1998, 2001 and 2002 Bond Covenants. All required payments to the sinking, reserve and improvement funds were made.
- 04-II-I** Deposits and Investments – We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the utilities' investment policy.
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PART III – CODE OF IOWA COMMUNICATIONS LEGISLATION REQUIREMENTS

Nothing came to our attention that the utility was not in compliance with the requirements of the Code of Iowa Communications legislation regarding the subsidization of communications operations by the electric and water utilities.