

MUSCATINE POWER AND WATER

FINANCIAL STATEMENTS

December 31, 2006 and 2005

MUSCATINE POWER AND WATER

TABLE OF CONTENTS December 31, 2006 and 2005

Independent Auditors' Report	1
Management's Discussion and Analysis	2 – 14
Electric Utility	
Balance Sheets	15 – 16
Statements of Revenues, Expenses and Changes in Net Assets	17
Statements of Cash Flows	18 – 19
Water Utility	
Balance Sheets	20 – 21
Statements of Revenues, Expenses and Changes in Net Assets	22
Statements of Cash Flows	23 – 24
Communications Utility	
Balance Sheets	25 – 26
Statements of Revenues, Expenses and Changes in Net Deficit	27
Statements of Cash Flows	28 – 29
Notes to Financial Statements	30 – 52
Supplemental Information	
Schedule of Insurance Coverage	53 – 54
Schedule of Findings	55



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, 2006 and 2005, and for the years then ended as listed in the table of contents. These financial statements are the responsibility of utility 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 audits 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, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 14 is not a required part of the financial statements but is supplementary information required by accounting principals generally accepted in the United States of America. 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.

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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Madison, Wisconsin
March 20, 2007

Virchow, Krause & Company, LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS
MUSCATINE POWER AND WATER

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2006 and 2005

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.

OVERVIEW OF THE FINANCIAL STATEMENTS

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 noncapital financing activities, investing activities, and capital and related financing activities.

UTILITY FINANCIAL ANALYSIS

ELECTRIC UTILITY

The Electric Utility recorded net income of \$8,618,000 compared to a budgeted net income before revenue adjustment of \$4,786,000. Wholesale sales were the primary reason for the better than expected financial performance with \$23,280,000 in revenues for the year, up \$4,433,000 from budget. The strong performance in wholesale sales was due to the power plant's maintenance outage being shorter than planned and beneficial selling by the power marketers.

No price adjustments have been necessary in the Electric Utility since 2002. In the last 16 years, Muscatine Power and Water (MP&W) has had only three price adjustments; one adjustment was a 7% rate reduction. Generation reliability, controlling costs, and recent years' success with selling excess energy have contributed to keeping our rates stable and competitive.

Financial Highlights:

In thousands \$	2006	2005
Cash and Investments	\$ 54,832	\$ 50,639
Total Capital Assets	147,214	153,071
Total Assets	256,903	259,779
Outstanding Debt	73,857	85,353
Deferred Revenue	29,303	29,303
Total Net Assets	146,078	137,460
Operating Revenues	75,236	76,420
Operating Expenses	65,941	59,957
Nonoperating Revenues	3,388	2,106
Interest on Long-Term Debt	4,163	4,757
Capital Contributions	97	237
Net Income before Deferred Revenue	8,618	14,049
Change in Net Assets	8,618	-

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2006 and 2005

UTILITY FINANCIAL ANALYSIS (cont.)

ELECTRIC UTILITY (cont.)

Results of Operation: ***(As reported in the Statements of Revenues, Expenses, and Changes in Net Assets)***

Retail electric sales have remained constant over the last year. Slightly lower kWh's sold in 2006 resulted in approximately \$250,000 lower revenue.

Wholesale electric sales were \$23,280,000 for the year, compared to \$24,947,000 in 2005. Average prices compare as follows: \$38.3/MWh in 2006; and \$44.2/MWh in 2005. MP&W currently employs two energy marketing firms that allow us to market energy over a large geographic area.

September 2006 began the seventh year of a 20-year steam sale agreement with MP&W's industrial customer, Grain Processing Corporation (GPC). The original 10-year agreement was amended in March 2006 to extend the contract for an additional ten years. A combination of an 8.5% higher price per pound offset by 3.3% lower pounds sold resulted in \$361,000 more revenue in 2006.

Operating expenses for 2006 were \$5,984,000 greater than 2005's expenses. Purchased power was \$1,777,000 greater than 2005 due to 23.3% more kWh's being purchased at a 39.1% higher average price. Boiler plant maintenance was \$924,000 greater than in 2005. Coal costs were \$587,000 greater due to both higher price and a greater amount of coal burned. Natural gas expense was \$371,000 greater than 2005, due to nearly three times the usage. This higher usage was necessitated by temporary adverse boiler operating conditions.

Investment income was greater than 2005 due to increasingly higher investment balances and higher interest rates. In addition, the net increase in the fair value of investments was \$405,000 in 2006. Net decrease in the fair value of investments was \$204,000 in 2005. The interest rate on the note receivable from the Communications Utility loan has been adjusted annually since January 1, 2005. The interest rate was 3.53% in 2006 and 3.03% in 2005. In 2006, the Board fixed the interest rate at 3.53%.

Capital contributions for the year 2006 include \$52,000 from the Iowa Department of Transportation for traffic signals, \$23,000 from the City of Muscatine to provide dual power feed to lift stations, and \$13,000 from retail customers for transformers. In 2005, capital contributions include \$171,000 from the Iowa Department of Transportation for traffic signals and \$40,000 from retail customers for service line extensions.

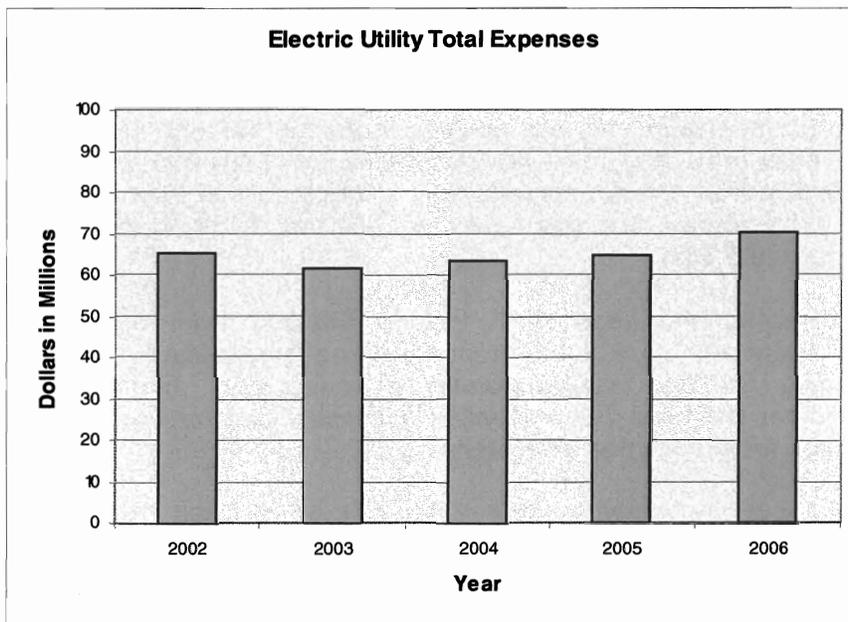
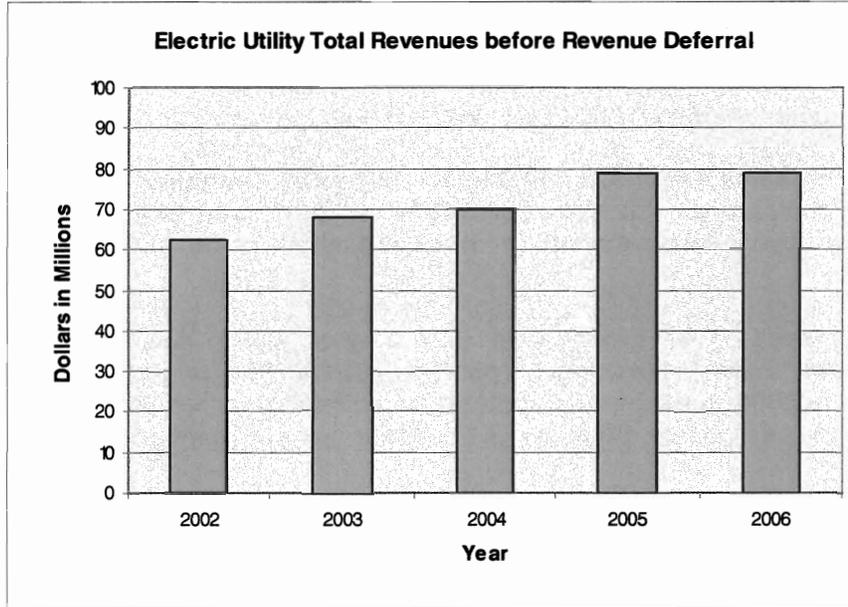
Electric Utility net assets increased by \$8,618,000 or 6.3% in 2006. There was no increase in 2005 due to the deferral of revenue equal to total net income.

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2006 and 2005

UTILITY FINANCIAL ANALYSIS (cont.)

ELECTRIC UTILITY (cont.)



MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2006 and 2005

UTILITY FINANCIAL ANALYSIS (cont.)

ELECTRIC UTILITY (cont.)

Financial Position: (As reported in the Balance Sheets)

Restricted assets, \$49,302,000 at December 31, 2006 and \$46,660,000 at December 31, 2005, 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.

Capital assets represent 57.3% of total assets. Depreciation and retirements exceeded capital expenditures resulting in a reduction in net utility plant of 3.8%.

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 of \$197,000, at December 31, 2006, represent MP&W's contributions less amortization.

Accrued expenses include \$1,130,000 for self-insured health care reserves in excess of claims paid. This is an increase over 2005's health care accrual of \$267,000.

No new debt has been issued since 2002. Long term debt has been reduced by \$11,495,000 and \$11,012,000 in 2006 and 2005, respectively. It is anticipated that MP&W will be debt-free by 2012. MP&W is required by its bond covenants to maintain a debt service coverage of 1.0 times. The debt service coverage ratio was 1.64 times for 2006 and 2.03 times for 2005 (prior to the deferral of revenue in 2005).

After Standard & Poor's review in 2006, MP&W's unenhanced electric revenue bond rating was upgraded from "A-" to "A". This rating indicates that the bonds are of investment grade quality. Fitch Ratings is also in the process of reviewing MP&W's bond rating. Currently MP&W's bond rating with Fitch Ratings is "A-". However, the outstanding bonds continue to be rated "AAA" by both agencies due to the municipal bond insurance policy issued by American Municipal Bond Assurance Corporation.

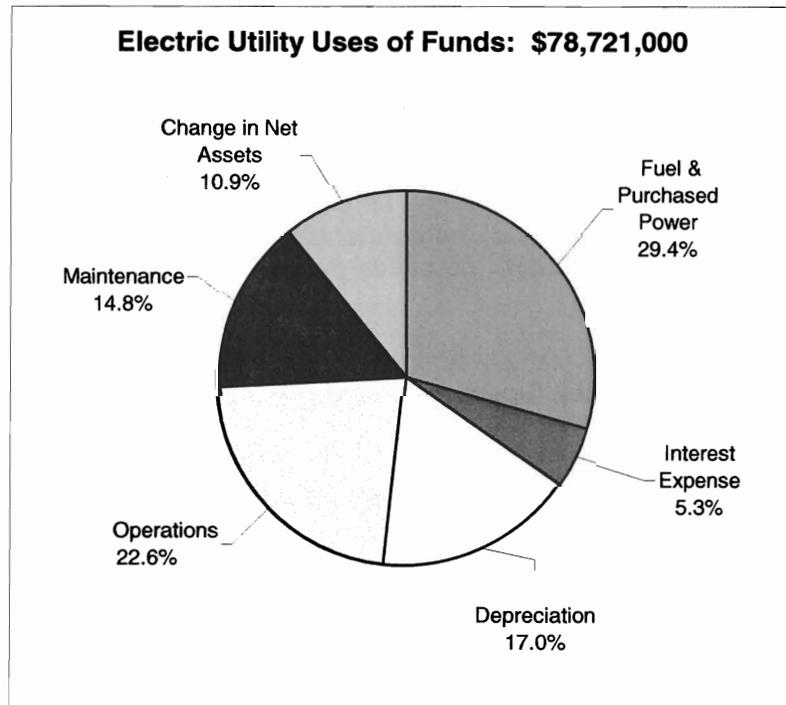
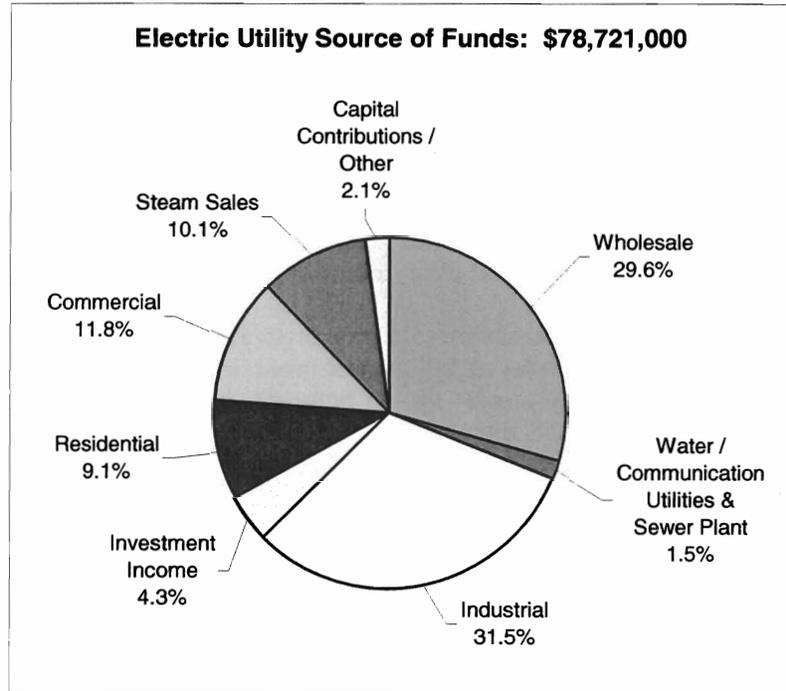
No additional revenue deferral took place in 2006. The deferred revenue amount of \$29,303,000 may be used at the Board's discretion for extraordinary operating expenses.

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2006 and 2005

UTILITY FINANCIAL ANALYSIS (cont.)

ELECTRIC UTILITY (cont.)



MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2006 and 2005

UTILITY FINANCIAL ANALYSIS (cont.)

WATER UTILITY

The Water Utility reported net income of \$415,000 in 2006 versus a budgeted net income of \$187,000. Actual results were better than budget for the following reasons. First, revenue included a \$80,000 capital contribution from the City of Muscatine for a water main replacement project not budgeted. Second, investment income exceeded budget by \$58,000 due to higher than anticipated interest rates and cash balances not being expended as quickly as anticipated for construction projects. Third, maintenance expenses were \$57,000 lower than projected.

A 4.0% overall price adjustment went into effect with water usage starting April 1, 2006. In December 2006, a 3.0% water rate increase was approved by the Board to become effective with water usage starting April 1, 2007. These adjustments were in response to an increase in capital requirements necessary to provide fire protection and for community growth, and higher operation and maintenance costs.

Financial Highlights:

In thousands \$	2006	2005
Cash and Investments	\$ 1,848	\$ 1,945
Total Capital Assets	12,094	11,827
Total Assets	14,640	14,351
Total Net Assets	11,944	11,529
Operating Revenues	3,954	3,830
Operating Expenses	3,822	3,839
Investment Income	92	72
Capital Contributions	191	63
Change in Net Assets	415	126

Results of Operation:

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

MP&W's industrial customers account for 50.7% of total 2006 water sales.

Total water sales revenue for 2006 was higher than the previous year by \$123,000 or 3.2%; usage was 3.9% greater. Gallons of water sold to industrial customers was up 6.9% from 2005 more than offsetting the combined decrease in usage by all other customer classes.

2006 maintenance expenses were 26.4% lower than in 2005, primarily due to painting the interior of the East Hill reservoir at a cost of \$130,000 in 2005, and fewer main repairs in 2006.

2006 investment income was greater than in 2005 due to the net increase in the fair value of investments of \$21,000. The fair value of investments adjustment was a net increase of \$2,000 in 2005. The Water Utility has been debt-free since 1994.

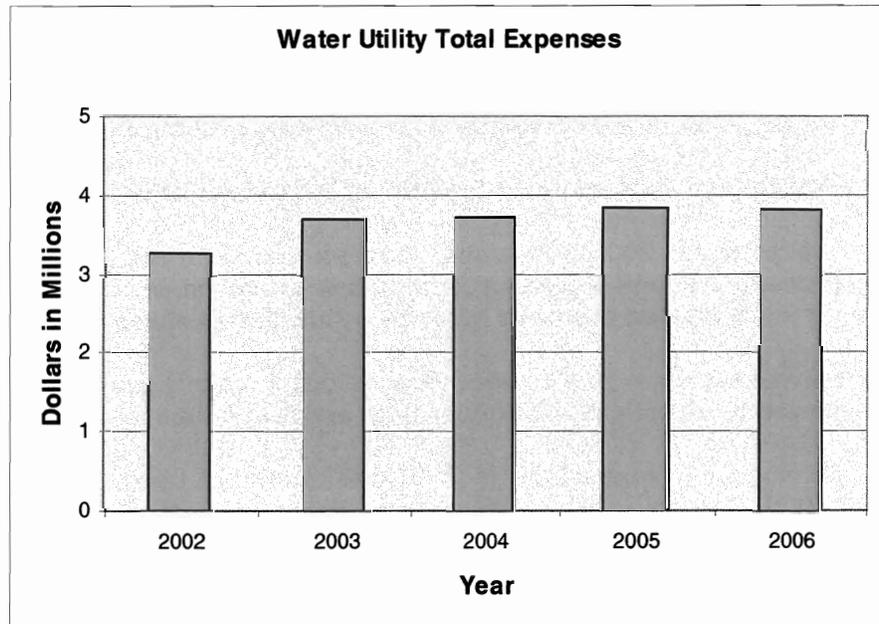
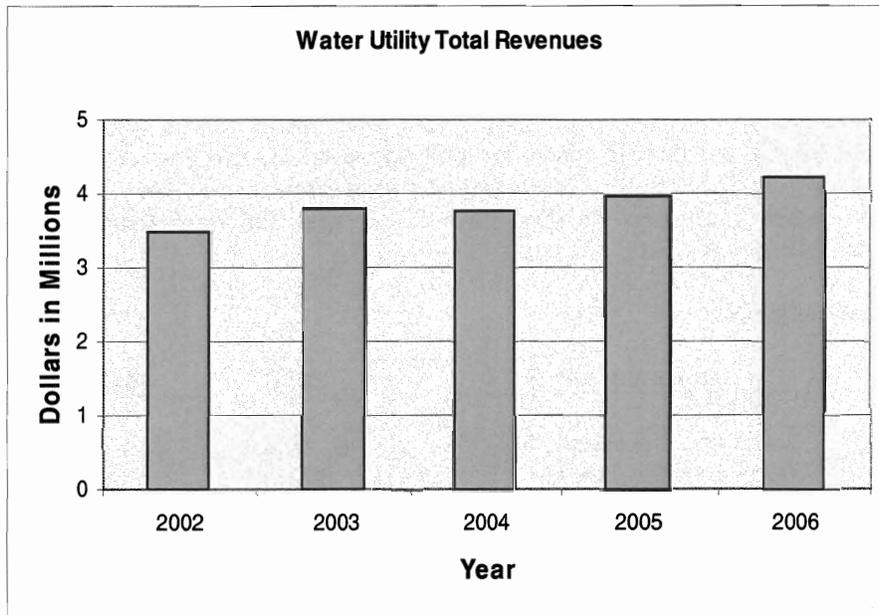
MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2006 and 2005

UTILITY FINANCIAL ANALYSIS (cont.)

WATER UTILITY (cont.)

Water Utility net assets increased \$415,000 or 3.6% and \$126,000 or 1.1% in 2006 and 2005, respectively.



MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2006 and 2005

UTILITY FINANCIAL ANALYSIS (cont.)

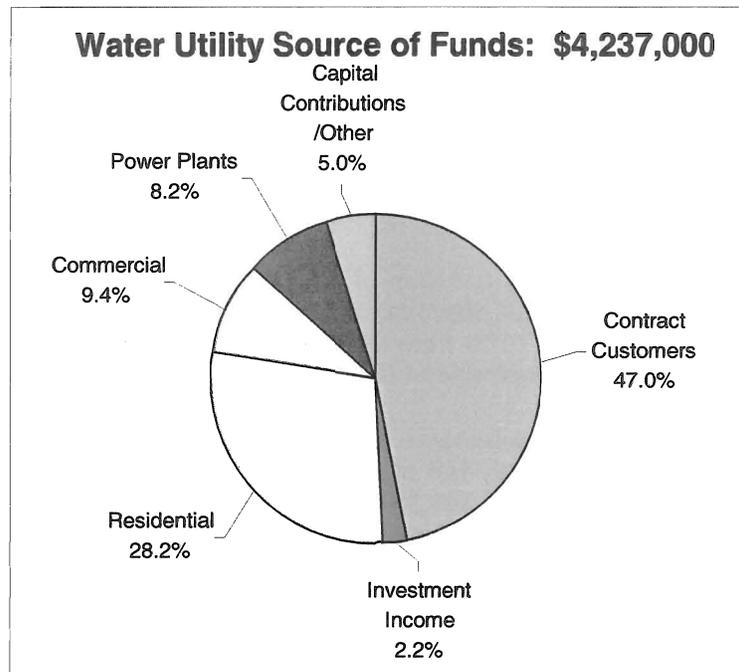
WATER UTILITY (cont.)

Financial Position: (As reported in the Balance Sheets)

Restricted assets, \$1,534,000 at December 31, 2005, consisted entirely of the Depreciation, Extension, and Improvement Fund. This fund had been set aside for uses specified by the Board. Due to future capital expenditure requirements and because there was no longer a bond covenant requiring the fund to be maintained, a transfer of the entire balance into the Unrestricted Cash/Investments took place in 2006.

Capital assets represent 82.6% of the total assets. Capital assets increased in 2006, primarily due to the completion of water main projects totaling \$132,000, and the \$241,000 construction of a new well, which began in 2005 and was completed in 2006.

Customer advances 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; the remaining advance was \$1,022,000 at the end of 2006.

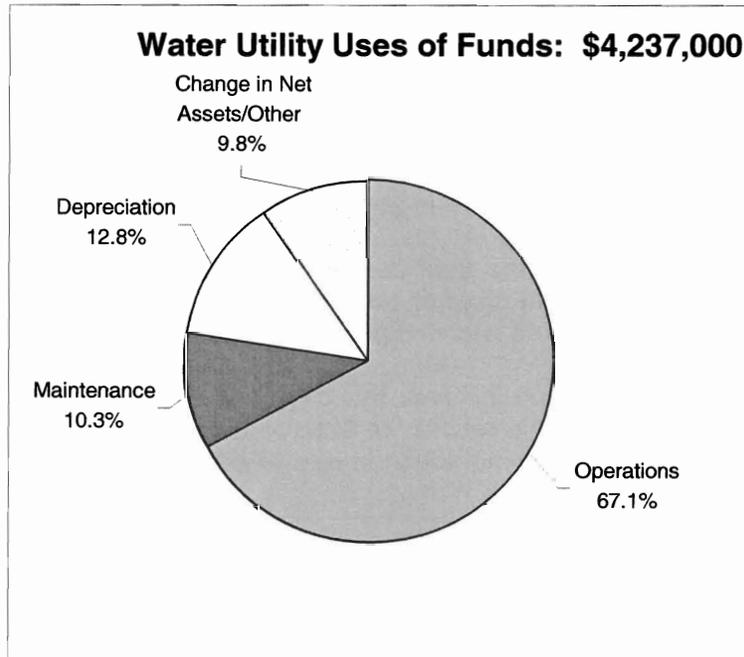


MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2006 and 2005

UTILITY FINANCIAL ANALYSIS (cont.)

WATER UTILITY (cont.)



COMMUNICATIONS UTILITY

The Communications Utility posted a net loss of \$1,238,000, which was a 25.7% improvement compared to the budget. This is an improvement of \$412,000 from 2005's year end results. Total operating revenues were up 7.0% from 2005, and operating expenses were down 1.2%. The operating results for the Communications Utility continue to improve.

Price adjustments for CATV services became effective September 1, 2006. Total basic service increased by \$3.00/month to a monthly fee of \$17.50. This increase raised the price for basic and expanded-basic cable service from \$43.99 to \$46.99/month. The increase in CATV charges was primarily due to continued rising programming costs, increasing debt service requirements, and other general inflationary factors.

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2006 and 2005

UTILITY FINANCIAL ANALYSIS (cont.)

COMMUNICATIONS UTILITY ((cont.))

Financial Highlights:

In thousands \$	2006	2005
Cash and Investments	\$ 2,368	\$ 1,976
Total Capital Assets	12,058	12,721
Total Assets	20,290	21,297
Note Payable to Electric Utility	35,327	35,327
Net Deficit	16,430	15,193
Operating Revenues	8,949	8,362
Operating Expenses	9,045	9,153
Investment Income	99	48
Interest on Note Payable	1,247	1,070
Capital Contributions	6	164
Change in Net Deficit	1,238	1,650

Results of Operation:

(As reported in the Statements of Revenues, Expenses, and Changes in Net Deficit)

Although the total number of CATV subscribers decreased slightly in 2006, operating revenues were \$408,000 or 7.4% greater than the prior year, due to the price adjustments in September 2006 and 2005. In 2006, the number of data/Internet subscribers increased along with the associated revenues. Municipal area network revenues increased by \$46,000 or 15.1% in 2006.

2006 operating expenses decreased 1.2% or \$108,000 over 2005's expenses. Depreciation expense is lower than in 2005 primarily due to a revaluation of the useful life of customer drops. Amortization expense is attributable to the January 2003 customer acquisition, which is being amortized over 10 years.

2006 investment income is \$51,000 greater than in 2005 due to earning a higher rate of return, higher cash and investment balances, and a net increase in the fair value of investments of \$17,000.

The interest rate on the note payable to the Electric Utility was 3.53% and 3.03% in 2006 and 2005, respectively.

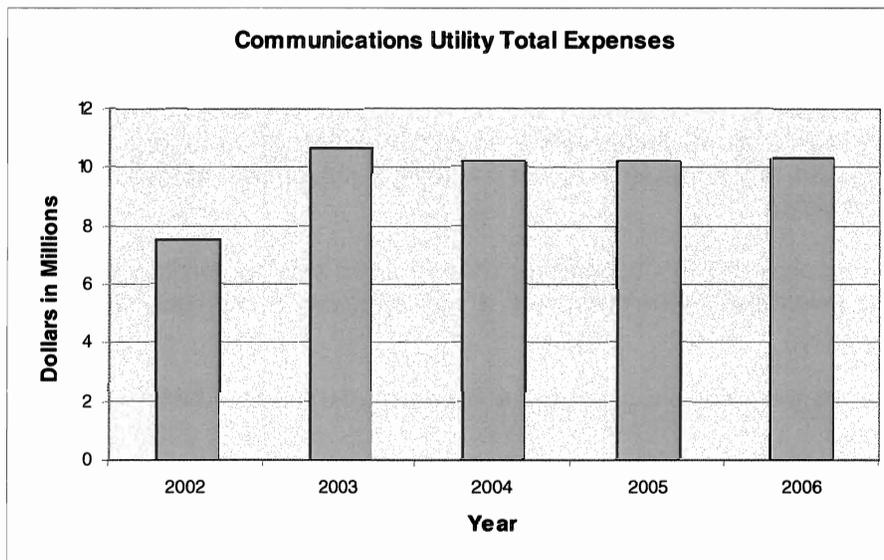
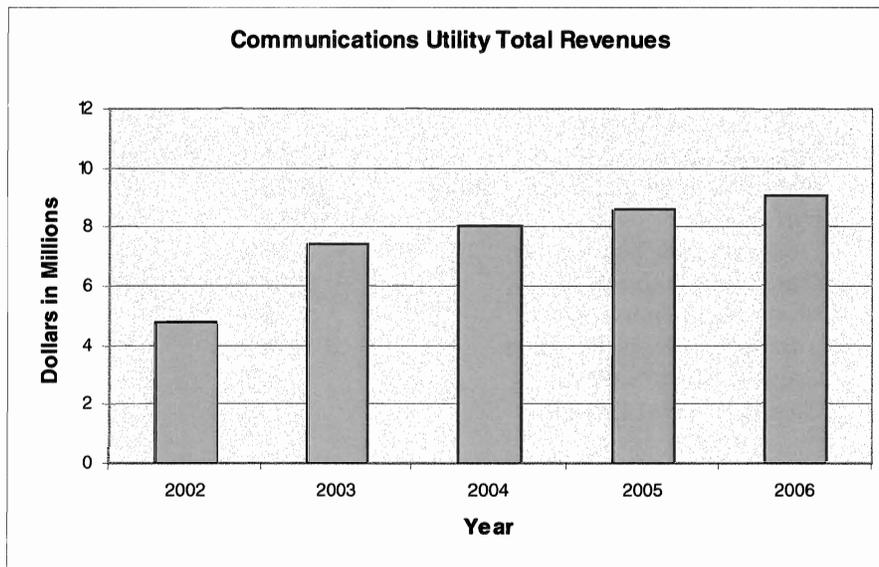
Communications Utility's net deficit increased by \$1,238,000 or 8.1% in 2006.

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2006 and 2005

UTILITY FINANCIAL ANALYSIS (cont.)

COMMUNICATIONS UTILITY (cont.)



MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2006 and 2005

UTILITY FINANCIAL ANALYSIS (cont.)

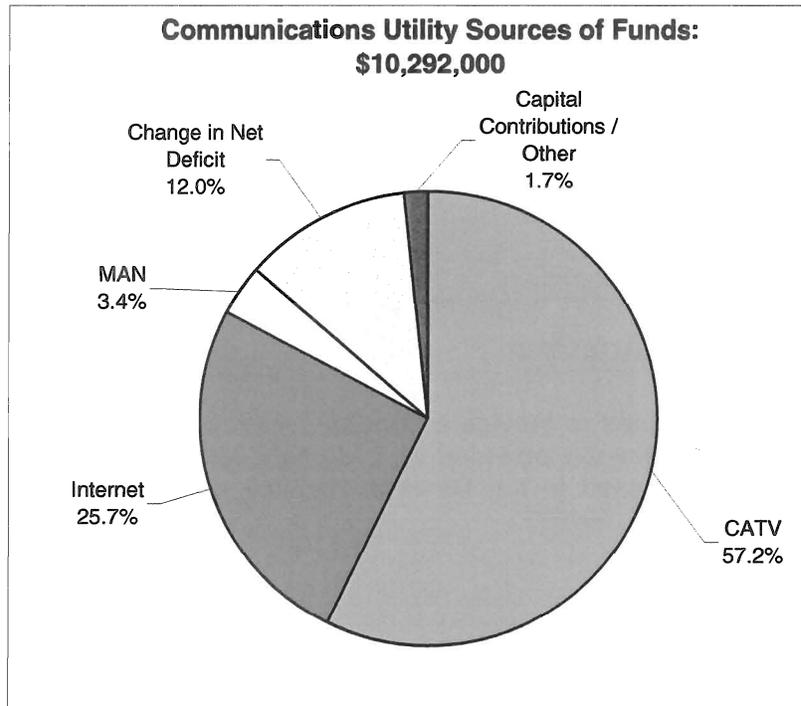
COMMUNICATIONS UTILITY (cont.)

Financial Position: (As reported in the Balance Sheets)

Capital assets represent 59.4% of the total assets.

The intangible asset is the unamortized value of the customer base acquired in 2003.

The note payable due to the Electric Utility was for the initial construction, expansion and operations of the Communications Utility. The interest rate on the note has been adjusted annually since January 1, 2005. The interest rate was 3.53% in 2006 and 3.03% in 2005. In 2006, the Board fixed the interest rate at 3.53%. Payments for interest only have been made on the loan. Principal payments are anticipated to begin in 2008; the dollar amount to be established by the Board.

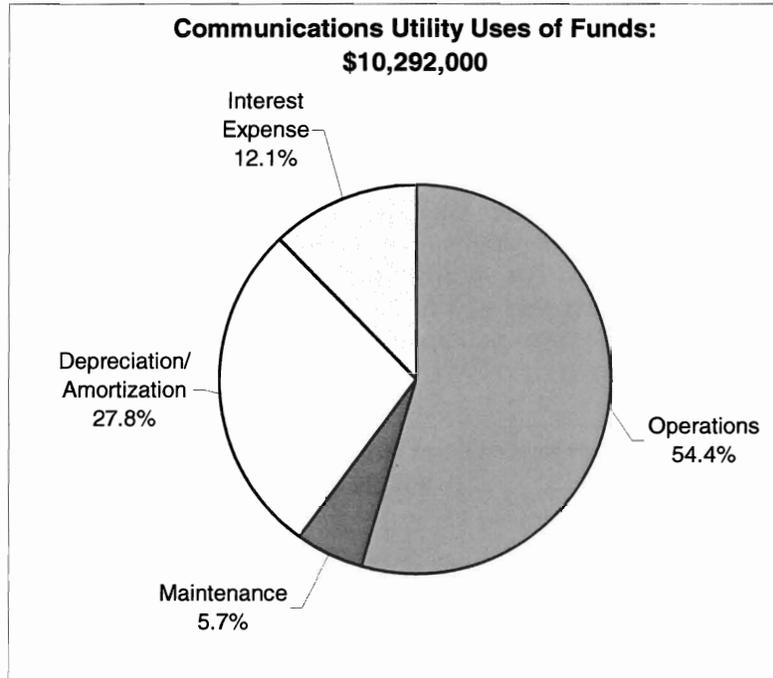


MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2006 and 2005

UTILITY FINANCIAL ANALYSIS (cont.)

COMMUNICATIONS UTILITY (cont.)



CONTACTING UTILITY MANAGEMENT

This financial report is designed to provide a general overview of MP&W's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director, Finance & Administrative Services at 3205 Cedar Street, Muscatine, Iowa 52761.

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**MUSCATINE POWER AND WATER
ELECTRIC UTILITY**

BALANCE SHEETS
December 31, 2006 and 2005

	2006	2005
ASSETS		
CURRENT ASSETS		
Unrestricted Assets		
Cash	\$ 18,955	\$ 15,751
Investments	5,510,577	3,963,662
Receivables:		
Customer accounts, less allowance for doubtful accounts:		
2006 - \$2,400; 2005 - \$2,900	7,164,038	8,775,645
Interest	1,286,221	890,171
Inventories:		
Fuel	4,000,155	3,857,328
Materials and supplies	6,167,242	6,059,111
Prepaid and deferred expenses	456,421	544,428
Total Unrestricted Assets	24,603,609	24,106,096
Restricted Assets		
Cash	714	1,611
Investments	49,301,359	46,658,190
Total Restricted Assets	49,302,073	46,659,801
Total Current Assets	73,905,682	70,765,897
 NON-CURRENT ASSETS		
Capital assets		
Utility plant in service	386,419,621	379,243,326
Construction work in progress	979,397	2,513,849
Less: accumulated depreciation	(240,184,972)	(228,686,604)
Total Capital Assets	147,214,046	153,070,571
Other assets		
Unamortized bond issuance costs	259,073	412,581
Note receivable from communications utility	35,327,000	35,327,000
Joint venture rights	197,002	202,997
Total Other Assets	35,783,075	35,942,578
Total Non-Current Assets	182,997,121	189,013,149
 TOTAL ASSETS	 \$ 256,902,803	 \$ 259,779,046

	<u>2006</u>	<u>2005</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Payable From Unrestricted Assets		
Trade accounts payable	\$ 1,999,864	\$ 2,061,514
Accrued expenses	3,236,555	2,992,906
Customer deposits	608,932	599,631
Total Payable From Unrestricted Assets	<u>5,845,351</u>	<u>5,654,051</u>
Payable From Restricted Assets		
Current portion of long-term debt	12,160,000	11,780,000
Accrued interest payable	1,819,452	2,009,699
Total Payable From Restricted Assets	<u>13,979,452</u>	<u>13,789,699</u>
Total Current Liabilities	<u>19,824,803</u>	<u>19,443,750</u>
NON-CURRENT LIABILITIES		
Long term debt, net of current portion	61,697,293	73,572,523
Deferred revenue	29,303,164	29,303,164
Total Non-Current Liabilities	<u>91,000,457</u>	<u>102,875,687</u>
NET ASSETS		
Invested in capital assets, net of related debt	73,769,302	68,334,835
Restricted	47,482,621	44,650,102
Unrestricted	24,825,620	24,474,672
Total Net Assets	<u>146,077,543</u>	<u>137,459,609</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 256,902,803</u>	<u>\$ 259,779,046</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, 2006 and 2005

	2006	2005
OPERATING REVENUES		
Retail electric sales	\$ 42,451,979	\$ 42,701,992
Wholesale electric sales	23,279,518	24,946,757
Steam sales	7,920,489	7,559,128
Other	1,584,329	1,212,206
Total Operating Revenues	75,236,315	76,420,083
OPERATING EXPENSES		
Production fuel and purchased power	23,128,012	20,302,427
Other operating expenses	17,783,389	17,081,274
Maintenance	11,651,806	9,372,296
Depreciation	13,377,408	13,201,056
Total Operating Expenses	65,940,615	59,957,053
Operating Income	9,295,700	16,463,030
NONOPERATING REVENUES (EXPENSES)		
Investment income	2,141,100	1,035,627
Interest income on note receivable from communications utility	1,247,043	1,070,408
Interest on long-term debt	(4,162,725)	(4,757,215)
Net Nonoperating Expenses	(774,582)	(2,651,180)
Net income before capital contributions and deferred revenue	8,521,118	13,811,850
CAPITAL CONTRIBUTIONS	96,816	237,419
Net income before deferred revenue	8,617,934	14,049,269
DEFERRED REVENUE TO FUND EXTRAORDINARY OPERATION AND MAINTENANCE ACCOUNT	-	(14,049,269)
CHANGE IN NET ASSETS	8,617,934	-
NET ASSETS - Beginning of Year	137,459,609	137,459,609
NET ASSETS - END OF YEAR	\$ 146,077,543	\$ 137,459,609

See accompanying notes to financial statements.

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**MUSCATINE POWER AND WATER
ELECTRIC UTILITY**

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from retail electric sales	\$ 42,961,337	\$ 42,466,672
Cash received from wholesale electric sales	23,983,144	23,547,970
Cash received from steam sales	7,762,121	7,622,795
Cash paid for coal	(18,458,479)	(17,172,657)
Cash paid to suppliers	(18,337,635)	(14,261,828)
Cash paid for employee payroll, taxes and benefits	(19,459,667)	(18,530,957)
Reimbursements by related parties for expenses paid	493,352	856,044
Other	5,426,615	3,709,093
Net Cash Flows From Operating Activities	24,370,788	28,237,132
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Interest received on note receivable	1,158,726	1,153,426
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments matured and sold	62,917,130	67,297,942
Investments purchased	(66,681,273)	(76,746,357)
Purchase of joint venture rights	(71,311)	(44,129)
Interest received on investments	1,737,971	1,324,213
Accrued interest purchased	(330,543)	(235,702)
Net Cash Flows From Investing Activities	(2,428,026)	(8,404,033)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(7,539,342)	(5,360,404)
Proceeds from sale of assets	49,312	22,468
Bond principal payments	(11,780,000)	(11,465,000)
Bond interest payments	(3,829,151)	(4,175,322)
Net Cash Flows From Capital and Related Financing Activities	(23,099,181)	(20,978,258)
Net Increase in Cash and Cash Equivalents	2,307	8,267
CASH AND CASH EQUIVALENTS - Beginning of Year		
Current unrestricted cash	15,751	8,161
Current restricted cash	1,611	934
	17,362	9,095
CASH AND CASH EQUIVALENTS - END OF YEAR		
Current unrestricted cash	18,955	15,751
Current restricted cash	714	1,611
	\$ 19,669	\$ 17,362

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 9,295,700	\$ 16,463,030
Noncash items in operating income:		
Depreciation of electric utility plant	13,377,408	13,201,056
Amortization of joint venture rights	77,306	72,437
Changes in assets and liabilities:		
Customer accounts receivable	1,611,607	(1,999,966)
Inventories	(250,958)	(264,518)
Prepaid and deferred expenses	37,276	(63,407)
Trade accounts payable	4,312	304,091
Accrued expenses	208,836	462,575
Customer deposits	<u>9,301</u>	<u>61,834</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 24,370,788</u>	<u>\$ 28,237,132</u>

SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES

Unrealized gain (loss) in investments	\$ 425,941	\$ (179,603)
Amortization of bond discounts/premium, deferred loss on debt refunding and bond issue costs	489,008	706,370
Unpaid capital expenditures	103,778	169,742

See accompanying notes to financial statements.

**MUSCATINE POWER AND WATER
WATER UTILITY**

BALANCE SHEETS
December 31, 2006 and 2005

	2006	2005
ASSETS		
CURRENT ASSETS		
Unrestricted Assets		
Cash	\$ 1,690	\$ 307
Investments	1,846,198	410,796
Receivables:		
Customer accounts, less allowance for doubtful accounts:		
2006 - \$1,000; 2005 - \$400	456,478	378,014
Interest	27,694	14,723
Inventories	204,178	176,829
Prepaid and deferred expenses	9,624	9,300
Total Unrestricted Assets	2,545,862	989,969
Restricted Assets		
Cash	-	373
Investments	-	1,533,546
Total Restricted Assets	-	1,533,919
Total Current Assets	2,545,862	2,523,888
NON-CURRENT ASSETS		
Capital Assets		
Utility plant in service	19,933,367	19,368,986
Construction work in progress	57,190	222,065
Less: accumulated depreciation	(7,896,294)	(7,764,433)
Total Non-Current Assets	12,094,263	11,826,618
TOTAL ASSETS	\$ 14,640,125	\$ 14,350,506

	<u>2006</u>	<u>2005</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Trade accounts payable	\$ 135,382	\$ 279,147
Customer advances for construction	2,281,912	2,387,417
Accrued expenses	<u>279,162</u>	<u>155,079</u>
Total Current Liabilities	<u>2,696,456</u>	<u>2,821,643</u>
NET ASSETS		
Invested in capital assets	9,812,351	9,439,201
Restricted	-	1,533,919
Unrestricted	<u>2,131,318</u>	<u>555,743</u>
Total Net Assets	<u>11,943,669</u>	<u>11,528,863</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,640,125</u>	<u>\$ 14,350,506</u>

**MUSCATINE POWER AND WATER
WATER UTILITY**

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
For the Years Ended December 31, 2006 and 2005

	2006	2005
OPERATING REVENUES		
Water sales	\$ 3,931,607	\$ 3,809,090
Other	22,289	21,027
Total Operating Revenues	3,953,896	3,830,117
 OPERATING EXPENSES		
Operations	2,841,113	2,729,812
Maintenance	437,075	593,948
Depreciation	543,636	515,562
Total Operating Expenses	3,821,824	3,839,322
 Operating Income (Loss)	132,072	(9,205)
 NONOPERATING REVENUES		
Investment income	91,982	71,778
 Net income before capital contributions	224,054	62,573
 CAPITAL CONTRIBUTIONS	190,752	63,101
 CHANGE IN NET ASSETS	414,806	125,674
 NET ASSETS - Beginning of Year	11,528,863	11,403,189
 NET ASSETS - END OF YEAR	\$ 11,943,669	\$ 11,528,863

See accompanying notes to financial statements.

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**MUSCATINE POWER AND WATER
WATER UTILITY**

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from water sales	\$ 3,929,646	\$ 3,790,133
Cash paid to suppliers	(1,604,202)	(1,819,623)
Cash paid for employee payroll, taxes and benefits	(1,910,618)	(1,794,467)
Other	259,607	279,927
Net Cash Flows From Operating Activities	674,433	455,970
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments matured and sold	4,248,269	3,338,454
Investments purchased	(4,155,208)	(2,582,060)
Interest received on investments	93,224	75,908
Accrued interest purchased	(9,129)	(32,314)
Net Cash Flows From Investing Activities	177,156	799,988
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(850,613)	(1,258,676)
Proceeds from sale of assets	34	1,033
Net Cash Flows From Capital and Related Financing Activities	(850,579)	(1,257,643)
Net Increase (Decrease) in Cash and Cash Equivalents	1,010	(1,685)
CASH AND CASH EQUIVALENTS - Beginning of Year		
Current unrestricted cash	307	2,365
Current restricted cash	373	-
	680	2,365
CASH AND CASH EQUIVALENTS - END OF YEAR		
Current unrestricted cash	1,690	307
Current restricted cash	-	373
	\$ 1,690	\$ 680

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ 132,072	\$ (9,205)
Noncash items in operating loss:		
Depreciation of water utility plant	543,636	515,562
Changes in assets and liabilities:		
Customer accounts receivable	1,182	52,627
Inventories	(27,349)	(6,631)
Prepaid and deferred expenses	(324)	(8)
Trade accounts payable	(98,867)	(92,057)
Accrued expenses	<u>124,083</u>	<u>(4,318)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 674,433</u>	<u>\$ 455,970</u>

SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES

Contributions in aid of construction	\$ 52,795	\$ 207,362
Unrealized gain (loss) in investments	(5,083)	14,486
Unpaid capital expenditures	34,103	79,003

**MUSCATINE POWER AND WATER
COMMUNICATIONS UTILITY**

BALANCE SHEETS
December 31, 2006 and 2005

	2006	2005
ASSETS		
CURRENT ASSETS		
Cash	\$ 2,796	\$ 2,032
Investments	2,365,586	1,973,803
Receivables:		
Customer accounts, less allowance for doubtful accounts		
2006 - \$2,300; 2005 - \$5,900	826,782	822,198
Interest	23,930	4,832
Inventories	318,949	310,862
Prepaid and deferred expenses	55,567	50,360
Total Current Assets	3,593,610	3,164,087
NON-CURRENT ASSETS		
Capital Assets		
Utility plant in service	24,443,141	23,733,373
Construction work in progress	48,539	12,349
Less: accumulated depreciation	(12,434,008)	(11,024,515)
Total Capital Assets	12,057,672	12,721,207
Intangible assets, net of accumulated amortization		
2006 - \$3,516,601; 2005 - \$2,743,542	4,638,586	5,411,645
Total Non-Current Assets	16,696,258	18,132,852
TOTAL ASSETS	\$ 20,289,868	\$ 21,296,939

	<u>2006</u>	<u>2005</u>
LIABILITIES AND NET DEFICIT		
CURRENT LIABILITIES		
Trade accounts payable	\$ 332,526	\$ 341,922
Accrued interest payable	623,521	535,204
Accrued expenses	<u>437,214</u>	<u>285,566</u>
Total Current Liabilities	<u>1,393,261</u>	<u>1,162,692</u>
NON-CURRENT LIABILITIES		
Note payable to electric utility	<u>35,327,000</u>	<u>35,327,000</u>
Total Non-Current Liabilities	<u>35,327,000</u>	<u>35,327,000</u>
NET DEFICIT - Unrestricted	<u>(16,430,393)</u>	<u>(15,192,753)</u>
TOTAL LIABILITIES AND NET DEFICIT	<u>\$ 20,289,868</u>	<u>\$ 21,296,939</u>

**MUSCATINE POWER AND WATER
COMMUNICATIONS UTILITY**

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET DEFICIT
For the Years Ended December 31, 2006 and 2005

	2006	2005
OPERATING REVENUES		
Cable (CATV)	\$ 5,883,280	\$ 5,475,683
Internet	2,645,368	2,536,356
Municipal area network (MAN)	349,096	303,360
Other	71,590	46,934
Total Operating Revenues	8,949,334	8,362,333
 OPERATING EXPENSES		
Operations	5,597,597	5,422,341
Maintenance	587,462	611,829
Depreciation	2,086,586	2,345,870
Amortization	773,059	773,091
Total Operating Expenses	9,044,704	9,153,131
 Operating Loss	(95,370)	(790,798)
 NONOPERATING REVENUES (EXPENSES)		
Investment income	99,074	47,750
Interest on note payable	(1,247,043)	(1,070,408)
Net Nonoperating Expenses	(1,147,969)	(1,022,658)
 Net loss before capital contributions	(1,243,339)	(1,813,456)
 CAPITAL CONTRIBUTIONS	5,699	163,665
 CHANGE IN NET DEFICIT	(1,237,640)	(1,649,791)
 NET DEFICIT - Beginning of Year	(15,192,753)	(13,542,962)
 NET DEFICIT - END OF YEAR	\$(16,430,393)	\$(15,192,753)

See accompanying notes to financial statements.

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**MUSCATINE POWER AND WATER
COMMUNICATIONS UTILITY**

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from communications sales	\$ 8,960,082	\$ 8,255,298
Cash paid to suppliers	(3,968,904)	(3,928,875)
Cash paid for employee payroll, taxes and benefits	(2,606,968)	(2,344,047)
Other	557,692	320,441
Net Cash Flows From Operating Activities	2,941,902	2,302,817
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments matured and sold	2,613,104	2,327,722
Investments purchased	(3,000,183)	(2,468,823)
Interest received on investments	96,312	50,613
Accrued interest purchased	(21,039)	(14,859)
Net Cash Flows From Investing Activities	(311,806)	(105,347)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(1,478,639)	(1,046,914)
Proceeds from sale of assets	8,033	3,338
Interest paid to electric utility	(1,158,726)	(1,153,426)
Net Cash Flows From Capital and Related Financing Activities	(2,629,332)	(2,197,002)
Net Increase in Cash and Cash Equivalents	764	468
CASH AND CASH EQUIVALENTS - Beginning of Year	2,032	1,564
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,796	\$ 2,032

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$ (95,370)	\$ (790,798)
Noncash items in operating loss:		
Depreciation of communications utility plant	2,086,586	2,345,870
Amortization of intangible assets	773,059	773,091
Converter/modem net write-off	41,428	34,401
Changes in assets and liabilities:		
Customer accounts receivable	(4,584)	(129,357)
Inventories	(8,087)	(7,706)
Prepaid and deferred expenses	(5,207)	45,232
Trade accounts payable	2,429	(14,845)
Accrued expenses	<u>151,648</u>	<u>46,929</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 2,941,902</u>	<u>\$ 2,302,817</u>
SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES		
Unpaid capital expenditures	\$ 61,896	\$ 73,721
Unrealized gain in investments	4,703	7,771

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

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 (municipality) 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 steam 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, 2006 and 2005

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

CASH AND CASH EQUIVALENTS

The utility's cash and cash equivalents are considered to be general checking, saving and money market accounts.

RECEIVABLES

An allowance for doubtful accounts is recorded annually based on historical experience and management's evaluation of receivables at the end of the year. Bad debts are expensed when deemed uncollectible.

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.

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 is 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 average useful lives for 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Electric Utility – average useful lives (in years)		
Generation plant	31	31
Transmission and distribution plant	26	26
General plant	13	13

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

CAPITAL ASSETS (cont.)

	<u>2006</u>	<u>2005</u>
Water Utility – average useful lives (in years)		
Source of supply	30	30
Pumping equipment	31	31
Purification system	38	38
Distribution system	45	45
General plant	9	9
Communications Utility – average useful lives (in years)		
CATV	12	10
Data/Internet	7	7
MAN	14	12
General plant	10	9

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 2006 or 2005.

CUSTOMER ADVANCES FOR CONSTRUCTION

Customer advances for construction are recorded as water utility plant and a liability at the time the asset is contributed to the utility. The utility reimburses the customer by annually refunding a portion of the advance over a contracted period of time. At the end of the contract, any remaining liability is reclassified as a capital contribution.

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.

DEFERRED REVENUE

The Board may, at its discretion, set aside earnings 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. In 2005, the Board approved the deferral of electric utility revenue and a reservation of assets equal to net income before deferred revenue.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

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

CHARGES FOR SERVICES

Electric and water billings are rendered and recorded monthly based on metered usage. Communications billings are rendered and recorded monthly based on the type of service provided. The utilities do not accrue revenues beyond billing dates. Rates were approved by the Board of Trustees as follows:

Current electric rates were approved on May 28, 2002 and effective for service beginning September 1, 2002.

Current water rates were approved on December 20, 2005 and effective for service beginning April 1, 2006.

Current communications rates were approved on July 25, 2006 and effective for service beginning September 1, 2006.

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/amortization on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues, capital contributions or nonoperating 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 CONTRIBUTIONS

Cash and capital assets are contributed to the utilities from customers, the municipality or external parties. The value of property contributed to the utility is reported as revenue on the statements of revenues, expenses, and changes in net assets.

INCOME TAX STATUS

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

RECLASSIFICATIONS

Certain amounts in the prior year's financial statements have been reclassified in order to conform with the current year's presentation.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE 2 – DEPOSITS AND INVESTMENTS

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.

Deposits and 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. Investment income is allocated to the electric, water, and communications utilities' revenue funds as appropriate.

CUSTODIAL CREDIT RISK

Deposits (cash, checking accounts, money markets, non-negotiable certificates of deposits)

Custodial credit risk is the risk that in the event of a financial institution failure, the utility's deposits may not be returned to the utility. The utility's deposits at year-end were covered by federal depository insurance or by the Iowa State Public Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

It is the policy of the utility to maintain all deposits and investments within category one in accordance with GASB No. 3 which includes authorized investment vehicles that are insured or registered in the utility's name or which are collateralized by or evidenced by securities held by the utility or its agent in the utility's name.

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the utility will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All investments held at December 31, 2006 and 2005 were considered to be in risk category one (investments held in trust on behalf of the utility), therefore not subject to custodial credit risk.

It is the policy of the utility to maintain all deposits and investments within category one in accordance with GASB No. 3 which includes authorized investment vehicles that are insured or registered in the utility's name or which are collateralized by or evidenced by securities held by the utility or its agent in the utility's name.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

CREDIT RISK

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations.

As of December 31, 2006, the utility's investments were rated as follows:

<u>Investment Type</u>	<u>Standard & Poor's</u>	<u>Moody's</u>
US agencies	AAA	Aaa

As of December 31, 2005, the utility's investments were rated as follows:

<u>Investment Type</u>	<u>Standard & Poor's</u>	<u>Moody's</u>
US treasuries	AAA	Aaa
US agencies	AAA	Aaa

It is the policy of the utility to have securities held by the utility or a third party custodian and rated within the highest or second highest rating category of a nationally recognized rating agency.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer.

At December 31, 2006 and 2005, investments held with issuers, each totaling more than 5 percent of the total portfolio, were concentrated as follows:

<u>Issuer</u>	<u>% of Portfolio</u>	
	<u>2006</u>	<u>2005</u>
Federal Home Loan Mortgage Corporation	16.9%	43.9%
Federal Home Loan Bank	66.8%	53.7%
Federal Farm Credit Bank	13.5%	---

It is the policy of the utility to diversify its investment portfolio. Assets are diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer, or a specific class of securities.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

INTEREST RATE RISK

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment.

At December 31, 2006, the utility's investments were as follows:

Investment Type	Maturity In Years			
	Fair Value	Less than 1 Year	1 – 5 Years	Greater than 5 Years
U.S. agencies	<u>\$ 43,523,720</u>	<u>\$ 21,828,770</u>	<u>\$ 18,376,169</u>	<u>\$ 3,318,781</u>

At December 31, 2005, the utility's investments were as follows:

Investment Type	Maturity In Years			
	Fair Value	Less than 1 Year	1 – 5 Years	Greater than 5 Years
U.S. treasuries	\$ 229,526	\$ 229,526	\$ -	\$ -
U.S. agencies	<u>47,810,471</u>	<u>35,771,914</u>	<u>8,587,734</u>	<u>3,450,823</u>
Totals	<u>\$ 48,039,997</u>	<u>\$ 36,001,440</u>	<u>\$ 8,587,734</u>	<u>\$ 3,450,823</u>

The utility's investment policy addresses maturity limitations by requiring operating funds to be invested in instruments that mature within 397 days. Non-operating funds may be invested in instruments with maturities longer than 397 days as long as the maturities are consistent with the needs and use of the utility. One of the investment policy's primary objectives is to maintain the necessary liquidity to match expected liabilities.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE 3 – CAPITAL ASSETS

ELECTRIC UTILITY

A summary of changes in electric capital assets for 2006 follows:

	Balance 1/01/06	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/06
Land and land rights ⁽¹⁾	\$ 1,881,476	\$ -	\$ -	\$ -	\$ 1,881,476
Generation plant	309,839,729	22,864	(1,211,937)	6,543,512	315,194,168
Transmission and distribution plant	50,111,960	607,725	(317,492)	801,104	51,203,297
General plant	17,410,161	107,332	(399,424)	1,022,611	18,140,680
Total Utility Plant in Service	379,243,326	737,921	(1,928,853)	8,367,227	386,419,621
Construction work in progress ⁽¹⁾	2,513,849	6,944,932	(112,157)	(8,367,227)	979,397
Total Electric Utility Plant	381,757,175	\$ 7,682,853	\$ (2,041,010)	\$ -	387,399,018
Less: Accumulated depreciation					
Generation plant	185,755,936	\$ 10,097,208	\$ (1,211,937)	-	194,641,207
Transmission and distribution plant	31,180,181	1,918,776	(307,768)	-	32,791,189
General plant	11,089,999	1,361,424	(359,335)	-	12,092,088
Unallocated contributions in aid of construction	660,488	-	-	-	660,488
Total Accumulated Depreciation	228,686,604	\$ 13,377,408	\$ (1,879,040)	-	240,184,972
Net Electric Capital Assets	\$ 153,070,571				\$ 147,214,046

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE 3 – CAPITAL ASSETS (cont.)

ELECTRIC UTILITY

A summary of changes in electric capital assets for 2005 follows:

	Balance 1/01/05	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/05
Land and land rights ⁽¹⁾	\$ 1,881,476	\$ -	\$ -	\$ -	\$ 1,881,476
Generation plant	308,615,014	24,365	(32,612)	1,232,962	309,839,729
Transmission and distribution plant	47,789,112	623,283	(34,914)	1,734,479	50,111,960
General plant	17,017,001	52,897	(204,946)	545,209	17,410,161
Total Utility Plant in Service	375,302,603	700,545	(272,472)	3,512,650	379,243,326
Construction work in progress ⁽¹⁾	1,154,391	4,959,636	(105,089)	(3,495,089)	2,513,849
Total Electric Utility Plant	376,456,994	\$ 5,660,181	\$ (377,561)	\$ 17,561	381,757,175
Less: Accumulated depreciation					
Generation plant	175,723,556	\$ 10,064,993	\$ (32,613)	\$ -	185,755,936
Transmission and distribution plant	29,400,793	1,827,757	(48,369)	-	31,180,181
General plant	9,965,804	1,308,306	(184,111)	-	11,089,999
Unallocated contributions in aid of construction	660,488	-	-	-	660,488
Total Accumulated Depreciation	215,750,641	\$ 13,201,056	\$ (265,093)	\$ -	228,686,604
Net Electric Capital Assets	\$ 160,706,353				\$ 153,070,571

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

NOTE 3 – CAPITAL ASSETS (cont.)

WATER UTILITY

A summary of changes in water capital assets for 2006 follows:

	Balance 1/01/06	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/06
Land and land rights ⁽¹⁾	\$ 1,052,321	\$ -	\$ -	\$ -	\$ 1,052,321
Source of supply	1,451,994	-	(41,794)	238,623	1,648,823
Pumping equipment	1,167,431	(1,988)	(68,288)	211,334	1,308,489
Purification equipment	1,022,495	23,721	-	-	1,046,216
Distribution system	13,446,918	113,116	(41,477)	282,146	13,800,703
General plant	1,227,827	3,626	(220,585)	65,947	1,076,815
Total Utility Plant in Service	19,368,986	138,475	(372,144)	798,050	19,933,367
Construction work in progress ⁽¹⁾	222,065	704,585	(71,410)	(798,050)	57,190
Total Water Utility Plant	19,591,051	\$ 843,060	\$ (443,554)	\$ -	19,990,557
Less: Accumulated depreciation					
Source of supply	938,592	\$ 48,396	\$ (51,189)	\$ -	935,799
Pumping equipment	524,527	38,112	(83,616)	-	479,023
Purification system	609,078	27,168	-	-	636,246
Distribution system	4,628,092	295,572	(56,418)	-	4,867,246
General plant	1,064,144	134,421	(220,585)	-	977,980
Total Accumulated Depreciation	7,764,433	\$ 543,669	\$ (411,808)	\$ -	7,896,294
Net Water Capital Assets	\$ 11,826,618				\$ 12,094,263

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE 3 – CAPITAL ASSETS (cont.)

WATER UTILITY

A summary of changes in water capital assets for 2005 follows:

	Balance 1/01/05	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/05
Land and land rights ⁽¹⁾	\$ 1,052,321	\$ -	\$ -	\$ -	\$ 1,052,321
Source of supply	1,447,542	-	-	4,452	1,451,994
Pumping equipment	1,112,572	8,271	(4,135)	50,723	1,167,431
Purification equipment	1,000,873	-	-	21,622	1,022,495
Distribution system	12,458,137	341,711	(35,296)	682,366	13,446,918
General plant	1,202,236	7,302	(40,876)	59,165	1,227,827
Total Utility Plant in Service	18,273,681	357,284	(80,307)	818,328	19,368,986
Construction work in progress ⁽¹⁾	5,793	1,048,325	(13,725)	(818,328)	222,065
Total Water Utility Plant	18,279,474	\$ 1,405,609	\$ (94,032)	\$ -	19,591,051
Less: Accumulated depreciation					
Source of supply	890,341	\$ 48,251	\$ -	\$ -	938,592
Pumping equipment	492,278	36,385	(4,136)	-	524,527
Purification system	582,392	26,686	-	-	609,078
Distribution system	4,389,456	273,932	(35,296)	-	4,628,092
General plant	973,677	130,308	(39,841)	-	1,064,144
Total Accumulated Depreciation	7,328,144	\$ 515,562	\$ (79,273)	\$ -	7,764,433
Net Water Capital Assets	\$ 10,951,330				\$ 11,826,618

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE 3 – CAPITAL ASSETS (cont.)

COMMUNICATIONS UTILITY (cont.)

A summary of changes in communications capital assets for 2006 follows:

	Balance 1/01/06	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/06
CATV	\$ 15,290,490	\$ 713,781	\$ (232,578)	\$ 197,039	\$ 15,968,732
Data/Internet	3,134,046	230,680	(428,939)	113,521	3,049,308
MAN	4,265,069	20,672	-	43,450	4,329,191
General plant	<u>1,043,768</u>	<u>9,258</u>	<u>(64,337)</u>	<u>107,221</u>	<u>1,095,910</u>
Total Utility Plant in Service	23,733,373	974,391	(725,854)	461,231	24,443,141
Construction work in progress ⁽¹⁾	<u>12,349</u>	<u>498,847</u>	<u>(1,426)</u>	<u>(461,231)</u>	<u>48,539</u>
Total Communications Utility Plant	<u>23,745,722</u>	<u>\$ 1,473,238</u>	<u>\$ (727,280)</u>	<u>\$ -</u>	<u>24,491,680</u>
Less: Accumulated depreciation					
CATV	7,006,658	\$ 1,261,326	\$ (209,383)	\$ -	8,058,601
Data/Internet	1,574,862	423,072	(411,407)	-	1,586,527
MAN	2,027,706	294,936	-	-	2,322,642
General plant	<u>415,289</u>	<u>107,252</u>	<u>(56,303)</u>	<u>-</u>	<u>466,238</u>
Total Accumulated Depreciation	<u>11,024,515</u>	<u>\$ 2,086,586</u>	<u>\$ (677,093)</u>	<u>\$ -</u>	<u>12,434,008</u>
Net Communications Capital Assets	<u>\$ 12,721,207</u>				<u>\$ 12,057,672</u>

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE 3 – CAPITAL ASSETS (cont.)

COMMUNICATIONS UTILITY (cont.)

A summary of changes in communications capital assets for 2005 follows:

	Balance 1/01/05	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/05
CATV	\$ 14,524,986	\$ 724,961	\$ (139,555)	\$ 180,098	\$ 15,290,490
Data/Internet	2,925,806	145,779	(61,332)	123,793	3,134,046
MAN	4,199,967	58,959	-	6,143	4,265,069
General plant	968,642	16,016	(4,932)	64,042	1,043,768
Total Utility Plant in Service	22,619,401	945,715	(205,819)	374,076	23,733,373
Construction work in progress ⁽¹⁾	14,307	375,016	(2,898)	(374,076)	12,349
Total Communications Utility Plant	22,633,708	\$ 1,320,731	\$ (208,717)	\$ -	23,745,722
Less: Accumulated depreciation					
CATV	5,578,802	\$ 1,497,610	\$ (69,754)	\$ -	7,006,658
Data/Internet	1,216,428	399,109	(40,675)	-	1,574,862
MAN	1,683,245	344,461	-	-	2,027,706
General plant	311,194	105,690	(1,595)	-	415,289
Total Accumulated Depreciation	8,789,669	\$ 2,346,870	\$ (112,024)	\$ -	11,024,515
Net Communications Capital Assets	\$ 13,844,039				\$ 12,721,207

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE 4 – 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, 2006 and 2005 is as follows:

	Electric Utility		Water Utility	
	2006	2005	2006	2005
Restricted Assets:				
Bond sinking fund	\$ 13,979,452	\$ 13,810,208	\$ -	\$ -
Depreciation, extension and improvement fund	-	-	-	1,533,919
Rate stabilization fund	5,867,394	5,884,380	-	-
Extraordinary operation and maintenance account	<u>29,455,227</u>	<u>26,965,213</u>	-	-
Total Restricted Assets	<u>\$ 49,302,073</u>	<u>\$ 46,659,801</u>	<u>\$ -</u>	<u>\$ 1,533,919</u>

NOTE 5 – 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, 2006 and 2005

NOTE 5 – LONG-TERM OBLIGATIONS (cont.)

LONG-TERM OBLIGATIONS SUMMARY – ELECTRIC (cont.)

Long-term obligation activity for the year ended December 31, 2006:

	Balance 1/01/06	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/06
Series 2001 revenue bonds	\$ 49,090,000	\$ -	\$ -	\$ 49,090,000
Series 2002 revenue bonds	36,535,000	-	(11,780,000)	24,755,000
	85,625,000	-	(11,780,000)	73,845,000
Unamortized portion of deferred loss on refundings	(1,755,944)	-	621,201	(1,134,743)
Unamortized portion of revenue bond premiums	1,483,467	-	(336,431)	1,147,036
Total Long-Term Debt	85,352,523	-	(11,495,230)	73,857,293
Less: Current installments	(11,780,000)	-	(380,000)	(12,160,000)
Long-Term Debt, Net of Current Portion	73,572,523	-	(11,875,230)	61,697,293
Deferred revenue	29,303,164	-	-	29,303,164
 Non-Current Liabilities	\$ 102,875,687	\$ -	\$ (11,875,230)	\$ 91,000,457

Long-term obligation activity for the year ended December 31, 2005:

	Balance 1/01/05	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/05
Series 2001 revenue bonds	\$ 49,090,000	\$ -	\$ -	\$ 49,090,000
Series 2002 revenue bonds	48,000,000	-	(11,465,000)	36,535,000
	97,090,000	-	(11,465,000)	85,625,000
Unamortized portion of deferred loss on refundings	(2,545,347)	-	789,403	(1,755,944)
Unamortized portion of revenue bond premiums	1,819,898	-	(336,431)	1,483,467
Total Long-Term Debt	96,364,551	-	(11,012,028)	85,352,523
Less: Current installments	(11,465,000)	-	(315,000)	(11,780,000)
Long-Term Debt, Net of Current Portion	84,899,551	-	(11,327,028)	73,572,523
Deferred revenue	15,253,895	14,049,269	-	29,303,164
 Non-Current Liabilities	\$ 100,153,446	\$ 14,049,269	\$ (11,327,028)	\$ 102,875,687

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE 5 – 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, 2006 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,				
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>\$ 24,755,000</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 \$76,980,000 at December 31, 2006. The bonds and corresponding trust funds are not included on the Balance Sheets at December 31, 2006 and 2005 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, 2006 and 2005

NOTE 5 – 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. This annual rate adjustment was not to exceed one-half of one percent per annum, with the maximum rate not to exceed five percent. Effective November 28, 2006, the interest rate on the loan was fixed at the current rate of 3.53%; annual principal repayments will be established by the Board and included in the annual operating budgets. It is anticipated that principal payments will begin in 2008.

Long-term obligation activity for the year ended December 31, 2006:

	Balance 1/01/06	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/06
Note payable to electric utility	\$ 35,327,000	\$ -	\$ -	\$ 35,327,000

Long-term obligation activity for the year ended December 31, 2005:

	Balance 1/01/05	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/05
Note payable to electric utility	\$ 35,327,000	\$ -	\$ -	\$ 35,327,000

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE 6 – NET ASSETS

GASB No. 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.

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 assets consists 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 unrestricted resources first (except for principal and interest on debt), then restricted resources as they are needed.

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

	<u>2006</u>	<u>2005</u>
Plant in Service	\$ 386,419,621	\$ 379,243,326
Construction Work in Progress	979,397	2,513,849
Accumulated Depreciation	<u>(240,184,972)</u>	<u>(228,686,604)</u>
Sub-Totals	<u>147,214,046</u>	<u>153,070,571</u>
Less: Capital Related Debt		
Current portion of capital related long term debt	12,160,000	11,780,000
Long-term portion of capital related long term debt	61,685,000	73,845,000
Unamortized debt issuance costs	(259,073)	(412,581)
Current portions of unamortized debt issuance costs	(153,476)	(204,206)
Unamortized debt premium	1,147,036	1,483,467
Unamortized loss on advance refunding	<u>(1,134,743)</u>	<u>(1,755,944)</u>
Sub-Totals	<u>73,444,744</u>	<u>84,735,736</u>
 Total Net Assets Invested in Capital Assets, Net of Related Debt	 <u>\$ 73,769,302</u>	 <u>\$ 68,334,835</u>

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE 6 – NET ASSETS (cont.)

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

	<u>2006</u>	<u>2005</u>
Plant in Service	\$ 19,933,367	\$ 19,368,986
Construction Work in Progress	57,190	222,065
Accumulated Depreciation	<u>(7,896,294)</u>	<u>(7,764,433)</u>
Sub-Totals	<u>12,094,263</u>	<u>11,826,618</u>
Less: Capital Related Debt		
Customer advances for construction	<u>2,281,912</u>	<u>2,387,417</u>
Total Net Assets Invested in Capital Assets	<u>\$ 9,812,351</u>	<u>\$ 9,439,201</u>

NOTE 7 – PENSION PLAN

The utility provides a defined benefit pension plan with benefits to eligible vested full-time utility and part-time utility employees at separation of service. Eligible employees are those who are not participants in the Iowa Public Employees' Retirement System (IPERS). For participants hired prior to September 1, 2002, vesting begins at 20% upon completion of two years of service, increases 10% each year upon completion of years three and four of service, and 100% vesting is attained at the completion of five years of service. For participants hired after September 1, 2002, 100% vesting is attained at the completion of five years of service. Benefits are generally equal to 1.5% of the employee's average highest five consecutive years of compensation (Average Compensation) multiplied by credited years of service. An additional benefit is available in an amount equal to 0.5% of the employee's Average Compensation in excess of Social Security Covered Compensation, if any, multiplied by credited years of service, up to 35 years. Benefit provisions are established under the Muscatine Water and Electric Employees' Pension Plan as adopted by the utility's Board of Trustees. The funding is approved by the utility's Board of Trustees. Participants covered by the bargaining agreement contribute an annually established amount of their compensation toward the cost of their pension benefit.

The 2006 annual pension cost of \$882,170 for the Plan (including MAGIC-see note 14) 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, 2006. The electric, water, and communications utilities' portions of the 2006 Plan contribution were \$753,108, \$43,785, and \$78,813, respectively.

The annual required contribution for 2006 was determined as part of the January 1, 2006 actuarial valuation using the projected unit credit cost method. The actuarial assumptions included; (a) a 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases of 5.0%, and (c) the later of attained age of 65 or 5 years of plan participation.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE 7 – PENSION PLAN (cont.)

Six –Year Trend Information for the entire Plan (including MAGIC employees):

Fiscal Year Ending	Annual Required Cost (ARC)	% of ARC Contributed	Net Pension Obligation
12/31/01	\$ 800,513	100	\$ -
12/31/02	676,198	100	-
12/31/03	784,545	100	-
12/31/04	728,752	100	-
12/31/05	806,451	100	-
12/31/06	882,170	100	-

Schedule of Funding Progress of the entire Plan (including MAGIC employees):

Actuarial Valuation Date	Actuarial 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)
01/01/01	\$ 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)
01/01/05	31,717,900	28,835,478	(2,882,422)	110.0	15,766,176	(18.3)
01/01/06	35,065,410	32,739,278	(2,326,132)	107.1	15,947,706	(14.6)

The water utility also contributes to IPERS for full time utility employees who have elected not to participate in the Plan provided 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 employees' covered salary. Contribution requirements are established by State statute. The utility's contributions to IPERS for the years ended December 31, 2006 and 2005 were \$33,964 and \$27,795, respectively, equal to the required contributions for those years.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE 8 – SIGNIFICANT CUSTOMERS

Approximately \$22,449,000 or 30% in 2006 and \$22,032,000 or 29% in 2005 of the electric utility's operating revenues were derived from sales to one customer. Approximately \$1,800,000 or 46% in 2006 and \$1,698,000 or 44% in 2005 of the water utility's operating revenues were derived from sales to one customer.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The utility has a coal supply contract for a total contract annual minimum of 500,000 tons of coal through the year 2009.

The utility has rail transportation agreements with two separate companies for the delivery of coal through December 31, 2009 and December 31, 2012. The utility's first agreement is for coal shipped from the Powder River Basin (PRB), Wyoming to an interchange with the local delivery carrier. The price is subject to monthly and quarterly adjustments. The utility's minimum requirement is that all tons shipped, up to the annual tonnage nomination, from the PRB 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 the shortfall. 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 to an unaffiliated utility. The contract requires 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 10 – 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, 2006 and 2005

NOTE 11 – RELATED PARTY TRANSACTIONS

The electric utility sold power to the water utility amounting to approximately \$876,000 in 2006 and \$850,600 in 2005. The electric utility sold power to the communications utility amounting to approximately \$15,700 in both 2006 and 2005. The electric utility purchased water from the water utility amounting to approximately \$348,200 and \$345,900 for 2006 and 2005, respectively. The electric utility purchased communications services from the communications utility amounting to approximately \$150,300 for 2006 and \$76,000 for 2005, and advertising amounting to \$3,586 and \$9,742 in 2006 and 2005, respectively.

The electric utility rents space to the water utility and the communications utility at the Administration/Operations Center. This amounted to \$69,480 in 2006 and \$64,284 in 2005 for the water utility's rent, and \$90,840 in 2006 and \$89,052 in 2005 for the communications utility's rent.

Electric utility amounts receivable from the water utility were \$83,801 and \$145,821 at December 31, 2006 and 2005, respectively. Electric utility amounts payable to the water utility were \$30,031 and \$30,197 at December 31, 2006 and 2005, respectively. Electric utility amounts receivable from the communications utility were \$24,526 and \$45,688 at December 31, 2006 and 2005, respectively. Electric utility amounts payable to the communications utility were \$1,834 and \$1,704 at December 31, 2006 and 2005, respectively.

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.

The interest rates on the principal amount outstanding of the entire loan beginning January 1, 2004, 2005, and 2006 were 3.5%, 3.03%, and 3.53% per annum, respectively. Effective November 28, 2006, the interest rate was fixed at the current rate of 3.53%. Semi-annual payments of interest only are due each January 1 and July 1. Annual principal payments will be established by the Board and are anticipated to begin in 2008.

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

At December 31, 2006 and 2005, electric utility interest receivable from the communications utility was \$623,522 and \$535,204, respectively. Interest income on the loan amounted to \$1,247,043 for 2006 and \$1,070,408 for 2005.

Costs incurred on a combined basis among the utilities are allocated to each utility on the basis of revenues, utility plant in service, labor expense, and/or number of customers.

Members of the Board of Trustees are also officers of companies that are customers of the utility. Most employees are also customers of the utility.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

NOTE 12 – 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 13 – 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 14 – JOINT VENTURE

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 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. 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 has 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 share of MAGIC’s operating expenses is expensed as incurred.

NOTE 15 – SUBSEQUENT EVENTS

WATER RATES

In December 2006, a 3% water rate increase was approved by the Board to become effective with water usage starting April 1, 2007.

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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, 2006

Insurer	Type of Coverage	Policy's Expiration Date	Amount of Coverage
FM Global Insurance Company	All risks:	04/01/07	
	Named locations		\$ 475,000,000
	Gross earnings-Communications Utility		Blanket \$ 500,000
	Acts of terrorism-certified		Deductible per occurrence
	Acts of terrorism-non certified		Included in Blanket
	Accounts receivable		250,000,000
	Debris removal		100,000,000
	Decontamination costs		100,000,000
	Demolition & increased cost of construction		100,000,000
	Earth movement		100,000,000
	Errors and omissions		100,000,000
	Fine arts		100,000,000
	Flood		100,000,000
	Automatic coverage (90 days)		50,000,000
	Valuable papers and records		50,000,000
	Data programs or software and computer systems		10,000,000
	Expediting expense and extra expense		10,000,000
	Ingress/egress (30 days)		10,000,000
	Leasehold interest		10,000,000
	Miscellaneous personal property per location		10,000,000
	Miscellaneous unnamed locations		10,000,000
	Off premises storage for property under construction		10,000,000
	Protection and preservation of property - time element		10,000,000
	Soft costs		10,000,000
	Transportation		10,000,000
	Railroad rolling stock		5,000,000 ACV
	Mobile equipment (FKA contractors equipment)		2,500,000 ACV
	Professional fees		1,000,000
	Land and water cleanup		50,000
Cincinnati Insurance Company	Money & Securities	04/01/09	100,000
			No deductible
Cincinnati Insurance Company	Blanket Fidelity Bond, All Employees except Treasurer	04/01/09	250,000
			No deductible
Cincinnati Insurance Company	Treasurer's Bond	04/01/09	250,000
			No deductible

MUSCATINE POWER AND WATER

Schedule of Insurance Coverage (cont.)

December 31, 2006

Insurer	Type of Coverage	Policy's Expiration Date	Amount of Coverage
<p>AEGIS</p> <p>Excess liability: Automobile liability Premises operations Product liability and completed operations Failure to supply Pollution liability Medical malpractice Employment practices (12/31/98 retroactive date) Emergency assistance agreements Joint venture liability (pro rata ownership) Employers liability Standards board activity Community service activity</p>	<p>12/31/06</p> <p>\$ 35,000,000</p> <p>\$ 500,000 Retention</p>		
<p>AEGIS</p> <p>Fiduciary & employee benefit liability Each natural person who is insured with respect to each wrongful act Sponsor organization (utility)</p>	<p>04/01/07</p> <p>20,000,000</p> <p>0 Retention 250,000 Retention</p>		
<p>Midwest Employers Casualty Company</p> <p>Excess workers compensation</p>	<p>12/31/06</p> <p>35,000,000</p> <p>1,000,000 Each accident SIR</p>		

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MUSCATINE POWER AND WATER

SCHEDULE OF FINDINGS
Year Ended December 31, 2006

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

- 06-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, 2006.
- 06-II-B** Certified Budget – Disbursements during the year ended December 31, 2006, did not exceed the amounts budgeted.
- 06-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.
- 06-II-D** Travel Expense – No disbursements of utility money for travel expenses of spouses of utility officials or employees were noted.
- 06-II-E** Business Transactions – We noted no business transactions between the utility and utility officials or employees.
- 06-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.
- 06-II-G** Board Minutes – No transactions were found that we believe should have been approved in the board minutes but were not.
- 06-II-H** Revenue Bonds – The utility has complied with all provisions of the Revenue Electric Bond Covenants. All required payments to the sinking, reserve and improvement funds were made.
- 06-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.