

**MUSCATINE POWER AND WATER**

FINANCIAL STATEMENTS

December 31, 2007 and 2006

# MUSCATINE POWER AND WATER

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Muscatine Power and Water (utility), a component unit of the City of Muscatine, Iowa as identified in the accompanying table of contents as of and for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 in the first paragraph present fairly, in all material respects, the financial position of the utility as of December 31, 2007 and 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2008 on our consideration of Muscatine Power and Water's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 18 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.

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

Our audits were conducted for the purpose of forming opinions on the financial statements of the utility's financial statements. 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 27, 2008

*Virchow, Krause & Company, LLP*

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**MUSCATINE POWER AND WATER**

# MUSCATINE POWER AND WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007 and 2006

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.

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### OVERVIEW OF THE FINANCIAL STATEMENTS

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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.

A summary of Muscatine Power and Water's Balance Sheets is presented in Table 1. The Statements of Revenues, Expenses and Changes in Net Assets are presented in Table 2.

**TABLE 1**  
**Condensed Balance Sheets**

<i>In thousands \$</i>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Current Assets</b>			
Unrestricted	\$ 38,463	\$ 30,743	\$ 28,260
Restricted	49,882	49,302	48,194
<b>Total Current Assets</b>	<u>88,345</u>	<u>80,045</u>	<u>76,454</u>
<b>Non-Current Assets</b>			
Capital Assets	163,086	171,366	177,618
Other Assets	39,545	40,422	41,354
<b>Total Non-Current Assets</b>	<u>202,631</u>	<u>211,788</u>	<u>218,972</u>
<b>Total Assets</b>	<u>\$ 290,976</u>	<u>\$ 291,833</u>	<u>\$ 295,426</u>
<b>Current Liabilities</b>	\$ 21,993	\$ 20,512	\$ 23,428
<b>Non-Current Liabilities</b>	88,141	100,427	108,899
<b>Deferred Revenue</b>	29,303	29,303	29,303
<b>Total Liabilities and Deferred Revenue</b>	<u>139,437</u>	<u>150,242</u>	<u>161,630</u>
<b>Net Assets</b>			
Invested in capital and intangible assets, net of related debt	103,119	100,278	95,906
Restricted	48,283	47,483	46,184
Unrestricted	137	(6,170)	(8,294)
<b>Total Net Assets</b>	<u>151,539</u>	<u>141,591</u>	<u>133,796</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 290,976</u>	<u>\$ 291,833</u>	<u>\$ 295,426</u>

## MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2007 and 2006

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### OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

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**TABLE 2**  
**Condensed Statement of Revenues, Expenses and Changes in Net Assets**

<i>In thousands \$</i>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Operating Revenues	\$ 92,017	\$ 88,140	\$ 88,613
Operating Expenses	(81,775)	(78,807)	(72,950)
Operating Income	<u>10,242</u>	<u>9,333</u>	<u>15,663</u>
Nonoperating Revenues	4,356	3,579	2,226
Nonoperating Expenses	(4,745)	(5,410)	(5,828)
Net Nonoperating Expenses	<u>(389)</u>	<u>(1,831)</u>	<u>(3,602)</u>
Net Income before Capital Contributions and Deferred Revenue	9,853	7,502	12,061
Capital Contributions	<u>95</u>	<u>293</u>	<u>464</u>
Net Income before Deferred Revenue	9,948	7,795	12,525
Deferred Revenue	<u>-</u>	<u>-</u>	<u>(14,049)</u>
<b>Change in Net Assets</b>	9,948	7,795	(1,524)
Net Assets – Beginning of Year	<u>141,591</u>	<u>133,796</u>	<u>135,320</u>
<b>Net Assets – End of Year</b>	<u>\$ 151,539</u>	<u>\$ 141,591</u>	<u>\$ 133,796</u>

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### UTILITY FINANCIAL ANALYSIS

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#### ***ELECTRIC UTILITY***

The Electric Utility recorded change in net assets of \$10,472,000 in 2007 compared to \$8,618,000 in 2006 and \$0 in 2005. In 2005, revenue of \$14,049,000 was deferred to fund the Extraordinary Operation & Maintenance Account. Wholesale sales contributed significantly to the positive change in net assets, described in more detail later. The strong performance in wholesale sales was due to beneficial selling of excess energy not required for retail load.

No price adjustments have been necessary in the Electric Utility since 2002. Generation reliability, controlling costs, and recent years' success with selling excess energy have contributed to keeping our rates stable and competitive.

## MUSCATINE POWER AND WATER

### MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007 and 2006

#### **UTILITY FINANCIAL ANALYSIS (cont.)**

#### ***ELECTRIC UTILITY (cont.)***

#### ***Financial Highlights:***

<i>In thousands \$</i>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b><u>Balance Sheets</u></b>			
Cash and Investments	\$ 61,361	\$ 54,832	\$ 50,639
Total Capital Assets	139,195	147,214	153,071
Total Assets	256,306	256,903	259,779
Outstanding Debt	61,808	73,857	85,353
Deferred Revenue	29,303	29,303	29,303
Net Assets, Invested in Capital, Net of Related Debt	77,645	73,769	68,335
Net Assets, Restricted	48,283	47,483	44,650
Net Assets, Unrestricted	30,622	24,826	24,475
<b><u>Statements of Revenues, Expenses, and Changes in Net Assets</u></b>			
Operating Revenues	78,414	75,236	76,420
Operating Expenses	68,654	65,941	59,957
Nonoperating Revenues	4,143	3,388	2,106
Interest on Long-Term Debt	3,498	4,163	4,757
Capital Contributions	67	97	237
Deferred Revenue to Fund Extraordinary Operation & Maintenance Account	-	-	14,049
Change in Net Assets	10,472	8,618	-

#### ***Financial Position: (As reported in the Balance Sheets)***

The increase in unrestricted assets in 2007 is due to higher cash and investment balances, brought about by the Change in Net Assets.

Restricted assets, \$49,882,000 at December 31, 2007; \$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 in 2007 represent 54.3% of total assets. Depreciation and retirements exceeded capital expenditures resulting in a reduction in net utility plant of 5.4% in 2007 and 3.8% in 2006.

## MUSCATINE POWER AND WATER

### MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007 and 2006

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#### **UTILITY FINANCIAL ANALYSIS** (cont.)

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##### *ELECTRIC UTILITY* (cont.)

Muscatine Power and Water (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 \$194,000 at December 31, 2007; \$197,000 at December 31, 2006; and \$203,000 at December 31, 2005 represent MP&W's contributions less amortization.

Accrued expenses in 2007 include \$1,474,000 for self-insured health care reserves in excess of claims paid. This reserve has increased by \$343,000 from 2006, and another \$267,000 from 2005. Also included in accrued expenses are accrued payroll and vacation, which totaled \$1,482,000 in 2007; \$1,426,000 in 2006; and \$1,373,000 in 2005.

No new debt has been issued since 2002. Long term debt has been reduced by \$12,049,000 in 2007; \$11,495,000 in 2006; and \$11,012,000 in 2005. 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 1.72 times for 2007; 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. Currently MP&W's bond rating with Fitch Ratings is "A-".

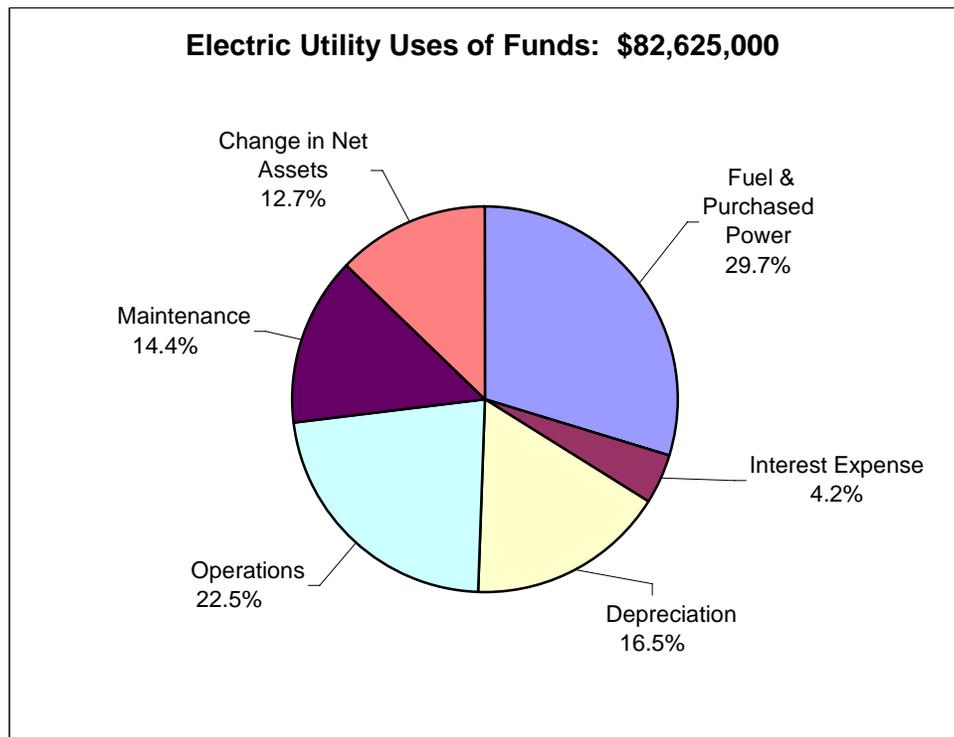
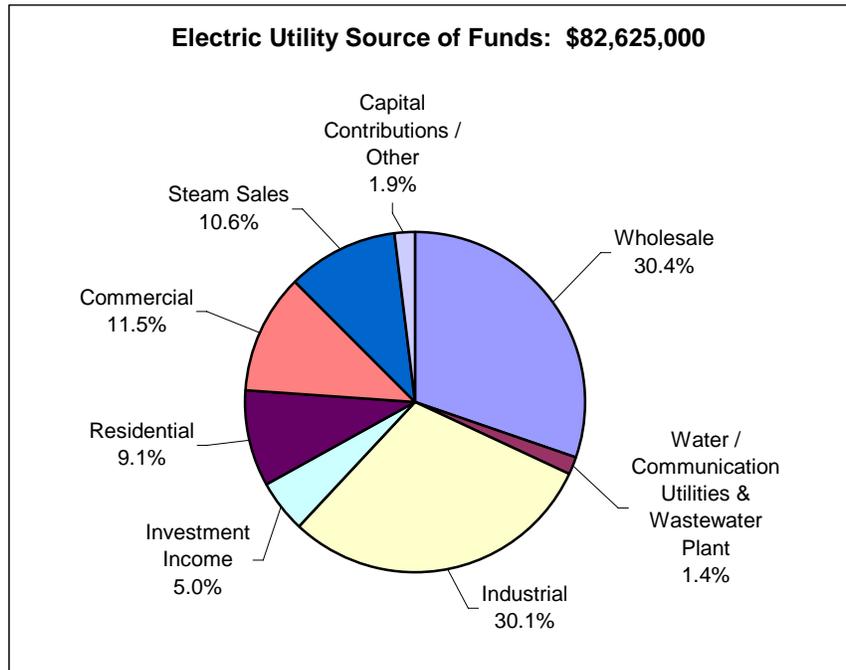
No additional revenue deferral took place in 2007 and 2006. The deferred revenue amount of \$29,303,000 may be used at the Board's discretion for extraordinary operating expenses and debt service.

# MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2007 and 2006

## UTILITY FINANCIAL ANALYSIS (cont.)

### ELECTRIC UTILITY (cont.)



## MUSCATINE POWER AND WATER

### MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007 and 2006

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#### UTILITY FINANCIAL ANALYSIS (cont.)

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##### *ELECTRIC UTILITY (cont.)*

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

Retail kWh usage has been fairly constant over the last three years. kWh's sold in 2007 were 1.5% higher than in 2006 resulting in approximately \$623,000 greater revenue; 0.6% fewer kWh's sold in 2006 compared to 2005 resulted in approximately \$250,000 lower revenue.

Wholesale electric sales were \$25,125,000 in 2007, compared to \$23,280,000 in 2006 and \$24,947,000 in 2005. Average prices compare as follows: \$42.0/MWh in 2007; \$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 2007 began the eighth year of a 20-year steam sale agreement with MP&W's largest 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. In 2007, a 6.3% higher price per pound plus 4.0% higher pounds sold resulted in \$831,000 more revenue than in 2006. In 2006, a combination of an 8.5% higher price per pound offset by 3.3% lower pounds sold resulted in \$361,000 more revenue than in 2005.

Operating expenses for 2007 were \$2,713,000 greater than 2006's expenses primarily due to higher coal costs. 2007 coal costs were \$3,547,000 greater due to both a higher price and a greater amount of coal burned. Natural gas expense was \$364,000 lower than 2006 due to lower usage.

Operating expenses for 2006 were \$5,984,000 greater than 2005's expenses. Purchased power in 2006 was \$1,777,000 greater than 2005 due to 23.3% more kWh's being purchased at a 39.1% higher average price. 2006 coal costs were \$587,000 greater due to both a 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. Generation plant maintenance, overhead distribution line maintenance, and transmission path expenses were greater than in 2005 by \$2,018,000, \$179,000, and \$214,000, respectively.

Investment income in 2007 was greater than 2006 and 2005 due to increasingly higher investment balances. The net increase in the fair value of investments was \$843,000 in 2007; \$405,000 in 2006; and a net decrease of \$204,000 in 2005. The interest rate on the note receivable from the Communications Utility loan has been fixed at 3.53% since January 1, 2006. The interest rate was 3.03% in 2005.

Interest on long-term debt is lower each year due to principal amounts of \$12,160,000 in 2007; \$11,780,000 in 2006; and \$11,465,000 in 2005 maturing on January 1, and no new debt being issued.

# MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2007 and 2006

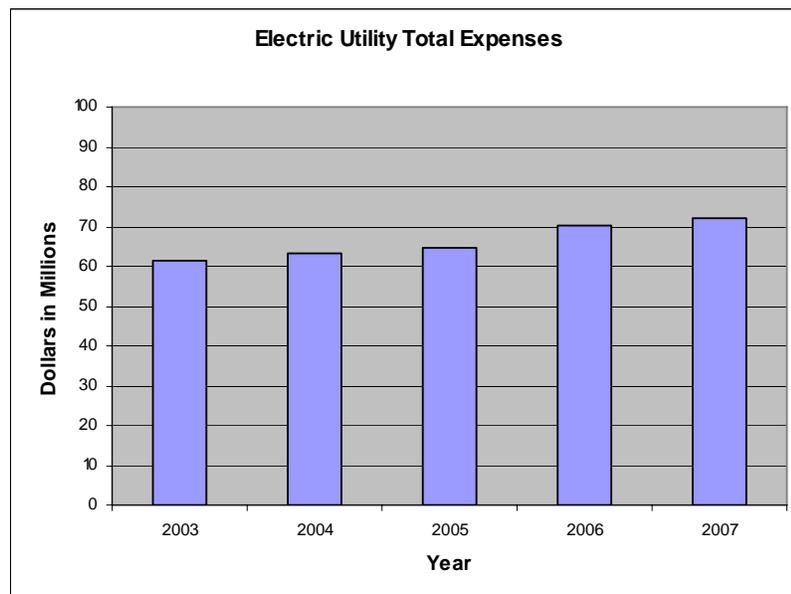
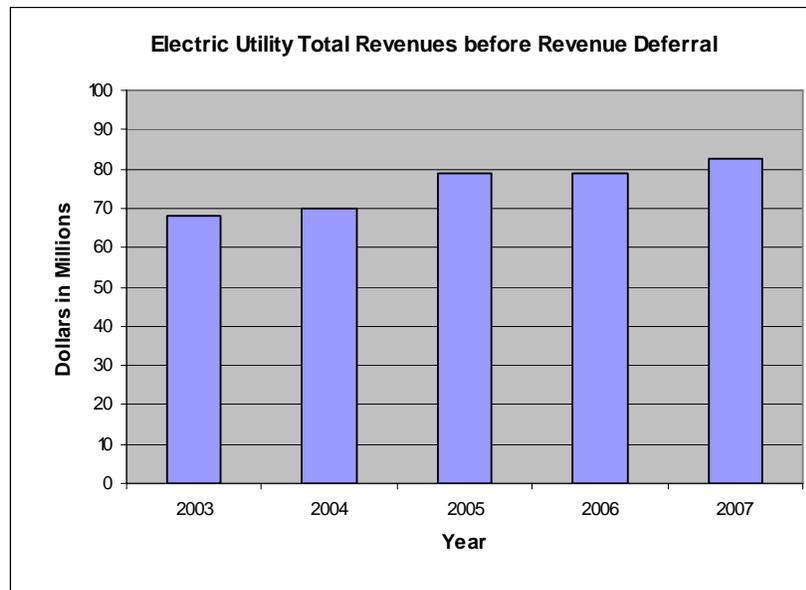
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## UTILITY FINANCIAL ANALYSIS (cont.)

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### *ELECTRIC UTILITY* (cont.)

Capital contributions for the year 2007 include \$67,000 from retail customers for transformers, primary cabling, and an electric service expansion. In 2006, capital contributions 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 wastewater 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.



# MUSCATINE POWER AND WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007 and 2006

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### UTILITY FINANCIAL ANALYSIS (cont.)

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#### **WATER UTILITY**

The Water Utility reported change in net assets of \$344,000 in 2007 compared to \$415,000 in 2006 and \$126,000 in 2005. Total retail water sales increased by 6.2% in 2007 and 3.2% in 2006, while operating expense increased 4.4% in 2007 and decreased in 2006 by 0.5%.

A 3.0% overall price adjustment went into effect with water usage starting April 1, 2007; a 4% overall price adjustment was effective with water usage beginning April 1, 2006. In December 2007, a 3.0% water rate increase was approved by the Board to become effective with water usage starting April 1, 2008. These adjustments were in response to an increase in capital requirements necessary to provide for fire protection, community growth, and higher operation and maintenance costs.

#### **Financial Highlights:**

<i>In thousands \$</i>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b><u>Balance Sheets</u></b>			
Cash and Investments	\$ 2,153	\$ 1,848	\$ 1,945
Total Capital Assets	12,316	12,094	11,827
Total Assets	15,126	14,640	14,351
Net Assets, Invested in Capital, Net of Related Debt	10,033	9,812	9,439
Net Assets, Restricted	-	-	1,534
Net Assets, Unrestricted	2,255	2,131	556
<b><u>Statements of Revenues, Expenses, and Changes in Net Assets</u></b>			
Operating Revenues	4,200	3,954	3,830
Operating Expenses	3,988	3,822	3,839
Investment Income	106	92	72
Capital Contributions	27	191	63
Change in Net Assets	344	415	126

#### **Financial Position: (As reported in the Balance Sheets)**

Capital assets represent 81.4% of the total assets in 2007. Capital assets increased in 2007, primarily due to the completion of water main projects totaling \$494,000.

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 approximately \$1,021,000 at the end of 2007, 2006, and 2005.

# MUSCATINE POWER AND WATER

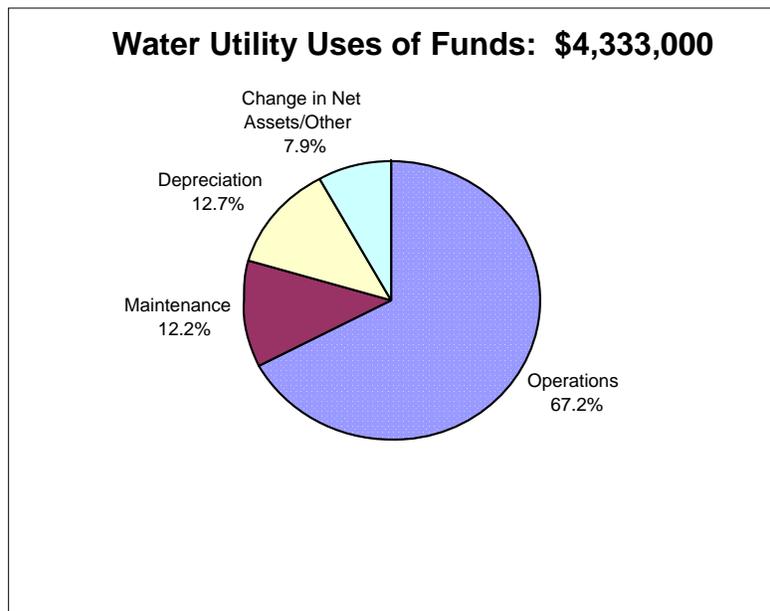
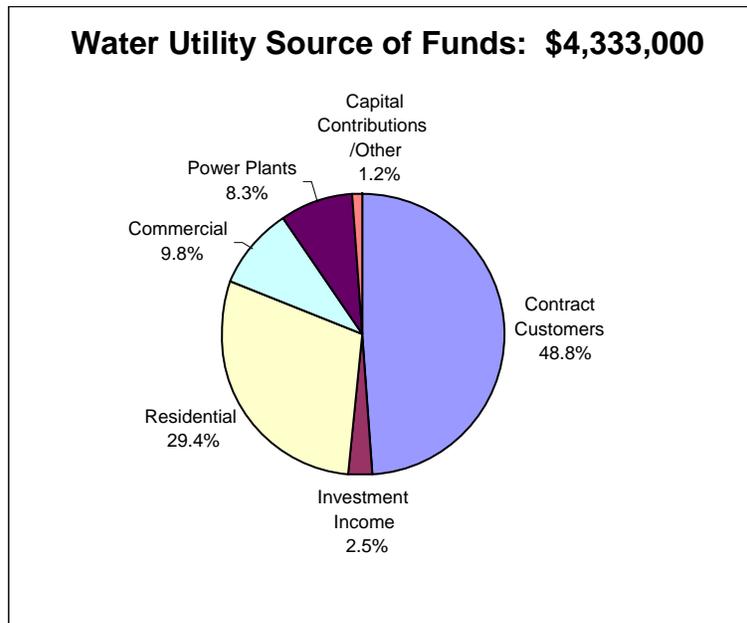
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2007 and 2006

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## UTILITY FINANCIAL ANALYSIS (cont.)

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### WATER UTILITY (cont.)



## MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2007 and 2006

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### UTILITY FINANCIAL ANALYSIS (cont.)

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#### *WATER UTILITY* (cont.)

***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 2007 water sales.

Total water sales revenue for 2007 was higher than the previous year by \$242,000 or 6.2%; usage was 4.8% greater. Gallons of water sold to industrial customers were up 5.2% from 2006; all other classes of customers' usage was up 3.2%. In 2006, water sales revenue was higher than 2005 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 6.3% decrease in usage by all other customer classes.

2007 maintenance expenses were \$93,000 or 21.3% higher than in 2006, primarily due to water main repairs. 2006 maintenance expenses were \$157,000 or 26.4% lower than in 2005, primarily due to painting the interior of a reservoir at a cost of \$130,000 in 2005, and fewer main repairs.

Investment income was higher in 2007 due to the net increase in the fair value of investments of \$26,000 compared to \$21,000 in 2006, plus higher cash and investment balances. 2006 investment income was greater than in 2005 due to the net increase in the fair value of investments of \$21,000.

The Water Utility has been debt-free since 1994.

Capital contributions reflect developer financed water main construction projects. In 2006, the City of Muscatine contributed \$80,000 for a major water main replacement project.

# MUSCATINE POWER AND WATER

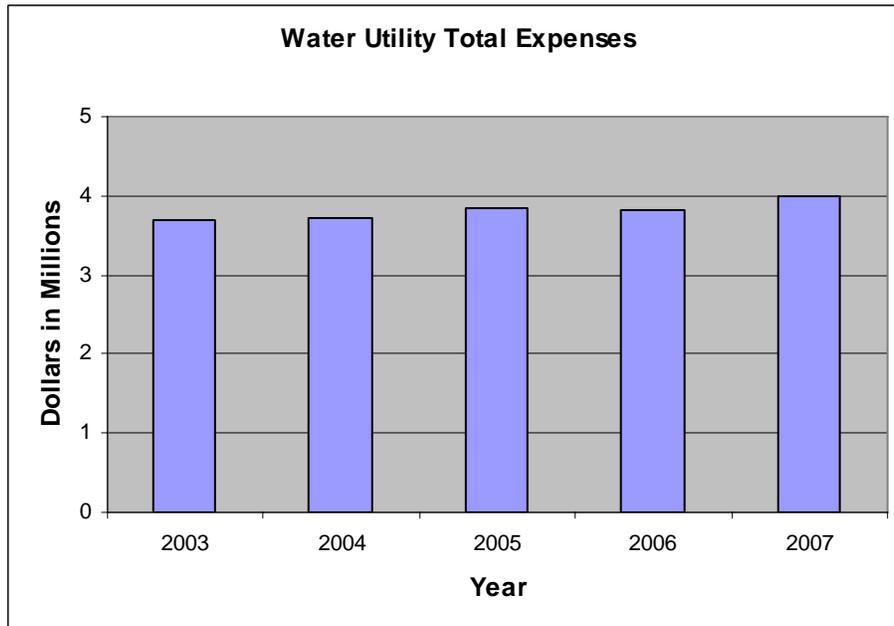
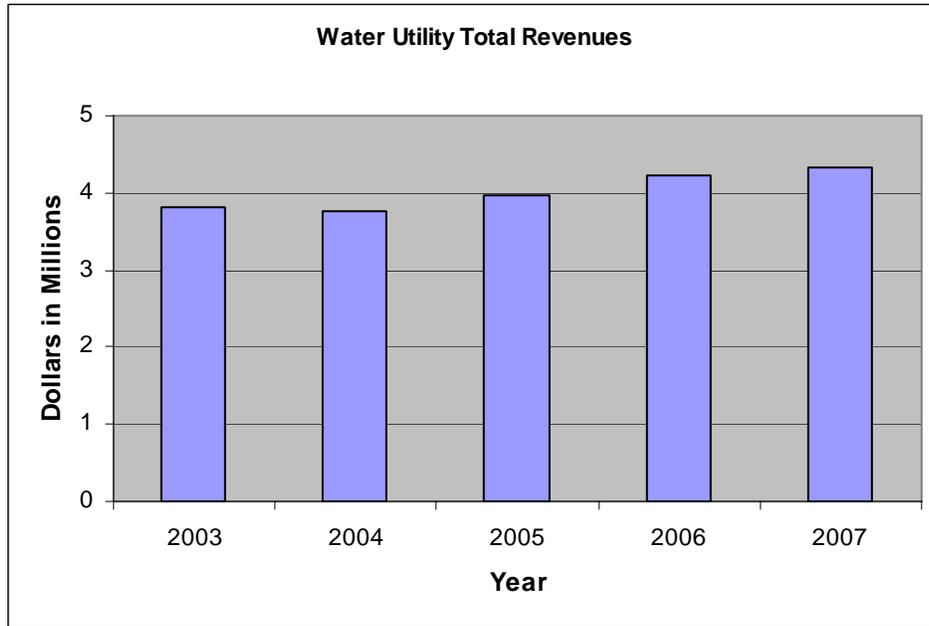
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2007 and 2006

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## UTILITY FINANCIAL ANALYSIS (cont.)

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### WATER UTILITY (cont.)



# MUSCATINE POWER AND WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2007 and 2006

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### UTILITY FINANCIAL ANALYSIS (cont.)

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#### **COMMUNICATIONS UTILITY**

The Communications Utility posted a change in net deficit of \$869,000, which was an improvement of \$369,000 from 2006's year end results, and an improvement of \$781,000 from 2005's year end results. Total operating revenues increased \$454,000 or 5.1% in 2007, and \$587,000 or 7.0% in 2006. Operating expenses were slightly higher by \$88,000 or 1.0% in 2007, and decreased by \$108,000 or 1.2% in 2006. The operating results for the Communications Utility continue to improve.

The most recent price adjustments for communications services became effective September 1, 2007. MPW cable basic service's monthly fee remained at \$17.50. The price for basic and expanded-basic cable service increased from \$46.99 to \$49.89/month. MPW MachLink turbo cable modem Internet service increased from a monthly fee of \$39.00 to \$39.99. The increase in communications service charges was primarily due to continued rising programming costs, debt service requirements, and other general inflationary factors.

In 2008, an all digital conversion of the CATV system will begin. This project is in response to the Federal Communications Commission's regulatory requirements. It will benefit customers by providing bandwidth capacity for the addition of HD programming and enhanced Internet speeds. The cost of this conversion is estimated at \$6,000,000, which will be funded by external financing.

#### **Financial Highlights:**

<i>In thousands \$</i>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b><u>Balance Sheets</u></b>			
Cash and Investments	\$ 2,866	\$ 2,368	\$ 1,976
Total Capital Assets	11,575	12,058	12,721
Total Assets	19,544	20,290	21,297
Note Payable to Electric Utility	35,327	35,327	35,327
Net Assets, Invested in Capital and Intangible Assets	15,441	16,696	18,133
Net Deficit, Unrestricted	(32,740)	(33,127)	(33,326)
<b><u>Statements of Revenues, Expenses, and Changes in Net Deficit</u></b>			
Operating Revenues	9,403	8,949	8,362
Operating Expenses	9,133	9,045	9,153
Investment Income	108	99	48
Interest on Note Payable	1,247	1,247	1,070
Capital Contributions	-	6	164
Change in Net Deficit	869	1,238	1,650

# MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2007 and 2006

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## UTILITY FINANCIAL ANALYSIS (cont.)

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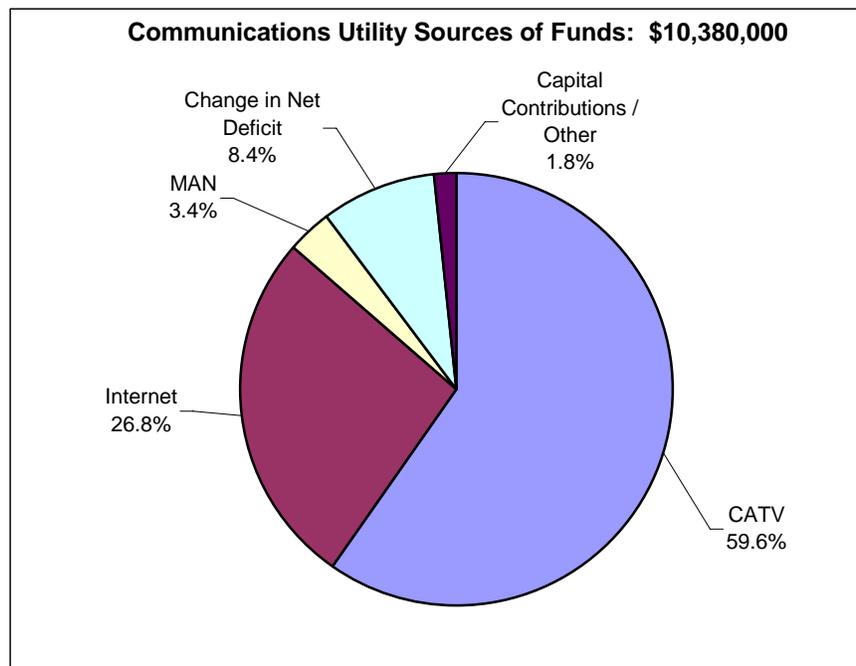
### COMMUNICATIONS UTILITY (cont.)

#### **Financial Position: (As reported in the Balance Sheets)**

Capital assets represent 59.2% of the total assets.

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

No changes in non-current liabilities have occurred in the last three years. The note payable due to the Electric Utility was for the initial construction, expansion and operations of the Communications Utility. Interest payments have been made on the loan. Repayment of the loan's principal is reviewed annually and established by the Board.



# MUSCATINE POWER AND WATER

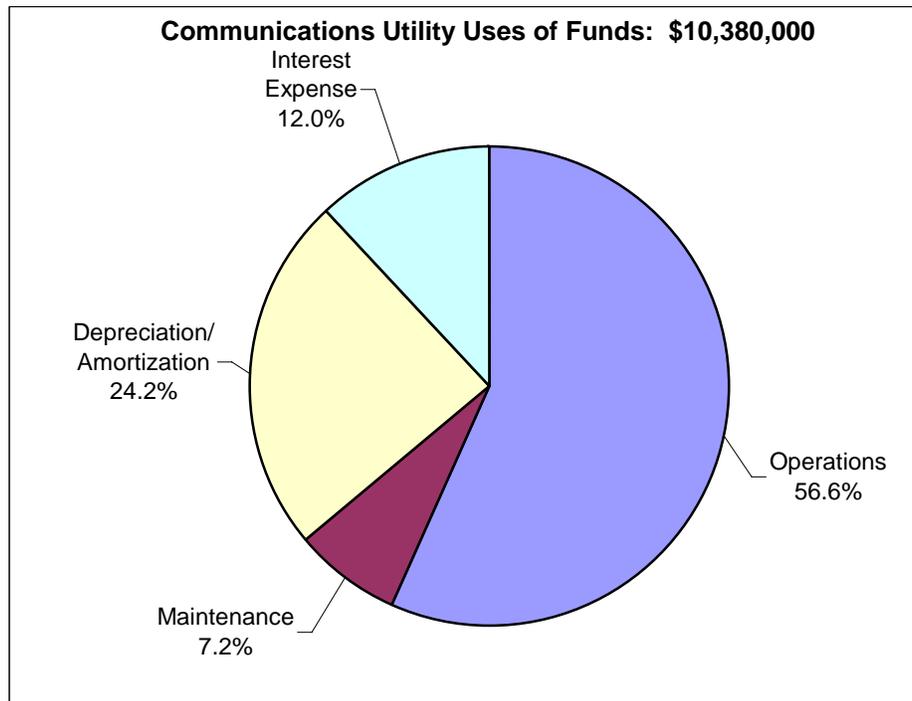
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2007 and 2006

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## UTILITY FINANCIAL ANALYSIS (cont.)

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### COMMUNICATIONS UTILITY (cont.)



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

Although the total number of CATV subscribers decreased by 306 or 3.6% in 2007, operating revenues were \$454,000 or 5.1% greater than 2006, due to the price adjustments in September 2007 and 2006. For the year 2006, operating revenues increased by \$408,000 or 7.4% over 2005. In 2007, the number of data/Internet subscribers increased by 111 or 1.8%; associated internet revenues increased \$139,000 or 5.3% in 2007; and \$109,000 or 4.3% in 2006. Municipal area network revenues remained constant in 2007 after an increase of \$46,000 in 2006.

2007 operating expenses increased 1.0% or \$88,000 over 2006. Operations expense is \$273,000 greater primarily due to increased CATV programming costs. Maintenance expense is up by \$165,000 primarily due to increased costs of headend equipment maintenance. Depreciation expense is \$350,000 lower due to some assets being fully depreciated at the end of 2006. Amortization expense is attributable to the January 2003 customer acquisition, which is being amortized over 10 years.

2007 investment income is \$9,000 greater than in 2006 due to higher cash and investment balances. 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.

# MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2007 and 2006

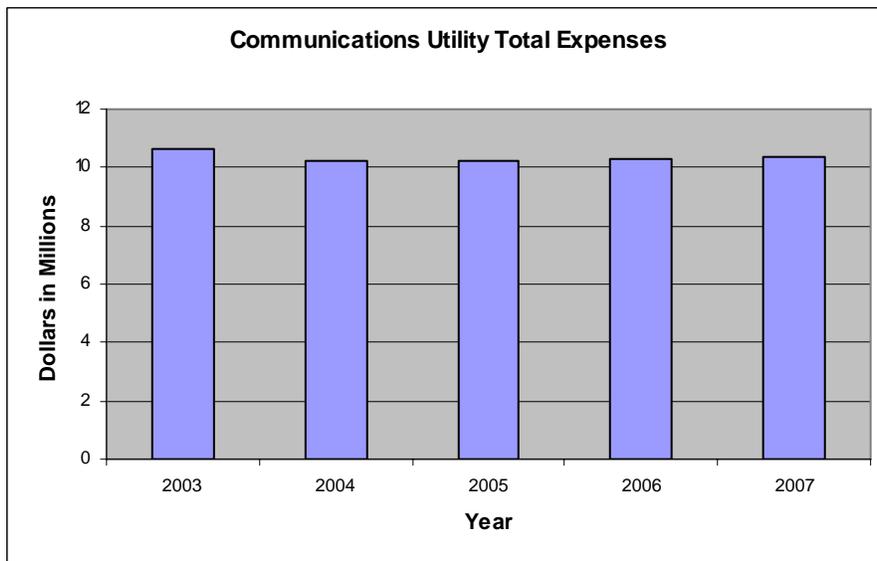
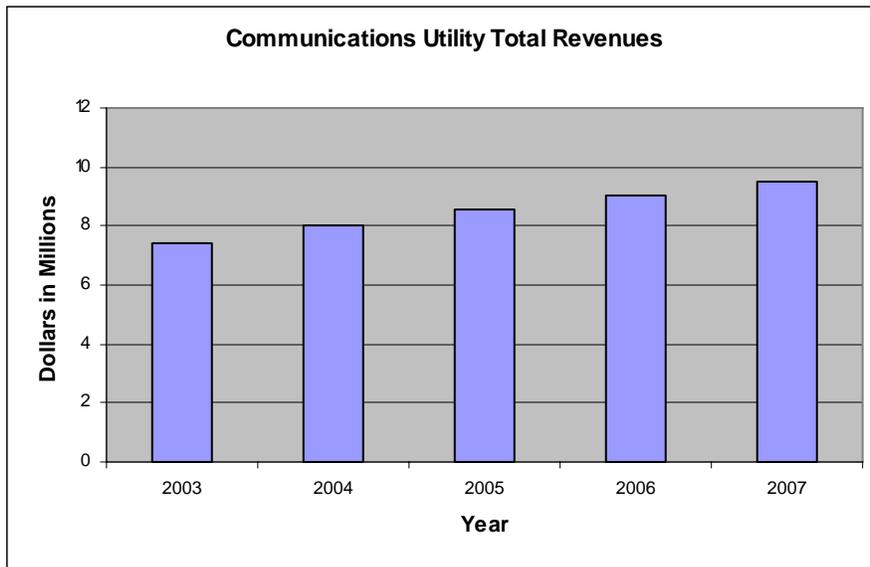
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## UTILITY FINANCIAL ANALYSIS (cont.)

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### COMMUNICATIONS UTILITY (cont.)

The interest rate on the note payable to the Electric Utility was 3.53% for 2007 and 2006. The interest rate was 3.03% in 2005.



## **MUSCATINE POWER AND WATER**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2007 and 2006

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### **CONTACTING UTILITY MANAGEMENT**

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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.

## MUSCATINE POWER AND WATER

BALANCE SHEETS  
December 31, 2007 and 2006

ASSETS	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2007	2006	2007	2006	2007	2006	2007	2006
<b>CURRENT ASSETS</b>								
Unrestricted Assets								
Cash	\$ 351,139	\$ 18,955	\$ 55,340	\$ 1,690	\$ 79,002	\$ 2,796	\$ 485,481	\$ 23,441
Investments	11,127,765	5,510,577	2,098,001	1,846,198	2,786,919	2,365,586	16,012,685	9,722,361
Receivables:								
Customer accounts	7,186,551	7,164,038	407,617	456,478	851,769	826,782	8,445,937	8,447,298
Interest	1,015,635	1,286,221	7,352	27,694	7,752	23,930	1,030,739	1,337,845
Inventories:								
Fuel	4,719,795	4,000,155	-	-	-	-	4,719,795	4,000,155
Materials and supplies	6,648,600	6,167,242	227,467	204,178	312,226	318,949	7,188,293	6,690,369
Prepaid and deferred expenses	500,583	456,421	14,416	9,624	65,283	55,567	580,282	521,612
Total Unrestricted Assets	31,550,068	24,603,609	2,810,193	2,545,862	4,102,951	3,593,610	38,463,212	30,743,081
Restricted Assets								
Cash	14,822	714	-	-	-	-	14,822	714
Investments	49,867,212	49,301,359	-	-	-	-	49,867,212	49,301,359
Total Restricted Assets	49,882,034	49,302,073	-	-	-	-	49,882,034	49,302,073
Total Current Assets	81,432,102	73,905,682	2,810,193	2,545,862	4,102,951	3,593,610	88,345,246	80,045,154
<b>NON-CURRENT ASSETS</b>								
Capital assets								
Utility plant in service	389,339,549	386,419,621	20,588,717	19,933,367	25,371,682	24,443,141	435,299,948	430,796,129
Construction work in progress	2,103,419	979,397	63,026	57,190	101,557	48,539	2,268,002	1,085,126
Less: accumulated depreciation	(252,248,159)	(240,184,972)	(8,336,239)	(7,896,294)	(13,898,074)	(12,434,008)	(274,482,472)	(260,515,274)
Total Capital Assets	139,194,809	147,214,046	12,315,504	12,094,263	11,575,165	12,057,672	163,085,478	171,365,981
Other assets								
Unamortized bond issuance costs	158,127	259,073	-	-	-	-	158,127	259,073
Note receivable from communications utility	35,327,000	35,327,000	-	-	-	-	35,327,000	35,327,000
Joint venture rights	194,404	197,002	-	-	-	-	194,404	197,002
Intangible assets, net of accumulated amortization								
2007 - \$4,289,659; 2006 - \$3,516,601	-	-	-	-	3,865,528	4,638,586	3,865,528	4,638,586
Total Other Assets	35,679,531	35,783,075	-	-	3,865,528	4,638,586	39,545,059	40,421,661
Total Non-Current Assets	174,874,340	182,997,121	12,315,504	12,094,263	15,440,693	16,696,258	202,630,537	211,787,642
<b>TOTAL ASSETS</b>	<b>\$ 256,306,442</b>	<b>\$ 256,902,803</b>	<b>\$ 15,125,697</b>	<b>\$ 14,640,125</b>	<b>\$ 19,543,644</b>	<b>\$ 20,289,868</b>	<b>\$ 290,975,783</b>	<b>\$ 291,832,796</b>

See accompanying notes to financial statements.

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2007	2006	2007	2006	2007	2006	2007	2006
<b>LIABILITIES AND NET ASSETS</b>								
<b>CURRENT LIABILITIES</b>								
Payable From Unrestricted Assets								
Trade accounts payable	\$ 2,786,859	\$ 1,999,864	\$ 250,401	\$ 135,382	\$ 398,826	\$ 332,526	\$ 3,436,086	\$ 2,467,772
Customer advances for construction	-	-	227,119	71,657	-	-	227,119	71,657
Accrued interest payable	-	-	-	-	623,520	623,521	623,520	623,521
Accrued expenses	2,368,942	2,249,649	191,054	186,646	349,190	324,000	2,909,186	2,760,295
Customer deposits	602,450	608,932	-	-	-	-	602,450	608,932
Total Payable From Unrestricted Assets	5,758,251	4,858,445	668,574	393,685	1,371,536	1,280,047	7,798,361	6,532,177
Payable From Restricted Assets								
Current portion of long-term debt	12,595,000	12,160,000	-	-	-	-	12,595,000	12,160,000
Accrued interest payable	1,599,356	1,819,452	-	-	-	-	1,599,356	1,819,452
Total Payable From Restricted Assets	14,194,356	13,979,452	-	-	-	-	14,194,356	13,979,452
Total Current Liabilities	19,952,607	18,837,897	668,574	393,685	1,371,536	1,280,047	21,992,717	20,511,629
<b>NON-CURRENT LIABILITIES AND DEFERRED REVENUE</b>								
Long term debt, net of current portion	49,213,430	61,697,293	-	-	-	-	49,213,430	61,697,293
Deferred revenue	29,303,164	29,303,164	-	-	-	-	29,303,164	29,303,164
Health care provision	1,287,217	986,906	114,123	92,516	144,424	113,214	1,545,764	1,192,636
Customer advances for construction	-	-	2,055,061	2,210,255	-	-	2,055,061	2,210,255
Note payable to electric utility	-	-	-	-	35,327,000	35,327,000	35,327,000	35,327,000
Total Non-Current Liabilities and Deferred Revenue	79,803,811	91,987,363	2,169,184	2,302,771	35,471,424	35,440,214	117,444,419	129,730,348
<b>NET ASSETS (DEFICIT)</b>								
Invested in capital and intangible assets, net of related debt	77,645,436	73,769,302	10,033,324	9,812,351	15,440,693	16,696,258	103,119,453	100,277,911
Restricted	48,282,678	47,482,621	-	-	-	-	48,282,678	47,482,621
Unrestricted	30,621,910	24,825,620	2,254,615	2,131,318	(32,740,009)	(33,126,651)	136,516	(6,169,713)
Total Net Assets (Deficit)	156,550,024	146,077,543	12,287,939	11,943,669	(17,299,316)	(16,430,393)	151,538,647	141,590,819
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 256,306,442</b>	<b>\$ 256,902,803</b>	<b>\$ 15,125,697</b>	<b>\$ 14,640,125</b>	<b>\$ 19,543,644</b>	<b>\$ 20,289,868</b>	<b>\$ 290,975,783</b>	<b>\$ 291,832,796</b>

See accompanying notes to financial statements.

## MUSCATINE POWER AND WATER

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended December 31, 2007 and 2006

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2007	2006	2007	2006	2007	2006	2007	2006
<b>OPERATING REVENUES</b>								
Retail sales	\$ 43,075,338	\$ 42,451,979	\$ 4,173,520	\$ 3,931,607	\$ 9,325,703	\$ 8,877,744	\$ 56,574,561	\$ 55,261,330
Wholesale electric sales	25,124,920	23,279,518	-	-	-	-	25,124,920	23,279,518
Steam sales	8,750,990	7,920,489	-	-	-	-	8,750,990	7,920,489
Other	1,463,118	1,584,329	25,989	22,289	77,674	71,590	1,566,781	1,678,208
Total Operating Revenues	<u>78,414,366</u>	<u>75,236,315</u>	<u>4,199,509</u>	<u>3,953,896</u>	<u>9,403,377</u>	<u>8,949,334</u>	<u>92,017,252</u>	<u>88,139,545</u>
<b>OPERATING EXPENSES</b>								
Production fuel and purchased power	24,522,119	23,128,012	-	-	-	-	24,522,119	23,128,012
Other operating expenses	18,625,392	17,783,389	2,909,276	2,841,113	5,870,493	5,597,597	27,405,161	26,222,099
Maintenance	11,857,625	11,651,806	529,972	437,075	752,686	587,462	13,140,283	12,676,343
Depreciation	13,648,800	13,377,408	549,192	543,636	1,736,760	2,086,586	15,934,752	16,007,630
Amortization	-	-	-	-	773,059	773,059	773,059	773,059
Total Operating Expenses	<u>68,653,936</u>	<u>65,940,615</u>	<u>3,988,440</u>	<u>3,821,824</u>	<u>9,132,998</u>	<u>9,044,704</u>	<u>81,775,374</u>	<u>78,807,143</u>
Operating Income (Loss)	<u>9,760,430</u>	<u>9,295,700</u>	<u>211,069</u>	<u>132,072</u>	<u>270,379</u>	<u>(95,370)</u>	<u>10,241,878</u>	<u>9,332,402</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>								
Investment income	2,877,501	2,141,100	106,196	91,982	107,741	99,074	3,091,438	2,332,156
Interest income on note receivable from communications utility	1,247,043	1,247,043	-	-	-	-	1,247,043	1,247,043
Gain on land disposal	18,250	-	-	-	-	-	18,250	-
Interest on long-term debt and note payable	(3,498,235)	(4,162,725)	-	-	(1,247,043)	(1,247,043)	(4,745,278)	(5,409,768)
Net Nonoperating Expenses	<u>644,559</u>	<u>(774,582)</u>	<u>106,196</u>	<u>91,982</u>	<u>(1,139,302)</u>	<u>(1,147,969)</u>	<u>(388,547)</u>	<u>(1,830,569)</u>
Net income before capital contributions	10,404,989	8,521,118	317,265	224,054	(868,923)	(1,243,339)	9,853,331	7,501,833
<b>CAPITAL CONTRIBUTIONS</b>	<u>67,492</u>	<u>96,816</u>	<u>27,005</u>	<u>190,752</u>	<u>-</u>	<u>5,699</u>	<u>94,497</u>	<u>293,267</u>
<b>CHANGE IN NET ASSETS (DEFICIT)</b>	10,472,481	8,617,934	344,270	414,806	(868,923)	(1,237,640)	9,947,828	7,795,100
NET ASSETS (DEFICIT) - Beginning of Year	<u>146,077,543</u>	<u>137,459,609</u>	<u>11,943,669</u>	<u>11,528,863</u>	<u>(16,430,393)</u>	<u>(15,192,753)</u>	<u>141,590,819</u>	<u>133,795,719</u>
<b>NET ASSETS (DEFICIT) - END OF YEAR</b>	<u>\$ 156,550,024</u>	<u>\$ 146,077,543</u>	<u>\$ 12,287,939</u>	<u>\$ 11,943,669</u>	<u>\$ (17,299,316)</u>	<u>\$ (16,430,393)</u>	<u>\$ 151,538,647</u>	<u>\$ 141,590,819</u>

See accompanying notes to financial statements.

## MUSCATINE POWER AND WATER

STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2007 and 2006

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2007	2006	2007	2006	2007	2006	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>								
Cash received from retail sales	\$ 42,906,555	\$ 42,961,337	\$ 4,147,724	\$ 3,929,646	\$ 8,953,760	\$ 8,608,760	\$ 56,008,039	\$ 55,499,743
Cash received from wholesale electric sales	25,249,313	23,983,144	-	-	-	-	25,249,313	23,983,144
Cash received from steam sales	8,675,182	7,762,121	-	-	-	-	8,675,182	7,762,121
Cash received from advertising sales	-	-	-	-	412,777	351,322	412,777	351,322
Cash received from other operating sources	4,092,941	5,167,868	46,229	101,347	166,670	263,884	4,305,840	5,533,099
Cash paid for coal	(22,359,853)	(18,458,479)	-	-	-	-	(22,359,853)	(18,458,479)
Cash paid to suppliers	(15,319,029)	(18,078,888)	(1,453,015)	(1,445,942)	(3,896,732)	(3,675,096)	(20,668,776)	(23,199,926)
Cash paid for employee payroll, taxes and benefits	(20,050,828)	(19,459,667)	(1,855,974)	(1,910,618)	(2,768,157)	(2,606,968)	(24,674,959)	(23,977,253)
Reimbursements by related parties for expenses paid	115,480	493,352	-	-	-	-	115,480	493,352
Net Cash Flows From Operating Activities	<u>23,309,761</u>	<u>24,370,788</u>	<u>884,964</u>	<u>674,433</u>	<u>2,868,318</u>	<u>2,941,902</u>	<u>27,063,043</u>	<u>27,987,123</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>								
Interest received on note receivable	1,247,043	1,158,726	-	-	-	-	1,247,043	1,158,726
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>								
Capital expenditures	(5,586,171)	(7,539,342)	(706,048)	(850,579)	(1,247,654)	(1,478,639)	(7,539,873)	(9,868,560)
Proceeds from sale of assets	55,744	49,312	-	-	-	8,033	55,744	57,345
Bond principal payments	(12,160,000)	(11,780,000)	-	-	-	-	(12,160,000)	(11,780,000)
Bond interest payments	(3,418,808)	(3,829,151)	-	-	-	-	(3,418,808)	(3,829,151)
Interest paid to electric utility	-	-	-	-	(1,247,043)	(1,158,726)	(1,247,043)	(1,158,726)
Net Cash Flows From Capital and Related Financing Activities	<u>(21,109,235)</u>	<u>(23,099,181)</u>	<u>(706,048)</u>	<u>(850,579)</u>	<u>(2,494,697)</u>	<u>(2,629,332)</u>	<u>(24,309,980)</u>	<u>(26,579,092)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>								
Proceeds from investments matured and sold	62,922,547	62,917,130	2,648,670	4,248,269	3,695,703	2,613,104	69,266,920	69,778,503
Investments purchased	(68,703,693)	(66,681,273)	(2,888,085)	(4,155,208)	(4,120,010)	(3,000,183)	(75,711,788)	(73,836,664)
Purchase of joint venture rights	(66,320)	(71,311)	-	-	-	-	(66,320)	(71,311)
Interest received on investments	2,932,200	1,737,971	125,575	93,224	134,303	96,312	3,192,078	1,927,507
Accrued interest purchased	(186,011)	(330,543)	(11,426)	(9,129)	(7,411)	(21,039)	(204,848)	(360,711)
Net Cash Flows From Investing Activities	<u>(3,101,277)</u>	<u>(2,428,026)</u>	<u>(125,266)</u>	<u>177,156</u>	<u>(297,415)</u>	<u>(311,806)</u>	<u>(3,523,958)</u>	<u>(2,562,676)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	346,292	2,307	53,650	1,010	76,206	764	476,148	4,081
<b>CASH AND CASH EQUIVALENTS - Beginning of Year</b>								
Current unrestricted cash	18,955	15,751	1,690	307	2,796	2,032	23,441	18,090
Current restricted cash	714	1,611	-	373	-	-	714	1,984
	<u>19,669</u>	<u>17,362</u>	<u>1,690</u>	<u>680</u>	<u>2,796</u>	<u>2,032</u>	<u>24,155</u>	<u>20,074</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>								
Current unrestricted cash	351,139	18,955	55,340	1,690	79,002	2,796	485,481	23,441
Current restricted cash	14,822	714	-	-	-	-	14,822	714
	<u>\$ 365,961</u>	<u>\$ 19,669</u>	<u>\$ 55,340</u>	<u>\$ 1,690</u>	<u>\$ 79,002</u>	<u>\$ 2,796</u>	<u>\$ 500,303</u>	<u>\$ 24,155</u>

See accompanying notes to financial statements.

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2007	2006	2007	2006	2007	2006	2007	2006
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>								
Operating income (loss)	\$ 9,760,430	\$ 9,295,700	\$ 211,069	\$ 132,072	\$ 270,379	\$ (95,370)	\$ 10,241,878	\$ 9,332,402
Noncash items in operating income (loss)								
Depreciation	13,648,800	13,377,408	549,192	543,636	1,736,760	2,086,586	15,934,752	16,007,630
Amortization of joint venture rights	68,918	77,306	-	-	773,059	773,059	841,977	850,365
Converter/modem net write-off	-	-	-	-	12,558	41,428	12,558	41,428
Changes in assets and liabilities								
Customer accounts receivable	(22,513)	1,611,607	48,861	1,182	(24,987)	(4,584)	1,361	1,608,205
Inventories	(1,200,998)	(250,958)	(23,289)	(27,349)	6,723	(8,087)	(1,217,564)	(286,394)
Prepaid and deferred expenses	(96,703)	37,276	(4,791)	(324)	(9,716)	(5,207)	(111,210)	31,745
Trade accounts payable	773,599	4,312	77,907	(98,867)	47,143	2,429	898,649	(92,126)
Accrued expenses	384,710	208,836	26,015	124,083	56,399	151,648	467,124	484,567
Customer deposits	(6,482)	9,301	-	-	-	-	(6,482)	9,301
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 23,309,761</b>	<b>\$ 24,370,788</b>	<b>\$ 884,964</b>	<b>\$ 674,433</b>	<b>\$ 2,868,318</b>	<b>\$ 2,941,902</b>	<b>\$ 27,063,043</b>	<b>\$ 27,987,123</b>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES</b>								
Unrealized gain (loss) in investments	\$ 401,896	\$ 425,941	\$ 12,388	\$ (5,083)	\$ (2,974)	\$ 4,703	\$ 411,310	\$ 425,561
Amortization of bond discounts/premium, deferred loss on debt refunding and bond issue costs	264,628	489,008	-	-	-	-	264,628	489,008
Unpaid capital expenditures	117,174	103,778	71,215	34,103	81,053	61,896	269,442	199,777
Contributions in aid of construction	-	-	71,925	52,795	-	-	71,925	52,795

See accompanying notes to financial statements.

**NOTES TO FINANCIAL STATEMENTS**

# MUSCATINE POWER AND WATER

## NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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#### ***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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the utility's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Utilities also have the option of following subsequent private-sector guidance subject to this same limitation. 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, 2007 and 2006

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

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#### **CASH AND CASH EQUIVALENTS**

The utility's cash and cash equivalents are considered to be general checking, saving and money market accounts. For purposes of the statement of cash flows, cash and cash equivalents have original maturities of 90 days or less from December 31, 2007 and 2006.

#### **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.

#### **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 composite depreciation rates for 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
<b>Electric Utility</b>		
Generation plant	3.3%	3.3%
Transmission and distribution plant	3.8	3.8
General plant	7.8	7.8

# MUSCATINE POWER AND WATER

## NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

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

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#### **CAPITAL ASSETS (cont.)**

	<u>2007</u>	<u>2006</u>
<b>Water Utility</b>		
Source of supply	3.3%	3.3%
Pumping equipment	3.2	3.3
Purification system	2.7	2.7
Distribution system	2.2	2.2
General plant	11.1	11.0
<b>Communications Utility</b>		
CATV	6.7%	8.3%
Data/Internet	9.3	13.5
MAN	6.5	6.9
General plant	9.8	10.3

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 2007 or 2006.

#### **CUSTOMER ADVANCES FOR CONSTRUCTION**

Customer advances for water construction projects 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 and debt service when deemed necessary by the Board. There was no deferral of revenue in 2006 and 2007.

# MUSCATINE POWER AND WATER

## NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

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

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#### ***EQUITY CLASSIFICATIONS***

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – 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 less any unspent debt proceeds
- b. Restricted net assets – Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other 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, it is the utility’s policy to use restricted resources first, then unrestricted resources as they are needed.

#### ***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 21, 2006 and effective for service beginning April 1, 2007.

Current communications rates were approved on July 31, 2007 and effective for service beginning September 1, 2007.

#### ***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.

# MUSCATINE POWER AND WATER

## NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

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

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#### ***OPERATING REVENUES AND EXPENSES (cont.)***

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 to the current year's presentation.

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### **NOTE 2 – DEPOSITS AND INVESTMENTS**

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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.

# MUSCATINE POWER AND WATER

## NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

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### NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

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#### *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 in 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, 2007 and 2006 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 in 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.

#### *CREDIT RISK*

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

As of December 31, 2007 and December 31, 2006, the utility's investments were rated as follows:

<u>Investment Type</u>	<u>Standard &amp; Poor's</u>	<u>Moody's</u>
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.

# MUSCATINE POWER AND WATER

## NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

### NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

#### **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, 2007 and 2006, 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>2007</u>	<u>2006</u>
Federal Home Loan Mortgage Corporation	N/A	16.9%
Federal Home Loan Bank	83.0%	66.8%
Federal Farm Credit Bank	11.0%	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.

Although there is some investment concentration at 12/31/07 and 12/31/06, the utility believes the risk to be minimal. Investments held are issued by federal agencies and rated AAA by Standard & Poor's and Aaa by Moody's.

#### **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, 2007, the utility's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity In Years</u>		
		<u>Less than 1 Year</u>	<u>1 – 5 Years</u>	<u>Greater than 5 Years</u>
U.S. agencies	<u>\$ 49,679,898</u>	<u>\$ 34,341,238</u>	<u>\$ 12,576,577</u>	<u>\$ 2,762,083</u>

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

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

## MUSCATINE POWER AND WATER

### NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

#### NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

##### *INTEREST RATE RISK* (cont.)

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.

#### NOTE 3 – CAPITAL ASSETS

##### *ELECTRIC UTILITY*

A summary of changes in electric capital assets for 2007 follows:

	Balance 1/01/07	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/07
Land and land rights <sup>(1)</sup>	\$ 1,881,476	\$ -	\$ (6,876)	\$ -	\$ 1,874,600
Generation plant	315,194,168	71,835	(916,195)	1,820,364	316,170,172
Transmission and distribution plant	51,203,297	605,870	(202,992)	1,225,680	52,831,855
General plant	18,140,680	123,771	(493,060)	691,531	18,462,922
Total Utility Plant in Service	386,419,621	801,476	(1,619,123)	3,737,575	389,339,549
Construction work in progress <sup>(1)</sup>	979,397	5,030,697	(169,100)	(3,737,575)	2,103,419
Total Electric Utility Plant	387,399,018	\$ 5,832,173	\$ (1,788,223)	\$ -	391,442,968
Less: Accumulated depreciation					
Generation plant	194,641,207	\$ 10,274,664	\$ (891,570)	-	204,024,301
Transmission and distribution plant	33,451,677	1,964,976	(214,477)	-	35,202,176
General plant	12,092,088	1,409,160	(479,566)	-	13,021,682
Total Accumulated Depreciation	240,184,972	\$ 13,648,800	\$ (1,585,613)	\$ -	252,248,159
Net Electric Capital Assets	\$ 147,214,046				\$ 139,194,809

(1) – Capital assets not being depreciated

## MUSCATINE POWER AND WATER

### NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

#### NOTE 3 – CAPITAL ASSETS (cont.)

##### *ELECTRIC UTILITY* (cont.)

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 <sup>(1)</sup>	\$ 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 <sup>(1)</sup>	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	31,840,669	1,918,776	(307,768)	-	33,451,677
General plant	11,089,999	1,361,424	(359,335)	-	12,092,088
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, 2007 and 2006

### NOTE 3 – CAPITAL ASSETS (cont.)

#### WATER UTILITY

A summary of changes in water capital assets for 2007 follows:

	Balance 1/01/07	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/07
Land and land rights <sup>(1)</sup>	\$ 1,052,321	\$ -	\$ -	\$ -	\$ 1,052,321
Source of supply	1,648,823	-	-	2,523	1,651,346
Pumping equipment	1,308,489	199	(42,514)	92,445	1,358,619
Purification equipment	1,046,216	5,948	-	-	1,052,164
Distribution system	13,800,703	142,054	(44,064)	478,470	14,377,163
General plant	1,076,815	2,836	(21,707)	39,160	1,097,104
Total Utility Plant in Service	19,933,367	151,037	(108,285)	612,598	20,588,717
Construction work in progress <sup>(1)</sup>	57,190	656,071	(37,637)	(612,598)	63,026
Total Water Utility Plant	19,990,557	\$ 807,108	\$ (145,922)	\$ -	20,651,743
Less: Accumulated depreciation					
Source of supply	935,799	\$ 54,960	\$ (488)	\$ -	990,271
Pumping equipment	479,023	42,432	(43,309)	-	478,146
Purification system	636,246	27,888	-	-	664,134
Distribution system	4,867,246	304,056	(44,064)	-	5,127,238
General plant	977,980	119,856	(21,386)	-	1,076,450
Total Accumulated Depreciation	7,896,294	\$ 549,192	\$ (109,247)	\$ -	8,336,239
Net Water Capital Assets	\$ 12,094,263				\$ 12,315,504

(1) – Capital assets not being depreciated

# MUSCATINE POWER AND WATER

## NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

### 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 <sup>(1)</sup>	\$ 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 <sup>(1)</sup>	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, 2007 and 2006

#### NOTE 3 – CAPITAL ASSETS (cont.)

##### *COMMUNICATIONS UTILITY*

A summary of changes in communications capital assets for 2007 follows:

	Balance 1/01/07	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/07
CATV	\$ 15,968,732	\$ 811,890	\$ (17,821)	78,141	\$ 16,840,942
Data/Internet	3,049,308	187,869	(234,710)	36,079	3,038,546
MAN	4,329,191	10,718	-	3,990	4,343,899
General plant	1,095,910	3,570	(30,178)	78,993	1,148,295
Total Utility Plant in Service	24,443,141	1,014,047	(282,709)	197,203	25,371,682
Construction work in progress <sup>(1)</sup>	48,539	276,145	(25,924)	(197,203)	101,557
Total Communications Utility Plant	24,491,680	\$ 1,290,192	\$ (308,633)	\$ -	25,473,239
Less: Accumulated depreciation					
CATV	8,058,601	\$ 1,064,964	\$ (12,652)	-	9,110,913
Data/Internet	1,586,527	284,700	(227,322)	-	1,643,905
MAN	2,322,642	279,732	-	-	2,602,374
General plant	466,238	107,364	(32,720)	-	540,882
Total Accumulated Depreciation	12,434,008	\$ 1,736,760	\$ (272,694)	\$ -	13,898,074
Net Communications Capital Assets	\$ 12,057,672				\$ 11,575,165

(1) – Capital assets not being depreciated

## MUSCATINE POWER AND WATER

### NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

#### NOTE 3 – CAPITAL ASSETS (cont.)

##### *COMMUNICATIONS UTILITY* (cont.)

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

	<u>Balance</u>	<u>Additions/</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance</u>
	<u>1/01/06</u>	<u>Reclassifications</u>			<u>12/31/06</u>
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 <sup>(1)</sup>	<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, 2007 and 2006

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### NOTE 4 – RESTRICTED ASSETS

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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 may be used for capital or other funding requirements, and the extraordinary operation and maintenance account may be used for extraordinary operating expenses and debt service at the discretion of the Board. The composition of the restricted assets at December 31, 2007 and 2006 is as follows:

	Electric Utility	
	2007	2006
Restricted Assets:		
Bond sinking fund	\$ 14,212,746	\$ 13,979,452
Rate stabilization fund	5,938,925	5,867,394
Extraordinary operation and maintenance account	<u>29,730,363</u>	<u>29,455,227</u>
Total Restricted Assets	<u>\$ 49,882,034</u>	<u>\$ 49,302,073</u>

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### NOTE 5 – NON-CURRENT LIABILITIES AND DEFERRED REVENUE

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#### *NON-CURRENT LIABILITIES AND DEFERRED REVENUE SUMMARY – ELECTRIC*

The following revenue bonds have been issued:

Issue Date	Original Amount	Purpose
October 2, 2001	\$49,090,000	Advance Refunding of a portion of the 1992 Series bonds
November 25, 2002	\$48,000,000	Advance Refunding of a portion of the 1986 Series bonds

## MUSCATINE POWER AND WATER

### NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

#### **NOTE 5 – NON-CURRENT LIABILITIES AND DEFERRED REVENUE(cont.)**

##### **NON-CURRENT LIABILITIES AND DEFERRED REVENUE SUMMARY – ELECTRIC (cont.)**

Non-current liabilities and deferred revenue activity for the year ended December 31, 2007:

	Balance 1/01/07	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/07
Series 2001 revenue bonds	\$ 49,090,000	\$ -	\$ -	\$ 49,090,000
Series 2002 revenue bonds	24,755,000	-	(12,160,000)	12,595,000
	<u>73,845,000</u>	-	<u>(12,160,000)</u>	<u>61,685,000</u>
Unamortized portion of deferred loss on refundings	(1,134,743)	-	447,568	(687,175)
Unamortized portion of revenue bond premiums	1,147,036	-	(336,431)	810,605
Total Long-Term Debt	73,857,293	-	(12,048,863)	61,808,430
Less: Current installments	(12,160,000)	-	(435,000)	(12,595,000)
Long-Term Debt, Net of Current Portion	61,697,293	-	(12,483,863)	49,213,430
Deferred revenue	29,303,164	-	-	29,303,164
Health care provision	986,906	300,311	-	1,287,217
	<u>91,987,363</u>	<u>300,311</u>	<u>(12,483,863)</u>	<u>79,803,811</u>
Non-Current Liabilities and Deferred Revenue	<u>\$ 91,987,363</u>	<u>\$ 300,311</u>	<u>\$ (12,483,863)</u>	<u>\$ 79,803,811</u>

Non-current liabilities and deferred revenue 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
	<u>85,625,000</u>	-	<u>(11,780,000)</u>	<u>73,845,000</u>
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
Health care provision	532,859	520,247	(66,200)	986,906
	<u>103,408,546</u>	<u>520,247</u>	<u>(11,941,430)</u>	<u>91,987,363</u>
Non-Current Liabilities and Deferred Revenue	<u>\$ 103,408,546</u>	<u>\$ 520,247</u>	<u>\$ (11,941,430)</u>	<u>\$ 91,987,363</u>

# MUSCATINE POWER AND WATER

## NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

### NOTE 5 – NON-CURRENT LIABILITIES AND DEFERRED REVENUE(cont.)

#### NON-CURRENT LIABILITIES AND DEFERRED REVENUE SUMMARY – ELECTRIC (cont.)

##### Non-Current Liabilities 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. Revenue bonds debt service requirements to maturity follow:

Year Ending December 31	Series 2002			Series 2001		
	Principal Amount	Interest 4.0%	Total	Principal Amount	Interest 5.5%	Total
2008	\$ 12,595,000	\$ 249,381	\$ 12,844,381	\$ -	\$ 2,699,950	\$ 2,699,950
2009	-	-	-	11,305,000	2,389,063	13,694,063
2010	-	-	-	11,930,000	1,750,100	13,680,100
2011	-	-	-	12,585,000	1,075,938	13,660,938
2012	-	-	-	13,270,000	364,925	13,634,925
Totals	<u>\$ 12,595,000</u>	<u>\$ 249,381</u>	<u>\$ 12,844,381</u>	<u>\$ 49,090,000</u>	<u>\$ 8,279,976</u>	<u>\$ 57,369,976</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 \$68,905,000 at December 31, 2007. The bonds and corresponding trust funds are not included on the Balance Sheets at December 31, 2007 and 2006 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, 2007 and 2006

### NOTE 5 – NON-CURRENT LIABILITIES AND DEFERRED REVENUE(cont.)

#### *NON-CURRENT LIABILITIES SUMMARY – WATER*

Non-current liabilities activity for the year ending December 31, 2007:

	Balance 1/01/07	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/07
Health care provision	\$ 92,516	\$ 21,607	\$ -	\$ 114,123
Customer advances for construction	<u>2,210,255</u>	<u>71,925</u>	<u>(227,119)</u>	<u>2,055,061</u>
<b>Non-Current Liabilities</b>	<b><u>\$ 2,302,771</u></b>	<b><u>\$ 93,532</u></b>	<b><u>\$ (227,119)</u></b>	<b><u>\$ 2,169,184</u></b>

Non-current liabilities activity for the year ending December 31, 2006:

	Balance 1/01/06	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/06
Health care provision	\$ -	\$ 62,726	\$ 29,790	\$ 92,516
Customer advances for construction	<u>2,229,117</u>	<u>52,795</u>	<u>(71,657)</u>	<u>2,210,255</u>
<b>Non-Current Liabilities</b>	<b><u>\$ 2,229,117</u></b>	<b><u>\$ 115,521</u></b>	<b><u>\$ (41,867)</u></b>	<b><u>\$ 2,302,771</u></b>

## MUSCATINE POWER AND WATER

### NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

#### **NOTE 5 – NON-CURRENT LIABILITIES AND DEFERRED REVENUE(cont.)**

##### ***NON-CURRENT LIABILITIES 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 interest rate on the principal amount outstanding of the entire loan beginning January 1, 2006 is 3.53%. Effective November 28, 2006, the interest rate was fixed at this current rate by action of the Board. Semi-annual payments of interest only are due each January 1 and July 1. Annual principal payments will be established by the Board and reviewed annually.

Non-current liabilities activity for the year ending December 31, 2007:

	Balance 1/01/07	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/07
Health care provision	\$ 113,214	\$ 31,210	\$ -	\$ 144,424
Note payable to electric utility	35,327,000	-	-	35,327,000
<b>Non-Current Liabilities</b>	<b>\$ 35,440,214</b>	<b>\$ 31,210</b>	<b>\$ -</b>	<b>\$ 35,471,424</b>

Non-current liabilities activity for the year ending December 31, 2006:

	Balance 1/01/06	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/06
Health care provision	\$ -	\$ 76,804	\$ 36,410	\$ 113,214
Note payable to electric utility	35,327,000	-	-	35,327,000
<b>Non-Current Liabilities</b>	<b>\$ 35,327,000</b>	<b>\$ 76,804</b>	<b>\$ 36,410</b>	<b>\$ 35,440,214</b>

# MUSCATINE POWER AND WATER

## NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

### 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 external 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>2007</u>	<u>2006</u>
Plant in Service	\$ 389,339,549	\$ 386,419,621
Construction Work in Progress	2,103,419	979,397
Accumulated Depreciation	<u>(252,248,159)</u>	<u>(240,184,972)</u>
Sub-Totals	<u>139,194,809</u>	<u>147,214,046</u>
Less: Capital Related Debt		
Current portion of capital related long term debt	12,595,000	12,160,000
Long-term portion of capital related long term debt	49,090,000	61,685,000
Unamortized debt issuance costs	(259,057)	(412,549)
Unamortized debt premium	810,605	1,147,036
Unamortized loss on advance refunding	<u>(687,175)</u>	<u>(1,134,743)</u>
Sub-Totals	<u>61,549,373</u>	<u>73,444,744</u>
 Total Net Assets Invested in Capital Assets, Net of Related Debt	 <u>\$ 77,645,436</u>	 <u>\$ 73,769,302</u>

## MUSCATINE POWER AND WATER

### NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

#### **NOTE 6 – NET ASSETS (cont.)**

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

	2007	2006
Plant in Service	\$ 20,588,717	\$ 19,933,367
Construction Work in Progress	63,026	57,190
Accumulated Depreciation	(8,336,239)	(7,896,294)
Sub-Totals	12,315,504	12,094,263
Less: Capital Related Debt		
Customer advances for construction	2,282,180	2,281,912
Total Net Assets Invested in Capital Assets	\$ 10,033,324	\$ 9,812,351

The following calculation supports the communications net assets invested in capital and intangible assets:

	2007	2006
Plant in Service	\$ 25,371,682	\$ 24,443,141
Construction Work in Progress	101,557	48,539
Accumulated Depreciation	(13,898,074)	(12,434,008)
Sub-Totals	11,575,165	12,057,672
Intangible Assets	8,155,187	8,155,187
Accumulated Amortization	(4,289,659)	(3,516,601)
Sub-Totals	3,865,528	4,638,586
Total Net Assets Invested in Capital and Intangible Assets	\$ 15,440,693	\$ 16,696,258

#### **DEFICIT BALANCES**

Generally accepted accounting principles require disclosure of individual funds that have deficit balances at year end.

As of December 31, 2007 and 2006 the Communications Utility had a net deficit of \$17.3 million and \$16.4 million respectively. This deficit is anticipated to be funded with future customer revenues in excess of expenses.

# MUSCATINE POWER AND WATER

## NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

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### NOTE 7 – PENSION PLAN

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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). Participants are, 100% vested 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.

The annual pension costs of \$979,179 for 2007; \$882,170 for 2006; \$806,451 for 2005; and \$728,752 for 2004 (including MAGIC-see note 14) were 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, 2007. The electric, water, and communications utilities' portions of the 2007 Plan contribution were \$817,117, \$48,319, and \$107,289, respectively

The annual required contribution is equal to normal cost plus level-dollar amortization of unfunded actuarial accrued liability over 20 years. The annual required contribution for 2007 was determined as part of the January 1, 2007 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. The utility's actuary issues an annual Financial Accounting Disclosure Report to fulfill the reporting requirements of these financial statement notes as required by the Governmental Accounting Standards Board.

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

<u>Fiscal Year Ending</u>	<u>Annual Required Cost (ARC)</u>	<u>% of ARC Contributed</u>	<u>Net Pension Obligation</u>
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	-
12/31/07	979,179	100	-

# MUSCATINE POWER AND WATER

## NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

### NOTE 7 – PENSION PLAN (cont.)

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)
01/01/02	\$ 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)
01/01/07	38,984,729	36,020,200	(2,964,529)	108.2	17,216,510	(17.2)

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 were required to contribute 3.7% through June 30, 2007 and 3.9% beginning July 1, 2007 of their annual covered salary and the utility was required to contribute 5.75% through June 30, 2007 and 6.05% beginning July 1, 2007 of employees' covered salary. Contribution requirements are established by State statute. The utility's contributions to IPERS for the years ended December 31, 2007 and 2006 were \$37,909 and \$33,964, respectively, equal to the required contributions for those years.

### NOTE 8 – SIGNIFICANT CUSTOMERS

Approximately \$23,266,000 or 30% in 2007 and \$22,449,000 or 30% in 2006 of the electric utility's operating revenues were derived from sales to one customer. Approximately \$1,944,000 or 47% in 2007 and \$1,800,000 or 46% in 2006 of the water utility's operating revenues were derived from sales to one customer.

# MUSCATINE POWER AND WATER

## NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

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### NOTE 9 – COMMITMENTS AND CONTINGENCIES

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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, 2014 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 7 megawatts of annual capacity with an 85% minimum load factor through May 31, 2009 to an unaffiliated utility with a one year extension if mutually agreed to. 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. The contract was amended in 2006 to add an additional ten years to the agreement. The amendment obligates the customer to certain environmental capital costs (approximately \$2 million) and ongoing SO<sub>2</sub>, NO<sub>X</sub> and mercury emission allowance costs. If the contract is cancelled during the amendment period, the customer has agreed to reimburse the utility for any of the unrecovered environmental capital costs.

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### NOTE 10 – ENVIRONMENTAL REGULATIONS

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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, 2007 and 2006

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### NOTE 11 – INTERFUND AND RELATED PARTY TRANSACTIONS

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The electric utility sold power to the water utility amounting to approximately \$869,800 in 2007 and \$876,000 in 2006. The electric utility sold power to the communications utility amounting to approximately \$15,700 in both 2007 and 2006. The electric utility purchased water from the water utility amounting to approximately \$356,800 and \$348,200 for 2007 and 2006, respectively. The electric utility purchased communications services from the communications utility amounting to approximately \$145,400 for 2007 and \$150,300 for 2006, and advertising amounting to \$5,135 and \$3,586 in 2007 and 2006, respectively.

The electric utility rents space to the water utility and the communications utility at the Administration/Operations Center. This amounted to \$61,236 in 2007 and \$69,480 in 2006 for the water utility's rent, and \$86,748 in 2007 and \$90,840 in 2006 for the communications utility's rent.

Electric utility amounts receivable from the water utility were \$77,349 and \$83,801 at December 31, 2007 and 2006, respectively. Electric utility amounts payable to the water utility were \$30,387 and \$30,031 at December 31, 2007 and 2006, respectively. Electric utility amounts receivable from the communications utility were \$9,299 and \$24,526 at December 31, 2007 and 2006, respectively. Electric utility amounts payable to the communications utility were \$2,559 and \$1,834 at December 31, 2007 and 2006, respectively.

Prior to 2002, the electric utility loaned the communications utility \$21,400,000 for the financing of the initial construction and operation of the communications utility. In subsequent years, additional amounts totaling \$13,927,000 were approved for the financing of the expansion and operation of the communications utility, increasing the total loan to \$35,327,000.

The interest rate on the principal amount outstanding of the entire loan beginning January 1, 2006 is 3.53%. Effective November 28, 2006, the interest rate was fixed at this current rate. Semi-annual payments of interest only are due each January 1 and July 1. Annual principal payments will be annually reviewed and established by the Board.

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

At December 31, 2007 and 2006, electric utility interest receivable from the communications utility was \$623,520 and \$623,522, respectively. Interest income on the loan amounted to \$1,247,043 for 2007 and 2006.

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, 2007 and 2006

### 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.

In June, 2007, the Governmental Accounting Standards Board issued Statement No. 51 *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable and also establishes guidance specific to intangible assets related to amortization. The Statement requires that if there are no factors that limit the useful life of an intangible asset the intangible asset be considered to have an indefinite useful life. Under the Statement, intangible assets with indefinite useful lives should not be amortized unless their useful life is subsequently determined to no longer be indefinite due to a change in circumstances.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The utility has not studied the potential impact of this statement on its recorded intangible assets and related financial reporting.

### 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. Settled claims have not exceeded self-insurance reserves or coverage in any of the last three years. There were no significant reductions in coverage compared to the prior year.

<i>(Thousands of dollars)</i>	<u>2007</u>	<u>2006</u>
<b>Health care self insurance reserve</b>		
Reserve liability, beginning of year	\$ 1,377	\$ 859
Add: Provision for reserve, current year	2,835	2,619
Less: Payments on reserve	<u>(2,427)</u>	<u>(2,101)</u>
Total Reserve Liability, end of year	1,785	1,377
Incurred but not reported claims	<u>(239)</u>	<u>(184)</u>
Non-Current Reserve Liability, End of Year	<u>\$ 1,546</u>	<u>\$ 1,193</u>
<i>(Thousands of dollars)</i>	<u>2007</u>	<u>2006</u>
<b>Workers compensation self insurance reserve</b>		
Reserve liability, beginning of year	\$ 167	\$ 215
Add: Provision for reserve	74	119
Less: Payments on reserve	<u>(90)</u>	<u>(167)</u>
Reserve Liability, End of Year	<u>\$ 151</u>	<u>\$ 167</u>

# MUSCATINE POWER AND WATER

## NOTES TO FINANCIAL STATEMENTS December 31, 2007 and 2006

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### NOTE 14 – JOINT VENTURE

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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 accounts for this investment under the equity method since it has the ability to exercise significant influence over the joint venture and it 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 average useful life of 26 years. The utility's share of MAGIC's operating expenses is expensed as incurred.

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### NOTE 15 – SUBSEQUENT EVENTS

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#### *WATER RATES*

In December 2007, a 3% water rate increase was approved by the Board to become effective with water usage starting April 1, 2008.

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



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of Muscatine Power and Water (utility) as of and for the year ended December 31, 2007, and have issued our report thereon dated March 27, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the utility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the utility's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the utility's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the utility's financial statements that is more than inconsequential will not be prevented or detected by the utility's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the utility's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in the utility's internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

### **Compliance and Other Matters**

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

This report is intended solely for the information and use of the Board of Trustees, others within the entity, and other parties to whom the utility may report, and is not intended to be, and should not be, used by anyone other than these specified parties.

Madison, Wisconsin  
March 27, 2008

*Virchow, Krause & Company, LLP*

## MUSCATINE POWER AND WATER

### SCHEDULE OF FINDINGS RELATED TO GOVERNMENT AUDITING STANDARDS AND REQUIRED STATUTORY REPORTING Year Ended December 31, 2007

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#### FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

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- A-02      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, 2007.
- B-02      Certified Budget – Disbursements during the year ended December 31, 2007, did not exceed the amounts budgeted.
- C-02      Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- D-02      Travel Expense – No disbursements of utility money for travel expenses of spouses of city officials or employees were noted.
- E-02      Business Transactions – No business transactions between the utility and utility officials or employees were noted.
- F-02      Bond Coverage – Surety bond coverage of city officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- G-02      Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- H-02      Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the utility's investment policy were noted.
- I-02      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.
- J-02      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 Section 388.10 *Municipal Utility Providing Telecommunications Services* regarding the subsidization of telecommunications operations by the electric and water utilities.

## MUSCATINE POWER AND WATER

Schedule of Insurance Coverage

December 31, 2007

Insurer	Type of Coverage	Policy's Expiration Date	Amount of Coverage	
FM Global Insurance Company	All risks:	4/1/08		
	Named locations		\$505,000,000	Blanket \$500,000 Deductible per occurrence
	Gross earnings-Communications Utility		Included in Blanket	
	Terrorism and non certified act of terrorism within United States		\$250,000,000	
	Accounts receivable		\$100,000,000	
	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 property-time element		\$10,000,000	
	Soft costs		\$10,000,000	
	Transportation		\$10,000,000	
	Railroad rolling stock		\$5,000,000	ACV
	Terrorism- property outside United States		\$5,000,000	
	Mobile equipment (FKA contractors equipment)		\$3,500,000	ACV
	Professional fees		\$1,000,000	
	Land and water cleanup		\$50,000	
Cincinnati Insurance Company	Money & Securities	4/1/09	100,000	No deductible
Cincinnati Insurance Company	Blanket Fidelity Bond, All Employees except Treasurer	4/1/09	250,000	No deductible
Cincinnati Insurance Company	Treasurer's Bond	4/1/09	250,000	No deductible

**MUSCATINE POWER AND WATER**

Schedule of Insurance Coverage (cont.)

December 31, 2007

Insurer	Type of Coverage	Policy's Expiration Date	Amount of Coverage		
AEGIS	Excess liability: Automobile liability Product liability and completed operations Failure to supply Pollution liability Medical malpractice Emergency assistance agreements Joint venture liability (pro rata ownership) Employers liability Standards board activity Community service activity Employment practices (12/31/98 retroactive date)	12/31/07	\$ 35,000,000	\$ 500,000	Retention
					\$500,000 SIR each claimant; \$1,000,000 SIR each occurrence
AEGIS	Fiduciary & employee benefit liability Each natural person who is insured with respect to each wrongful act	4/1/08	20,000,000	0	Retention
	Sponsor organization (utility) & all employee benefit programs with respect to each wrongful act			250,000	Retention
Midwest Employers Casualty Company	Excess workers compensation	12/31/07	35,000,000	1,000,000	Each accident SIR