

MUSCATINE POWER AND WATER

A Component Unit of the City of Muscatine, Iowa

FINANCIAL STATEMENTS

December 31, 2008 and 2007

MUSCATINE POWER AND WATER

A Component Unit of the City of Muscatine, Iowa

TABLE OF CONTENTS December 31, 2008 and 2007

Independent Auditors' Report	1 – 2
Management's Discussion and Analysis	3 – 18
Balance Sheets	19 – 20
Statements of Revenues, Expenses and Changes in Net Assets (Deficit)	21
Statements of Cash Flows	22 – 23
Notes to Financial Statements	24 – 51
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 <i>Government Auditing Standards</i>	52 – 53
Schedule of Findings Related to Government Auditing Standards and Required Statutory Reporting	54
Supplemental Information	
Schedule of Insurance Coverage	55 – 56



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets and the related statements of revenues, expenses and changes in net assets (deficit) and cash flows 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, 2008 and 2007. 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 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, 2008 and 2007, 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 26, 2009 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 the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Our audits were conducted for the purpose of forming an opinion 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, 2009

Virchow, Krause & Company, LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS
MUSCATINE POWER AND WATER

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2008 and 2007 (Unaudited)

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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>	2008	2007	2006
Current Assets			
Unrestricted	\$ 32,949	\$ 38,463	\$ 30,743
Restricted	48,599	49,882	49,302
Total Current Assets	<u>81,548</u>	<u>88,345</u>	<u>80,045</u>
Non-Current Assets			
Capital Assets	162,600	163,086	171,366
Other Assets	38,724	39,545	40,422
Total Non-Current Assets	<u>201,324</u>	<u>202,631</u>	<u>211,788</u>
Total Assets	<u>\$ 282,872</u>	<u>\$ 290,976</u>	<u>\$ 291,833</u>
Current Liabilities	\$ 21,206	\$ 21,993	\$ 20,512
Non-Current Liabilities	78,103	88,141	100,427
Deferred Revenue	29,303	29,303	29,303
Total Liabilities and Deferred Revenue	<u>128,612</u>	<u>139,437</u>	<u>150,242</u>
Net Assets			
Invested in capital and intangible assets, net of related debt	113,678	103,119	100,278
Restricted	47,247	48,283	47,483
Unrestricted	(6,665)	137	(6,170)
Total Net Assets	<u>154,260</u>	<u>151,539</u>	<u>141,591</u>
Total Liabilities and Net Assets	<u>\$ 282,872</u>	<u>\$ 290,976</u>	<u>\$ 291,833</u>

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008 and 2007
(Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

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

<i>In thousands \$</i>	2008	2007	2006
Operating Revenues	\$ 94,299	\$ 93,733	\$ 88,140
Operating Expenses	(91,925)	(83,491)	(78,807)
Operating Income	<u>2,374</u>	<u>10,242</u>	<u>9,333</u>
Nonoperating Revenues	4,012	4,356	3,579
Nonoperating Expenses	(4,019)	(4,745)	(5,410)
Net Nonoperating Expenses	<u>(7)</u>	<u>(389)</u>	<u>(1,831)</u>
Net Income before Capital Contributions and Deferred Revenue	2,367	9,853	7,502
Capital Contributions	<u>354</u>	<u>95</u>	<u>293</u>
Change in Net Assets	2,721	9,948	7,795
Net Assets – Beginning of Year	<u>151,539</u>	<u>141,591</u>	<u>133,796</u>
Net Assets – End of Year	<u>\$ 154,260</u>	<u>\$ 151,539</u>	<u>\$ 141,591</u>

UTILITY FINANCIAL ANALYSIS

ELECTRIC UTILITY

The Electric Utility recorded change in net assets of \$2,859,000 in 2008 compared to \$10,472,000 in 2007 and \$8,618,000 in 2006. 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. The lower change in net assets in 2008 compared to the two prior years is due to higher coal transportation costs and costs of scheduled maintenance on generating units 7, 8 and 9 in 2008.

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.

After Standard & Poor's review in 2007, Muscatine Power and Water's (MP&W) unenhanced electric revenue bond rating was upgraded from "A-" to "A". In 2008, MP&W's bond rating with Fitch Ratings was upgraded from "A-" to "A+". Fitch Ratings contributed this upgrade in part to MP&W's low-cost generation, successful marketing of excess power, competitive rates, accelerated debt pay-down, steady sales growth, and strong financial position. These ratings indicate that the bonds are of investment grade quality.

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2008 and 2007

(Unaudited)

UTILITY FINANCIAL ANALYSIS (cont.)

ELECTRIC UTILITY (cont.)

Financial Highlights:

<i>In thousands \$</i>	2008	2007	2006
<u>Balance Sheets</u>			
Cash and Investments	\$ 53,265	\$ 61,361	\$ 54,832
Total Capital Assets	136,801	139,195	147,214
Total Assets	246,651	256,306	256,903
Outstanding Debt	49,145	61,808	73,857
Deferred Revenue	29,303	29,303	29,303
Net Assets, Invested in Capital, Net of Related Debt	87,814	77,645	73,769
Net Assets, Restricted	47,248	48,283	47,483
Net Assets, Unrestricted	24,347	30,622	24,826
<u>Statements of Revenues, Expenses, and Changes in Net Assets</u>			
Operating Revenues	80,114	80,130	75,236
Operating Expenses	78,523	70,370	65,941
Nonoperating Revenues	3,867	4,143	3,388
Interest Expense	2,770	3,498	4,163
Capital Contributions	171	67	97
Change in Net Assets	2,859	10,472	8,618

Financial Position: (As reported in the Balance Sheets)

Beginning in 2008, unbilled revenues are being recognized. Customer accounts receivable includes approximately \$383,000 for estimated unbilled revenues for services rendered from the date of the last meter reading to year-end.

Other unrestricted assets of \$312,000, is the electric utility's portion of the projected reimbursement from FEMA related to the July 2008 storm.

Restricted assets, \$48,598,000 at December 31, 2008; \$49,882,000 at December 31, 2007; and \$49,302,000 at December 31, 2006, 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 2008 represent 55.5% of total assets. Depreciation and retirements exceeded capital expenditures resulting in a reduction in net utility plant of 1.7% in 2008 and 5.4% in 2007.

The note receivable from the Communications Utility was for the initial construction, expansion and operations of the Communications Utility. Interest payments have been made on the loan each January 1 and July 1. Principal repayment will begin January 1, 2016. This debt as to both principal and interest is subordinate to the Communications Utility's bank loans.

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008 and 2007
(Unaudited)

UTILITY FINANCIAL ANALYSIS (cont.)

ELECTRIC UTILITY (cont.)

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 \$191,000 at December 31, 2008; \$194,000 at December 31, 2007; and \$197,000 at December 31, 2006 represent MP&W's contributions less amortization.

Accrued expenses in 2008 include \$1,867,000 for self-insured health care reserves in excess of claims paid, which is both the current and non-current portions. This reserve has increased by \$394,000 from 2007, and another \$343,000 from 2006. Also included in accrued expenses are accrued payroll and vacation, which totaled \$1,074,000 in 2008; \$1,482,000 in 2007; and \$1,426,000 in 2006.

No new debt has been issued since 2002. Long term debt has been reduced by \$12,664,000 in 2008; \$12,049,000 in 2007; and \$11,495,000 in 2006. It is anticipated that the Electric Utility 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 1.34 times for 2008; 1.72 times for 2007; and 1.64 times for 2006.

No additional revenue deferral took place in 2008 and 2007. The deferred revenue amount of \$29,303,000 may be used at the Board's discretion for extraordinary operating expenses and debt service.

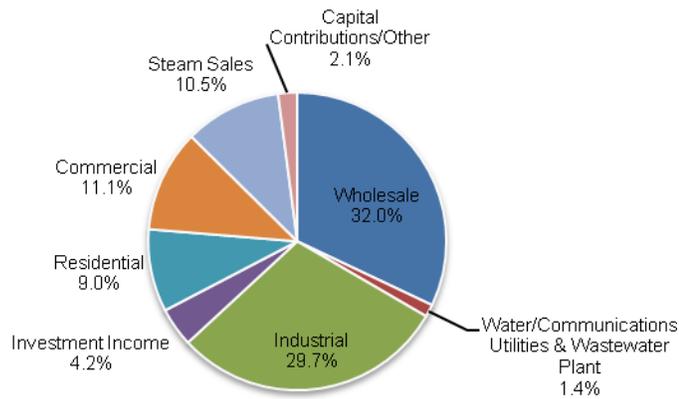
MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008 and 2007
(Unaudited)

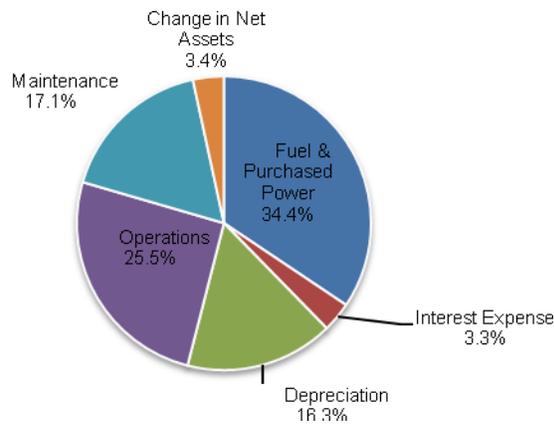
UTILITY FINANCIAL ANALYSIS (cont.)

ELECTRIC UTILITY (cont.)

Electric Utility Source of Funds: \$84,152,000



Electric Utility Uses of Funds: \$84,152,000



MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008 and 2007
(Unaudited)

UTILITY FINANCIAL ANALYSIS (cont.)

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 and billed in 2008 were 1.2% lower than in 2007 resulting in approximately \$401,000 lower revenue; Beginning in 2008, unbilled revenues are being recognized. The amount of unbilled revenues increased 2008's retail sales by \$383,000. Of the \$383,000, \$41,000 is attributable to 2008 residential and commercial sales and \$342,000 is for prior years' sales. 1.5% higher kWh's sold in 2007 compared to 2006 resulted in approximately \$623,000 greater revenue.

Wholesale electric sales were \$26,966,000 in 2008, compared to \$26,841,000 in 2007 and \$24,757,000 in 2006. Average prices compare as follows: \$49.82/MWh in 2008; \$44.89/MWh in 2007; and \$40.72/MWh in 2006. MP&W currently employs two energy marketing firms that allow us to market energy over a large geographic area.

September 2008 began the ninth 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 2008, a 6.8% higher price per pound offset by 5.5% lower pounds sold resulted in \$81,000 more revenue than in 2007. In 2007, a combination of a 6.3% higher price per pound plus 4.0% higher pounds sold resulted in \$831,000 more revenue than in 2006.

Operating expenses for 2008 were \$8,153,000 greater than 2007's expenses primarily due to a \$3,576,000 higher coal expense; generator inspections and overhauls on all three units, costing \$1,442,000; major boiler work on one unit, costing \$669,000; and \$543,000 higher purchased power costs, resulting from more kWh's purchased at a higher price.

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.

Investment income in 2008 was \$569,000 lower than 2007 due to realizing a lower rate of return and lower cash and investment balances. 2007 investment income was higher than in 2006 due to higher investment balances. The net increase in the fair value of investments was \$557,000 in 2008; \$843,000 in 2007; and \$405,000 in 2006. The interest rate on the note receivable from the Communications Utility loan has been 3.53% since January 1, 2006.

Other nonoperating revenues include \$312,000 in 2008 for the projected FEMA reimbursement for the July storm, and \$18,000 in 2007 for a gain on the sale of land.

Interest on long-term debt is lower each year due to principal amounts of \$12,595,000 in 2008; \$12,160,000 in 2007; and \$11,780,000 in 2006 maturing on January 1, and no new debt being issued.

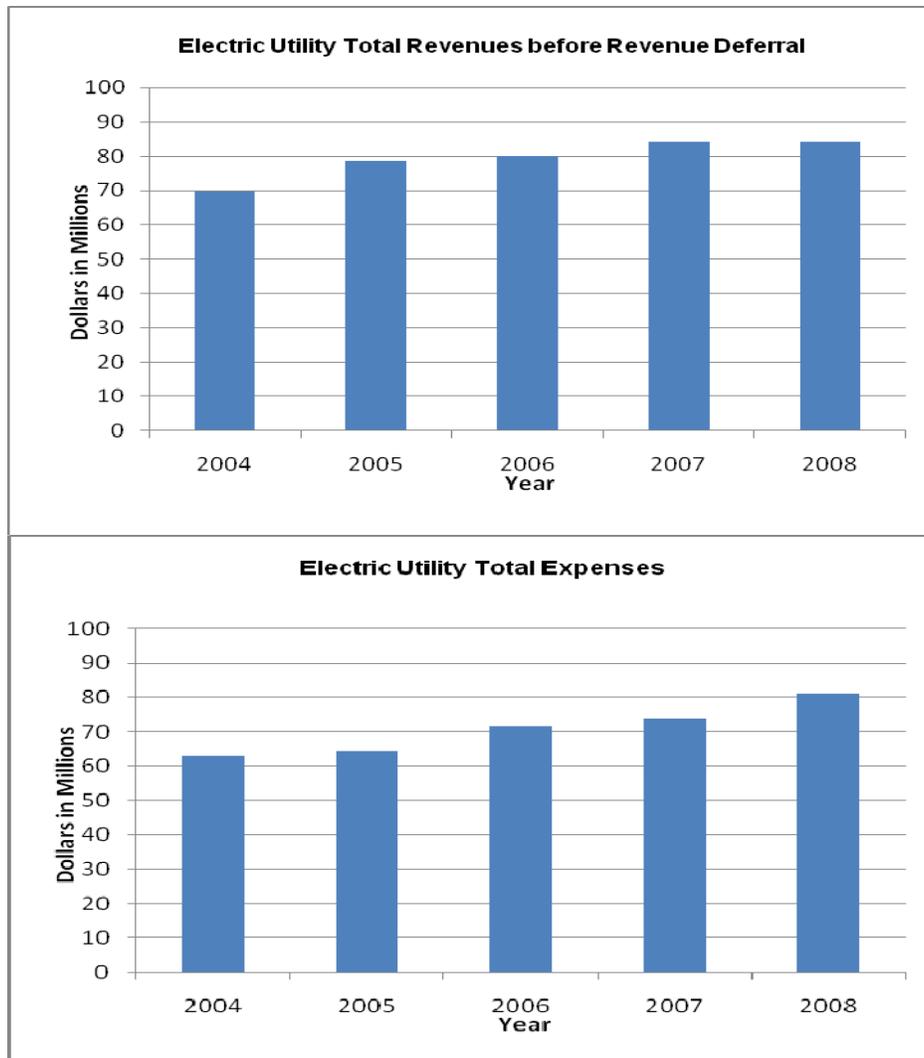
MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008 and 2007
(Unaudited)

UTILITY FINANCIAL ANALYSIS (cont.)

ELECTRIC UTILITY (cont.)

Capital contributions for the year 2008 include \$81,000 from an industrial customer for a transformer and switchgear, and \$90,000 from the City for a line relocation. 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.



MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2008 and 2007 (Unaudited)

UTILITY FINANCIAL ANALYSIS (cont.)

WATER UTILITY

The Water Utility reported change in net assets of \$654,000 in 2008 compared to \$344,000 in 2007 and \$415,000 in 2006. Total retail water sales increased by 2.1% in 2008 and 6.2% in 2007, while operating expense decreased 2.3% in 2008 and increased in 2007 by 4.4%.

A 3.0% overall price adjustment went into effect with water usage starting April 1, 2007; another 3% overall price adjustment became effective with water usage beginning April 1, 2008; and in December 2008, a 3.0% water rate increase was approved by the Board to become effective with water usage starting April 1, 2009. 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>	2008	2007	2006
<u>Balance Sheets</u>			
Cash and Investments	\$ 1,712	\$ 2,153	\$ 1,848
Total Capital Assets	13,217	12,316	12,094
Total Assets	15,815	15,126	14,640
Net Assets, Invested in Capital, Net of Related Debt	11,037	10,033	9,812
Net Assets, Restricted	-	-	-
Net Assets, Unrestricted	1,905	2,255	2,131
<u>Statements of Revenues, Expenses, and Changes in Net Assets</u>			
Operating Revenues	4,299	4,200	3,954
Operating Expenses	3,898	3,988	3,822
Nonoperating Revenues	69	106	92
Capital Contributions	183	27	191
Change in Net Assets	654	344	415

Financial Position: (As reported in the Balance Sheets)

Beginning in 2008, unbilled revenues are being recognized. Customer accounts receivable includes approximately \$51,000 for estimated unbilled revenues for services rendered from the date of the last meter reading to year-end.

Other unrestricted assets of \$6,000, is the water utility's portion of the projected reimbursement from FEMA related to the July 2008 storm.

Capital assets represent 83.6% of the total assets in 2008. Capital assets increased in 2008, primarily due to the completion of water main projects totaling \$709,000.

MUSCATINE POWER AND WATER

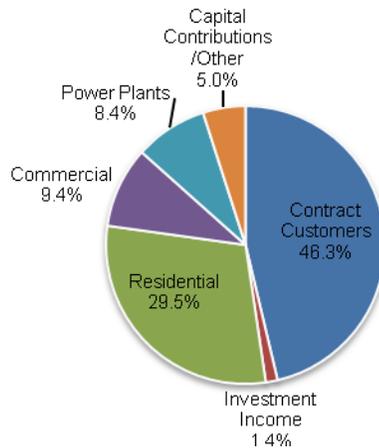
MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2008 and 2007 (Unaudited)

UTILITY FINANCIAL ANALYSIS (cont.)

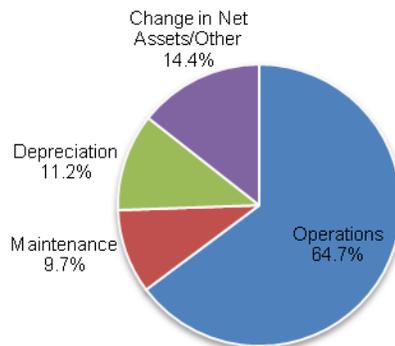
WATER UTILITY (cont.)

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 2008, 2007, and 2006.

Water Utility Source of Funds: \$4,552,000



Water Utility Uses of Funds: \$4,552,000



MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008 and 2007
(Unaudited)

UTILITY FINANCIAL ANALYSIS (cont.)

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 50.0% of total 2008 water sales.

Total water sales revenue for 2008 was higher than the previous year by \$90,000 or 2.1%. Beginning in 2008, unbilled revenues are being recognized. The amount of unbilled revenues increased 2008's retail sales by \$51,000, of which \$4,000 is for 2008 sales and \$47,000 is for prior years' retail sales. Gallons of water sold to industrial customers were down 3.4% from 2007; all other classes of customers' usage sold and billed was up 5.4%. 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%.

2008 maintenance expenses were \$89,000 or 16.9% lower than in 2007, primarily due to no well cleaning in 2008. 2007 maintenance expenses were \$93,000 or 21.3% higher than in 2006, primarily due to water main repairs.

Investment income was lower in 2008 due to realizing a lower rate of return and lower cash and investment balances. 2008's net increase in the fair value of investments was \$5,000 compared to \$26,000 in 2007 and \$21,000 in 2006.

The Water Utility has been debt-free since 1994.

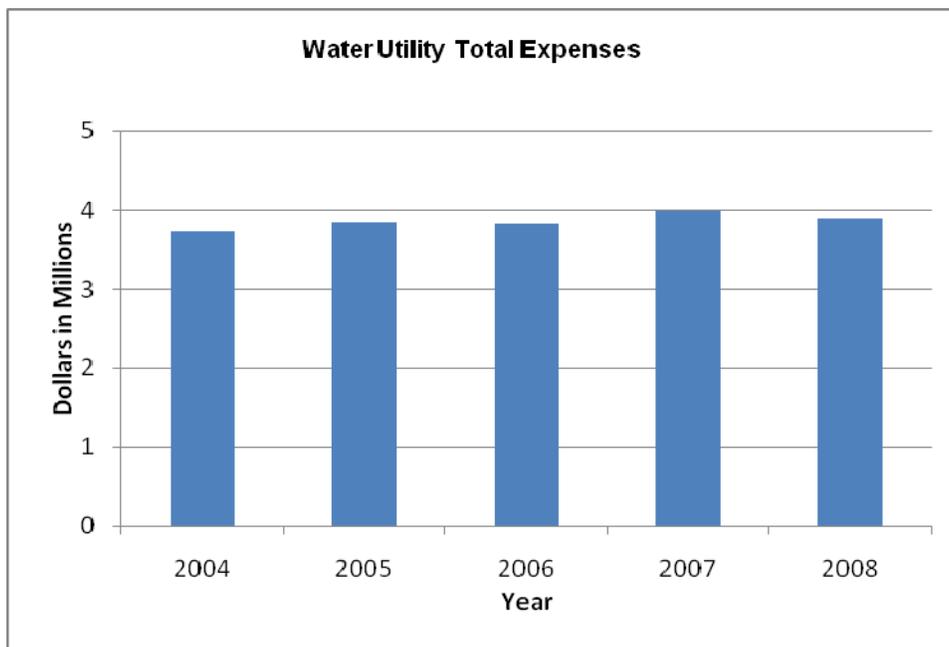
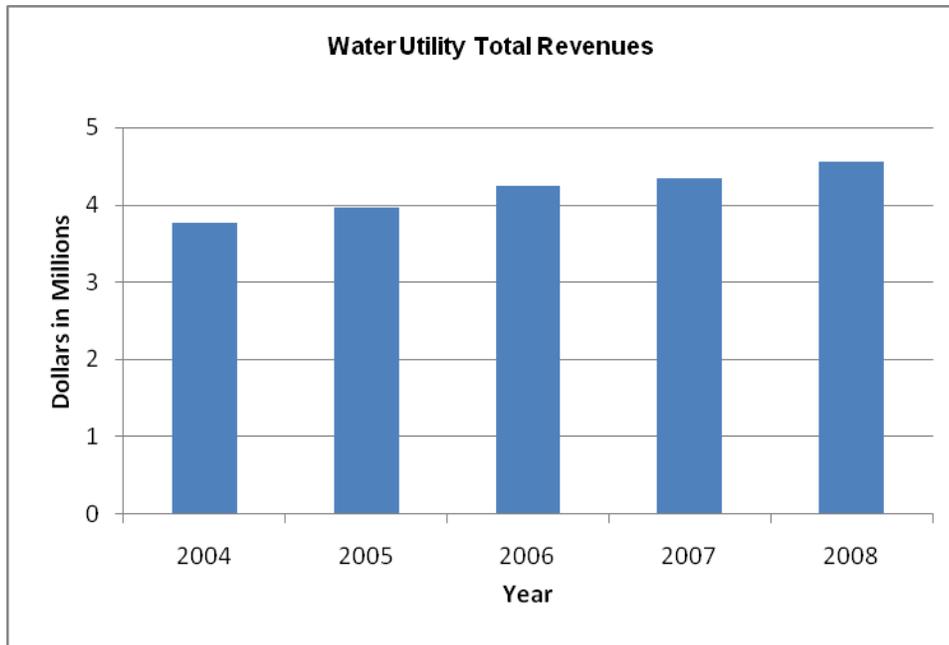
Capital contributions reflect developer financed water main construction projects.

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008 and 2007
(Unaudited)

UTILITY FINANCIAL ANALYSIS (cont.)

WATER UTILITY (cont.)



MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2008 and 2007

(Unaudited)

UTILITY FINANCIAL ANALYSIS (cont.)

COMMUNICATIONS UTILITY

The Communications Utility posted a change in net deficit of \$791,000, which was an improvement of \$78,000 from 2007's year end results, and an improvement of \$447,000 from 2006's year end results. Total operating revenues increased \$484,000 or 5.1% in 2008, and \$454,000 or 5.1% in 2007. Operating expenses were higher by \$371,000 or 4.1% in 2008, primarily due to an increase in programming costs; and \$88,000 or 1.0% in 2007 from the previous year. 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 began. This project 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. A loan agreement was entered into with the three local banks in December 2008 primarily for the financing of this conversion. The agreement allows the Communications Utility to draw down a total amount of up to \$4,800,000 through December 31, 2010, at an annual interest rate of 4.7%. Interest will be paid semi-annually beginning July 1, 2009; principal repayment will be paid annually beginning January 1, 2012. As of December 31, 2008, \$888,000 has been borrowed through this loan agreement.

Financial Highlights:

<i>In thousands \$</i>	2008	2007	2006
<u>Balance Sheets</u>			
Cash and Investments	\$ 3,303	\$ 2,866	\$ 2,368
Total Capital Assets	12,583	11,575	12,058
Total Assets	20,407	19,544	20,290
Note Payables	36,215	35,327	35,327
Net Assets, Invested in Capital and Intangible Assets	(20,500)	(19,890)	(18,631)
Net Assets, Unrestricted	2,410	2,590	2,201
<u>Statements of Revenues, Expenses, and Changes in Net Deficit</u>			
Operating Revenues	9,887	9,403	8,949
Operating Expenses	9,504	9,133	9,045
Nonoperating Revenues	75	108	99
Interest Expense	1,249	1,247	1,247
Change in Net Deficit	791	869	1,238

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008 and 2007
(Unaudited)

UTILITY FINANCIAL ANALYSIS (cont.)

COMMUNICATIONS UTILITY (cont.)

Financial Position: (As reported in the Balance Sheets)

Beginning in 2008, unbilled revenues are being recognized. Customer accounts receivable includes approximately \$69,000 for estimated unbilled revenues for services rendered from the date of the previous bill's generation to year-end.

Other unrestricted assets of \$6,000, is the communications utility's portion of the projected reimbursement from FEMA related to the July 2008 storm.

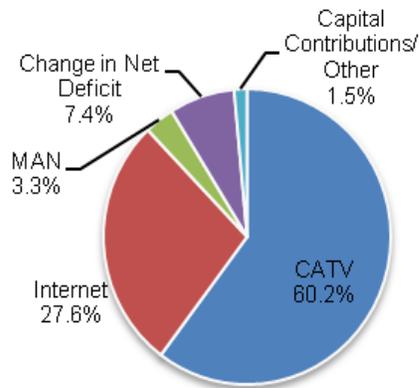
Capital assets represent 61.7% of the total assets.

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

The notes payable to the banks were issued in December 2008 to help fund the digital transition project and other capital costs. Semi-annual interest payments will begin July 1, 2009; principal payments will begin January 1, 2012.

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 each January 1 and July 1. Principal repayment will begin January 1, 2016. This debt as to both principal and interest is subordinate to the bank loans.

**Communications Utility Sources of Funds:
\$10,753,000**



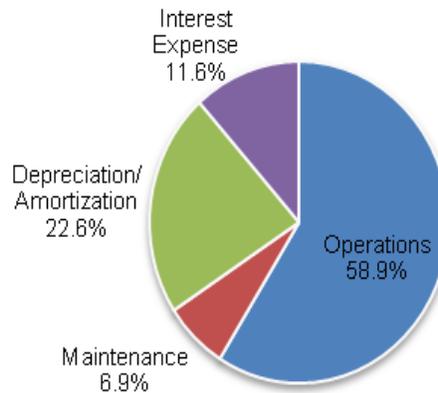
MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008 and 2007
(Unaudited)

UTILITY FINANCIAL ANALYSIS (cont.)

COMMUNICATIONS UTILITY (cont.)

Communications Utility Uses of Funds: \$10,753,000



Results of Operation:

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

Although the total number of CATV subscribers decreased slightly in 2008, operating revenues were \$288,000 or 4.6% greater than 2007, due to the price adjustments in September 2007, and unbilled revenues of \$69,000 being recognized in 2008. Unbilled revenues had not previously been recognized; \$6,000 is attributable to 2008, and \$63,000 is for prior years' retail sales. For the year 2007, CATV operating revenues increased by \$454,000 or 5.1% over 2006. In 2008, the number of data/Internet subscribers increased by 167 or 2.7%; associated internet revenues increased \$184,000 or 6.6% in 2008; and \$139,000 or 5.3% in 2007. Municipal area network revenues increased by \$9,000 or 2.5% in 2008; 2007 and 2006 revenues were level at around \$350,000.

2008 operating expenses increased 4.1% or \$371,000 over 2007. Operations expense is \$463,000 greater, primarily due to increased CATV programming costs, increase in labor, and employee benefits. Maintenance expense is down by \$10,000 primarily due to lower headend equipment maintenance and modem maintenance costs. Depreciation expense is \$81,000 lower due to some assets being fully depreciated at the end of 2007. Amortization expense is attributable to the January 2003 customer acquisition, which is being amortized over 10 years.

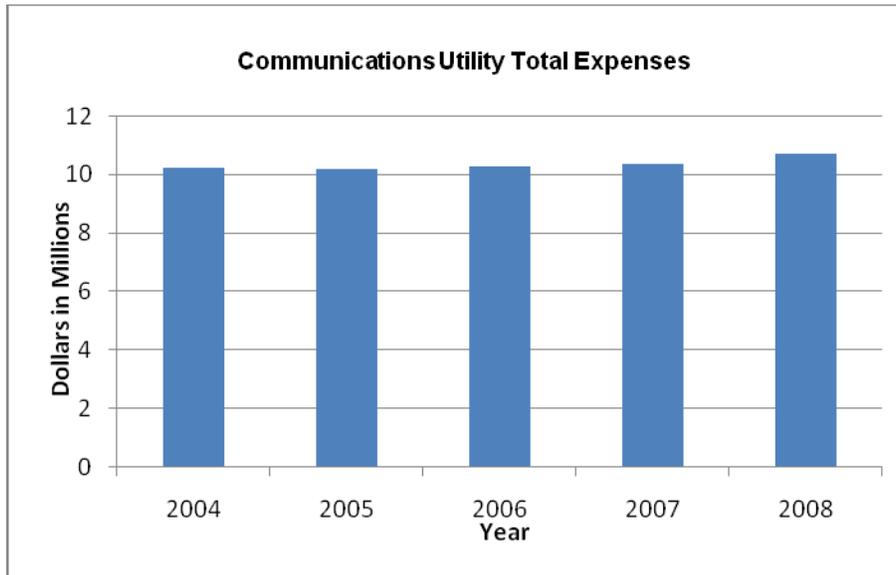
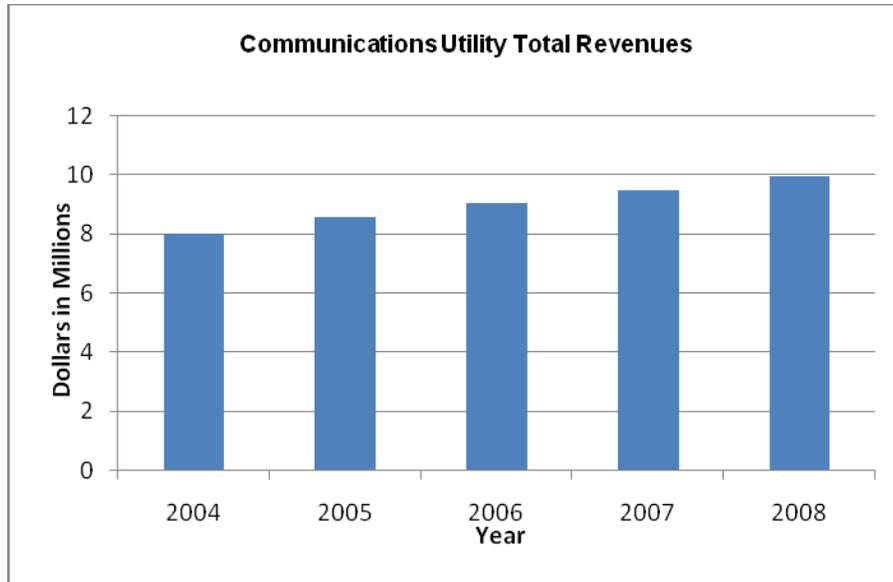
2008 investment income is \$39,000 lower than in 2007 due to earning a lower rate of return and lower cash and investment balances. 2007 investment income is \$9,000 greater than in 2006 due to higher cash and investment balances.

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008 and 2007
(Unaudited)

UTILITY FINANCIAL ANALYSIS (cont.)

COMMUNICATIONS UTILITY (cont.)



MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008 and 2007
(Unaudited)

CONTACTING UTILITY MANAGEMENT

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

MUSCATINE POWER AND WATER

BALANCE SHEETS
December 31, 2008 and 2007

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2008	2007	2008	2007	2008	2007	2008	2007
ASSETS								
CURRENT ASSETS								
Unrestricted Assets								
Cash	\$ 4,612,579	\$ 351,139	\$ 507,497	\$ 55,340	\$ 2,126,931	\$ 79,002	\$ 7,247,007	\$ 485,481
Investments	55,000	11,127,765	1,205,000	2,098,001	1,175,000	2,786,919	2,435,000	16,012,685
Receivables:								
Customer accounts	7,315,619	7,186,551	483,895	407,617	984,083	851,769	8,783,597	8,445,937
Interest	1,072,999	1,015,635	29,013	7,352	29,061	7,752	1,131,073	1,030,739
Other	311,874	-	6,497	-	6,497	-	324,868	-
Inventories:								
Fuel	5,046,823	4,719,795	-	-	-	-	5,046,823	4,719,795
Materials and supplies	6,750,927	6,648,600	352,485	227,467	301,874	312,226	7,405,286	7,188,293
Prepaid and deferred expenses	487,959	500,583	13,706	14,416	73,508	65,283	575,173	580,282
Total Unrestricted Assets	25,653,780	31,550,068	2,598,093	2,810,193	4,696,954	4,102,951	32,948,827	38,463,212
Restricted Assets								
Cash	2,262,960	14,822	-	-	1,369	-	2,264,329	14,822
Investments	46,334,634	49,867,212	-	-	-	-	46,334,634	49,867,212
Total Restricted Assets	48,597,594	49,882,034	-	-	1,369	-	48,598,963	49,882,034
Total Current Assets	74,251,374	81,432,102	2,598,093	2,810,193	4,698,323	4,102,951	81,547,790	88,345,246
NON-CURRENT ASSETS								
Capital Assets								
Utility plant in service	399,878,079	389,339,549	21,744,367	20,588,717	28,043,874	25,371,682	449,666,320	435,299,948
Construction work in progress	1,594,072	2,103,419	88,732	63,026	21,389	101,557	1,704,193	2,268,002
Less: accumulated depreciation	(264,671,279)	(252,248,159)	(8,616,450)	(8,336,239)	(15,482,355)	(13,898,074)	(288,770,084)	(274,482,472)
Total Capital Assets	136,800,872	139,194,809	13,216,649	12,315,504	12,582,908	11,575,165	162,600,429	163,085,478
Other Assets								
Unamortized debt issuance costs	80,440	158,127	-	-	32,859	-	113,299	158,127
Note receivable from communications utility	35,327,000	35,327,000	-	-	-	-	35,327,000	35,327,000
Joint venture rights	191,369	194,404	-	-	-	-	191,369	194,404
Intangible assets, net of accumulated amortization	-	-	-	-	3,092,469	3,865,528	3,092,469	3,865,528
2008 - \$5,062,718; 2007 - \$4,289,659					3,125,328	3,865,528	38,724,137	39,545,059
Total Other Assets	172,399,681	174,874,340	13,216,649	12,315,504	15,708,236	15,440,693	201,324,566	202,630,537
Total Non-Current Assets	\$ 246,651,055	\$ 256,306,442	\$ 15,814,742	\$ 15,125,697	\$ 20,406,559	\$ 19,543,644	\$ 282,872,356	\$ 290,975,783
TOTAL ASSETS								

See accompanying notes to financial statements.

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2008	2007	2008	2007	2008	2007	2008	2007
LIABILITIES, DEFERRED REVENUE, AND NET ASSETS (DEFICIT)								
CURRENT LIABILITIES								
Payable From Unrestricted Assets								
Trade accounts payable	\$ 2,840,381	\$ 2,786,859	\$ 390,619	\$ 250,401	\$ 1,134,170	\$ 398,826	\$ 4,365,170	\$ 3,436,086
Customer advances for construction	-	-	150,372	227,119	-	-	150,372	227,119
Accrued interest payable	-	-	-	-	623,522	623,520	623,522	623,520
Accrued expenses	2,294,165	2,368,942	154,972	191,054	326,112	349,190	2,775,249	2,909,186
Customer deposits	635,111	602,450	-	-	-	-	635,111	602,450
Total Payable From Unrestricted Assets	5,769,657	5,758,251	695,963	668,574	2,083,804	1,371,536	8,549,424	7,798,361
Payable From Restricted Assets								
Current portion of long-term debt	11,305,000	12,595,000	-	-	-	-	11,305,000	12,595,000
Accrued interest payable	1,349,975	1,599,356	-	-	1,739	-	1,351,714	1,599,356
Total Payable From Restricted Assets	12,654,975	14,194,356	-	-	1,739	-	12,656,714	14,194,356
Total Current Liabilities	18,424,632	19,952,607	695,963	668,574	2,085,543	1,371,536	21,206,138	21,992,717
NON-CURRENT LIABILITIES AND DEFERRED REVENUE								
Long term debt, net of current portion	37,839,725	49,213,430	-	-	-	-	37,839,725	49,213,430
Deferred revenue	29,303,164	29,303,164	-	-	-	-	29,303,164	29,303,164
Health care provision	1,674,608	1,287,217	147,753	114,123	196,430	144,424	2,018,791	1,545,764
Customer advances for construction	-	-	2,029,117	2,055,061	-	-	2,029,117	2,055,061
Notes payable to banks	-	-	-	-	888,000	-	888,000	-
Note payable to electric utility	-	-	-	-	35,327,000	35,327,000	35,327,000	35,327,000
Total Non-Current Liabilities and Deferred Revenue	68,817,497	79,803,811	2,176,870	2,169,184	36,411,430	35,471,424	107,405,797	117,444,419
NET ASSETS (DEFICIT)								
Invested in capital and intangible assets, net of related debt	87,814,274	77,645,436	11,037,160	10,033,324	(20,499,919)	(19,886,307)	78,351,515	67,792,453
Restricted	47,247,619	48,282,678	-	-	-	-	47,247,619	48,282,678
Unrestricted	24,347,033	30,621,910	1,904,749	2,254,615	2,409,505	2,586,991	28,661,287	35,463,516
Total Net Assets (Deficit)	159,408,926	156,550,024	12,941,909	12,287,939	(18,090,414)	(17,299,316)	154,260,421	151,538,647
TOTAL LIABILITIES, DEFERRED REVENUE, AND NET ASSETS (DEFICIT)	\$ 246,651,055	\$ 256,306,442	\$ 15,814,742	\$ 15,125,697	\$ 20,406,559	\$ 19,543,644	\$ 282,872,356	\$ 290,975,783

See accompanying notes to financial statements.

MUSCATINE POWER AND WATER

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS (DEFICIT)
For the Years Ended December 31, 2008 and 2007

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2008	2007	2008	2007	2008	2007	2008	2007
OPERATING REVENUES								
Retail sales	\$ 43,057,101	\$ 43,075,338	\$ 4,263,182	\$ 4,173,520	\$ 9,805,679	\$ 9,325,703	\$ 57,125,962	\$ 56,574,561
Wholesale electric sales	26,966,151	26,840,951	-	-	-	-	26,966,151	26,840,951
Steam sales	8,832,076	8,750,990	-	-	-	-	8,832,076	8,750,990
Other	1,258,343	1,463,118	36,032	25,989	81,338	77,674	1,375,713	1,566,781
Total Operating Revenues	<u>80,113,871</u>	<u>80,130,397</u>	<u>4,299,214</u>	<u>4,199,509</u>	<u>9,887,017</u>	<u>9,403,377</u>	<u>94,299,902</u>	<u>93,733,283</u>
OPERATING EXPENSES								
Production fuel and purchased power	28,952,732	24,522,119	-	-	-	-	28,952,732	24,522,119
Other operating expenses	21,472,088	20,341,423	2,947,903	2,909,276	6,333,322	5,870,493	30,753,313	29,121,192
Maintenance	14,388,321	11,857,625	440,623	529,972	742,456	752,686	15,571,400	13,140,283
Depreciation	13,709,964	13,648,800	509,142	549,192	1,655,652	1,736,760	15,874,758	15,934,752
Amortization	-	-	-	-	773,059	773,059	773,059	773,059
Total Operating Expenses	<u>78,523,105</u>	<u>70,369,967</u>	<u>3,897,668</u>	<u>3,988,440</u>	<u>9,504,489</u>	<u>9,132,998</u>	<u>91,925,262</u>	<u>83,491,405</u>
Operating Income	<u>1,590,566</u>	<u>9,760,430</u>	<u>401,546</u>	<u>211,069</u>	<u>382,528</u>	<u>270,379</u>	<u>2,374,640</u>	<u>10,241,878</u>
NONOPERATING REVENUES (EXPENSES)								
Investment income	2,308,012	2,877,502	62,811	106,196	68,886	107,741	2,439,709	3,091,439
Interest income on note receivable from communications utility	1,247,042	1,247,042	-	-	-	-	1,247,042	1,247,042
Other	311,874	18,250	6,497	-	6,497	-	324,868	18,250
Interest expense	(2,769,872)	(3,498,235)	-	-	(1,249,009)	(1,247,043)	(4,018,881)	(4,745,278)
Net Nonoperating Revenues (Expenses)	<u>1,097,056</u>	<u>644,559</u>	<u>69,308</u>	<u>106,196</u>	<u>(1,173,626)</u>	<u>(1,139,302)</u>	<u>(7,262)</u>	<u>(388,547)</u>
Net income (loss) before capital contributions	2,687,622	10,404,989	470,854	317,265	(791,098)	(868,923)	2,367,378	9,853,331
CAPITAL CONTRIBUTIONS								
	171,280	67,492	183,116	27,005	-	-	354,396	94,497
CHANGE IN NET ASSETS (DEFICIT)	<u>2,858,902</u>	<u>10,472,481</u>	<u>653,970</u>	<u>344,270</u>	<u>(791,098)</u>	<u>(868,923)</u>	<u>2,721,774</u>	<u>9,947,828</u>
NET ASSETS (DEFICIT) - Beginning of Year	<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>
NET ASSETS (DEFICIT) - END OF YEAR	<u>\$ 159,408,926</u>	<u>\$ 156,550,024</u>	<u>\$ 12,941,909</u>	<u>\$ 12,287,939</u>	<u>\$ (18,090,414)</u>	<u>\$ (17,299,316)</u>	<u>\$ 154,260,421</u>	<u>\$ 151,538,647</u>

See accompanying notes to financial statements.

MUSCATINE POWER AND WATER

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2008 and 2007

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2008	2007	2008	2007	2008	2007	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES								
Cash received from retail sales	\$ 42,856,396	\$ 42,906,555	\$ 4,219,705	\$ 4,147,724	\$ 9,301,964	\$ 8,953,760	\$ 56,378,065	\$ 56,008,039
Cash received from wholesale electric sales	26,602,374	25,249,313	-	-	-	-	26,602,374	25,249,313
Cash received from steam sales	8,820,499	8,675,182	-	-	-	-	8,820,499	8,675,182
Cash received from advertising sales	-	-	-	-	453,381	412,777	453,381	412,777
Cash received from other operating sources	1,921,897	4,092,941	45,825	46,229	294,399	166,670	2,262,121	4,305,840
Cash paid for coal	(25,093,517)	(22,359,853)	-	-	-	-	(25,093,517)	(22,359,853)
Cash paid to suppliers	(19,575,241)	(15,319,029)	(1,645,718)	(1,453,015)	(4,306,792)	(3,896,732)	(25,527,751)	(20,668,776)
Cash paid for employee payroll, taxes and benefits	(20,691,130)	(20,050,828)	(1,916,838)	(1,855,974)	(2,936,679)	(2,768,157)	(25,544,647)	(24,674,959)
Reimbursements by related parties for expenses paid	149,265	115,480	-	-	-	-	149,265	115,480
Net Cash Flows From Operating Activities	14,990,543	23,309,761	702,974	884,964	2,806,273	2,868,318	18,499,790	27,063,043
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Interest received on note receivable from communications utility	1,247,040	1,247,043	-	-	-	-	1,247,040	1,247,043
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Capital expenditures	(10,994,903)	(5,586,171)	(1,184,969)	(706,048)	(2,032,556)	(1,247,654)	(14,212,428)	(7,539,873)
Proceeds from sale of assets	29,825	55,744	-	-	13,690	-	43,515	55,744
Loan proceeds	-	-	-	-	888,000	-	888,000	-
Debt issue expenses	-	-	-	-	(38,564)	-	-	-
Bond principal payments	(12,595,000)	(12,160,000)	-	-	-	-	(12,595,000)	(12,160,000)
Bond interest payments	(2,949,331)	(3,418,808)	-	-	-	-	(2,949,331)	(3,418,808)
Interest paid on note payable to electric utility	-	-	-	-	(1,247,040)	(1,247,043)	(1,247,040)	(1,247,043)
Net Cash Flows From Capital and Related Financing Activities	(26,509,409)	(21,109,235)	(1,184,969)	(706,048)	(2,416,470)	(2,494,697)	(30,110,848)	(24,309,980)
CASH FLOWS FROM INVESTING ACTIVITIES								
Proceeds from investments matured and sold	74,975,874	62,922,547	3,671,624	2,648,670	5,324,075	3,695,703	83,971,573	69,266,920
Investments purchased	(60,168,264)	(68,703,693)	(2,792,335)	(2,888,085)	(3,717,005)	(4,120,010)	(66,677,604)	(75,711,788)
Purchase of joint venture rights	(74,590)	(66,320)	-	-	-	-	(74,590)	(66,320)
Interest received on investments	2,090,986	2,932,200	55,750	125,575	63,433	134,303	2,210,169	3,192,078
Accrued interest purchased	(42,602)	(186,011)	(887)	(11,426)	(11,008)	(7,411)	(54,497)	(204,848)
Net Cash Flows From Investing Activities	16,781,404	(3,101,277)	934,152	(125,266)	1,659,495	(297,415)	19,375,051	(3,523,958)
Net Increase in Cash and Cash Equivalents	6,509,578	346,292	452,157	53,650	2,049,298	76,206	9,011,033	476,148
CASH AND CASH EQUIVALENTS - Beginning of Year								
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
	365,961	19,669	55,340	1,690	79,002	2,796	500,303	24,155
CASH AND CASH EQUIVALENTS - END OF YEAR								
Current unrestricted cash	4,612,579	351,139	507,497	55,340	2,126,931	79,002	7,247,007	485,481
Current restricted cash	2,262,960	14,822	-	-	1,369	-	2,264,329	14,822
	\$ 6,875,539	\$ 365,961	\$ 507,497	\$ 55,340	\$ 2,128,300	\$ 79,002	\$ 9,511,336	\$ 500,303

See accompanying notes to financial statements.

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2008	2007	2008	2007	2008	2007	2008	2007
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES								
Operating income	\$ 1,590,566	\$ 9,760,430	\$ 401,546	\$ 211,069	\$ 382,528	\$ 270,379	\$ 2,374,640	\$ 10,241,878
Noncash items in operating income								
Depreciation	13,709,964	13,648,800	509,142	549,192	1,655,652	1,736,760	15,874,758	15,934,752
Amortization of joint venture rights and intangible assets	77,625	68,918	-	-	773,059	773,059	850,684	841,977
Converter/modem net write-off	-	-	-	-	12,991	12,558	12,991	12,558
Changes in assets and liabilities								
Customer accounts receivable	(129,067)	(22,513)	(76,278)	48,861	(132,314)	(24,987)	(337,659)	1,361
Inventories	(429,355)	(1,200,998)	(125,018)	(23,289)	10,352	6,723	(544,021)	(1,217,564)
Prepaid and deferred expenses	(10,621)	(96,703)	710	(4,791)	(2,748)	(9,716)	(12,659)	(111,210)
Trade accounts payable	(126,147)	773,599	(4,676)	77,907	77,825	47,143	(52,998)	898,649
Accrued expenses	274,917	384,710	(2,452)	26,015	28,928	56,399	301,393	467,124
Customer deposits	32,661	(6,482)	-	-	-	-	32,661	(6,482)
	<u>\$ 14,990,543</u>	<u>\$ 23,309,761</u>	<u>\$ 702,974</u>	<u>\$ 884,964</u>	<u>\$ 2,806,273</u>	<u>\$ 2,868,318</u>	<u>\$ 18,499,790</u>	<u>\$ 27,063,043</u>

NET CASH FLOWS FROM OPERATING ACTIVITIES

SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES

Unrealized gain (loss) in investments	\$ 202,266	\$ 401,896	\$ (13,713)	\$ 12,388	\$ (4,849)	\$ (2,974)	\$ 183,704	\$ 411,310
Amortization of bond discounts/premium, deferred loss on debt refunding and bond/debt issue costs	32,225	264,628	-	-	228	-	32,453	264,628
Unpaid capital expenditures	296,843	117,174	216,109	71,215	738,572	81,053	1,251,524	269,442
Contributions in aid of construction	-	-	122,540	71,925	-	-	122,540	71,925

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND BASIS OF ACCOUNTING

Muscatine Power and Water (utility) is a municipal utility serving the City of Muscatine, Iowa (municipality) and surrounding areas whose rates are set by the Board of Water, Electric, and Communications Trustees (Board). The electric utility is engaged in the generation, transmission, and distribution of electric power and steam and other related activities. The water utility is engaged in the supply, purification, and distribution of water and other related activities. The communications utility is engaged in providing cable, Internet, and network services and other related activities. The equity of the utility is vested in the City of Muscatine, Iowa.

The financial statements of the utility are presented in conformity with accounting principles generally accepted in the United States of America. In reporting financial activity, the utility applies all applicable Government Accounting Standards Board (GASB) pronouncements, as well as private-sector standards of accounting and financial reporting issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The utility has elected not to follow private-sector standards of accounting and financial reporting issued after that date. 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, 2008 and 2007

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

CASH AND CASH EQUIVALENTS

The utility's cash and cash equivalents are considered to be general checking, saving and money market accounts. For purposes of the statement of cash flows, cash and cash equivalents have original maturities of 90 days or less from December 31, 2008 and 2007.

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 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Electric Utility		
Generation plant	3.3%	3.3%
Transmission and distribution plant	3.8	3.8
General plant	7.4	7.8

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

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

CAPITAL ASSETS (cont.)

	<u>2008</u>	<u>2007</u>
Water Utility		
Source of supply	3.3%	3.3%
Pumping equipment	3.3	3.2
Purification system	2.7	2.7
Distribution system	2.2	2.2
General plant	5.9	11.1
Communications Utility		
CATV	6.6%	6.7%
Data/Internet	9.3	9.3
MAN	3.8	6.5
General plant	9.1	9.8

On an ongoing basis, the utility reviews capital assets for impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. If such events or changes in circumstances occur, the utility will recognize an impairment loss. No such loss was recognized in 2008 or 2007.

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/debt 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 2008 and 2007.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

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

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 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.

CHARGES FOR SERVICES

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

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

Current water rates were approved on December 20, 2007 and effective for service beginning April 1, 2008.

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, 2008 and 2007

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

OPERATING REVENUES AND EXPENSES (cont.)

Revenues are recorded as services are rendered to customers. Beginning in 2008, the electric and water utilities' revenues include an estimate of 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, 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. Beginning in 2008, the communications utility's revenues include an estimate of 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. The unbilled revenues recorded in 2008 for the electric, water, and communications utilities are \$383,422, \$50,587, and \$68,628, respectively. These revenues include previous years' unbilled revenue; the amounts attributable to 2008 are \$40,579, \$4,304, and \$5,883 for the electric, water, and communications utilities, respectively.

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.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2004, GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (GASB No. 45) was issued establishing standards of accounting and financial reporting for other postemployment benefits (OPEB) expense and related OPEB liabilities or assets. OPEB arises from an exchange of salaries and benefits for employee services rendered. It refers to postemployment benefits other than pension benefits such as postemployment healthcare benefits. This statement was effective for the utility beginning in 2008. The OPEB liability is not considered to be material to the utility's financial statements; therefore, no accrual is necessary to be in compliance with GASB No. 45.

In September 2006, GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues" (GASB No. 48) was issued, which requires the disclosure of pledged future revenues. GASB No. 48 was effective for the utility beginning in 2007.

In November 2006, GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations" (GASB No. 49) was issued, requiring local governments to provide the public with better information about the financial impact of environmental cleanups. A government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and if certain events have occurred. This statement was effective for the utility beginning in 2008. The utility has no known pollution remediation obligations resulting in no liability being accrued in the financial statements.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

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

RECENT ACCOUNTING PRONOUNCEMENTS (cont.)

In June 2007, GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets" (GASB No. 51) was issued providing guidance identifying, accounting for and reporting intangible assets. Intangible assets are defined as assets that lack physical substance, are non-financial in nature, and have an initial useful life extending beyond a single reporting period. The statement provides that intangible assets be classified as capital assets, except for items explicitly excluded from the scope of the standard. This statement is effective for the utility beginning in 2010.

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.

NOTE 2 – DEPOSITS AND INVESTMENTS

State statute, the 1992 electric 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, 2008 and 2007

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

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 insured by the state through pooled collateral, state sinking funds and by the state's ability to assess for lost funds in accordance with Chapter 12C of the Code of Iowa.

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, 2008 and 2007 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, 2008 and December 31, 2007, the utility's investments were rated as follows:

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

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, 2008 and 2007

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, 2008 and 2007, 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>2008</u>	<u>2007</u>
Federal Home Loan Bank	89.2%	83.0%
Federal Home Loan Mortgage Corporation	7.0%	-
Federal Farm Credit Bank	-	11.0%

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 investment concentration at December 31, 2008 and December 31, 2007, 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, 2008, 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>\$ 22,299,634</u>	<u>\$ 10,848,594</u>	<u>\$ 9,260,919</u>	<u>\$ 2,190,121</u>

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>

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

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 2008 follows:

	Balance 1/01/08	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/08
Land and land rights ⁽¹⁾	\$ 1,874,600	\$ -	\$ -	\$ -	\$ 1,874,600
Generation plant	316,170,172	31,095	(444,906)	8,810,638	324,566,999
Transmission and distribution plant	52,831,855	581,093	(44,453)	1,054,490	54,422,985
General plant	18,462,922	87,035	(810,600)	1,274,138	19,013,495
Total Utility Plant in Service	389,339,549	699,223	(1,299,959)	11,139,266	399,878,079
Construction work in progress ⁽¹⁾	2,103,419	10,836,029	(206,110)	(11,139,266)	1,594,072
Total Electric Utility Plant	391,442,968	\$ 11,535,252	\$ (1,506,069)	\$ -	401,472,151
Less: Accumulated depreciation					
Generation plant	204,024,301	\$ 10,310,808	\$ (444,906)	\$ -	213,890,203
Transmission and distribution plant	35,202,176	2,028,948	(51,339)	-	37,179,785
General plant	13,021,682	1,370,208	(790,599)	-	13,601,291
Total Accumulated Depreciation	252,248,159	\$ 13,709,964	\$ (1,286,844)	\$ -	264,671,279
Net Electric Capital Assets	\$ 139,194,809				\$ 136,800,872

(1) – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 3 – CAPITAL ASSETS (cont.)

ELECTRIC UTILITY (cont.)

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 ⁽¹⁾	\$ 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 ⁽¹⁾	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, 2008 and 2007

NOTE 3 – CAPITAL ASSETS (cont.)

WATER UTILITY

A summary of changes in water capital assets for 2008 follows:

	Balance 1/01/08	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/08
Land and land rights ⁽¹⁾	\$ 1,052,321	\$ -	\$ -	\$ -	\$ 1,052,321
Source of supply	1,651,346	-	-	223,528	1,874,874
Pumping equipment	1,358,619	638	(44,325)	221,896	1,536,828
Purification equipment	1,052,164	-	-	-	1,052,164
Distribution system	14,377,163	301,098	(136,033)	593,316	15,135,544
General plant	1,097,104	11,979	(48,573)	32,126	1,092,636
Total Utility Plant in Service	20,588,717	313,715	(228,931)	1,070,866	21,744,367
Construction work in progress ⁽¹⁾	63,026	1,139,565	(42,993)	(1,070,866)	88,732
Total Water Utility Plant	20,651,743	\$ 1,453,280	\$ (271,924)	\$ -	21,833,099
Less: Accumulated depreciation					
Source of supply	990,271	\$ 55,044	\$ -	\$ -	1,045,315
Pumping equipment	478,146	44,100	(44,326)	-	477,920
Purification system	664,134	28,080	-	-	692,214
Distribution system	5,127,238	317,160	(136,033)	-	5,308,365
General plant	1,076,450	64,758	(48,572)	-	1,092,636
Total Accumulated Depreciation	8,336,239	\$ 509,142	\$ (228,931)	\$ -	8,616,450
Net Water Capital Assets	<u>\$ 12,315,504</u>				<u>\$ 13,216,649</u>

(1) – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 3 – CAPITAL ASSETS (cont.)

WATER UTILITY (cont.)

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 ⁽¹⁾	\$ 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 ⁽¹⁾	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, 2008 and 2007

NOTE 3 – CAPITAL ASSETS (cont.)

COMMUNICATIONS UTILITY

A summary of changes in communications capital assets for 2008 follows:

	Balance 1/01/08	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/08
CATV	\$ 16,840,942	\$ 1,406,524	\$ (17,823)	\$ 1,009,014	\$ 19,238,657
Data/Internet	3,038,546	94,470	(37,543)	46,781	3,142,254
MAN	4,343,899	34,579	-	(1,668)	4,376,810
General plant	1,148,295	50,160	(54,861)	142,559	1,286,153
Total Utility Plant in Service	25,371,682	1,585,733	(110,227)	1,196,686	28,043,874
Construction work in progress ⁽¹⁾	101,557	1,125,596	(9,078)	(1,196,686)	21,389
Total Communications Utility Plant	25,473,239	\$ 2,711,329	\$ (119,305)	\$ -	28,065,263
Less: Accumulated depreciation					
CATV	9,110,913	\$ 1,104,180	\$ (11,465)	-	10,203,628
Data/Internet	1,643,905	282,096	(25,234)	-	1,900,767
MAN	2,602,374	164,676	-	-	2,767,050
General plant	540,882	104,700	(34,672)	-	610,910
Total Accumulated Depreciation	13,898,074	\$ 1,655,652	\$ (71,371)	\$ -	15,482,355
Net Communications Capital Assets	\$ 11,575,165				\$ 12,582,908

(1) – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 3 – CAPITAL ASSETS (cont.)

COMMUNICATIONS UTILITY (cont.)

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 ⁽¹⁾	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, 2008 and 2007

NOTE 4 – RESTRICTED ASSETS

Restricted assets represent amounts set aside under the terms of the bond resolutions relating to the electric revenue bonds, or under the terms of the communications loan agreement, 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. In accordance with the communications loan agreement, the construction fund may be used for the purpose of paying or reimbursing costs of improvements to the communications utility in accordance with the provisions and requirements of the tax agreement, and the communications system loan repayment sinking fund is used solely for the purpose of paying the interest on and principal of the bank loans. The composition of the restricted assets at December 31, 2008 and 2007 is as follows:

	Electric Utility		Communications Utility	
	2008	2007	2008	2007
Restricted Assets:				
Bond sinking fund	\$ 12,654,975	\$ 14,212,746	\$ -	\$ -
Rate stabilization fund	5,977,828	5,938,925	-	-
Extraordinary operation and maintenance account	29,964,791	29,730,363	-	-
Construction Fund	-	-	1,369	-
Total Restricted Assets	<u>\$ 48,597,594</u>	<u>\$ 49,882,034</u>	<u>\$ 1,369</u>	<u>\$ -</u>

NOTE 5 – NON-CURRENT LIABILITIES AND DEFERRED REVENUE

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, 2008 and 2007

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, 2008:

	Balance 1/01/08	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/08	Due Within One Year
Series 2001 revenue bonds	\$ 49,090,000	\$ -	\$ -	\$ 49,090,000	\$ 11,305,000
Series 2002 revenue bonds	12,595,000	-	(12,595,000)	-	-
	<u>61,685,000</u>	<u>-</u>	<u>(12,595,000)</u>	<u>49,090,000</u>	<u>11,305,000</u>
Unamortized portion of deferred loss on refundings	(687,175)	-	267,726	(419,449)	-
Unamortized portion of revenue bond premiums	810,605	-	(336,431)	474,174	-
Total Long-Term Debt	61,808,430	-	(12,663,705)	49,144,725	-
Less: Current installments	(12,595,000)	-	1,290,000	(11,305,000)	-
Long-Term Debt, Net of Current Portion	49,213,430	-	(11,373,705)	37,839,725	-
Deferred revenue	29,303,164	-	-	29,303,164	-
Health care provision	1,287,217	387,391	-	1,674,608	-
	<u>79,803,811</u>	<u>387,391</u>	<u>(11,373,705)</u>	<u>68,817,497</u>	<u>11,305,000</u>
Non-Current Liabilities and Deferred Revenue	<u>\$ 79,803,811</u>	<u>\$ 387,391</u>	<u>\$ (11,373,705)</u>	<u>\$ 68,817,497</u>	<u>\$ 11,305,000</u>

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	Due Within One Year
Series 2001 revenue bonds	\$ 49,090,000	\$ -	\$ -	\$ 49,090,000	\$ -
Series 2002 revenue bonds	24,755,000	-	(12,160,000)	12,595,000	12,595,000
	<u>73,845,000</u>	<u>-</u>	<u>(12,160,000)</u>	<u>61,685,000</u>	<u>12,595,000</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>	<u>12,595,000</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>	<u>\$ 12,595,000</u>

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

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 2001		
	Principal Amount	Interest 5.5%	Total
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	\$ 49,090,000	\$ 5,580,026	\$ 54,670,026

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 \$60,190,000 at December 31, 2008. The bonds and corresponding trust funds are not included on the Balance Sheets at December 31, 2008 and 2007 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.

All electric utility revenues, net of specified operating expenses, are pledged as security of the electric debt until fully paid. Principal and interest paid in 2008 and 2007, and electric utility net revenues are as follows:

	2008	2007
Principal and interest paid	\$ 15,544,331	\$ 15,578,808
Net revenues	19,167,458	27,552,024

Annual future principal and interest payments are expected to require 17% of electric utility operating revenues.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

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

NON-CURRENT LIABILITIES SUMMARY – WATER

Non-current liabilities activity for the year ending December 31, 2008:

	<u>Balance 1/01/08</u>	<u>Additions</u>	<u>Payments/ Amortization/ Reclassifications</u>	<u>Balance 12/31/08</u>	<u>Due Within One Year</u>
Health care provision	\$ 114,123	\$ 33,630	\$ -	\$ 147,753	\$ -
Customer advances for construction	<u>2,055,061</u>	<u>122,540</u>	<u>(148,484)</u>	<u>2,029,117</u>	<u>-</u>
Non-Current Liabilities	<u>\$ 2,169,184</u>	<u>\$ 156,170</u>	<u>\$ (148,484)</u>	<u>\$ 2,176,870</u>	<u>\$ -</u>

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

	<u>Balance 1/01/07</u>	<u>Additions</u>	<u>Payments/ Amortization/ Reclassifications</u>	<u>Balance 12/31/07</u>	<u>Due Within One Year</u>
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>	<u>-</u>
Non-Current Liabilities	<u>\$ 2,302,771</u>	<u>\$ 93,532</u>	<u>\$ (227,119)</u>	<u>\$ 2,169,184</u>	<u>\$ -</u>

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

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

NON-CURRENT LIABILITIES SUMMARY – COMMUNICATIONS

In December 2008, the communications utility acquired loans from three local banks to cover the digital transition project and other capital costs. The loan agreement allows the communications utility to draw down a total amount of up to \$4,800,000 through December 31, 2010, at an annual interest rate of 4.7%. Interest will be paid semi-annually beginning July 1, 2009; principal repayment will be paid annually beginning January 1, 2012. As of December 31, 2008, the communications utility has borrowed \$888,000.

The electric utility has advanced \$35,327,000 to the communications utility for capital improvements and acquisition of a cable television system. Effective November 28, 2006, the interest rate was fixed at 3.53% beginning January 1, 2007 by action of the Board. Semi-annual payments of interest only are due each January 1 and July 1. A Board resolution passed November 25, 2008, approved an annual principal repayment schedule with payments beginning January 1, 2016 over a 30 year period. This debt, as to both principal and interest, is and shall be junior and subordinate in all respects to the bank loans and interest thereon during the term of the bank loan agreement.

Non-current liabilities activity for the year ending December 31, 2008:

	Balance 1/01/08	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/08	Due Within One Year
Health care provision	\$ 144,424	\$ 52,006	\$ -	\$ 196,430	\$ -
Note payable to banks	-	888,000	-	888,000	-
Note payable to electric utility	35,327,000	-	-	35,327,000	-
Non-Current Liabilities	\$ 35,471,424	\$ 940,006	\$ -	\$ 36,411,430	\$ -

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

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

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

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

NON-CURRENT LIABILITIES MATURITY SCHEDULE – COMMUNICATIONS

Communications loan debt service requirements to maturity follow as of December 31, 2008:

Year Ending December 31	Loan to Electric Utility			Bank Loans		
	Principal Amount	Interest 3.53%	Total	Principal Amount	Interest 4.7%	Total
2009	\$ -	\$ 1,247,043	\$ 1,247,043	\$ -	\$ 22,607	\$ 22,607
2010	-	1,247,043	1,247,043	-	41,736	41,736
2011	-	1,247,043	1,247,043	-	41,736	41,736
2012	-	1,247,043	1,247,043	163,725	37,888	201,613
2013	-	1,247,043	1,247,043	169,275	30,063	199,338
2014 - 2018	2,115,840	6,162,253	8,278,093	555,000	39,780	594,780
2019 - 2023	4,054,570	5,585,444	9,640,014	-	-	-
2024 - 2028	4,822,539	4,817,472	9,640,011	-	-	-
2029 - 2033	5,735,970	3,904,042	9,640,012	-	-	-
2034 - 2038	6,822,413	2,817,600	9,640,013	-	-	-
2039 - 2043	8,114,635	1,525,376	9,640,011	-	-	-
2044 - 2045	3,661,033	194,972	3,856,005	-	-	-
Totals	\$ 35,327,000	\$ 31,242,374	\$ 66,569,374	\$ 888,000	\$ 213,810	\$ 1,101,810

All communications utility revenues, net of specified operating expenses, are pledged as security of the communications debt until fully paid. Principal and interest paid in 2008 and 2007, and communications utility net revenues are as follows:

	<u>2008</u>	<u>2007</u>
Principal and interest paid	\$ 1,247,040	\$ 1,247,043
Net revenues	2,886,622	2,887,939

Annual future principal and interest payments are expected to require 18% of communications utility operating revenues.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

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>2008</u>	<u>2007</u>
Plant in Service	\$ 399,878,079	\$ 389,339,549
Construction Work in Progress	1,594,072	2,103,419
Accumulated Depreciation	<u>(264,671,279)</u>	<u>(252,248,159)</u>
Sub-Totals	<u>136,800,872</u>	<u>139,194,809</u>
Less: Capital Related Debt		
Current portion of capital related long term debt	11,305,000	12,595,000
Long-term portion of capital related long term debt	37,785,000	49,090,000
Unamortized debt issuance costs	(158,127)	(259,057)
Unamortized debt premium	474,174	810,605
Unamortized loss on advance refunding	<u>(419,449)</u>	<u>(687,175)</u>
Sub-Totals	<u>48,986,598</u>	<u>61,549,373</u>
 Total Net Assets Invested in Capital Assets, Net of Related Debt	 <u>\$ 87,814,274</u>	 <u>\$ 77,645,436</u>

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

NOTE 6 – NET ASSETS (cont.)

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

	2008	2007
Plant in Service	\$ 21,744,367	\$ 20,588,717
Construction Work in Progress	88,732	63,026
Accumulated Depreciation	(8,616,450)	(8,336,239)
Sub-Totals	13,216,649	12,315,504
Less: Capital Related Debt		
Customer advances for construction	2,179,489	2,282,180
Total Net Assets Invested in Capital Assets	\$ 11,037,160	\$ 10,033,324

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

	2008	2007
Plant in Service	\$ 28,043,874	\$ 25,371,682
Construction Work in Progress	21,389	101,557
Accumulated Depreciation	(15,482,355)	(13,898,074)
Sub-Totals	12,582,908	11,575,165
Intangible Assets	8,155,187	8,155,187
Accumulated Amortization	(5,062,718)	(4,289,659)
Sub-Totals	3,092,469	3,865,528
Less: Capital Related Debt		
Long-term portion of capital related long term debt	36,215,000	35,327,000
Unamortized debt issuance costs	(38,335)	-
Unspent debt proceeds	(1,369)	-
Sub-Totals	36,175,296	35,327,000
Total Net Assets Invested in Capital and Intangible Assets	\$ (20,499,919)	\$ (19,886,307)

DEFICIT BALANCES

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

As of December 31, 2008 and 2007 the Communications Utility had a net deficit of \$18.1 million and \$17.3 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, 2008 and 2007

NOTE 7 – PENSION PLAN

The utility provides a defined benefit pension plan with benefits to eligible vested full-time utility and part-time utility employees at separation of service. Eligible employees are those who are not participants in the Iowa Public Employees' Retirement System (IPERS). 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 \$1,104,964 for 2008; \$979,179 for 2007; \$882,170 for 2006; and \$806,451 for 2005 (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, 2008. The electric, water, and communications utilities' portions of the 2008 Plan contribution were \$926,756, \$42,064, and \$129,268, 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 2008 was determined as part of the January 1, 2008 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>
12/31/03	\$ 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	-
12/31/08	1,104,964	100	-

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

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)	Annual Covered Payroll (c)	UAAL/OAAL as a Percentage of Covered Payroll ((b-a)/c)
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	15,947,709	(14.6)
01/01/07	38,984,729	36,020,200	(2,964,529)	108.2	17,216,510	(17.2)
01/01/08	42,579,530	38,845,371	(3,734,159)	109.6	17,770,750	(21.0)

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; 3.9% from July 1, 2007 through June 30, 2008; and 4.1% beginning July 1, 2008 of their annual covered salary and the utility was required to contribute 5.75% through June 30, 2007; 6.05% from July 1, 2007 through June 30, 2008; and 6.35% beginning July 1, 2008 of employees' covered salary. Contribution requirements are established by State statute. The utility's contributions to IPERS for the years ended December 31, 2008 and 2007 were \$45,442 and \$37,909, respectively, equal to the required contributions for those years.

NOTE 8 – SIGNIFICANT CUSTOMERS

Approximately \$23,386,000 or 29% in 2008 and \$23,266,000 or 30% in 2007 of the electric utility's operating revenues were derived from sales to one customer. Approximately \$1,950,000 or 46% in 2008 and \$1,944,000 or 47% in 2007 of the water utility's operating revenues were derived from sales to one customer.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

NOTE 9 – COMMITMENTS AND CONTINGENCIES

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

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. There are two contracts involved in this movement between now and 2014. The first expires on 12/31/09. The rate in this agreement is subject to monthly fuel surcharges and quarterly adjustments. The second contract term is from 2010 through 2014 where the rate is firm for the first three years and adjusted quarterly for years 2013 and 2014 plus monthly fuel surcharges.

The utility's minimum requirement in both contracts is 100% of the tons shipped, up to the annual tonnage nomination, from the PRB. 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 other rail0 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, if requested by the purchaser. Such requests require the purchaser to pay for the cost of the other sources plus an administrative adder.

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 2007 to add an additional ten years to the agreement. The amendment obligates the customer to certain environmental capital costs (approximately \$2 million) and ongoing SO₂, NO_x 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.

NOTE 10 – ENVIRONMENTAL REGULATIONS

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

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 11 – INTERFUND AND RELATED PARTY TRANSACTIONS

The electric utility sold power to the water utility amounting to approximately \$855,300 in 2008 and \$869,800 in 2007. The electric utility sold power to the communications utility amounting to approximately \$15,700 in both 2008 and 2007. The electric utility purchased water from the water utility amounting to approximately \$384,300 and \$356,800 for 2008 and 2007, respectively. The electric utility purchased communications services from the communications utility amounting to approximately \$155,900 for 2008 and \$145,400 for 2007, and advertising amounting to \$5,313 and \$5,135 in 2008 and 2007, respectively.

The electric utility rents space to the water utility and the communications utility at the Administration/Operations Center. This amounted to \$60,516 in 2008 and \$61,236 in 2007 for the water utility's rent, and \$87,336 in 2008 and \$86,748 in 2007 for the communications utility's rent.

Electric utility amounts receivable from the water utility were \$83,612 and \$77,349 at December 31, 2008 and 2007, respectively. Electric utility amounts payable to the water utility were \$32,518 and \$30,387 at December 31, 2008 and 2007, respectively. Electric utility amounts receivable from the communications utility were \$1,397 and \$9,299 at December 31, 2008 and 2007, respectively. Electric utility amounts payable to the communications utility were \$12,309 and \$2,559 at December 31, 2008 and 2007, 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. Prior to July 1, 2004 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.

Effective November 28, 2006, the interest rate was fixed at 3.53% beginning January 1, 2007 by action of the Board. Semi-annual payments of interest only are due each January 1 and July 1. A Board resolution passed November 25, 2008, approved an annual principal repayment schedule, with payments beginning January 1, 2016. This debt as to both principal and interest is and shall be junior and subordinate in all respects to the bank loans and interest thereon during the term of the bank loan agreement.

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

At December 31, 2008 and 2007, electric utility interest receivable from the communications utility was \$623,522 and \$623,520, respectively. Interest income on the loan amounted to \$1,247,042 for 2008 and 2007.

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, 2008 and 2007

NOTE 12 – ACQUISITION

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

NOTE 13 – RISK MANAGEMENT

The utility is exposed to various risks of loss related to destruction of assets and natural disasters. The utility is also exposed to various risks of loss relating to torts, errors and omissions, health, and injuries to employees. The utility purchases commercial insurance for claims related to these risks subject to certain deductibles. Open claims and an estimate for incurred but not reported claims are accrued up to deductible limits. 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>2008</u>	<u>2007</u>
Health care self insurance reserve		
Reserve liability, beginning of year	\$ 1,785	\$ 1,377
Add: Provision for reserve, current year	3,041	2,835
Less: Payments on reserve	<u>(2,560)</u>	<u>(2,427)</u>
Total Reserve Liability, end of year	2,266	1,785
Incurred but not reported claims	<u>(247)</u>	<u>(239)</u>
 Non-Current Reserve Liability, End of Year	 <u>\$ 2,019</u>	 <u>\$ 1,546</u>
 <i>(Thousands of dollars)</i>	 <u>2008</u>	 <u>2007</u>
Workers compensation self insurance reserve		
Reserve liability, beginning of year	\$ 151	\$ 167
Add: Provision for reserve	211	74
Less: Payments on reserve	<u>(176)</u>	<u>(90)</u>
 Reserve Liability, End of Year	 <u>\$ 186</u>	 <u>\$ 151</u>

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

NOTE 14 – JOINT VENTURE

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

NOTE 15 – SUBSEQUENT EVENTS

WATER RATES

In December 2008, a 3% water rate increase was approved by the Board to become effective with water usage starting April 1, 2009.

COMMUNICATIONS RATES

In November 2008, a 6.0% communications utility cable television rate adjustment was approved by the Board to become effective January 12, 2009.

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, 2008, and have issued our report thereon dated March 27, 2009. 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.

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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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. We consider the deficiencies in internal control described in the accompanying Schedule of Findings Related to Required Statutory Reporting, item K-02, to be a significant deficiency in internal control over financial reporting.

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

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 the internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we consider there to be a material weakness in internal control over financial reporting.

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*.

We noted certain matters that we reported to management of the utility in a separate letter dated March 27, 2009.

The utility's response to the finding identified in our audit was not audited by us and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, others within the entity, federal and state awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Madison, Wisconsin
March 27, 2009

Virchow, Krause & Company, LLP

MUSCATINE POWER AND WATER

SCHEDULE OF FINDINGS RELATED TO GOVERNMENT AUDITING STANDARDS AND REQUIRED STATUTORY REPORTING Year Ended December 31, 2008

FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

- 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, 2008.
- B-02 Certified Budget – Disbursements during the year ended December 31, 2008, 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.
- K-02 The audit identified the following material weakness:

 Financial Reporting – During the audit, we identified material journal entries to adjust depreciation expense and unbilled revenues.
 Recommendation – The utility should implement procedures to ensure all such adjustments are identified and included in the statements.
 Management's Response – *Management has reviewed the adjustments and has implemented new procedures as deemed appropriate.*

MUSCATINE POWER AND WATER

Schedule of Insurance Coverage (cont.)
December 31, 2008

Insurer	Type of Coverage	Policy's Expiration Date	Amount of Coverage
AEGIS	Excess liability:		
	Automobile liability	12/31/08	\$ 500,000 Retention
	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)		\$500,000 SIR each claimant; \$1,000,000 SIR each occurrence	
AEGIS	Fiduciary & employee benefit liability	4/1/09	20,000,000
	Each natural person who is insured with respect to each wrongful act		0 Retention
Midwest Employers Casualty Company	Sponsor organization (utility) & all employee benefit programs with respect to each wrongful act		250,000 Retention
	Excess workers compensation	12/31/08	1,000,000 Each accident SIR