

# **MUSCATINE POWER AND WATER**

A Component Unit of the City of Muscatine, Iowa

## **FINANCIAL STATEMENTS**

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2014 and 2013

# MUSCATINE POWER AND WATER

A Component Unit of the City of Muscatine, Iowa

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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Muscatine Power and Water, a component unit of the City of Muscatine, Iowa, which comprise of the Statements of Net Position as of December 31, 2014 and 2013 and the related Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows for the years ended December 31, 2014 and 2013, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Muscatine Power and Water as of December 31, 2014 and 2013, 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.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the Muscatine Power and Water component unit and do not purport to, and do not, present fairly the financial position of the City of Muscatine, Iowa, as of December 31, 2014 and 2013 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. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress information as listed in the table of contents be presented to supplement the financial statements. Management's Discussion and Analysis does not include a discussion of changes in financial position between 2013 and 2014. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economical, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary Information*

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The supplemental Schedule of Insurance Coverage is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated March 20, 2015 on our consideration of Muscatine Power and Water's internal control over financial reporting and on 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 in considering Muscatine Power and Water's internal control over financial reporting and compliance.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
March 20, 2015

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

# MUSCATINE POWER AND WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014 and 2013

(Unaudited)

We are providing this discussion to you, the reader of our financial statements, to explain the activities, plans and events which impacted our financial position during 2014 and 2013. This overview from management should provide the reader with information that is one of the three components of the entire financial statement. The other two components audited by Baker Tilly Virchow Krause, LLP, Muscatine Power and Water's (MP&W's) auditors, are the financial statements and notes to the financial statements. Please read the entire document to understand the events and conditions impacting MP&W.

### UTILITY FINANCIAL ANALYSIS

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#### *ELECTRIC UTILITY*

The Electric Utility experienced significantly higher wholesale electric revenue in 2014 due to a higher average sales price and a stronger wholesale market, brought on by higher gas prices and colder temperatures during the polar vortex.

In 2011, the Electric Utility became debt free and continued to be debt free in 2014.

Overall retail rate adjustments of 4.0% per year, effective August 1, 2014 and August 1, 2013, were in response to higher delivered coal costs, higher cost of purchased power, and increased operating expenses.

On November 25, 2014, the Board approved an amendment to the electric utility's loan agreement with the communications utility that included loan forgiveness of \$25,327,000, changing the fixed interest rate from 3.53% to 0.50%, and modifying the amortization of the note from a 30-year period to a 20 year period.

#### Statements of Net Position

<i>In thousands \$</i>	<b>2014</b>	<b>2013</b>
Current Assets		
Unrestricted	\$ 47,914	\$ 37,472
Restricted	13,044	13,032
Total Current Assets	<u>60,958</u>	<u>50,504</u>
Noncurrent Assets		
Capital Assets	83,968	90,777
Other Assets	12,000	35,829
Total Noncurrent Assets	<u>95,968</u>	<u>126,606</u>
<b>Total Assets</b>	<u><u>\$ 156,926</u></u>	<u><u>\$ 177,110</u></u>
Current Liabilities	\$ 11,115	\$ 7,535
Noncurrent Liabilities	1,833	1,816
Deferred Inflows of Resources –		
Extraordinary O&M Account	13,033	13,033
Total Liabilities and Deferred Inflows of Resources	<u>25,981</u>	<u>22,384</u>
Net Position		
Net investment in capital assets	83,968	90,777
Restricted	13,044	13,032
Unrestricted	33,933	50,917
Total Net Position	<u>130,945</u>	<u>154,726</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<u><u>\$ 156,926</u></u>	<u><u>\$ 177,110</u></u>

# MUSCATINE POWER AND WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2014 and 2013 (Unaudited)

### UTILITY FINANCIAL ANALYSIS (CONT.)

#### ELECTRIC UTILITY (CONT.)

##### 2014 Compared to 2013

- Total assets decreased \$20.2 million primarily due to:  
Increases of:
  - \$3.5 million in refined coal receivables;
  - \$5.8 million of cash and investments primarily due to an increase in wholesale revenue;
  - \$1.7 million in coal in inventory; and
  - \$1.5 million in water utility note receivable.
 Offset by:
  - \$6.8 million decrease of net utility plant due to depreciation and retirements exceeding capital expenditures;
  - \$25.3 allowance for reduction in the note receivable from the communications utility; and
  - \$.4 million decrease in inventories.
- Current liabilities increased \$3.5 million due to coal related invoices payable.

Additional information on changes in utility plant and long-term obligations are provided in notes 3 and 5, respectively.

#### Statements of Revenues, Expenses and Changes in Net Position

<i>In thousands \$</i>	<b>2014</b>	<b>2013</b>
Operating Revenues	\$ 100,200	\$ 87,046
Operating Expenses	(100,172)	(97,529)
Operating Income (Loss)	<u>28</u>	<u>(10,483)</u>
Nonoperating Revenues	1,295	1,295
Nonoperating Expenses	(2)	(2)
Net Nonoperating Expenses	<u>1,293</u>	<u>1,293</u>
Net Income before Capital Contributions	1,321	(9,190)
Capital Contributions	225	62
Allowance for Reduction in Note Receivable	<u>(25,327)</u>	<u>-</u>
<b>Change in Net Position</b>	<b>(23,781)</b>	<b>(9,128)</b>
Net Position – Beginning of Year	<u>154,726</u>	<u>163,854</u>
<b>Net Position – End of Year</b>	<b><u>\$ 130,945</u></b>	<b><u>\$ 154,726</u></b>

##### 2014 Compared to 2013

- Total operating revenues increased \$13.2 million or 15.1% due to:  
Increases in:
  - Wholesale electric sales of \$5.5 million with a 29.1% higher average price offset by a 10.2% decrease in kWh sales;
  - Transfers of \$7.0 million to the Extraordinary O&M account in 2013 compared to no transfers in 2014; and
  - \$2.0 million higher retail sales due to the impact of a 4.0% rate increase on August 1, 2014 and a 0.2% higher kWh usage.

# MUSCATINE POWER AND WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2014 and 2013 (Unaudited)

### UTILITY FINANCIAL ANALYSIS (CONT.)

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#### *ELECTRIC UTILITY (CONT.)*

#### **2014 Compared to 2013 (CONT.)**

Offset by:

- Lower steam sales to MP&W's largest industrial customer, Grain Processing Corporation, of \$1.3 million due to a planned outage resulting in 18.3% fewer pounds of steam supplied, offset by a 6.8% higher average sales price.
- Operating expenses increased \$2.6 million or 2.7% due to:
  - \$4.5 million higher purchased power costs due to a 17.6% higher average price.

Offset by:

- \$1.9 million lower production fuel costs, resulting from 10.2% lower net generation offset by a 3.2% higher average cost of coal burned per ton.

#### **Statements of Cash Flows**

<i>In thousands \$</i>	<b>2014</b>	<b>2013</b>
Cash Flows from Operating Activities	\$ 10,209	\$ 15,605
Cash Flows from Non-Capital Financing Activities	1,247	1,247
Cash Flows from Capital and Related Financing Activities	(5,668)	(4,663)
Cash Flows from Investing Activities	(9,554)	(14,570)
Net Change in Cash and Cash Equivalents	(3,766)	(2,381)
Cash and Cash Equivalents – Beginning of Year	14,594	16,975
<b>Cash and Cash Equivalents – End of Year</b>	<b>\$ 10,828</b>	<b>\$ 14,594</b>

#### **2014 Compared to 2013**

- Cash flows from operating activities decreased by \$5.4 million due to:
    - Higher coal and coal transportation costs;
    - Increased coal inventory;
    - Higher purchased power costs;
    - Lower steam sales revenue.
- Offset by:
- Higher coal sales revenue;
  - Higher wholesale electric revenue; and
  - Higher retail sales.
- Non-capital financing activities are comprised of interest on the note receivable from the communications utility.
    - Two six-month interest payments were received in 2014 and 2013.

# MUSCATINE POWER AND WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014 and 2013

(Unaudited)

### UTILITY FINANCIAL ANALYSIS (CONT.)

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#### *ELECTRIC UTILITY (CONT.)*

##### 2014 Compared to 2013 (cont.)

- Cash flows from capital and related financing activities include:
  - Capital expenditures of \$4.2 million in 2014, compared to \$4.3 million in 2013; and
  - Loan to water utility of \$1.5 million in 2014, compared to \$400,000 in 2013.
- Cash flows from investing activities include:
  - Investment purchases of \$26.5 million in 2014, compared to \$26.0 million in 2013, offset by investment maturities of \$17.0 million in 2014, compared to \$11.5 million in 2013.

#### *WATER UTILITY*

The Board approved water rate increases of 5.5% per year, effective April 1, 2014, and April 1, 2013, in response to an increase in capital requirements necessary to provide for fire protection, community growth, and higher operation and maintenance costs.

MP&W's industrial customers account for approximately 48% of water revenues.

Draw downs on the loan from Iowa Finance Authority were complete in 2011, bringing the total amount borrowed to \$306,000, net of the \$93,000 forgivable portion, with an outstanding balance of \$109,000 at the end of 2014. The interest rate on the loan is 3.0%, plus a 0.25% servicing fee, with a 10-year repayment term.

#### Statements of Net Position

<i>In thousands \$</i>	<b>2014</b>	<b>2013</b>
Current Unrestricted Assets	\$ 1,314	\$ 1,483
Capital Assets	<u>18,055</u>	<u>16,321</u>
<b>Total Assets</b>	<b><u>\$ 19,369</u></b>	<b><u>\$ 17,804</u></b>
Current Liabilities	\$ 889	\$ 1,030
Noncurrent Liabilities	<u>2,604</u>	<u>1,160</u>
Total Liabilities	<u>3,493</u>	<u>2,190</u>
Net Position		
Net investment in capital assets	17,478	15,478
Unrestricted	<u>(1,602)</u>	<u>136</u>
Total Net Position	<u>15,876</u>	<u>15,614</u>
<b>Total Liabilities and Net Position</b>	<b><u>\$ 19,369</u></b>	<b><u>\$ 17,804</u></b>

##### 2014 Compared to 2013

- Total assets increased \$1.6 million or 8.8% primarily due to capital assets increasing \$1.7 million, net of retirements, due to normal capital spending for utility construction and acquisition projects.

# MUSCATINE POWER AND WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2014 and 2013 (Unaudited)

### UTILITY FINANCIAL ANALYSIS (CONT.)

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#### WATER UTILITY (CONT.)

##### 2014 Compared to 2013 (cont.)

- Current liabilities decreased by \$141,000 primarily due to:
  - Current portion of customer advances for construction decreasing by \$219,000; offset by
  - Trade accounts payable increasing by \$78,000.
- Noncurrent liabilities increased by \$1.4 million primarily due to an increase of \$1.5 million note payable to electric utility.

Additional information on changes in utility plant and long-term obligations are provided in notes 3 and 5, respectively.

#### Statements of Revenues, Expenses and Changes in Net Position

<i>In thousands \$</i>	<b>2014</b>	<b>2013</b>
Operating Revenues	\$ 5,073	\$ 4,868
Operating Expenses	(5,028)	(4,700)
Operating Income	<u>45</u>	<u>168</u>
Nonoperating Expenses	<u>(8)</u>	<u>(7)</u>
Net Income before Capital Contributions	37	161
Capital Contributions	<u>226</u>	<u>1,346</u>
<b>Change in Net Position</b>	263	1,507
Net Position – Beginning of Year	<u>15,614</u>	<u>14,107</u>
<b>Net Position – End of Year</b>	<u><u>\$ 15,877</u></u>	<u><u>\$ 15,614</u></u>

##### 2014 Compared to 2013

- Operating revenues increased \$205,000 or 4.2%.
  - Total water sales revenue was \$203,000 higher primarily due to a 5.5% rate adjustment effective April 1, 2014; offset by
  - 2.8% fewer gallons sold primarily due to decreased consumption from our largest customer.
- Operating expense increased \$328,000 or 7.0% primarily due to:
  - \$101,000 higher electrical energy cost for pumping power;
  - \$94,000 higher depreciation expense;
  - \$67,000 higher pumping equipment maintenance cost;
  - \$31,000 higher labor expense;
  - \$21,000 higher mains maintenance expense; and
  - \$20,000 cost of service study.
- 2014 and 2013 capital contributions reflect developer-financed water main construction projects. 2013 capital contributions include the South End Water Main project totaling \$1.0M.

# MUSCATINE POWER AND WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2014 and 2013 (Unaudited)

### UTILITY FINANCIAL ANALYSIS (CONT.)

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#### WATER UTILITY (CONT.)

<b>Statements of Cash Flows</b>		
<i>In thousands \$</i>	<b>2014</b>	<b>2013</b>
Cash Flows from Operating Activities	\$ 589	\$ 789
Cash Flows from Capital and Related Financing Activities	(778)	(868)
Net Change in Cash and Cash Equivalents	(189)	(79)
Cash and Cash Equivalents – Beginning of Year	568	647
<b>Cash and Cash Equivalents – End of Year</b>	<b>\$ 379</b>	<b>\$ 568</b>

#### 2014 Compared to 2013

- Cash flows from operating activities decreased \$200,000 or 25.4% due to:
  - \$310,000 higher payments to suppliers;
  - \$105,000 higher payments related to employee payroll, taxes, and benefits; and
  - 2.8% fewer gallons sold; offset by
  - A 5.5% rate adjustment, effective April 1, 2014.
- Cash flows from capital and related financing activities include:
  - Capital expenditures of \$2.3 million in 2014 and \$1.2 million in 2013; offset by
  - Loan proceeds of \$1.5 million in 2014 compared to \$400,000 in 2013.

#### COMMUNICATIONS UTILITY

Rate adjustments for the communications utility were approved by the Board for both 2014 and 2013. MPW Digital TV Select and Preferred service rates decreased by 3.1% and 4.0%, respectively, effective May 1, 2014, due to the elimination of the Viacom channels. Effective January 1, 2013, MPW Basic and Digital Select TV service rates increased by 7.0% and 5.1%, respectively, with a second increase of 4.4% and 3.2%, respectively, effective September 1, 2013. In addition, the Board approved rate adjustments averaging 2.6% for Internet services effective September 1, 2013, including a decrease for the MachLink Lite service and an additional cable modem rental fee. These increases were primarily due to continued rising programming costs, debt service requirements, and other general inflationary factors.

The digital transition project which began in 2008 was essentially completed by the end of 2011. The project benefits customers by providing bandwidth capacity for the addition of more standard digital and HD programming as well as enhanced Internet speeds, among other features. The cost of the conversion was estimated at \$5.6 million; however, the actual amount spent was approximately \$4.2 million at the end of 2011. A loan of \$4.8 million with three local banks was utilized to finance this project at an annual interest rate of 4.7%. Semi-annual interest payments began July 1, 2009 with principal repayment beginning January 1, 2012. The final principal repayment is scheduled for January 1, 2016.

On November 25, 2014, the Board approved an amendment to the electric utility's loan agreement with the communications utility, effective January 1, 2015, that included loan forgiveness of \$25,327,000, changing the fixed interest rate from 3.53% to 0.50%, and modifying the amortization of the note from a 30-year period to a 20 year period.

# MUSCATINE POWER AND WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014 and 2013

(Unaudited)

### UTILITY FINANCIAL ANALYSIS (CONT.)

#### COMMUNICATIONS UTILITY (CONT.)

#### Statements of Net Position

<i>In thousands \$</i>	<b>2014</b>	<b>2013</b>
Current Assets		
Unrestricted	\$ 7,146	\$ 6,939
Restricted	1,053	1,031
Total Current Assets	<u>8,199</u>	<u>7,970</u>
Non-Current Assets		
Capital Assets	<u>8,374</u>	<u>9,159</u>
<b>Total Assets</b>	<b><u>\$ 16,573</u></b>	<b><u>\$ 17,129</u></b>
Current Liabilities	\$ 2,567	\$ 2,737
Non-Current Liabilities	<u>11,614</u>	<u>37,996</u>
Total Liabilities	<u>14,181</u>	<u>40,733</u>
Net Position		
Net investment in capital assets	6,334	6,159
Restricted	1,005	960
Unrestricted	<u>(4,947)</u>	<u>(30,723)</u>
Total Net Position	<u>2,392</u>	<u>(23,604)</u>
<b>Total Liabilities and Net Position</b>	<b><u>\$ 16,573</u></b>	<b><u>\$ 17,129</u></b>

#### 2014 Compared to 2013

- Total assets decreased \$556,000 or 3.2% due to:
  - Depreciation and retirements exceeding capital expenditures, resulting in a reduction in capital assets of \$785,000 or 8.6%; offset by
  - \$314,000 higher cash and investment balances.
- Current liabilities decreased \$170,000 due to:
  - \$145,000 decrease in trade accounts payable; and
  - \$65,000 decrease in miscellaneous accrued expenses; offset by
  - Current portion of the notes payable to banks increasing \$45,000.
- Noncurrent liabilities decreased \$26.4 million primarily due to the \$25.3 million allowance for the reduction in the note payable to the electric utility plus the \$1.0 million reclassification of the current portion of notes payable to banks.

# MUSCATINE POWER AND WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014 and 2013

(Unaudited)

### UTILITY FINANCIAL ANALYSIS (CONT.)

#### COMMUNICATIONS UTILITY (CONT.)

Additional information on changes in utility plant and long-term obligations are provided in notes 3 and 5, respectively.

#### Statements of Revenues, Expenses and Changes in Net Position

<i>In thousands \$</i>	<b>2014</b>	<b>2013</b>
Operating Revenues	\$ 12,656	\$ 12,498
Operating Expenses	(10,787)	(11,329)
Operating Income	<u>1,869</u>	<u>1,169</u>
Nonoperating Revenues	48	87
Nonoperating Expenses	(1,343)	(1,388)
Net Nonoperating Expenses	<u>(1,295)</u>	<u>(1,301)</u>
Net Income (Loss) before Capital Contributions	574	(132)
Capital Contributions	95	12
Allowance for Reduction in Note Payable	<u>25,327</u>	<u>-</u>
<b>Change in Net Position</b>	25,996	(120)
Net Position – Beginning of Year	<u>(23,604)</u>	<u>(23,484)</u>
<b>Net Position – End of Year</b>	<u>\$ 2,392</u>	<u>\$ (23,604)</u>

#### 2014 Compared to 2013

- Operating revenues increased \$158,000 or 1.3%.
  - CATV operating revenues decreased by \$501,000 or 6.5% due to:
    - Cable television rate decreases of 3.1% for Select and 4.0% for Preferred services, effective May 1, 2014; and
    - 8.9% decrease in the total number of CATV subscribers (6,250 at the end of 2014 vs. 6,858 at the end of 2013); offset by
    - Advertising sales increasing \$185,000.
  - Internet revenues increased \$599,000 or 14.5% due to:
    - Cable modem rental revenue increased \$175,000 (fees were implemented September 1, 2013); and
    - 2.8% increase in the number of data/Internet subscribers (7,470 at the end of 2014 vs. 7,267 at the end of 2013).
  - MME subscribers increased (78 at the end of 2014 vs. 60 at the end of 2013) resulting in increased revenues of \$60,000 or 12.5%.
- Operating expenses decreased overall by \$542,000 or 4.8% due to:
  - Decreases in:
    - \$363,000 lower depreciation expense; and
    - \$228,000 lower operations expenses, primarily due to lower CATV programming acquisition expense resulting from fewer subscribers.

# MUSCATINE POWER AND WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2014 and 2013 (Unaudited)

### UTILITY FINANCIAL ANALYSIS (CONT.)

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#### COMMUNICATIONS UTILITY (CONT.)

#### 2014 Compared to 2013

Offset by:

- \$49,000 higher maintenance expenses, primarily related to MME equipment.

#### Statements of Cash Flows

<u>In thousands \$</u>	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities	\$ 3,837	\$ 3,503
Cash Flows from Capital and Related Financing Activities	(3,619)	(3,472)
Cash Flows from Investing Activities	<u>542</u>	<u>535</u>
Net Change in Cash and Cash Equivalents	760	566
Cash and Cash Equivalents – Beginning of Year	<u>3,621</u>	<u>3,055</u>
<b>Cash and Cash Equivalents – End of Year</b>	<b><u>\$ 4,381</u></b>	<b><u>\$ 3,621</u></b>

#### 2014 Compared to 2013

- Cash flows from operating activities increased \$334,000 due to:
  - \$186,000 increase in cash received from advertising sales;
  - \$126,000 increase in cash received from retail sales;
  - \$52,000 decrease in cash paid to suppliers;
  - \$48,000 increase in cash received from other operating sources; offset by
  - \$78,000 increase in payroll, taxes and benefits.
- Capital and related financing activities include:
  - Capital expenditures in 2014 and 2013 totaling \$1.3 million and \$1.2 million, respectively;
  - Principal and interest paid on notes payable of \$2.3 million in 2014 and \$2.3 million in 2013.
- Cash flows from investing activities include:
  - Net proceeds of \$446,000 in 2014 and \$415,000 in 2013 in investment maturities used to partially fund capital additions; and
  - Interest received on investments of \$96,000 in 2014 compared to \$120,000 in 2013.

# **MUSCATINE POWER AND WATER**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

December 31, 2014 and 2013

(Unaudited)

### **CONTACTING UTILITY MANAGEMENT**

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

## MUSCATINE POWER AND WATER

### STATEMENTS OF NET POSITION

As of December 31, 2014 and 2013

ASSETS	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2014	2013	2014	2013	2014	2013	2014	2013
<b>CURRENT ASSETS</b>								
Unrestricted Assets								
Cash	\$ 8,785,751	\$ 6,563,019	\$ 378,774	\$ 567,926	\$ 3,328,451	\$ 3,621,527	\$ 12,492,976	\$ 10,752,472
Investments	13,004,815	9,500,000	-	-	2,166,123	1,581,600	15,170,938	11,081,600
Receivables:								
Customer accounts	12,332,057	8,880,693	571,991	539,482	1,307,535	1,307,259	14,211,583	10,727,434
Interest	649,935	647,903	1	1	31,016	79,756	680,952	727,660
Inventories:								
Fuel	6,725,684	5,069,168	-	-	-	-	6,725,684	5,069,168
Emission allowances	129,626	139,048	-	-	-	-	129,626	139,048
Materials and supplies	5,778,071	6,179,560	337,943	356,238	240,975	286,944	6,356,989	6,822,742
Prepaid and other expenses	507,914	492,326	25,392	19,893	71,572	62,387	604,878	574,606
Total Unrestricted Assets	47,913,853	37,471,717	1,314,101	1,483,540	7,145,672	6,939,473	56,373,626	45,894,730
Restricted Assets								
Cash	2,042,488	8,031,242	-	-	1,052,940	20	3,095,428	8,031,262
Investments	11,001,412	5,000,640	-	-	-	1,030,480	11,001,412	6,031,120
Total Restricted Assets	13,043,900	13,031,882	-	-	1,052,940	1,030,500	14,096,840	14,062,382
Total Current Assets	60,957,753	50,503,599	1,314,101	1,483,540	8,198,612	7,969,973	70,470,466	59,957,112
<b>NONCURRENT ASSETS</b>								
Capital Assets								
Utility plant in service	414,406,869	411,612,351	27,671,042	26,039,981	32,665,762	32,386,785	474,743,673	470,039,117
Construction work in progress	550,416	412,386	269,112	322,209	179,865	35,124	999,393	769,719
Less: accumulated depreciation	(330,989,011)	(321,247,200)	(9,884,834)	(10,041,446)	(24,471,481)	(23,262,632)	(365,345,326)	(354,551,278)
Total Capital Assets	83,968,274	90,777,537	18,055,320	16,320,744	8,374,146	9,159,277	110,397,740	116,257,558
Other Assets								
Note receivable from communications utility	35,327,000	35,327,000	-	-	-	-	35,327,000	35,327,000
Allowance for reduction in note receivable	(25,327,000)	-	-	-	-	-	(25,327,000)	-
Net note receivable from communications utility	10,000,000	-	-	-	-	-	10,000,000	-
Note receivable from water utility	1,900,000	400,000	-	-	-	-	1,900,000	400,000
Joint venture rights	99,495	101,621	-	-	-	-	99,495	101,621
Total Other Assets	11,999,495	35,828,621	-	-	-	-	11,999,495	35,828,621
Total Noncurrent Assets	95,967,769	126,606,158	18,055,320	16,320,744	8,374,146	9,159,277	122,397,235	152,086,179
<b>TOTAL ASSETS</b>	<b>\$ 156,925,522</b>	<b>\$ 177,109,757</b>	<b>\$ 19,369,421</b>	<b>\$ 17,804,284</b>	<b>\$ 16,572,758</b>	<b>\$ 17,129,250</b>	<b>\$ 192,867,701</b>	<b>\$ 212,043,291</b>

See accompanying notes to financial statements.

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	2014	2013	2014	2013	2014	2013	2014	2013
<b>CURRENT LIABILITIES</b>								
Payable From Unrestricted Assets								
Trade accounts payable	\$ 7,584,880	\$ 4,016,565	\$ 627,467	\$ 549,321	\$ 493,735	\$ 638,400	\$ 8,706,082	\$ 5,204,286
Customer advances for construction	-	-	8,205	227,702	-	-	8,205	227,702
Accrued interest payable	-	-	2,055	208	623,522	623,522	625,577	623,730
Accrued expenses	2,850,069	2,924,078	220,297	223,218	367,426	426,783	3,437,792	3,574,079
Unearned revenue	-	-	1,100	-	28,680	17,500	29,780	17,500
Customer deposits	680,434	593,941	-	-	-	-	680,434	593,941
Total Payable From Unrestricted Assets	<u>11,115,383</u>	<u>7,534,584</u>	<u>859,124</u>	<u>1,000,449</u>	<u>1,513,363</u>	<u>1,706,205</u>	<u>13,487,870</u>	<u>10,241,238</u>
Payable From Restricted Assets								
Current portion of long-term debt	-	-	29,000	29,000	1,005,000	960,000	1,034,000	989,000
Accrued interest payable	-	-	752	867	47,940	70,500	48,692	71,367
Total Payable From Restricted Assets	<u>-</u>	<u>-</u>	<u>29,752</u>	<u>29,867</u>	<u>1,052,940</u>	<u>1,030,500</u>	<u>1,082,692</u>	<u>1,060,367</u>
Total Current Liabilities	<u>11,115,383</u>	<u>7,534,584</u>	<u>888,876</u>	<u>1,030,316</u>	<u>2,566,303</u>	<u>2,736,705</u>	<u>14,570,562</u>	<u>11,301,605</u>
<b>NONCURRENT LIABILITIES</b>								
Notes payable to banks	-	-	-	-	1,035,000	2,040,000	1,035,000	2,040,000
Note payable to electric utility	-	-	1,900,000	400,000	35,327,000	35,327,000	37,227,000	35,727,000
Allowance for reduction in note payable	-	-	-	-	(25,327,000)	-	(25,327,000)	-
Net note payable to electric utility	-	-	-	-	10,000,000	-	11,900,000	-
Long term debt, net of current portion	-	-	161,000	190,000	-	-	161,000	190,000
Unearned revenue	-	-	-	-	264,479	281,979	264,479	281,979
Post-employment health benefit provision	420,482	321,732	40,478	30,478	71,051	54,801	532,011	407,011
Health & dental care provision	1,411,953	1,494,518	123,607	142,820	243,682	292,319	1,779,242	1,929,657
Customer advances for construction	-	-	378,548	396,236	-	-	378,548	396,236
Total Noncurrent Liabilities	<u>1,832,435</u>	<u>1,816,250</u>	<u>2,603,633</u>	<u>1,159,534</u>	<u>11,614,212</u>	<u>37,996,099</u>	<u>16,050,280</u>	<u>40,971,883</u>
<b>DEFERRED INFLOWS OF RESOURCES - EXTRAORDINARY O&amp;M ACCOUNT</b>	<u>13,032,866</u>	<u>13,032,866</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,032,866</u>	<u>13,032,866</u>
<b>NET POSITION</b>								
Net investment in capital assets	83,968,274	90,777,537	17,478,567	15,477,806	6,334,146	6,159,277	107,780,987	112,414,620
Restricted for debt service	-	-	-	-	1,005,000	960,000	1,005,000	960,000
Restricted by board resolution	13,043,900	13,031,882	-	-	-	-	13,043,900	13,031,882
Unrestricted	<u>33,932,664</u>	<u>50,916,638</u>	<u>(1,601,655)</u>	<u>136,628</u>	<u>(4,946,903)</u>	<u>(30,722,831)</u>	<u>27,384,106</u>	<u>20,330,435</u>
Total Net Position	<u>130,944,838</u>	<u>154,726,057</u>	<u>15,876,912</u>	<u>15,614,434</u>	<u>2,392,243</u>	<u>(23,603,554)</u>	<u>149,213,993</u>	<u>146,736,937</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<u>\$ 156,925,522</u>	<u>\$ 177,109,757</u>	<u>\$ 19,369,421</u>	<u>\$ 17,804,284</u>	<u>\$ 16,572,758</u>	<u>\$ 17,129,250</u>	<u>\$ 192,867,701</u>	<u>\$ 212,043,291</u>

See accompanying notes to financial statements.

## MUSCATINE POWER AND WATER

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2014 and 2013

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2014	2013	2014	2013	2014	2013	2014	2013
<b>OPERATING REVENUES</b>								
Retail sales	\$ 50,297,818	\$ 48,316,833	\$ 5,036,570	\$ 4,833,047	\$ 12,511,089	\$ 12,352,427	\$ 67,845,477	\$ 65,502,307
Wholesale electric sales	40,116,365	34,592,828	-	-	-	-	40,116,365	34,592,828
Steam sales	8,686,191	9,948,274	-	-	-	-	8,686,191	9,948,274
Other	1,099,145	1,187,781	36,546	34,761	144,721	145,448	1,280,412	1,367,990
Transfer to extraordinary O&M account	-	(7,000,000)	-	-	-	-	-	(7,000,000)
Total Operating Revenues	<u>100,199,519</u>	<u>87,045,716</u>	<u>5,073,116</u>	<u>4,867,808</u>	<u>12,655,810</u>	<u>12,497,875</u>	<u>117,928,445</u>	<u>104,411,399</u>
<b>OPERATING EXPENSES</b>								
Production fuel	26,309,470	28,188,826	-	-	-	-	26,309,470	28,188,826
Purchased power	29,888,237	25,404,598	-	-	-	-	29,888,237	25,404,598
Emissions allowance	87,856	85,429	-	-	-	-	87,856	85,429
Other operating expenses	22,090,624	21,791,226	3,490,324	3,345,617	7,874,369	8,102,822	33,455,317	33,239,665
Maintenance	10,449,668	10,814,473	815,984	725,657	934,770	885,340	12,200,422	12,425,470
Depreciation	11,345,928	11,244,012	721,908	628,080	1,977,355	2,340,384	14,045,191	14,212,476
Total Operating Expenses	<u>100,171,783</u>	<u>97,528,564</u>	<u>5,028,216</u>	<u>4,699,354</u>	<u>10,786,494</u>	<u>11,328,546</u>	<u>115,986,493</u>	<u>113,556,464</u>
Operating Income (Loss)	<u>27,736</u>	<u>(10,482,848)</u>	<u>44,900</u>	<u>168,454</u>	<u>1,869,316</u>	<u>1,169,329</u>	<u>1,941,952</u>	<u>(9,145,065)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>								
Investment income	45,869	47,339	435	319	47,484	86,674	93,788	134,332
Interest income on note receivable from communications utility	1,247,043	1,247,043	-	-	-	-	1,247,043	1,247,043
Interest income on note receivable from water utility	2,055	208	-	-	-	-	2,055	208
Interest expense	(2,245)	(1,769)	(8,623)	(7,705)	(1,342,923)	(1,388,043)	(1,353,791)	(1,397,517)
Net Nonoperating Revenues (Expenses)	<u>1,292,722</u>	<u>1,292,821</u>	<u>(8,188)</u>	<u>(7,386)</u>	<u>(1,295,439)</u>	<u>(1,301,369)</u>	<u>(10,905)</u>	<u>(15,934)</u>
Net income (loss) before capital contributions	<u>1,320,458</u>	<u>(9,190,027)</u>	<u>36,712</u>	<u>161,068</u>	<u>573,877</u>	<u>(132,040)</u>	<u>1,931,047</u>	<u>(9,160,999)</u>
<b>CAPITAL CONTRIBUTIONS</b>	<u>225,323</u>	<u>62,135</u>	<u>225,766</u>	<u>1,345,879</u>	<u>94,920</u>	<u>12,683</u>	<u>546,009</u>	<u>1,420,697</u>
<b>ALLOWANCE FOR REDUCTION IN NOTE RECEIVABLE/PAYABLE</b>	<u>(25,327,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,327,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>CHANGE IN NET POSITION</b>	<u>(23,781,219)</u>	<u>(9,127,892)</u>	<u>262,478</u>	<u>1,506,947</u>	<u>25,995,797</u>	<u>(119,357)</u>	<u>2,477,056</u>	<u>(7,740,302)</u>
NET POSITION - Beginning of Year	<u>154,726,057</u>	<u>163,853,949</u>	<u>15,614,434</u>	<u>14,107,487</u>	<u>(23,603,554)</u>	<u>(23,484,197)</u>	<u>146,736,937</u>	<u>154,477,239</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 130,944,838</u>	<u>\$ 154,726,057</u>	<u>\$ 15,876,912</u>	<u>\$ 15,614,434</u>	<u>\$ 2,392,243</u>	<u>\$ (23,603,554)</u>	<u>\$ 149,213,993</u>	<u>\$ 146,736,937</u>

See accompanying notes to financial statements.

## MUSCATINE POWER AND WATER

STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2014 and 2013

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2014	2013	2014	2013	2014	2013	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>								
Cash received from retail sales	\$ 50,155,394	\$ 47,926,989	\$ 5,024,104	\$ 4,786,869	\$ 12,096,225	\$ 11,969,802	\$ 67,275,723	\$ 64,683,660
Cash received from wholesale electric sales	40,734,741	32,676,006	-	-	-	-	40,734,741	32,676,006
Cash received from steam sales	8,655,121	9,741,539	-	-	-	-	8,655,121	9,741,539
Cash received from coal sales	34,701,835	-	-	-	-	-	34,701,835	-
Cash received from advertising sales	-	-	-	-	471,650	286,036	471,650	286,036
Cash received from by-product sales	334,897	198,495	-	-	-	-	334,897	198,495
Cash received from railcar leasing	198,632	307,399	-	-	-	-	198,632	307,399
Cash received from other operating sources	519,128	562,595	17,185	40,085	174,325	125,725	710,638	728,405
Cash paid for coal	(61,457,112)	(18,178,152)	-	-	-	-	(61,457,112)	(18,178,152)
Cash paid for purchased power	(30,933,049)	(25,539,529)	-	-	-	-	(30,933,049)	(25,539,529)
Cash paid to suppliers	(10,058,053)	(9,366,315)	(2,106,074)	(1,796,133)	(5,295,559)	(5,347,544)	(17,459,686)	(16,509,992)
Cash paid for employee payroll, taxes and benefits	(22,642,773)	(22,724,091)	(2,346,585)	(2,241,422)	(3,609,394)	(3,531,061)	(28,598,752)	(28,496,574)
Net Cash Flows From Operating Activities	<u>10,208,761</u>	<u>15,604,936</u>	<u>588,630</u>	<u>789,399</u>	<u>3,837,247</u>	<u>3,502,958</u>	<u>14,634,638</u>	<u>19,897,293</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>								
Interest received on notes receivable from communications & water utilities	1,247,251	1,247,251	-	-	-	-	1,247,251	1,247,251
Loan to water utility	(1,500,000)	(400,000)	-	-	-	-	(1,500,000)	(400,000)
Net Cash Flows From Noncapital Financing Activities	<u>(252,749)</u>	<u>847,251</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(252,749)</u>	<u>847,251</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>								
Acquisition and construction of capital assets	(4,253,587)	(4,330,495)	(2,250,100)	(1,234,013)	(1,296,017)	(1,217,364)	(7,799,704)	(6,781,872)
Proceeds from sale of assets	86,066	67,659	7,774	856	1,917	69,865	95,757	138,380
Loan proceeds	-	-	1,500,000	400,000	-	-	1,500,000	400,000
Debt principal payments	-	-	(29,000)	(28,000)	(960,000)	(915,000)	(989,000)	(943,000)
Debt interest payments	-	-	(6,891)	(7,608)	(1,365,484)	(1,409,546)	(1,372,375)	(1,417,154)
Net Cash Flows From Capital and Related Financing Activities	<u>(4,167,521)</u>	<u>(4,262,836)</u>	<u>(778,217)</u>	<u>(868,765)</u>	<u>(3,619,584)</u>	<u>(3,472,045)</u>	<u>(8,565,322)</u>	<u>(8,603,646)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>								
Proceeds from investments matured and sold	17,000,000	11,500,298	-	-	1,460,000	2,914,320	18,460,000	14,414,618
Investments purchased	(26,506,227)	(26,002,079)	-	-	(1,014,123)	(2,499,542)	(27,520,350)	(28,501,621)
Purchase of joint venture rights	(94,610)	(92,470)	-	-	-	-	(94,610)	(92,470)
Interest received on investments	46,324	25,727	435	322	96,304	120,559	143,063	146,608
Accrued interest purchased	-	(1,540)	-	-	-	(193)	-	(1,733)
Net Cash Flows From Investing Activities	<u>(9,554,513)</u>	<u>(14,570,064)</u>	<u>435</u>	<u>322</u>	<u>542,181</u>	<u>535,144</u>	<u>(9,011,897)</u>	<u>(14,034,598)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>(3,766,022)</u>	<u>(2,380,713)</u>	<u>(189,152)</u>	<u>(79,044)</u>	<u>759,844</u>	<u>566,057</u>	<u>(3,195,330)</u>	<u>(1,893,700)</u>
<b>CASH AND CASH EQUIVALENTS - Beginning of Year</b>								
Current unrestricted cash	6,563,019	10,942,364	567,926	646,970	3,621,527	2,048,474	10,752,472	13,637,808
Current restricted cash	8,031,242	6,032,610	-	-	20	1,007,016	8,031,262	7,039,626
	<u>14,594,261</u>	<u>16,974,974</u>	<u>567,926</u>	<u>646,970</u>	<u>3,621,547</u>	<u>3,055,490</u>	<u>18,783,734</u>	<u>20,677,434</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>								
Current unrestricted cash	8,785,751	6,563,019	378,774	567,926	3,328,451	3,621,527	12,492,976	10,752,472
Current restricted cash	2,042,488	8,031,242	-	-	1,052,940	20	3,095,428	8,031,262
	<u>\$ 10,828,239</u>	<u>\$ 14,594,261</u>	<u>\$ 378,774</u>	<u>\$ 567,926</u>	<u>\$ 4,381,391</u>	<u>\$ 3,621,547</u>	<u>\$ 15,588,404</u>	<u>\$ 18,783,734</u>

See accompanying notes to financial statements.

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2014	2013	2014	2013	2014	2013	2014	2013
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>								
Operating income (loss)	\$ 27,736	\$ (10,482,848)	\$ 44,900	\$ 168,454	\$ 1,869,316	\$ 1,169,329	\$ 1,941,952	\$ (9,145,065)
Noncash items in operating income								
Depreciation	11,345,928	11,244,012	721,908	628,080	1,977,355	2,340,384	14,045,191	14,212,476
Amortization of joint venture rights	96,735	101,407	-	-	-	-	96,735	101,407
Converter/modem net write-off	-	-	-	-	25,107	39,898	25,107	39,898
Transfers to extraordinary O&M account	-	7,000,000	-	-	-	(17,500)	-	6,982,500
Changes in assets and liabilities								
Customer accounts receivable	(3,451,364)	(3,063,762)	(32,509)	(37,324)	(276)	(128,444)	(3,484,149)	(3,229,530)
Inventories	(1,245,605)	8,085,694	18,295	(64,369)	45,969	38,293	(1,181,341)	8,059,618
Prepaid and deferred expenses	(15,588)	(15,779)	(5,499)	(568)	(9,185)	3,068	(30,272)	(13,279)
Trade accounts payable	3,424,495	2,601,718	(147,431)	77,423	27,025	(22,164)	3,304,089	2,656,977
Accrued expenses	(60,069)	115,469	(12,134)	17,703	(91,744)	80,094	(163,947)	213,266
Unearned revenue	-	-	1,100	-	(6,320)	-	(5,220)	-
Customer deposits	86,493	19,025	-	-	-	-	86,493	19,025
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 10,208,761</b>	<b>\$ 15,604,936</b>	<b>\$ 588,630</b>	<b>\$ 789,399</b>	<b>\$ 3,837,247</b>	<b>\$ 3,502,958</b>	<b>\$ 14,634,638</b>	<b>\$ 19,897,293</b>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES</b>								
Unrealized gain (loss) in investments	\$ (640)	\$ (1,140)	\$ -	\$ -	\$ (80)	\$ (143)	\$ (720)	\$ (1,283)
Unpaid capital expenditures	190,133	46,312	453,600	228,023	34,386	206,075	678,119	480,410
Noncash capital contributions	-	-	225,766	1,345,879	-	-	225,766	1,345,879

See accompanying notes to financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

# MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013

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## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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### ***ORGANIZATION AND STANDARDS 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 Governmental Accounting Standards Board (GASB) pronouncements.

### ***REPORTING ENTITY***

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

### ***MEASUREMENT FOCUS, STANDARDS 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. GASB Statement No. 62 Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements ("GASB 62") was issued December 2010 effective for periods beginning after December 15, 2011. The objective of GASB 62 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements from Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants Committee on Account Procedures issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements. GASB 62 does not change GAAP but directs GASB as the single source of authoritative governmental GAAP applicable to a particular transaction or specific accounting issue.

GASB Statement No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position ("GASB 63") was issued in June 2011 effective for periods beginning after December 15, 2011. GASB 63 provides guidance on reporting deferred inflows and outflows of resources. The statement will standardize the presentation of deferred inflows and outflows of resources and their effect on government's net position. The utility adopted GASB 63 effective January 1, 2012. Other than change in presentation, there was no impact to the financial statements as a result of this implementation.

In March 2012, the GASB issued Statement No. 65 *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred

# MUSCATINE POWER AND WATER

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

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

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#### ***MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (cont.)***

outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The utilities implemented this standard effective January 1, 2013.

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.

#### ***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 statements of cash flows, cash and cash equivalents have original maturities of 90 days or less.

#### ***RESTRICTED ASSETS***

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by actions of the Board of Trustees and other external parties. Current liabilities payable from these restricted assets are so classified.

#### ***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), emission allowances, and materials and supplies valued at lower of cost or market utilizing the weighted-average cost method. 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 utility as assets with an initial, individual cost of more than \$2,000 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 plus cost of removal less salvage is charged to the accumulated provision for depreciation.

# MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013

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

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

Capital assets are depreciated using the straight-line method over the estimated useful lives of the respective assets. The composite depreciation rates for 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
<b>Electric Utility</b>		
Generation plant	2.3%	2.3%
Transmission and distribution plant	3.9	3.9
General plant	7.8	7.7
<b>Water Utility</b>		
Source of supply	3.3%	3.3%
Pumping equipment	3.2	3.2
Purification system	2.5	2.7
Distribution system	2.2	2.2
General plant	11.0	7.7
<b>Communications Utility</b>		
CATV	6.0%	7.9%
Data/Internet	6.8	6.5
MME	5.9	6.1
General plant	6.5	6.8

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 2014 or 2013.

### **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.

### **COMPENSATED ABSENCES**

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

# MUSCATINE POWER AND WATER

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

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

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#### ***DEFERRED INFLOWS OF RESOURCES***

The Board may, at its discretion, set aside earnings to help maintain stability in the electric utility's long-term rate structure. These earnings may be used for extraordinary operating expenses and debt service when deemed necessary by the Board. No deferment or use of earnings occurred in 2014; in 2013, \$7,000,000 was deferred.

#### ***UNEARNED REVENUE***

The water utility's unearned revenue is a result of a job sales prepayment. The communications utility's unearned revenue is a result of a 20-year contract to lease dark fiber to Iowa Health System, plus prepaid CATV advertising.

#### ***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. Rates were approved by the Board of Trustees as follows:

Current electric rates were approved on April 30, 2013 and effective for service beginning August 1, 2014.

Current water rates were approved on November 26, 2013 and effective for service beginning April 1, 2014.

Current communications rates were approved on April 29, 2014 and effective for service beginning May 1, 2014.

#### ***OPERATING REVENUES AND EXPENSES***

The utility distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the utility's principal ongoing operations. The principal operating revenues of the utility are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues, capital contributions or nonoperating expenses.

Revenues are recorded as services are rendered to customers. 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. 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 revenue recorded in 2014 for the electric, water, and communications utilities are \$492,418, \$62,534, and \$84,310, respectively. The unbilled revenue recorded in 2013 for the electric, water, and communications utilities are \$439,938, \$56,794, and \$87,355, respectively.

# MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013

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

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### ***CAPITAL CONTRIBUTIONS***

Cash and capital assets are contributed to the utility 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 position.

### ***INCOME TAX STATUS***

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

### ***EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS***

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 68, *Accounting and Financial reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. Application of these standards may restate portions of these financial statements.

### ***COMPARATIVE DATA***

Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

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

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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 statements of revenues, expenses, and changes in net position as increases or decreases in investment income. Investment income is allocated to the electric, water, and communications utilities' revenue funds as appropriate.

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and interest-bearing demand and non-interest bearing deposit accounts. If deposits are held in an institution outside of the state in which the utility is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposit accounts.

# MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013

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

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### ***CUSTODIAL CREDIT RISK***

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

Custodial credit risk is the risk that in the event of a financial institution failure, the utility's deposits may not be returned to the utility. The utility's deposits at year-end were covered by federal depository insurance or 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, 2014 were cash and cash equivalents, money market accounts or certificates of deposit and are not subject to custodial credit risk. All investments held at December 31, 2013 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. There were no investments held at December 31, 2014 subject to this risk.

As of December 31, 2013, the utility's investments were rated as follows:

<u>Investment Type</u>	<u>Standard &amp; Poor's</u>	<u>Moody's</u>
US agencies	AA+	Aaa

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

### ***CONCENTRATION OF CREDIT RISK***

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. At December 31, 2014, there were no investments subject to this risk; at December 31, 2013, 100% of the total investment portfolio was held with Federal Farm Credit.

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

## MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013

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

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#### *INTEREST RATE RISK*

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

There were no investments held at December 31, 2014 subject to this risk.

At December 31, 2013, the utility's investments were as follows:

Investment Type	Fair Value	Maturity In Years		
		Less than 1 Year	1 – 5 Years	Greater than 5 Years
US agencies	<u>\$ 4,500,720</u>	<u>\$ 4,500,720</u>	<u>\$ -</u>	<u>\$ -</u>

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

## MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013

### NOTE 3 – CAPITAL ASSETS

#### *ELECTRIC UTILITY*

A summary of changes in electric capital assets for 2014 follows:

	Balance 1/1/14	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/14
Land and land rights <sup>(1)</sup>	\$ 1,874,590	\$ -	\$ -	\$ -	\$ 1,874,590
Generation plant	330,591,318	16,762	(565,717)	1,397,416	331,439,779
Transmission and distribution plant	58,825,318	985,695	(311,725)	981,201	60,480,489
General plant	<u>20,321,125</u>	<u>91,098</u>	<u>(790,353)</u>	<u>990,141</u>	<u>20,612,011</u>
Total Utility Plant in Service	411,612,351	1,093,555	(1,667,795)	3,368,758	414,406,869
Construction work in progress <sup>(1)</sup>	<u>412,386</u>	<u>3,733,274</u>	<u>(226,486)</u>	<u>(3,368,758)</u>	<u>550,416</u>
Total Electric Utility Plant	<u>412,024,737</u>	<u>\$ 4,826,829</u>	<u>\$ (1,894,281)</u>	<u>\$ -</u>	<u>414,957,285</u>
Less: Accumulated depreciation					
Generation plant	254,783,290	\$ 7,496,484	\$ (551,238)	\$ -	261,728,536
Transmission and distribution plant	47,207,377	2,267,100	(318,910)	-	49,155,567
General plant	<u>19,256,533</u>	<u>1,582,344</u>	<u>(733,969)</u>	<u>-</u>	<u>20,104,908</u>
Total Accumulated Depreciation	<u>321,247,200</u>	<u>\$ 11,345,928</u>	<u>\$ (1,604,117)</u>	<u>\$ -</u>	<u>330,989,011</u>
Net Electric Capital Assets	<u>\$ 90,777,537</u>				<u>\$ 83,968,274</u>

(1) – Capital assets not being depreciated

## MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013

### NOTE 3 – CAPITAL ASSETS (cont.)

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

A summary of changes in electric capital assets for 2013 follows:

	Balance 1/1/13	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/13
Land and land rights <sup>(1)</sup>	\$ 1,874,590	\$ -	\$ -	\$ -	\$ 1,874,590
Generation plant	329,311,001	33,135	(848,499)	2,095,681	330,591,318
Transmission and distribution plant	57,982,139	599,692	(151,402)	394,889	58,825,318
General plant	19,936,528	90,467	(697,770)	991,900	20,321,125
Total Utility Plant in Service	409,104,258	723,294	(1,697,671)	3,482,470	411,612,351
Construction work in progress <sup>(1)</sup>	259,108	3,903,354	(267,606)	(3,482,470)	412,386
Total Electric Utility Plant	409,363,366	\$ 4,626,648	\$ (1,965,277)	\$ -	412,024,737
Less: Accumulated depreciation					
Generation plant	248,157,549	\$ 7,468,475	\$ (842,734)	\$ -	254,783,290
Transmission and distribution plant	45,166,468	2,233,524	(192,615)	-	47,207,377
General plant	18,371,908	1,542,013	(657,388)	-	19,256,533
Total Accumulated Depreciation	311,695,925	\$ 11,244,012	\$ (1,692,737)	\$ -	321,247,200
Net Electric Capital Assets	\$ 97,667,441				\$ 90,777,537

(1) – Capital assets not being depreciated

## MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013

### NOTE 3 – CAPITAL ASSETS (cont.)

#### *WATER UTILITY*

A summary of changes in water capital assets for 2014 follows:

	Balance 1/1/14	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/14
Land and land rights <sup>(1)</sup>	\$ 1,052,321	\$ -	\$ -	\$ -	\$ 1,052,321
Source of supply	2,356,640	-	(39,174)	656,507	2,973,973
Pumping equipment	2,117,140	-	-	161,361	2,278,501
Purification equipment	1,532,521	-	-	-	1,532,521
Distribution system	17,645,997	153,113	(741,433)	1,508,693	18,566,370
General plant	1,335,362	7,241	(105,687)	30,440	1,267,356
Total Utility Plant in Service	26,039,981	160,354	(886,294)	2,357,001	27,671,042
Construction work in progress <sup>(1)</sup>	322,209	2,319,503	(15,599)	(2,357,001)	269,112
Total Water Utility Plant	26,362,190	\$ 2,479,857	\$ (901,893)	\$ -	27,940,154
Less: Accumulated depreciation					
Source of supply	1,300,916	\$ 78,552	\$ (39,174)	\$ -	1,340,294
Pumping equipment	612,821	68,040	-	-	680,861
Purification system	831,538	38,748	-	-	870,286
Distribution system	6,158,387	389,544	(739,857)	-	5,808,074
General plant	1,137,784	147,024	(99,489)	-	1,185,319
Total Accumulated Depreciation	10,041,446	\$ 721,908	\$ (878,520)	\$ -	9,884,834
Net Water Capital Assets	\$ 16,320,744				\$ 18,055,320

(1) – Capital assets not being depreciated

## MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013

### NOTE 3 – CAPITAL ASSETS (cont.)

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

A summary of changes in water capital assets for 2013 follows:

	Balance 1/1/13	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/13
Land and land rights <sup>(1)</sup>	\$ 1,052,321	\$ -	\$ -	\$ -	\$ 1,052,321
Source of supply	2,144,976	-	-	211,664	2,356,640
Pumping equipment	2,043,250	-	-	73,890	2,117,140
Purification equipment	1,051,289	-	-	481,232	1,532,521
Distribution system	16,889,825	481,177	(49,307)	324,302	17,645,997
General plant	1,165,318	2,248	(28,389)	196,185	1,335,362
Total Utility Plant in Service	24,346,979	483,425	(77,696)	1,287,273	26,039,981
Construction work in progress <sup>(1)</sup>	349,544	1,277,528	(17,590)	(1,287,273)	322,209
Total Water Utility Plant	24,696,523	\$ 1,760,953	\$ (95,286)	\$ -	26,362,190
Less: Accumulated depreciation					
Source of supply	1,229,420	\$ 71,496	\$ -	\$ -	1,300,916
Pumping equipment	546,845	65,976	-	-	612,821
Purification system	803,482	28,056	-	-	831,538
Distribution system	5,835,274	372,420	(49,307)	-	6,158,387
General plant	1,075,185	90,132	(27,533)	-	1,137,784
Total Accumulated Depreciation	9,490,206	\$ 628,080	\$ (76,840)	\$ -	10,041,446
Net Water Capital Assets	\$ 15,206,317				\$ 16,320,744

(1) – Capital assets not being depreciated

## MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013

### NOTE 3 – CAPITAL ASSETS (cont.)

#### COMMUNICATIONS UTILITY

A summary of changes in communications capital assets for 2014 follows:

	Balance 1/1/14	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/14
CATV	\$ 22,415,523	\$ 560,041	\$ (681,398)	\$ 78,424	\$ 22,372,590
Data/Internet	4,199,696	170,917	(48,312)	86,904	4,409,205
MAN/MME	4,178,252	71,285	(12,613)	15,073	4,251,997
General plant	1,593,314	25,831	(64,437)	77,262	1,631,970
Total Utility Plant in Service	32,386,785	828,074	(806,760)	257,663	32,665,762
Construction work in progress <sup>(1)</sup>	35,124	430,678	(28,274)	(257,663)	179,865
Total Communications Utility Plant	32,421,909	\$ 1,258,752	\$ (835,034)	\$ -	32,845,627
Less: Accumulated depreciation					
CATV	16,743,147	\$ 1,343,244	\$ (656,651)	\$ -	17,429,740
Data/Internet	2,757,980	285,079	(34,803)	-	3,008,256
MME	2,811,918	245,100	(12,614)	-	3,044,404
General plant	949,587	103,932	(64,438)	-	989,081
Total Accumulated Depreciation	23,262,632	\$ 1,977,355	\$ (768,506)	\$ -	24,471,481
Net Communications Capital Assets	\$ 9,159,277				\$ 8,374,146

(1) – Capital assets not being depreciated

## MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013

### NOTE 3 – CAPITAL ASSETS (cont.)

#### COMMUNICATIONS UTILITY (cont.)

A summary of changes in communications capital assets for 2013 follows:

	Balance 1/1/13	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/13
CATV	\$ 22,039,956	\$ 667,233	\$ (330,727)	\$ 39,061	\$ 22,415,523
Data/Internet	3,840,378	148,802	(133,886)	344,402	4,199,696
MAN/MME	4,115,168	51,128	-	11,956	4,178,252
General plant	1,463,431	(2,808)	(76,528)	209,219	1,593,314
Total Utility Plant in Service	31,458,933	864,355	(541,141)	604,638	32,386,785
Construction work in progress <sup>(1)</sup>	113,963	537,092	(11,293)	(604,638)	35,124
Total Communications Utility Plant	31,572,896	\$ 1,401,447	\$ (552,434)	\$ -	32,421,909
Less: Accumulated depreciation					
CATV	15,250,898	\$ 1,739,940	\$ (247,691)	\$ -	16,743,147
Data/Internet	2,626,220	249,576	(117,816)	-	2,757,980
MAN	2,560,362	251,556	-	-	2,811,918
General plant	917,430	99,312	(67,155)	-	949,587
Total Accumulated Depreciation	21,354,910	\$ 2,340,384	\$ (432,662)	\$ -	23,262,632
Net Communications Capital Assets	\$ 10,217,986				\$ 9,159,277

(1) – Capital assets not being depreciated

## MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013

### NOTE 4 – RESTRICTED ASSETS

Restricted assets represent amounts set aside under the terms of the bond resolutions relating to the utility's Board of Trustees restriction, or under the terms of the communications loan agreement. In accordance with the covenants of the bond resolutions, the amounts have been segregated into various funds or accounts. 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 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, 2014 and 2013 is as follows:

	Electric Utility		Communications Utility	
	2014	2013	2014	2013
Restricted Assets:				
Sinking fund	\$ -	\$ -	\$ 1,052,940	\$ 1,030,500
Extraordinary operation and maintenance account	13,043,900	13,031,882	-	-
Total Restricted Assets	\$ 13,043,900	\$ 13,031,882	\$ 1,052,940	\$ 1,030,500

### NOTE 5 – NONCURRENT LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

#### *NONCURRENT LIABILITIES SUMMARY – ELECTRIC*

Noncurrent liabilities activity for the year ended December 31, 2014:

	Balance 1/1/14	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/14
Post-employment health benefit provision	\$ 321,732	\$ 98,750	\$ -	\$ 420,482
Health & dental care provision	1,494,518	2,524,118	(2,606,683)	1,411,953
Noncurrent Liabilities	\$ 1,816,250	\$ 2,622,868	\$ (2,606,683)	\$ 1,832,435

## MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013

### NOTE 5 – NONCURRENT LIABILITIES (cont.)

#### **NONCURRENT LIABILITIES SUMMARY – ELECTRIC (cont.)**

Noncurrent liabilities activity for the year ended December 31, 2013:

	Balance 1/1/13	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/13
Post-employment health benefit provision	\$ 168,764	\$ 152,968	\$ -	\$ 321,732
Health & dental care provision	1,649,735	2,454,179	(2,609,396)	1,494,518
Noncurrent Liabilities	\$ 1,818,499	\$ 2,607,147	\$ (2,609,396)	\$ 1,816,250

#### **NONCURRENT LIABILITIES SUMMARY – WATER**

On November 18, 2009, the utility closed on a loan from the Iowa Department of Natural Resources' State Drinking Water Revolving Loan Fund for the well motor control project. The loan is administered by the Iowa Finance Authority. The loan agreement provided for the borrowing of up to \$494,000; total amount borrowed was \$399,000. The project qualified for ARRA (Stimulus Act) funding as a "green" water project of which \$93,000 was forgiven. The interest rate on the loan is 3.0% interest, plus a 0.25% servicing fee, with a 10-year repayment term. Interest payments are payable semi-annually and began June 1, 2010; principal payments began June 1, 2011 and are due annually. Total outstanding loan payable at December 31, 2014 and December 31, 2013 was \$190,000 and \$210,000 respectively.

In January 2013, the Board approved a borrowing arrangement whereby the electric utility may advance up to \$4,500,000 to the water utility, as needed. The interest rate was originally established at 0.10% and may be adjusted annually, to reflect the electric utility's investment opportunity cost. The terms of the arrangement require annual interest payments on January 1 in each of the years 2014 through 2017. Both the principal and interest on the advance shall be payable in a lump sum due on January 1, 2018. This debt as to both principal and interest is and shall be junior and subordinate in all respects to the State of Iowa Revolving Loan Fund debt. All or any portion of such debt may be prepaid at any time by the water utility without penalty. On June 25, 2013, the electric utility advanced the water utility \$400,000 for capital needs. The interest rate was adjusted to 0.18% on January 1, 2014. In 2014, an additional \$1,500,000 was advanced to the water utility for capital needs, increasing the total loan to \$1,900,000 as of December 31, 2014.

## MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013

### NOTE 5 – NONCURRENT LIABILITIES (cont.)

#### NONCURRENT LIABILITIES SUMMARY – WATER (cont.)

Noncurrent liabilities activity for the year ending December 31, 2014:

	Balance 1/1/14	Additions/ (Reductions)	Payments/ Amortization/ Reclassifications	Balance 12/31/14	Due Within One Year
Long term debt	\$ 219,000	\$ -	\$ (29,000)	\$ 190,000	\$ 29,000
Less: Current installments	(29,000)	-	-	(29,000)	-
Note payable to electric utility	400,000	1,500,000	-	1,900,000	-
Long-Term Debt, Net of Current Portion	590,000	1,500,000	(29,000)	2,061,000	29,000
Post-employment health benefit provision	30,478	10,000	-	40,478	-
Health & dental care provision	142,820	235,807	(255,020)	123,607	-
Customer advances for construction	396,236	-	(17,688)	378,548	-
<b>Noncurrent Liabilities</b>	<b>\$ 1,159,534</b>	<b>\$ 1,745,807</b>	<b>\$ (301,708)</b>	<b>\$ 2,603,633</b>	<b>\$ 29,000</b>

Noncurrent liabilities activity for the year ending December 31, 2013:

	Balance 1/1/13	Additions/ (Reductions)	Payments/ Amortization/ Reclassifications	Balance 12/31/13	Due Within One Year
Long term debt	\$ 247,000	\$ -	\$ (28,000)	\$ 219,000	\$ 29,000
Less: Current installments	(28,000)	-	(1,000)	(29,000)	-
Note payable to electric utility	-	400,000	-	400,000	-
Long-Term Debt, Net of Current Portion	219,000	400,000	(29,000)	590,000	29,000
Post-employment health benefit provision	14,585	15,893	-	30,478	-
Health & dental care provision	163,962	245,237	(266,379)	142,820	-
Customer advances for construction	429,417	201,179	(234,360)	396,236	-
<b>Noncurrent Liabilities</b>	<b>\$ 826,964</b>	<b>\$ 862,309</b>	<b>\$ (529,739)</b>	<b>\$ 1,159,534</b>	<b>\$ 29,000</b>

## MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013

### NOTE 5 – NONCURRENT LIABILITIES (cont.)

#### *NONCURRENT LIABILITIES SUMMARY – WATER* (cont.)

Noncurrent Liabilities Maturity Schedule – Water

Year Ending December 31	Iowa Finance Authority Loan				Electric Utility Loan		
	Principal Amount	Interest 3.00%	Servicing fee 0.25%	Total	Principal Amount	Interest 0.18%	Total
2015	\$ 29,000	\$ 5,265	\$ 475	\$ 34,740	\$ -	\$ 2,055	\$ 2,055
2016	30,000	4,380	402	34,782	-	4,258	4,258
2017	31,000	3,465	328	34,793	-	4,320	4,320
2018	32,000	2,520	250	34,770	1,900,000	4,320	1,904,320
2019	33,000	1,545	170	34,715	-	-	-
2020	35,000	525	87	35,612	-	-	-
Totals	<u>\$ 190,000</u>	<u>\$ 17,700</u>	<u>\$ 1,712</u>	<u>\$ 209,412</u>	<u>\$ 1,900,000</u>	<u>\$ 14,953</u>	<u>\$ 1,914,953</u>

All water utility revenues, net of specified operating expenses, are pledged as security of the water debt until fully paid. Principal and interest paid in 2014 and 2013, and water utility net revenues are as follows:

	<u>2014</u>	<u>2013</u>
Principal and interest paid	\$ 35,891	\$ 35,608
Net revenues	767,243	796,853

Annual future principal and interest payments are expected to require 5% of water utility net revenues.

#### *NONCURRENT LIABILITIES SUMMARY – COMMUNICATIONS*

In December 2008, the communications utility obtained loans from three local banks to cover the digital transition project and other capital costs. The loan agreement allowed 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 is payable semi-annually and began July 1, 2009; principal repayment is payable annually beginning January 1, 2012. As of December 31, 2010, the communications utility borrowed the entire \$4,800,000. The final loan payment is due January 1, 2016.

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 are due each January 1 and July 1. A Board resolution, which 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.

## MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013

### NOTE 5 – NONCURRENT LIABILITIES (cont.)

#### *NONCURRENT LIABILITIES SUMMARY – COMMUNICATIONS* (cont.)

Noncurrent liabilities activity for the year ending December 31, 2014:

	Balance 1/1/14	Additions/ (Reductions)	Payments/ Amortization/ Reclassifications	Balance 12/31/14	Due Within One Year
Notes payable to banks	\$ 3,000,000	\$ -	\$ (960,000)	\$ 2,040,000	\$ 1,005,000
Note payable to electric utility	35,327,000	-	-	35,327,000	-
Allowance for reduction in note payable	-	(25,327,000)	-	(25,327,000)	-
Total Long-Term Debt	38,327,000	(25,327,000)	(960,000)	12,040,000	1,005,000
Less: Current installments	(960,000)	-	(45,000)	(1,005,000)	-
Long-Term Debt, Net of Current Portion	37,367,000	(25,327,000)	(1,005,000)	11,035,000	1,005,000
Unearned revenue	281,979	-	(17,500)	264,479	28,680
Post-employment health benefit provision	54,801	16,250	-	71,051	-
Health & dental care provision	292,319	383,379	(432,016)	243,682	-
Noncurrent Liabilities	\$ 37,996,099	\$ (24,927,371)	\$ (1,454,516)	\$ 11,614,212	\$ 1,033,680

Noncurrent liabilities activity for the year ending December 31, 2013:

	Balance 1/1/13	Additions/ (Reductions)	Payments/ Amortization/ Reclassifications	Balance 12/31/13	Due Within One Year
Notes payable to banks	\$ 3,915,000	\$ -	\$ (915,000)	\$ 3,000,000	\$ 960,000
Note payable to electric utility	35,327,000	-	-	35,327,000	-
Total Long-Term Debt	39,242,000	-	(915,000)	38,327,000	960,000
Less: Current installments	(915,000)	-	(45,000)	(960,000)	-
Long-Term Debt, Net of Current Portion	38,327,000	-	(960,000)	37,367,000	960,000
Unearned revenue	299,479	-	(17,500)	281,979	17,500
Post-employment health benefit provision	25,002	29,799	-	54,801	-
Health & dental care provision	289,252	476,701	(473,634)	292,319	-
Noncurrent Liabilities	\$ 38,940,733	\$ 506,500	\$ (1,451,134)	\$ 37,996,099	\$ 977,500

## MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2014 and 2013

### NOTE 5 – NONCURRENT LIABILITIES (cont.)

#### *NONCURRENT LIABILITIES MATURITY SCHEDULE – COMMUNICATIONS*

Communications loan debt service requirements to maturity follow as of December 31, 2014:

Year Ending December 31	Electric Utility Loan			Bank Loans		
	Principal Amount	Interest 3.53%	Total	Principal Amount	Interest 4.7%	Total
2015	\$ -	\$ 1,247,043	\$ 1,247,043	\$ 1,005,000	\$ 72,263	\$ 1,077,263
2016	680,959	1,235,024	1,915,983	1,035,000	24,322	1,059,322
2017	704,997	1,210,562	1,915,559	-	-	-
2018	729,884	1,185,237	1,915,121	-	-	-
2019	755,648	1,159,017	1,914,665	-	-	-
2020	782,323	1,131,872	1,914,195	-	-	-
2021 - 2025	4,345,875	5,217,434	9,563,309	-	-	-
2026 - 2030	5,169,019	4,379,758	9,548,777	-	-	-
2031 - 2035	6,148,078	3,383,422	9,531,500	-	-	-
2036 - 2040	7,312,576	2,198,369	9,510,945	-	-	-
2041 - 2045	8,697,641	788,858	9,486,499	-	-	-
<b>Totals</b>	<b>\$ 35,327,000</b>	<b>\$ 23,136,596</b>	<b>\$ 58,463,596</b>	<b>\$ 2,040,000</b>	<b>\$ 96,585</b>	<b>\$ 2,136,585</b>

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 2014 and 2013, and communications utility net revenues are as follows:

	2014	2013
Principal and interest paid	\$ 2,325,484	\$ 2,324,546
Net revenues	3,894,155	3,596,387

Annual future principal and interest payments are expected to require 50% of communications utility net revenues.

# MUSCATINE POWER AND WATER

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

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### NOTE 6 – NET POSITION

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GASB No. 34 requires the classification of net position into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

*Net investment in capital assets* - This component of net position 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 position component as the unspent proceeds.

*Restricted* - This component of net position consists of constraints placed on net position 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, including restrictions by the utility's Board of Trustees.

*Unrestricted* - This component of net position does not meet the definition of "restricted" or "net investment in capital assets."

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 position, net investment in capital assets:

	<u>2014</u>	<u>2013</u>
Plant in Service	\$ 414,406,869	\$ 411,612,351
Construction Work in Progress	550,416	412,386
Accumulated Depreciation	<u>(330,989,011)</u>	<u>(321,247,200)</u>
 Net Investment in Capital Assets	 <u>\$ 83,968,274</u>	 <u>\$ 90,777,537</u>

## MUSCATINE POWER AND WATER

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2014 and 2013

#### **NOTE 6 – NET POSITION (cont.)**

The following calculation supports the water net position, net investment in capital assets:

	2014	2013
Plant in Service	\$ 27,671,042	\$ 26,039,981
Construction Work in Progress	269,112	322,209
Accumulated Depreciation	(9,884,834)	(10,041,446)
Sub-Totals	18,055,320	16,320,744
Less: Capital Related Debt		
Customer advances for construction	386,753	623,938
Current portion of capital related long term debt	29,000	29,000
Long-term portion of capital related long term debt	161,000	190,000
Sub-Totals	576,753	842,938
Net Investment in Capital Assets	\$ 17,478,567	\$ 15,477,806

The following calculation supports the communications net position, net investment in capital assets:

	2014	2013
Plant in Service	\$ 32,665,762	\$ 32,386,785
Construction Work in Progress	179,865	35,124
Accumulated Depreciation	(24,471,481)	(23,262,632)
Sub-Totals	8,374,146	9,159,277
Less: Capital Related Debt		
Current portion of capital related long term debt	1,005,000	960,000
Long-term portion of capital related long term debt	1,035,000	2,040,000
Sub-Totals	2,040,000	3,000,000
Net Investment in Capital Assets	\$ 6,334,146	\$ 6,159,277

#### ***DEFICIT BALANCES***

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

As of December 31, 2014 and 2013 the Communications Utility had a net deficit of \$22.9 million and \$23.6 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  
As of and for the Years Ended December 31, 2014 and 2013

### **NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS**

The utility's group health insurance plan provides coverage to active employees and retirees (or other qualified terminated employees) at blended premium rates. This coverage results in a other-post-employment benefit (OPEB) for the retirees, commonly referred to as an implicit rate subsidy.

Retirees participating in the plan contribute 100% of the blended premium. The utility, by contributing its portion of the blended premium for active employees, in effect contributes the difference between the blended premium and a retiree age adjusted premium.

For fiscal years 2014 and 2013, the utility contributed \$2,636,000 and \$2,604,000, respectively, to the plan for claim payments plus administrative costs, net of payments received from employees and retirees for premiums.

The following OPEB obligation is based on the actuarial valuation report as of December 31, 2012.

	2014	2013
Annual required contribution	\$ 216,875	\$ 217,189
Interest on net OPEB obligation	16,280	11,068
Adjustment to annual required contribution	(99,155)	52,044
Annual OPEB cost	134,000	280,301
Contributions made	(9,000)	(81,641)
Increase in net OPEB obligation	125,000	198,660
Net OPEB Obligation - Beginning of Year	407,011	208,351
Net OPEB Obligation - End of Year	\$ 532,011	\$ 407,011

The utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation was as follows:

Fiscal Year Ending	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/09	\$ 50,553	26%	\$ 109,598
12/31/10	53,076	26%	148,874
12/31/11	45,243	34%	178,594
12/31/12	41,607	28%	208,351
12/31/13	280,301	29%	407,011
12/31/14	134,000	7%	532,011

## MUSCATINE POWER AND WATER

### NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

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#### NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (cont.)

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The funded status of the plan as of December 31, 2012, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 2,084,812
Actuarial value of plan assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 2,084,812</u>
Funded ratio (actuarial value of plan assets/AAL)	-
Covered payroll (active plan members)	\$ 20,059,886
UAAL as a percentage of covered payroll	10.4%

Actuarial valuations of an ongoing plan involve estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4% investment rate of return and an annual healthcare cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 4.5% after six years. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2012, was 30 years.

## MUSCATINE POWER AND WATER

### NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

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#### NOTE 8 – PENSION PLAN

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The utility provides a defined benefit pension plan with benefits to eligible vested full-time utility and part-time utility employees at separation of service. Eligible employees are those who are not participants in the Iowa Public Employees' Retirement System (IPERS). Participants are 100% vested at the completion of five years of service. Benefits are generally equal to 1.5% of the employee's average highest five consecutive years of compensation (Average Compensation) multiplied by credited years of service. An additional benefit is available in an amount equal to 0.5% of the employee's Average Compensation in excess of Social Security Covered Compensation, if any, multiplied by credited years of service, up to 35 years. Benefit provisions are established under the Muscatine Water and Electric Employees' Pension Plan as adopted by the utility's Board of Trustees. The funding is approved by the utility's Board of Trustees.

The annual pension costs of \$2,619,300 for 2014; \$2,768,300 for 2013; and \$2,678,301 for 2012 (including MAGIC-see note 15) were equal to or greater than the utility's annual required contribution and equal to the actual contributions made by the utility. Accordingly, the utility has no net pension obligation at December 31, 2014. The electric, water, and communications utilities' portions of the 2014 Plan contribution were \$2,142,660, \$125,060, and \$332,280, 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 2014 was determined as part of the January 1, 2014 actuarial valuation using the projected unit credit cost method. The actuarial assumptions included: (a) a 7.25% investment rate of return (net of administrative expenses), (b) projected salary increases of 4.5%, 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 Contribution (ARC)</u>	<u>% of ARC Contributed</u>	<u>Net Pension Obligation</u>
12/31/09	\$ 1,670,289	100	\$ -
12/31/10	1,933,274	100	-
12/31/11	2,236,473	100	-
12/31/12	2,678,301	100	-
12/31/13	2,327,504	119	-
12/31/14	2,391,618	110	-

## MUSCATINE POWER AND WATER

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2014 and 2013

#### **NOTE 8 – 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)
01/01/09	\$ 41,901,750	\$ 43,004,091	\$ 1,102,341	97.4%	\$ 18,811,367	5.9%
01/01/10	41,554,008	44,345,044	2,791,036	93.7	18,760,186	14.9
01/01/11	42,035,773	48,101,789	6,066,016	87.4	19,310,355	31.4
01/01/12	42,454,375	53,226,776	10,772,401	79.8	19,256,716	55.9
01/01/13	47,712,624	54,688,315	6,975,691	87.2	19,355,639	36.0
01/01/14	53,375,534	59,389,212	6,013,678	89.9	20,059,886	30.0

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 5.78% of their annual covered salary through June 30, 2013 and 5.95% from July 1, 2013 through December 31, 2014. The utility was required to contribute 8.67% of employees' covered annual salaries through June 30, 2013 and 8.93% from July 1, 2013 through December 31, 2014. Contribution requirements are established by Iowa statute. The utility's contributions to IPERS for the years ended December 31, 2014 and 2013 were \$44,954 and \$56,838, respectively, equal to the required contributions for those years.

#### **NOTE 9 – SIGNIFICANT CUSTOMERS**

Approximately \$25,421,000 or 25% in 2014 and \$26,396,000 or 28% in 2013 of the electric utility's operating revenues (prior to the extraordinary O&M account transfer) were derived from sales to one customer. Approximately \$2,241,000 or 44% in 2014 and \$2,169,000 or 45% in 2013 of the water utility's operating revenues were derived from sales to one customer.

#### **NOTE 10 – COMMITMENTS AND CONTINGENCIES**

A power purchase agreement for wind energy was entered into in December 2013. It is a 20-year agreement that commences with the wind farm's actual commercial operation date, anticipated to be in fourth quarter of 2015. The wind farm is located in Jackson County, Minnesota, which is in the utility's MISO local resource zone. Its projected annual output is 46,691 MWH, approximately 5.5% of native system needs. Terms include a flat rate for delivered energy over the 20-year agreement. The utility is subject to market risk; however, the contract includes a cost floor provision to protect against this risk. The contract also includes a revenue/margin sharing provision if the net financial benefit goes above a certain level.

## MUSCATINE POWER AND WATER

### NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

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#### **NOTE 10 – COMMITMENTS AND CONTINGENCIES (cont.)**

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The utility has committed to purchasing 1,086,000 tons of coal in 2015 under two contracts with one supplier.

The utility has rail transportation agreements with two separate companies for the delivery of coal through December 31, 2017 and December 31, 2016. The utility's first agreement is for coal shipped from the Powder River Basin (PRB), Wyoming to an interchange with the local delivery carrier. The contract term is from July 1, 2011 through December 31, 2017 where the rate is adjusted quarterly beginning January 2012 plus monthly fuel surcharges. The utility's minimum requirement is 100% of the tons shipped from the PRB up to the utility's annual tonnage nomination. In the event the utility does not meet their nominated tons, the utility has agreed to pay a per ton fee as compensation for lost traffic.

Shipment of coal from the interchange point to the utility's generating station is covered by an agreement that began January 1, 2013 and expires December 31, 2016. The contract rate is adjusted quarterly. There is no annual minimum tonnage requirement; however, the utility will nominate their needs by November 1 of the preceding year. In the event the utility does not meet their nominated tons, the utility has agreed to pay a per ton fee as compensation for lost traffic. In anticipation of future emissions reduction requirements, in 2013 the utility entered into contracts with a coal refining company for the company to apply additives to the utility's coal. These additives change the combustion characteristics of the coal such that Mercury and NO<sub>x</sub> emissions are reduced. The contracts include a facilities lease, a contract for the sale of the utility's coal to the refining company and a contract for the purchase of the refined coal by the utility for burning in the utility's generation units. The refined coal will reduce the overall delivered coal costs for the utility because the coal refining company is taking advantage of a tax incentive program and the utility will share in their tax savings. This agreement is in effect until December 2019.

The utility has contracted to sell steam to a local customer. The original 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). 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 sulfur dioxide (SO<sub>2</sub>), nitrogen oxide (NO<sub>x</sub>) and mercury emission allowance costs. If the contract is cancelled during the amendment period, the customer has agreed to reimburse the utility for any of the unrecovered environmental capital costs.

In 2012, the utility entered into a loan agreement with First National Bank of Muscatine for a line of credit in an amount not to exceed \$10,000,000. The terms of the loan require monthly interest payments on the outstanding principal at the Prime Rate as published in the *Wall Street Journal*; a quarterly fee of 3/8% on the unused amount is also due. In 2013, the line of credit was reduced to \$5,000,000. No advances were drawn against the loan during 2013 and 2014. In 2014 the line of credit was terminated.

# MUSCATINE POWER AND WATER

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

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### **NOTE 11 – ENVIRONMENTAL REGULATIONS**

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

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### **NOTE 12 – INTERFUND AND RELATED PARTY TRANSACTIONS**

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The electric utility sold power to the water utility amounting to approximately \$943,400 in 2014 and \$832,800 in 2013. The electric utility sold power to the communications utility amounting to approximately \$20,000 in 2014 and \$18,700 in 2013. The electric utility purchased water from the water utility amounting to approximately \$355,000 for 2014 and \$361,200 for 2013. The electric utility purchased communications services from the communications utility amounting to approximately \$165,400 for 2014 and \$158,800 for 2013.

The electric utility rents space to the water utility and the communications utility at the Administration/Operations Center. This amounted to \$69,000 in 2014 and \$67,000 in 2013 for the water utility's rent, and \$110,500 in 2014 and \$107,300 in 2013 for the communications utility's rent.

Electric utility amounts receivable from the water utility were \$84,200 and \$76,200 at December 31, 2014 and 2013, respectively. Electric utility amounts payable to the water utility were \$32,100 and \$30,500 at December 31, 2014 and 2013, respectively. Electric utility amounts receivable from the communications utility were \$1,900 and \$1,700 at December 31, 2014 and 2013, respectively. Electric utility amounts payable to the communications utility were \$13,800 at December 31, 2014 and 2013.

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 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 are due each January 1 and July 1. 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.

Electric utility interest receivable from the communications utility was \$623,522 at December 31, 2014 and 2013. Interest income on the loan amounted to \$1,247,043 for 2014 and 2013.

# MUSCATINE POWER AND WATER

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2014 and 2013

### NOTE 12 – INTERFUND AND RELATED PARTY TRANSACTIONS (cont.)

In January 2013, the Board approved a borrowing arrangement whereby the electric utility may advance up to \$4,500,000 to the water utility, as needed. The interest rate was originally established at 0.10% and may be adjusted annually to reflect the electric utility's investment opportunity cost. The terms of the arrangement require annual interest payments on January 1 in each of the years 2014 through 2017. Both the principal and interest on the advance shall be payable in a lump sum due on January 1, 2018. This debt as to both principal and interest is and shall be junior and subordinate in all respects to the State of Iowa Revolving Loan Fund debt. All or any portion of such debt may be prepaid at any time by the water utility without penalty. On June 25, 2013, the electric utility advanced the water utility \$400,000 for capital needs. The interest rate was adjusted to 0.18% January 1, 2014. In 2014, an additional \$1,500,000 was advanced to the water utility for capital needs, increasing the total loan to \$1,900,000 as of December 31, 2014.

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 and/or directors of companies that are customers of the utility. Most employees are also customers of the utility.

### 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 reserves in the last three years. There were no significant reductions in coverage compared to the prior year.

<i>(Thousands of dollars)</i>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Health/dental care self-insurance reserve</b>			
Reserve liability, beginning of year	\$ 1,930	\$ 2,325	\$ 2,457
Add: Provision for reserve, current year	3,663	3,421	3,319
Less: Payments on reserve	<u>(3,447)</u>	<u>(3,526)</u>	<u>(3,451)</u>
Total Reserve Liability, end of year	2,146	2,220	2,325
Incurring but not reported claims	<u>(367)</u>	<u>(290)</u>	<u>(222)</u>
 Noncurrent Reserve Liability, End of Year	 <u>\$ 1,779</u>	 <u>\$ 1,930</u>	 <u>\$ 2,103</u>

<i>(Thousands of dollars)</i>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Workers compensation self insurance reserve</b>			
Reserve liability, beginning of year	\$ 441	\$ 444	\$ 208
Add: Provision for reserve	162	134	491
Less: Payments on reserve	<u>(427)</u>	<u>(137)</u>	<u>(255)</u>
 Reserve Liability, End of Year	 <u>\$ 176</u>	 <u>\$ 441</u>	 <u>\$ 444</u>

# MUSCATINE POWER AND WATER

## NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

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### **NOTE 14 – JOINT VENTURE**

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The utility is a member organization along with the City of Muscatine and the County of Muscatine in a joint venture under Chapter 28E of the Iowa Code to operate the Muscatine Area Geographic Information Consortium (MAGIC). The purpose of MAGIC is to improve the efficiency and effectiveness of its member organizations through the coordinated development of geographic and land information systems technology and data. MAGIC is governed by a six-member board composed of two appointees from each member organization. Each member organization has one vote on all matters. MAGIC's board determines the funding required by each member organization. Upon dissolution of the joint venture, the net position 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.

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### **NOTE 15 – SUBSEQUENT EVENTS**

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#### ***WATER RATES***

In November 2014, a 5.5% water rate increase was approved by the Board to become effective with water usage starting April 1, 2015 and April 1, 2016.

#### ***COMMUNICATIONS RATES***

In February 2015, a communications utility cable television rate increase of 10.2% was approved by the Board to become effective April 1, 2015.

#### ***ELECTRIC UTILITY LOAN TO WATER UTILITY***

In January 2015, the electric utility advanced an additional \$500,000 to the water utility for cash reserve needs pursuant to the Board approved borrowing arrangement.

#### ***ELECTRIC UTILITY LOAN TO COMMUNICATIONS UTILITY***

On November 25, 2014, the Board approved an amendment to the electric utility's loan agreement with the communications utility that included loan forgiveness of \$25,327,000, changing the fixed interest rate from 3.53% to 0.50%, and modifying the amortization of the note from a 30-year period to a 20-year period. These new terms became effective January 1, 2015.

**REQUIRED SUPPLEMENTAL INFORMATION**

## MUSCATINE POWER AND WATER

### REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF FUNDING PROGRESS - PENSION PLAN

December 31, 2014  
(UNAUDITED)

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)
01/01/09	\$ 41,901,750	\$ 43,004,091	\$ 1,102,341	97.4%	\$ 18,811,367	5.9%
01/01/10	41,554,008	44,345,044	2,791,036	93.7	18,760,186	14.9
01/01/11	42,035,773	48,101,789	6,066,016	87.4	19,310,355	31.4
01/01/12	42,454,375	53,226,776	10,772,401	79.8	19,256,716	55.9
01/01/13	47,712,624	54,688,315	6,975,691	87.2	19,355,639	36.0
01/01/14	53,375,534	59,389,212	6,013,678	89.9	20,059,886	30.0

### REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF FUNDING PROGRESS - OPEB PLAN

December 31, 2014  
(UNAUDITED)

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)
01/01/08	\$ -	\$ 460,766	\$ 460,766	0%	\$ 18,811,367	2.4%
01/01/10	-	475,530	475,530	0	19,310,355	2.5
01/01/12	-	2,084,812	2,084,812	0	19,355,639	10.8

\*The utility plans to have actuarial valuations performed every other year as required by GASB 45.

See Independent Auditors' Report

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

Independent Auditors' Report

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

We have audited, 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, the financial statements of Muscatine Power and Water as of and for the year ended December 31, 2014, and have issued our report dated March 20, 2015.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Muscatine Power and Water's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Muscatine Power and Water's internal control. Accordingly, we do not express an opinion on the effectiveness of Muscatine Power and Water's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Muscatine Power and Water's financial statements are free from 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*.

***Purpose of this Report***

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

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
March 20, 2015

## MUSCATINE POWER AND WATER

### SCHEDULE OF FINDINGS RELATED TO GOVERNMENT AUDITING STANDARDS AND REQUIRED STATUTORY REPORTING As of and for the Year Ended December 31, 2014

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#### FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

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- A-02      Official Depositories – A resolution naming official depositories has been approved by the utility. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2014.
- B-02      Certified Budget – Disbursements during the year ended December 31, 2014, 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:  
No material weaknesses were noted during the audit.

**SUPPLEMENTAL INFORMATION**

**MUSCATINE POWER AND WATER**

Schedule of Insurance Coverage

December 31, 2014

Insurer	Type of Coverage	Policy's Expiration Date	Amount of Coverage		
FM Global Insurance Company	All risks:	4/1/2015			
	Named locations		\$750,000,000	Blanket	\$1,000,000 Deductible per occurrence
	Gross earnings-Communications Utility		Included in Blanket		
	Acts of terrorism - certified		Included in Blanket		
	Accounts receivable		\$100,000,000		
	Debris removal		\$100,000,000		
	Demolition & increased cost of construction		\$100,000,000		
	Earth movement		\$100,000,000		
	Errors and omissions		\$100,000,000		
	Fine arts		\$100,000,000		
	Flood		\$100,000,000		
	Automatic coverage (90 days)		\$100,000,000		
	Valuable papers and records		\$100,000,000		
	Data, programs or software		\$10,000,000		
	Decontamination costs		\$10,000,000		
	Expediting expense and extra expense		\$10,000,000		
	Ingress/egress (30 days)		\$10,000,000		
	Miscellaneous unnamed locations		\$10,000,000		
	Soft costs		\$10,000,000		
	Transportation		\$10,000,000		
	Contingent time element		\$5,000,000		
	Logistics Extra Cost		\$5,000,000		
	Railroad rolling stock		\$5,000,000	ACV	
	Mobile equipment		\$3,500,000	ACV	
	Land and water cleanup		\$50,000		
	Claim preparation costs		\$25,000		
	Civil or military authority		30 days		
Cincinnati Insurance Company	Money & Securities	4/1/2015	100,000		No deductible
Cincinnati Insurance Company	Blanket Fidelity Bond, All Employees except Treasurer	4/1/2015	250,000		No deductible
Cincinnati Insurance Company	Treasurer's Bond	8/1/2016	250,000		No deductible

**MUSCATINE POWER AND WATER**

Schedule of Insurance Coverage (cont.)

December 31, 2014

Insurer	Type of Coverage	Policy's Expiration Date	Amount of Coverage	
AEGIS	Excess liability:	12/31/2014	\$	35,000,000 each occurrence
	Automobile liability		\$	70,000,000 general aggregate
	Product liability and completed operations			\$ 1,000,000 retention
	Failure to supply			
	Pollution liability			
	Medical malpractice			
	Emergency assistance agreements			
	Joint venture liability (pro rata ownership)			
	Employers liability			
	Standards board activity			
	Community service activity			
	Wild fire liability			
	Employment practices (12/31/98 retroactive date)		\$500,000 SIR each claimant; \$1,000,000 SIR each occurrence	
Federal Insurance Company Chubb Group of Insurance Companies	Fiduciary & employee benefit liability	12/31/2014	10,000,000	250,000 retention
Travelers Casualty & Surety Company of America	Excess fiduciary & employee benefit liability	12/31/2014	10,000,000	250,000 retention
AEGIS	Excess workers compensation	12/31/2014	35,000,000	1,000,000 each accident SIR