

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, 2017 and 2016

MUSCATINE POWER AND WATER

A Component Unit of the City of Muscatine, Iowa

TABLE OF CONTENTS December 31, 2017 and 2016

Independent Auditors' Report	1 – 3
Management's Discussion and Analysis – Required Supplementary Information	4 – 17
Financial Statements	
Statements of Net Position	18 – 19
Statements of Revenues, Expenses and Changes in Net Position	20
Statements of Cash Flows	21 – 22
Notes to Financial Statements	23 – 64
Required Supplementary Information	
Single-Employer Defined Benefit Pension Plan	65 – 66
Iowa Public Employees' Retirement System	67 – 68
Other Post-Employment Benefits (OPEB) Plan	69 – 71
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	72 – 73
Schedule of Findings Related to <i>Government Auditing Standards</i> and Required Statutory Reporting	74
Supplementary Information	
Schedule of Insurance Coverage	75 – 76

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, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 opinions.

Basis for Qualified Opinions

Muscatine Power and Water reports activity for GASB 68: *Accounting and Financial reporting for Pensions – an amendment of GASB Statement No. 27* using a measurement date of June 30, 2016 and 2015 for the years ended December 31, 2017 and 2016, respectively, to account for their portion of the costs related to the Iowa Public Employees' Retirement System (IPERS), a cost-sharing multiple-employer defined pension plan in which Muscatine Power and Water participates. Based on the June 30, 2016 measurement date, the water utility shows a net pension liability, deferred outflows of resources, and deferred inflows or resources of \$483,234, \$197,472, and \$102,764, respectively, on the Statement of Net Position at December 31, 2016. The related pension expense of \$21,211 is included in the Statement of Changes in Net Position for the year then ended. The aforementioned standard requires use of a measurement date no earlier than twelve months from the reporting date. The plan information used by Muscatine Power and Water was the most up-to-date information provided by the plan, but is not within the timeframe required by the standard. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of Muscatine Power and Water's net liability, deferred outflows of resources, and deferred inflows of resources with IPERS as of December 31, 2017 and the net pension expense associated with IPERS for the year then ended because the plan information was not available. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinions

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Muscatine Power and Water as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in the Note 1 Muscatine Power and Water adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective January 1, 2016. The cumulative effect of the change is shown in the current year. Our opinion is not modified with respect to this 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, 2017 and 2016 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 opinions are 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 required supplemental 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 2015 and 2016. 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 appropriate operational, economical, or historical contexts. Our opinions on the financial statements are not affected by this missing information. 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 20, 2018 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, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

MUSCATINE POWER AND WATER

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017 and 2016

(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 2017 and 2016. 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.

The Statements of Revenues, Expenses, and Changes in Net Position report all revenues and expenses for the year. The Statements of Net Position include all assets, liabilities and deferred outflows/inflows of resources, and indicate those that are restricted. The Statements of Cash Flows report the cash from operating activities, as well as cash from noncapital financing activities, capital and related financing activities, and investing activities.

UTILITY FINANCIAL ANALYSIS

ELECTRIC UTILITY

The Electric Utility experienced slightly lower wholesale electric revenue in 2017 due to slightly lower generation being sold into the wholesale market, partially offset by a higher average sales price.

In 2011, the Electric Utility became debt free and continued to be debt free in 2017.

Overall retail rate adjustments of 4.0% per year, effective August 1, 2017 and August 1, 2016, 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, 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. Principal payments of \$481,443 and \$479,048 were made in 2017 and 2016, respectively.

Statement No. 68 - Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (GASB 68) was issued in June 2012 effective for periods beginning after June 15, 2014. GASB 68 improves accounting and financial reporting by state and local governments for pensions, and improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The utility adopted GASB 68 effective January 1, 2015. In 2016, the GASB 68 related adjustments included a \$2.7 million increase to deferred outflows of resources, a \$3.4 million increase to net pension liability, and a \$26,000 decrease to deferred inflows of resources. In 2017, the GASB 68 related adjustments included a \$2.2 million increase to deferred outflows of resources, a \$3.0 million increase to net pension liability, and a \$530,400 increase to deferred inflows of resources.

Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75) was issued in June 2015 effective for periods beginning after June 15, 2017. GASB 75 improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB), and improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The utility adopted GASB 75 effective January 1, 2017, prior to the required implementation date. As a result, in 2017, the GASB 75 related adjustments included a \$79,000 increase to deferred outflows of resources, a \$243,700 increase to OPEB liability, and a \$90,600 increase to deferred inflows of resources.

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017 and 2016

(Unaudited)

UTILITY FINANCIAL ANALYSIS (CONT.)

ELECTRIC UTILITY (CONT.)

On December 15, 2015, Grain Processing Corporation (GPC) exercised their right to terminate the Steam Sales Contract, with 12 months' notice, due to escalating environmental costs and historically low natural gas prices. Subsequent to that date, GPC agreed to purchase steam through April 30, 2017. The original contract began July 1, 2000 with a 10-year term and was subsequently extended in 2007 for an additional 10-year period beginning in 2010. A new steam sales agreement was entered into on April 28, 2017 in which GPC has agreed to purchase steam through April 30, 2020.

A power purchase agreement for wind energy was executed in June 2016. It is a 20-year agreement that commenced December 15, 2016 with the wind farm's actual commercial operation date. Its 2018 projected annual output is 52,125 MWH, approximately 6.2% of native system needs. Total purchases were 3.5 MWH for 2016 and 54.2 MWH for 2017.

Statements of Net Position

<i>In thousands \$</i>	2017	2016
Current Assets – Unrestricted	\$ 80,250	\$ 71,026
Non-Current Assets		
Capital Assets	69,968	75,447
Other Assets	8,662	12,040
Total Non-Current Assets	<u>78,630</u>	<u>87,487</u>
Deferred Outflows of Resources		
OPEB	79	-
Pension	10,420	8,177
Total Deferred Outflows of Resources	<u>10,499</u>	<u>8,177</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 169,379</u>	<u>\$ 166,690</u>
Current Liabilities	\$ 9,246	\$ 10,714
Non-Current Liabilities	17,951	14,422
Deferred Inflows of Resources		
Extraordinary O&M Account	28,033	13,033
OBEB	90	-
Pension	1,164	633
Total Deferred Inflows of Resources	<u>29,287</u>	<u>13,666</u>
Net Position		
Net investment in capital assets	69,968	75,447
Unrestricted	42,927	52,441
Total Net Position	<u>112,895</u>	<u>127,888</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 169,379</u>	<u>\$ 166,690</u>

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017 and 2016

(Unaudited)

UTILITY FINANCIAL ANALYSIS (CONT.)

ELECTRIC UTILITY (CONT.)

2017 Compared to 2016

- Total assets increased \$2.7 million primarily due to:
 - Increases of:
 - \$17.5 million increase of cash and investments primarily due to an increase in retail and wholesale revenue, decreased coal purchases; and repayment of loan to water utility; and
 - \$2.2 million in deferred pension outflows.
 - Offset by decreases of:
 - \$5.5 million in net utility plant due to depreciation and retirements exceeding capital expenditures; and
 - \$4.8 million in coal inventory; and
 - \$2.9 million in water utility note receivable due to repayment of note balance in full; and
 - \$1.3 million in steam sales receivable; and
 - \$0.7 million in customer accounts receivable; and
 - \$0.5 million in coal sales receivable; and
 - \$0.5 million in communication utility note receivable; and
 - \$0.5 million in wholesale receivables; and
 - \$0.3 million in materials inventory.
- Current liabilities decreased \$1.5 million primarily due to:
 - Decreases of:
 - \$0.5 million in refined coal invoices payable; and
 - \$0.9 million in other trade accounts payable; and
 - \$0.4 million in accrued expenses; and
 - \$0.1 million in unearned revenue.
 - Offset by increases of \$0.4 million in coal invoices payable.
- Non-current liabilities increased \$3.5 million primarily due to:
 - \$3.0 million increase to the net pension liability, of which \$0.7 million is related to the adjustment for GASB 68; and
 - \$0.3 million increase to the health and dental care provision; and
 - \$0.2 million increase to Post-employment health benefit provision related to the adjustment for GASB 75.

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

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016 (Unaudited)

UTILITY FINANCIAL ANALYSIS (CONT.)

ELECTRIC UTILITY (CONT.)

Statements of Revenues, Expenses and Changes in Net Position

<i>In thousands \$</i>	2017	2016
Operating Revenues	\$ 79,182	\$ 96,973
Operating Expenses	(94,375)	(92,571)
Operating Income (Loss)	(15,193)	4,402
Non-operating Revenues	381	169
Non-operating Expenses	(6)	(3)
Net Non-operating Revenues	375	166
Net Income (Loss) before Capital Contributions	(14,818)	4,568
Capital Contributions	65	220
Change in Net Position	(14,753)	4,788
Net Position – Beginning of Year	127,888	123,100
Cumulative effect of a change in accounting principle – GASB 75 OPEB	(240)	-
Net Position – End of Year	\$ 112,895	\$ 127,888

2017 Compared to 2016

- Total operating revenues decreased \$17.8 million or 18.3% due to:
 - Transfers of \$15 million to the Extraordinary O&M account in 2017 compared to no transfers in 2016; and
 - Decreased steam sales of \$6.1 million to MP&W's largest industrial customer, Grain Processing Corporation, due to 37.4% fewer pounds of steam supplied.
 - Decreased Wholesale electric sales of \$0.4 million due to a 2.9% decrease in kWh sales, offset by a stronger market with a 1.4% higher average price.

Offset by increases of:

 - \$3.7 million in retail sales due to the impact of a 4% rate increase on August 1, 2017 and a 1.2% increase in kWh usage; and
 - \$0.1 million in other revenue.
- Operating expenses increased \$1.8 million or 2.0% due to:
 - \$3.4 million higher purchased power costs due to a 6.2% higher average price and 7.2% increase in kWh purchased; and
 - \$2.5 million higher cost of maintenance expenses; and
 - \$0.7 million higher cost of depreciation.

Offset by:

 - \$4.2 million lower production fuel costs, resulting from a 2.7% lower average cost of coal burned per ton and an 8.7% lower net generation; and
 - \$0.4 million lower cost of other operating expenses; and
 - \$0.2 million lower cost of emissions allowances.

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017 and 2016

(Unaudited)

UTILITY FINANCIAL ANALYSIS (CONT.)

ELECTRIC UTILITY (CONT.)

2017 Compared to 2016 (cont.)

- 2017 cumulative effect of a change in accounting principle due to the OPEB adjustment related to GASB 75 resulting in a reduction of \$0.2 million in net position.

Statements of Cash Flows

<i>In thousands \$</i>	2017	2016
Cash Flows from Operating Activities	\$ 19,499	\$ 16,102
Cash Flows from Non-Capital Financing Activities	3,433	531
Cash Flows from Capital and Related Financing Activities	(5,636)	(6,601)
Cash Flows from Investing Activities	<u>(135)</u>	<u>(3,285)</u>
Net Change in Cash and Cash Equivalents	17,161	6,747
Cash and Cash Equivalents – Beginning of Year	<u>20,828</u>	<u>14,081</u>
Cash and Cash Equivalents – End of Year	<u>\$ 37,989</u>	<u>\$ 20,828</u>

2017 Compared to 2016

- Cash flows from operating activities increased by \$3.4 million due to:
 - Lower coal and coal transportation costs; and
 - Lower cash paid to suppliers; and
 - Higher retail sales revenue; and
 - Higher wholesale electric revenue; and
 - Higher retail sales revenue; offset by
 - Higher purchased power costs.
 - Lower coal sales; and
 - Lower steam sales; and
 - Lower cash received from other operating sources.
- Non-capital financing activities are comprised of the principal and interest on the note receivable from the communications and water utilities.
 - Additional loans to water utility of \$3.1 million in 2017, compared to no loans in 2016; offset by
 - Water utility loan repayment of \$6.0 million in 2017, compared to no repayment in 2016.
- Cash flows from capital and related financing activities include:
 - Capital expenditures of \$5.8 million in 2017, compared to \$6.6 million in 2016.

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017 and 2016

(Unaudited)

UTILITY FINANCIAL ANALYSIS (CONT.)

ELECTRIC UTILITY (CONT.)

2017 Compared to 2016 (cont.)

- Cash flows from investing activities include:
 - Investment purchases of \$14.8 million in 2017, compared to \$17.3 million in 2016, offset by investment maturities of \$14.5 million in 2017, compared to \$14.0 million in 2016.
 - Interest of \$264,000 2017, compared to \$61,000 in 2016.

WATER UTILITY

The Board approved water rate increases of 5.5% per year, effective April 1, 2017, and April 1, 2016, in response to an increase in capital requirements necessary to provide for fire protection, community growth, and higher operation and maintenance costs. Beginning with the April 1, 2015 increase, the rates also included a 15% surcharge for customers outside City limits.

MP&W's industrial customers account for approximately 84.9% of gallons sold and 53.4% 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 \$100,000 at the end of 2017. The interest rate on the loan is 3.0%, plus a 0.25% servicing fee, with a 10-year repayment term. Borrowings from the Electric Utility totaled \$3.1 million in 2017, increasing the total loan amount to \$6.0 million. The balance of the loan from the electric utility was paid on 6/30/2017 with the proceeds from a bond issuance.

In May 2017, the Board approved the issuance and securing the payment of future obligations for the purposes of borrowing money for constructing water improvements and extensions. The water utility issued \$14.9 million water revenue bonds in June 2017 for that purpose.

GASB 68 was issued in June 2012 effective for periods beginning after June 15, 2014. GASB 68 improves accounting and financial reporting by state and local governments for pensions, and improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The utility adopted GASB 68 effective January 1, 2015. As a result, in 2016, the GASB 68 related adjustments included \$267,000 increase to deferred outflows of resources, a \$252,000 increase to the net pension liability, and a \$14,000 increase to deferred inflows of resources. In 2017, the GASB 68 related adjustments included a \$208,000 increase to deferred outflows of resources, a \$343,000 increase to the net pension liability, and a \$79,800 decrease to deferred inflows of resources.

GASB 75 was issued in June 2015 effective for periods beginning after June 15, 2017. GASB 75 improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB), and improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The utility adopted GASB 75 effective January 1, 2017. As a result, in 2017, the GASB 75 related adjustments included a \$10,000 increase to deferred outflows of resources, a \$46,000 increase to OPEB liability, and a \$12,000 increase to deferred inflows of resources.

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016 (Unaudited)

UTILITY FINANCIAL ANALYSIS (CONT.)

WATER UTILITY (CONT.)

Statements of Net Position

<i>In thousands \$</i>	2017	2016
Current Assets		
Unrestricted	\$ 8,373	\$ 1,960
Restricted	969	35
Total Current Assets	<u>9,342</u>	<u>1,995</u>
Non-Current Assets		
Capital Assets	25,656	19,310
Other Assets	57	-
Total Non-Current Assets	<u>25,713</u>	<u>19,310</u>
Deferred Outflows of Resources		
OPEB	10	-
Pension	932	725
Total Deferred Outflows of Resources	<u>942</u>	<u>725</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 35,997</u>	<u>\$ 22,030</u>
Current Liabilities	\$ 1,730	\$ 771
Non-Current Liabilities	17,481	4,529
Deferred Inflows of Resources		
OPEB	12	-
Pension	182	262
Total Liabilities and Deferred Inflows of Resources	<u>19,405</u>	<u>5,562</u>
Net Position		
Net investment in capital assets	9,538	18,889
Restricted for debt service	920	35
Unrestricted	6,134	(2,456)
Total Net Position	<u>16,592</u>	<u>16,468</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 35,997</u>	<u>\$ 22,030</u>

2017 Compared to 2016

- Total assets increased \$14.0 million or 63.4% primarily due to:
 - Current assets increasing \$7.3 million primarily due to bond proceeds for capital expenditures.
 - Capital assets increasing \$6.3 million, net of retirements, due to normal capital spending for utility construction and acquisition projects; and
 - Deferred outflows of resources increasing \$0.2 million due to the pension adjustments related to GASB 68.
- Current liabilities increased by \$959,000 primarily due to:
 - Trade accounts payable increasing by \$621,000; and
 - Current portion of long-term debt increasing by \$376,000; and
 - Accrued interest payable increasing by \$48,000; and
 - Accrued expenses increasing by \$4,000; offset by
 - Customer advances for construction decreasing by \$91,000.

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017 and 2016

(Unaudited)

UTILITY FINANCIAL ANALYSIS (CONT.)

WATER UTILITY (CONT.)

2017 Compared to 2016 (cont.)

- Non-current liabilities increased by \$13.0 million primarily due:
 - Bonds payable increasing \$14.5 million; and
 - Unamortized bond premium increasing \$1.0 million; and
 - Net pension liability increasing by \$0.3 million due to the adjustment for GASB 68.
 Offset by
 - Note payable to electric utility decreasing by \$2.9 million.
- Deferred inflows of resources decreased \$68,000 due to pension adjustments related to GASB 68 and OPEB adjustments related to GASB 75.

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>	2017	2016
Operating Revenues	\$ 6,369	\$ 6,046
Operating Expenses	(5,856)	(5,318)
Operating Income	<u>513</u>	<u>728</u>
Non-operating Expenses	<u>(427)</u>	<u>(8)</u>
Net Income before Capital Contributions	86	720
Capital Contributions	<u>83</u>	<u>78</u>
Change in Net Position	169	798
Net Position – Beginning of Year	16,468	15,670
Cumulative effect of a change in accounting principle – GASB 75 OPEB	<u>(46)</u>	<u>-</u>
Net Position – End of Year	<u>\$ 16,591</u>	<u>\$ 16,468</u>

2017 Compared to 2016

- Operating revenues increased \$323,000 or 5.3%.
 - Total water sales revenue was \$321,000 higher primarily due to a 5.5% rate adjustment effective April 1, 2016; partially offset by
 - 2.1% fewer gallons sold primarily due to decreased power plant consumption.
- Operating expenses increased \$538,000 or 10.1% primarily due to:
 - \$175,000 higher cost of mains maintenance; and
 - \$90,700 higher cost of pumping equipment maintenance; and
 - \$54,200 higher cost of pension expense primarily due to GASB 68 adjustments; and
 - \$48,300 higher cost of hydrant maintenance; and
 - \$44,400 higher cost of health insurance expenses; and
 - \$37,900 higher depreciation expense; and
 - \$31,000 higher cost of purification equipment maintenance; and
 - \$29,700 higher cost of well maintenance; and
 - \$26,400 higher cost of IPERS expense primarily due to GASB 68 adjustments; and

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017 and 2016

(Unaudited)

UTILITY FINANCIAL ANALYSIS (CONT.)

WATER UTILITY (CONT.)

2017 Compared to 2016 (cont.)

- \$23,600 higher cost of vehicle maintenance; and
 - \$13,800 higher cost of operation supervision expense; and
 - \$12,300 higher cost of general plant maintenance; and
- Offset by:
- \$51,000 lower cost of injuries and damages expenses; and
 - \$45,600 lower cost of reservoir and standpipes maintenance.
- Nonoperating expenses increased due to \$454,000 higher interest expense related to bond interest, issuance costs and premium amortization.
 - Capital contributions reflect developer-financed water main construction projects.
 - 2017 cumulative effect of a change in accounting principle due to the OPEB adjustment related to GASB 75.

Statements of Cash Flows

<u>In thousands \$</u>	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities	\$ 1,394	\$ 1,355
Cash Flows from Capital and Related Financing Activities	5,867	(1,505)
Cash Flows from Investing Activities	<u>36</u>	<u>1</u>
Net Change in Cash and Cash Equivalents	7,297	(149)
Cash and Cash Equivalents – Beginning of Year	<u>883</u>	<u>1,032</u>
Cash and Cash Equivalents – End of Year	<u><u>\$ 8,180</u></u>	<u><u>\$ 883</u></u>

2017 Compared to 2016

- Cash flows from operating activities increased \$39,000 or 2.9% due to:
 - A 5.5% rate adjustment effective April 1, 2017; offset by
 - 2.1% fewer gallons sold; and
 - \$243,000 higher payments to suppliers; and
 - \$74,300 higher payments related to employee payroll, taxes, and benefits.
- Cash flows from capital and related financing activities include:
 - Loan proceeds from electric utility of \$3.1 million in 2017 compared to no proceeds in 2016; and
 - Bond issuance proceeds of \$15.6 million in 2017 compared to no proceeds in 2016; offset by
 - Electric utility loan principal payments of \$6.0 million compared to no payments in 2016; and
 - Capital expenditures of \$6.6 million in 2017 and \$1.5 million in 2016; and
 - Bond interest payments of \$0.2 million in 2017 compared to no payments in 2016.

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017 and 2016

(Unaudited)

UTILITY FINANCIAL ANALYSIS (CONT.)

COMMUNICATIONS UTILITY

Rate adjustments for the communications utility were approved by the Board for both 2017 and 2016. MPW Digital TV Select and Preferred service rates decreased by 5.8% and 5.1%, respectively, effective April 1, 2017. In addition to the rate decrease, a broadcast service charge of \$10.00 per month was applied to all packages to cover local network channel fees. Effective April 1, 2016, MPW Select and Preferred service rates increased by 7.8% and 6.8%, respectively. 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 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 was made on 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. Principal payments of \$481,443 and \$479,048 were made in 2017 and 2016, respectively.

GASB 68 was issued in June 2012 effective for periods beginning after June 15, 2014. GASB 68 improves accounting and financial reporting by state and local governments for pensions, and improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The utility adopted GASB 68 effective January 1, 2015. As a result, in 2016, the GASB 68 adjustments included a \$420,000 increase to deferred outflows, a \$539,000 increase to net pension liability, and a \$4,000 decrease to deferred inflows. In 2017, the GASB 68 related adjustments included a \$348,000 increase to deferred outflows, a \$469,000 increase to net pension liability, and an \$83,000 increase to deferred inflows.

GASB 75 was issued in June 2015 effective for periods beginning after June 15, 2017. GASB 75 improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB), and improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The utility adopted GASB 75 effective January 1, 2017. As a result, in 2017, the GASB 75 related adjustments included a \$15,000 increase to deferred outflows of resources, a \$51,000 increase to OPEB liability, and a \$17,000 increase to deferred inflows of resources.

In July 2015, the design phase began to construct a Fiber to the Home (FTTH) system to replace the current Hybrid Fiber Coax (HFC) system. The new FTTH system will allow the utility to meet our customers' growing needs with respect to video, data, access to utility usage information, as well as future services. The project is expected to be completed by the end of 2018 at a cost of \$15.9 million.

On December 14, 2017, the Communications Revenue Loan Agreement was signed with a local bank providing \$10 million for telecommunications systems improvements and extensions to the municipal Communications Utility. Principal of this loan bears interest at the rate of 2.95% per annum. Both principal and interest are payable in nineteen equal quarterly installments of \$540,916.15 each, due on March 31, June 30, September 30, and December 31 in each of the years 2018 to 2022, inclusive.

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017 and 2016

(Unaudited)

UTILITY FINANCIAL ANALYSIS (CONT.)

COMMUNICATIONS UTILITY (CONT.)

Statements of Net Position

<i>In thousands \$</i>	2017	2016
Current Assets - Unrestricted	\$ 16,121	\$ 9,862
Non-Current Assets - Capital Assets	12,997	7,211
Deferred Outflows of Resources		
OPEB	15	-
Pension	1,618	1,269
Total Deferred Outflows of Resources	<u>1,633</u>	<u>1,269</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 30,751</u>	<u>\$ 18,342</u>
Current Liabilities	\$ 3,439	\$ 1,119
Non-Current Liabilities	19,626	11,464
Deferred Inflows of Resources	197	97
Total Liabilities	<u>23,262</u>	<u>12,680</u>
Net Position		
Net investment in capital assets	2,997	7,211
Unrestricted	4,492	(1,549)
Total Net Position	<u>7,489</u>	<u>5,662</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 30,751</u>	<u>\$ 18,342</u>

2017 Compared to 2016

- Total assets increased \$12.4 million or 67.65% due to:
 - \$6.1 million higher cash and investment balances; and
 - \$0.1 million higher customer accounts receivable; and
 - \$5.8 million increase in capital assets net of retirements, due to normal capital spending for utility construction and acquisition projects; and
 - \$0.4 million increase in deferred outflows of resources due to the pension adjustment related to GASB 68 and OPEB adjustment related to GASB 75.
- Current liabilities increased \$2.3 million due to:
 - \$1.9 million increase to current portion of long-term debt related to new borrowing; and
 - \$0.4 million increase in accounts payable.
- Noncurrent liabilities increased \$8.2 million primarily due to:
 - \$8.1 million increase to long term debt, net of current portion related to new borrowing; and
 - \$0.5 million increase in net pension liability due to GASB 68 adjustments; offset by
 - \$0.4 million decrease in notes payable to electric utility.

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

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017 and 2016

(Unaudited)

UTILITY FINANCIAL ANALYSIS (CONT.)

COMMUNICATIONS UTILITY (CONT.)

Statements of Revenues, Expenses and Changes in Net Position

<i>In thousands \$</i>	2017	2016
Operating Revenues	\$ 13,650	\$ 13,470
Operating Expenses	(11,774)	(11,323)
Operating Income	<u>1,876</u>	<u>2,147</u>
Non-operating Revenues	45	25
Non-operating Expenses	(59)	(48)
Net Non-operating Expenses	<u>(14)</u>	<u>(23)</u>
Net Income before Capital Contributions	1,862	2,124
Capital Contributions	15	53
Allowance for Reduction in Note Payable	<u>-</u>	<u>-</u>
Change in Net Position	1,877	2,177
Net Position – Beginning of Year	5,662	3,485
Cumulative effect of a change in accounting principle – GASB 75 OPEB	<u>(50)</u>	<u>-</u>
Net Position – End of Year	<u>\$ 7,489</u>	<u>\$ 5,662</u>

2017 Compared to 2016

- Operating revenues increased \$180,000 or 1.3%.
 - CATV operating revenues decreased by \$265,400 or 3.7% due to:
 - 6.1% decrease in the total number of CATV subscribers (5,244 at the end of 2016 vs. 5,585 at the end of 2016); and
 - Advertising sales decreasing \$127,000; and
 - Set top box revenue decreasing \$55,000; and
 - Cable television rate decreases of 5.8% for Select and 5.1% for Preferred services, effective April 1, 2017; offset by
 - \$528,000 increase in new broadcast service fees of \$10.00 per month per subscriber; and
 - \$29,000 decrease in discounts.
 - Internet revenues increased \$398,800 or 7.2% due to:
 - Cable modem revenue increased \$358,000; and
 - Wi-fi @ home revenue increased \$45,812; and
 - 3.7% increase in the number of data/Internet subscribers (8,577 at the end of 2017 vs. 8,270 at the end of 2016).
 - MME subscribers increased (86 at the end of 2017 vs. 85 at the end of 2016) in addition to new contracts resulted in increased revenues of \$45,000 or 6.3%.
- Operating expenses increased overall by \$451,000 or 4.0% due to:
 - \$189,000 higher cost of employee pensions and benefits; and
 - \$93,600 higher CATV operation expenses; and
 - \$50,600 higher customer records and collections expense; and
 - \$40,000 higher data/internet maintenance expenses; and
 - \$37,400 higher programming acquisition expense; and

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016 (Unaudited)

UTILITY FINANCIAL ANALYSIS (CONT.)

COMMUNICATIONS UTILITY (CONT.)

2017 Compared to 2016 (cont.)

- \$27,500 higher data/internet promotional expenses; and
- \$27,000 higher general plant maintenance expenses; and
- \$25,900 higher CATV maintenance expenses; and
- \$25,300 higher vacation, holiday, sick leave expense; and
- \$24,900 higher miscellaneous general expenses; and
- \$15,300 higher miscellaneous data/internet expense.

Offset by:

- \$60,000 lower injuries and damages expense; and
- \$52,800 lower depreciation expense.

Statements of Cash Flows

<i>In thousands \$</i>	2017	2016
Cash Flows from Operating Activities	\$ 3,749	\$ 4,096
Cash Flows from Capital and Related Financing Activities	2,302	(1,835)
Cash Flows from Investing Activities	38	833
Net Change in Cash and Cash Equivalents	6,088	3,094
Cash and Cash Equivalents – Beginning of Year	8,257	5,163
Cash and Cash Equivalents – End of Year	\$ 14,345	\$ 8,257

2017 Compared to 2016

- Cash flows from operating activities decreased \$347,000 due to:
 - \$238,600 increase in payroll, taxes and benefits; and
 - \$222,900 decrease in cash received from advertising sales; and
 - \$49,500 increase in cash paid to suppliers; offset by
 - \$165,300 increase in cash received from retail sales.
- Capital and related financing activities include:
 - Capital expenditures in 2017 and 2016 totaling \$7.2 million and \$1.3 million, respectively;
 - Loan proceeds of \$10.0 million in 2017.
- Cash flows from investing activities include:
 - Net proceeds of \$795,000 in 2016 in investment maturities used to partially fund capital additions, compared to no proceeds in 2017; and
 - Interest received on investments of \$37,400 in 2017 compared to \$38,000 in 2016.

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017 and 2016

(Unaudited)

CONTACTING UTILITY MANAGEMENT

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

MUSCATINE POWER AND WATER

STATEMENTS OF NET POSITION As of December 31, 2017 and 2016

ASSETS	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2017	2016	2017	2016	2017	2016	2017	2016
CURRENT ASSETS								
Unrestricted Assets								
Cash	\$ 37,989,280	\$ 20,827,920	\$ 7,211,333	\$ 848,063	\$ 14,345,581	\$ 8,257,467	\$ 59,546,194	\$ 29,933,450
Investments	15,550,000	15,254,702	-	-	-	-	15,550,000	15,254,702
Receivables:								
Customer accounts	11,443,821	14,458,236	751,039	701,348	1,470,988	1,352,418	13,665,848	16,512,002
Interest	136,001	71,590	38	9	9,060	1,346	145,099	72,945
Inventories:								
Fuel	9,087,834	13,897,465	-	-	-	-	9,087,834	13,897,465
Emission allowances	124,889	342,106	-	-	-	-	124,889	342,106
Materials and supplies	5,059,070	5,325,188	355,000	356,967	147,529	143,512	5,561,599	5,825,667
Prepaid and other expenses	859,511	848,789	56,022	53,743	148,024	106,750	1,063,557	1,009,282
Total Unrestricted Assets	80,250,406	71,025,996	8,373,432	1,960,130	16,121,182	9,861,493	104,745,020	82,847,619
Restricted Assets - Cash	-	-	968,512	35,283	-	-	968,512	35,283
Total Current Assets	80,250,406	71,025,996	9,341,944	1,995,413	16,121,182	9,861,493	105,713,532	82,882,902
NON-CURRENT ASSETS								
Capital Assets								
Utility plant in service	426,316,557	420,860,162	33,471,025	29,165,477	34,279,520	33,685,964	494,067,102	483,711,603
Construction work in progress	2,588,470	4,313,132	2,960,263	727,506	6,951,220	654,448	12,499,953	5,695,086
Less: accumulated depreciation	(358,936,765)	(349,726,678)	(10,774,892)	(10,582,791)	(28,233,463)	(27,129,188)	(397,945,120)	(387,438,657)
Total Capital Assets	69,968,262	75,446,616	25,656,396	19,310,192	12,997,277	7,211,224	108,621,935	101,968,032
Other Assets								
Note receivable from communications utility	8,562,844	9,044,287	-	-	-	-	8,562,844	9,044,287
Note receivable from water utility	-	2,900,000	-	-	-	-	-	2,900,000
Unamortized debt insurance costs	-	-	56,582	-	-	-	56,582	-
Joint venture rights	98,550	95,423	-	-	-	-	98,550	95,423
Total Other Assets	8,661,394	12,039,710	56,582	-	-	-	8,717,976	12,039,710
Total Non-Current Assets	78,629,656	87,486,326	25,712,978	19,310,192	12,997,277	7,211,224	117,339,911	114,007,742
DEFERRED OUTFLOWS OF RESOURCES								
OPEB deferred outflows of resources	79,019	-	10,398	-	14,555	-	103,972	-
Pension deferred outflows of resources	10,419,753	8,177,423	931,836	724,321	1,617,642	1,269,389	12,969,231	10,171,133
Total Deferred Outflows of Resources	10,498,772	8,177,423	942,234	724,321	1,632,197	1,269,389	13,073,203	10,171,133
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 169,378,834	\$ 166,689,745	\$ 35,997,156	\$ 22,029,926	\$ 30,750,656	\$ 18,342,106	\$ 236,126,646	\$ 207,061,777

See accompanying notes to financial statements.

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2017	2016	2017	2016	2017	2016	2017	2016
CURRENT LIABILITIES								
Payable From Unrestricted Assets								
Trade accounts payable	\$ 5,524,338	\$ 6,506,390	\$ 960,460	\$ 339,247	\$ 1,061,260	\$ 616,549	\$ 7,546,058	\$ 7,462,186
Customer advances for construction	-	-	290	91,105	-	-	290	91,105
Accrued interest payable	-	-	-	-	13,931	-	13,931	-
Accrued expenses	2,925,605	3,337,310	310,887	307,035	469,856	484,861	3,706,348	4,129,206
Unearned revenue	5,692	108,792	2,800	2,300	18,500	17,500	26,992	128,592
Customer deposits	790,093	761,600	-	-	-	-	790,093	761,600
Total Payable From Unrestricted Assets	9,245,728	10,714,092	1,274,437	739,687	1,563,547	1,118,910	12,083,712	12,572,689
Payable From Restricted Assets								
Current portion of long-term debt	-	-	407,000	31,000	1,875,198	-	2,282,198	31,000
Accrued interest payable	-	-	48,233	519	-	-	48,233	519
Total Payable From Restricted Assets	-	-	455,233	31,519	1,875,198	-	2,330,431	31,519
Total Current Liabilities	9,245,728	10,714,092	1,729,670	771,206	3,438,745	1,118,910	14,414,143	12,604,208
NON-CURRENT LIABILITIES								
Note payable to electric utility	-	-	-	2,900,000	8,562,844	9,044,287	8,562,844	11,944,287
Long term debt, net of current portion	-	-	14,558,000	100,000	8,124,802	-	22,682,802	100,000
Unamortized bond premium	-	-	955,072	-	-	-	955,072	-
Unearned revenue	-	-	-	-	211,979	237,087	211,979	237,087
Net OPEB liability	653,435	409,718	85,978	39,822	120,370	69,759	859,783	519,299
Health & dental care provision	1,280,690	1,011,277	82,116	31,242	124,111	100,060	1,486,917	1,142,579
Net pension liability	16,017,025	13,000,669	1,601,752	1,258,495	2,481,937	2,013,125	20,100,714	16,272,289
Customer advances for construction	-	-	198,569	198,772	-	-	198,569	198,772
Total Non-Current Liabilities	17,951,150	14,421,664	17,481,487	4,528,331	19,626,043	11,464,318	55,058,680	30,414,313
DEFERRED INFLOWS OF RESOURCES								
Extraordinary O&M	28,032,866	13,032,866	-	-	-	-	28,032,866	13,032,866
OPEB deferred inflows of resources	90,561	-	11,916	-	16,682	-	119,159	-
Pension deferred inflows of resources	1,163,568	633,159	182,494	262,296	179,957	97,343	1,526,019	992,798
Total Deferred Inflows of Resources	29,286,995	13,666,025	194,410	262,296	196,639	97,343	29,678,044	14,025,664
NET POSITION								
Net investment in capital assets	69,968,262	75,446,616	9,537,465	18,889,315	2,997,277	7,211,224	82,503,004	101,547,155
Restricted for debt service	-	-	920,279	34,764	-	-	920,279	34,764
Restricted by board resolution	-	-	-	-	-	-	-	-
Unrestricted	42,926,699	52,441,348	6,133,845	(2,455,986)	4,491,952	(1,549,689)	53,552,496	48,435,673
Total Net Position	112,894,961	127,887,964	16,591,589	16,468,093	7,489,229	5,661,535	136,975,779	150,017,592
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 169,378,834	\$ 166,689,745	\$ 35,997,156	\$ 22,029,926	\$ 30,750,656	\$ 18,342,106	\$ 236,126,646	\$ 207,061,777

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, 2017 and 2016

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2017	2016	2017	2016	2017	2016	2017	2016
OPERATING REVENUES								
Retail sales	\$ 57,727,077	\$ 54,029,737	\$ 6,331,191	\$ 6,010,628	\$ 13,515,822	\$ 13,337,346	\$ 77,574,090	\$ 73,377,711
Wholesale electric sales	28,387,182	28,831,621	-	-	-	-	28,387,182	28,831,621
Steam sales	6,950,601	13,099,739	-	-	-	-	6,950,601	13,099,739
Other	1,117,637	1,011,696	38,533	35,135	134,438	133,135	1,290,608	1,179,966
Transfer to extraordinary O&M account	(15,000,000)	-	-	-	-	-	(15,000,000)	-
Total Operating Revenues	79,182,497	96,972,793	6,369,724	6,045,763	13,650,260	13,470,481	99,202,481	116,489,037
OPERATING EXPENSES								
Production fuel	19,510,636	23,673,901	-	-	-	-	19,510,636	23,673,901
Purchased power	27,277,523	23,874,965	-	-	-	-	27,277,523	23,874,965
Emissions allowance	7,882	224,398	-	-	-	-	7,882	224,398
Other operating expenses	25,494,892	25,924,189	4,015,655	3,841,109	9,117,858	8,702,412	38,628,405	38,467,710
Maintenance	11,284,467	8,825,240	1,067,131	740,978	1,036,462	948,977	13,388,060	10,515,195
Depreciation	10,800,053	10,048,094	773,511	735,660	1,619,112	1,671,948	13,192,676	12,455,702
Total Operating Expenses	94,375,453	92,570,787	5,856,297	5,317,747	11,773,432	11,323,337	112,005,182	109,211,871
Operating Income (Loss)	(15,192,956)	4,402,006	513,427	728,016	1,876,828	2,147,144	(12,802,701)	7,277,166
NONOPERATING REVENUES (EXPENSES)								
Investment income	329,683	117,680	35,966	806	45,156	24,498	410,805	142,984
Interest income on note receivable from communications utility	45,221	47,617	-	-	-	-	45,221	47,617
Interest income on note receivable from water utility	6,218	4,362	-	-	-	-	6,218	4,362
Interest expense	(5,724)	(3,417)	(300,102)	(9,026)	(59,152)	(47,617)	(364,978)	(60,060)
Bond issuance costs	-	-	(215,194)	-	-	-	(215,194)	(60,059)
Bond premium amortization	-	-	52,224	-	-	-	52,224	-
Net Nonoperating Revenues (Expenses)	375,398	166,242	(427,106)	(8,220)	(13,996)	(23,119)	(65,704)	134,903
Net income (loss) before capital contributions	(14,817,558)	4,568,248	86,321	719,796	1,862,832	2,124,025	(12,868,405)	7,412,069
CAPITAL CONTRIBUTIONS	64,983	220,308	82,898	78,584	14,866	52,715	162,747	351,607
CHANGE IN NET POSITION	(14,752,575)	4,788,556	169,219	798,380	1,877,698	2,176,740	(12,705,658)	7,763,676
NET POSITION - Beginning of Year	127,887,964	123,099,408	16,468,093	15,669,713	5,661,535	3,484,795	150,017,592	142,253,916
Cumulative effect of a change in accounting principle	(240,428)	-	(45,723)	-	(50,004)	-	(336,155)	-
NET POSITION - END OF YEAR	\$ 112,894,961	\$ 127,887,964	\$ 16,591,589	\$ 16,468,093	\$ 7,489,229	\$ 5,661,535	\$ 136,975,779	\$ 150,017,592

See accompanying notes to financial statements.

MUSCATINE POWER AND WATER

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2017	2016	2017	2016	2017	2016	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES								
Cash received from retail sales	\$ 57,503,496	\$ 53,457,591	\$ 6,286,196	\$ 5,928,262	\$ 13,054,699	\$ 12,889,393	\$ 76,844,391	\$ 72,275,246
Cash received from wholesale electric sales	29,498,666	27,858,741	-	-	-	-	29,498,666	27,858,741
Cash received from steam sales	9,292,134	10,448,684	-	-	-	-	9,292,134	10,448,684
Cash received from coal sales	34,455,530	39,067,320	-	-	-	-	34,455,530	39,067,320
Cash received from advertising sales	-	-	-	-	341,621	564,496	341,621	564,496
Cash received from by-product sales	361,660	234,709	-	-	-	-	361,660	234,709
Cash received from railcar leasing	68,392	65,761	-	-	-	-	68,392	65,761
Cash received from other operating sources	819,085	1,458,676	33,126	35,411	125,591	127,384	977,802	1,621,471
Cash paid for coal	(49,203,783)	(57,675,593)	-	-	-	-	(49,203,783)	(57,675,593)
Cash paid for purchased power	(28,133,556)	(23,000,976)	-	-	-	-	(28,133,556)	(23,000,976)
Cash paid to suppliers	(11,019,644)	(11,767,604)	(2,208,771)	(1,965,796)	(5,694,759)	(5,645,299)	(18,923,174)	(19,378,699)
Cash paid for employee payroll, taxes and benefits	(24,143,098)	(24,045,639)	(2,716,552)	(2,642,261)	(4,078,587)	(3,840,037)	(30,938,237)	(30,527,937)
Net Cash Flows From Operating Activities	<u>19,498,882</u>	<u>16,101,670</u>	<u>1,393,999</u>	<u>1,355,616</u>	<u>3,748,565</u>	<u>4,095,937</u>	<u>24,641,446</u>	<u>21,553,223</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Interest received on notes receivable from communications & water utilities	51,440	51,979	-	-	-	-	51,440	51,979
Principal received on notes receivable from communications & water utilities	6,481,443	479,048	-	-	-	-	6,481,443	479,048
Loan to water utility	(3,100,000)	-	-	-	-	-	(3,100,000)	-
Net Cash Flows From Noncapital Financing Activities	<u>3,432,883</u>	<u>531,027</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,432,883</u>	<u>531,027</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Acquisition and construction of capital assets	(5,792,748)	(6,605,818)	(6,555,267)	(1,474,435)	(7,177,053)	(1,308,205)	(19,525,068)	(9,388,458)
Proceeds from sale of assets	157,501	4,331	3,198	8,438	5,825	-	166,524	12,769
Loan proceeds	-	-	3,100,000	-	10,000,000	-	13,100,000	-
Bond proceeds, less issuance costs	-	-	15,602,019	-	-	-	15,602,019	-
Bond interest payments	-	-	(242,377)	-	-	-	(242,377)	-
Debt principal payments	-	-	(6,031,000)	(30,000)	(481,443)	(479,048)	(6,512,443)	(509,048)
Debt interest payments	-	-	(10,011)	(9,144)	(45,222)	(47,617)	(55,233)	(56,761)
Net Cash Flows From Capital and Related Financing Activities	<u>(5,635,247)</u>	<u>(6,601,487)</u>	<u>5,866,562</u>	<u>(1,505,141)</u>	<u>2,302,107</u>	<u>(1,834,870)</u>	<u>2,533,422</u>	<u>(9,941,498)</u>
CASH FLOWS FROM INVESTING ACTIVITIES								
Proceeds from investments matured and sold	14,506,190	14,004,167	-	-	-	4,795,390	14,506,190	18,799,557
Investments purchased	(14,800,000)	(17,256,191)	-	-	-	(4,000,000)	(14,800,000)	(21,256,191)
Purchase of joint venture rights	(105,130)	(93,280)	-	-	-	-	(105,130)	(93,280)
Reimbursement of RESCO stock	-	4,500	-	-	-	-	-	4,500
Interest received on investments	263,782	61,353	35,938	798	37,442	38,010	337,162	100,161
Accrued interest purchased	-	(5,250)	-	-	-	-	-	(5,250)
Net Cash Flows From Investing Activities	<u>(135,158)</u>	<u>(3,284,701)</u>	<u>35,938</u>	<u>798</u>	<u>37,442</u>	<u>833,400</u>	<u>(61,778)</u>	<u>(2,450,503)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>17,161,360</u>	<u>6,746,509</u>	<u>7,296,499</u>	<u>(148,727)</u>	<u>6,088,114</u>	<u>3,094,467</u>	<u>30,545,973</u>	<u>9,692,249</u>
CASH AND CASH EQUIVALENTS - Beginning of Year								
Current unrestricted cash	20,827,920	14,081,411	848,063	996,825	8,257,467	5,163,000	29,933,450	20,241,236
Current restricted cash	-	-	35,283	35,248	-	-	35,283	35,248
	<u>20,827,920</u>	<u>14,081,411</u>	<u>883,346</u>	<u>1,032,073</u>	<u>8,257,467</u>	<u>5,163,000</u>	<u>29,968,733</u>	<u>20,276,484</u>
CASH AND CASH EQUIVALENTS - END OF YEAR								
Current unrestricted cash	37,989,280	20,827,920	7,211,333	848,063	14,345,581	8,257,467	59,546,194	29,933,450
Current restricted cash	-	-	968,512	35,283	-	-	968,512	35,283
	<u>\$ 37,989,280</u>	<u>\$ 20,827,920</u>	<u>\$ 8,179,845</u>	<u>\$ 883,346</u>	<u>\$ 14,345,581</u>	<u>\$ 8,257,467</u>	<u>\$ 60,514,706</u>	<u>\$ 29,968,733</u>

See accompanying notes to financial statements.

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2017	2016	2017	2016	2017	2016	2017	2016
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES								
Operating income (loss)	\$ (15,192,956)	\$ 4,402,006	\$ 513,427	\$ 728,016	\$ 1,876,828	\$ 2,147,144	\$ (12,802,701)	\$ 7,277,166
Noncash items in operating income								
Depreciation	10,800,053	10,048,094	773,511	735,660	1,619,112	1,671,948	13,192,676	12,455,702
Amortization of joint venture rights	102,004	97,747	-	-	-	-	102,004	97,747
Amortization of debt discount	-	-	(1,500)	-	-	-	(1,500)	-
Converter/modem net write-off	-	-	-	-	19,660	45,188	19,660	45,188
Deferred inflows of resources - Extraordinary O&M	15,000,000	-	-	-	-	-	15,000,000	-
Changes in assets and liabilities								
Customer accounts receivable	3,014,415	(4,868,950)	(49,691)	(64,189)	(118,570)	(15,486)	2,846,154	(4,948,625)
Inventories	5,292,966	3,740,701	1,967	(36,339)	(4,017)	56,314	5,290,916	3,760,676
Prepaid and other expenses	(10,722)	21,342	(2,279)	3,382	(41,274)	25,376	(54,275)	50,100
Trade accounts payable	(603,521)	1,985,919	45,447	(9,306)	205,981	81,510	(352,093)	2,058,123
Accrued expenses	(148,016)	(141,542)	54,726	(1,342)	9,046	(20,352)	(84,244)	(163,236)
OPEB related deferrals and liabilities	14,831	-	1,951	-	2,734	-	19,516	-
Pension related deferrals and liabilities	1,304,435	735,859	55,940	(766)	203,173	114,885	1,563,548	849,978
Unearned revenue	(103,100)	52,211	500	500	(24,108)	(10,590)	(126,708)	42,121
Customer deposits	28,493	28,283	-	-	-	-	28,493	28,283
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 19,498,882	\$ 16,101,670	\$ 1,393,999	\$ 1,355,616	\$ 3,748,565	\$ 4,095,937	\$ 24,641,446	\$ 21,553,223
SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES								
Unrealized gain (loss) in investments	\$ 1,489	\$ 2,532	\$ -	\$ -	\$ -	\$ -	\$ 1,489	\$ 2,532
Unpaid capital expenditures	158,924	537,454	700,085	124,320	318,962	80,231	1,177,971	742,005
Noncash capital contributions	-	-	82,898	78,584	-	-	82,898	78,584

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, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. When 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.

In June 2015, the GASB issued Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*. This standard was implemented January 1, 2017.

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

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

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 external parties. Current liabilities payable from these restricted assets are also 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. For the years 2017 and 2016 the allowances were:

	<u>2017</u>	<u>2016</u>
Electric utility	\$4,953	\$4,646
Water utility	\$4,137	\$2,656
Communications utility	\$6,364	\$9,413

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, with the exception of emission allowances held for the electric utility's steam sales customer, which are valued at market. 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.

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 2017 or 2016.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)

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 2017 and 2016 are as follows:

	2017		2016	
Electric Utility				
Generation plant	2.3	%	2.3	%
Transmission and distribution plant	3.9		3.9	
General plant	2.8		-	
Water Utility				
Source of supply	3.3	%	3.3	%
Pumping equipment	3.1		3.2	
Purification system	2.5		2.5	
Distribution system	2.3		2.2	
General plant	7.7		6.9	
Communications Utility				
CATV	4.0	%	4.4	%
Data/Internet	6.8		6.7	
MME	6.2		6.2	
General plant	6.2		6.7	

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, 2017 and 2016

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)

ACCRUED EXPENSES

Accrued expenses include unpaid sales tax, use tax, payroll taxes, interest on customer deposits, insurance claim reserves, and cable fees payable to the city and surrounding communities.

DEFERRED OUTFLOW OF RESOURCES

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time. Pension deferred outflows relate to the GASB Statement No. 68 pension liability. Details of the account are included in Notes 8 and 9. OPEB deferred outflows relate to the GASB Statement No. 75 OPEB liability. Details of the account are included in Note 7.

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

For purposes of measuring the net OPEB liability, and OPEB expense, information about the fiduciary net position of the OPEB Plan and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

PENSIONS LIABILITY

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary plan net position of Muscatine Water and Electric Employees' Pension Plan and the Iowa Public Employees' Retirement System and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Notes 8 and 9 for additional information.

DEFERRED INFLOWS OF RESOURCES

A deferred inflow of resources represents an acquisition of net position that applies to a future period and will therefore not be recognized as an inflow of resources (revenue) until that future time. Pension deferred inflows relate to the GASB Statement No. 68 pension liability. Details of the account are included in Notes 8 and 9. OPEB deferred inflows relate to the GASB Statement No. 75 OPEB liability. Details of the account are included in Note 7.

The Board may, at its discretion, set aside earnings to help maintain stability in the electric utility's long-term rate structure. These earnings, placed in the Extraordinary O&M Account, may be used for extraordinary operating expenses and debt service when deemed necessary by the Board. For 2017, the Board approved a \$15,000,000 deferral of revenue. No deferral or use of earnings occurred in 2016.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)

UNEARNED REVENUE

The electric utility's unearned revenue is a result of prepayments for a land lease and for zonal resource credits. The water's unearned revenue is deposits received for future construction projects. 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 June 27, 2017 and effective for service beginning August 1, 2017.

Current water rates were approved on November 29, 2016 and effective for service beginning April 1, 2017.

Current communications rates were approved on February 28, 2017 and effective for service beginning April 1, 2017.

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 2017 for the electric, water, and communications utilities are \$506,558, \$71,717, and \$87,178, respectively. The unbilled revenue recorded in 2016 for the electric, water, and communications utilities are \$479,274, \$68,790, and \$85,167, respectively.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)

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

GASB has approved Statement No. 80, *Blending Requirements for Certain Component Units*, an amendment of GASB Statement No. 14, Statement No. 81, *Irrevocable Split-Interest Agreements*, Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities*, Statement No. 85, *Omnibus*, Statement No. 86, *Certain Debt Extinguishment Issues*, and Statement No. 87, *Leases*. When they become effective, 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 to be consistent with the current year's presentation.

NOTE 2 – DEPOSITS AND INVESTMENTS

State statute, 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, 2017 and 2016

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

CUSTODIAL CREDIT RISK

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

Custodial credit risk is the risk that in the event of a financial institution failure, the utility's deposits may not be returned to the utility. The utility's deposits at year-end were covered by federal depository insurance or insured by the state through pooled collateral, state sinking funds and by the state's ability to assess for lost funds in accordance with Chapter 12C of the Code of Iowa.

It is the policy of the utility to maintain all deposits and investments in authorized investment vehicles that are insured or registered in the utility's name or which are collateralized by or evidenced by securities held by the utility or its agent in the utility's name.

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the utility will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. There were no investments held at December 31, 2017; and the investments held at December 31, 2016, 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. The utility held no deposits as of December 31, 2017. As of December 31, 2016, the utility's investments were rated as follows:

<u>Investment Type</u>	<u>Standard & Poor's</u>	<u>Moody's</u>
US agencies/treasury	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. The utility held no deposits as of December 31, 2017. At December 31, 2016, investments held with issuers, each totaling more than 5 percent of the total portfolio, were concentrated as follows:

<u>Issuer</u>	<u>2016 % of Portfolio</u>
Federal Home Loan Bank	100%

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

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.

INTEREST RATE RISK

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

The utility held no deposits as of December 31, 2017. At December 31, 2016, 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>\$ 1,500,374</u>	<u>\$ 1,500,374</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. Non-operating funds may be invested in instruments with maturities longer than 397 days as long as the maturities are consistent with the needs and use of the utility. One of the investment policy's primary objectives is to maintain the necessary liquidity to match expected liabilities.

The utility categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The utility held no investments as of December 31, 2017. At December 31, 2016, the utility had investments in US Agency Securities of \$1,500,374. These investments were valued using a matrix pricing model (Level 2 input) at December 31, 2016.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 3 – CAPITAL ASSETS

ELECTRIC UTILITY

A summary of changes in electric capital assets for 2017 follows:

	Balance 1/1/17	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/17
Land and land rights ⁽¹⁾	\$ 1,874,590	\$ -	\$ -	\$ -	\$ 1,874,590
Generation plant	334,945,034	50,637	(1,019,590)	191,814	334,167,895
Transmission and distribution plant	63,193,196	851,677	(453,004)	4,874,242	68,466,111
General plant	20,847,342	162,226	(235,261)	1,033,654	21,807,961
Total Utility Plant in Service	420,860,162	1,064,540	(1,707,855)	6,099,710	426,316,557
Construction work in progress ⁽¹⁾	4,313,132	4,861,822	(486,774)	(6,099,710)	2,588,470
Total Electric Utility Plant	425,173,294	\$ 5,926,362	\$ (2,194,629)	\$ -	428,905,027
Less: Accumulated depreciation					
Generation plant	276,339,677	\$ 7,785,771	\$ (879,590)	\$ -	283,245,858
Transmission and distribution plant	53,015,473	2,441,087	(480,719)	-	54,975,841
General plant	20,371,528	573,195	(229,657)	-	20,715,066
Total Accumulated Depreciation	349,726,678	\$ 10,800,053	\$ (1,589,966)	\$ -	358,936,765
Net Electric Capital Assets	\$75,446,616				\$ 69,968,262

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 3 – CAPITAL ASSETS (cont.)

ELECTRIC UTILITY (cont.)

	Balance 1/1/16	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/16
Land and land rights ⁽¹⁾	\$ 1,874,590	\$ -	\$ -	\$ -	\$ 1,874,590
Generation plant	331,667,647	32,800	(203,484)	3,448,071	334,945,034
Transmission and distribution plant	62,039,064	789,547	(503,318)	867,903	63,193,196
General plant	20,757,314	90,663	(473,884)	473,249	20,847,342
Total Utility Plant in Service	416,338,615	913,010	(1,180,686)	4,789,223	420,860,162
Construction work in progress ⁽¹⁾	3,234,527	6,292,254	(424,426)	(4,789,223)	4,313,132
Total Electric Utility Plant	419,573,142	\$ 7,205,264	\$ (1,605,112)	\$ -	425,173,294
Less: Accumulated depreciation					
Generation plant	268,892,113	\$ 7,651,048	\$ (203,484)	\$ -	276,339,677
Transmission and distribution plant	51,162,875	2,394,638	(542,040)	-	53,015,473
General plant	20,852,287	2,409	(483,168)	-	20,371,528
Total Accumulated Depreciation	340,907,275	\$ 10,048,095	\$ (1,228,692)	\$ -	349,726,678
Net Electric Capital Assets	\$78,665,867				\$ 75,446,616

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 3 – CAPITAL ASSETS (cont.)

WATER UTILITY

A summary of changes in water capital assets for 2017 follows:

	Balance 1/1/2017	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/2017
Land and land rights ⁽¹⁾	\$ 1,052,321	\$ -	\$ -	\$ 2,711,577.00	\$ 3,763,898
Source of supply	3,429,097	-	(27,576)	-	3,401,521
Pumping equipment	2,405,348	-	(58,462)	37,999	2,384,885
Purification equipment	1,544,224	-	-	-	1,544,224
Distribution system	19,302,246	158,451	(222,929)	1,617,966	20,855,734
General plant	1,432,241	11,812	(53,223)	129,933	1,520,763
Total Utility Plant in Service	29,165,477	170,263	(362,190)	4,497,475	33,471,025
Construction work in progress ⁽¹⁾	727,506	6,959,619	(229,387)	(4,497,475)	2,960,263
Total Water Utility Plant	29,892,983	\$ 7,129,882	\$ (591,577)	\$ -	36,431,288
Less: Accumulated depreciation					
Source of supply	1,511,925	\$ 114,304	\$ (27,576)	\$ -	1,598,653
Pumping equipment	825,435	75,528	(58,462)	-	842,501
Purification system	947,786	39,140	-	-	986,926
Distribution system	5,995,637	434,129	(443,870)	-	5,985,896
General plant	1,302,008	110,410	(51,502)	-	1,360,916
Total Accumulated Depreciation	10,582,791	\$ 773,511	\$ (581,410)	\$ -	10,774,892
Net Water Capital Assets	\$19,310,192				\$25,656,396

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 3 – CAPITAL ASSETS (cont.)

WATER UTILITY (cont.)

A summary of changes in water capital assets for 2016 follows:

	Balance 1/1/2016	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/2016
Land and land rights ⁽¹⁾	\$ 1,052,321	\$ -	\$ -	\$ -	\$ 1,052,321
Source of supply	3,245,289	-	(28,086)	211,894	3,429,097
Pumping equipment	2,278,501	-	-	126,847	2,405,348
Purification equipment	1,532,521	11,703	-	-	1,544,224
Distribution system	19,034,954	98,563	(578,829)	747,558	19,302,246
General plant	1,321,303	1,717	(18,422)	127,643	1,432,241
Total Utility Plant in Service	28,464,889	111,983	(625,337)	1,213,942	29,165,477
Construction work in progress ⁽¹⁾	580,954	1,371,875	(11,381)	(1,213,942)	727,506
Total Water Utility Plant	29,045,843	\$ 1,483,858	\$ (636,718)	\$ -	29,892,983
Less: Accumulated depreciation					
Source of supply	1,431,835	\$ 108,176	\$ (28,086)	\$ -	1,511,925
Pumping equipment	753,148	72,287	-	-	825,435
Purification system	909,036	38,750	-	-	947,786
Distribution system	6,150,342	424,835	(579,540)	-	5,995,637
General plant	1,229,692	91,612	(19,296)	-	1,302,008
Total Accumulated					
Depreciation	10,474,053	\$ 735,660	\$ (626,922)	\$ -	10,582,791
Net Water Capital Assets	\$18,571,790				\$19,310,192

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 3 – CAPITAL ASSETS (cont.)

COMMUNICATIONS UTILITY

A summary of changes in communications capital assets for 2017 follows:

	Balance 1/1/2017	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/2017
CATV	\$ 22,877,084	\$ 453,308	\$ (446,107)	\$ 159,458	\$ 23,043,743
Data/Internet	4,734,169	185,223	(95,347)	219,561	5,043,606
MME	4,274,569	20,385	-	65,971	4,360,925
General plant	1,800,142	2,856	(8,016)	36,264	1,831,246
Total Utility Plant in Service	33,685,964	661,772	(549,470)	481,254	34,279,520
Construction work in progress ⁽¹⁾	654,448	6,792,207	(14,181)	(481,254)	6,951,220
Total Communications Utility Plant	34,340,412	\$ 7,453,979	\$ (563,651)	\$ -	41,230,740
Less: Accumulated depreciation					
CATV	18,956,870	\$ 919,572	\$ (428,884)	\$ -	19,447,558
Data/Internet	3,511,999	322,776	(77,954)	-	3,756,821
MME	3,547,039	264,456	-	-	3,811,495
General plant	1,113,280	112,308	(7,999)	-	1,217,589
Total Accumulated Depreciation	27,129,188	\$ 1,619,112	\$ (514,837)	\$ -	28,233,463
Net Communications Capital Assets	\$ 7,211,224				\$ 12,997,277

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 3 – CAPITAL ASSETS (cont.)

COMMUNICATIONS UTILITY (cont.)

A summary of changes in communications capital assets for 2016 follows:

	Balance 1/1/2016	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/2016
CATV	\$22,612,061	\$ 444,899	\$ (242,741)	\$ 62,865	\$22,877,084
Data/Internet	4,514,302	203,113	(90,648)	107,402	4,734,169
MME	4,267,398	6,344	(11,487)	12,314	4,274,569
General plant	1,739,580	22,625	(24,064)	62,001	1,800,142
Total Utility Plant in Service	33,133,341	676,981	(368,940)	244,582	33,685,964
Construction work in progress ⁽¹⁾	234,525	669,365	(4,860)	(244,582)	654,448
Total Communications Utility Plant	33,367,866	\$ 1,346,346	\$ (373,800)	\$ -	34,340,412
Less: Accumulated depreciation					
CATV	18,247,354	\$ 992,652	\$ (283,136)	\$ -	18,956,870
Data/Internet	3,269,521	301,332	(58,854)	-	3,511,999
MME	3,305,344	262,248	(20,553)	-	3,547,039
General plant	1,023,126	115,716	(25,562)	-	1,113,280
Total Accumulated Depreciation	25,845,345	\$ 1,671,948	\$ (388,105)	\$ -	27,129,188
Net Communications Capital Assets	\$ 7,522,521				\$ 7,211,224

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 4 – RESTRICTED ASSETS

Restricted assets represent amounts set aside under the terms of the water bond and loan agreements. In accordance with the covenants of the bond resolutions, the amounts have been segregated into funds. In accordance with the bond and loan agreements, the bond fund and sinking fund are used solely for the purpose of paying the interest on and principal of the outstanding debt. The composition of the restricted assets at December 31, 2017 and 2016 is as follows:

	Water Utility	
	2017	2016
Debt Service Reserve	\$ 949,450	-
Sinking Fund	19,062	35,283
Total Restricted Assets	\$ 968,512	\$ 35,283

NOTE 5 – NON-CURRENT LIABILITIES

NON-CURRENT LIABILITIES SUMMARY – ELECTRIC

Non-current liabilities activity for the year ended December 31, 2017:

	Balance 1/1/17	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/17
Net OPEB liability	\$ 409,718	\$ 54,237	\$ 189,480	\$ 653,435
Health & dental care provision	1,011,277	2,861,047	(2,591,634)	1,280,690
Net pension liability	13,000,669	6,072,860	(3,056,504)	16,017,025
Noncurrent Liabilities	\$ 14,421,664	\$ 8,988,144	\$ (5,458,658)	\$ 17,951,150

Non-current liabilities activity for the year ended December 31, 2016:

	Balance 1/1/16	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/16
Net OPEB liability	\$ 381,926	\$ 111,990	\$ (84,198)	\$ 409,718
Health & dental care provision	1,074,404	2,706,756	(2,769,883)	1,011,277
Net pension liability	9,582,626	5,699,333	(2,281,290)	13,000,669
Noncurrent Liabilities	\$ 11,038,956	\$ 8,518,079	\$ (5,135,371)	\$ 14,421,664

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 5 – NON-CURRENT LIABILITIES (cont.)

NON-CURRENT 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, 2017 and December 31, 2016 was \$100,000 and \$131,000 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, and 0.15% on January 1, 2016. In 2014 and in 2015, additional amounts of \$1,500,000 and \$1,000,000, respectively, were advanced to the water utility for capital needs, increasing the total loan to \$2,900,000 as of December 31, 2016.

In September 2016, the Board approved to amend the borrowing amount from \$4,500,000 to \$8,000,000 effective October 1, 2016. In December 2016, the interest rate was adjusted to 0.23% effective January 1, 2017. In January 2017, \$2,600,000 was borrowed for the well field land purchase; another \$500,000 was borrowed in June 2017, increasing the total loan to \$6,000,000. On June 30, 2017, the total loan was paid off with bond proceeds.

In May 2017, the Board approved the issuance and securing the payment of future obligations for the purposes of borrowing money for constructing water improvements and extensions. The water utility issued \$14,865,000 Water Revenue Bonds, Series 2017 in June 2017 for that purpose. The premium bonds are S&P "A" rated, a non-bank qualified issue, callable June 1, 2027 at par. The effective interest cost is 3.514844%. The interest payments are due June 1 and December 1, which began December 1, 2017. Principal payments are due December 1 beginning in 2018.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 5 – Non-CURRENT LIABILITIES (cont.)

NON-CURRENT LIABILITIES SUMMARY – WATER (cont.)

Non-current liabilities activity for the year ending December 31, 2017:

	Balance 1/1/2017	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/2017	Due Within One Year
Long term debt	\$ 131,000	\$ 14,865,000	\$ (31,000)	\$ 14,965,000	\$ 407,000
Less: Current installments	(31,000)	-	(376,000)	(407,000)	-
Note payable to electric utility	2,900,000	3,100,000	(6,000,000)	-	-
Unamortized bond premium	-	1,007,296	(52,224)	955,072	104,216
Long-Term Debt, Net of Current Portion	3,000,000	18,972,296	(6,459,224)	15,513,072	511,216
Net OPEB liability	39,822	7,232	38,924	85,978	-
Health & dental care provision	31,242	357,587	(306,713)	82,116	-
Net pension liability	1,258,495	655,357	(312,100)	1,601,752	-
Customer advances for construction	198,772	-	(203)	198,569	-
Noncurrent Liabilities	\$ 4,528,331	\$ 19,992,472	\$ (7,039,316)	\$ 17,481,487	\$ 511,216

Non-current liabilities activity for the year ending December 31, 2016:

	Balance 1/1/2016	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/2016	Due Within One Year
Long term debt	\$ 161,000	\$ -	\$ (30,000)	\$ 131,000	\$ 31,000
Less: Current installments	(30,000)	-	(1,000)	(31,000)	-
Note payable to electric utility	2,900,000	-	-	2,900,000	-
Long-Term Debt, Net of Current Portion	3,031,000	-	(31,000)	3,000,000	31,000
Net OPEB liability	36,573	11,486	(8,237)	39,822	-
Health & dental care provision	63,579	299,467	(331,804)	31,242	-
Net pension liability	1,006,675	405,741	(153,921)	1,258,495	-
Customer advances for construction	290,532	-	(91,760)	198,772	-
Noncurrent Liabilities	\$ 4,428,359	\$ 716,694	\$ (616,722)	\$ 4,528,331	\$ 31,000

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

NOTE 5 – NON-CURRENT LIABILITIES (cont.)

NON-CURRENT LIABILITIES SUMMARY – WATER (cont.)

Non-Current Liabilities Maturity Schedule – Water

Year Ending <u>December 31</u>	<u>Iowa Finance Authority Loan</u>			<u>Water Revenue Bonds, Series 2017</u>			
	<u>Principal Amount</u>	<u>Interest 3.00%</u>	<u>Servicing Fee 0.25%</u>	<u>Total</u>	<u>Principal Amount</u>	<u>Interest 2%-5%</u>	<u>Total</u>
2018	\$32,000	\$2,520	\$250	\$34,770	\$375,000	\$574,050	\$949,050
2019	33,000	1,545	170	34,715	380,000	566,550	\$946,550
2020	35,000	525	87	35,612	390,000	558,950	\$948,950
2021	-	-	-	-	400,000	547,250	\$947,250
2022	-	-	-	-	410,000	535,250	\$945,250
2023	-	-	-	-	425,000	522,950	\$947,950
2024	-	-	-	-	445,000	501,700	\$946,700
2025	-	-	-	-	470,000	479,450	\$949,450
2026	-	-	-	-	490,000	455,950	\$945,950
2027	-	-	-	-	515,000	431,450	\$946,450
2028 - 2032	-	-	-	-	2,885,000	1,848,800	\$4,733,800
2033 - 2037	-	-	-	-	3,465,000	1,269,800	\$4,734,800
2038 - 2042	-	-	-	-	4,215,000	518,800	\$4,733,800
Totals	\$100,000	\$4,590	\$507	\$105,097	\$14,865,000	\$8,810,950	\$23,675,950

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 2017 and 2016, and water utility net revenues are as follows:

	<u>2017</u>	<u>2016</u>
Principal and interest paid	\$ 277,169	\$ 34,783
Net revenues	1,318,460	1,464,482

Annual future principal and interest payments are expected to require 72% of water utility net revenues.

NON-CURRENT LIABILITIES SUMMARY – COMMUNICATIONS

The electric utility has advanced \$35,327,000 to the communications utility for capital improvements and acquisition of a cable television system. On November 25, 2014, the Board approved an amendment to this loan agreement 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. Principal payments are due beginning January 1, 2016; semi-annual payments of interest are due each January 1 and July 1.

On December 14, 2017, the Communications Revenue Loan Agreement was signed with a local bank providing \$10,000,000 for telecommunications systems improvements and extensions to the municipal Communications Utility. Principal of this loan bears interest at the rate of 2.95% per annum. Both principal and interest are payable in nineteen equal quarterly installments of \$540,916.15 each, due on March 31, June 30, September 30, and December 31 in each of the years 2018 to 2022, inclusive.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 5 – Non-CURRENT LIABILITIES (cont.)

NON-CURRENT LIABILITIES SUMMARY – COMMUNICATIONS (cont.)

Non-current liabilities activity for the year ending December 31, 2017:

	Balance 1/1/2017	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/2017	Due Within One Year
Note payable to banks	\$ -	\$ 10,000,000	\$ -	\$ 10,000,000	\$ 1,875,198
Note payable to electric utility	9,044,287	-	(481,443)	8,562,844	-
Total Long-Term Debt	9,044,287	10,000,000	(481,443)	18,562,844	1,875,198
Less: Current installments	-	(1,875,198)	-	(1,875,198)	-
Long-Term Debt, Net of Current Portion	9,044,287	8,124,802	(481,443)	16,687,646	1,875,198
Unearned revenue	237,087	-	(25,108)	211,979	18,500
Net OPEB liability	69,759	10,124	40,487	120,370	-
Health & dental care provision	100,060	495,696	(471,645)	124,111	-
Net pension liability	2,013,125	945,884	(477,072)	2,481,937	-
Noncurrent Liabilities	<u>\$ 11,464,318</u>	<u>\$ 9,576,506</u>	<u>\$ (1,414,781)</u>	<u>\$ 19,626,043</u>	<u>\$ 1,893,698</u>

Non-current liabilities activity for the year ending December 31, 2016:

	Balance 1/1/2016	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/2016	Due Within One Year
Note payable to electric utility	\$ 9,523,335	\$ -	\$ (479,048)	\$ 9,044,287	\$ -
Total Long-Term Debt	9,523,335	-	(479,048)	9,044,287	-
Less: Current installments	-	-	-	-	-
Long-Term Debt, Net of Current Portion	9,523,335	-	(479,048)	9,044,287	-
Unearned revenue	246,979	-	(9,892)	237,087	17,500
Net OPEB liability	64,706	20,101	(15,048)	69,759	-
Health & dental care provision	144,237	459,940	(504,117)	100,060	-
Net pension liability	1,474,160	890,145	(351,180)	2,013,125	-
Noncurrent Liabilities	<u>\$ 11,453,417</u>	<u>\$ 1,370,186</u>	<u>\$ (1,359,285)</u>	<u>\$ 11,464,318</u>	<u>\$ 17,500</u>

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 5 – Non-CURRENT LIABILITIES (cont.)

NON-CURRENT LIABILITIES MATURITY SCHEDULE – COMMUNICATIONS

Communications loan debt service requirements to maturity follow as of December 31, 2017:

Year Ending <u>December 31</u>	Electric Utility Loan			Bank Loan		
	Principal <u>Amount</u>	Interest <u>0.50%</u>	<u>Total</u>	Principal <u>Amount</u>	Interest <u>2.95%</u>	<u>Total</u>
2018	\$ -	\$21,407	\$21,407	\$ 1,875,197	\$288,467	\$ 2,163,664
2019	483,850	41,605	525,455	1,945,372	218,293	2,163,665
2020	486,270	39,179	525,449	2,003,398	160,266	2,163,664
2021	488,701	36,742	525,443	2,063,156	100,509	2,163,665
2022	491,144	34,292	525,436	2,112,877	38,969	2,151,846
2023	493,600	31,830	525,430	-	-	-
2024	496,068	29,356	525,424	-	-	-
2025	498,548	26,870	525,418	-	-	-
2026	501,042	24,371	525,413	-	-	-
2027	503,546	21,859	525,405	-	-	-
2028	506,064	19,335	525,399	-	-	-
2029	508,595	16,799	525,394	-	-	-
2030	511,137	14,249	525,386	-	-	-
2031 - 2035	<u>2,594,279</u>	<u>32,558</u>	<u>2,626,837</u>	-	-	-
Totals	<u>\$8,562,844</u>	<u>\$390,452</u>	<u>\$8,953,296</u>	<u>\$ 10,000,000</u>	<u>\$ 806,504</u>	<u>\$ 10,806,504</u>

All communications utility revenues, net of specified operating expenses, are pledged as security of the communications bank loan beginning in 2018 until fully paid. Annual future principal and interest payments are expected to require 31% of communications utility net revenues.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

NOTE 6 – NET POSITION

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:

	2017	2016
Plant in Service	\$ 426,316,557	\$ 420,860,162
Construction Work in Progress	2,588,470	4,313,132
Accumulated Depreciation	(358,936,765)	(349,726,678)
Net Investment in Capital Assets	\$ 69,968,262	\$ 75,446,616

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 6 – NET POSITION (cont.)

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

	2017	2016
Plant in Service	\$ 33,471,025	\$ 29,165,477
Construction Work in Progress	2,960,263	727,506
Accumulated Depreciation	(10,774,892)	(10,582,791)
Sub-Totals	25,656,396	19,310,192
Less: Capital Related Debt		
Customer advances for construction	198,859	289,877
Current portion of capital related long term debt	407,000	31,000
Long-term portion of capital related long term debt	14,558,000	100,000
Unamortized bond premium	955,072	-
Sub-Totals	16,118,931	420,877
Net Investment in Capital Assets	\$ 9,537,465	\$ 18,889,315

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

	2017	2016
Plant in Service	\$ 34,279,520	\$ 33,685,964
Construction Work in Progress	6,951,220	654,448
Accumulated Depreciation	(28,233,463)	(27,129,188)
Sub-Totals	12,997,277	7,211,224
Less: Capital Related Debt		
Current portion of capital related long term debt	1,875,198	-
Long-term portion of capital related long term debt	8,124,802	-
Sub-Totals	10,000,000	-
Net Investment in Capital Assets	\$ 2,997,277	\$ 7,211,224

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS

The utility-administered, single-employer group health insurance defined benefit plan provides coverage to active employees and retirees (or other qualified terminated employees aged 55 with 5 years of service) at blended premium rates. This coverage results in the other-post-employment benefit (OPEB) for the retirees, commonly referred to as an implicit rate subsidy. Spouses are covered until age 65.

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 a small group of grandfathered retirees, the utility pays a \$50 healthcare supplement.

As of the measurement date, the following plan members (including MAGIC employees – see Note 17) were covered by the benefit terms:

Measurement date	12/31/2016
Fiscal year end	<u>12/31/2017</u>
Active plan members	264
Inactive plan members entitled to but not yet receiving benefits	0
Retired plan members or beneficiaries currently receiving benefits	<u>25</u>
TOTAL	<u>289</u>

For fiscal years 2017, 2016, and 2015, the utility contributed \$3,079,000, \$2,926,000, and \$2,757,000, respectively, to the plan for claim payments plus administrative costs, net of payments received from employees and retirees for premiums.

The following schedule of changes in the total OPEB liability is based on the actuarial valuation report as of December 31, 2016.

	2017
Service cost	\$ 35,606
Interest on net OPEB obligation	36,710
Adjustment to annual required contribution	-
Differences between expected and actual experience	67,861
Changes in assumptions	(135,819)
Benefit payments	<u>(44,748)</u>
Net change in total OPEB obligation	(40,390)
Net OPEB Obligation - Beginning of Year	519,299
Cumulative effect of a change in accounting principle	386,865
Net OPEB Obligation - End of Year	<u><u>\$ 865,774</u></u>

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

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

OPEB EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEBS

For the years ended December 31, 2017 and December 31, 2016, the utility recognized OPEB expense of \$19,647 and \$36,093, respectively. At December 31, 2017, the utility reported deferred outflows of resources and deferred inflow of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ -	\$119,989
Difference between actual and expected experience	59,952	-
Contributions subsequent to measurement date	44,748	-
	\$104,700	\$119,989

Amounts reported as deferred outflows and inflows of resources related to OPEBs will be recognized in the OPEB expense as follows:

Fiscal Year ending 12/31	Deferred Outflows of Resources	Deferred Inflows of Resources
2018	\$7,909	\$15,830
2019	7,909	15,830
2020	7,909	15,830
2021	7,909	15,830
2022	7,909	15,830
Thereafter	20,407	\$40,839
Totals	\$59,952	\$119,989

The following deferred outflows and deferred inflows are recognized in OPEB expense:

- 1) Differences between expected and actual experience, over a closed period equal to the average of the expected remaining service lives of all employees (active employees, vested terminated, and retirees).
- 2) Changes in assumptions, over a closed period equal to the average of the expected remaining service lives of all employees (active employees, vested terminated, and retirees).

<i>Sensitivity of the Net OPEB Liability to Changes in the Discount Rate</i>			
	1% decrease 3.09%	Discount Rate 4.09%	1% Increase 5.09%
Net OPEB Liability 12/31/17	\$944,296	\$865,774	\$795,601
<i>Sensitivity of the Net OPEB Liability to Changes in Healthcare Trend Rate</i>			
	1% decrease	Current Rate	1% Increase
Net OPEB Liability 12/31/17	\$957,012	\$865,774	\$787,052

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

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

There are no plan assets under this plan.

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.

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 entry age actuarial cost method was used. Under this method, the present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings between entry age and assumed exit age(s). The portion of the present value allocated to a year is the service cost.

ACTUARIAL ASSUMPTIONS

The total OPEB liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate	4.09% Barclays Municipal GO Long Term (17+Y) index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher, as of the measurement date.
Mortality rate	RP-2006 (underlying baseline table from SOA RP-2014 study)
Mortality improvement	PFG2012-10 MI scale: this scale is based on the RPEC_2014_v2016 model reflecting historical U.S. mortality data to 2014, published by the SOA in October of 2016. Due to the 2-year step-back, last historical graduated data year in the scale is 2012.
Retirement rates	Ages 62-64 - 25%; Age 65 – 100%
Withdrawal	2003 Society of Actuaries Basic Plan Age Table, multiplied by 0.60.
Healthcare cost increases	2018 – 7% decreasing by 0.25% per year through 2022; 2023 - 5.50%; 2024 – 5.00%; 2025+ - 4.50%
Participation rate	75% of future retirees

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

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

Single-Employer Defined Benefit OPEB Plan Aggregate Tables

Aggregate Net OPEB Liability Schedule

	<u>2017</u>
Electric	\$653,435
Water	85,978
Communications	120,370
MAGIC	<u>5,991</u>
	<u>\$865,774</u>

Aggregate Deferred Outflows of Resources Schedule

	<u>2017</u>
Electric	\$79,019
Water	10,398
Communications	14,555
MAGIC	<u>728</u>
	<u>\$104,700</u>

Aggregate Deferred Inflows of Resources Schedule

	<u>2017</u>
Electric	\$90,561
Water	11,916
Communications	16,682
MAGIC	<u>830</u>
	<u>\$119,989</u>

Aggregate OPEB Expense Schedule

	<u>2017</u>
Electric	\$14,830
Water	1,951
Communications	2,733
MAGIC	<u>133</u>
	<u>\$19,647</u>

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 8 – SINGLE-EMPLOYER DEFINED BENEFIT PENSION PLAN

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, the information about the fiduciary net position of the Plan and additions to/deductions from Muscatine Water and Electric Employees' Pension Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments in separate accounts held at The Principal Financial Group (the plan administrator) are commingled pools, rather than individual securities; they are valued as of the 12/31/16 measurement date at fair market value.

GENERAL INFORMATION ABOUT THE PENSION PLAN

The utilities provide and administer a single-employer 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). Water utility employees can choose to participate in either IPERS or the Plan. Total covered valuation payroll for the years ended December 31, 2017 and December 31, 2016 were \$20,468,578 and \$20,283,973, respectively. 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 Plan as adopted by the utility's Board of Trustees. The funding is approved and amended by the utilities' five-member Board of Trustees, who are appointed by Muscatine's mayor and ratified by the city council. There are no non-employer contributing entities, as defined by GASB 67, *Financial Reporting for Pension Plans*, and GASB 68, *Accounting and Financial Reporting for Pensions*, for this plan. There are no special funding situations, as defined by GASB 67 and 68, for the Plan. The Plan currently does not issue a stand-alone financial report.

As of the measurement date, the following plan members (including MAGIC employees – see Note 17) were covered by the benefit terms:

	<u>12/31/2016</u>
Active plan members	264
Inactive plan members entitled to but not yet receiving benefits	98
Disabled plan members entitled to benefits	0
Retired plan members or beneficiaries currently receiving benefits	<u>166</u>
TOTAL	<u>528</u>

The pension plan provides for retirement, disability, and death benefits. There have been no changes in plan provisions during the measurement period and between the December 31, 2016 measurement date and the end of the December 31, 2017 reporting period.

The basis for determining contributions is an actuarially determined contribution (ADC) rate that is calculated in the plan's Actuarial Valuation Report dated December 31, 2017. The ADC rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with additional amounts to finance any unfunded accrued liability and plan administrative expenses. The ADC for the measurement period ending December 31, 2017 is \$3,233,148, equal to 15.8% of covered valuation payroll; the ADC for the measurement period ending December 31, 2016 is \$2,781,411, equal to 13.7% of covered valuation payroll. Employer contributions, for the years ending December 31, 2017, December 31, 2016, and December 31, 2015 equaled \$3,233,148, \$2,781,411, and \$2,683,000, respectively.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

NOTE 8 – SINGLE-EMPLOYER DEFINED BENEFIT PENSION PLAN (cont.)

ACTUARIAL ASSUMPTIONS

The entry age actuarial cost method is used for this disclosure. Under this method, the present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings between entry age and assumed exit age(s). The portion of the present value allocated to a year is the service cost. Projected benefits are based on projected salary and projected service.

A measurement period of December 31, 2015 to December 31, 2016 has been used for the plan year ending December 31, 2016 for GASB 67 reporting and for the fiscal year ending December 31, 2017 for GASB 68 reporting. The net pension liability reported for the year ending December 31, 2017 was measured as of December 31, 2016, using the pension liability that was determined by an actuarial valuation as of December 31, 2016. In 2017, the plan administrator did a comprehensive review of the economic and demographic assumptions and the following were revised as a result:

Inflation	2.00%
Investment rate of return	6.25%
Salary increases (age-based)	Age 25-6.18%; Age 40-4.72%; Age 55-3.88%
Wage base	3.00%
Marriage rate	75%

Active and inactive participants are assumed to retire at normal retirement age, or current age if later. This assumption is based on the results of recent experience analysis and anticipated future experience.

Mortality rates were updated in 2017 and are based on RP-2006 total dataset mortality table projected to future years with historical and assumed mortality improvement rates using the Principal Mortality Improvement Scale (PFG2012-10).

The expected long-term return on plan assets assumption was developed as a weighted average rate based on the target asset allocation of the plan and the Long-Term Capital Market Assumptions (CMA) 2016. The capital market assumptions were developed with a primary focus on forward-looking valuation models and market indicators. The key fundamental economic inputs for these models are future inflation, economic growth, and interest rate environment. Due to the long-term nature of the pension obligations, the investment horizon for the CMA 2016 is 20-30 years.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

NOTE 8 – SINGLE-EMPLOYER DEFINED BENEFIT PENSION PLAN (cont.)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity - Large Cap	34.29%	7.85%
US Equity - Mid Cap	4.03%	8.10%
US Equity - Small Cap	2.08%	8.55%
Non-US Equity	12.96%	8.10%
REITs	0.41%	7.95%
Real Estate (direct property)	6.04%	5.80%
TIPS	0.60%	3.05%
Core Bond	35.51%	3.75%
High Yield	4.08%	6.70%
Total	<u>100.00%</u>	

The discount rate used to determine the end of period total pension liability is 6.25%. The plan's fiduciary net position and benefit payments were projected to determine if the plan's fiduciary net position was greater than or equal to the expected benefit payments for each period from 2016 to 2115. Benefit payments after 2115 are projected to be \$0. The long-term rate of return of 6.25% is used to calculate the actuarial present value of projected payments for each future period when the projected fiduciary net position is greater than the projected expected benefit payments. Otherwise, a municipal bond rate of 4.09% is used. The municipal bond rate is from Barclays Municipal GO Long Term (17+ Y) Index, which includes 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher securities, as of the 12/31/2016 measurement date. The discount rate is a single rate that incorporates the long-term rate of return and municipal bond rate as described.

PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

For the years ended December 31, 2017 and December 31, 2016, the utility recognized pension expense of \$4,844,358 and \$3,693,929, respectively. At December 31, 2017, the utility (including MAGIC – see Note 17) reported deferred outflows of resources and deferred inflow of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$5,908,043	\$80,104
Difference between actual and expected experience	423,720	1,353,368
Difference between projected and actual earnings	3,301,044	-
Contributions subsequent to measurement date	3,233,148	-
	<u>\$12,865,955</u>	<u>\$1,433,472</u>

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 8 – SINGLE-EMPLOYER DEFINED BENEFIT PENSION PLAN (cont.)

At December 31, 2016, the utility (including MAGIC – see Note 17) reported deferred outflows of resources and deferred inflow of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$2,838,119	\$101,753
Difference between actual and expected experience	538,239	\$676,570
Difference between projected and actual earnings	3,850,878	-
Contributions subsequent to measurement date	2,781,410	-
	<u>\$10,008,646</u>	<u>\$778,323</u>

Contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in the pension expense as follows:

Fiscal Year ending 12/31	Deferred Outflows of Resources	Deferred Inflows of Resources
2018	\$2,679,867	\$351,134
2019	2,679,867	351,134
2020	2,503,052	351,134
2021	1,613,587	344,638
2022	<u>156,434</u>	<u>35,432</u>
Totals	<u>\$9,632,807</u>	<u>\$1,433,472</u>

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

	1% decrease 5.25%	Discount Rate 6.25%	1% Increase 7.25%
Net Pension Liability 12/31/17	\$30,986,880	\$19,761,071	\$10,349,359
	1% decrease 5.75%	Discount Rate 6.75%	1% Increase 7.75%
Net Pension Liability 12/31/16	\$26,299,105	\$16,047,702	\$7,450,565

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 8 – SINGLE-EMPLOYER DEFINED BENEFIT PENSION PLAN (cont.)

SCHEDULE OF CHANGES IN NET PENSION LIABILITY

Reporting Period Ending	12/31/2017	12/31/2016	12/31/2015
<u>TOTAL PENSION LIABILITY</u>			
Service cost	1,389,645	1,293,507	1,397,201
Interest	5,128,482	4,857,025	4,743,318
Benefit payments	(2,793,981)	(2,672,730)	(2,370,911)
Difference between expected and actual experience	(1,006,283)	652,758	(943,990)
Change in assumptions	4,507,826	(123,402)	3,959,905
Change in benefit terms	0	0	0
Net Change in Total Pension Liability	\$7,225,689	\$4,007,158	\$6,785,523
Total Pension Liability, beginning of period	\$76,066,879	\$72,059,721	\$65,274,198
Total Pension Liability, end of period	<u>\$83,292,568</u>	<u>\$76,066,879</u>	<u>\$72,059,721</u>
<u>FIDUCIARY NET POSITION</u>			
Employer contributions	2,781,411	2,683,000	2,619,320
Net investment income	3,529,390	(266,965)	3,183,800
Benefit payments	(2,793,981)	(2,672,730)	(2,370,911)
Administration expenses	(4,500)	0	(1,950)
Net Change in Fiduciary Net Position	\$3,512,320	(\$256,695)	\$3,430,259
Fiduciary Net Position, beginning of period	\$60,019,177	\$60,275,872	\$56,845,613
Fiduciary Net Position, end of period	<u>\$63,531,497</u>	<u>\$60,019,177</u>	<u>\$60,275,872</u>
NET PENSION LIABILITY	<u>\$19,761,071</u>	<u>\$16,047,702</u>	<u>\$11,783,849</u>

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 9 – IOWA PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (IPERS)

The water utility 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 issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member’s years of service plus the member’s age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member’s first month of entitlement to benefits). Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member’s monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member’s highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member’s monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member’s earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member’s lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member’s beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member’s accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS’ Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the “entry age normal” actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

NOTE 9 – IOWA PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (IPERS) (cont.)

IPERS members were required to contribute 5.95% of their annual covered salary from January 1, 2015 through December 31, 2017. The water utility was required to contribute 8.93% of employees covered annual salaries from January 1, 2015 through December 31, 2017. The contributions to IPERS for the years ended December 31, 2017, December 31, 2016, and December 31, 2015 were \$56,861, \$49,963, and \$46,930, respectively, equal to the required contributions for those years. A measurement period of July 1, 2015 to June 30, 2016 has been used for the fiscal year ending December 31, 2017 for GASB 68 reporting.

PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO IPERS

At December 31, 2017, the water utility reported a liability of \$483,234 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The water utility’s proportion of the net pension liability was based on the water utility’s share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2016, the water utility’s collective proportion was .007749 percent, which was an increase of .000843 percent from its proportion measured as of June 30, 2015.

For the years ended December 31, 2017 and December 31, 2016, the water utility recognized IPERS expense of \$21,211 and \$7,851, respectively. At December 31, 2017, the water utility reported deferred outflows of resources and deferred inflow of resources related to IPERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$4,271	\$5,767
Changes of assumptions	7,373	-
Difference between projected and actual earnings	68,846	-
Contributions subsequent to measurement date	81,955	-
Changes in proportion and differences between contributions and proportionate share of contributions	35,027	96,997
	\$197,472	\$102,764

At December 31, 2016, the water utility reported deferred outflows of resources and deferred inflow of resources related to IPERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$5,886	
Changes of assumptions	12,286	
Difference between projected and actual earnings	51,369	\$103,908
Contributions subsequent to measurement date	72,768	-
Changes in proportion and differences between contributions and proportionate share of contributions	(3,531)	116,071
	\$138,778	\$219,979

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 9 – IOWA PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (IPERS) (cont.)

Contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows and inflows or resources related to IPERS will be recognized in the pension expense as follows:

<u>Fiscal Year ending 12/31</u>	Deferred Outflows	Deferred Inflows
	of Resources	of Resources
2018	\$33,387	\$48,955
2019	33,387	48,955
2020	30,998	2,092
2021	17,745	2,092
2022	-	670
Totals	<u>\$115,517</u>	<u>\$102,764</u>

There were no non-employer contributing entities at IPERS.

ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0% (effective June 30, 2014)
Investment rate of return	7.5% (effective June 30, 1996)
Salary increases	4.0% (effective June 30, 1999)
Wage base	4.0% (based on 3.0% inflation assumption and 1.0% real wage inflation; total 4.0% has not changed; components changed June 30, 2006 and June 30, 2014)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for males or females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 9 – IOWA PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (IPERS) (cont.)

The target allocation and best estimates of arithmetic real rates of return are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Core-plus fixed income	28%	2.04%
Domestic equity	24%	6.29%
International equity	16%	6.75%
Private equity/debt	11%	11.32%
Real estate	8%	3.48%
Credit opportunities	5%	3.63%
U.S. TIPS	5%	1.91%
Other real assets	2%	6.24%
Cash	1%	-0.71%
TOTAL	<u>100%</u>	

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the water utility will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

SENSITIVITY OF THE COLLECTIVE NET PENSION LIABILITY-IPERS TO CHANGES IN THE DISCOUNT RATE

	1% decrease 6.5%	Discount Rate 7.5%	1% Increase 8.5%
Net Pension Liability-IPERS 12/31/17	\$781,828	\$483,234	\$231,241
Net Pension Liability-IPERS 12/31/16	\$601,124	\$343,338	\$125,749
Net Pension Liability-IPERS 12/31/15	\$686,402	\$363,237	\$90,526

Detailed information about the pension plan’s fiduciary net position is available in the separately issued IPERS financial report, which is available on IPERS’ website at www.ipers.org.

At December 31, 2017 and December 31, 2016, the water utility reported payables to the defined benefit pension plan of \$4,503 and \$6,106 for legally required employer contributions and \$3,000 and \$4,069 for legally required employee contributions, respectively, which had not yet been remitted to IPERS.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 10 – AGGREGATE PENSION SCHEDULES

Aggregate Net Pension Liability Schedule - 2017			
	Single-Employer Defined		
	<u>Benefit Pension Plan</u>	<u>IPERS</u>	<u>Total</u>
Electric	\$16,017,025		\$16,017,025
Water	1,118,518	\$483,234	1,601,752
Communications	2,481,937		2,481,937
MAGIC	<u>143,591</u>		<u>143,591</u>
	<u>\$19,761,071</u>	<u>\$483,234</u>	<u>\$20,244,305</u>
Aggregate Deferred Outflows of Resources Schedule - 2017			
	Single-Employer Defined		
	<u>Benefit Pension Plan</u>	<u>IPERS</u>	<u>Total</u>
Electric	\$10,419,753		\$10,419,753
Water	734,364	\$197,472	931,836
Communications	1,617,642		1,617,642
MAGIC	<u>94,196</u>		<u>94,196</u>
	<u>\$12,865,955</u>	<u>\$197,472</u>	<u>\$13,063,427</u>
Aggregate Deferred Inflows of Resources Schedule - 2017			
	Single-Employer Defined		
	<u>Benefit Pension Plan</u>	<u>IPERS</u>	<u>Total</u>
Electric	\$1,163,568		\$1,163,568
Water	79,730	\$102,764	182,494
Communications	179,957		179,957
MAGIC	<u>10,221</u>		<u>10,221</u>
	<u>\$1,433,476</u>	<u>\$102,764</u>	<u>\$1,536,240</u>
Aggregate Pension Expense Schedule - 2017			
	Single-Employer Defined		
	<u>Benefit Pension Plan</u>	<u>IPERS</u>	<u>Total</u>
Electric	\$3,921,992		\$3,921,992
Water	276,613	\$21,211	297,824
Communications	610,874		610,874
MAGIC	<u>34,879</u>		<u>34,879</u>
	<u>\$4,844,358</u>	<u>\$21,211</u>	<u>\$4,865,569</u>

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 10 – AGGREGATE PENSION SCHEDULES (cont.)

Aggregate Net Pension Liability Schedule - 2016			
	Single-Employer Defined		
	<u>Benefit Pension Plan</u>	<u>IPERS</u>	<u>Total</u>
Electric	\$13,000,669		\$13,000,669
Water	915,157	\$343,338	1,258,495
Communications	2,013,125		2,013,125
MAGIC	<u>118,751</u>		<u>118,751</u>
	<u>\$16,047,702</u>	<u>\$343,338</u>	<u>\$16,391,040</u>
Aggregate Deferred Outflows of Resources Schedule - 2016			
	Single-Employer Defined		
	<u>Benefit Pension Plan</u>	<u>IPERS</u>	<u>Total</u>
Electric	\$8,177,423		\$8,177,423
Water	585,543	\$138,778	724,321
Communications	1,269,389		1,269,389
MAGIC	<u>76,291</u>		<u>76,291</u>
	<u>\$10,108,646</u>	<u>\$138,778</u>	<u>\$10,247,424</u>
Aggregate Deferred Inflows of Resources Schedule - 2016			
	Single-Employer Defined		
	<u>Benefit Pension Plan</u>	<u>IPERS</u>	<u>Total</u>
Electric	\$633,159		\$633,159
Water	42,317	\$219,979	262,296
Communications	97,343		97,343
MAGIC	<u>5,504</u>		<u>5,504</u>
	<u>\$778,323</u>	<u>\$219,979</u>	<u>\$998,302</u>
Aggregate Pension Expense Schedule - 2016			
	Single-Employer Defined		
	<u>Benefit Pension Plan</u>	<u>IPERS</u>	<u>Total</u>
Electric	\$2,977,676		\$2,977,676
Water	222,375	\$7,851	230,226
Communications	465,066		465,066
MAGIC	<u>28,812</u>		<u>28,812</u>
	<u>\$3,693,929</u>	<u>\$7,851</u>	<u>\$3,701,780</u>

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

NOTE 11 – SIGNIFICANT CUSTOMERS

Approximately \$26,177,000 or 33% in 2017 and \$30,649,000 or 32% in 2016 of the electric utility's operating revenues were derived from sales to one customer. Approximately \$3,094,000 or 49% in 2017 and \$2,886,000 or 48% in 2016 of the water utility's operating revenues were derived from sales to one customer.

NOTE 12 – CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, was implemented during fiscal year 2017. The cumulative effect of implementation is reflected as a change in net position at December 31, 2017 as follows:

Electric Utility

Net position December 31, 2016, as previously reported	\$ 127,887,964
Cumulative effect of change in accounting principle	<u>(240,428)</u>
Net Position January 1, 2017, as restated	<u>\$ 127,647,536</u>

Water Utility

Net position December 31, 2016, as previously reported	\$ 16,468,093
Cumulative effect of change in accounting principle	<u>(45,723)</u>
Net Position January 1, 2017, as restated	<u>\$ 16,422,370</u>

Communications Utility

Net position December 31, 2016, as previously reported	\$ 5,661,535
Cumulative effect of change in accounting principle	<u>(50,004)</u>
Net Position January 1, 2017, as restated	<u>\$ 5,611,531</u>

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 13 – COMMITMENTS AND CONTINGENCIES

A power purchase agreement for wind energy was originally entered into in December 2013. An amended and restated agreement was executed in June 2016. It is a 20-year agreement that commenced fourth quarter 2016 with the wind farm's actual commercial operation date. The wind farm is located in Jackson County, Minnesota, which is in the utility's MISO local resource zone. Its projected annual output is 48,968 MWH, approximately 5.6% of native system needs. Terms include a fixed first year rate for delivered energy, with a 2.2% annual escalation 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.

The utility has committed to purchasing 630,000 tons of coal in 2018 under a contract with one supplier. The contract also allows for up to an additional 124,000 tons of coal to be purchased if demand supports it.

The utility has rail transportation agreements with two separate companies for the delivery of coal. 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 current contract with the BNSF (originating carrier) expires December 31, 2022. 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.

The agreement with the Canadian Pacific Railway for the shipment of coal from the interchange point to the utility's generating station expires April 30, 2018. A new agreement is expected to be in place prior to expiration of the current agreement. The Canadian Pacific Railway is only offering one-year agreements at this time.

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 NOx 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.

In April 2017, the utility contracted to sell steam to a local customer through April 2020. The agreement includes a minimum flow rate, adjusted as necessary to accommodate operational circumstances.

NOTE 14 – ENVIRONMENTAL REGULATIONS

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

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

NOTE 15 – INTERFUND AND RELATED PARTY TRANSACTIONS

The electric utility sold power to the water utility amounting to approximately \$1,077,100 in 2017 and \$1,075,600 in 2016. The electric utility sold power to the communications utility amounting to approximately \$23,000 in 2017 and \$21,900 in 2016. The electric utility purchased water from the water utility amounting to approximately \$354,200 in 2017 and \$389,500 for 2016. The electric utility purchased communications services from the communications utility amounting to approximately \$166,400 for 2017 and 2016.

The electric utility rents space to the water utility and the communications utility at the Administration/Operations Center. This amounted to \$75,400 in 2017 and \$73,200 in 2016 for the water utility's rent, and \$115,900 in 2017 and \$112,500 in 2016 for the communications utility's rent.

Electric utility amounts receivable from the water utility were \$84,600 and \$88,000 at December 31, 2017 and 2016, respectively. Electric utility amounts payable to the water utility were \$34,400 and \$31,400 at December 31, 2017 and 2016, respectively. Electric utility amounts receivable from the communications utility were \$43,700 and \$2,000 at December 31, 2017 and 2016, respectively. Electric utility amounts payable to the communications utility were \$13,800 at December 31, 2017 and 2016.

The electric utility has advanced \$35,327,000 to the communications utility for capital improvements and acquisition of a cable television system. On November 25, 2014, the Board approved an amendment to this loan agreement 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. Annual principal payments began January 1, 2016; semi-annual payments of interest are due each January 1 and July 1. 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 \$0 at December 31, 2017 and December 31, 2016. Interest income on the loan amounted to \$45,221 for 2017 and \$47,617 for 2016.

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 could be adjusted annually to reflect the electric utility's investment opportunity cost. The interest rate was adjusted to 0.18% January 1, 2014, to 0.15% effective January 1, 2016, and then again to 0.23% effective January 1, 2017. The terms of the arrangement required 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 on January 1, 2018. This debt as to both principal and interest was junior and subordinate in all respects to the State of Iowa Revolving Loan Fund debt.

On June 25, 2013, the electric utility advanced the water utility \$400,000 for capital needs. In 2014, an additional \$1,500,000 was advanced to the water utility for capital needs, and in 2015, an additional \$1,000,000 was advanced. Effective October 1, 2016, the borrowing amount was raised to \$8,000,000. In January 2017, \$2,600,000 was borrowed for the well land purchase, and another \$500,000 was borrowed in June 2017, increasing the total loan to \$6,000,000. At the end of June 2017, this loan was paid in full using proceeds from the water revenue bond issue.

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.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

NOTE 16 – 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.

(Thousands of dollars)	2017	2016	2015
Health/dental care self-insurance reserve			
Reserve liability, beginning of year	\$ 1,143	\$ 1,282	\$ 1,779
Add: Provision for reserve, current year	4,727	4,040	4,056
Less: Payments on reserve	(4,056)	(3,827)	(4,174)
Total Reserve Liability, end of year	1,814	1,495	1,661
Incurred but not reported claims	(327)	(352)	(379)
Non-Current Reserve Liability, End of Year	\$ 1,487	\$ 1,143	\$ 1,282
(Thousands of dollars)	2017	2016	2015
Workers compensation self insurance reserve			
Reserve liability, beginning of year	\$ 526	\$ 491	\$ 176
Add: Provision for reserve	192	712	715
Less: Payments on reserve	(328)	(677)	(400)
Reserve Liability, End of Year	\$ 390	\$ 526	\$ 491

NOTE 17 – JOINT VENTURE

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

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 18 – SUBSEQUENT EVENTS

WATER RATES

In November 2017, a 5.5% water rate increase was approved by the Board to become effective with water billings starting after April 10, 2018 and April 10, 2019 per the 2017 cost-of-service and rate design study.

ELECTRIC RATES

In June 2017, rate structure adjustments for residential and commercial customers were approved by the Board to become effective with electric usage beginning August 1, 2018 per the March 2017 cost-of-service and rate design study.

REQUIRED SUPPLEMENTARY INFORMATION

MUSCATINE POWER AND WATER

Required Supplementary Information – Single-Employer Defined Benefit Pension Plan
For the Year Ended December 31, 2017 (unaudited)

SCHEDULE OF CHANGES IN NET PENSION LIABILITY

TOTAL PENSION LIABILITY				
	Measurement date	12/31/2016	12/31/2015	12/31/2014
	Fiscal Year	12/31/2017	12/31/2016	12/31/2015
Service cost		\$1,389,645	\$1,293,507	\$1,397,201
Interest		5,128,482	4,857,025	4,743,318
Benefit payments		(2,793,981)	(2,672,730)	(2,370,911)
Difference between expected and actual experience		(1,006,283)	652,758	(943,990)
Change in assumptions		4,507,826	(123,402)	3,959,905
Net Change in Total Pension Liability		\$7,225,689	\$4,007,158	\$6,785,523
Total Pension Liability, beginning of period		<u>\$76,066,879</u>	<u>\$72,059,721</u>	<u>\$65,274,198</u>
Total Pension Liability, end of period		<u>\$83,292,568</u>	<u>\$76,066,879</u>	<u>\$72,059,721</u>
PLAN FIDUCIARY NET POSITION				
Employer contributions		\$2,781,411	\$2,683,000	\$2,619,320
Net investment income		3,529,390	(266,965)	3,183,800
Benefit payments		(2,793,981)	(2,672,730)	(2,370,911)
Administration expenses		(4,500)	-	(1,950)
Net Change in Plan Fiduciary Net Position		\$3,512,320	(\$256,695)	\$3,430,259
Plan Fiduciary Net Position, beginning of period		<u>\$60,019,177</u>	<u>\$60,275,872</u>	<u>\$56,845,613</u>
Plan Fiduciary Net Position, end of period		<u>\$63,531,497</u>	<u>\$60,019,177</u>	<u>\$60,275,872</u>
NET PENSION LIABILITY		<u>\$19,761,071</u>	<u>\$16,047,702</u>	<u>\$11,783,849</u>
Plan Fiduciary Net Position as a Percentage				
of the Total Pension Liability		76.3%	78.9%	83.6%
Covered Valuation Payroll		\$20,283,973	\$20,144,834	\$20,059,886
Net Pension Liability as a Percentage of				
Covered Valuation Payroll		97.4%	79.7%	58.7%

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the utility will present information for those years for which information is available.

See Independent Auditors' Report

MUSCATINE POWER AND WATER

Required Supplementary Information – Single-Employer Defined Benefit Pension Plan
For the Year Ended December 31, 2017 (unaudited)

METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES:

Actuarial cost method	Entry Age Normal Method
Asset valuation method	Market Value
Investment rate of return	6.25%
Inflation	2.00%
Salary increases (age-based)	Age 25 – 6.18%; Age 40 – 4.72%; Age 55 – 3.88%
Wage base	3.00%
Marriage rate	75%
Mortality	SOA RP-2014 and RPEC_2014

See Independent Auditors' Report

MUSCATINE POWER AND WATER

Required Supplementary Information – Iowa Public Employees' Retirement System
For the Year Ended December 31, 2017

SCHEDULE OF THE WATER UTILITY'S PROPORTIONATE SHARE OF THE IPERS NET PENSION LIABILITY:

	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>
Proportion of the Net Pension Liability	0.007749%	0.006906%	0.00916%
Proportionate share of the Net Pension Liability	\$483,234	\$343,338	\$363,277
Covered Valuation Payroll		\$476,102	\$599,391
Proportionate share of the Net Pension Liability as a % of its Covered Valuation Payroll	#DIV/0!	72.1%	60.6%
Plan Fiduciary Net Position as a % of the Total Pension Liability	85.2%	85.2%	86.6%

The amounts presented were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the utility will present information for those years for which information is available.

CHANGES OF BENEFIT AND FUNDING TERMS:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

CHANGES IN ACTUARIAL ASSUMPTIONS:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

See Independent Auditors' Report

MUSCATINE POWER AND WATER

Required Supplementary Information – Iowa Public Employees' Retirement System
For the Year Ended December 31, 2017

CHANGES IN ACTUARIAL ASSUMPTIONS (cont.):

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

SCHEDULE OF THE WATER UTILITY'S IPERS CONTRIBUTIONS:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$56,861	\$49,963	\$46,930	\$45,186
Contributions in relation to the statutorily required contribution	<u>56,861</u>	<u>49,963</u>	<u>46,930</u>	<u>45,186</u>
Contribution deficiency (excess)	-	-	-	-
Covered employee payroll	\$636,745	\$559,496	\$525,531	\$506,004
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.93%

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the utility will present information for those years for which information is available.

See Independent Auditors' Report

MUSCATINE POWER AND WATER

Required Supplementary Information – OPEB Plan
For the Year Ended December 31, 2017

Schedule of Changes in Net OPEB Liability	
Measurement date	12/31/2016
Fiscal Year	12/31/2017
TOTAL OPEB LIABILITY	
Service cost	\$35,606
Interest	36,710
Benefit payments	(44,748)
Difference between expected and actual experience	67,861
Change in assumptions	<u>(135,819)</u>
Net Change in Total OPEB Liability	(\$40,390)
Total OPEB Liability, beginning of period	<u>\$906,164</u>
Total OPEB Liability, end of period	<u>\$865,774</u>
FIDUCIARY NET POSITION	
Employer contributions	\$44,748
Net investment income	-
Benefit payments	(44,748)
Administration expenses	-
Net Change in Fiduciary Net Position	-
Fiduciary Net Position, beginning of period	-
Fiduciary Net Position, end of period	-
NET OPEB LIABILITY	<u>\$865,774</u>
Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.0%
Covered Employee Payroll	\$20,283,973
Net OPEB Liability as a Percentage of Covered Employee Payroll	4.3%

Note: GASB Statement No. 75 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the utility will present information for those years for which information is available.

See Independent Auditors' Report

MUSCATINE POWER AND WATER

Required Supplementary Information – OPEB Plan
For the Year Ended December 31, 2017

Schedule of Employer (ER) Contributions	
Measurement date	12/31/2016
Fiscal Year	12/31/2017
CONTRIBUTIONS	
ER contributions	\$44,748
ER contributions received by the plan	44,748
Contribution deficiency/(excess)	-
RATIOS	
Covered employee payroll	\$20,283,973
ER contributions received as a percentage of covered employee payroll	0.22%
ADC ASSUMPTIONS	
Long-term rate of return on assets	N/A
Interest rate	4.09%
Salary increase assumption	N/A
COLA increase assumption	N/A
Retirement age assumption	Rates
Plan changes	None

Note: GASB Statement No. 75 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the utility will present information for those years for which information is available.

MUSCATINE POWER AND WATER

Required Supplementary Information – OPEB Plan
For the Year Ended December 31, 2017

METHODS AND ASSUMPTIONS USED TO DETERMINE OPEB LIABILITY:

Actuarial cost method	Entry Age Normal Method
Discount rate	4.09%
Mortality rate	RP-2006 (underlying baseline table from SOA RP-2014 study)
Retirement rates	Ages 62-64 - 25%; Age 65 – 100%
Healthcare cost increases	2018 – 7% decreasing by 0.25% per year through 2022; 2023 - 5.50%; 2024 – 5.00%; 2025+ - 4.50%
Participation rate	75% of future retirees

No assets are accumulated in a trust that meets the criteria of GASB Statement No. 75, paragraph 4.

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, 2017, and have issued our report dated March 20, 2018.

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.

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, 2018

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, 2017

FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

- A-17 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, 2017.
- B-17 Certified Budget – Disbursements during the year ended December 31, 2017, did not exceed the amounts budgeted.
- C-17 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-17 Travel Expense – No disbursements of utility money for travel expenses of spouses of city officials or employees were noted.
- E-17 Business Transactions – No business transactions between the utility and utility officials or employees were noted.
- F-17 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-17 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- H-17 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-17 Revenue Bonds – The utility has complied with all provisions of the Revenue Electric Bond Covenants and Revenue Water Bond Covenants. All required payments to the sinking, reserve and improvement funds were made.
- J-17 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-17 The audit identified the following material weakness:
No material weaknesses were noted during the audit.

SUPPLEMENTARY INFORMATION

MUSCATINE POWER AND WATER

SCHEDULE OF INSURANCE COVERAGE

December 31, 2017

Insurer	Type of Coverage	Policy's Expiration Date	Amount of Coverage		
FM Global Insurance Company	All risks:	4/1/2018			
	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	4/1/2018	100,000		No deductible
Cincinnati Insurance Company	Blanket Fidelity Bond, All Employees except Treasurer	4/1/2018	250,000		No deductible
Cincinnati Insurance Company	Treasurer's Bond	8/1/2019	250,000		No deductible

MUSCATINE POWER AND WATER

SCHEDULE OF INSURANCE COVERAGE (cont.)

December 31, 2017

Insurer	Type of Coverage	Policy's Expiration Date	Amount of Coverage	
AEGIS	Excess liability:	12/31/2017	\$ 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	12/31/2017	10,000,000	250,000 retention
Travelers Casualty & Surety Company of America	Excess fiduciary & employee benefit liability	12/31/2017	10,000,000	10,250,000 retention
AEGIS	Excess workers compensation	12/31/2017	35,000,000	1,000,000 each accident SIR