Muscatine Power and Water

Your reliable neighbor

In the field,
behind the scenes,
around the clock

2015 ANNUAL REPORT

Focused on Muscatine

Muscatine, Iowa is a historic and picturesque community located along the Mississippi River in Eastern Iowa. With a population of around 23,000 and a solid industrial and commercial base, Muscatine is the economic hub of a geographic area encompassing parts of 6 counties in Iowa and Illinois.

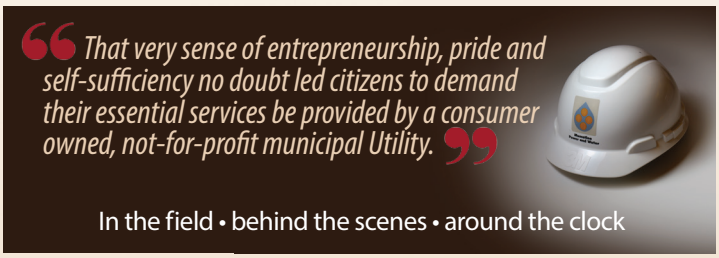
The city is home to many locally-founded manufacturers as well as vibrant components of several national companies. Although products made in Muscatine have international reputations and reach, the community maintains a cohesive, small town feel, driven by community members who are engaged and active, and generously support amenities that benefit their fellow citizens and the city's economic health and growth.

That very sense of entrepreneurship, community pride and self-sufficiency no doubt led citizens to demand their essential services be provided by a consumer owned, not-for-profit, municipal Utility. By overwhelming majorities, citizens voted to establish the Water Utility in 1900, the Electric Utility in 1922, and the Communications Utility in 1997. These three entities are known as Muscatine Power and Water.

Today, the Water Utility produces, treats and distributes over 28 million gallons of water daily while building and maintaining reliable infrastructure to more than 9,650 water customers.

The Electric Utility owns and operates its own power plant and serves approximately 11,300 residential, business and industrial customers with a self-maintained transmission and distribution system that is a national benchmark of reliability for other U.S. consumer owned, municipal Utilities to emulate.

Approximately 7,250 homes and businesses are served by the Communications Utility which provides high-speed Internet and digital cable TV services. Our advanced citywide fiber-based network, MachLink® Metro Ethernet (MME), serves large enterprises now and the fiber-optic network is in the process of being expanded to residential and small business customers.



The Utility's mission is supported by a dedicated workforce of over 250 employees who keep the power on, the water flowing and the data moving 24/7, while controlling costs and delivering exceptional customer experiences to their neighbors, family and friends within the Muscatine community in the field, behind the scenes, and around the clock.

OUR MISSION: *We will competitively meet the needs and expectations of our customers with an environmentally responsible and unique mix of services for the direct benefit of our community.*

OUR CORE VALUES:

CUSTOMER SERVICE: *We are a customer driven organization that will deliver excellent, locally provided customer service.*

EMPLOYEES: *We are accountable for performing our jobs to the best of our ability, continuously learning, and developing competencies to ensure the Utility's ongoing success.*

ENVIRONMENTAL STEWARDSHIP: *We will pro-actively comply with environmental regulations and engage in responsible environmental stewardship, recognizing that its operations impact our environment.*

FINANCIAL STABILITY: *We will operate efficiently in order to provide competitively priced utility services to the community, while maintaining a commitment to financial stability.*

RELIABILITY: *We will deliver highly reliable utility services by employing best practices in the design, operation and maintenance of its infrastructure.*

SAFETY: *We are committed to a Culture of Safety, where safety is everyone's responsibility, with a belief that all accidents are preventable.*

CONTENTS:

Proud to be there when you need us

Whether out in the field or behind the scenes, the employees of Muscatine Power and Water (MP&W) are working around the clock to provide utility services that are safe, reliable, and at a low cost.

MP&W is governed by an appointed Board of Trustees tasked with representing and advocating for the Utility's customer-owners. The Board of Trustees and MP&W's dedicated workforce understand the unique responsibilities that the Utility has to our customers as a consumer owned, municipal utility.

MP&W is not-for-profit, so the only shareholders we have to please are the customers-owners we serve. The result is utility rates that are among the nation's lowest, with reliability among the nation's highest, and a responsive, personalized brand of local customer service that for-profit utilities can't or don't provide.

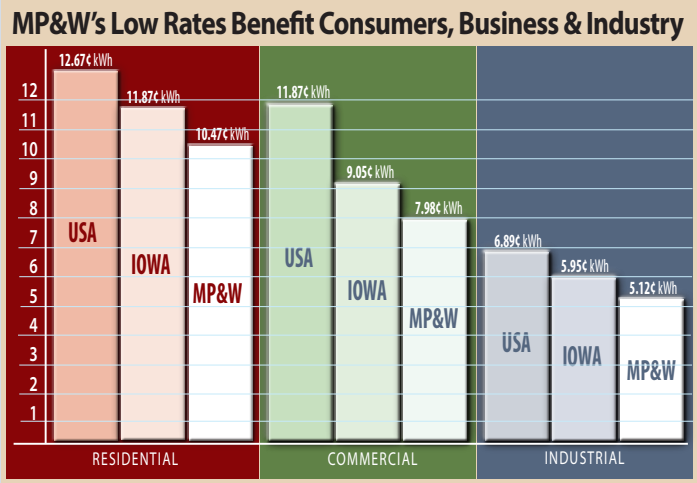
This Annual Report presents the details of yet another successful year. Although there were obstacles, the MP&W team was up to the task, facing the challenges head-on and delivering solutions every day.

> *"MP&W is not-for-profit, so the only shareholders we have to please are the customers-owners we serve."*

In the field • behind the scenes • around the clock

All three Utilities performed better than budget, many projects were successfully completed, and several major multi-year initiatives have progressed. Among the highlights:

- In 2015, as part of the City of Muscatine's West Hill Sewer Separation Project, the MP&W Water Utility undertook a major construction project replacing over 3,000 feet of old water mains.
- The Water Utility investigated purchasing land for a new well field that will be necessary for the Utility to continue to adequately supply the low cost, high quality water which MP&W customers rely on.
- The Communications Utility made significant progress on the design phase of the Fiber to the Home project that was approved by the Board at the end of 2014. A contract to design the system was awarded, and MP&W staff worked alongside the contractor to develop final plans for construction that is set to start in late 2016.



- The Electric Utility relocated miles of overhead wiring to underground to support the City's Cedar Street reconstruction project. New enhanced roadway lighting was put in place as well as a new traffic signal at the high school. All three utilities are now involved with the City of Muscatine in the planning for the Mulberry Avenue reconstruction project and the Mississippi Drive Corridor Project.
- A new emission controls system that will significantly reduce mercury emissions from the power generating facilities was constructed.
- A customer survey was completed in 2015 which helped confirm Utility strengths and identified some opportunities where the Utility can better serve customers. A new simplified, user-friendly website was launched to enhance the availability of information and online services to our customers.

It's no surprise that these initiatives and more were accomplished. MP&W employees work hard to make the Utility an organization that is customer-driven from top to bottom and are always looking for opportunities to reduce costs, promote efficiency and increase satisfaction, for our customer-owners.

Respectfully submitted,

Sal LoBianco

General Manager

Local Leadership Assures Local Control

Left to center: Trustees Doyle Tubandt, Susan Eversmeyer, Tracy McGinnis, Warren Heidbreder and Chairperson, Steven Bradford.
Center to right: Directors Jerry Gowey, Brandy Olson, Erika Cox, Gage Huston, Tim Reed and General Manager, Sal LoBianco

Local generation powers Muscatine

The Muscatine community has been the beneficiary of locally generated power since 1924. Besides the obvious advantages such as providing local jobs and the collateral economic impact, local generation helps ensure that MP&W is able to provide cost-competitive electrical energy. Additionally, customers are not entirely dependent on the ability of others to provide power, and it allows the Utility to have more control over power supply costs versus other utilities that simply purchase and distribute energy.

Today, the Electric Utility participates with other power generators in the Midcontinent Independent System Operator (MISO) market. While MP&W purchases power for the native system, the Utility is able to sell energy when the units clear the market based on price and sell when the market price is above production cost.

In 2015, mild weather and historically low natural gas prices drove demand for electricity lower and market prices down resulting in our generating units operating less than budgeted.

Wholesale electric sales fell $13.3 million below budget due to the reduced demand and prices. Because the price of purchased power was also lower than projected, the Electric Utility's net income outperformed budget.

"Besides the obvious advantages such as providing local jobs and the collateral economic impact, local generation helps ensure that MP&W is able to provide cost-competitive electrical energy"

In the field • behind the scenes • around the clock

Environmental compliance is a major initiative for coal-fired power plants and MP&W has always taken a pro-active approach to compliance with regulations. The changing regulatory and fuel landscape demands continual evaluation of MP&W's future resource needs and mix. See the accompanying story about 2015 environmental activities on page 5.

Railroad-driven coal transportation delays experienced by MP&W in 2014 resolved in 2015 and shipment lead times returned to normal. However, with lower than expected demand, coal

inventory increased. The positive effect of this situation is that the Electric Utility now has the flexibility to draw down existing coal inventory and delay additional coal purchases until needed.

MP&W continued exploring renewable energy options in 2015. A study for development of a "community solar garden" — a large-scale photo-voltaic array capable of generating energy — has begun. Community solar can take advantage of economies of scale; utility companies take care of the installation, interconnection, and all ongoing maintenance expenses. A community-wide project would allow both residential and commercial/industrial customers to participate in a renewable solar option without the expense of their own rooftop systems.

MP&W is continuing to gauge the interest of both large industrial, as well as small business and residential customers, for a program which allows customers to participate in the project and potentially benefit from the available tax credits as well as the energy produced.

In another effort to diversify MP&W's generation portfolio, the Utility entered into an agreement in late 2013 to purchase the output of a wind farm that was under development. The project, unfortunately, has faced continued delays and MP&W is currently working with the developer to resolve the issues.

Respecting our neighbors and environment

Environmental Stewardship is one of MP&W's Core Values. The Utility has always taken a pro-active approach to regulatory and environmental initiatives. In 2015, a considerable amount of Utility resources were dedicated to keeping the power plant in compliance with Federal and State regulations.

- To meet another new Environmental Protection Agency (EPA) regulatory deadline, the way Coal Combustion Residue (CCR) is handled and stored was changed. Small unlined storage areas at the power plant were eliminated and a Fugitive Dust Control Plan was completed and published.
- Collaborating and coming to agreement on terms with the Iowa Department of Natural Resources (IDNR), the Utility submitted a draft permit for National Pollutant Discharge Elimination System (NPDES) and completed several compliance related activities, preparing for the January 2016 deadline imposed by EPA.
- Designs were completed for the Powdered Activated Carbon (PAC) Injection systems for Units 8 and 9. Construction of this $3.1 million capital improvement was near completion at the end of 2015 and went online with time to spare for the EPA Mercury and Air Toxics Standards (MATS) April 2016 compliance deadline.

Additionally, the 2014 switch to Refined Coal yielded a savings of $631,417 in fuel costs in 2015. Refined Coal reduces Mercury and NOx emissions. An added benefit of that conversion is that going forward, there will be less need for expensive injection materials necessary to attain lower mercury emissions as required by EPA regulation.

"We strive to be an organization that makes good decisions based on the long-term best interests of the community and the environment."

In the field, behind the scenes, around the clock

...and embracing our responsibilities

Like all utility companies, practically every aspect of Muscatine Power and Water's operations is subject to numerous regulations of both state and federal agencies. The regulatory environment is ever-changing and 2015 was no exception. Employees throughout the organization pro-actively monitored developments in federal and state policies, regulations, and legislation concerning energy, environment, water, CATV, and the Internet, as well as environmental affairs.

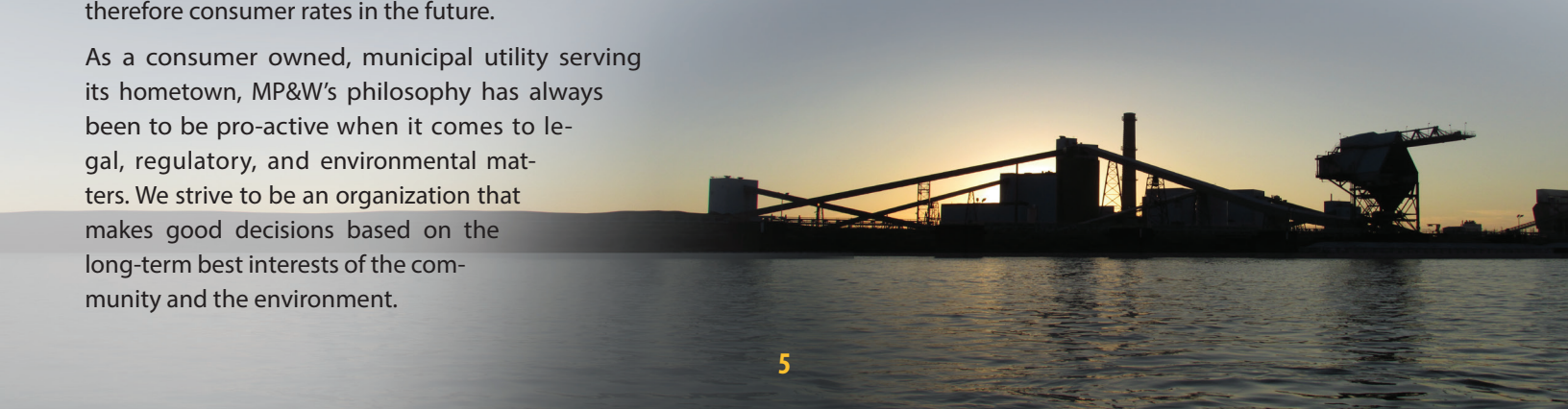
MP&W took action to ensure compliance with the Reliability and Critical Infrastructure Protection (CIP) Standards of the North American Electric Reliability Corporation (NERC) that will go into effect for electric utilities in 2016. These new Cyber Security provisions are designed to mitigate cyber-attacks on the electrical grid and associated computer networks, keeping utility infrastructure secure.

MP&W staff continues to take an active role with the Iowa Association of Municipal Utilities Legislative & Regulatory Committee, Greater Muscatine Chamber of Commerce Public Policy Committee, the Government Relations Working Group of the American Public Power Association, and the Iowa Association of Business and Industry's Environmental Committee. Staff also attended local and regional legislative forums in addition to monitoring the state legislative session and keeping up on federal legislation and policy.

In June 2015, the Federal Communications Commission (FCC) issued new rules to manage Internet traffic known commonly as "net neutrality". The ruling prevents Internet Service Providers (ISPs) from restricting certain types of traffic or charging additional fees to content providers. MP&W was already in compliance because we do not block, "throttle" or otherwise discriminate among types of Internet traffic.

The new rule reclassified the Internet as a "utility" under Title II of the Communications Act. MP&W, along with many other ISPs, objected to the Title II provision, as the reclassification would subject providers to a new level of regulations that could impact costs and therefore consumer rates in the future.

As a consumer owned, municipal utility serving its hometown, MP&W's philosophy has always been to be pro-active when it comes to legal, regulatory, and environmental matters. We strive to be an organization that makes good decisions based on the long-term best interests of the community and the environment.



Services that add value to the community

Bringing utility services to our customers' homes, workplaces and public facilities is our greatest responsibility and a key factor in successfully meeting that responsibility is reliable infrastructure.

MP&W employees design, build and maintain the delivery systems. From original drawings to installation, to the monitoring of system health, they work to ensure customers' needs are met.

Water

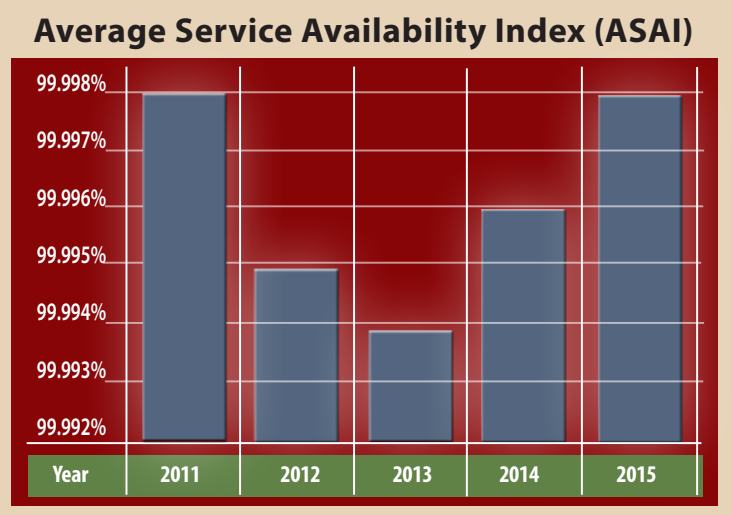
One of the major construction projects of 2015 for the Water Utility was a water main replacement project done in conjunction with the City of Muscatine's West Hill Sewer Separation Project. The MP&W Water Utility replaced aging water infrastructure in the same areas sewer replacement was occurring. Once this phase of the project is complete in 2017, the Utility will have placed 1.5 miles of new water main, which will minimize potential main breaks and save restoration costs in the future.

On a related note, 2015 was a record low year for water main breaks. Just 12 main breaks occurred in the calendar year, with no breaks June through November. While breaks can occur anytime, most happen in November through March when repeated freezing and thawing cause pipes, valves and connections to shift in the ground.

This new low is credited in part to somewhat milder weather, but also to strategic main replacements and a reinstated valve turning program. Some valves are over 100 years old; maintaining and exercising them helps eliminate future issues when sections of water main need to be isolated.

Electric

2015 was a great year for the Electric Utility's reliability, with the lowest number of unplanned outages since 1991. The average customer interruption was the lowest in 5 years with an average of just 38.17 minutes if an outage was experienced. Those numbers contributed to an uptick in the Average Service Availability Index (ASAI) with another near-perfect 99.998%.



An Electric Utility reliability project is a new 161/69kV Autotransformer at MP&W's South Substation. The new $1.4 million autotransformer, which will help prevent system overloads, was ordered in early 2015 (1 year lead-time) and the site is being prepared for delivery in May 2016. The transformer's in-service date is expected in fall 2016.

Electric line crews wrapped up work on the Cedar Street reconstruction project in spring 2015. Having completed the conversion of overhead transmission lines to underground, they set and energized the new LED streetlights and a traffic signal at the high school entrance.

As the year progressed, MP&W worked with the City of Muscatine on plans to rebuild a portion of Mulberry Avenue in 2016. This project includes moving overhead utilities underground and relocating existing underground water, electric and communications assets to compensate for the elimination of ditches and intersection realignments.

Preliminary engineering and planning got underway for Utility projects that will be done in conjunction with the City's Mississippi Drive Corridor Project. This ambitious transportation and beautification project will stretch 1.6 miles from the Norbert Beckey Bridge to Carver Corner along Business U.S. 61. As a partner in the project, MP&W will be participating in electric and water facility relocations, lighting and other construction support.

2015 was the third year of a 7-year plan to replace all high pressure sodium (HPS) streetlights in the city with energy efficient LEDs. This year, MP&W installed 294 LED lights In the community. Work completed in 2015 effectively reached the

"tipping point" with more than 50% replaced. By year's end, a total of 1,050 LED lights, or 54% were installed on the system.

Communications

In an age where online data, communication and content are expanding beyond what most local systems can handle, MP&W continued toward our goal of making Muscatine a "Gigabit Community" with a fiber-optic network capable of delivering Internet speeds up to 1Gb along with high definition video and other telecommunications services that consumers and businesses are demanding.

Keeping Muscatine on the forefront, the Communications Utility moved forward with our Fiber to the Home (FTTH) project. The design consultant delivered the first draft of its preliminary design in October and final construction documents, the implementation plan and firm cost estimates expected in 2016.

Alongside the work being done on Fiber to the Home, the current Cable Modem Termination System (CMTS) was upgraded to keep up with the increased usage of and demand for Internet bandwidth by customers. Bandwidth was added to coincide with the CMTS upgrade.

Following national trends, the number of MachLink® Internet users rose steadily in 2015, along with speed upgrades by existing customers across multiple devices. With high bandwidth internet content like video and gaming driving usage, it was no surprise that our largest growing segments were the three highest residential speed services. We expect this rising demand to continue, solidifying the need for the FTTH project.

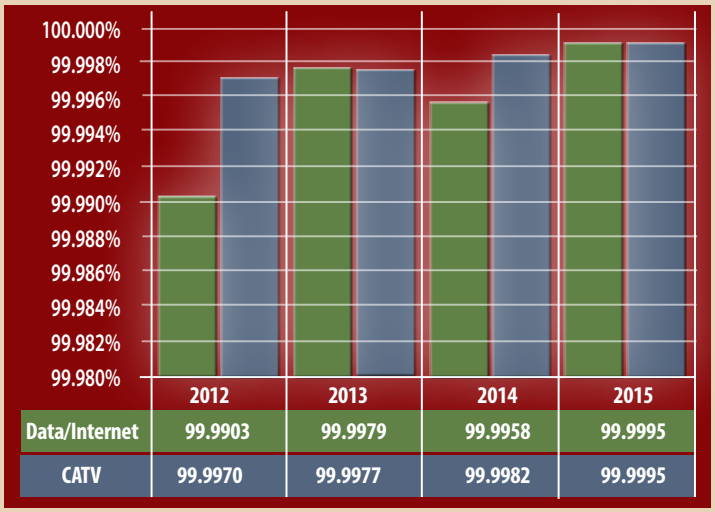
Also on trend, we saw a sliding demand for video services. MP&W's percentage of subscribers remains considerably higher than the national average, but more consumers are choosing to limit their investment in video entertainment, or buying specific programming a la carte from online sources. As a result, video subscriptions will naturally fall and subscriptions to even higher speed Internet levels will continue to rise.

The video industry's issues are exacerbated by the fact the large network corporations, content providers and TV stations continue to demand higher fees for programming and force burdensome carriage terms on small operators; like mandating the bundling of networks and the delivery of programming to the majority of CATV customers. Required carriage of multiple networks severely limits MP&W's ability to offer smaller, more affordable TV or video packages.

We completed negotiations with the owners of all Quad Cities TV stations and regional sports networks; likewise, the National Cable Television Cooperative (NCTC) negotiated contracts with the large network groups on behalf of MPW DigitalTV and its other 800+ small cable operator members. Although MP&W continues to absorb part of network programming fee increases every year, inevitably subscribers' rates must go up accordingly.

In terms of reliability, the Communications Utility performed extremely well with video reliability and Internet reliability both at an astonishing 99.9995% for the year.

CATV and Data/Internet Network Reliability



	2012	2013	2014	2015
Data/Internet	99.9903	99.9979	99.9958	99.9995
CATV	99.9970	99.9977	99.9982	99.9995

"MP&W employees design, build and maintain the means of delivery. From original drawings to installation, to the monitoring of system health, they work day and night to ensure our customers' needs are met."

In the field, behind the scenes, around the clock

MANAGEMENT'S DISCUSSION & ANALYSIS (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 2015 and 2014. This overview from management should provide the reader with information that is one of the three components of the entire financial statement. The other two components audited by Baker Tilly Virchow Krause, LLP, Muscatine Power and Water's (MP&W's) auditors, are the financial statements and notes to the financial statements. Please read the entire document to understand the events and conditions impacting MP&W.

UTILITY FINANCIAL ANALYSIS

ELECTRIC UTILITY

The Electric Utility experienced significantly lower wholesale electric revenue in 2015 due to a lower average sales price and a soft wholesale market, brought on by lower gas prices and mild temperatures.

In 2011, the Electric Utility became debt free and continued to be debt free in 2015.

Overall retail rate adjustments of 4.0% per year, effective August 1, 2015 and August 1, 2014, were in response to higher delivered coal costs, higher cost of purchased power, and increased operating expenses.

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

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. As a result, the electric utility recorded an adjustment for the cumulative effect of a change in accounting principle of $4.7 million on the statement of revenues, expenses and changes in net position, a $5.5 million adjustment to deferred outflows of resources, a $9.6 million net pension liability, and a $659,000 adjustment to deferred inflows of resources.

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. 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.

ELECTRIC UTILITY(CONT.)

STATEMENTS OF NET POSITION

In thousands $	2015	2014
Current Assets		
Unrestricted	$46,784	$ 47,914
Restricted	13,075	13,044
Total Current Assets	59,859	60,958
Non-Current Assets		
Capital Assets	78,666	83,968
Other Assets	12,528	12,000
Total Non-Current Assets	91,194	95,968
Deferred Outflows of Resources –		
Pension	5,521	-
Total Assets and Deferred Outflows of Resources	$156,574	$156,926
Current Liabilities	$8,743	$11,115
Non-Current Liabilities	11,039	1,833
Deferred Inflows of Resources –		
Extraordinary O&M Account	13,033	13,033
Pension	659	-
Total Liabilities and Deferred Inflows of Resources	33,474	25,981
NET POSITION		
Net investment in capital assets	78,666	83,968
Restricted	13,075	13,044
Unrestricted	31,359	33,933
Total Net Position	123,100	130,945
Total Liabilities, Deferred Inflows of Resources, and Net Position	$156,574	$156,926

2015 COMPARED TO 2014

- Total assets decreased $0.4 million primarily due to:

  Decreases of:
  - $8.8 million decrease of cash and investments primarily due to a decrease in wholesale revenue and increased coal purchases; and
  - $1.7 million decrease in refined coal receivables; and
  - $1.0 million decrease in wholesale receivables; and
  - $5.3 million decrease of net utility plant due to depreciation and retirements exceeding capital expenditures.

  Offset by increases of:
  - $10.7 million in coal inventory; and
  - $5.5 million in deferred pension outflows; and
  - $1.0 million in water utility note receivable.

- Current liabilities decreased $2.4 million primarily due to:

  Decreases of:
  - $1.7 million in coal invoices payable; and
  - $1.7 million in refined coal invoices payable.

  Offset by:
  - $0.6 million increase in accrued expenses
  - $0.4 million increase in other trade accounts payable

- Non-Current liabilities increased $9.2 million primarily due to a $9.6 million increase in the net pension liability related to the adjustment for GASB 68; offset by a $338,000 decrease in the health and dental care provision.

- Deferred inflows of resources increased $0.7 million due to the pension adjustment related to GASB 68.

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

In thousands $	2015	2014
Operating Revenues	$88,879	$100,200
Operating Expenses	(92,532)	(100,172)
Operating Income (Loss)	(3,653)	28
Non-operating Revenues	97	1,295
Non-operating Expenses	(1)	(2)
Net Non-operating Expenses	96	1,293
Net Income (Loss) before Capital Contributions	(3,557)	1,321
Capital Contributions	436	225
Allowance for Reduction in Note Receivable	-	(25,327)
Change in Net Position	(3,121)	(23,781)
Net Position – Beginning of Year	130,945	154,726
Cumulative effect of a change in accounting principle – GASB 68 Pension	(4,724)	-
Net Position – End of Year	$123,100	$130,945

2015 COMPARED TO 2014

- Total operating revenues decreased $11.3 million or 11.3% due to:

  Decreases in:
  - Wholesale electric sales of $15.8 million due to a softer market with a 33.4% lower average price and a 9.1% decrease in kWh sales.

  Offset by:
  - $2.7 million higher retail sales due to the impact of a 4.0% rate increase on August 1, 2015 and a 0.4% higher kWh usage; and
  - Higher steam sales to MP&W's largest industrial customer, Grain Processing Corporation, of $2.0 million due to 21.7% more pounds of steam supplied and a 1.0% higher average sales price.

- Operating expenses decreased $7.6 million or 7.6% due to:
  - $9.2 million lower purchased power costs due to a 30.9% lower average price; and
  - $2.0 million lower production fuel costs, resulting from 9.1% lower net generation and a 0.3% lower average cost of coal burned per ton.

  Offset by:
  - $1.7 million higher cost of maintenance; and
  - $1.6 million higher cost of other operating expenses; and
  - $0.3 million higher cost of emissions allowances due to CSAPR regulations going into effect 1/1/15.

- 2015 cumulative effect of a change in accounting principle due to the pension adjustment related to GASB 68.

STATEMENTS OF CASH FLOWS

In thousands $	2015	2014
Cash Flows from Operating Activities	$ (3,587)	$10,209
Cash Flows from Non-Capital Financing Activities	157	(253)
Cash Flows from Capital and Related Financing Activities	(5,276)	(4,168)
Cash Flows from Investing Activities	11,959	(9,554)
Net Change in Cash and Cash Equivalents	3,253	(3,766)
Cash and Cash Equivalents – Beginning of Year	10,828	14,594
Cash and Cash Equivalents – End of Year	$14,081	$10,828

2015 COMPARED TO 2014

- Cash flows from operating activities decreased by $13.8 million due to:
  - Lower wholesale electric revenue; and
  - Higher coal and coal transportation costs; and
  - Higher cash paid to suppliers; and
  - Higher cost of employee payroll, taxes and benefits.

  Offset by:
  - Lower purchased power costs; and
  - Higher coal sales revenue; and
  - Higher retail sales; and
  - Higher steam sales revenue.
- Non-capital financing activities are comprised of the principal and interest on the note receivable from the communications and water utilities.
  - Three interest payments were received in 2015 and two interest payments were received in 2014. Of the three interest payments received in 2015, the first was calculated under the terms of the old loan and the rest were calculated based on the new terms of the note approved by the board on November 25, 2014.
  - The first principal payment on the note was received on December 31, 2015; and
  - Loan to water utility of $1.0 million in 2015, compared to $1.5 million in 2014.
- Cash flows from capital and related financing activities include:
  - Capital expenditures of $5.3 million in 2015, compared to $4.2 million in 2014.
- Cash flows from investing activities include:
  - Investment purchases of $22.0 million in 2015, compared to $26.5 million in 2014, offset by investment maturities of $34.0 million in 2015, compared to $17.0 million in 2014.

WATER UTILITY

The Board approved water rate increases of 5.5% per year, effective April 1, 2015, and April 1, 2014, in response to an increase in capital requirements necessary to provide for fire protection, community growth, and higher operation and maintenance costs. The April 1, 2015 rate increase also included a 15% surcharge for customers outside City limits.

MP&W's industrial customers account for approximately 51% 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 $161,000 at the end of 2015. The interest rate on the loan is 3.0%, plus a 0.25% servicing fee, with a 10-year repayment term.

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, the water utility recorded a cumulative effect of a change in accounting principle of $832,000 on the statement of revenues, expenses and changes in net position, $458,000 to deferred outflows of resources, a $1.0 million net pension liability, and $248,000 to deferred inflows of resources.

STATEMENTS OF NET POSITION

In thousands $	2015	2014
Current Assets		
Unrestricted	$2,012	$1,314
Restricted	35	-
Capital Assets	18,572	18,055
Deferred Outflows of Resources - Pension	457	-
Total Assets and Deferred Outflows of Resources	$21,076	$19,369
Current Liabilities	$730	$889
Non-Current Liabilities	4,428	2,604
Deferred Inflows of Resources - Pension	248	-
Total Liabilities and Deferred Inflows of Resources	5,406	3,493
Net Position		
Net investment in capital assets	18,033	17,478
Restricted	35	-
Unrestricted	(2,398)	(1,602)
Total Net Position	15,670	15,876
Total Liabilities, Deferred Inflows of Resources, and Net Position	$21,076	$19,369

2015 COMPARED TO 2014

- Total assets increased $1.6 million or 8.5% primarily due to:
  - Cash increasing $653,000 primarily due to increased sales; and
  - Capital assets increasing $516,000, net of retirements, due to normal capital spending for utility construction and acquisition projects; and
  - Deferred outflows of resources increasing $392,000 due to the pension adjustment related to GASB 68.
- Current liabilities decreased by $159,000 primarily due to:
  - Trade accounts payable decreasing by $296,000; offset by
  - Accrued expenses increasing $59,000; and
  - Current portion of customer advances for construction increasing by $79,000.
- Non-current liabilities increased by $1.8 million primarily due to an increase of $1.0 million note payable to electric utility and $1.0 million increase to net pension liability due related to the adjustment for GASB 68.
- Deferred inflows of resources increased $183,000 due to the pension adjustment related to GASB 68.

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

WATER UTILITY(CONT.)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

In thousands $	2015	2014
Operating Revenues	$5,597	$5,073
Operating Expenses	(4,962)	(5,028)
Operating Income	635	45
Non-operating Expenses	(10)	(8)
Net Income before Capital Contributions	625	37
Capital Contributions	-	226
Change in Net Position	625	263
Net Position – Beginning of Year	15,877	15,614
Cumulative effect of a change in accounting principle – GASB 68 Pension	(832)	-
Net Position – End of Year	$15,670	$15,877

2015 COMPARED TO 2014

- •Operating revenues increased $524,000 or 10.3%.
  - Total water sales revenue was $524,000 higher primarily due to a 5.5% rate adjustment and a 15% surcharge for customers outside City limits effective April 1, 2015; and
  - 5.9% more gallons sold primarily due to increased consumption from our largest customer.
- Operating expenses decreased $66,000 or 1.3% primarily due to:
  - $94,000 lower cost of mains maintenance; and
  - $67,000 lower cost of pumping equipment maintenance; and
  - $63,000 lower cost of miscellaneous distribution expenses; and
  - $44,000 lower cost of well maintenance; and
  - $30,000 higher cost of fringe benefits charged to construction; and
  - $24,000 lower cost of meters; and
  - $18,000 lower depreciation expense.

  Offset by:
  - $129,000 higher electrical energy cost for pumping power; and
  - $43,000 higher cost of valves maintenance; and
  - $44,000 higher cost of workers' compensation claims; and
  - $38,000 higher cost of chemicals; and
  - $14,000 higher labor expense; and
  - $10,000 higher cost of travel.
- 2015 cumulative effect of a change in accounting principle due to the pension adjustment related to GASB 68.
- 2014 capital contributions reflect developer-financed water main construction projects.

STATEMENTS OF CASH FLOWS

In thousands $	2015	2014
Cash Flows from Operating Activities	$1,270	$589
Cash Flows from Capital and Related Financing Activities	(618)	(778)
Cash Flows from Investing Activities	1	-
Net Change in Cash and Cash Equivalents	653	(189)
Cash and Cash Equivalents – Beginning of Year	379	568
Cash and Cash Equivalents – End of Year	$1,032	$379

2015 COMPARED TO 2014

- Cash flows from operating activities increased $681,000 or 115.6% due to:
  - 5.9% more gallons sold; and
  - A 5.5% rate adjustment and 15% surcharge for customers outside City limits, effective April 1, 2015; and
  - $275,000 lower payments to suppliers; offset by
  - $66,000 higher payments related to employee payroll, taxes, and benefits.
- Cash flows from capital and related financing activities include:
  - Capital expenditures of $1.6 million in 2015 and $2.3 million in 2014; offset by
  - Loan proceeds of $1.0 million in 2015 compared to $1.5 million in 2014.

COMMUNICATIONS UTILITY

Rate adjustments for the communications utility were approved by the Board for both 2015 and 2014. MPW Digital TV Select and Preferred service rates increased by 12.2% and 10.5%, respectively, effective April 1, 2015. These increases were primarily due to continued rising programming costs, debt service requirements, and other general inflationary factors. Effective May 1, 2014, MPW Select and Preferred service rates decreased by 3.1% and 4.0%, respectively, due to the elimination of the Viacom channels.

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

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

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, the communications utility recorded a cumulative effect of a change in accounting principle of $727,000 on the statement of revenues, expenses and changes in net position, a $849,000 adjustment to deferred outflows, a $1.5 million net pension liability, and a $101,000 adjustment to deferred inflows.

In July, 2015 the design phase 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 2017 at a cost of $8.7 million.

STATEMENTS OF NET POSITION

In thousands $	2015	2014
Current Assets		
Unrestricted	$7,642	$7,146
Restricted	-	1,053
Total Current Assets	7,642	8,199
Non-Current Assets - Capital Assets	7,523	8,374
Deferred Outflows of Resources - Pension	849	-
Total Assets and Deferred Outflows of Resources	$16,014	$16,573
Current Liabilities	$974	$2,567
Non-Current Liabilities	11,454	11,614
Deferred Inflows of Resources – Pension	101	-
Total Liabilities	12,529	14,181
Net Position		
Net investment in capital assets	7,523	6,334
Restricted	-	1,005
Unrestricted	(4,038)	(4,947)
Total Net Position	3,485	2,392
Total Liabilities, Deferred Inflows of Resources, and Net Position	$16,014	$16,573

2015 COMPARED TO 2014

- Total assets decreased $559,000 or 3.4% due to:
  - Depreciation and retirements exceeding capital expenditures, resulting in a reduction in capital assets of $851,000 or 10.2%; and
  - $589,000 lower cash and investment balances; and
  - $41,000 lower materials inventories.

  Offset by:
  - Deferred outflows of resources increasing $849,000 due to the pension adjustment related to GASB 68; and
  - $61,000 higher prepaid expenses; and
  - $29,000 higher customer accounts receivable.
- Current liabilities decreased $1.6 million due to:
  - $1.0 million reduction in current portion of notes payable to banks; and
  - $0.6 million reduction in accrued interest payable.
- Non-Current liabilities decreased $160,000 primarily due to
  - $1.5 million reduction in notes payable; and
  - $99,000 reduction in the health and dental care provision; and
  - $18,000 reduction in unearned revenue; offset by
  - $1.5 million increase in net pension liability due to GASB 68.

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

COMMUNICATIONS UTILITY(CONT.)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

In thousands $	2015	2014
Operating Revenues	$12,973	$12,656
Operating Expenses	(11,114)	(10,787)
Operating Income	1,859	1,869
Non-operating Revenues	31	48
Non-operating Expenses	(99)	(1,343)
Net Non-operating Expenses	(68)	(1,295)
Net Income before Capital Contributions	1,791	574
Capital Contributions	28	95
Allowance for Reduction in Note Payable	-	25,327
Change in Net Position	1,819	25,996
Net Position – Beginning of Year	2,392	(23,604)
Cumulative effect of a change in accounting principle – GASB 68 Pension	(726)	-
Net Position – End of Year	$3,485	2,392

2015 COMPARED TO 2014

- Operating revenues increased $317,000 or 2.5%.
  - CATV operating revenues decreased by $122,000 or 1.7% due to:
    - Cable television rate increases of 12.2% for Select and 10.5% for Preferred services, effective April 1, 2015; and
    - 5.1% decrease in the total number of CATV subscribers (5,934 at the end of 2015 vs. 6,250 at the end of 2014); and
    - Digital converter revenue decreasing $44,000; and
    - Advertising sales decreasing $17,000.
  - Internet revenues increased $352,000 or 7.5% due to:
    - Cable modem rental revenue increased $175,000 (fees were implemented September 1, 2013); and
    - 5.6% increase in the number of data/Internet subscribers (7,885 at the end of 2015 vs. 7,470 at the end of 2014).
  - MME subscribers increased (82 at the end of 2015 vs. 78 at the end of 2014) resulting in increased revenues of $81,000 or 15.0%.
- Operating expenses increased overall by $327,000 or 3.0% due to:
  - $294,000 higher programming acquisition expense; and
  - $70,000 higher workers' compensation expense; and
  - $55,000 higher outside services expense; and
  - $54,000 higher CATV operation expenses; and
  - $43,000 higher vacation, holiday,and sick leave expense; and
  - $33,000 higher data/Internet maintenance expenses; and
  - $27,000 lower fringe benefits charged to construction; and
  - $26,000 higher administrative and general salaries expense; and
  - $26,000 higher miscellaneous general expense; and
  - $24,000 higher customer service expense; and
  - $18,000 higher consumer records and collections expense.

  Offset by:
  - $254,000 lower depreciation expense; and
  - $54,000 lower CATV maintenance expenses; and
  - $29,000 lower bad debt expense; and
  - $13,000 lower MME maintenance expenses.

COMMUNICATIONS UTILITY(CONT.)

STATEMENTS OF CASH FLOWS

In thousands $	2015	2014
Cash Flows from Operating Activities	$3,521	$3,837
Cash Flows from Capital and Related Financing Activities	(4,157)	(3,619)
Cash Flows from Investing Activities	1,418	542
Net Change in Cash and Cash Equivalents	782	760
Cash and Cash Equivalents – Beginning of Year	4,381	3,621
Cash and Cash Equivalents – End of Year	$5,163	4,381

2015 COMPARED TO 2014

- Cash flows from operating activities decreased $316,000 due to:
  - $372,000 increase in cash paid to suppliers; and
  - $109,000 increase in payroll, taxes and benefits; offset by
  - $158,000 increase in cash received from retail sales.
- Capital and related financing activities include:
  - Capital expenditures in 2015 and 2014 totaling $870,000 and $1.3 million, respectively;
  - Principal and interest paid on notes payable of $3.3 million in 2014 and $2.3 million in 2014.
- Cash flows from investing activities include:
  - Net proceeds of $1.4 million in 2015 and $446,000 in 2014 in investment maturities used to partially fund capital additions; and
  - Interest received on investments of $47,000 in 2015 compared to $96,000 in 2014.

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.

FINANCIALS

STATEMENTS OF NET POSITION

As of December 31, 2015 and 2014

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
ASSETS	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
CURRENT ASSETS								
Unrestricted Assets								
Cash	$6,006,761	$8,785,751	$996,825	$378,774	$5,162,994	$3,328,451	$12,166,580	$12,492,976
Investments	7,000,146	13,004,815	-	-	795,390	2,166,123	7,795,536	15,170,938
Receivables:								
Customer accounts	9,589,286	12,332,057	637,159	571,991	1,336,932	1,307,535	11,563,377	14,211,583
Interest	12,543	649,935	1	1	14,858	31,016	27,402	680,952
Inventories:								
Fuel	17,418,558	6,725,684	-	-	-	-	17,418,558	6,725,684
Emission allowances	438,392	129,626	-	-	-	-	438,392	129,626
Materials and supplies	5,448,510	5,778,071	320,628	337,943	199,826	240,975	5,968,964	6,356,989
Prepaid and other expenses	870,131	507,914	57,125	25,392	132,126	71,572	1,059,382	604,878
Total Unrestricted Assets	46,784,327	47,913,853	2,011,738	1,314,101	7,642,126	7,145,672	56,438,191	56,373,626
Restricted Assets								
Cash	8,074,650	2,042,488	35,248	-	6	1,052,940	8,109,904	3,095,428
Investments	5,000,000	11,001,412	-	-	-	-	5,000,000	11,001,412
Total Restricted Assets	13,074,650	13,043,900	35,248	-	6	1,052,940	13,109,904	14,096,840
Total Current Assets	59,858,977	60,957,753	2,046,986	1,314,101	7,642,132	8,198,612	69,548,095	70,470,466
NON-CURRENT ASSETS								
Capital Assets								
Utility plant in service	416,338,615	414,406,869	28,464,889	27,671,042	33,133,341	32,665,762	477,936,845	474,743,673
Construction work in progress	3,234,527	550,416	580,954	269,112	234,525	179,865	4,050,006	999,393
Less: accumulated depreciation	(340,907,275)	(330,989,011)	(10,474,053)	(9,884,834)	(25,845,345)	(24,471,481)	(377,226,673)	(365,345,326)
Total Capital Assets	78,665,867	83,968,274	18,571,790	18,055,320	7,522,521	8,374,146	104,760,178	110,397,740
Other Assets								
Note receivable from communications utility	9,523,335	35,327,000	-	-	-	-	9,523,335	35,327,000
Allowance for reduction in note receivable	-	(25,327,000)	-	-	-	-	-	(25,327,000)
Net note receivable from communications utility	9,523,335	10,000,000	-	-	-	-	9,523,335	10,000,000
Note receivable from water utility	2,900,000	1,900,000	-	-	-	-	2,900,000	1,900,000
Joint venture rights	104,390	99,495	-	-	-	-	104,390	99,495
Total Other Assets	12,527,725	11,999,495	-	-	-	-	12,527,725	11,999,495
Total Non-Current Assets	91,193,592	95,967,769	18,571,790	18,055,320	7,522,521	8,374,146	117,287,903	122,397,235
DEFERRED OUTFLOWS OF RESOURCES								
Pension deferred outflows of resources	5,521,000	-	457,523	-	849,332	-	6,827,855	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$156,573,569	$156,925,522	$21,076,299	$19,369,421	$16,013,985	$16,572,758	$193,663,853	$192,867,701

See accompanying notes to financial statements.

FINANCIALS

STATEMENTS OF NET POSITION(CONT.)

As of December 31, 2015 and 2014

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
CURRENT LIABILITIES								
Payable From Unrestricted Assets								
Trade accounts payable	$4,513,424	$7,584,880	$330,978	$627,467	$490,120	$493,735	$5,334,522	$8,706,082
Customer advances for construction	-	-	87,439	8,205	-	-	87,439	8,205
Accrued interest payable	-	-	-	2,055	-	623,522	-	625,577
Accrued expenses	3,440,097	2,850,069	279,289	220,297	466,089	367,426	4,185,475	3,437,792
Unearned revenue	56,581	-	1,800	1,100	18,198	28,680	76,579	29,780
Customer deposits	733,317	680,434	-	-	-	-	733,317	680,434
Total Payable From Unrestricted Assets	8,743,419	11,115,383	699,506	859,124	974,407	1,513,363	10,417,332	13,487,870
Payable From Restricted Assets								
Current portion of long-term debt	-	-	30,000	29,000	-	1,005,000	30,000	1,034,000
Accrued interest payable	-	-	637	752	-	47,940	637	48,692
Total Payable From Restricted Assets	-	-	30,637	29,752	-	1,052,940	30,637	1,082,692
Total Current Liabilities	8,743,419	11,115,383	730,143	888,876	974,407	2,566,303	10,447,969	14,570,562
NON-CURRENT LIABILITIES								
Notes payable to banks	-	-	-	-	-	1,035,000	-	1,035,000
Note payable to electric utility	-	-	2,900,000	1,900,000	9,523,335	35,327,000	12,423,335	37,227,000
Allowance for reduction in note payable	-	-	-	-	-	(25,327,000)	-	(25,327,000)
Net note payable to electric utility	-	-	2,900,000	1,900,000	9,523,335	10,000,000	12,423,335	11,900,000
Long term debt, net of current portion	-	-	131,000	161,000	-	-	131,000	161,000
Unearned revenue	-	-	-	-	246,979	264,479	246,979	264,479
Post-employment health benefit provision	381,926	420,482	36,573	40,478	64,706	71,051	483,205	532,011
Health & dental care provision	1,074,404	1,411,953	63,579	123,607	144,237	243,682	1,282,220	1,779,242
Net pension liability	9,582,626	-	1,006,675	-	1,474,160	-	12,063,461	-
Customer advances for construction	-	-	290,532	378,548	-	-	290,532	378,548
Total Non-Current Liabilities	11,038,956	1,832,435	4,428,359	2,603,633	11,453,417	11,614,212	26,920,732	16,050,280
DEFERRED INFLOWS OF RESOURCES								
Extraordinary O&M	13,032,866	13,032,866	-	-	-	-	13,032,866	13,032,866
Pension deferred inflows of resources	658,920	-	248,084	-	101,366	-	1,008,370	-
	13,691,786	13,032,866	248,084	-	101,366	-	14,041,236	13,032,866
NET POSITION								
Net investment in capital assets	78,665,867	83,968,274	18,032,819	17,478,567	7,522,521	6,334,146	104,221,207	107,780,987
Restricted for debt service	-	-	34,611	-	-	1,005,000	34,611	1,005,000
Restricted by board resolution	13,074,650	13,043,900	-	-	-	-	13,074,650	13,043,900
Unrestricted	31,358,891	33,932,664	(2,397,717)	(1,601,655)	(4,037,726)	(4,946,903)	24,923,448	27,384,106
Total Net Position	123,099,408	130,944,838	15,669,713	15,876,912	3,484,795	2,392,243	142,253,916	149,213,993
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$156,573,569	$156,925,522	$21,076,299	$19,369,421	$16,013,985	$16,572,758	$193,663,853	$192,867,701

See accompanying notes to financial statements.

FINANCIALS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years Ended December 31, 2015 and 2014

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2015	2014	2015	2014	2015	2014	2015	2014
OPERATING REVENUES								
Retail sales	$53,007,649	$50,297,818	$5,561,064	$5,036,570	$12,822,181	$12,511,089	$71,390,894	$67,845,477
Wholesale electric sales	24,271,306	40,116,365	-	-	-	-	24,271,306	40,116,365
Steam sales	10,688,550	8,686,191	-	-	-	-	10,688,550	8,686,191
Other	911,603	1,099,145	35,607	36,546	150,705	144,721	1,097,915	1,280,412
Total Operating Revenues	88,879,108	100,199,519	5,596,671	5,073,116	12,972,886	12,655,810	107,448,665	117,928,445
OPERATING EXPENSES								
Production fuel	24,312,348	26,309,470	-	-	-	-	24,312,348	26,309,470
Purchased power	20,697,271	29,888,237	-	-	-	-	20,697,271	29,888,237
Emissions allowance	395,504	87,856	-	-	-	-	395,504	87,856
Other operating expenses	23,660,715	22,090,624	3,590,168	3,490,324	8,484,654	7,874,369	35,735,537	33,455,317
Maintenance	12,112,068	10,449,668	667,432	815,984	905,780	934,770	13,685,280	12,200,422
Depreciation	11,354,301	11,345,928	704,184	721,908	1,723,620	1,977,355	13,782,105	14,045,191
Total Operating Expenses	92,532,207	100,171,783	4,961,784	5,028,216	11,114,054	10,786,494	108,608,045	115,986,493
Operating Income (Loss)	(3,653,099)	27,736	634,887	44,900	1,858,832	1,869,316	(1,159,380)	1,941,952
NON-OPERATING REVENUES (EXPENSES)								
Investment income	42,649	45,869	782	435	30,789	47,484	74,220	93,788
Interest income on note receivable from communications utility	50,000	1,247,043	-	-	-	-	50,000	1,247,043
Interest income on note receivable from water utility	4,770	2,055	-	-	-	-	4,770	2,055
Interest expense	(1,395)	(2,245)	(10,395)	(8,623)	(98,645)	(1,342,923)	(110,435)	(1,353,791)
Net Non-operating Revenues (Expenses)	96,024	1,292,722	(9,613)	(8,188)	(67,856)	(1,295,439)	18,555	(10,905)
Net income (loss) before capital contributions	(3,557,075)	1,320,458	625,274	36,712	1,790,976	573,877	(1,140,825)	1,931,047
CAPITAL CONTRIBUTIONS	435,739	225,323	-	225,766	28,315	94,920	464,054	546,009
ALLOWANCE FOR REDUCTION IN NOTE RECEIVABLE/PAYABLE	-	(25,327,000)	-	-	-	25,327,000	-	-
CHANGE IN NET POSITION	(3,121,336)	(23,781,219)	625,274	262,478	1,819,291	25,995,797	(676,771)	2,477,056
NET POSITION - Beginning of Year	130,944,838	154,726,057	15,876,912	15,614,434	2,392,243	(23,603,554)	149,213,993	146,736,937
Cumulative effect of a change in accounting principle	(4,724,094)	-	(832,473)	-	(726,739)	-	(6,283,306)	-
NET POSITION - END OF YEAR	$123,099,408	$130,944,838	$15,669,713	$15,876,912	$3,484,795	$2,392,243	$142,253,916	$149,213,993

See accompanying notes to financial statements.

FINANCIALS

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2015 and 2014

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2015	2014	2015	2014	2015	2014	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES								
Cash received from retail sales	$52,928,006	$50,155,394	$5,487,439	$5,024,104	$12,254,048	$12,096,225	$70,669,493	$67,275,723
Cash received from wholesale electric sales	26,411,283	40,734,741	-	-	-	-	26,411,283	40,734,741
Cash received from steam sales	10,397,981	8,655,121	-	-	-	-	10,397,981	8,655,121
Cash received from coal sales	39,495,480	34,701,835	-	-	-	-	39,495,480	34,701,835
Cash received from advertising sales	-	-	-	-	439,341	471,650	439,341	471,650
Cash received from by-product sales	309,069	334,897	-	-	-	-	309,069	334,897
Cash received from rail car leasing	63,232	198,632	-	-	-	-	63,232	198,632
Cash received from other operating sources	682,649	519,128	26,520	17,185	213,153	174,325	922,322	710,638
Cash paid for coal	(74,967,431)	(61,457,112)	-	-	-	-	(74,967,431)	(61,457,112)
Cash paid for purchased power	(22,085,302)	(30,933,049)	-	-	-	-	(22,085,302)	(30,933,049)
Cash paid to suppliers	(12,905,107)	(10,058,053)	(1,830,628)	(2,106,074)	(5,667,221)	(5,295,559)	(20,402,956)	(17,459,686)
Cash paid for employee payroll, taxes and benefits	(23,916,673)	(22,642,773)	(2,412,958)	(2,346,585)	(3,718,711)	(3,609,394)	(30,048,342)	(28,598,752)
Net Cash Flows From Operating Activities	(3,586,813)	10,208,761	1,270,373	588,630	3,520,610	3,837,247	1,204,170	14,634,638
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Interest received on notes receivable from communications & water utilities	680,347	1,247,251	-	-	-	-	680,347	1,247,251
Principal received on note receivable from communications utility	476,665	-	-	-	-	-	476,665	-
Loan to water utility	(1,000,000)	(1,500,000)	-	-	-	-	(1,000,000)	(1,500,000)
Net Cash Flows From Noncapital Financing Activities	157,012	(252,749)	-	-	-	-	157,012	(252,749)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Acquisition and construction of capital assets	(5,322,217)	(4,253,587)	(1,581,340)	(2,250,100)	(869,909)	(1,296,017)	(7,773,466)	(7,799,704)
Proceeds from sale of assets	46,335	86,066	5,049	7,774	-	1,917	51,384	95,757
Loan proceeds	-	-	1,000,000	1,500,000	-	-	1,000,000	1,500,000
Debt principal payments	-	-	(29,000)	(29,000)	(2,516,665)	(960,000)	(2,545,665)	(989,000)
Debt interest payments	-	-	(12,565)	(6,891)	(770,107)	(1,365,484)	(782,672)	(1,372,375)
Net Cash Flows From Capital and Related Financing Activities	(5,275,882)	(4,167,521)	(617,856)	(778,217)	(4,156,681)	(3,619,584)	(10,050,419)	(8,565,322)
CASH FLOWS FROM INVESTING ACTIVITIES								
Proceeds from investments matured and sold	34,001,412	17,000,000	-	-	1,385,412	1,460,000	35,386,824	18,460,000
Investments purchased	(21,999,351)	(26,506,227)	-	-	(14,679)	(1,014,123)	(22,014,030)	(27,520,350)
Purchase of joint venture rights & RESCO stock	(101,690)	(94,610)	-	-	-	-	(101,690)	(94,610)
Interest received on investments	59,775	46,324	782	435	46,947	96,304	107,504	143,063
Accrued interest purchased	(1,291)	-	-	-	-	-	(1,291)	-
Net Cash Flows From Investing Activities	11,958,855	(9,554,513)	782	435	1,417,680	542,181	13,377,317	(9,011,897)
Net Increase (Decrease) in Cash and Cash Equivalents	3,253,172	(3,766,022)	653,299	(189,152)	781,609	759,844	4,688,080	(3,195,330)
CASH AND CASH EQUIVALENTS - Beginning of Year								
Current unrestricted cash	8,785,751	6,563,019	378,774	567,926	3,328,451	3,621,527	12,492,976	10,752,472
Current restricted cash	2,042,488	8,031,242	-	-	1,052,940	20	3,095,428	8,031,262
	10,828,239	14,594,261	378,774	567,926	4,381,391	3,621,547	15,588,404	18,783,734
CASH AND CASH EQUIVALENTS - END OF YEAR								
Current unrestricted cash	6,006,761	8,785,751	996,825	378,774	5,162,994	3,328,451	12,166,580	12,492,976
Current restricted cash	8,074,650	2,042,488	35,248	-	6	1,052,940	8,109,904	3,095,428
	$14,081,411	$10,828,239	$1,032,073	$378,774	$5,163,000	$4,381,391	$20,276,484	$15,588,404

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS (CONT.)

For the Years Ended December 31, 2015 and 2014

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2015	2014	2015	2014	2015	2014	2015	2014
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES								
Operating income (loss)	$(3,653,099)	$27,736	$634,887	$44,900	$1,858,832	$1,869,316	$(1,159,380)	$1,941,952
Noncash items in operating income								
Depreciation	11,354,301	11,345,928	704,184	721,908	1,723,620	1,977,355	13,782,105	14,045,191
Amortization of joint venture rights	96,795	96,735	-	-			96,795	96,735
Converter/modem net write-off	-	-	-	-	27,155	25,107	27,155	25,107
Changes in assets and liabilities								
Customer accounts receivable	2,742,771	(3,451,364)	(65,168)	(32,509)	(29,397)	(276)	2,648,206	(3,484,149)
Inventories	(10,672,079)	(1,245,605)	17,315	18,295	41,149	45,969	(10,613,615)	(1,181,341)
Prepaid and other expenses	(362,217)	(15,588)	(31,733)	(5,499)	(60,554)	(9,185)	(454,504)	(30,272)
Trade accounts payable	(3,411,729)	3,424,495	50,366	(147,431)	(4,541)	27,025	(3,365,904)	3,304,089
Accrued expenses	212,528	(60,069)	(4,941)	(12,134)	(7,127)	(91,744)	200,460	(163,947)
Pension related deferrals and liabilities	(3,548)	-	(35,237)	-	(545)	-	(39,330)	-
Unearned revenue	56,581	-	700	1,100	(27,982)	(6,320)	29,299	(5,220)
Customer deposits	52,883	86,493	-	-	-	-	52,883	86,493
NET CASH FLOWS FROM OPERATING ACTIVITIES	$(3,586,813)	$10,208,761	$1,270,373	$588,630	$3,520,610	$3,837,247	$1,204,170	$14,634,638
SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES								
Unrealized gain (loss) in investments	$(4,020)	$(640)	$-	$-	$-	$(80)	$(4,020)	$(720)
Unpaid capital expenditures	530,406	190,133	106,745	453,600	35,312	34,386	672,463	678,119
Noncash capital contributions	-	-	-	225,766	-	-	-	225,766
Forgiveness of electric utility loan to communications utility	(25,300,000)	-	-	-	25,300,000	-	-	-

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

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. In reporting financial activity, the utility applies all applicable Governmental Accounting Standards Board (GASB) pronouncements.

REPORTING ENTITY

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

MEASUREMENT FOCUS, STANDARDS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, ("GASB 62") was issued December 2010 effective for periods beginning after December 15, 2011. The objective of GASB 62 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements from Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants Committee on Account Procedures issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements. GASB 62 does not change GAAP but directs GASB as the single source of authoritative governmental GAAP applicable to a particular transaction or specific accounting issue.

GASB issued Statement No. 68 *Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27 and Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date an amendment of GASB Statement No. 68*, in June 2012 and November 2013, respectively. These statements establish accounting and financial reporting standards for the accounting and reporting to the utility's cost sharing multiple employer pension plan and single employer pension plan. This statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employer. The utility adopted these statements effective January 1, 2015. The cumulative impact of implementation is shown in Note 11.

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

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 the Board of Trustees and other external parties. Current liabilities payable from these restricted assets are so classified.

RECEIVABLES

An allowance for doubtful accounts is recorded annually based on historical experience and management's evaluation of receivables at the end of the year.

INVENTORIES

Inventories consist of fuel (coal), emission allowances, and materials and supplies valued at lower of cost or market utilizing the weighted-average cost method, with the exception of emission allowances held for the utility's steam sale 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.

Capital assets are depreciated using the straight-line method over the estimated useful lives of the respective assets. The composite depreciation rates for 2015 and 2014 are as follows:

Electric Utility	**2015**	**2014**
Generation Plant	2.3 %	2.3 %
Transmission and distribution plant	3.9 %	3.9 %
General plant	6.7 %	7.8 %
Water Utility		
Source of supply	3.3 %	3.3 %
Pumping equipment	3.2 %	3.2 %
Purification system	2.5 %	2.5 %
Distribution system	2.2 %	2.2 %
General plant	6.5 %	11.0 %
Communications Utility		
CATV	4.8 %	6.0 %
Data/Internet	6.7 %	6.8 %
MME	6.1 %	5.9 %
General plant	6.4 %	6.5 %

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 2015 or 2014.

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.

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.

PENSIONS

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans' administrators. 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.

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.

PENSION 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.

The Board may, at its discretion, set aside earnings to help maintain stability in the electric utility's long-term rate structure. These earnings may be used for extraordinary operating expenses and debt service when deemed necessary by the Board. No deferment or use of earnings occurred in 2015 and 2014.

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 April 28, 2015 and effective for service beginning August 1, 2015.

Current water rates were approved on November 25, 2014 and effective for service beginning April 1, 2015.

Current communications rates were approved on February 24, 2015 and effective for service beginning April 1, 2015.

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 2015 for the electric, water, and communications utilities are $482,645, $65,128, and $86,239, respectively. The unbilled revenue recorded in 2014 for the electric, water, and communications utilities are $492,418, $62,534, and $84,310, respectively.

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 GASB Statement No. 72, *Fair Value Measure and Application*, Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, Statement No. 78, *Pensions Provided through Certain Multiple Employer Defined Benefit Pension Plans*, and Statement No. 79, *Certain External Investment Pools and Pool Participants*. 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 in order to be consistent with the current year's presentation.

NOTE 2 – DEPOSITS AND INVESTMENTS

State statute, the 1992 electric bond resolution and the utility's written investment policy authorize the utility to invest in certain certificates of deposit, interest bearing savings accounts, money market accounts, obligations of the United States of America or any of its agencies and instrumentalities, prime bankers' acceptances, commercial paper and perfected repurchase agreements. The utility's written investment policy provides additional guidelines as to portfolio mix, maturity and quality of investments.

Deposits and investments consist primarily of U.S. Treasury obligations, Federal agency obligations and certificates of deposit. Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the 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.

CUSTODIAL CREDIT RISK

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

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

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

INVESTMENTS

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the utility will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All investments held at December 31, 2015 were considered to be in risk category one (investments held in trust on behalf of the utility), therefore, not subject to custodial credit risk. All investments held at December 31, 2014 were cash and cash equivalents, money market accounts or certificates of deposit and are not subject to custodial credit risk.

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 evi

NOTE 2 – DEPOSITS AND INVESTMENTS (CONT.)

INVESTMENTS (CONT.)

denced by securities held by the utility or its agent in the utility's name.

CREDIT RISK

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. As of December 31, 2015, the utility's investments were rated as follows:

Investment Type	Standard & Poor's	Moody's
US agencies/treasury	AA+	Aaa

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

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

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. At December 31, 2015, investments held with issuers, each totaling more than 5 percent of the total portfolio, were concentrated as follows:

Issuer	% of Portfolio
Federal Farm Credit Bank	33.3%
Federal Home Loan Bank	33.3%
US Treasury	33.4%

At December 31, 2014, there were no investments subject to this risk.

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.

At December 31, 2015, the utility's investments were as follows:

		Maturity In Years		
Investment Type	Fair Value	Less than 1 Year	1 – 5 Years	Greater than 5 Years
US agencies/treasury	$2,995,331	$1,998,208	$997,123	$-

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

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

NOTE 3 – CAPITAL ASSETS

ELECTRIC UTILITY

A summary of changes in electric capital assets for 2015 follows:

	Balance 1/1/15	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/15
Land and land rights (1)	$1,874,590	$-	$-	$-	$1,874,590
Generation plant	331,439,779	(58,412)	(470,501)	756,781	331,667,647
Transmission and distribution plant	60,480,489	840,390	(318,475)	1,036,660	62,039,064
General plant	20,612,011	112,828	(671,526)	704,001	20,757,314
Total Utility Plant in Service	414,406,869	894,806	(1,460,502)	2,497,442	416,338,615
Construction work in progress (1)	550,416	5,348,159	(166,606)	(2,497,442)	3,234,527
Total Electric Utility Plant	414,957,285	$6,242,965	$(1,627,108)	$-	419,573,142
Less: Accumulated depreciation					
Generation plant	261,728,536	$7,632,720	$(469,143)	$-	268,892,113
Transmission and distribution plant	49,155,567	2,333,310	(326,002)	-	51,162,875
General plant	20,104,908	1,388,271	(640,892)	-	20,852,287
Total Accumulated Depreciation	330,989,011	$11,354,301	$(1,436,037)	$-	340,907,275
Net Electric Capital Assets	$83,968,274				$78,665,867

[1] Capital assets not being depreciated

ELECTRIC UTILITY (CONT.)

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

	Balance 1/1/2014	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/2014
Land and land rights (1)	$1,874,590	$-	$-	$-	$1,874,590
Generation plant	330,591,318	16,762	(565,717)	1,397,416	331,439,779
Transmission and distribution plant	58,825,318	985,695	(311,725)	981,201	60,480,489
General plant	20,321,125	91,098	(790,353)	990,141	20,612,011
Total Utility Plant in Service	411,612,351	1,093,555	(1,667,795)	3,368,758	414,406,869
Construction work in progress (1)	412,386	3,733,274	(226,486)	(3,368,758)	550,416
Total Electric Utility Plant	412,024,737	$4,826,829	$(1,894,281)	$-	414,957,285
Less: Accumulated depreciation					
Generation plant	254,783,290	$7,496,484	$(551,238)	$-	261,728,536
Transmission and distribution plant	47,207,377	2,267,100	(318,910)	-	49,155,567
General plant	19,256,533	1,582,344	(733,969)	-	20,104,908
Total Accumulated Depreciation	321,247,200	$11,345,928	$(1,604,117)	$-	330,989,011
Net Electric Capital Assets	$90,777,537				$83,968,274

[1] Capital assets not being depreciated

WATER UTILITY

A summary of changes in water capital assets for 2015 follows:

	Balance1/1/2015	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/2015
Land and land rights (1)	$1,052,321	$-	$-	$-	$1,052,321
Source of supply	2,973,973	-	(7,592)	278,908	3,245,289
Pumping equipment	2,278,501	-	-	-	2,278,501
Purification equipment	1,532,521	-	-	-	1,532,521
Distribution system	18,566,370	136,824	(73,047)	404,807	19,034,954
General plant	1,267,356	17,589	(39,375)	75,733	1,321,303
Total Utility Plant in Service	27,671,042	154,413	(120,014)	759,448	28,464,889
Construction work in progress (1)	269,112	1,088,941	(17,651)	(759,448)	580,954
Total Water Utility Plant	27,940,154	$1,243,354	$(137,665)	$-	29,045,843
Less: Accumulated depreciation					
Source of supply	1,340,294	$99,133	$(7,592)	$-	1,431,835
Pumping equipment	680,861	72,287	-	-	753,148
Purification system	870,286	38,750	-	-	909,036
Distribution system	5,808,074	411,977	(69,709)	-	6,150,342
General plant	1,185,319	82,037	(37,664)	-	1,229,692
Total Accumulated Depreciation	9,884,834	$704,184	$(114,965)	$-	10,474,053
Net Water Capital Assets	$18,055,320				$18,571,790

[1] Capital assets not being depreciated

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – CAPITAL ASSETS (CONT.)

WATER UTILITY (CONT.)

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

	Balance 1/1/2014	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/2014
Land and land rights (1)	$1,052,321	$-	$-	$-	$1,052,321
Source of supply	2,356,640	-	(39,174)	656,507	2,973,973
Pumping equipment	2,117,140	-	-	161,361	2,278,501
Purification equipment	1,532,521	-	-	-	1,532,521
Distribution system	17,645,997	153,113	(741,433)	1,508,693	18,566,370
General plant	1,335,362	7,241	(105,687)	30,440	1,267,356
Total Utility Plant in Service	26,039,981	160,354	(886,294)	2,357,001	27,671,042
Construction work in progress (1)	322,209	2,319,503	(15,599)	(2,357,001)	269,112
Total Water Utility Plant	26,362,190	$2,479,857	$(901,893)	$-	27,940,154
Less: Accumulated depreciation					
Source of supply	1,300,916	$78,552	$(39,174)	$-	1,340,294
Pumping equipment	612,821	68,040	-	-	680,861
Purification system	831,538	38,748	-	-	870,286
Distribution system	6,158,387	389,544	(739,857)	-	5,808,074
General plant	1,137,784	147,024	(99,489)	-	1,185,319
Total Accumulated Depreciation	10,041,446	$721,908	$(878,520)	$-	9,884,834
Net Water Capital Assets	$16,320,744				$18,055,320

[1] Capital assets not being depreciated

COMMUNICATIONS UTILITY

A summary of changes in communications capital assets for 2015 follows:

	Balance 1/1/2015	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/2015
CATV	$22,372,590	$392,858	$(260,538)	$107,151	$22,612,061
Data/Internet	4,409,205	149,924	(45,439)	612	4,514,302
MME	4,251,997	6,940	-	8,461	4,267,398
General plant	1,631,970	18,786	(70,934)	159,758	1,739,580
Total Utility Plant in Service	32,665,762	568,508	(376,911)	275,982	33,133,341
Construction work in progress (1)	179,865	349,847	(19,205)	(275,982)	234,525
Total Communications Utility Plant	32,845,627	$918,355	$(396,116)	$-	33,367,866
Less: Accumulated depreciation					
CATV	17,429,740	$1,063,570	$(245,956)	$-	18,247,354
Data/Internet	3,008,256	294,132	(32,867)	-	3,269,521
MME	3,044,404	260,940	-	-	3,305,344
General plant	989,081	104,978	(70,933)	-	1,023,126
Total Accumulated Depreciation	24,471,481	$1,723,620	$(349,756)	$-	25,845,345
Net Communications Capital Assets	$8,374,146				$7,522,521

[1] Capital assets not being depreciated

COMMUNICATIONS UTILITY (CONT.)

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

	Balance 1/1/2014	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/2014
CATV	$22,415,523	$560,041	$(681,398)	$78,424	$22,372,590
Data/Internet	4,199,696	170,917	(48,312)	86,904	4,409,205
MME	4,178,252	71,285	(12,613)	15,073	4,251,997
General plant	1,593,314	25,831	(64,437)	77,262	1,631,970
Total Utility Plant in Service	32,386,785	828,074	(806,760)	257,663	32,665,762
Construction work in progress (1)	35,124	430,678	(28,274)	(257,663)	179,865
Total Communications Utility Plant	32,421,909	$1,258,752	$(835,034)	$-	32,845,627
Less: Accumulated depreciation					
CATV	16,743,147	$1,343,244	$(656,651)	$-	17,429,740
Data/Internet	2,757,980	285,079	(34,803)	-	3,008,256
MME	2,811,918	245,100	(12,614)	-	3,044,404
General plant	949,587	103,932	(64,438)	-	989,081
Total Accumulated Depreciation	23,262,632	$1,977,355	$(768,506)	$-	24,471,481
Net Communications Capital Assets	$9,159,277				$8,374,146

[1] Capital assets not being depreciated

NOTE 4 – RESTRICTED ASSETS

Restricted assets represent amounts set aside under the terms of the bond resolutions relating to the utility's Board of Trustees restriction, or under the terms of the water and communications loan agreements. In accordance with the covenants of the bond resolutions, the amounts have been segregated into various funds or accounts. The extraordinary operation and maintenance account may be used for extraordinary operating expenses and debt service at the discretion of the Board. In accordance with the loan agreements, the sinking funds are used solely for the purpose of paying the interest on and principal of the outstanding loans. The composition of the restricted assets at December 31, 2015 and 2014 is as follows:

	ELECTRIC UTILITY	
	2015	2014
Extraordinary operation and maintenance account	$13,074,650	$13,043,900
Total Restricted Assets	$13,074,650	$13,043,900

	WATER UTILITY	
	2015	2014
Sinking Fund	$35,248	$-
Total Restricted Assets	$35,248	$-

	COMMUNICATIONS UTILITY	
	2015	2014
Sinking Fund	$6	$1,052,940
Total Restricted Assets	$6	$1,052,940

NOTE 5 – NON-CURRENT LIABILITIES

NON-CURRENT LIABILITIES SUMMARY – ELECTRIC

Non-current liabilities activity for the year ended December 31, 2015:

	Balance 1/1/15	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/15
Post-employment health benefit provision	$420,482	$83,816	$(122,372)	$381,926
Health & dental care provision	1,411,953	2,640,952	(2,978,501)	1,074,404
Net pension liability	-	9,582,626	-	9,582,626
Non-current Liabilities	$1,832,435	$12,307,394	$(3,100,873)	$11,038,956

NOTE 5 – NON-CURRENT LIABILITIES (CONT.)

Non-current liabilities activity for the year ended December 31, 2014:

	Balance 1/1/14	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/14
Post-employment health benefit provision	$321,732	$105,860	$(7,110)	$420,482
Health & dental care provision	1,494,518	2,524,118	(2,606,683)	1,411,953
Non-current Liabilities	$1,816,250	$2,629,978	$(2,613,793)	$1,832,435

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, 2015 and December 31, 2014 was $161,000 and $190,000 respectively.

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

the water utility $400,000 for capital needs. The interest rate was adjusted to 0.18% on January 1, 2014. In 2014 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, 2015.

Non-current liabilities activity for the year ending December 31, 2015:

	Balance 1/1/2015	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/2015	Due Within One Year
Long term debt	$190,000	$ -	$(29,000)	$161,000	$30,000
Less: Current installments	(29,000)	-	(1,000)	(30,000)	-
Note payable to electric utility	1,900,000	1,000,000	-	2,900,000	-
Long-Term Debt, Net of Current Portion	2,061,000	1,000,000	(30,000)	3,031,000	30,000
Post-employment health benefit provision	40,478	8,488	(12,393)	36,573	-
Health & dental care provision	123,607	246,251	(306,279)	63,579	-
Net pension liability	-	1,006,675	-	1,006,675	-
Customer advances for construction	378,548	-	(88,016)	290,532	-
Non-current Liabilities	$2,603,633	$2,261,414	$(436,688)	$4,428,359	$30,000

Non-current liabilities activity for the year ending December 31, 2014:

	Balance 1/1/2014	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/2014	Due Within One Year
Long term debt	$219,000	$-	$(29,000)	$190,000	$29,000
Less: Current installments	(29,000)	-	-	(29,000)	-
Note payable to electric utility	400,000	1,500,000	-	1,900,000	-
Long-Term Debt, Net of Current Portion	590,000	1,500,000	(29,000)	2,061,000	29,000
Post-employment health benefit provision	30,478	10,720	(720)	40,478	-
Health & dental care provision	142,820	235,807	(255,020)	123,607	-
Customer advances for construction	396,236	-	(17,688)	378,548	-
Non-current Liabilities	$1,159,534	$1,746,527	$(302,428)	$2,603,633	$29,000

NON-CURRENT LIABILITIES MATURITY SCHEDULE – WATER

	Iowa Finance Authority Loan				Electric Utility Loan		
Year Ending December 31	Principal Amount	Interest 3.00%	Servicing fee 0.25%	Total	Principal Amount	Interest 0.18%	Total
2016	$30,000	$ 4,380	$402	$34,782	$ -	$ -	$-
2017	31,000	3,465	328	34,793	-	5,220	5,220
2018	32,000	2,520	250	34,770	2,900,000	5,220	2,905,220
2019	33,000	1,545	170	34,715	-	-`	-
2020	35,000	525	87	35,612	-	-	-
Totals	$161,000	$12,435	$1,237	$174,672	$ 2,900,000	$10,440	$2,910,440

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 2015 and 2014, and water utility net revenues are as follows:

	2015	2014
Principal and interest paid	$41,565	$35,891
Net revenues	1,338,109	767,243

Annual future principal and interest payments are expected to require 3% of water utility net revenues.

NON-CURRENT LIABILITIES SUMMARY – COMMUNICATIONS

In December 2008, the communications utility obtained loans from three local banks to cover the digital transition project and other capital costs. The loan agreement allowed the communications utility to draw down a total amount of up to $4,800,000 through December 31, 2010, at an annual interest rate of 4.7%. Interest is payable semi-annually and began July 1, 2009; principal repayment is payable annually beginning January 1, 2012. As of December 31, 2010, the communications utility borrowed the entire $4,800,000. The final loan payment was paid December 29, 2015.

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.

Non-current liabilities activity for the year ending December 31, 2015:

	Balance 1/1/2015	Additions	Payments/ Amortization/ Reclassifications	Balance 12/31/2015	Due Within One Year
Note payable to banks	$2,040,000	$-	$(2,040,000)	$-	$-
Note payable to electric utility	10,000,000	-	(476,665)	9,523,335	-
Total Long-Term Debt	12,040,000	-	(2,516,665)	9,523,335	-
Less: Current installments	(1,005,000)	-	1,005,000	-	-
Long-Term Debt, Net of Current Portion	11,035,000	-	(1,511,665)	9,523,335	-
Unearned revenue	264,479	-	(17,500)	246,979	18,198
Post-employment health benefit provision	71,051	13,792	(20,137)	64,706	-
Health & dental care provision	243,682	434,610	(534,055)	144,237	-
Net pension liability	-	1,474,160	-	1,474,160	-
Non-current Liabilities	$11,614,212	$1,922,562	$(2,083,357)	$11,453,417	$18,198

NOTES TO FINANCIAL STATEMENTS

NON-CURRENT LIABILITIES SUMMARY – COMMUNICATIONS (CONT.)

Non-current liabilities activity for the year ending December 31, 2014:

	Balance 1/1/2014	Additions/ (Reductions)	Payments/ Amortization/ Reclassifications	Balance 12/31/2014	Due Within One Year
Note payable to banks	$3,000,000	$-	$(960,000)	$2,040,000	$1,005,000
Note payable to electric utility	35,327,000	-	-	35,327,000	-
Allowance for reduction in note payable	-	(25,327,000)	-	(25,327,000)	-
Total Long-Term Debt	38,327,000	(25,327,000)	(960,000)	12,040,000	1,005,000
Less: Current installments	(960,000)	-	(45,000)	(1,005,000)	-
Long-Term Debt, Net of Current Portion	37,367,000	(25,327,000)	(1,005,000)	11,035,000	1,005,000
Unearned revenue	281,979	-	(17,500)	264,479	28,680
Post-employment health benefit provision	54,801	17,420	(1,170)	71,051	-
Health & dental care provision	292,319	383,379	(432,016)	243,682	-
Non-current Liabilities	$37,996,099	$(24,926,201)	$(1,455,686)	$11,614,212	$1,033,680

NON-CURRENT LIABILITIES MATURITY SCHEDULE – COMMUNICATIONS

Communications loan debt service requirements to maturity follow as of December 31, 2015:

	ELECTRIC UTILITY LOAN		
Year Ending December 31	Principal Amount	Interest 0.50%	Total
2016	$-	$23,808	$23,808
2017	479,048	46,419	525,467
2018	481,443	44,018	525,461
2019	483,850	41,605	525,455
2020	486,270	39,179	525,449
2021	488,701	36,742	525,443
2022	491,144	34,292	525,436
2023	493,600	31,830	525,430
2024	496,068	29,356	525,424
2025	498,548	26,870	525,418
2026 - 2030	2,530,384	96,613	2,626,997
2031 - 2035	2,594,279	32,558	2,626,837
Totals	$9,523,335	$483,290	$10,006,625

All communications utility revenues, net of specified operating expenses, are pledged as security of the communications debt until fully paid. Principal and interest paid in 2015 and 2014, and communications utility net revenues are as follows:

	2015	2014
Principal and interest paid	$3,286,772	$2,325,484
Net revenues	3,613,241	3,894,155

Annual future principal and interest payments are expected to require 9% of communications utility net revenues.

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:

	2015	2014
Plant in Service	$416,338,615	$414,406,869
Construction Work in Progress	3,234,527	550,416
Accumulated Depreciation	(340,907,275)	(330,989,011)
Net Investment in Capital Assets	$78,665,867	$83,968,274

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

	2015	2014
Plant in Service	$28,464,889	$27,671,042
Construction Work in Progress	580,954	269,112
Accumulated Depreciation	(10,474,053)	(9,884,834)
Sub-Totals	18,571,790	18,055,320
Less: Capital Related Debt		
Customer advances for construction	377,971	386,753
Current portion of capital related long term debt	30,000	29,000
Long-term portion of capital related long term debt	131,000	161,000
Sub-Totals	538,971	576,753
Net Investment in Capital Assets	$18,032,819	$17,478,567

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

	2015	2014
Plant in Service	$33,133,341	$32,665,762
Construction Work in Progress	234,525	179,865
Accumulated Depreciation	(25,845,345)	(24,471,481)
Sub-Totals	7,522,521	8,374,146
Less: Capital Related Debt		
Current portion of capital related long term debt	-	1,005,000
Long-term portion of capital related long term debt	-	1,035,000
Sub-Totals	-	2,040,000
Net Investment in Capital Assets	$7,522,521	$6,334,146

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS

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

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

For fiscal years 2015, 2014, and 2013, the utility contributed $2,757,000, $2,636,000, and $2,604,000, respectively, to the plan for claim payments plus administrative costs, net of payments received from employees and retirees for premiums.

The following OPEB obligation is based on the actuarial valuation report as of December 31, 2014

	2015	2014	2013
Annual required contribution	$88,156	$216,875	$217,189
Interest on net OPEB obligation	17,940	16,280	11,068
Adjustment to annual required contribution	(146,751)	(99,155)	52,044
Annual OPEB cost	(40,655)	134,000	280,301
Contributions made	(8,151)	(9,000)	(81,641)
Increase in net OPEB obligation	(48,806)	125,000	198,660
Net OPEB Obligation - Beginning of Year	532,011	407,011	208,351
Net OPEB Obligation - End of Year	$483,205	$532,011	$407,011

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

Fiscal Year Ending	Annual OPEB Cost	% of Annual OPEB Contributed Cost	Net OPEB Obligation
12/31/2013	$280,301	29%	$407,011
12/31/2014	134,000	7%	532,011
12/31/2015	(40,655)	-	483,205

The funded status of the plan as of December 31, 2014, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	$874,497
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	$874,497
Funded ratio (actuarial value of plan assets/AAL)	-
Covered payroll (active plan members)	$20,144,834
UAAL as a percentage of covered payroll	4.3%

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

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

In the actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4% investment rate of return and an annual healthcare cost trend rate of 7% initially, reduced by decrements to an ultimate rate of 4.5% after seven years. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2015, was 30 years.

NOTE 8 – SINGLE-EMPLOYER DEFINED BENEFIT PENSION PLAN

The utilities implemented GASB No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, effective January 1, 2015. The cumulative effect of the change in net position due to the change in accounting standard is shown as a change in beginning net position for 2015. The prior year balances for deferred outflows of resources and the net pension liability were not restated due to the measurement date used for the calculation of the balances and the timing of information received by the Muscatine Water and Electric Employees' Pension Plan (the Plan). For this reason, prior year pension footnote disclosures are included under GASB No. 27.

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 12/31/14 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, 2015 and December 31, 2014 were $20,144,834 and $20,059,886, 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,*

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

GENERAL INFORMATION ABOUT THE PENSION PLAN *(CONT.)*

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:

	12/31/2014
Active plan members	276
Inactive plan members entitled to but not yet receiving benefits	91
Disabled plan members entitled to benefits	0
Retired plan members or beneficiaries currently receiving benefits	152
	519

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, 2014 measurement date and the end of the December 31, 2015 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, 2014. 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, 2015 is $2,682,242, equal to 13.3% of covered valuation payroll; the annual required contribution (ARC) for the measurement period ending December 31, 2014 is $2,391,618, equal to 11.9% of covered valuation payroll. Employer contributions, for the years ending December 31, 2015, December 31, 2014, and December 31, 2013 equaled $2,678,595, $2,619,320, and $2,768,300, respectively.

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 January 1, 2014 to December 31, 2014 has been used for the plan year ending December 31, 2014 for GASB 67 reporting and for the fiscal year ending December 31, 2015 for GASB 68 reporting. The net pension liability reported for the year ending December 31, 2015 was measured as of December 31, 2014, using the pension liability that was determined by an actuarial valuation as of December 31, 2014. In 2015, the plan administrator did a comprehensive review of the economic and demographic assumptions and the following were revised as a result:

Inflation	2.25%
Investment rate of return	6.75%-end of period; 7.25%-beginning of period
Salary increases (age-based)	Age 25-6.18%; Age 40-4.72%; Age 55-3.88%
Wage base	3.25%
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 2015 and are based on the total mortality rates as of 2007 from the 2014 Society of Actuary's retirement plan, SOA RP-2014, study with mortality improvement based on the Society of Actuary's Retirement Plans Experience Committee, RPEC_2014, model beyond 2007.

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) 2014. 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 2014 is 20-30 years.

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

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
US Equity - Large Cap	29.9%	8.80%
US Equity - Mid Cap	3.8%	9.10%
US Equity - Small Cap	3.9%	9.55%
Non-US Equity	12.1%	9.20%
REITs	5.0%	8.35%
Real Estate (direct property)	5.1%	6.30%
Core Bond	36.2%	4.25%
High Yield	4.0%	6.30%
Total	100.0%	

The discount rate used to determine the end of period total pension liability is 6.75%. 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 2014 to 2111. Benefit payments after 2111 are projected to be $0. The long-term rate of return of 6.75% 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 4.05% 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 12/31/2014 measurement date. The discount rate is a single rate that incorporates the long-term rate of return and municipal bond rate as described. The discount rate used to determine the beginning of period total pension liability is 7.25%.

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

For the years ended December 31, 2015 and December 31, 2014, the utility recognized pension expense of $2,659,617 and $2,600,000, respectively. At December 31, 2015, the utility 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	$3,399,012	
Difference between actual and expected experience	-	$810,280
Difference between projected and actual earnings	707,257	-
Contributions subsequent to measurement date	2,683,000	-
	$6,789,269	$810,280

Contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows and inflows or 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
2016	$806,567	$202,570
2017	$806,568	$202,570
2018	$806,567	$202,570
2019	$806,567	$202,570
2020	$427,183	
Thereafter	$452,817	
Totals	$4,106,269	$810,280

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

	1% decrease 5.75%	Discount Rate 6.75%	1% Increase 7.75%
Net Pension Liability	$21,632,457	$11,783,849	$3,531,208

SCHEDULE OF CHANGES IN NET PENSION LIABILITY

Reporting Period Ending	**12/31/2015**
TOTAL PENSION LIABILITY	
Service cost	1,397,201
Interest	4,743,318
Benefit payments	(2,370,911)
Difference between expected and actual experience	(943,990)
Change in assumptions	3,959,905
Change in benefit terms	0
Net Change in Total Pension Liability	**$6,785,523**
Total Pension Liability, beginning of period	$65,274,198
Total Pension Liability, end of period	$72,059,721
FIDUCIARY NET POSITION	
Employer contributions	2,619,320
Net investment income	3,183,800
Benefit payments	(2,370,911)
Administration expenses	(1,950)
Net Change in Fiduciary Net Position	**$3,430,259**
Fiduciary Net Position, beginning of period	$56,845,613
Fiduciary Net Position, end of period	$60,275,872
NET PENSION LIABILITY	**$11,783,849**

The utility's annual pension cost and net pension liability for the year ending December 31, 2014 is as follows:

NET PENSION LIABILITY	
Annual required contribution	$2,391,618
Interest on net pension obligation	0
Adjustment to annual required contribution	0
Annual Pension Cost (APC)	2,391,618
Annual contribution made	(2,619,320)
Increase (decrease) in net pension liability	-227,702
Net Pension Liability, beginning of year	8,656,287
Net Pension Liability, end of year	$8,428,585

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL/OAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL/OAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2013	$47,712,624	$54,688,315	$6,975,691	87.2 %	$19,355,639	36.0 %
1/1/2014	53,375,534	59,389,212	6,013,678	89.9	20,059,886	30.0
1/1/2015	58,314,100	72,157,834	13,843,734	80.8	20,144,834	68.7

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

Year Ending	Annual Required Contribution (ARC)	% of ARC/ADC Contributed	Net Pension Obligation
12/31/2012	$2,678,301	100%	$-
12/31/2013	$2,327,504	119%	$-
12/31/2014	$2,391,618	110%	$-

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

The utilities implemented GASB No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, effective January 1, 2015. The cumulative effect of the change in net position due to the change in accounting standard is shown as a change in beginning net position for 2015. The prior year balances for deferred outflows of resources and the net pension liability were not restated due to the measurement date used for the calculation of the balances and the timing of information received by Iowa Public Employees' Retirement System (IPERS). For this reason, prior year pension footnote disclosures are included under GASB No. 27.

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.

NOTE 9 – IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (IPERS) (CONT.

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.

IPERS members were required to contribute 5.95% of their annual covered salary from January 1, 2014 through December 31, 2015. The water utility was required to contribute 8.93% of employees' covered annual salaries from January 1, 2014 through December 31, 2015. The contributions to IPERS for the years ended December 31, 2015, December 31, 2014, and December 31, 2013 were $47,499, $44,954, and $56,838, respectively, equal to the required contributions for those years. A measurement period of July 1, 2013 to June 30, 2014 has been used for the fiscal year ending December 31, 2015 for GASB 68 reporting.

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

At December 31, 2015, the water utility reported a liability of $363,277 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, 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, 2014, the water utility's collective proportion was .00916 percent, which was a decrease of .0010937 percent from its proportion measured as of June 30, 2013.

For the years ended December 31, 2015 and December 31, 2014, the water utility recognized IPERS expense of $12,501 and $44,954, respectively. At December 31, 2015, 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	$3,948	
Changes of assumptions	16,032	
Difference between projected and actual earnings	-	$138,543
Contributions subsequent to measurement date	66,851	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	65,300
	$86,831	$203,843

Contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows and inflows or resources related to IPERS will be recognized in the pension expense as follows:

Fiscal Year Ending 12/31	Deferred Outflows of Resources	Deferred Inflows of Resources
2016	$4,595	$50,961
2017	$4,595	50,961
2018	$4,595	50,961
2019	$4,595	50,960
2020	1,600	
	$19,980	$203,843

There were no non-employer contributing entities at IPERS.

ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2014 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, 2014 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. The target allocation and best estimates of arithmetic real rates of return are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	-0.69
Total	100%	

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	$7,796,570,740	$3,965,906,195	$732,967,671

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, 2015, the water utility reported payables to the defined benefit pension plan of $5,601 for legally required employer contributions and $3,732 for legally required employee contributions which had not yet been remitted to IPERS.

NOTE 10 – AGGREGATE PENSION SCHEDULES

Aggregate Net Pension Liability Schedule - 2015
Single-Employer Defined

	Benefit Pension Plan	IPERS	Total
Electric	$9,582,626		$9,582,626
Water	643,398	$363,277	1,006,675
Communications	1,474,160		1,474,160
MAGIC	83,665		83,665
	$11,783,849	$363,277	$12,147,126

Aggregate Deferred Outflows of Resources Schedule - 2015
Single-Employer Defined

	Benefit Pension Plan	IPERS	Total
Electric	$5,521,000		$5,521,000
Water	370,692	$86,831	457,523
Communications	849,332		849,332
MAGIC	48,244		48,244
	$6,789,268	$86,831	$6,876,099

Aggregate Deferred Inflows of Resources Schedule - 2015
Single-Employer Defined

	Benefit Pension Plan	IPERS	Total
Electric	$658,920		$658,920
Water	44,241	$203,843	248,084
Communications	101,366		101,366
MAGIC	5,753		5,753
	$810,280	$203,843	$1,014,123

Aggregate Pension Expense Schedule - 2015
Single-Employer Defined

	Benefit Pension Plan	IPERS	Total
Electric	$2,178,266		$2,178,266
Water	146,254	$12,501	158,755
Communications	335,097		335,097
MAGIC	18,978		18,978
	$2,678,595	$12,501	$2,691,096

NOTE 11 – SIGNIFICANT CUSTOMERS

Approximately $27,906,000 or 31% in 2015 and $25,421,000 or 25% in 2014 of the electric utility's operating revenues were derived from sales to one customer. Approximately $2,624,000 or 47% in 2015 and $2,241,000 or 44% in 2014 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. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27* was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No, 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

ELECTRIC UTILITY	
Net position December 31, 2014, as previously reported	$ 130,944,838
Net pension liability at December 31, 2014	(6,854,125)
Change in outflows of resources related to contributions made after the December 31, 2014 measurement date	2,130,031
Removal of pension asset	-
Cumulative effect of change in accounting principle	(4,724,094)
Net Position January 1, 2015, as restated	$ 126,220,744
WATER UTILITY	
Net position December 31, 2014, as previously reported	$ 15,876,912
Net pension liability at December 31, 2014	(1,048,938)
Change in outflows of resources related to contributions made after the December 31, 2014 measurement date	216,465
Removal of pension asset	-
Cumulative effect of change in accounting principle	(832,473)
Net Position January 1, 2015, as restated	$ 15,044,439
COMMUNICATIONS UTILITY	
Net position December 31, 2014, as previously reported	$ 2,392,243
Net pension liability at December 31, 2014	(1,054,416)
Change in outflows of resources related to contributions made after the December 31, 2014 measurement date	327,677
Removal of pension asset	-
Cumulative effect of change in accounting principle	(726,739)
Net Position January 1, 2015, as restated	$ 1,665,504

NOTE 13 – COMMITMENTS AND CONTINGENCIES

A power purchase agreement for wind energy was entered into in December 2013. It is a 20-year agreement that commences with the wind farm's actual commercial operation date, currently anticipated to be in fourth quarter of 2016. The wind farm is located in Jackson County, Minnesota, which is in the utility's MISO local resource zone. Its projected annual output is 46,691 MWH, approximately 5.5% of native system needs. Terms include a flat rate for delivered energy over the 20-year agreement. The utility is subject to market risk; however, the contract includes a cost floor provision to protect against this risk. The contract also includes a revenue/margin sharing provision if the net financial benefit goes above a certain level.

The utility has committed to purchasing 650,000 tons of coal in 2016 under a contract with one supplier.

The utility has rail transportation agreements with two separate companies for the delivery of coal through December 31, 2017 and December 31, 2016. The utility's first agreement is for coal shipped from the Powder River Basin (PRB), Wyoming to an interchange with the local delivery carrier. The contract term is from July 1, 2011 through December 31, 2017 where the rate is adjusted quarterly

NOTE 13 – COMMITMENTS AND CONTINGENCIES (CONT.)

beginning January 2012 plus monthly fuel surcharges. The utility's minimum requirement is 100% of the tons shipped from the PRB up to the utility's annual tonnage nomination. In the event the utility does not meet their nominated tons, the utility has agreed to pay a per ton fee as compensation for lost traffic.

Shipment of coal from the interchange point to the utility's generating station is covered by an agreement that began January 1, 2013 and expires December 31, 2016. The contract rate is adjusted quarterly. There is no annual minimum tonnage requirement; however, the utility will nominate their needs by November 1 of the preceding year. In the event the utility does not meet their nominated tons, the utility has agreed to pay a per ton fee as compensation for lost traffic. In anticipation of future emissions reduction requirements, in 2013 the utility entered into contracts with a coal refining company for the company to apply additives to the utility's coal. These additives change the combustion characteristics of the coal such that Mercury and 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.

The utility has contracted to sell steam to a local customer. The original ten-year agreement began July 1, 2000. The customer is obligated to take a minimum annual quantity of steam each year (2,338,920 kilo pounds). The contract was amended in 2007 to add an additional ten years to the agreement. The amendment obligates the customer to certain environmental capital costs (approximately $2 million) and ongoing sulfur dioxide (SO2), nitrogen oxide (NOX) and mercury emission allowance costs. In December of 2015, the customer notified the utility of their decision to terminate the contract. The customer has agreed to take the minimum annual quantity in 2016, and will be required to reimburse the utility for any of the unrecovered shared capital costs.

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

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.

NOTE 15 – INTERFUND AND RELATED PARTY TRANSACTIONS

The electric utility sold power to the water utility amounting to approximately $1,076,200 in 2015 and $943,400 in 2014. The electric utility sold power to the communications utility amounting to approximately $21,300 in 2015 and $20,000 in 2014. The electric utility purchased water from the water utility amounting to approximately $351,300 for 2015 and $355,000 for 2014. The electric utility purchased communications services from the communications utility amounting to approximately $163,200 for 2015 and $165,400 for 2014.

The electric utility rents space to the water utility and the communications utility at the Administration/Operations Center. This amounted to $71,000 in 2015 and $69,000 in 2014 for the water utility's rent, and $113,800 in 2015 and $110,500 in 2014 for the communications utility's rent.

Electric utility amounts receivable from the water utility were $85,300 and $84,200 at December 31, 2015 and 2014, respectively. Electric utility amounts payable to the water utility were $28,900 and $32,100 at December 31, 2015 and 2014, respectively. Electric utility amounts receivable from the communications utility were $1,900 at December 31, 2015 and 2014. Electric utility amounts payable to the communications utility were $13,900 and $13,800 at December 31, 2015 and 2014, respectively.

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. 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, 2015 and $623,522 at December 31, 2014. Interest income on the loan amounted to $50,000 for 2015 and $1,247,043 for 2014.

In January 2013, the Board approved a borrowing arrangement whereby the electric utility may advance up to $4,500,000 to the water utility, as needed. The interest rate was originally established at 0.10% and may be adjusted annually to reflect the electric utility's investment opportunity cost. The terms of the arrangement require annual interest payments on January 1 in each of the years 2014 through 2017. Both the principal and interest on the advance shall be payable in a lump sum due on January 1, 2018. This debt as to both principal and interest is and shall be junior and subordinate in all respects to the State of Iowa Revolving Loan Fund debt. All or any portion of such debt may be prepaid at any time by the water utility without penalty. On June 25, 2013, the electric utility advanced the water utility $400,000 for capital needs. The interest rate was adjusted to 0.18% January 1, 2014. In 2014, an additional $1,500,000 was advanced to the water utility for capital needs, and in 2015, an additional $1,000,000 was advanced, increasing the total loan to $2,900,000 as of December 31, 2015.

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

Members of the Board of Trustees are also officers and/or directors of companies that are customers of the utility. Most employees are also customers of the utility.

NOTE 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)	2015	2014	2013
Health/dental care self-insurance reserve			
Reserve liability, beginning of year	$1,779	$1,930	$2,325
Add: Provision for reserve, current year	4,056	3,663	3,421
Less: Payments on reserve	(4,174)	(3,447)	(3,526)
Total Reserve Liability, end of year	1,661	2,146	2,220
Incurred but not reported claims	(379)	(367)	(290)
Non-Current Reserve Liability, End of Year	$1,282	$1,779	$1,930

(Thousands of dollars)	2015	2014	2013
Workers compensation self insurance			
Reserve liability, beginning of year	$176	$441	$444
Add: Provision for reserve	715	162	134
Less: Payments on reserve	(400)	(427)	(137)
Reserve Liability, End of Year	$491	$176	$441

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 prorata basis based on funding. Complete financial statements for MAGIC can be obtained from the Muscatine Power and Water Administration/Operations Center, 3205 Cedar Street, Muscatine, Iowa 52761.

The utility accounts for this investment under the equity method since it has the ability to exercise significant influence over the joint venture and it has an explicit equity interest in the joint venture.

The utility has rights to the information systems technology and data and the cost of such rights are amortized over their expected average useful life of 26 years. The utility's share of MAGIC's operating expenses is expensed as incurred.

NOTE 18 – SUBSEQUENT EVENTS

ELECTRIC RATES
In April 2015, a 4.0% electric rate increase was approved by the Board to become effective with electric usage starting August 1, 2016.

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

ELECTRIC UTILITY LOAN TO WATER UTILITY
On January 26, 2015, the Board approved the adjustment of the interest rate on the electric utility's loan to the water utility from 0.18% to 0.15% effective January 1, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET PENSION LIABILITY

Measurement date of 12/31/2014 has been used for the fiscal year ending 12/31/2015.

TOTAL PENSION LIABILITY	
Service cost	$1,397,201
Interest	4,743,318
Benefit payments	(2,370,911)
Difference between expected and actual experience	(943,990)
Change in assumptions	3,959,905
Net Change in Total Pension Liability	$6,785,523
Total Pension Liability, beginning of period	$65,274,198
Total Pension Liability, end of period	$72,059,721
PLAN FIDUCIARY NET POSITION	
Employer contributions	$2,619,320
Net investment income	3,183,800
Benefit payments	(2,370,911)
Administration expenses	(1,950)
Net Change in Plan Fiduciary Net Position	$3,430,259
Plan Fiduciary Net Position, beginning of period	$56,845,613
Plan Fiduciary Net Position, end of period	$60,275,872
NET PENSION LIABILITY	$11,783,849
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.6%
Covered Valuation Payroll	$20,059,886
Net Pension Liability as a Percentage of Covered Valuation Payroll	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.

METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES:

Actuarial cost method	Entry Age Normal Method
Asset valuation method	Market Value
Investment rate of return	6.75%-end of period; 7.25%-beginning of period
Inflation	2.25%
Salary increases (age-based)	Age 25 – 6.18%; Age 40 – 4.72%; Age 55 – 3.88%
Wage base	3.25%
Marriage rate	75%
Mortality	SOA RP-2014 and RPEC_2014

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

	12/31/2015
Proportion of the Net Pension Liability	0.00916%
Proportionate share of the Net Pension Liability	$363,277
Covered Valuation Payroll	$599,391
Proportionate share of the Net Pension Liability as a % of its Covered Valuation Payroll	60.6%
Plan Fiduciary Net Position as a % of the Total Pension Liability	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.

REQUIRED SUPPLEMENTAL INFORMATION (CONT.)

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:

	2015	2014
Statutorily required contribution	$46,930	$45,186
Contributions in relation to the statutorily required contribution	46,930	45,186
Contribution deficiency (excess)	-	-
Covered employee payroll	$525,531	$506,004
Contributions as a percentage of covered-employee payroll	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.

SCHEDULE OF FUNDING PROGRESS - OPEB PLAN - December 31, 2015 - (UNAUDITED)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL/OAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL/OAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/10	$-	$ 475,530	$ 475,530	0 %	$19,310,355	2.5 %
01/01/12	-	2,084,812	2,084,812	0	19,355,639	10.8
01/01/14	-	874,497	874,497	0	19,951,975	4.4

See Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

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

BAKER TILLY

Report on the Financial Statements

We have audited the accompanying financial statements of Muscatine Power and Water, a component unit of the City of Muscatine, Iowa, which comprise of the Statements of Net Position as of December 31, 2015 and 2014 and the related Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows for the years ended December 31, 2015 and 2014, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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 has implemented GASB 68: *Accounting and Financial reporting for Pensions – an amendment of GASB Statement No. 27* using measurement date of June 30, 2014 and 2013 for the years ended December 31, 2015 and 2014, 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, 2014 measurement date, the water utility shows a net pension liability, deferred outflows of resources, and deferred inflows or resources of $363,277, $21,534, and $138,543, respectively, on the Statement of Net Position at December 31, 2015. The related pension expense of ($35,002) 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 later 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, 2015 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, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

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, 2015 and 2014 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.

As discussed in Note 1, Muscatine Power and Water adopted the provisions of GASB Statement No. 68, *Accounting and Financial reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, effective January 1, 2015. The cumulative effect of the change is shown in the current year. 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 2014 and 2015. 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 23, 2016 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 23, 2016

In the field • behind the scenes • around the clock

Muscatine Power and Water

Your reliable neighbor

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