The POWER to make a difference

Muscatine Power and Water

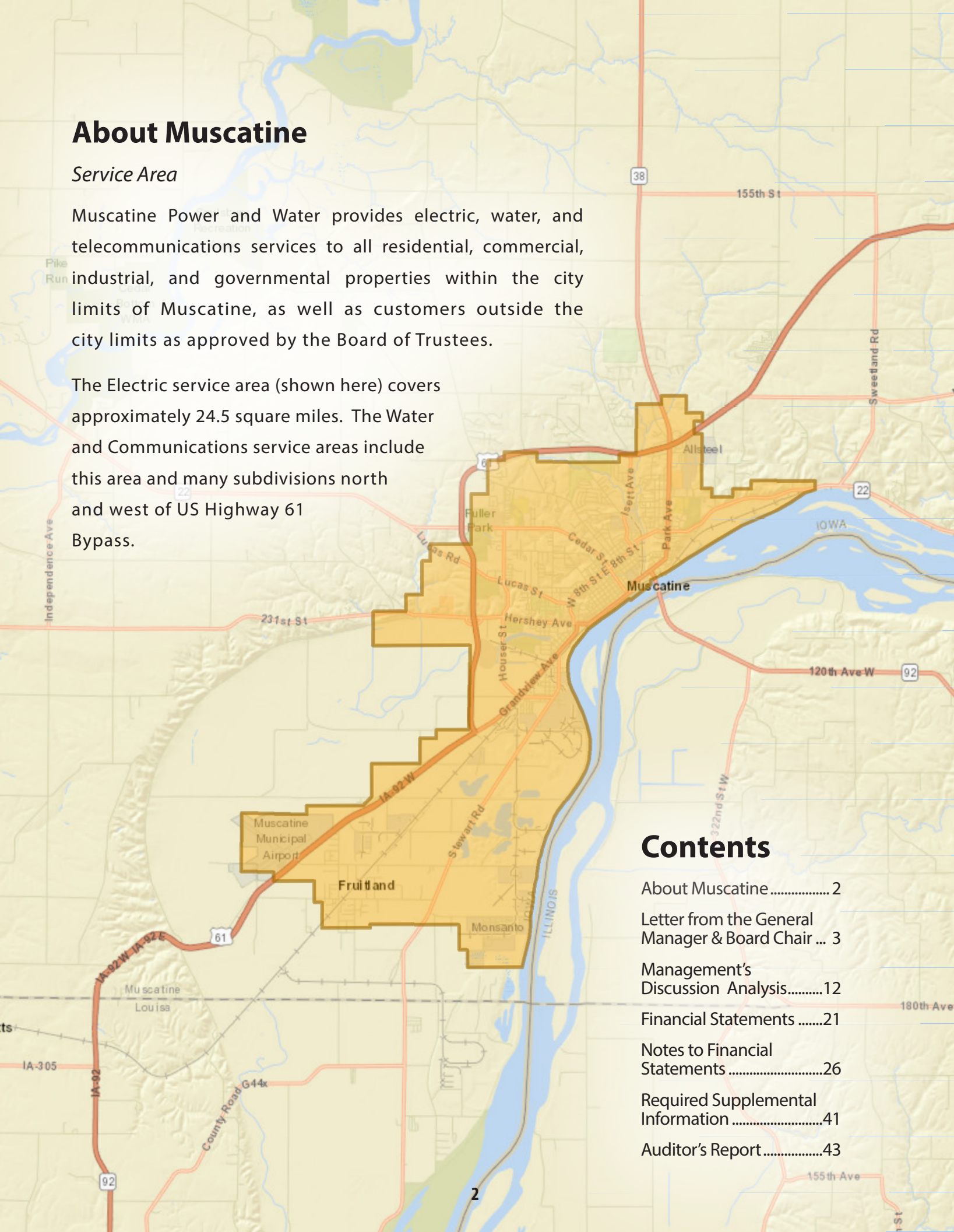
2016
ANNUAL REPORT

About Muscatine

Service Area

Muscatine Power and Water provides electric, water, and telecommunications services to all residential, commercial, industrial, and governmental properties within the city limits of Muscatine, as well as customers outside the city limits as approved by the Board of Trustees.

The Electric service area (shown here) covers approximately 24.5 square miles. The Water and Communications service areas include this area and many subdivisions north and west of US Highway 61 Bypass.



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Letter from the General Manager and Board Chair

Muscatine Power and Water's (MP&W) mission guides planning and operations to ensure that all three Utilities are reliable, responsible and ready. Our mission is to competitively meet the needs and expectations of our customer-owners with an environmentally responsible and unique mix of services for the direct benefit of our community.

Our core values of customer service, employees, environmental stewardship, financial stability, reliability, and safety, guide us in this effort, supporting the growth and success of our service area by safely providing reliable utility services with rates at or below state and national averages.

Reliability is fundamental to helping our industries excel and enhancing all customers' daily lives. Utility outages are a rarity in Muscatine. In 2016, MP&W achieved a service availability track record of nearly 100% for all three Utilities — electric, water and communications.

While proud of this achievement, we are even more proud of our MP&W staff for their readiness, forward-thinkng, and continued drive to do what is best for the Utility, our Community, and our customer-owners. This commitment permeates the MP&W culture. You see much of it daily: line workers maintaining a transmission line, a water crew "exercising" a valve, communications techs burying a cable, even tree trimmers proactively maintaining clearance between the branches and lines, which reduces outages caused by branches during storms.

What you don't see are system control operators monitoring the electric and water system operation 24/7, crews of skilled personnel rebuilding a steam turbine at the power plant, system administrators monitoring the communications network to ensure a trouble-free and robust Internet service, or engineering and operations groups redesigning utility systems for reliability or community betterment projects, and planning projects to meet anticipated customer demand for services. Those are just a few examples of our personnel working around the clock, in the field and behind the scenes, to deliver services that positively impact our customer-owners' quality of life.

"Because we can't be certain what the world is going to throw at us, we prepare. It's what we do."

MP&W added renewable energy to its generating portfolio in 2016. A contract to purchase the energy from the South Fork Wind Farm was renegotiated with a new developer.

The contract resulted in a lower cost to MP&W for the energy. The wind farm went into commercial operation in December after six wind turbines were erected and tested. The output of the South Fork Wind Farm will produce energy that is equivalent to nearly 6% of the energy consumed by MP&W's customers.

To further our commitment to sustainability, a utility-scale community solar garden concept was launched. The concept, called Solar Solutions, provides customers an opportunity to invest in a community solar project that will provide the advantages of lower cost renewable energy through economy of scale and the convenience of a remote system installed and maintained by utility professionals. MP&W continues to evaluate customer interest in the program.

Providing quality water is of utmost importance to MP&W. Our trained water technicians monitor and test our water supply daily and we're proud to report our water testing results continue to show we deliver water that meets or exceeds drinking water standards.

To meet the community's water needs for the next 20 to 30 years, additional land was purchased and design work for a new wellfield began in 2016. The new wellfield, adjacent to the Grandview Wellfield, has the capacity to support up to 11 new wells, with at least three being put into service in 2017.

MP&W's Board of Trustees approved a revised budget for the Fiber to the Home (FTTH) project. Our communications customers will soon have access to a 100% fiber-optic network with Gigabit Internet (1000 Mbps), Internet Protocol Television (IPTV), the leading-edge video delivery system, and local and long distance telephone service powered by Voice over Internet Protocol (VoIP). Bids for outside plant construction were solicited at year's end and contractors and equipment will be selected in early 2017. Customers will begin enjoying the benefits of the project in 2017 and all customers will have access to the fiber system by the end of 2018.

This past summer, during our Customer Appreciation Day, we proudly welcomed over 1,200 of our neighbors to enjoy time with our dedicated personnel. Through live demonstrations and displays, our knowledgeable employees educated our customers about how they work to provide reliable utility services. We trust that our customer-owners left the event with a better understanding of the complex work and planning required to ensure the delivery of reliable, low cost utility services.

All three Utilities performed better than budget in 2016 and we met challenges through innovative thinking and teamwork, while being responsive to our customer-owners.

The following pages describe some of the ways we believe we positively impact our customer-owners' quality of life.

Respectfully submitted,

Board Chairperson

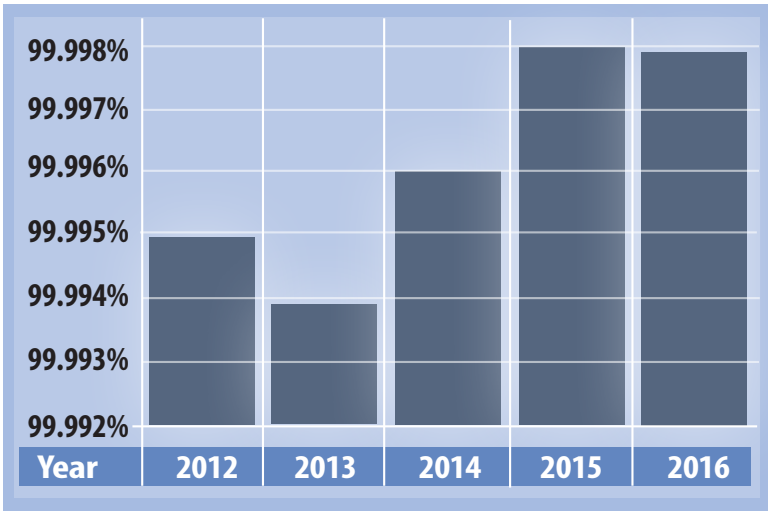
General Manager

Reliability that Powers a Community

As a public power utility, the key issues in our Community and our industry are reliability, rates, safety, workforce development, and system improvement. That is why we do everything in our power to excel in all disciplines and maintain high standards in what we do and how we do it.

More than 11,000 customers count on us for electricity, water, and telecommunications services 24 hours a day, seven days a week. MP&W is committed to delivering these services reliably, safely and at the lowest cost possible. In 2016, we studied, maintained and when needed, upgraded our systems, continuing to maintain high reliability rates, prevent outages, and even make enhancements.

Average Service Availability Index (ASAI)



A Power Supply Study was completed in 2016 by Leidos Engineering. The study provided a plan to continue to supply low cost and reliable electrical energy for the benefit of our customer-owners. MP&W will maintain local generation in Muscatine utilizing the current fuel sources into the foreseeable future.

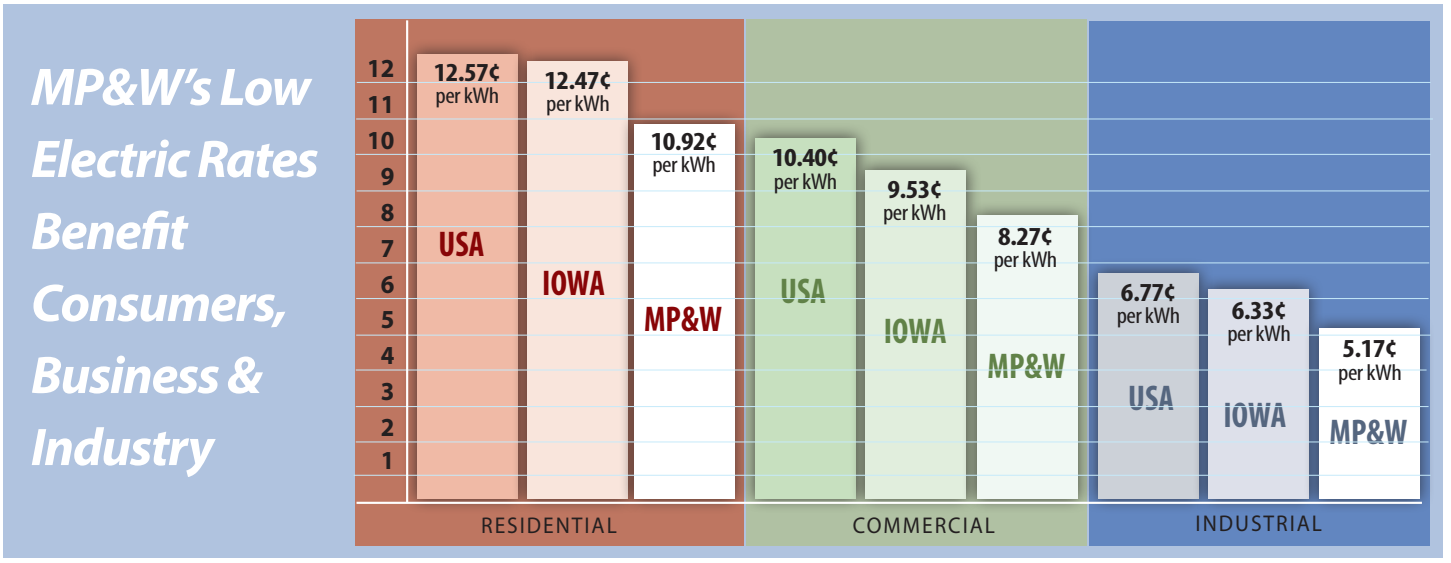
"Local generation provides a hedge against changing and volatile wholesale market prices for energy. It allows us to move with the market and keep our costs as low as possible."

An updated Transmission Study was also completed, providing a ten-year look into the future of the transmission system. The Study results included recommendations to ensure continued reliability and recommended transmission system upgrade projects will be scheduled over the next 5 years.

The massive new 161/69kV auto-transformer is transported from the rail terminal to the South Substation.

The new 161/69kV auto-transformer was delivered to South Substation in July 2016. The auto-transformer will help prevent system overloads and provide a higher capacity connection to the electrical grid. Installation work continued through the end of the year and it is expected to be completed and online in 2017.

Representatives of the Midwest Reliability Organization (MRO) conducted an on-site Standards Audit of MP&W'S compliance with the North American Electric Reliability Corporation (NERC) regulatory standards. The Utility has procedures in place to ensure the reliability of MP&W's small portion of the Bulk Electric System. Policies and procedures were also implemented to meet the new Critical Infrastructure Protection (CIP) Standards required by NERC; these are designed to reduce or eliminate computer/control system vulnerabilities to potential cyber-attacks. The audit report was still pending at year end, but all indications are there were no serious issues noted.



"With a large volume of projects competing for a limited amount of resources, we had a lot of people pitching in, putting in extra time and effort to meet schedules and shifting responsibilities to make things work."

The Water Utility continued strategically replacing at-risk water valves and water mains throughout the community to ensure ongoing reliability. This proactive replacement reduces the chances of a customer impacting water main break occuring or that a valve will not isolate a section of water main when needed during a main break or for planned construction work. Additionally, water main replacement in the West Hill area continued in 2016 in conjunction with the City of Muscatine's multi-year Sewer Separation Project.

The Power to Improve

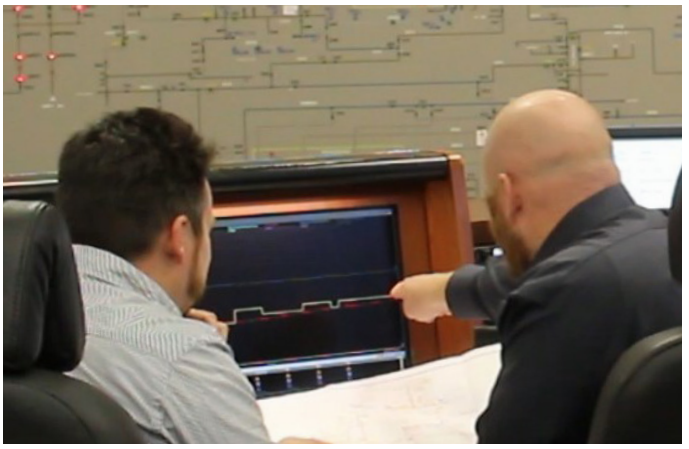
At MP&W, we're constantly asking ourselves questions to improve our customers' experience with us — questions that take a significant amount of time, research, planning and staff resources to answer. It's through this dedication that we are able to provide the level of service our customers not only expect, but deserve.

To better serve or meet our customers' needs, the following enhancements were made to the Communications Utility services:

- MachLink® Internet customers were given next-level speed upgrades without a rate increase. Download speeds were at least doubled.
- The new **MachLink® Air LTE** fixed wireless Internet system was tested and is slated to replace the existing WiMAX Internet system for customers outside City limits in early 2017.
- **Local access channel CivicTV 2** was launched in September; a combination of City, County and School District programming is featured.
- Additional feeds of all local access channels were added to MPW Digital TV's HD channel line-up.

Improving access for our technicians and crew members with up-to-date mapping and work orders from the field was made possible with the deployment of tablet computers. Task specific mobile apps now enable technicians to complete tasks electronically. Tasks previously completed manually or by calling in to the office are now done on tablets, increasing the efficiency of both field and office personnel.

Team members from System Control, Customer Services, and Muscatine Geographic Information Consortium (MAGIC), improved our "Outage Dashboard" application to better track the many types of customer trouble calls during a utility outage; this provides data to help prioritize community safety and system restoration activities. By displaying data on a map and generating detailed reports, system operators can more quickly identify root causes and dispatch crews to the most critical locations first.



System Contol Operators monitor utility usage 24/7/365.

Initiatives to enhance our customer experience include a new Customer Financing Program which aids customers in making Utility-related improvements to their homes with interest-free loans that are then repaid via their monthly MP&W bill. Interactive voice response (IVR) technology which provides customers with 24/7 access to pay bills by phone, and a payment by text option was also made available.

An online file sharing center for bid documents was created, eliminating the need to send out bid packets to vendors. The more efficient, paperless system allows vendors to sign in and obtain bid documents online.

"We're focused on advances that make it easier for our employees and our customers to do business with us."

People are a Power for Good

MP&W's success is the direct result of the men and women who do the work. We take pride in providing a great place to work, and we strive to hire good team members. Training and wellness programs are in place to ensure the ongoing success and health of our employee body, who work to uphold our core values of safety, reliability, customer service, and employees.

The safety of our employees and the community are paramount and therefore we have a strong safety program that encourages everyone to look out for each other, the same way we look out for our community. By implementing our SafeSTART™ program, employees and their families are consistently reminded about states that can lead to errors, which can increase the risk of accident or injury. SafeSTART™ concepts can be used at work, at home, at play — everywhere in daily life.

This year, our employees continued to demonstrate their commitment to the Community through various fundraising and volunteering efforts benefitting many local organizations, including elementary schools, the United Way of Muscatine, Junior Achievement, Healthy Living Muscatine, Emmaus Café, and the Mississippi Valley Regional Blood Center. Employee donations to "Jeans Day Fridays" in 2016 helped over 20 different local non-profit groups that were nominated and chosen by employees.

"Littles", ready to embark on their adventure.

MP&W, along with assistance from local corporate supporters Monsanto, HNI Corporation, and UnityPoint Health — Trinity Muscatine Foundation, once again sponsored a fun-filled day for local youth who might not otherwise have the opportunity. Muscatine Community Y's Big Brothers Big Sisters program's "Bigs" and "Littles" were treated to a day at Adventureland Amusement Park at no cost to the participants.

Trees Forever and Muscatine Branching Out honored MP&W for being a 25-year sponsor. Our sponsorship encourages tree planting and provides trees at a discount to Community members via annual spring and fall sale programs.

Over 100 employee volunteers hosted over 1,200 visitors at the 2016 Customer Appreciation Day!

"Through live demonstrations and displays, our knowledgeable employees educated our customers about how they work to provide reliable utility services.

We trust that our customer-owners had an enjoyable day and left the event with a better understanding of the complex work and planning required to ensure the delivery of reliable, low-cost Utility services.

The Power of Oversight

In July of 2016, Warren Heidbreder was recognized for his 12 years of service on the Muscatine Board of Water, Electric and Communications Trustees. Other Trustees and Utility Staff agreed that his application of his private sector experience in financial management proved invaluable during his tenure on the Board.

"Warren contributed his knowledge and personal time toward the betterment and efficient operation of the municipal Water, Electric, and Communications Utilities," said General Manager Sal LoBianco. "He was always very professional, thorough and meticulous, and had a knack for asking the most thought-provoking questions."

A retired chief financial officer and management consultant, Warren has lived in the Muscatine community for the past 35 years. Appointed to the Board July 1, 2004, he served twice as Board Chair, 12 years on the Audit/Finance Committee, 4 years on the Personnel and Public Relations Committee, and one year on the Planning and Operations Committee. He also served four years on the MAGIC Board.

"I always appreciated the Trustees' and management's understanding of and balancing the tension between operating a viable business and providing the lowest cost, reliable service to MP&W's customer-owners."

— Warren Heidbreder

Warren noted his service was a great opportunity to learn about MP&W, which provides vital services to the community while dealing with the long-term horizon of capital decisions and changing environmental requirements. He added that he was most impressed by the respect of the other Trustees and Management team toward each other, given many different perspectives and experiences, and was proud to have served such a professional and well-trained organization, whose emphasis is on safety and reliability.

He said, "I hope that in some small way I may have contributed to the continuing success of the organization."

2016 Board of Trustees

Susan Eversmeyer
Co-Owner, River Rehabilitation

Doyle Tubandt
President, Kent Corporation

Stephen Bradford
General Counsel, HNI Corporation

Tracy McGinnis
VP Retail Banking, CBI Bank &Trust

Keith Porter
President, CEO, Stanley Foundation

2016 Senior Leadership Team

Sal LoBianco
General Manager

Tim Reed
Director, Utility Service Delivery

Gage Huston
Director, Power Production & Supply

Erika Cox
Director, Employee & Community Relations

Brandy Olson
Director, Legal & Regulatory Services

Jerry Gowey
Director, Finance & Administrative Services

MANAGEMENT'S DISCUSSION & ANALYSIS
December 31, 2016 and 2015 (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 2016 and 2015. This overview from management should provide the reader with information that is one of the three components of the entire financial statement. The other two components audited by Baker Tilly Virchow Krause, LLP, Muscatine Power and Water's (MP&W's) auditors, are the financial statements and notes to the financial statements. Please read the entire document to understand the events and conditions impacting MP&W.

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

UTILITY FINANCIAL ANALYSIS

ELECTRIC UTILITY

The Electric Utility experienced higher wholesale electric revenue in 2016 due to a higher average sales price and a stronger wholesale market, brought on by colder temperatures.

In 2011, the Electric Utility became debt free and continued to be debt free in 2016.

Overall retail rate adjustments of 4.0% per year, effective August 1, 2016 and August 1, 2015, were in response to higher delivered coal costs, higher cost of purchased power, and increased operating expenses.

On November 25, 2014, the Board approved an amendment to the electric utility's loan agreement with the communications utility, effective January 1, 2015, that included loan forgiveness of $25,327,000, changing the fixed interest rate from 3.53% to 0.50%, and modifying the amortization of the note from a 30-year period to a 20-year period. Principal payments of $479,048 and $476,665 were made in 2016 and 2015, respectively.

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

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. GPC has agreed to purchase steam through April 30, 2017. The original contract began July 1, 2000 with a 10-year term and was subsequently extended in 2007 for an additional 10-year period beginning in 2010.

A power purchase agreement for wind energy was executed in June 2016. It is a 20-year agreement that commenced December 15, 2016 with the wind farm's actual commercial operation date. Its projected annual output is 48,968 MWH, approximately 5.6% of native system needs. Total purchases for 2016 were 3.5 MWH.

See Independent Auditors Report

ELECTRIC UTILITY(CONT.)

STATEMENTS OF NET POSITION

In thousands $	2016	2015
Current Assets		
Unrestricted	$57,927	$ 46,784
Restricted	13,099	13,075
Total Current Assets	71,026	59,859
Non-Current Assets		
Capital Assets	75,447	78,666
Other Assets	12,040	12,528
Total Non-Current Assets	87,487	91,194
Deferred Outflows of Resources – Pension	8,177	5,521
Total Assets and Deferred Outflows of Resources	$166,690	$156,574
Current Liabilities	$10,714	$8,743
Non-Current Liabilities	14,422	11,039
Deferred Inflows of Resources –		
Extraordinary O&M Account	13,033	13,033
Pension	633	659
Total Liabilities and Deferred Inflows of Resources	38,802	33,474
Net Position		
Net investment in capital assets	75,446	78,666
Restricted	13,099	13,075
Unrestricted	39,343	31,359
Total Net Position	127,888	123,100
Total Liabilities, Deferred Inflows of Resources, and Net Position	**$166,690**	**$156,574**

2016 COMPARED TO 2015

- Total assets increased $10.1 million primarily due to:

  Increases of:
  - $10.0 million increase of cash and investments primarily due to an increase in wholesale and steam revenue and decreased coal purchases; and
  - $2.7 million in deferred pension outflows; and
  - $1.6 million increase in customer accounts receivable; and
  - $1.3 million increase in steam sales receivable; and
  - $1.0 million increase in refined coal receivables; and
  - $1.0 million increase in wholesale receivables.

  Offset by decreases of:
  - $3.5 million in coal inventory; and
  - $3.2 million in net utility plant due to depreciation and retirements exceeding capital expenditures; and
  - $0.5 million in communication utility note receivable due to principal repayments; and
  - $0.2 million in inventories.

- Current liabilities increased $2.0 million primarily due to:

  Increases of:
  - $0.7 million in coal invoices payable; and
  - $1.0 million in refined coal invoices payable; and
  - $0.3 million in other trade accounts payable.

  Non-current liabilities increased $3.4 million primarily due to a $3.4 million increase in the net pension liability related to the adjustment for GASB 68.

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

See Independent Auditors Report

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

In thousands $	2016	2015
Operating Revenues	$96,973	$88,879
Operating Expenses	(92,571)	(92,532)
Operating Income (Loss)	4,402	(3,653)
Non-operating Revenues	169	97
Non-operating Expenses	(3)	(1)
Net Non-operating Expenses	166	96
Net Income (Loss) before Capital Contributions	4,568	(3,557)
Capital Contributions	220	436
Allowance for Reduction in Note Receivable	-	-
Change in Net Position	4,788	(3,121)
Net Position – Beginning of Year	123,100	130,945
Cumulative effect of a change in accounting principle – GASB 68 Pension	-	(4,724)
Net Position – End of Year	$127,888	$123,100

2015 COMPARED TO 2014

- Total operating revenues increased $8.1 million or 9.1% due to:

  Increases in:
  - Wholesale electric sales of $4.6 million due to a stronger market with a 17.7% higher average price and a 0.9% increase in kWh sales; and
  - Steam sales of $2.4 million to MP&W's largest industrial customer, Grain Processing Corporation, due to an 8.2% more pounds of steam supplied and $1.7 million contract cancellation billing of unrecovered capital expenditures; and
  - Retail sales $1.0 million due to the impact of a 4% rate increase on August 1, 2016 offset by a 1.4% decrease in kWh usage.
- Operating expenses increased $39,000 or 0.04% due to:
  - $3.2 million higher purchased power costs due to a 16.7% higher average price; and
  - $2.3 million higher cost of other operating expenses.

  Offset by:
  - $3.3 million lower cost of maintenance; and
  - $1.3 million lower cost of depreciation; and
  - $0.6 million lower production fuel costs, resulting from a 4.4% lower average cost of coal burned per ton, offset by 0.5% higher net generation; and
  - $0.2 million lower cost of emissions allowances.
- 2015 cumulative effect of a change in accounting principle due to the pension adjustment related to GASB 68.

See Independent Auditors Report

STATEMENTS OF CASH FLOWS

In thousands $	2016	2015
Cash Flows from Operating Activities	$16,102	$(3,587)
Cash Flows from Non-Capital Financing Activities	531	157
Cash Flows from Capital and Related Financing Activities	(6,601)	(5,276)
Cash Flows from Investing Activities	(3,285)	11,959
Net Change in Cash and Cash Equivalents	6,747	3,253
Cash and Cash Equivalents – Beginning of Year	14,081	10,828
Cash and Cash Equivalents – End of Year	$20,828	$14,081

2015 COMPARED TO 2014

- Cash flows from operating activities increased by $19.7 million due to:
  - Lower coal and coal transportation costs; and
  - Lower cash paid to suppliers; and
  - Higher wholesale electric revenue; and
  - Higher retail sales revenue; offset by
  - Higher purchased power costs.
- 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 2016. 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.
  - Loan to water utility of $1.0 million in 2015, compared to no loans in 2016.
- Cash flows from capital and related financing activities include:
  - Capital expenditures of $6.6 million in 2016, compared to $5.3 million in 2015.
- Cash flows from investing activities include:
  - Investment purchases of $17.3 million in 2016, compared to $22.0 million in 2015, offset by investment maturities of $14.0 million in 2016, compared to $34.0 million in 2015.

See Independent Auditors Report

UTILITY FINANCIAL ANALYSIS (CONT.)

WATER UTILITY

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

MP&W's industrial customers account for approximately 52% 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 $131,000 at the end of 2016. The interest rate on the loan is 3.0%, plus a 0.25% servicing fee, with a 10-year repayment term. There were no new borrowings from the Electric Utility in 2016; the balance owed at the end of 2016 was $2.9 million.

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 in 2015. In 2016, the GASB 68 related adjustments included $267,000 increase to deferred outflows of resources, a $252,000 increase to the net pension liability, and a $14,000 increase to deferred inflows of resources.

STATEMENTS OF NET POSITION

In thousands $	2016	2015
Current Assets		
Unrestricted	$1,960	$2,012
Restricted	35	35
Capital Assets	19,310	18,572
Deferred Outflows of Resources - Pension	725	457
Total Assets and Deferred Outflows of Resources	$22,030	$21,076
Current Liabilities	$771	$730
Non-Current Liabilities	4,529	4,428
Deferred Inflows of Resources - Pension	262	248
Total Liabilities and Deferred Inflows of Resources	5,562	5,406
Net Position		
Net investment in capital assets	18,889	18,033
Restricted	35	35
Unrestricted	(2,456)	(2,398)
Total Net Position	16,468	15,670
Total Liabilities, Deferred Inflows of Resources, and Net Position	$22,030	$21,076

2016 COMPARED TO 2015

- Total assets increased $1.0 million or 4.5% primarily due to:
  - Capital assets increasing $738,400, net of retirements, due to normal capital spending for utility construction and acquisition projects; and
  - Deferred outflows of resources increasing $266,800 due to the pension adjustments elated to GASB 68.
- Current liabilities increased by $41,000 primarily due to:
  - Trade accounts payable increasing by $40,600; and
  - Accrued expenses increasing $26,600; offset by
  - Retained percentage on contracts decreasing by $32,400.
- Non-current liabilities increased by $100,000 primarily due to an increase of $251,800 to net pension liability due related to the adjustment for GASB 68; offset by a decrease of $91,800 to consumer advances for construction; a decrease of $32,300 to the health and dental provision and a decrease of $31,000 to non-current portion of the state revolving loan.
- Deferred inflows of resources increased $14,000 due to pension adjustments related to GASB 68.

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

See Independent Auditors Report

UTILITY FINANCIAL ANALYSIS (CONTI.)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

In thousands $	2016	2015
Operating Revenues	$6,046	$5,597
Operating Expenses	(5,318)	(4,962)
Operating Income	728	635
Non-operating Expenses	(8)	(10)
Net Income before Capital Contributions	720	625
Capital Contributions	78	-
Change in Net Position	798	625
Net Position – Beginning of Year	15,670	15,877
Cumulative effect of a change in accounting principle – GASB 68 Pension	-	(832)
Net Position – End of Year	$16,468	$15,670

2016 COMPARED TO 2015

- Operating revenues increased $449,000 or 8.0%.
  - Total water sales revenue was $449,000 higher primarily due to a 5.5% rate adjustment and a 15% surcharge for customers outside City limits effective April 1, 2015; and
  - 1.9% more gallons sold primarily due to increased consumption from our largest customer.
- Operating expenses increased $356,000 or 7.2% primarily due to:
  - $109,400 higher cost of pension expense due to GASB 68 adjustments; and
  - $64,100 higher cost of reservoir and standpipe maintenance; and
  - $63,700 higher cost of miscellaneous distribution expenses; and
  - $42,800 higher cost of health insurance expenses; and
  - $40,200 higher cost of well maintenance; and
  - $31,500 higher depreciation expense; and
  - $17,400 higher cost of water treatment operation labor and expenses; and
  - $17,100 higher cost of miscellaneous plant maintenance.
  - Offset by $52,700 lower cost of IPERS expense due to GASB 68 adjustments.
- 2015 cumulative effect of a change in accounting principle due to the pension adjustment related to GASB 68.
- 2016 capital contributions reflect developer-financed water main construction projects.

STATEMENTS OF CASH FLOWS

In thousands $	2016	2015
Cash Flows from Operating Activities	$1,355	$1,270
Cash Flows from Capital and Related Financing Activities	(1,505)	(618)
Cash Flows from Investing Activities	1	1
Net Change in Cash and Cash Equivalents	(149)	653
Cash and Cash Equivalents – Beginning of Year	1,032	379
Cash and Cash Equivalents – End of Year	$883	$1,032

2016 COMPARED TO 2015

- Cash flows from operating activities increased $85,000 or 6.7% due to:
  - 1.9% more gallons sold; and
  - A 5.5% rate adjustment and 15% surcharge for customers outside City limits, effective April 1, 2016; offset by
  - $136,900 higher payments to suppliers;
  - $229,300 higher payments related to employee payroll, taxes, and benefits.
- Cash flows from capital and related financing activities include:
  - Capital expenditures of $1.5 million in 2016 and $1.6 million in 2015; offset by
  - No Loan proceeds in 2016 compared to $1.0 million in 2015.

See Independent Auditors Report

UTILITY FINANCIAL ANALYSIS (CONT.)

COMMUNICATIONS UTILITY

Rate adjustments for the communications utility were approved by the Board for both 2016 and 2015. MPW Digital TV Select and Preferred service rates increased by 7.8% and 6.8%, respectively, effective April 1, 2016. Effective April 1, 2015, MPW Select and Preferred service rates increased by 12.2% and 10.5%, respectively. These increases were primarily due to continued rising programming costs, debt service requirements, and other general inflationary factors.

The digital transition project which began in 2008 was essentially completed by the end of 2011. The project benefits customers by providing bandwidth capacity for the addition of more standard digital and HD programming as well as enhanced Internet speeds, among other features. The cost of the conversion was 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 was made on January 1, 2016.

On November 25, 2014, the Board approved an amendment to the electric utility's loan agreement with the communications utility, effective January 1, 2015, that included loan forgiveness of $25,327,000, changing the fixed interest rate from 3.53% to 0.50%, and modifying the amortization of the note from a 30-year period to a 20-year period. Principal payments of $479,048 and $476,665 were made in 2016 and 2015, respectively.

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

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

STATEMENTS OF NET POSITION

In thousands $	2016	2015
Current Assets		
Unrestricted	$9,862	$7,642
Restricted	-	-
Total Current Assets	9,862	7,642
Non-Current Assets - Capital Assets	7,211	7,523
Deferred Outflows of Resources - Pension	1,269	849
Total Assets and Deferred Outflows of Resources	$18,342	$16,014
Current Liabilities	$1,119	$974
Non-Current Liabilities	11,464	11,454
Deferred Inflows of Resources – Pension	97	101
Total Liabilities	12,680	12,529
Net Position		
Net investment in capital assets	7,211	7,523
Restricted	-	-
Unrestricted	(1,549)	(4,038)
Total Net Position	5,662	3,485
Total Liabilities, Deferred Inflows of Resources, and Net Position	$18,342	$16,014

2016 COMPARED TO 2015

- Total assets increased $2.3 million or 14.5% due to:
  - $2.3 higher cash and investment balances; and
  - Deferred outflows of resources increasing $420,000 due to the pension adjustment related to GASB 68; and

  Offset by:
  - Depreciation and retirements exceeding capital expenditures, resulting in a reduction in capital assets of $311,300 or 4.1%; and
  - $56,000 lower materials inventories; and
  - $25,000 lower prepaid expenses
- Current liabilities increased $145,000 due to:
  - $125,000 increase in accounts payable; and
  - $33,000 increase in accrued payroll and vacation expenses; offset by
  - $9,000 reduction in miscellaneous accrued expenses.
- Noncurrent liabilities increased $10,000 primarily due to:
  - $539,000 increase in net pension liability due to GASB 68; offset by
  - $479,000 reduction in notes payable; and
  - $44,000 reduction in the health and dental care provision.

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

UTILITY FINANCIAL ANALYSIS (CONT.)

COMMUNICATIONS UTILITY(CONT.)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

In thousands $	2016	2015
Operating Revenues	$13,470	$12,973
Operating Expenses	(11,323)	(11,114)
Operating Income	2,147	1,859
Non-operating Revenues	25	31
Non-operating Expenses	(48)	(99)
Net Non-operating Expenses	(23)	(68)
Net Income before Capital Contributions	2,124	1,791
Capital Contributions	53	28
Allowance for Reduction in Note Payable	-	-
Change in Net Position	2,177	1,819
Net Position – Beginning of Year	3,485	2,392
Cumulative effect of a change in accounting principle – GASB 68 Pension	-	(726)
Net Position – End of Year	$5,662	3,485

2016 COMPARED TO 2015

- Operating revenues increased $497,000 or 3.8%.
  - CATV operating revenues decreased by $22,000 or 0.3% due to:
    - 5.9% decrease in the total number of CATV subscribers (5,585 at the end of 2016 vs. 5,934 at the end of 2015); and
    - Digital converter revenue decreasing $31,000; offset by
    - Cable television rate increases of 7.8% for Select and 6.8% for Preferred services, effective April 1, 2016; and
    - Advertising sales increasing $19,000.
  - Internet revenues increased $447,000 or 8.8% due to:
    - Cable modem revenue increased $383,000; and
    - 5.6% increase in the number of data/Internet subscribers (8,269 at the end of 2016 vs. 7,862 at the end of 2015).
  - MME subscribers increased (85 at the end of 2016 vs. 82 at the end of 2015) resulting in increased revenues of $90,000 or 14.4%.
- Operating expenses increased overall by $209,000 or 1.9% due to:
  - $173,000 higher cost of employee pensions and benefits; and
  - $37,000 higher miscellaneous data/internet expense; and
  - $36,000 higher administrative and general salaries expense; and
  - $31,000 higher bad debt expense; and
  - $20,000 higher programming acquisition expense; and
  - $20,000 higher data/internet maintenance expenses; and
  - $20,000 higher CATV maintenance expenses; and
  - $19,000 higher CATV operation expenses; and
  - $16,000 higher vehicle expense; and

  Offset by:
  - $52,000 lower depreciation expense; and
  - $41,000 lower outside services expense; and
  - $34,000 lower customer service expense; and
  - $16,000 higher fringe benefits charged to construction; and
  - $15,000 lower office supplies expense.

See Independent Auditors Report

UTILITY FINANCIAL ANALYSIS (CONT.)

COMMUNICATIONS UTILITY(CONT.)

STATEMENTS OF CASH FLOWS

In thousands $	2016	2015
Cash Flows from Operating Activities	$4,096	$3,521
Cash Flows from Capital and Related Financing Activities	(1,835)	(4,157)
Cash Flows from Investing Activities	833	1,418
Net Change in Cash and Cash Equivalents	3,094	782
Cash and Cash Equivalents – Beginning of Year	5,163	4,381
Cash and Cash Equivalents – End of Year	$8,257	5,163

2016 COMPARED TO 2015

- Cash flows from operating activities increased $575,000 due to:
  - $635,000 increase in cash received from retail sales; and
  - $125,000 increase in cash received from advertising sales; and
  - $22,000 decrease in cash paid to suppliers; offset by
  - $121,000 increase in payroll, taxes and benefits; and
  - $86,000 decrease in cash received from other operating sources.
- Capital and related financing activities include:
  - Capital expenditures in 2016 and 2015 totaling $1.3 million and $870,000, respectively;
  - Principal and interest paid on notes payable of $527,000 in 2016 and $3.3 million in 2015.
- Cash flows from investing activities include:
  - Net proceeds of $795,000 in 2016 and $1.4 million in 2015 in investment maturities used to partially fund capital additions; and
  - Interest received on investments of $38,000 in 2016 compared to $47,000 in 2015.

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, 2016 and 2015

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
ASSETS	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
CURRENT ASSETS								
Unrestricted Assets								
Cash	$20,827,920	$14,081,411	$848,063	$996,825	$8,257,467	$5,163,000	$29,933,450	$20,241,236
Investments	15,254,702	12,000,146	-	-	-	795,390	15,254,702	12,795,536
Receivables:								
Customer accounts	14,458,236	9,589,286	701,348	637,159	1,352,418	1,336,932	16,512,002	11,563,377
Interest	71,590	12,543	9	1	1,346	14,858	72,945	27,402
Inventories:								
Fuel	13,897,465	17,418,558	-	-	-	-	13,897,465	17,418,558
Emission allowances	342,106	438,392	-	-	-	-	342,106	438,392
Materials and supplies	5,325,188	5,448,510	356,967	320,628	143,512	199,826	5,825,667	5,968,964
Prepaid and other expenses	848,789	870,131	53,743	57,125	106,750	132,126	1,009,282	1,059,382
Total Unrestricted Assets	71,025,996	59,858,977	1,960,130	2,011,738	9,861,493	7,642,132	82,847,619	69,512,847
Restricted Assets - Cash	-	-	35,283	35,248	-	-	35,283	35,248
Total Current Assets	71,025,996	59,858,977	1,995,413	2,046,986	9,861,493	7,642,132	82,882,902	69,548,095
NON-CURRENT ASSETS								
Capital Assets								
Utility plant in service	420,860,162	416,338,615	29,165,477	28,464,889	33,685,964	33,133,341	483,711,603	477,936,845
Construction work in progress	4,313,132	3,234,527	727,506	580,954	654,448	234,525	5,695,086	4,050,006
Less: accumulated depreciation	(349,726,678)	(340,907,275)	(10,582,791)	(10,474,053)	(27,129,188)	(25,845,345)	(387,438,657)	(377,226,673)
Total Capital Assets	75,446,616	78,665,867	19,310,192	18,571,790	7,211,224	7,522,521	101,968,032	104,760,178
Other Assets								
Note receivable from communications utility	9,044,287	9,523,335	-	-	-	-	9,044,287	9,523,335
Note receivable from water utility	2,900,000	2,900,000	-	-	-	-	2,900,000	2,900,000
Joint venture rights	95,423	104,390	-	-	-	-	95,423	104,390
Total Other Assets	12,039,710	12,527,725	-	-	-	-	12,039,710	12,527,725
Total Non-Current Assets	87,486,326	91,193,592	19,310,192	18,571,790	7,211,224	7,522,521	114,007,742	117,287,903
DEFERRED OUTFLOWS OF RESOURCES								
Pension deferred outflows of resources	8,177,423	5,521,000	724,321	457,523	1,269,389	849,332	10,171,133	6,827,855
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$166,689,745	$156,573,569	$22,029,926	$21,076,299	$18,342,106	$16,013,985	$207,061,777	$193,663,853

See accompanying notes to financial statements.

FINANCIALS

STATEMENTS OF NET POSITION(CONT.)

As of December 31, 2016 and 2015

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
CURRENT LIABILITIES								
Payable From Unrestricted Assets								
Trade accounts payable	$6,506,390	$4,513,424	$339,247	$330,978	$616,549	$490,120	$7,462,186	$5,334,522
Customer advances for construction	-	-	91,105	87,439	-	-	91,105	87,439
Accrued interest payable	-	-	-	-	-	-	-	-
Accrued expenses	3,337,310	3,440,097	307,035	279,289	484,861	466,089	4,129,206	4,185,475
Unearned revenue	108,792	56,581	2,300	1,800	17,500	18,198	128,592	76,579
Customer deposits	761,600	733,317	-	-	-	-	761,600	733,317
Total Payable From Unrestricted Assets	10,714,092	8,743,419	739,687	699,506	1,118,910	974,407	12,572,689	10,417,332
Payable From Restricted Assets								
Current portion of long-term debt	-	-	31,000	30,000	-	-	31,000	30,000
Accrued interest payable	-	-	519	637	-	-	519	637
Total Payable From Restricted Assets	-	-	31,519	30,637	-	-	31,519	30,637
Total Current Liabilities	10,714,092	8,743,419	771,206	730,143	1,118,910	974,407	12,604,208	10,447,969
NON-CURRENT LIABILITIES								
Note payable to electric utility	-	-	2,900,000	2,900,000	9,044,287	9,523,335	11,944,287	12,423,335
Long term debt, net of current portion	-	-	100,000	131,000	-	-	100,000	131,000
Unearned revenue	-	-	-	-	237,087	246,979	237,087	246,979
Post-employment health benefit provision	409,718	381,926	39,822	36,573	69,759	64,706	519,299	483,205
Health & dental care provision	1,011,277	1,074,404	31,242	63,579	100,060	144,237	1,142,579	1,282,220
Net pension liability	13,000,669	9,582,626	1,258,495	1,006,675	2,013,125	1,474,160	16,272,289	12,063,461
Customer advances for construction	-	-	198,772	290,532	-	-	198,772	290,532
Total Non-Current Liabilities	14,421,664	11,038,956	4,528,331	4,428,359	11,464,318	11,453,417	30,414,313	26,920,732
DEFERRED INFLOWS OF RESOURCES								
Extraordinary O&M	13,032,866	13,032,866	-	-	-	-	13,032,866	13,032,866
Pension deferred inflows of resources	633,159	658,920	262,296	248,084	97,343	101,366	992,798	1,008,370
	13,666,025	13,691,786	262,296	248,084	97,343	101,366	14,025,664	14,041,236
NET POSITION								
Net investment in capital assets	75,446,616	78,665,867	18,889,315	18,032,819	7,211,224	7,522,521	101,547,155	104,221,207
Restricted for debt service	-	-	34,764	34,611	-	-	34,764	34,611
Restricted by board resolution	-	-	-	-	-	-	-	-
Unrestricted	52,441,348	44,433,541	(2,455,986)	(2,397,717)	(1,549,689)	(4,037,726)	48,435,673	37,998,098
Total Net Position	127,887,964	123,099,408	16,468,093	15,669,713	5,661,535	3,484,795	150,017,592	142,253,916
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$166,689,745	$156,573,569	$22,029,926	$21,076,299	$18,342,106	$16,013,985	$207,061,777	$193,663,853

See accompanying notes to financial statements.

FINANCIALS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years Ended December 31, 2016 and 2015

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2016	2015	2016	2015	2016	2015	2016	2015
OPERATING REVENUES								
Retail sales	$54,029,737	$53,007,649	$6,010,628	$5,561,064	$13,337,346	$12,822,181	$73,377,711	$71,390,894
Wholesale electric sales	28,831,621	24,271,306	-	-	-	-	28,831,621	24,271,306
Steam sales	13,099,739	10,688,550	-	-	-	-	13,099,739	10,688,550
Other	1,011,696	911,603	35,135	35,607	133,135	150,705	1,179,966	1,097,915
Total Operating Revenues	96,972,793	88,879,108	6,045,763	5,596,671	13,470,481	12,972,886	116,489,037	107,448,665
OPERATING EXPENSES								
Production fuel	23,673,901	24,312,348	-	-	-	-	23,673,901	24,312,348
Purchased power	23,874,965	20,697,271	-	-	-	-	23,874,965	20,697,271
Emissions allowance	224,398	395,504	-	-	-	-	224,398	395,504
Other operating expenses	25,924,189	23,660,715	3,841,109	3,590,168	8,702,412	8,484,654	38,467,710	35,735,537
Maintenance	8,825,240	12,112,068	740,978	667,432	948,977	905,780	10,515,195	13,685,280
Depreciation	10,048,094	11,354,301	735,660	704,184	1,671,948	1,723,620	12,455,702	13,782,105
Total Operating Expenses	92,570,787	92,532,207	5,317,747	4,961,784	11,323,337	11,114,054	109,211,871	108,608,045
Operating Income (Loss)	4,402,006	(3,653,099)	728,016	634,887	2,147,144	1,858,832	7,277,166	(1,159,380)
NONOPERATING REVENUES (EXPENSES)								
Investment income	117,680	42,649	806	782	24,498	30,789	142,984	74,220
Interest income on note receivable from communications utility	47,617	50,000	-	-	-	-	47,617	50,000
Interest income on note receivable from water utility	4,362	4,770	-	-	-	-	4,362	4,770
Interest expense	(3,417)	(1,395)	(9,026)	(10,395)	(47,617)	(98,645)	(60,060)	(110,435)
Net Nonoperating Revenues (Expenses)	166,242	96,024	(8,220)	(9,613)	(23,119)	(67,856)	134,903	18,555
Net income (loss) before capital contributions	4,568,248	(3,557,075)	719,796	625,274	2,124,025	1,790,976	7,412,069	(1,140,825)
CAPITAL CONTRIBUTIONS	220,308	435,739	78,584	-	52,715	28,315	351,607	464,054
CHANGE IN NET POSITION	4,788,556	(3,121,336)	798,380	625,274	2,176,740	1,819,291	7,763,676	(676,771)
NET POSITION - Beginning 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
Cumulative effect of a change in accounting principle	-	(4,724,094)	-	(832,473)	-	(726,739)	-	(6,283,306)
NET POSITION - END OF YEAR	$127,887,964	$123,099,408	$16,468,093	$15,669,713	$5,661,535	$3,484,795	$150,017,592	$142,253,916

See accompanying notes to financial statements.

FINANCIALS

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2016 and 2015

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2016	2015	2016	2015	2016	2015	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES								
Cash received from retail sales	$53,457,591	$52,928,006	$5,928,262	$5,487,439	$12,889,393	$12,254,048	$72,275,246	$70,669,493
Cash received from wholesale electric sales	27,858,741	26,411,283	-	-	-	-	27,858,741	26,411,283
Cash received from steam sales	10,448,684	10,397,981	-	-	-	-	10,448,684	10,397,981
Cash received from coal sales	39,067,320	39,495,480	-	-	-	-	39,067,320	39,495,480
Cash received from advertising sales	-	-	-	-	564,496	439,341	564,496	439,341
Cash received from by-product sales	234,709	309,069	-	-	-	-	234,709	309,069
Cash received from railcar leasing	65,761	63,232	-	-	-	-	65,761	63,232
Cash received from other operating sources	1,458,676	682,649	35,411	26,520	127,384	213,153	1,621,471	922,322
Cash paid for coal	(57,675,593)	(74,967,431)	-	-	-	-	(57,675,593)	(74,967,431)
Cash paid for purchased power	(23,000,976)	(22,085,302)	-	-	-	-	(23,000,976)	(22,085,302)
Cash paid to suppliers	(11,767,604)	(12,905,107)	(1,965,796)	(1,830,628)	(5,645,299)	(5,667,221)	(19,378,699)	(20,402,956)
Cash paid for employee payroll, taxes and benefits	(24,045,639)	(23,916,673)	(2,642,261)	(2,412,958)	(3,840,037)	(3,718,711)	(30,527,937)	(30,048,342)
Net Cash Flows From Operating Activities	16,101,670	(3,586,813)	1,355,616	1,270,373	4,095,937	3,520,610	21,553,223	1,204,170
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Interest received on notes receivable from communications & water utilities	51,979	680,347	-	-	-	-	51,979	680,347
Principal received on note receivable from communications utility	479,048	476,665	-	-	-	-	479,048	476,665
Loan to water utility	-	(1,000,000)	-	-	-	-	-	(1,000,000)
Net Cash Flows From Noncapital Financing Activities	531,027	157,012	-	-	-	-	531,027	157,012
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Acquisition and construction of capital assets	(6,605,818)	(5,322,217)	(1,474,435)	(1,581,340)	(1,308,205)	(869,909)	(9,388,458)	(7,773,466)
Proceeds from sale of assets	4,331	46,335	8,438	5,049	-	-	12,769	51,384
Loan proceeds	-	-	-	1,000,000	-	-	-	1,000,000
Debt principal payments	-	-	(30,000)	(29,000)	(479,048)	(2,516,665)	(509,048)	(2,545,665)
Debt interest payments	-	-	(9,144)	(12,565)	(47,617)	(770,107)	(56,761)	(782,672)
Net Cash Flows From Capital and Related Financing Activities	(6,601,487)	(5,275,882)	(1,505,141)	(617,856)	(1,834,870)	(4,156,681)	(9,941,498)	(10,050,419)
CASH FLOWS FROM INVESTING ACTIVITIES								
Proceeds from investments matured and sold	14,004,167	34,001,412	-	-	4,795,390	1,385,412	18,799,557	35,386,824
Investments purchased	(17,256,191)	(21,999,351)	-	-	(4,000,000)	(14,679)	(21,256,191)	(22,014,030)
Purchase of joint venture rights	(93,280)	(101,690)	-	-	-	-	(93,280)	(101,690)
Reimbursement of RESCO stock	4,500	-	-	-	-	-	4,500	-
Interest received on investments	61,353	59,775	798	782	38,010	46,947	100,161	107,504
Accrued interest purchased	(5,250)	(1,291)	-	-	-	-	(5,250)	(1,291)
Net Cash Flows From Investing Activities	(3,284,701)	11,958,855	798	782	833,400	1,417,680	(2,450,503)	13,377,317
Net Increase (Decrease) in Cash and Cash Equivalents	6,746,509	3,253,172	(148,727)	653,299	3,094,467	781,609	9,692,249	4,688,080
CASH AND CASH EQUIVALENTS - Beginning of Year								
Current unrestricted cash	14,081,411	8,785,751	996,825	378,774	5,163,000	3,328,451	20,241,236	12,492,976
Current restricted cash	-	2,042,488	35,248	-	-	1,052,940	35,248	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
CASH AND CASH EQUIVALENTS - END OF YEAR								
Current unrestricted cash	20,827,920	14,081,411	848,063	996,825	8,257,467	5,163,000	29,933,450	20,241,236
Current restricted cash	-	-	35,283	35,248	-	-	35,283	35,248
	$20,827,920	$14,081,411	$883,346	$1,032,073	$8,257,467	$5,163,000	$29,968,733	$20,276,484

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	
	2016	2015	2016	2015	2016	2015	2016	2015
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES								
Operating income (loss)	$4,402,006	$(3,653,099)	$728,016	$634,887	$2,147,144	$1,858,832	$7,277,166	$(1,159,380)
Noncash items in operating income								
Depreciation	10,048,094	11,354,301	735,660	704,184	1,671,948	1,723,620	12,455,702	13,782,105
Amortization of joint venture rights	97,747	96,795	-	-	-	-	97,747	96,795
Converter/modem net write-off	-	-	-	-	45,188	27,155	45,188	27,155
Changes in assets and liabilities								
Customer accounts receivable	(4,868,950)	2,742,771	(64,189)	(65,168)	(15,486)	(29,397)	(4,948,625)	2,648,206
Inventories	3,740,701	(10,672,079)	(36,339)	17,315	56,314	41,149	3,760,676	(10,613,615)
Prepaid and other expenses	21,342	(362,217)	3,382	(31,733)	25,376	(60,554)	50,100	(454,504)
Trade accounts payable	1,985,919	(3,411,729)	(9,306)	50,366	81,510	(4,541)	2,058,123	(3,365,904)
Accrued expenses	(141,542)	212,528	(1,342)	(4,941)	(20,352)	(7,127)	(163,236)	200,460
Pension related deferrals and liabilities	735,859	(3,548)	(766)	(35,237)	114,885	(545)	849,978	(39,330)
Unearned revenue	52,211	56,581	500	700	(10,590)	(27,982)	42,121	29,299
Customer deposits	28,283	52,883	-	-	-	-	28,283	52,883
NET CASH FLOWS FROM OPERATING ACTIVITIES	$16,101,670	$(3,586,813)	$1,355,616	$1,270,373	$4,095,937	$3,520,610	$21,553,223	$1,204,170
SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES								
Unrealized gain (loss) in investments	$2,532	$(4,020)	$-	$-	$-	$-	$2,532	$(4,020)
Unpaid capital expenditures	537,454	530,406	124,320	106,745	80,231	35,312	742,005	672,463
Noncash capital contributions	-	-	78,584	-	-	-	78,584	-
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. When reporting financial activity, the utility applies all applicable Governmental Accounting Standards Board (GASB) pronouncements.

REPORTING ENTITY

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

MEASUREMENT FOCUS, STANDARDS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. 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.

In February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application*. The statement addresses accounting and financial reporting issues to fair value measurements. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard was implemented January 1, 2016.

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 external parties. Current liabilities payable from these restricted assets are also classified.

RECEIVABLES

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

INVENTORIES

Inventories consist of fuel (coal), emission allowances, and materials and supplies valued at lower of cost or market utilizing the weighted-average cost method, with the exception of emission allowances held for the electric utility's steam sales customer, which are valued at market. Materials and supplies are generally used for construction, operation and maintenance work, not for resale.

CAPITAL ASSETS

Capital assets are stated at original cost, which includes the cost of contracted services, material, labor, overhead and, on significant projects, an allowance for borrowed funds used during construction.

Capital assets are generally defined by the utility as assets with an initial, individual cost of more than $2,000 and an estimated useful life in excess of one year.

Replacements and betterments of depreciable property units are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred. At the time depreciable property units are retired, the original cost of the unit plus cost of removal less salvage is charged to the accumulated provision for depreciation.

On an ongoing basis, the utility reviews capital assets for impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. If such events or changes in circumstances occur, the utility will recognize an impairment loss. No such loss was recognized in 2016 or 2015.

Capital assets are depreciated using the straight-line method over the estimated useful lives of the respective assets. The composite depreciation rates for 2016 and 2015 are as follows:

Electric Utility	**2016**	**2015**
Generation plant	2.3 %	2.3 %
Transmission and distribution plant	3.9 %	3.9 %
General plant	- %	6.7 %
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	6.9 %	6.5 %
Communications Utility		
CATV	4.4 %	4.8 %
Data/Internet	6.7 %	6.7 %
MME	6.2 %	6.1 %
General plant	6.7 %	6.4 %

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, placed in the Extraordinary O&M Account, may be used for extraordinary operating expenses and debt service when deemed necessary by the Board. No deferment or use of earnings occurred in 2016 and 2015.

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, 2016.

Current water rates were approved on November 25, 2014 and effective for service beginning April 1, 2016.

Current communications rates were approved on February 23, 2016 and effective for service beginning April 1, 2016.

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 2016 for the electric, water, and communications utilities are $479,274, $68,790, and $85,167, respectively. The unbilled revenue recorded in 2015 for the electric, water, and communications utilities are $482,645, $65,128, and $86,239, 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. 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. 80, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14*, Statement No. 81, *Irrevocable Split-Interest Agreements*, and Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No.68, and No. 73*. 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, 2016 and 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.

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

CREDIT RISK

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

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – DEPOSITS AND INVESTMENTS (CONT.)

As of December 31, 2016 and 2015, the utility's investments were rated as follows:

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

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

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. At December 31, 2016 and December 31, 2015, investments held with issuers, each totaling more than 5 percent of the total portfolio, were concentrated as follows:

Issuer	2016 % of Portfolio	2015 % of Portfolio
Federal Farm Credit Bank	-	33.3%
Federal Home Loan Bank	100%	33.3%
US Treasury	-	33.3%

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, 2016, 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	$ 1,500,374	$ 1,500,374	-	-

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	-

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

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

At December 31, 2016 and 2015, the utility had investments in US Agency Securities of $1,500,374 and $5,990,662, respectively. These investments were valued using a a matrix pricing model (Level 2 input) at December 31, 2016 and December 31, 2015.

NOTE 3 – CAPITAL ASSETS

ELECTRIC UTILITY

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

	Balance 1/1/2016	Additions/Reclassifications	Retirements	Transfers	Balance 12/31/2016
Land and land rights [1]	$1,874,590	$ -	$ -	$ -	$1,874,590
Generation plant	331,667,647	32,800	(203,484)	3,448,071	334,945,034
Transmission and distribution plant	62,039,064	789,547	(503,318)	867,903	63,193,196
General plant	20,757,314	90,663	(473,884)	473,249	20,847,342
Total Utility Plant in Service	416,338,615	913,010	(1,180,686)	4,789,223	420,860,162
Construction work in progress [1]	3,234,527	6,292,254	(424,426)	(4,789,223)	4,313,132
Total Electric Utility Plant	419,573,142	$7,205,264	$(1,605,112)	$ -	425,173,294
Less: Accumulated depreciation					
Generation plant	268,892,113	$7,651,048	$(203,484)	$ -	276,339,677
Transmission and distribution plant	51,162,875	2,394,638	(542,040)	-	53,015,473
General plant	20,852,287	2,409	(483,168)	-	20,371,528
Total Accumulated Depreciation	340,907,275	$10,048,095	$(1,228,692)	$ -	349,726,678
Net Electric Capital Assets	$78,665,867				$75,446,616

[1] *Capital assets not being depreciated*

ELECTRIC UTILITY (CONT.)

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

	Balance 1/1/2015	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/2015
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*

WATER UTILITY

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

	Balance1/1/2016	Additions/ Reclassifications	Retirements	Transfers	Balance 12/31/2016
Land and land rights (1)	$1,052,321	$ -	$ -	$ -	$1,052,321
Source of supply	3,245,289	-	(28,086)	211,894	3,429,097
Pumping equipment	2,278,501	-	-	126,847	2,405,348
Purification equipment	1,532,521	11,703	-	-	1,544,224
Distribution system	19,034,954	98,563	(578,829)	747,558	19,302,246
General plant	1,321,303	1,717	(18,422)	127,643	1,432,241
Total Utility Plant in Service	28,464,889	111,983	(625,337)	1,213,942	29,165,477
Construction work in progress (1)	580,954	1,371,875	(11,381)	(1,213,942)	727,506
Total Water Utility Plant	29,045,843	$1,483,858	$(636,718)	$ -	29,892,983
Less: Accumulated depreciation					
Source of supply	1,431,835	$108,176	$(28,086)	$ -	1,511,925
Pumping equipment	753,148	72,287	-	-	825,435
Purification system	909,036	38,750	-	-	947,786
Distribution system	6,150,342	424,835	(579,540)	-	5,995,637
General plant	1,229,692	91,612	(19,296)	-	1,302,008
Total Accumulated Depreciation	10,474,053	$735,660	$(626,922)	$ -	10,582,791
Net Water Capital Assets	$18,571,790				$19,310,192

[1] *Capital assets not being depreciated*

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – CAPITAL ASSETS (CONT.)

WATER UTILITY (CONT.)

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

	Balance 1/1/2015	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*

COMMUNICATIONS UTILITY

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

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

[1] *Capital assets not being depreciated*

COMMUNICATIONS UTILITY (CONT.)

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*

NOTE 4 – RESTRICTED ASSETS

Restricted assets represent amounts set aside under the terms of the water loan agreement. In accordance with the covenants of the bond resolutions, the amounts have been segregated into a bond sinking fund. In accordance with the loan agreement, the sinking fund is used solely for the purpose of paying the interest on and principal of the outstanding loan. The composition of the restricted assets at December 31, 2016 and 2015 is as follows:

	WATER UTILITY	
	2016	2015
Sinking Fund	$35,283	$35,248
Total Restricted Assets	$35,283	$35,248

NOTE 5 – NON-CURRENT LIABILITIES

NON-CURRENT LIABILITIES SUMMARY – ELECTRIC

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

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

NOTE 5 – NON-CURRENT LIABILITIES (CONT.)

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

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, 2016 and December 31, 2015 was $131,000 and $161,000 respectively.

In January 2013, the Board approved a borrowing arrangement whereby the electric utility may advance up to $4,500,000 to the water utility, as needed. The interest rate was originally established at 0.10% and may be adjusted annually, to reflect the electric utility's investment opportunity cost. The terms of the arrangement require annual interest payments on January 1 in each of the years 2014 through 2017. Both the principal and interest on the advance shall be payable in a lump sum due on January 1, 2018. This debt as to both principal and interest is and shall be junior and subordinate in all respects to the State of Iowa Revolving Loan Fund debt. All or any portion of such debt may be prepaid at any time by the water utility without penalty. On June 25, 2013, the electric utility advanced the water utility $400,000 for capital needs. The interest rate was adjusted to 0.18% on January 1, 2014, and 0.15% on January 1, 2016. In 2014 and in 2015, additional amounts of $1,500,000 and $1,000,000, respectively, were advanced to the water utility for capital needs, increasing the total loan to $2,900,000 as of December 31, 2016.

In September 2016, the Board approved to amend the borrowing amount from $4,500,000 to $8,000,000 effective October 1, 2016. In December 2016, the interest rate was adjusted to 0.23% effective January 1, 2017. In January 2017, $2,600,000 was borrowed for the Board approved land purchase.

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

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

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 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 0.23%	Total
2017	31,000	3,465	328	34,793	$ -	$ -	$ -
2018	32,000	2,520	250	34,770	2,900,000	6,670	2,906,670
2019	33,000	1,545	170	34,715	-	-	-
2020	35,000	525	87	35,612	-	-	-
Totals	$131,000	$8,055	$835	$139,890	$ 2,900,000	$6,670	$2,906,670

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 2016 and 2015, and water utility net revenues are as follows:

	2016	2015
Principal and interest paid	$39,144	$41,565
Net revenues	1,482,667	1,338,109

Annual future principal and interest payments are expected to require 2% of water utility net revenues.

NON-CURRENT LIABILITIES SUMMARY – COMMUNICATIONS

IIn 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, 2016:

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

NOTES TO FINANCIAL STATEMENTS

NON-CURRENT LIABILITIES SUMMARY – COMMUNICATIONS (CONT.)

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	-
Allowance for reduction in note payable	12,040,000	-	(2,516,665)	9,523,335	-
Total Long-Term Debt	(1,005,000)	-	1,005,000	-	-
Less: Current installments	11,035,000	-	(1,511,665)	9,523,335	-
Long-Term Debt, Net of Current Portion	264,479	-	(17,500)	246,979	18,198
Unearned revenue	71,051	13,792	(20,137)	64,706	-
Post-employment health benefit provision	243,682	434,610	(534,055)	144,237	-
Health & dental care provision	-	1,474,160	-	1,474,160	-
Non-current Liabilities	$11,614,212	$1,922,562	$(2,083,357)	$11,453,417	$18,198

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
2017	$ -	$ 22,611	$ **22,611**
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	501,042	24,371	525,413
2027	503,546	21,859	525,405
2028	506,064	19,335	525,399
2029	508,595	16,799	525,394
2030	511,137	14,249	525,386
2031 - 2035	2,594,279	32,558	2,626,837
Totals	$9,044,287	$435,674	$9,479,961

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 2016 and 2015, and communications utility net revenues are as follows:

	2016	2015
Principal and interest paid	$526,665	$3,286,772
Net revenues	3,867,837	3,613,241

Annual future principal and interest payments are expected to require 13% 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:

	2016	2015
Plant in Service	$420,860,162	$416,338,615
Construction Work in Progress	4,313,132	3,234,527
Accumulated Depreciation	(349,726,678)	(340,907,275)
Net Investment in Capital Assets	$75,446,616	$78,665,867

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

	2016	2015
Plant in Service	$29,165,477	$28,464,889
Construction Work in Progress	727,506	580,954
Accumulated Depreciation	(10,582,791)	(10,474,053)
Sub-Totals	19,310,192	18,571,790
Less: Capital Related Debt		
Customer advances for construction	289,877	377,971
Current portion of capital related long term debt	31,000	30,000
Long-term portion of capital related long term debt	100,000	131,000
Sub-Totals	420,877	538,971
Net Investment in Capital Assets	$18,889,315	$18,032,819

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

	2016	2015
Plant in Service	$33,685,964	$33,133,341
Construction Work in Progress	654,448	234,525
Accumulated Depreciation	(27,129,188)	(25,845,345)
Net Investment in Capital Assets	$7,211,224	$7,522,521

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 an 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 2016, 2015, and 2014, the utility contributed $2,926,000, $2,757,000, and $2,636,000, 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.

	2016	2015	2014
Annual required contribution	$88,156	$88,156	$216,875
Interest on net OPEB obligation	19,328	17,940	16,280
Adjustment to annual required contribution	(25,936)	(146,751)	(99,155)
Annual OPEB cost	81,548	(40,655)	134,000
Contributions made	(45,454)	(8,151)	(9,000)
Increase in net OPEB obligation	36,094	(48,806)	125,000
Net OPEB Obligation - Beginning of Year	483,205	532,011	407,011
Net OPEB Obligation - End of Year	$519,299	$483,205	$532,011

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
12/31/2014	$134,000	7%	$532,011
12/31/2015	(40,655)	-	483,205
12/31/2016	81,548	56%	519,299

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)	$20,283,973
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, 2016, 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.

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 12/31/15 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, 2016 and December 31, 2015 were $20,283,973 and $20,144,834, respectively. Participants are 100% vested at the completion of five years of service. Benefits are generally equal to 1.5% of the employee's average highest five consecutive years of compensation (Average Compensation) multiplied by credited years of service. An additional benefit is available in an amount equal to 0.5% of the employee's Average Compensation in excess of Social Security Covered Compensation, if any, multiplied by credited years of service, up to 35 years. Benefit provisions are established under the Plan as adopted by the utility's Board of Trustees. The funding is approved and amended by the utilities' five-member Board of Trustees, who are appointed by Muscatine's mayor and ratified by the city council. There are no non-employer contributing entities, as defined by GASB 67, Financial Reporting for Pension Plans, and GASB 68, Accounting and Financial Reporting for Pensions, for this plan. There are no special funding situations, as defined by GASB 67 and 68, for the Plan. The Plan currently does not issue a stand-alone financial report.

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

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

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

	12/31/2015
Active plan members	284
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	164
	539

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, 2015 measurement date and the end of the December 31, 2016 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, 2015. 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, 2016 is $2,781,411, equal to 13.7% of covered valuation payroll; the ADC for the measurement period ending December 31, 2015 is $2,682,242, equal to 13.3% of covered valuation payroll. Employer contributions, for the years ending December 31, 2016, December 31, 2015, and December 31, 2014 equaled $2,781,411, $2,683,000 and $2,619,320, 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 December 31, 2014 to December 31, 2015 has been used for the plan year ending December 31, 2015 for GASB 67 reporting and for the fiscal year ending December 31, 2016 for GASB 68 reporting. The net pension liability reported for the year ending December 31, 2016 was measured as of December 31, 2015, using the pension liability that was determined by an actuarial valuation as of December 31, 2015. 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	32.1%	8.80%
US Equity - Mid Cap	3.9%	9.10%
US Equity - Small Cap	4.0%	9.55%
Non-US Equity	11.9%	9.20%
REITs	4.6%	8.35%
Real Estate (direct property)	6.1%	6.30%
Core Bond	33.4%	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 2015 to 2115. Benefit payments after 2115 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 3.98% 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 12/31/2015 measurement date. The discount rate is a single rate that incorporates the long-term rate of return and municipal bond rate as described.

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

For the years ended December 31, 2016 and December 31, 2015, the utility recognized pension expense of $3,693,929 and $2,659,617, respectively. At December 31, 2016, 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	$2,838,119	$101,753
Difference between actual and expected experience	538,239	676,570
Difference between projected and actual earnings	3,950,878	-
Contributions subsequent to measurement date	2,781,410	-
	$10,108,646	$778,323

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

Fiscal Year ending 12/31	Deferred Outflows of Resources	Deferred Inflows of Resources
2017	$1,707,335	$155,359
2018	$1,707,335	$155,359
2019	$1,707,336	$155,359
2020	$1,530,520	$155,359
2021	$641,056	$148,864
Thereafter	$33,654	$8,023
Totals	$7,327,236	$778,323

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 12/31/16	$26,299,105	$16,047,702	$7,450,565
Net Pension Liability 12/31/15	$21,632,457	$11,783,849	$3,531,208

SCHEDULE OF CHANGES IN NET PENSION LIABILITY

Reporting Period Ending	**12/31/2016**	**12/31/2015**
TOTAL PENSION LIABILITY		
Service cost	1,293,507	1,397,201
Interest	4,857,025	4,743,318
Benefit payments	(2,672,730)	(2,370,911)
Difference between expected and actual experience	652,758	(943,990)
Change in assumptions	(123,402)	3,959,905
Change in benefit terms	0	0
Net Change in Total Pension Liability	**$4,007,158**	**$6,785,523**
Total Pension Liability, beginning of period	$72,059,721	$65,274,198
Total Pension Liability, end of period	$76,066,879	$72,059,721
FIDUCIARY NET POSITION		
Employer contributions	2,683,000	2,619,320
Net investment income	(266,965)	3,183,800
Benefit payments	(2,672,730)	(2,370,911)
Administration expenses	0	(1,950)
Net Change in Fiduciary Net Position	**($256,695)**	**$3,430,259**
Fiduciary Net Position, beginning of period	$60,275,872	$56,845,613
Fiduciary Net Position, end of period	$60,019,177	$60,275,872
NET PENSION LIABILITY	**$16,047,702**	**$11,783,849**

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 water utility contributes to IPERS for full-time utility employees who have elected not to participate in the Plan provided by the utility. IPERS is a cost-sharing multi-employer defined benefit pension plan administered by the State of Iowa. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

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

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

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

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

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

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

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

IPERS members were required to contribute 5.95% of their annual covered salary from January 1, 2015 through December 31, 2016. The water utility was required to contribute 8.93% of employees' covered annual salaries from January 1, 2015 through December 31, 2016. The contributions to IPERS for the years ended December 31, 2016, December 31, 2015, and December 31, 2014 were $49,963, $46,930, and $45,186, respectively, equal to the required contributions for those years. A measurement period of July 1, 2014 to June 30, 2015 has been used for the fiscal year ending December 31, 2016 for GASB 68 reporting.

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

At December 31, 2016, the water utility reported a liability of $343,338 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2015, the water utility's collective proportion was .006906 percent, which was a decrease of .00207 percent from its proportion measured as of June 30, 2014.

For the years ended December 31, 2016 and December 31, 2015, the water utility recognized IPERS expense of $7,851 and $11,928, respectively. At December 31, 2016, the water utility reported deferred outflows of resources and deferred inflow of resources related to IPERS from the following sources:

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

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 pen-

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

sion liability in the year ending December 31, 2017. Other amounts reported as deferred outflows and inflows or resources related to IPERS will be recognized in the pension expense as follows:

Fiscal Year Ending 12/31	Deferred Outflows of Resources	Deferred Inflows of Resources
2017	$17,106	$60,119
2018	17,106	60,119
2019	17,106	60,119
2020	14,518	34,046
2021	174	5,576
Totals	$66,010	$219,979

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%-17% depending upon years of service (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	Target Allocation	Long-Term Expected Real Rate of Return
Core-plus fixed income	28%	2.04%
Domestic equity	24%	6.29%
International equity	16%	6.75%
Private equity/debt	11%	11.32%
Real estate	8%	3.48%
Credit opportunities	5%	3.63%
U.S. TIPS	5%	1.91%
Other real assets	2%	6.24%
Cash	1%	-0.71%
TOTAL	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 12/31/16	$601,124	$343,338	$125,749
Net Pension Liability-IPERS 12/31/15	$686,402	$363,237	$90,526

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

At December 31, 2016 and December 31, 2015, the water utility reported payables to the defined benefit pension plan of $6,106 and $5,601 for legally required employer contributions and $4,069 and $3,732 for legally required employee contributions, respectively, which had not yet been remitted to IPERS.

NOTE 10 – AGGREGATE PENSION SCHEDULES

Aggregate Net Pension Liability Schedule - 2016
Single-Employer Defined

	Benefit Pension Plan	IPERS	Total
Electric	$13,000,669		$13,000,669
Water	915,157	$343,338	1,258,495
Communications	2,013,125		2,013,125
MAGIC	118,751		118,751
	$16,047,702	$343,338	$16,391,040

Aggregate Deferred Outflows of Resources Schedule - 2016
Single-Employer Defined

	Benefit Pension Plan	IPERS	Total
Electric	$8,177,423		$8,177,423
Water	585,543	$138,778	724,321
Communications	1,269,389		1,269,389
MAGIC	76,291		76,291
	$10,108,646	$138,778	$10,247,424

Aggregate Deferred Inflows of Resources Schedule - 2016
Single-Employer Defined

	Benefit Pension Plan	IPERS	Total
Electric	$633,159		$633,159
Water	42,317	$219,979	262,296
Communications	97,343		97,343
MAGIC	5,504		5,504
	$778,323	$219,979	$998,302

Aggregate Pension Expense Schedule - 2016
Single-Employer Defined

	Benefit Pension Plan	IPERS	Total
Electric	$2,977,676		$2,977,676
Water	222,375	$7,851	230,226
Communications	465,066		465,066
MAGIC	28,812		28,812
	$3,693,929	$7,851	$3,701,780

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 $30,649,000 or 32% in 2016 and $27,906,000 or 31% in 2015 of the electric utility's operating revenues were derived from sales to one customer. Approximately $2,886,000 or 48% in 2016 and $2,624,000 or 47% in 2015 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, P*ension 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 originally entered into in December 2013. An amended and restated agreement was executed in June 2016. It is a 20-year agreement that commenced fourth quarter 2016 with the wind farm's actual commercial operation date. The wind farm is located in Jackson County, Minnesota, which is in the utility's MISO local resource zone. Its projected annual output is 48,968 MWH, approximately 5.6% of native system needs. Terms include a fixed first year rate for delivered energy, with a 2.2% annual escalation over the 20-year agreement. The utility is subject to market risk; however, the contract includes a cost floor provision to protect against this risk. The contract also includes a revenue/margin sharing provision if the net financial benefit goes above a certain level.

The utility has committed to purchasing 319,000 tons of coal in 2017 under a contract with one supplier.

The utility has rail transportation agreements with two separate companies for the delivery of coal. The utility's first agreement is for coal shipped from the Powder River Basin (PRB), Wyoming to an interchange with the local delivery carrier. The original contract term was July 1, 2011 through December 31, 2017. In 2016, this agreement was extended by amendment to December 31, 2022 where the rate is fixed annually plus 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.

The agreement with the Canadian Pacific Railway for the shipment of coal from the interchange point to the utility's generating station expired December 31, 2016. A new agreement is in negotiation and expected to be in place well before the scheduled start of coal shipments in May of 2017. It will be a one year agreement.

In anticipation of future emissions reduction requirements, in 2013 the utility entered into contracts with a coal refining company for the company to apply additives to the utility's coal. These additives change the combustion characteristics of the coal such that Mercury and NOx emissions are reduced. The contracts include a facilities lease, a contract for the sale of the utility's coal to the refining company and a contract for the purchase of the refined coal by the utility for burning in the utility's generation units. The refined coal will reduce the overall delivered coal costs for the utility because the coal refining company is taking advantage of a tax incentive program and the utility will share in their tax savings. This agreement is in effect until December 2019.

In October 2016, the utility contracted to sell steam to a local customer through April 2017. The agreement includes a minimum flow rate, adjusted as necessary to accommodate operational circumstances.

NOTES TO FINANCIAL STATEMENTS

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 $1,075,600 in 2016 and $1,076,200 in 2015. The electric utility sold power to the communications utility amounting to approximately $21,900 in 2016 and $21,300 in 2015. The electric utility purchased water from the water utility amounting to approximately $389,500 for 2016 and $351,300 for 2015. The electric utility purchased communications services from the communications utility amounting to approximately $166,400 for 2016 and $163,200 for 2015.

The electric utility rents space to the water utility and the communications utility at the Administration/Operations Center. This amounted to $73,200 in 2016 and $71,000 in 2015 for the water utility's rent, and $112,500 in 2016 and $113,800 in 2015 for the communications utility's rent.

Electric utility amounts receivable from the water utility were $88,000 and $85,300 at December 31, 2016 and 2015, respectively. Electric utility amounts payable to the water utility were $31,400 and $28,900 at December 31, 2016 and 2015, respectively. Electric utility amounts receivable from the communications utility were $2,000 and $1,900 at December 31, 2016 and 2015, respectively. Electric utility amounts payable to the communications utility were $13,800 and $13,900 at December 31, 2016 and 2015, 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, 2016 and December 31, 2015. Interest income on the loan amounted to $47,617 for 2016 and $50,000 for 2015.

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. 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, which is the balance December 31, 2016. The interest rate was adjusted to 0.18% January 1, 2014, and then again to 0.15% effective January 1, 2016.

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)	2016	2015	2014
Health/dental care self-insurance reserve			
Reserve liability, beginning of year	$1,282	$1,779	$1,930
Add: Provision for reserve, current year	4,040	4,056	3,663
Less: Payments on reserve	(3,827)	(4,174)	(3,447)
Total Reserve Liability, end of year	1,495	1,661	2,146
Incurred but not reported claims	(352)	(379)	(367)
Non-Current Reserve Liability, End of Year	$1,143	$1,282	$1,779

(Thousands of dollars)	2016	2015	2014
Workers compensation self insurance reserve			
Reserve liability, beginning of year	$491	$176	$441
Add: Provision for reserve	712	715	162
Less: Payments on reserve	(677)	(400)	(427)
Reserve Liability, End of Year	$526	$491	$176

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

WATER RATES

In November 2016, a 5.5% water rate increase was approved by the Board to become effective with water usage starting April 1, 2017.

ELECTRIC UTILITY LOAN TO WATER UTILITY

On December 20, 2016, the Board approved the adjustment of the interest rate on the electric utility's loan to the water utility from 0.15% to 0.23% effective January 1, 2017. In addition, it was requested of the Board that an additional $3,000,000 be available to advance from the electric utility to the water utility for the Board approved land purchase. In January 2017, $2,600,000 was borrowed for this purpose.

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

Measurement Date	12/31/2015	12/31/2014
Fiscal Year	**12/31/2016**	**12/31/2015**
Service cost	$1,293,507	$1,397,201
Interest	4,857,025	4,743,318
Benefit payments	(2,672,730)	(2,370,911)
Difference between expected and actual experience	652,758	(943,990)
Change in assumptions	(123,402)	3,959,905
Net Change in Total Pension Liability	$4,007,158	$6,785,523
Total Pension Liability, beginning of period	$72,059,721	$65,274,198
Total Pension Liability, end of period	$76,066,879	$72,059,721
PLAN FIDUCIARY NET POSITION		
Employer contributions	$2,683,000	$2,619,320
Net investment income	(266,965)	3,183,800
Benefit payments	(2,672,730)	(2,370,911)
Administration expenses	-	(1,950)
Net Change in Plan Fiduciary Net Position	($256,695)	$3,430,259
Plan Fiduciary Net Position, beginning of period	$60,275,872	$56,845,613
Plan Fiduciary Net Position, end of period	$60,019,177	$60,275,872
NET PENSION LIABILITY	$16,047,702	$11,783,849
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.9%	83.6%
Covered Valuation Payroll	$20,144,834	$20,059,886
Net Pension Liability as a Percentage of Covered Valuation Payroll	79.7%	58.7%

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

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%
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:

	12/31/2016	12/31/2015
Proportion of the Net Pension Liability	0.006906%	0.00916%
Proportionate share of the Net Pension Liability	$343,338	$363,277
Covered Valuation Payroll	$476,102	$599,391
Proportionate share of the Net Pension Liability as a % of its Covered Valuation Payroll	72.1%	60.6%
Plan Fiduciary Net Position as a % of the Total Pension Liability	85.2%	86.6%

The amounts presented were determined as of June 30.

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

CHANGES OF BENEFIT AND FUNDING TERMS:

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

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

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

CHANGES IN ACTUARIAL ASSUMPTIONS:

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

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

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.

See Independent Auditors' Report

REQUIRED SUPPLEMENTAL INFORMATION (CONT.)

SCHEDULE OF THE WATER UTILITY'S IPERS CONTRIBUTIONS:

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

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

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

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

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, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinions

Muscatine Power and Water reports activity for GASB 68: *Accounting and Financial reporting for Pensions – an amendment of GASB Statement No. 27* using a measurement date of June 30, 2015 and 2014 for the years ended December 31, 2016 and 2015, 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, 2015 measurement date, the water utility shows a net pension liability, deferred outflows of resources, and deferred inflows or resources of $343,338, $138,778, and $219,979, respectively, on the Statement of Net Position at December 31, 2015. The related pension expense of $7,851 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, 2016 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, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in 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, 2016 and 2015 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplemental information as listed in the table of contents be presented to supplement the financial statements. Management's Discussion and Analysis does not include a discussion of changes in financial position between 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 22, 2017 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 22, 2017

The POWER to make a difference

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 our 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.

Muscatine Power and Water

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