

MUSCATINE POWER AND WATER

A Component Unit of the City of Muscatine, Iowa

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2019 and 2018

MUSCATINE POWER AND WATER

A Component Unit of the City of Muscatine, Iowa

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the enterprise funds and fiduciary fund of Muscatine Power and Water, a component unit and fiduciary fund of the City of Muscatine, Iowa, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise of Muscatine Power and Water's basic 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Muscatine Power & Water enterprise funds and fiduciary fund as of December 31, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance 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, 2019 and 2018 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

As discussed in the Note 1, Muscatine Power & Water adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, effective January 1, 2019. Our opinions are not modified with respect to this matter.

As discussed in Note 12 to the financial statements, net position as of December 31, 2018 and 2017 has been restated to correct a material misstatement. 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 basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economical, or historical contexts. Management's Discussion and Analysis does not include a discussion of changes in financial position between 2017 and 2018. 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The other information section as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated April 24, 2020 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
April 24, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS
MUSCATINE POWER AND WATER

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2019 and 2018

(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 2019 and 2018. 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 lower wholesale electric revenue in 2019 due to less generation being sold into the wholesale market and a lower average sales price.

The Electric Utility became debt free in 2011 and continued to be debt free in 2019.

Overall retail rate adjustments of 2.0% per year, effective August 1, 2019 and August 1, 2018, 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 \$486,270 and \$483,850 were made in 2019 and 2018, respectively.

Statement No. 18 – Accounting for Municipal Solid Waste Landfill Closure and Post closure Care Costs (GASB 18) was implemented in 2018 and required a restatement of 2017 to decrease net position. The \$1.0 million reported as landfill closure and post-closure care liability at December 31, 2019, represents the remaining cumulative amount reported to date based on the use of approximately 63.5 percent of the estimated capacity of the landfill's phases one and two. The electric utility will recognize the remaining estimated cost of closure and post-closure care of \$583,000 as the remaining estimated capacity is filled. The electric utility partially closed the landfill's phase one in 2019 at an expense of \$894,000. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. The electric utility is required by state and federal laws and regulations to file a statement to demonstrate financial assurance for closure and/or post-closure care costs.

On April 28, 2017, Grain Processing Corporation (GPC) extended their agreement to purchase steam through April 30, 2020 during the non-ozone season (Jan 1 – Apr 30 and Oct 1 – Dec 31). 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. On February 1, 2019, GPC agreed to purchase summer steam during 2019's ozone season (May 1-Sep 30). On October 17, 2019, GPC agreed to purchase steam year-round from May 1, 2020 through December 31, 2022. The pricing structure is inclusive of all costs (fuel, transportation, powdered activated carbon, variable costs, and emission allowances).

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018 (Unaudited)

UTILITY FINANCIAL ANALYSIS (cont.)

ELECTRIC UTILITY (cont.)

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 2020 projected annual output is 51,991 MWH, approximately 6.0% of native system needs. Total purchases were 50,096 MWH for 2019 and 51,547 MWH for 2018.

Statements of Net Position

| <i>In thousands \$</i> | 2019 | 2018 Restated |
|---|-------------------|----------------------|
| Current Assets – Unrestricted | \$ 89,070 | \$ 83,746 |
| Non-Current Assets | | |
| Capital Assets | 66,138 | 63,956 |
| Other Assets | 7,694 | 8,176 |
| Total Non-Current Assets | 73,832 | 72,132 |
| Deferred Outflows of Resources | | |
| OPEB | 100 | 79 |
| Pension | 9,055 | 6,992 |
| Total Deferred Outflows of Resources | 9,155 | 7,071 |
| Total Assets and Deferred Outflows of Resources | \$ 172,057 | \$ 162,949 |
| Current Liabilities | \$ 7,821 | \$ 10,491 |
| Non-Current Liabilities | 19,578 | 14,586 |
| Deferred Inflows of Resources | | |
| Extraordinary O&M Account | 28,033 | 28,033 |
| OBEB | 99 | 91 |
| Pension | 851 | 3,089 |
| Total Deferred Inflows of Resources | 28,983 | 31,213 |
| Net Position | | |
| Net investment in capital assets | 66,139 | 63,956 |
| Unrestricted | 49,536 | 42,703 |
| Total Net Position | 115,675 | 106,659 |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | \$ 175,057 | \$ 162,949 |

2019 Compared to 2018

- Total assets increased \$9.1 million primarily due to:
 - \$2.7 million increase of cash and investments primarily due to an increase in retail and steam revenue, and increase in interest income;
 - \$0.1 million increase in steam sales receivable;
 - \$0.2 million increase in interest receivable;
 - \$0.2 million increased inventories;
 - \$2.9 million increase in coal inventory;
 - \$0.5 million higher prepaid expenses;
 - \$2.2 million higher net utility plant due to capital expenditures exceeding depreciation and retirements; and

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MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019 and 2018
(Unaudited)

UTILITY FINANCIAL ANALYSIS (cont.)

ELECTRIC UTILITY (cont.)

2019 COMPARED TO 2018

- \$2.1 million increase in deferred pension outflows.
- Offset by decreases of:
 - \$0.6 million in consumer accounts receivable;
 - \$0.7 million in coal sales receivable; and
 - \$0.5 million in communication utility note receivable.
- Current liabilities decreased \$2.7 million primarily due to decreases of \$1.6 million in other trade accounts payable, \$0.6 million in refined coal invoice payable, and \$0.5 million in accrued payroll and vacation.
- Non-current liabilities increased \$5.0 million primarily due to a \$5.8 million increase to the net pension liability related to the adjustment for GASB 68, offset by decreases of \$0.6 million to the landfill closure and post closure liability and \$0.3 million to health & dental insurance provision.
- Deferred inflows of resources decreased \$2.2 million due to the GASB 68 pension adjustment.

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

Statements of Revenues, Expenses and Changes in Net Position

| <i>In thousands \$</i> | 2019 | 2018 Restated |
|--|-------------|----------------------|
| Operating Revenues | \$ 93,353 | \$ 95,677 |
| Operating Expenses | (85,797) | (101,878) |
| Operating Income (Loss) | 7,556 | (6,201) |
| | | |
| Non-operating Revenues | 1,434 | 1,046 |
| Non-operating Expenses | (23) | (12) |
| Net Non-operating Revenues | 1,411 | 1,034 |
| | | |
| Net Income (Loss) before Capital Contributions | 8,967 | (5,166) |
| Capital Contributions | 49 | - |
| | | |
| Change in Net Position | 9,016 | (5,166) |
| | | |
| Net Position – Beginning of Year | 106,659 | 111,825 |
| | | |
| Net Position – End of Year | \$ 115,675 | \$ 106,659 |

- Total operating revenues decreased \$2.3 million or 2.4% primarily due to:
 - Decreased wholesale electric sales of \$9.2 million or 30.1% due to a 20.5% decrease in kWh sales and a 12.1% lower average price;

See Independent Auditors' Report

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2019 and 2018

(Unaudited)

UTILITY FINANCIAL ANALYSIS (cont.)

ELECTRIC UTILITY (cont.)

2019 Compared to 2018 (cont.)

- Offset by:
 - \$3.3 million or 5.6% increase in native system electric sales, due to an 8.2% higher average price, offset by 2.3% decrease in kWh sales; and
 - \$3.7 million or 63.1% increase in steam sales to MP&W's largest industrial customer, Grain Processing Corporation, due to 76.0% higher pounds of steam supplied.
- Total operating expenses decreased \$16.1 million or 15.8% due to:
 - \$8.5 million lower cost of depreciation due to a change in methodology;
 - \$5.3 million lower purchased power costs due to a 16.1% lower average price and 2.5% decrease in kWh purchased;
 - \$3.9 million lower cost of maintenance expenses due to an extended unit #9 outage in 2018; and
 - \$0.6 million lower cost of production fuel, resulting from a 21.5% lower net generation, offset by a 3.8% higher average cost of coal burned per ton; offset by
 - \$2.2 million higher cost of operation expenses primarily due to \$1.2 million higher cost for employee pension and benefits.

Statements of Cash Flows

| <i>In thousands \$</i> | 2019 | 2018 |
|--|------------------|------------------|
| Cash Flows from Operating Activities | \$ 6,279 | \$ 11,402 |
| Cash Flows from Non-Capital Financing Activities | 527 | 527 |
| Cash Flows from Capital and Related Financing Activities | (5,248) | (5,291) |
| Cash Flows from Investing Activities | (10,008) | (21,882) |
| Net Change in Cash and Cash Equivalents | (8,450) | (15,244) |
| Cash and Cash Equivalents – Beginning of Year | 22,745 | 37,989 |
| Cash and Cash Equivalents – End of Year | \$ 14,295 | \$ 22,745 |

2019 Compared to 2018

- Cash flows from operating activities decreased by \$5.1 million due to:
 - \$9.7 million lower wholesale electric revenue;
 - \$6.4 million higher cash paid to suppliers;
 - \$4.3 million lower coal sales; offset by
 - \$3.8 million higher retail sales revenue;
 - \$3.8 million lower purchased power costs;
 - \$3.5 million higher steam sales revenue;
 - \$2.8 million lower coal and coal transportation costs;
 - \$1.1 million higher cash received from other operating sources;
 - \$0.1 million higher by-product sales revenue; and
 - \$0.1 million lower employee payroll, taxes and benefits.

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MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019 and 2018
(Unaudited)

UTILITY FINANCIAL ANALYSIS (cont.)

ELECTRIC UTILITY (cont.)

2019 Compared to 2018 (cont.)

- Non-capital financing activities are comprised of the principal and interest on the note receivable from the communications utility.
- Cash flows from capital and related financing activities include:
 - Capital expenditures of \$5.5 million in 2019, compared to \$6.1 million in 2018; and
 - Proceeds from sales of assets of \$0.2 million in 2019, compared to \$0.8 million in 2018.
- Cash flows from investing activities include:
 - Investment purchases of \$104.0 million in 2019, compared to \$49.6 million in 2018, offset by investment maturities of \$92.9 million in 2019, compared to \$27.1 million in 2018.
 - Interest of \$1.2 million in 2019, compared to \$0.8 million in 2018.

WATER UTILITY

The Board approved water rate increases of 5.5% per year, effective April 1, 2019, and April 1, 2018, in response to an increase in capital requirements necessary to provide for fire protection, community growth, and higher operation and maintenance costs.

MP&W's industrial customers account for approximately 85% of gallons sold and 53.5% 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 \$35,000 at the end of 2019. The interest rate on the loan is 3.0%, plus a 0.25% servicing fee, with a 10-year repayment term.

In May 2017, the Board approved the issuance and securing the payment of future obligations for the purposes of borrowing money for constructing water improvements and extensions. The water utility issued \$14.9 million water revenue bonds in June 2017 for that purpose. The outstanding principal due on the bonds is \$14.11 million at December 31, 2019.

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2019 and 2018

(Unaudited)

UTILITY FINANCIAL ANALYSIS (cont.)

WATER UTILITY (cont.)

| <i>In thousands \$</i> | 2019 | 2018 |
|---|-------------------------|-------------------------|
| Statements of Net Position | | |
| Current Assets | | |
| Unrestricted | \$ 5,205 | \$ 6,008 |
| Restricted | 969 | 969 |
| Total Current Assets | <u>6,174</u> | <u>6,977</u> |
| Non-Current Assets | | |
| Capital Assets | 28,437 | 27,649 |
| Other Assets | 49 | 53 |
| Total Non-Current Assets | <u>28,486</u> | <u>27,702</u> |
| Deferred Outflows of Resources | | |
| OPEB | 15 | 10 |
| Pension | 885 | 711 |
| Total Deferred Outflows of Resources | <u>900</u> | <u>721</u> |
| Total Assets and Deferred Outflows of Resources | <u><u>\$ 35,560</u></u> | <u><u>\$ 35,400</u></u> |
| Current Liabilities | \$ 1,065 | \$ 1,220 |
| Non-Current Liabilities | 16,527 | 16,656 |
| Deferred Inflows of Resources | | |
| OPEB | 15 | 12 |
| Pension | 212 | 338 |
| Total Liabilities and Deferred Inflows of Resources | <u>17,819</u> | <u>18,226</u> |
| Net Position | | |
| Net investment in capital assets | 13,345 | 12,042 |
| Restricted for debt service | 923 | 921 |
| Unrestricted | 3,473 | 4,211 |
| Total Net Position | <u>17,741</u> | <u>17,174</u> |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | <u><u>\$ 35,560</u></u> | <u><u>\$ 35,400</u></u> |

2019 Compared to 2018

- Total assets and deferred outflows increased \$159,400 or 0.5% primarily due to:
 - Capital assets increasing \$787,900, net of retirements, due to normal capital spending for utility construction and acquisition projects;
 - Prepaid insurance and maintenance contracts increasing \$47,400; and
 - Deferred outflows of resources increasing \$178,300 primarily due to the pension adjustments related to GASB 68; offset by
 - Cash decreasing \$858,300 due to debt repayment.

- Current liabilities decreased by \$155,000 or 12.7% primarily due to:
 - Trade accounts payable decreasing by \$128,400; and
 - Accrued expenses decreasing by \$38,400; offset by
 - Current portion of long-term debt increasing by \$12,000.

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MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2019 and 2018

(Unaudited)

UTILITY FINANCIAL ANALYSIS (cont.)

WATER UTILITY (cont.)

2019 Compared to 2018

- Non-current liabilities decreased by \$129,200, primarily due to:
 - Bond-related liabilities decreasing \$526,500; and
 - Health & dental care provision decreasing by \$53,800; offset by
 - Net pension liability increasing by \$440,100 due to the adjustment for GASB 68; and
 - Net OPEB liability increasing by \$11,600 due to the latest actuarial report.
- Deferred inflows of resources decreased \$122,800 primarily 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.

Statements of Revenues, Expenses and Changes in Net Position

| <i>In thousands \$</i> | 2019 | 2018 |
|-----------------------------------|------------------|------------------|
| Operating Revenues | \$ 6,937 | \$ 6,643 |
| Operating Expenses | (6,020) | (5,634) |
| Operating Income | 917 | 1,009 |
| Non-operating Expenses | (351) | (358) |
| Change in Net Position | 566 | 651 |
| Net Position – Beginning of Year | 17,175 | 16,592 |
| Adjustment to net position | - | (68) |
| Net Position – End of Year | \$ 17,741 | \$ 17,175 |

2019 Compared to 2018

- Operating revenues increased \$294,000 or 4.4%.
 - Total water sales revenue was \$299,600 higher primarily due to a 5.5% rate adjustment effective April 1, 2019.
- Operating expenses increased \$385,800 or 6.8% primarily due to:
 - \$46,200 higher cost of well maintenance;
 - \$77,400 higher water pumping expenses;
 - \$45,100 higher cost of water treatment;
 - \$121,600 higher cost of water main repairs;
 - \$10,600 higher marketing costs;
 - \$10,000 higher customer accounts expenses;
 - \$11,800 for a water cost of service study;
 - \$33,700 higher health care costs;
 - \$80,700 higher pension expense due to GASB 68 adjustments;
 - \$73,400 higher miscellaneous administrative expenses; offset by
 - \$140,800 lower depreciation due to change in policy.

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MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019 and 2018
(Unaudited)

UTILITY FINANCIAL ANALYSIS (cont.)

WATER UTILITY (cont.)

| | Statements of Cash Flows | |
|--|--------------------------|-----------------|
| <i>In thousands \$</i> | 2019 | 2018 |
| Cash Flows from Operating Activities | \$ 1,572 | \$ 1,948 |
| Cash Flows from Capital and Related Financing Activities | (2,549) | (4,389) |
| Cash Flows from Investing Activities | 118 | 117 |
| Net Change in Cash and Cash Equivalents | (859) | (2,324) |
| Cash and Cash Equivalents – Beginning of Year | 5,856 | 8,180 |
| Cash and Cash Equivalents – End of Year | \$ 4,997 | \$ 5,856 |

2019 Compared to 2018

- Cash flows from operating activities decreased \$375,900, or 19.3%, due to increased operating expenses.
- Cash flows from capital and related financing activities reflect \$1.837M lower capital spending in 2019 compared to 2018.

COMMUNICATIONS UTILITY

Rate adjustments for the communications utility were approved by the Board for both 2019 and 2018. MPW Digital TV Basic and Select service rates increased approximately 4.5% effective April 1, 2019. In addition to the rate increases, a broadcast service charge increased from \$13.00 per month in 2018 to \$15.00 per month in 2019 and is applied to all packages to cover local network channel fees.

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 \$486,270 and \$483,850 were made in 2019 and 2018, respectively.

The construction of a Fiber to the Home (FTTH) system to replace the current Hybrid Fiber Coax (HFC) system has allowed 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 in 2020 at a cost of \$19.1 million. With the construction of the fiber network, Voice over Internet Protocol (VoIP) services were available to customers beginning in February 2018. At the end of 2019, 383 customers had signed up for this service.

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2019 and 2018

(Unaudited)

UTILITY FINANCIAL ANALYSIS (cont.)

COMMUNICATIONS UTILITY (cont.)

On December 14, 2017, the Communications Revenue Bond, Series 2017 was signed with a local bank providing \$10 million for telecommunications systems improvements and extensions to the municipal Communications Utility. Principal of this bond bears interest at the rate of 2.95% per annum. Both principal and interest are payable in nineteen equal quarterly installments of \$540,916 each, due on March 31, June 30, September 30, and December 31 in each of the years 2018 to 2022, inclusive. Principal payments of \$1,945,397 and \$1,876,035 were made in 2019 and 2018, respectively. The principal balance as of December 31, 2019 is \$6,178,568.

Statements of Net Position

| <i>In thousands \$</i> | 2019 | 2018 |
|---|------------------|------------------|
| Current Assets - Unrestricted | 8,498 | \$ 13,604 |
| Non-Current Assets - Capital Assets | 20,349 | 15,559 |
| Deferred Outflows of Resources | | |
| OPEB | 22 | 14 |
| Pension | 1,719 | 1,088 |
| Total Deferred Outflows of Resources | 1,741 | 1,102 |
| Total Assets and Deferred Outflows of Resources | \$ 30,588 | \$ 30,265 |
| Current Liabilities | \$ 3,648 | \$ 3,692 |
| Non-Current Liabilities | 15,015 | 16,358 |
| Deferred Inflows of Resources | 187 | 512 |
| Total Liabilities | 18,850 | 20,562 |
| Net Position | | |
| Net investment in capital assets | 14,170 | 7,435 |
| Unrestricted | (2,432) | 2,268 |
| Total Net Position | 11,738 | 9,703 |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | \$ 30,588 | \$ 30,265 |

2019 Compared to 2018

- Total assets and deferred outflows of resources increased \$322,400 or 1.1% due to:
 - \$4.8 million increase in capital assets, net of retirements, resulting from construction projects and the depreciation policy change; and
 - \$637,900 increase in deferred outflows of resources primarily due to the pension adjustment related to GASB 68; offset by
 - \$5.1 million decrease in cash and investment balances.

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MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018 (Unaudited)

UTILITY FINANCIAL ANALYSIS (cont.)

COMMUNICATIONS UTILITY (cont.)

- Current liabilities decreased \$44,700 primarily due to:
 - \$94,400 decrease in accounts payable; offset by
 - \$58,000 increase to current portion of long-term debt.
- Noncurrent liabilities decreased \$1.3 million primarily due to:
 - \$2.0 million decrease to long term debt, net of current portion;
 - \$0.5 million decrease in notes payable to electric utility; offset by
 - \$1.2 million increase in net pension liability due to GASB 68 adjustments.
- Deferred inflows of resources decreased \$325,700 primarily due to GASB 68 pension adjustments.

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

Statements of Revenues, Expenses and Changes in Net Position

| <i>In thousands \$</i> | 2019 | 2018 |
|---|-----------|-----------|
| Operating Revenues | \$ 14,541 | \$ 14,143 |
| Operating Expenses | (12,466) | (11,828) |
| Operating Income | 2,075 | 2,315 |
| | | |
| Non-operating Revenues | 205 | 215 |
| Non-operating Expenses | (258) | (334) |
| Net Non-operating Expenses | (53) | (119) |
| | | |
| Net Income before Capital Contributions | 2,022 | 2,196 |
| Capital Contributions | 13 | 18 |
| | | |
| Change in Net Position | 2,035 | 2,214 |
| | | |
| Net Position – Beginning of Year | 9,703 | 7,489 |
| | | |
| Net Position – End of Year | \$ 11,738 | \$ 9,703 |

2019 Compared to 2018

- Operating revenues increased \$398,000 or 2.8%.
 - Video operating revenues decreased by \$145,000 or 2.1% due to:
 - 7.9% decrease in the total number of video subscribers (5,456 at the end of 2019 vs. 5,924 at the end of 2018);
 - Residential revenue decreased \$103,000;
 - Additional \$66,000 promotional discounting offered; offset by
 - Commercial revenue increase of \$15,000; and
 - Equipment rental increasing by \$9,700.
 - Internet revenues increased \$430,000 or 6.9% primarily due to:
 - Fiber service revenue increasing \$1.6 million;
 - Wi-fi @ home revenue increasing \$33,500; offset by
 - Cable modem revenue decreasing \$1.2 million.

See Independent Auditors' Report

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018 (Unaudited)

UTILITY FINANCIAL ANALYSIS (cont.)

COMMUNICATIONS UTILITY (cont.)

2019 Compared to 2018

- Phone services were first made available to customers in February 2018. Revenue amounted to \$7,500 in 2018 and increased to \$67,200 in 2019.
- MAN revenues increased \$61,200 or 7.6% due to increased rates.
- Operating expenses increased overall by \$638,000 or 5.4% primarily due to:
 - \$343,000 higher labor expense;
 - \$226,800 higher pension expense due to GASB 68 adjustments;
 - \$185,000 uncollectible write-off from USAC E-rate program;
 - \$119,000 higher miscellaneous video expense;
 - \$45,000 additional Internet material expenses;
 - \$85,000 higher administrative expenses;
 - \$64,000 higher network operations center and line equipment maintenance;
 - \$47,000 higher cost of maintenance agreements; and
 - \$31,000 additional phone related expenses for newer line of business;

Offset by:

- \$207,400 lower depreciation due to a policy change;
- \$268,000 lower program acquisition cost due to declining video subscribers; and
- \$76,000 lower data/Internet access charges.

Statements of Cash Flows

| <i>In thousands \$</i> | <u>2019</u> | <u>2018</u> |
|--|------------------------|------------------------|
| Cash Flows from Operating Activities | \$ 3,254 | \$ 3,922 |
| Cash Flows from Capital and Related Financing Activities | (8,546) | (6,857) |
| Cash Flows from Investing Activities | <u>2,538</u> | <u>(7,631)</u> |
| Net Change in Cash and Cash Equivalents | (2,754) | (10,566) |
| Cash and Cash Equivalents – Beginning of Year | <u>3,780</u> | <u>14,346</u> |
| Cash and Cash Equivalents – End of Year | <u><u>\$ 1,026</u></u> | <u><u>\$ 3,780</u></u> |

MUSCATINE POWER AND WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019 and 2018 (Unaudited)

UTILITY FINANCIAL ANALYSIS (cont.)

COMMUNICATIONS UTILITY (cont.)

2019 Compared to 2018

- Cash flows from operating activities decreased \$668,500 due to:
 - \$448,200 increase in cash paid to suppliers; and
 - \$644,000 increase in payroll, taxes and benefits; offset by
 - \$350,500 increase in retail sales; and
 - \$73,200 increase in cash received from other sources.
- Capital and related financing activities include:
 - Capital expenditures in 2019 and 2018 totaling \$5.9 million and \$4.1 million, respectively;
 - Debt principal and interest payments in 2019 and 2018 totaling \$2.7 million each year.
- Cash flows from investing activities include:
 - Net investment maturities of \$2.3 million in 2019 compared to net investment purchases of \$7.8 million in 2018; and
 - Interest received on investments of \$215,600 in 2019 compared to \$204,200 in 2018.

CONTACTING UTILITY MANAGEMENT

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

MUSCATINE POWER AND WATER

STATEMENTS OF NET POSITION As of December 31, 2019 and 2018

| ASSETS | ELECTRIC UTILITY | | WATER UTILITY | | COMMUNICATIONS UTILITY | | TOTALS | |
|--|-----------------------|-----------------------|----------------------|----------------------|------------------------|----------------------|-----------------------|-----------------------|
| | 2019 | 2018 | 2019 | 2018 restated | 2019 | 2018 | 2019 | 2018 restated |
| CURRENT ASSETS | | | | | | | | |
| Unrestricted Assets | | | | | | | | |
| Cash | \$ 14,294,680 | \$ 22,744,598 | \$ 4,027,732 | \$ 4,886,607 | \$ 1,026,082 | \$ 3,780,211 | \$ 19,348,494 | \$ 31,411,416 |
| Investments | 49,216,365 | 38,080,825 | - | - | 5,512,870 | 7,834,969 | 54,729,235 | 45,915,794 |
| Receivables: | | | | | | | | |
| Customer accounts | 8,309,862 | 9,447,754 | 775,934 | 755,550 | 1,451,618 | 1,618,943 | 10,537,414 | 11,822,247 |
| Interest | 533,414 | 380,686 | 643 | 92 | 7,332 | 19,432 | 541,389 | 400,210 |
| Inventories: | | | | | | | | |
| Fuel | 10,181,204 | 7,274,218 | - | - | - | - | 10,181,204 | 7,274,218 |
| Emission allowances | 181,539 | 127,608 | - | - | - | - | 181,539 | 127,608 |
| Materials and supplies | 5,319,639 | 5,206,047 | 330,550 | 343,709 | 198,341 | 216,069 | 5,848,530 | 5,765,825 |
| Prepaid and other expenses | 1,032,717 | 483,894 | 69,748 | 22,301 | 301,905 | 134,471 | 1,404,370 | 640,666 |
| Total Unrestricted Assets | <u>89,069,420</u> | <u>83,745,630</u> | <u>5,204,607</u> | <u>6,008,259</u> | <u>8,498,148</u> | <u>13,604,095</u> | <u>102,772,175</u> | <u>103,357,984</u> |
| Restricted Assets - Cash | - | - | 969,505 | 968,969 | - | - | 969,505 | 968,969 |
| Total Current Assets | <u>89,069,420</u> | <u>83,745,630</u> | <u>6,174,112</u> | <u>6,977,228</u> | <u>8,498,148</u> | <u>13,604,095</u> | <u>103,741,680</u> | <u>104,326,953</u> |
| NON-CURRENT ASSETS | | | | | | | | |
| Capital Assets | | | | | | | | |
| Utility plant in service | 430,192,497 | 427,434,063 | 39,654,815 | 36,746,146 | 45,782,414 | 34,222,183 | 515,629,726 | 498,402,392 |
| Construction work in progress | 3,734,521 | 2,907,265 | 937,948 | 2,423,696 | 478,215 | 9,910,057 | 5,150,684 | 15,241,018 |
| Less: accumulated depreciation | <u>(367,788,725)</u> | <u>(366,385,695)</u> | <u>(12,155,549)</u> | <u>(11,520,531)</u> | <u>(25,911,591)</u> | <u>(28,573,612)</u> | <u>(405,855,865)</u> | <u>(406,479,838)</u> |
| Total Capital Assets | <u>66,138,293</u> | <u>63,955,633</u> | <u>28,437,214</u> | <u>27,649,311</u> | <u>20,349,038</u> | <u>15,558,628</u> | <u>114,924,545</u> | <u>107,163,572</u> |
| Other Assets | | | | | | | | |
| Note receivable from communications utility | 7,592,724 | 8,078,994 | - | - | - | - | 7,592,724 | 8,078,994 |
| Unamortized debt insurance costs | - | - | 48,755 | 52,426 | - | - | 48,755 | 52,426 |
| Joint venture rights | 100,839 | 97,797 | - | - | - | - | 100,839 | 97,797 |
| Total Other Assets | <u>7,693,563</u> | <u>8,176,791</u> | <u>48,755</u> | <u>52,426</u> | <u>-</u> | <u>-</u> | <u>7,742,318</u> | <u>8,229,217</u> |
| Total Non-Current Assets | <u>73,831,856</u> | <u>72,132,424</u> | <u>28,485,969</u> | <u>27,701,737</u> | <u>20,349,038</u> | <u>15,558,628</u> | <u>122,666,863</u> | <u>115,392,789</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | | | |
| OPEB deferred outflows of resources | 100,409 | 79,020 | 14,981 | 10,397 | 21,328 | 14,555 | 136,718 | 103,972 |
| Pension deferred outflows of resources | 9,054,915 | 6,991,555 | 884,691 | 710,956 | 1,719,065 | 1,087,931 | 11,658,671 | 8,790,442 |
| Total Deferred Outflows of Resources | <u>9,155,324</u> | <u>7,070,575</u> | <u>899,672</u> | <u>721,353</u> | <u>1,740,393</u> | <u>1,102,486</u> | <u>11,795,389</u> | <u>8,894,414</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 172,056,600</u> | <u>\$ 162,948,629</u> | <u>\$ 35,559,753</u> | <u>\$ 35,400,318</u> | <u>\$ 30,587,579</u> | <u>\$ 30,265,209</u> | <u>\$ 238,203,932</u> | <u>\$ 228,614,156</u> |

See accompanying notes to financial statements.

| | ELECTRIC UTILITY | | WATER UTILITY | | COMMUNICATIONS UTILITY | | TOTALS | | |
|---|-----------------------|-----------------------|----------------------|----------------------|------------------------|----------------------|-----------------------|-----------------------|----------|
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | 2019 | 2018 | 2019 | 2018 restated | 2019 | 2018 | 2019 | 2018 | restated |
| CURRENT LIABILITIES | | | | | | | | | |
| Payable From Unrestricted Assets | | | | | | | | | |
| Trade accounts payable | \$ 4,154,043 | \$ 6,358,634 | \$ 290,976 | \$ 419,346 | \$ 1,147,627 | \$ 1,242,010 | \$ 5,592,646 | \$ 8,019,990 | |
| Customer advances for construction | - | - | 600 | 600 | - | - | 600 | 600 | |
| Accrued expenses | 2,739,856 | 3,279,539 | 300,085 | 338,459 | 478,019 | 486,390 | 3,517,960 | 4,104,388 | |
| Unearned revenue | 16,957 | 7,567 | 1,700 | 1,200 | 18,600 | 18,600 | 37,257 | 27,367 | |
| Customer deposits | 909,893 | 845,553 | - | - | - | - | 909,893 | 845,553 | |
| Total Payable From Unrestricted Assets | 7,820,749 | 10,491,293 | 593,361 | 759,605 | 1,644,246 | 1,747,000 | 10,058,356 | 12,997,898 | |
| Payable From Restricted Assets | | | | | | | | | |
| Current portion of long-term debt | - | - | 425,000 | 413,000 | 2,003,424 | 1,945,397 | 2,428,424 | 2,358,397 | |
| Accrued interest payable | - | - | 46,718 | 47,482 | - | - | 46,718 | 47,482 | |
| Total Payable From Restricted Assets | - | - | 471,718 | 460,482 | 2,003,424 | 1,945,397 | 2,475,142 | 2,405,879 | |
| Total Current Liabilities | 7,820,749 | 10,491,293 | 1,065,079 | 1,220,087 | 3,647,670 | 3,692,397 | 12,533,498 | 15,403,777 | |
| NON-CURRENT LIABILITIES | | | | | | | | | |
| Note payable to electric utility | - | - | - | - | 7,592,724 | 8,078,994 | 7,592,724 | 8,078,994 | |
| Long term debt, net of current portion | - | - | 13,720,000 | 14,145,000 | 4,175,144 | 6,178,568 | 17,895,144 | 20,323,568 | |
| Unamortized bond premium | - | - | 749,397 | 850,856 | - | - | 749,397 | 850,856 | |
| Unearned revenue | - | - | - | - | 175,880 | 193,479 | 175,880 | 193,479 | |
| Net OPEB liability | 681,778 | 684,728 | 101,724 | 90,151 | 144,810 | 126,628 | 928,312 | 901,507 | |
| Health and dental care provision | 983,594 | 1,266,089 | - | 53,765 | - | 80,777 | 983,594 | 1,400,631 | |
| Net pension liability | 16,896,280 | 11,054,529 | 1,758,489 | 1,318,376 | 2,926,762 | 1,699,129 | 21,581,531 | 14,072,034 | |
| Customer advances for construction | - | - | 197,007 | 197,650 | - | - | 197,007 | 197,650 | |
| Landfill closure and post closure liability | 1,016,294 | 1,580,457 | - | - | - | - | 1,016,294 | 1,580,457 | |
| Total Non-Current Liabilities | 19,577,946 | 14,585,803 | 16,526,617 | 16,655,798 | 15,015,320 | 16,357,575 | 51,119,883 | 47,599,176 | |
| DEFERRED INFLOWS OF RESOURCES | | | | | | | | | |
| Extraordinary O&M - regulatory deferred inflow | 28,032,866 | 28,032,866 | - | - | - | - | 28,032,866 | 28,032,866 | |
| OPEB deferred inflows of resources | 99,381 | 90,561 | 14,828 | 11,916 | 21,109 | 16,682 | 135,318 | 119,159 | |
| Pension deferred inflows of resources | 851,112 | 3,089,325 | 212,227 | 337,923 | 165,566 | 495,674 | 1,228,905 | 3,922,922 | |
| | 28,983,359 | 31,212,752 | 227,055 | 349,839 | 186,675 | 512,356 | 29,397,089 | 32,074,947 | |
| NET POSITION | | | | | | | | | |
| Net investment in capital assets | 66,138,293 | 63,955,633 | 13,345,210 | 12,042,205 | 14,170,470 | 7,434,663 | 93,653,973 | 83,432,501 | |
| Restricted for debt service | - | - | 922,787 | 921,487 | - | - | 922,787 | 921,487 | |
| Unrestricted | 49,536,253 | 42,703,148 | 3,473,005 | 4,210,902 | (2,432,556) | 2,268,218 | 50,576,702 | 49,182,268 | |
| Total Net Position | 115,674,546 | 106,658,781 | 17,741,002 | 17,174,594 | 11,737,914 | 9,702,881 | 145,153,462 | 133,536,256 | |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | \$ 172,056,600 | \$ 162,948,629 | \$ 35,559,753 | \$ 35,400,318 | \$ 30,587,579 | \$ 30,265,209 | \$ 238,203,932 | \$ 228,614,156 | |

See accompanying notes to financial statements.

MUSCATINE POWER AND WATER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2019 and 2018

| | ELECTRIC UTILITY | | WATER UTILITY | | COMMUNICATIONS UTILITY | | TOTALS | |
|--|-----------------------|-----------------------|----------------------|----------------------|------------------------|---------------------|-----------------------|-----------------------|
| | 2019 | 2018 | 2019 | 2018 restated | 2019 | 2018 | 2019 | 2018 restated |
| OPERATING REVENUES | | | | | | | | |
| Retail sales | \$ 61,129,182 | \$ 57,862,873 | \$ 6,900,505 | \$ 6,600,870 | \$ 14,421,241 | \$ 14,016,205 | \$ 82,450,928 | \$ 78,479,948 |
| Wholesale electric sales | 21,487,083 | 30,735,857 | - | - | - | - | 21,487,083 | 30,735,857 |
| Steam sales | 9,665,256 | 5,926,946 | - | - | - | - | 9,665,256 | 5,926,946 |
| Other | 1,071,420 | 1,151,793 | 36,664 | 42,283 | 119,840 | 126,739 | 1,227,924 | 1,320,815 |
| Transfer to extraordinary O&M account | - | - | - | - | - | - | - | - |
| Total Operating Revenues | 93,352,941 | 95,677,469 | 6,937,169 | 6,643,153 | 14,541,081 | 14,142,944 | 114,831,191 | 116,463,566 |
| OPERATING EXPENSES | | | | | | | | |
| Production fuel | 21,512,281 | 22,068,993 | - | - | - | - | 21,512,281 | 22,068,993 |
| Purchased power | 24,014,686 | 29,356,498 | - | - | - | - | 24,014,686 | 29,356,498 |
| Emissions allowance | 7,553 | 4,328 | - | - | - | - | 7,553 | 4,328 |
| Other operating expenses | 27,447,821 | 25,223,110 | 4,411,400 | 4,050,611 | 9,873,222 | 9,284,130 | 41,732,443 | 38,557,851 |
| Maintenance | 9,792,244 | 13,719,400 | 890,708 | 724,929 | 1,278,409 | 1,022,071 | 11,961,361 | 15,466,400 |
| Depreciation | 3,022,671 | 11,506,010 | 717,895 | 858,686 | 1,314,096 | 1,521,492 | 5,054,662 | 13,886,188 |
| Total Operating Expenses | 85,797,256 | 101,878,339 | 6,020,003 | 5,634,226 | 12,465,727 | 11,827,693 | 104,282,986 | 119,340,258 |
| Operating Income (Loss) | 7,555,685 | (6,200,870) | 917,166 | 1,008,927 | 2,075,354 | 2,315,251 | 10,548,205 | (2,876,692) |
| NONOPERATING REVENUES (EXPENSES) | | | | | | | | |
| Investment income | 1,393,675 | 1,003,328 | 118,955 | 116,524 | 203,516 | 214,528 | 1,716,146 | 1,334,380 |
| Interest income on note receivable from communications utility | 40,395 | 42,814 | - | - | - | - | 40,395 | 42,814 |
| Gain on asset disposal | - | - | - | - | 1,636 | - | 1,636 | - |
| Interest expense | (23,044) | (11,751) | (567,501) | (576,068) | (258,663) | (334,013) | (849,208) | (60,060) |
| Bond issuance costs | - | - | (3,671) | (2,657) | - | - | (3,671) | (60,059) |
| Bond premium amortization | - | - | 101,459 | 104,217 | - | - | 101,459 | 104,217 |
| Net Nonoperating Revenues (Expenses) | 1,411,026 | 1,034,391 | (350,758) | (357,984) | (53,511) | (119,485) | 1,006,757 | 556,922 |
| Net income (loss) before capital contributions | 8,966,711 | (5,166,479) | 566,408 | 650,943 | 2,021,843 | 2,195,766 | 11,554,962 | (2,319,770) |
| CAPITAL CONTRIBUTIONS | 49,054 | - | - | - | 13,190 | 17,886 | 62,244 | 17,886 |
| CHANGE IN NET POSITION | 9,015,765 | (5,166,479) | 566,408 | 650,943 | 2,035,033 | 2,213,652 | 11,617,206 | (2,301,884) |
| NET POSITION - Beginning of Year | 106,658,781 | 111,825,260 | 17,174,594 | 16,591,589 | 9,702,881 | 7,489,229 | 133,536,256 | 135,906,078 |
| Adjustment to net position | - | - | - | (67,938) | - | - | - | (67,938) |
| NET POSITION - END OF YEAR | \$ 115,674,546 | \$ 106,658,781 | \$ 17,741,002 | \$ 17,174,594 | \$ 11,737,914 | \$ 9,702,881 | \$ 145,153,462 | \$ 133,536,256 |

See accompanying notes to financial statements.

MUSCATINE POWER AND WATER

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018

| | ELECTRIC UTILITY | | WATER UTILITY | | COMMUNICATIONS UTILITY | | TOTALS | |
|---|----------------------|----------------------|---------------------|---------------------|------------------------|---------------------|----------------------|----------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | | | |
| Cash received from retail sales | \$ 61,449,159 | \$ 57,635,388 | \$ 6,876,155 | \$ 6,600,686 | \$ 14,070,868 | \$ 13,720,393 | \$ 82,396,182 | \$ 77,956,467 |
| Cash received from wholesale electric sales | 21,489,550 | 31,225,859 | - | - | - | - | 21,489,550 | 31,225,859 |
| Cash received from steam sales | 9,574,540 | 6,037,506 | - | - | - | - | 9,574,540 | 6,037,506 |
| Cash received from coal sales | 33,664,586 | 37,983,047 | - | - | - | - | 33,664,586 | 37,983,047 |
| Cash received from advertising sales | - | - | - | - | 300,115 | 321,428 | 300,115 | 321,428 |
| Cash received from by-product sales | 400,253 | 299,900 | - | - | - | - | 400,253 | 299,900 |
| Cash received from other operating sources | 1,247,476 | 108,179 | 30,150 | 42,341 | 327,090 | 232,536 | 1,604,716 | 383,056 |
| Cash paid for coal | (55,244,271) | (58,057,846) | - | - | - | - | (55,244,271) | (58,057,846) |
| Cash paid for purchased power | (23,586,151) | (27,415,702) | - | - | - | - | (23,586,151) | (27,415,702) |
| Cash paid to suppliers | (18,325,207) | (11,966,490) | (2,598,224) | (1,984,849) | (6,924,167) | (6,475,907) | (27,847,598) | (20,427,246) |
| Cash paid for employee payroll, taxes and benefits | (24,391,082) | (24,447,451) | (2,735,758) | (2,709,940) | (4,520,224) | (3,876,273) | (31,647,064) | (31,033,664) |
| Net Cash Flows From Operating Activities | <u>6,278,853</u> | <u>11,402,390</u> | <u>1,572,323</u> | <u>1,948,238</u> | <u>3,253,682</u> | <u>3,922,177</u> | <u>11,104,858</u> | <u>17,272,805</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | | | | |
| Interest received on note receivable from communications utility | 40,395 | 42,814 | - | - | - | - | 40,395 | 42,814 |
| Principal received on note receivable from communications utility | 486,270 | 483,850 | - | - | - | - | 486,270 | 483,850 |
| Net Cash Flows From Noncapital Financing Activities | <u>526,665</u> | <u>526,664</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>526,665</u> | <u>526,664</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | | | | |
| Acquisition and construction of capital assets | (5,451,190) | (6,113,201) | (1,574,406) | (3,425,740) | (5,857,387) | (4,165,483) | (12,882,983) | (13,704,424) |
| Proceeds from sale of assets | 203,598 | 821,737 | 6,605 | 20,583 | 2,191 | 16,578 | 212,394 | 858,898 |
| Loan closing costs/proceeds | - | - | - | - | - | (17,500) | - | (17,500) |
| Bond principal payments | - | - | (380,000) | (375,000) | - | - | (380,000) | (375,000) |
| Bond interest payments | - | - | (566,550) | (574,050) | - | - | (566,550) | (574,050) |
| Debt principal payments | - | - | (33,000) | (32,000) | (2,431,667) | (2,359,885) | (2,464,667) | (2,391,885) |
| Debt interest payments | - | - | (1,715) | (2,770) | (258,663) | (330,444) | (260,378) | (333,214) |
| Net Cash Flows From Capital and Related Financing Activities | <u>(5,247,592)</u> | <u>(5,291,464)</u> | <u>(2,549,066)</u> | <u>(4,388,977)</u> | <u>(8,545,526)</u> | <u>(6,856,734)</u> | <u>(16,342,184)</u> | <u>(16,537,175)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | | | |
| Proceeds from investments matured and sold | 92,903,190 | 27,050,000 | - | - | 101,559,531 | 56,039,011 | 194,462,721 | 83,089,011 |
| Investments purchased | (104,038,731) | (49,580,825) | - | - | (99,237,432) | (63,873,980) | (203,276,163) | (113,454,805) |
| Purchase of joint venture rights | (113,250) | (110,090) | - | - | - | - | (113,250) | (110,090) |
| Interest received on investments | 1,240,947 | 758,643 | 118,404 | 116,470 | 215,616 | 204,156 | 1,574,967 | 1,079,269 |
| Net Cash Flows From Investing Activities | <u>(10,007,844)</u> | <u>(21,882,272)</u> | <u>118,404</u> | <u>116,470</u> | <u>2,537,715</u> | <u>(7,630,813)</u> | <u>(7,351,725)</u> | <u>(29,396,615)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | <u>(8,449,918)</u> | <u>(15,244,682)</u> | <u>(858,339)</u> | <u>(2,324,269)</u> | <u>(2,754,129)</u> | <u>(10,565,370)</u> | <u>(12,062,386)</u> | <u>(28,134,321)</u> |
| CASH AND CASH EQUIVALENTS - Beginning of Year | | | | | | | | |
| Current unrestricted cash | 22,744,598 | 37,989,280 | 4,886,607 | 7,211,333 | 3,780,211 | 14,345,581 | 31,411,416 | 59,546,194 |
| Current restricted cash | - | - | 968,969 | 968,512 | - | - | 968,969 | 968,512 |
| | <u>22,744,598</u> | <u>37,989,280</u> | <u>5,855,576</u> | <u>8,179,845</u> | <u>3,780,211</u> | <u>14,345,581</u> | <u>32,380,385</u> | <u>60,514,706</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | | | | | | | | |
| Current unrestricted cash | 14,294,680 | 22,744,598 | 4,027,732 | 4,886,607 | 1,026,082 | 3,780,211 | 19,348,494 | 31,411,416 |
| Current restricted cash | - | - | 969,505 | 968,969 | - | - | 969,505 | 968,969 |
| | <u>\$ 14,294,680</u> | <u>\$ 22,744,598</u> | <u>\$ 4,997,237</u> | <u>\$ 5,855,576</u> | <u>\$ 1,026,082</u> | <u>\$ 3,780,211</u> | <u>\$ 20,317,999</u> | <u>\$ 32,380,385</u> |

See accompanying notes to financial statements.

| | ELECTRIC UTILITY | | WATER UTILITY | | COMMUNICATIONS UTILITY | | TOTALS | |
|--|---------------------|----------------------|---------------------|---------------------|------------------------|---------------------|----------------------|----------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | | | |
| Operating income (loss) | \$ 7,555,685 | \$ (6,200,870) | \$ 917,166 | \$ 1,008,927 | \$ 2,075,354 | \$ 2,315,251 | \$ 10,548,205 | \$ (2,876,692) |
| Noncash items in operating income | | | | | | | | |
| Depreciation | 3,022,671 | 11,506,010 | 717,895 | 858,686 | 1,314,096 | 1,521,492 | 5,054,662 | 13,886,188 |
| Amortization of joint venture rights | 110,209 | 110,842 | - | - | - | - | 110,209 | 110,842 |
| Amortization of debt discount | - | - | - | 1,500 | - | - | - | 1,500 |
| Converter/modem net write-off | - | - | - | - | 38,486 | 50,398 | 38,486 | 50,398 |
| Changes in assets, liabilities, and deferrals | | | | | | | | |
| Customer accounts receivable | 1,137,892 | 1,996,067 | (20,384) | (4,511) | 167,325 | (147,955) | 1,284,833 | 1,843,601 |
| Inventories | (3,074,509) | 1,663,920 | 13,159 | 11,291 | 17,728 | (68,540) | (3,043,622) | 1,606,671 |
| Prepaid and other expenses | (548,823) | 375,617 | (47,447) | 33,721 | (167,434) | 13,553 | (763,704) | 422,891 |
| Trade accounts payable | (2,113,276) | 632,379 | (67,010) | 11,833 | (367,353) | 214,300 | (2,547,639) | 858,512 |
| Accrued expenses | (845,222) | 327,582 | (92,139) | (779) | (89,148) | (26,800) | (1,026,509) | 300,003 |
| OPEB related deferrals and liabilities | (15,519) | 31,293 | 9,901 | 4,174 | 15,836 | 6,258 | 10,218 | 41,725 |
| Pension related deferrals and liabilities | 1,540,178 | 391,459 | 140,682 | 24,996 | 266,391 | 62,620 | 1,947,251 | 479,075 |
| Unearned revenue | 9,390 | 1,875 | 500 | (1,600) | (17,599) | (18,400) | (7,709) | (18,125) |
| Customer deposits | 64,340 | 55,460 | - | - | - | - | 64,340 | 55,460 |
| Landfill closure and post closure liability | (564,163) | 510,756 | - | - | - | - | (564,163) | 510,756 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | <u>\$ 6,278,853</u> | <u>\$ 11,402,390</u> | <u>\$ 1,572,323</u> | <u>\$ 1,948,238</u> | <u>\$ 3,253,682</u> | <u>\$ 3,922,177</u> | <u>\$ 11,104,858</u> | <u>\$ 17,272,805</u> |
| SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES | | | | | | | | |
| Unpaid capital expenditures | \$ 269,526 | \$ 360,841 | \$ 85,777 | \$ 147,138 | \$ 558,382 | \$ 285,412 | \$ 913,685 | \$ 793,391 |

See accompanying notes to financial statements.

MUSCATINE POWER AND WATER

STATEMENTS OF FIDUCIARY NET POSITION FIDUCIARY FUND As of December 31, 2019 and 2018

| | Pension Trust Fund | |
|--------------------------------------|----------------------|----------------------|
| | 2019 | 2018 |
| ASSETS | | |
| Investments: | | |
| Large U.S. equity | \$ 24,527,023 | \$ 20,946,959 |
| Small/mid U.S. equity | 4,371,127 | 3,510,116 |
| International equity | 15,852,775 | 11,340,904 |
| Balanced/asset allocation | 1,661,128 | 1,422,715 |
| Fixed income | 31,312,327 | 32,634,829 |
| Other | 4,864,256 | - |
| Total Assets | <u>\$ 82,588,636</u> | <u>\$ 69,855,523</u> |
| LIABILITIES | | |
| Total Liabilities | \$ - | \$ - |
| FIDUCIARY NET POSITION | | |
| Net Position Restricted for Pensions | <u>\$ 82,588,636</u> | <u>\$ 69,855,523</u> |

See accompanying notes to financial statements.

MUSCATINE POWER AND WATER

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUND

For the Years Ended December 31, 2019 and 2018

| | Pension Trust Fund | |
|---|--------------------|-------------------|
| | 2019 | 2018 |
| ADDITIONS | | |
| Employer contributions | \$ 3,345,873 | \$ 3,504,169 |
| Net investment income: | | |
| Investment return | 13,177,599 | (3,516,403) |
| Investment expenses | (29,645) | (29,119) |
| Net investment income | 13,147,954 | (3,545,522) |
| Total Additions | 16,493,827 | (41,353) |
| DEDUCTIONS | | |
| Benefit payments | 3,692,986 | 3,443,179 |
| Administration expenses | 67,728 | - |
| Total Deductions | 3,760,714 | 3,443,179 |
| CHANGE IN FIDUCIARY NET POSITION | 12,733,113 | (3,484,532) |
| FIDUCIARY NET POSITION - Beginning of Year | 69,855,523 | 73,340,055 |
| FIDUCIARY NET POSITION - END OF YEAR | \$ 82,588,636 | \$ 69,855,523 |

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

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, including the application of GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

REPORTING ENTITY

The utility includes the electric, water, and telecommunications enterprise funds, as well as the employee pension trust fiduciary fund. 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.

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.

In January 2017, the GASB issued statement No. 84 – *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes and how these activities should be reported. This standard was implemented January 1, 2019.

In March 2018, the GASB issued statement No. 88 - *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. This standard was implemented January 1, 2019.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

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

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

CASH AND CASH EQUIVALENTS

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

RESTRICTED ASSETS

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by actions of external parties. Current liabilities payable from these restricted assets are also classified.

RECEIVABLES

An allowance for doubtful accounts is recorded annually based on historical experience and management's evaluation of receivables at the end of the year. For the years 2019 and 2018 the allowances were:

| | <u>2019</u> | <u>2018</u> |
|------------------------|-------------|-------------|
| Electric utility | \$9,853 | \$6,698 |
| Water utility | \$5,388 | \$3,243 |
| Communications utility | \$7,293 | \$6,045 |

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 2019 or 2018.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

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

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

CAPITAL ASSETS (cont.)

Capital assets are depreciated using the straight-line method over the estimated useful lives of the respective assets. A procedural change took place in 2019 for calculating depreciation. Instead of depreciating assets as a group, the utility began depreciating individual assets. The composite depreciation rates for 2019 and 2018 are as follows:

| | 2019 | 2018 |
|-------------------------------------|-------|-------|
| Electric Utility | | |
| Generation plant | 0.6 % | 2.3 % |
| Transmission and distribution plant | 0.9 | 3.8 |
| General plant | 1.6 | 5.5 |
| Water Utility | | |
| Source of supply | 2.6 % | 3.3 % |
| Pumping equipment | 2.9 | 3.1 |
| Purification system | 1.7 | 2.5 |
| Distribution system | 2.0 | 2.3 |
| General plant | 2.5 | 10.4 |
| Communications Utility | | |
| CATV | 3.5 % | 3.9 % |
| Data/Internet | 4.4 | 6.3 |
| MAN | 3.8 | 4.5 |
| General plant | 6.2 | 5.8 |

CUSTOMER ADVANCES FOR CONSTRUCTION

Customer advances for water construction projects are recorded as water utility plant and a liability at the time the asset is contributed to the utility. The utility reimburses the customer by annually refunding a portion of the advance over a contracted period of time. At the end of the contract, any remaining liability is reclassified as a capital contribution.

COMPENSATED ABSENCES

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

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

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

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

ACCRUED EXPENSES

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

DEFERRED OUTFLOW OF RESOURCES

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

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

For purposes of measuring the net OPEB liability, and OPEB expense, there is no fiduciary net position of the OPEB Plan. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. See Note 7 for additional information.

PENSIONS LIABILITY

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

LANDFILL CLOSURE AND POST CLOSURE LIABILITY

The landfill liability relates to the GASB Statement No. 18 municipal solid waste landfill closure. Details of the account are included in Note 18.

DEFERRED INFLOWS OF RESOURCES

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

The Board may, at its discretion, set aside earnings to help maintain stability in the electric utility's long-term rate structure. These earnings, placed in the Extraordinary O&M Account, may be used for extraordinary operating expenses and debt service when deemed necessary by the Board. No deferment or use of earnings occurred in 2019 and 2018.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

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

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

UNEARNED REVENUE

The electric utility's unearned revenue is a result of prepayments for a land lease and a future construction project. 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.

CHARGES FOR SERVICES

Electric and water billings are rendered and recorded monthly based on metered usage. Communications billings are rendered and recorded monthly based on the type of service provided. Rates were approved by the Board of Trustees as follows:

Current electric rates were approved on April 30, 2019 and effective for service beginning August 1, 2019.

Current water rates were approved on November 28, 2017 and effective for service beginning April 10, 2019.

Current communications rates were approved on February 26, 2019 and effective for service beginning April 1, 2019.

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 2019 for the electric, water, and communications utilities are \$459,985, \$72,440, and \$88,549, respectively. The unbilled revenue recorded in 2018 for the electric, water, and communications utilities are \$539,576, \$78,259, and \$95,990, 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.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

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

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

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. 87, *Leases*, Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, and Statement No. 91, *Conduit Debt Obligations*. When they become effective, application of these standards may restate portions of these financial statements.

COMPARATIVE DATA

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

NOTE 2 – DEPOSITS AND INVESTMENTS

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

Deposits and investments consist primarily of U.S. Treasury obligations, Federal agency obligations and certificates of deposit. Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the statements of revenues, expenses, and changes in net position as increases or decreases in investment income. Investment income is allocated to the electric, water, and communications utilities' revenue funds as appropriate.

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and interest-bearing demand and non-interest bearing deposit accounts 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. 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.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

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

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the utility will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. There were no investments held at December 31, 2019 and December 31, 2018 that were subject to custodial credit risk.

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

CREDIT RISK

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. The utility held no investments as of December 31, 2019 and December 31, 2018 that were subject to credit risk.

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

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The utility held no investments as of December 31, 2019 and December 31, 2018 that were subject to concentration of credit risk.

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

INTEREST RATE RISK

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

The utility held no investments as of December 31, 2019 and December 31, 2018 that were subject to interest rate risk.

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

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

The utility held no investments as of December 31, 2019 and December 31, 2018 subject to fair value measurement.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

FIDUCIARY FUND INVESTMENTS – PENSION TRUST FUND

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

The plan held no deposits as of the measurement date, December 1, 2019 and December 31, 2018.

CREDIT RISK

Separate investment accounts held at The Principal Financial Group are commingled pools, rather than individual securities. As a result, these accounts are not rated. Accounts held at The Principal Financial Group are not subject to concentration of credit risk, custodial credit risk, or foreign currency risk.

CONCENTRATIONS

As of the measurement date, the following are investments (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represents 5 percent or more of the pension plan's fiduciary net position.

| <u>Organization</u> | <u>Fiduciary Net Position</u> | <u>%</u> | <u>as of:</u> |
|---------------------|-------------------------------|----------|---------------|
| Principal | \$82,588,636 | 100% | 12/31/19 |
| Principal | \$69,855,523 | 100% | 12/31/18 |

DERIVATIVES

Separate investment accounts held at The Principal Financial Group may use derivatives as part of their investment strategy. These accounts are comingled pools, rather than individual securities.

INTEREST RATE RISK

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

The pension trust fund held the following investments as of the measurement date, December 31, 2019, subject to interest rate risk.

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Lives</u> |
|--------------------------------------|----------------------|--------------------------|
| Large U.S. equity | \$ 24,527,023 | Indefinite |
| Small/mid U.S. equity | 4,371,127 | Indefinite |
| International equity | 15,852,775 | Indefinite |
| Balanced/asset allocation | 1,661,128 | Indefinite |
| Other | 4,864,256 | Indefinite |
| Fixed income: | | <u>Maturity in Years</u> |
| High income separate account-Z | 1,634,765 | 3.57 |
| Bond market index separate account-Z | 11,517,913 | 5.47 |
| Core fixed income separate account-Z | <u>18,159,649</u> | 5.53 |
| Total Investments | <u>\$ 82,588,636</u> | |

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

FIDUCIARY FUND INVESTMENTS – PENSION TRUST FUND

INTEREST RATE RISK (cont.)

The pension trust fund held the following investments as of the measurement date, December 31, 2018, subject to interest rate risk.

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Lives</u> |
|---------------------------------------|----------------------|--------------------------|
| Large U.S. equity | \$ 20,946,959 | Indefinite |
| Small/mid U.S. equity | 3,510,116 | Indefinite |
| International equity | 11,340,904 | Indefinite |
| Balanced/asset allocation | 1,422,715 | Indefinite |
| Fixed income: | | <u>Maturity in Years</u> |
| High yield I separate account-I2 | 2,958,656 | 3.53 |
| Bond market index separate account-I3 | 6,268,605 | 6.06 |
| Core plus bond separate account-I3 | 18,583,468 | 5.73 |
| U.S. property SA-14 | <u>4,824,100</u> | Indefinite |
| Total Investments | <u>\$ 69,855,523</u> | |

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 3 – CAPITAL ASSETS

ELECTRIC UTILITY

A summary of changes in electric capital assets for 2019 follows:

| | Balance 1/1/19 | Additions/ Reclassifications | Retirements | Transfers | Balance 12/31/19 |
|--|---------------------|---------------------------------|-----------------------|------------------|----------------------|
| Land and land rights ⁽¹⁾ | \$ 1,874,590 | \$ - | \$ - | \$ - | \$ 1,874,590 |
| Generation plant | 330,152,582 | 75,946 | (1,351,881) | 187,882 | 329,064,529 |
| Transmission and distribution plant | 70,054,951 | 847,983 | (19,637) | 1,536,837 | 72,420,134 |
| General plant | 25,351,940 | 68,158 | (449,925) | 1,863,071 | 26,833,244 |
| Total Utility Plant in Service | 427,434,063 | 992,087 | (1,821,443) | 3,587,790 | 430,192,497 |
| Construction work in progress ⁽¹⁾ | 2,907,265 | 4,415,046 | - | (3,587,790) | 3,734,521 |
| Total Electric Utility Plant | 430,341,328 | \$ 5,407,133 | \$ (1,821,443) | \$ - | 433,927,018 |
| Less: Accumulated depreciation | | | | | |
| Generation plant | 287,343,098 | \$ 1,977,758 | \$ (1,166,449) | \$ - | 288,154,407 |
| Transmission and distribution plant | 57,399,775 | 632,145 | (21,432) | - | 58,010,488 |
| General plant | 21,642,822 | 412,768 | (431,760) | - | 21,623,830 |
| Total Accumulated Depreciation | 366,385,695 | \$ 3,022,671 | \$ (1,619,641) | \$ - | 367,788,725 |
| Net Electric Capital Assets | \$63,955,633 | | | | \$ 66,138,293 |

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 3 – CAPITAL ASSETS (cont.)

ELECTRIC UTILITY (cont.)

A summary of changes in electric capital assets for 2018 follows:

| | Balance 1/1/18 | Additions/ Reclassifications | Retirements | Transfers | Balance 12/31/18 |
|--|---------------------|---------------------------------|-----------------------|------------------|----------------------|
| Land and land rights ⁽¹⁾ | \$ 1,874,590 | \$ - | \$ - | \$ - | \$ 1,874,590 |
| Generation plant | 334,167,895 | 1,393 | (4,391,230) | 374,524 | 330,152,582 |
| Transmission and distribution plant | 68,466,111 | 850,786 | (196,068) | 934,122 | 70,054,951 |
| General plant | 21,807,961 | 76,332 | (286,346) | 3,753,993 | 25,351,940 |
| Total Utility Plant in Service | 426,316,557 | 928,511 | (4,873,644) | 5,062,639 | 427,434,063 |
| Construction work in progress ⁽¹⁾ | 2,588,470 | 5,418,704 | (37,270) | (5,062,639) | 2,907,265 |
| Total Electric Utility Plant | 428,905,027 | \$ 6,347,215 | \$ (4,910,914) | \$ - | 430,341,328 |
| Less: Accumulated depreciation | | | | | |
| Generation plant | 283,245,858 | \$ 7,692,471 | \$ (3,595,231) | \$ - | 287,343,098 |
| Transmission and distribution plant | 54,975,841 | 2,623,262 | (199,328) | - | 57,399,775 |
| General plant | 20,715,066 | 1,190,277 | (262,521) | - | 21,642,822 |
| Total Accumulated Depreciation | 358,936,765 | \$ 11,506,010 | \$ (4,057,080) | \$ - | 366,385,695 |
| Net Electric Capital Assets | \$69,968,262 | | | | \$ 63,955,633 |

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 3 – CAPITAL ASSETS (cont.)

WATER UTILITY

A summary of changes in water capital assets for 2019 follows:

| | Balance | Additions/ | | | Balance |
|--|---------------------|---------------------|--------------------|------------------|---------------------|
| | 1/1/2019 | Reclassifications | Retirements | Transfers | 12/31/2019 |
| Land and land rights ⁽¹⁾ | \$ 3,784,426 | \$ - | \$ - | \$ - | \$ 3,784,426 |
| Source of supply | 3,779,236 | - | - | 282,493 | 4,061,729 |
| Pumping equipment | 2,501,901 | - | (5,021) | 94,063 | 2,590,943 |
| Purification equipment | 1,612,735 | 21,733 | - | 1,251,552 | 2,886,020 |
| Distribution system | 23,322,208 | 189,992 | (11,146) | 927,254 | 24,428,308 |
| General plant | 1,745,640 | 61,577 | (73,624) | 169,796 | 1,903,389 |
| Total Utility Plant in Service | 36,746,146 | 273,302 | (89,791) | 2,725,158 | 39,654,815 |
| Construction work in progress ⁽¹⁾ | 2,423,696 | 1,239,410 | - | (2,725,158) | 937,948 |
| Total Water Utility Plant | 39,169,842 | \$ 1,512,712 | \$ (89,791) | \$ - | 40,592,763 |
| Less: Accumulated depreciation | | | | | |
| Source of supply | 1,700,311 | \$ 98,831 | \$ - | \$ - | 1,799,142 |
| Pumping equipment | 917,385 | 73,608 | (5,021) | - | 985,972 |
| Purification system | 957,555 | 27,407 | - | - | 984,962 |
| Distribution system | 6,446,791 | 474,081 | (10,835) | - | 6,910,037 |
| General plant | 1,498,489 | 43,968 | (67,021) | - | 1,475,436 |
| Total Accumulated Depreciation | 11,520,531 | \$ 717,895 | \$ (82,877) | \$ - | 12,155,549 |
| Net Water Capital Assets | \$27,649,311 | | | | \$28,437,214 |

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 3 – CAPITAL ASSETS (cont.)

WATER UTILITY (cont.)

A summary of changes in water capital assets for 2018 follows:

| | Balance | Additions/ | | | Balance |
|--|---------------------|---------------------|---------------------|------------------|---------------------|
| | 1/1/2018 | Reclassifications | Retirements | Transfers | 12/31/2018 |
| Land and land rights ⁽¹⁾ | \$ 3,763,898 | \$ 20,528 | \$ - | \$ - | \$ 3,784,426 |
| Source of supply | 3,401,521 | 1,698 | (11,727) | 387,744 | 3,779,236 |
| Pumping equipment | 2,384,885 | (1,698) | - | 118,714 | 2,501,901 |
| Purification equipment | 1,544,224 | - | (68,511) | 137,022 | 1,612,735 |
| Distribution system | 20,855,734 | 199,049 | (262,159) | 2,529,584 | 23,322,208 |
| General plant | 1,520,763 | 33,205 | (15,743) | 207,415 | 1,745,640 |
| Total Utility Plant in Service | 33,471,025 | 252,782 | (358,140) | 3,380,479 | 36,746,146 |
| Construction work in progress ⁽¹⁾ | 2,960,263 | 2,931,305 | (87,393) | (3,380,479) | 2,423,696 |
| Total Water Utility Plant | 36,431,288 | \$ 3,184,087 | \$ (445,533) | \$ - | 39,169,842 |
| Less: Accumulated depreciation | | | | | |
| Source of supply | 1,598,653 | \$ 113,385 | \$ (11,727) | \$ - | 1,700,311 |
| Pumping equipment | 842,501 | 74,884 | - | - | 917,385 |
| Purification system | 986,926 | 39,140 | (68,511) | - | 957,555 |
| Distribution system | 5,985,896 | 473,470 | (12,575) | - | 6,446,791 |
| General plant | 1,360,916 | 157,808 | (20,235) | - | 1,498,489 |
| Total Accumulated | | | | | |
| Depreciation | 10,774,892 | \$ 858,687 | \$ (113,048) | \$ - | 11,520,531 |
| Net Water Capital Assets | \$25,656,396 | | | | \$27,649,311 |

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 3 – CAPITAL ASSETS (cont.)

COMMUNICATIONS UTILITY

A summary of changes in communications capital assets for 2019 follows:

| | Balance | | | | Balance |
|--|----------------------|---------------------|-----------------------|-------------------|----------------------|
| | 1/1/2019 | Additions | Retirements | Transfers | 12/31/2019 |
| CATV | \$ 21,484,130 | \$ 109,935 | \$ (3,029,470) | \$ 196,293 | \$ 18,760,888 |
| Data/Internet | 5,531,649 | 495,932 | (845,605) | 14,202,404 | 19,384,380 |
| MAN | 5,073,637 | 45,685 | (75,975) | - | 5,043,347 |
| General plant | 2,132,767 | 78,961 | (88,285) | 470,356 | 2,593,799 |
| Total Utility Plant in Service | 34,222,183 | 730,513 | (4,039,335) | 14,869,053 | 45,782,414 |
| Construction work in progress ⁽¹⁾ | 9,910,057 | 5,437,211 | - | (14,869,053) | 478,215 |
| Total Communications Utility Plant | 44,132,240 | \$ 6,167,724 | \$ (4,039,335) | \$ - | 46,260,629 |
| Less: Accumulated depreciation | | | | | |
| CATV | 19,305,899 | \$ 744,147 | \$ (2,989,253) | \$ - | 17,060,793 |
| Data/Internet | 3,963,898 | 245,670 | (825,362) | - | 3,384,206 |
| MAN | 3,995,615 | 192,720 | (73,772) | - | 4,114,563 |
| General plant | 1,308,200 | 131,559 | (87,730) | - | 1,352,029 |
| Total Accumulated Depreciation | 28,573,612 | \$ 1,314,096 | \$ (3,976,117) | \$ - | 25,911,591 |
| Net Communications Capital Assets | \$ 15,558,628 | | | | \$ 20,349,038 |

(1) – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 3 – CAPITAL ASSETS (cont.)

COMMUNICATIONS UTILITY (cont.)

A summary of changes in communications capital assets for 2018 follows:

| | Balance | | | | Balance |
|--|----------------------|---------------------|-----------------------|----------------|----------------------|
| | 1/1/2018 | Additions | Retirements | Transfers | 12/31/2018 |
| CATV | \$ 22,005,104 | \$ 277,695 | \$ (1,041,943) | \$ 243,274 | \$ 21,484,130 |
| Data/Internet | 5,443,082 | 229,884 | (160,875) | 19,558 | 5,531,649 |
| MAN | 5,000,088 | 83,101 | (40,844) | 31,292 | 5,073,637 |
| General plant | 1,831,246 | 63,996 | (15,155) | 252,680 | 2,132,767 |
| Total Utility Plant in Service | 34,279,520 | 654,676 | (1,258,817) | 546,804 | 34,222,183 |
| Construction work in progress ⁽¹⁾ | 6,951,220 | 3,518,120 | (12,479) | (546,804) | 9,910,057 |
| Total Communications Utility Plant | 41,230,740 | \$ 4,172,796 | \$ (1,271,296) | \$ - | 44,132,240 |
| Less: Accumulated depreciation | | | | | |
| CATV | 19,447,558 | \$ 846,144 | \$ (987,803) | \$ - | 19,305,899 |
| Data/Internet | 3,756,821 | 344,640 | (137,563) | - | 3,963,898 |
| MAN | 3,811,495 | 224,964 | (40,844) | - | 3,995,615 |
| General plant | 1,217,589 | 105,744 | (15,133) | - | 1,308,200 |
| Total Accumulated Depreciation | 28,233,463 | \$ 1,521,492 | \$ (1,181,343) | \$ - | 28,573,612 |
| Net Communications Capital Assets | \$ 12,997,277 | | | | \$ 15,558,628 |

⁽¹⁾ – Capital assets not being depreciated

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 4 – RESTRICTED ASSETS

Restricted assets represent amounts set aside under the terms of the water bond and loan agreements. In accordance with the covenants of the bond resolutions, the amounts have been segregated into funds. In accordance with the bond and loan agreements, the bond fund and sinking fund are used solely for the purpose of paying the interest on and principal of the outstanding debt. The composition of the restricted assets at December 31, 2019 and 2018 is as follows:

| | Water Utility | |
|--------------------------------|-------------------|-------------------|
| | 2019 | 2018 |
| Debt Service Reserve | \$ 948,950 | \$ 949,450 |
| Sinking Fund | 20,555 | 19,519 |
| Total Restricted Assets | \$ 969,505 | \$ 968,969 |

NOTE 5 – NON-CURRENT LIABILITIES

NON-CURRENT LIABILITIES SUMMARY – ELECTRIC

Non-current liabilities activity for the year ended December 31, 2019:

| | Balance 1/1/19 | Additions/ Reduction | Payments/ Amortization/ Reclassifications | Balance 12/31/19 |
|---|----------------------|-------------------------|---|----------------------|
| Net OPEB liability | \$ 684,728 | \$ 52,241 | \$ (55,191) | \$ 681,778 |
| Health and dental care provision | 1,266,089 | 3,150,682 | (3,433,177) | 983,594 |
| Net pension liability | 11,054,529 | 2,949,400 | 2,892,351 | 16,896,280 |
| Landfill closure and post closure liability | 1,580,457 | 13,046 | (577,209) | 1,016,294 |
| Noncurrent Liabilities | \$ 14,585,803 | \$ 6,165,369 | \$ (1,173,226) | \$ 19,577,946 |

Non-current liabilities activity for the year ended December 31, 2018:

| | Balance 1/1/18 | Additions/ Reduction | Payments/ Amortization/ Reclassifications | Balance 12/31/18 |
|---|----------------------|-------------------------|---|----------------------|
| Net OPEB liability | \$ 653,435 | \$ 53,519 | \$ (22,226) | \$ 684,728 |
| Health and dental care provision | 1,280,690 | 3,097,073 | (3,111,674) | 1,266,089 |
| Net pension liability | 16,017,025 | (2,705,916) | (2,256,580) | 11,054,529 |
| Landfill closure and post closure liability | 1,069,701 | 510,756 | - | 1,580,457 |
| Noncurrent Liabilities | \$ 19,020,851 | \$ 955,432 | \$ (5,390,480) | \$ 14,585,803 |

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

NOTE 5 – NON-CURRENT LIABILITIES (cont.)

NON-CURRENT LIABILITIES SUMMARY – WATER

On November 18, 2009, the utility closed on a loan from the Iowa Department of Natural Resources' State Drinking Water Revolving Loan Fund for the well motor control project. The loan is administered by the Iowa Finance Authority. The loan agreement provided for the borrowing of up to \$494,000; total amount borrowed was \$399,000. The project qualified for ARRA (Stimulus Act) funding as a "green" water project of which \$93,000 was forgiven. The interest rate on the loan is 3.0% interest, plus a 0.25% servicing fee, with a 10-year repayment term. Interest payments are payable semi-annually and began June 1, 2010; principal payments began June 1, 2011 and are due annually. Total outstanding loan payable at December 31, 2019 and December 31, 2018 was \$35,000 and \$68,000 respectively.

In May 2017, the Board approved the issuance and securing the payment of future obligations for the purposes of borrowing money for constructing water improvements and extensions. The water utility issued \$14,865,000 Water Revenue Bonds, Series 2017 in June 2017 for that purpose. The premium bonds are S&P "A" rated, a non-bank qualified issue, callable June 1, 2027 at par. The effective interest cost is 3.514844%. The interest payments are due June 1 and December 1, which began December 1, 2017. Principal payments are due December 1 beginning in 2018. Total outstanding bonds payable at December 31, 2019 and December 31, 2018 was \$14,110,000 and \$14,490,000 respectively.

Events of default are defined as either: 1) the non-payment of interest, principal, or premium when the same shall become due and payable, or 2) through a bankruptcy proceeding there is an admission of the inability to pay this debt, or 3) any event of default under any parity obligation or parity obligation issuance document. In the event of default, the principal of and the accrued interest on all bonds then outstanding will be due and payable immediately.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 5 – NON-CURRENT LIABILITIES (cont.)

NON-CURRENT LIABILITIES SUMMARY – WATER (cont.)

Non-current liabilities activity for the year ending December 31, 2019:

| | Balance | Additions/ | Payments/ Amortization/ | Balance | Due Within |
|--|---------------------------|-------------------|----------------------------|----------------------|-------------------|
| | 1/1/2019 (as restated) | Reduction | Reclassifications | 12/31/2019 | One Year |
| Long term debt | \$ 14,558,000 | \$ - | \$ (413,000) | \$ 14,145,000 | \$ 425,000 |
| Less: Current installments | (413,000) | - | (12,000) | (425,000) | - |
| Unamortized bond premium | 850,856 | - | (101,459) | 749,397 | 98,744 |
| Long-Term Debt, Net of Current Portion | 14,995,856 | - | (526,459) | 14,469,397 | 523,744 |
| Net OPEB liability | 90,151 | 7,795 | 3,778 | 101,724 | - |
| Health & dental care provision | 53,765 | 453,129 | (506,894) | - | - |
| Net pension liability | 1,318,376 | 176,582 | 263,531 | 1,758,489 | - |
| Customer advances for construction | 197,650 | - | (643) | 197,007 | - |
| Noncurrent Liabilities | \$ 16,655,798 | \$ 637,506 | \$ (766,687) | \$ 16,526,617 | \$ 523,744 |

Non-current liabilities activity for the year ending December 31, 2018 (as restated):

| | Balance | Additions/ | Payments/ Amortization/ | Balance | Due Within |
|--|----------------------|-------------------|----------------------------|-----------------------------|-------------------|
| | 1/1/2018 | Reduction | Reclassifications | 12/31/2018 (as restated) | One Year |
| Long term debt | \$ 14,965,000 | \$ - | \$ (407,000) | \$ 14,558,000 | \$ 413,000 |
| Less: Current installments | (407,000) | - | (6,000) | (413,000) | - |
| Unamortized bond premium | 955,072 | - | (104,216) | 850,856 | 101,459 |
| Long-Term Debt, Net of Current Portion | 15,513,072 | - | (517,216) | 14,995,856 | 514,459 |
| Net OPEB liability | 85,978 | 11,547 | (7,374) | 90,151 | - |
| Health & dental care provision | 82,116 | 393,135 | (421,486) | 53,765 | - |
| Net pension liability | 1,601,752 | (98,143) | (185,233) | 1,318,376 | - |
| Customer advances for construction | 198,569 | - | (919) | 197,650 | - |
| Noncurrent Liabilities | \$ 17,481,487 | \$ 306,539 | \$ (1,132,228) | \$ 16,655,798 | \$ 514,459 |

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 5 – NON-CURRENT LIABILITIES (cont.)

NON-CURRENT LIABILITIES SUMMARY – WATER (cont.)

Non-Current Liabilities Maturity Schedule – Water

| <u>Iowa Finance Authority Loan - Direct Borrowing</u> | | | | | <u>Water Revenue Bonds, Series 2017</u> | | |
|---|-----------------|--------------|---------------|-----------------|---|--------------------|---------------------|
| Year Ending | Principal | Interest | Servicing Fee | | Principal | Interest | |
| <u>December 31</u> | <u>Amount</u> | <u>3.00%</u> | <u>0.25%</u> | <u>Total</u> | <u>Amount</u> | <u>2%-5%</u> | <u>Total</u> |
| 2020 | \$35,000 | \$525 | \$87 | \$35,612 | \$390,000 | \$558,950 | \$948,950 |
| 2021 | - | - | - | - | 400,000 | 547,250 | \$947,250 |
| 2022 | - | - | - | - | 410,000 | 535,250 | \$945,250 |
| 2023 | - | - | - | - | 425,000 | 522,950 | \$947,950 |
| 2024 | - | - | - | - | 445,000 | 501,700 | \$946,700 |
| 2025 | - | - | - | - | 470,000 | 479,450 | \$949,450 |
| 2026 | - | - | - | - | 490,000 | 455,950 | \$945,950 |
| 2027 | - | - | - | - | 515,000 | 431,450 | \$946,450 |
| 2028 | - | - | - | - | 535,000 | 410,850 | \$945,850 |
| 2029 | - | - | - | - | 560,000 | 389,450 | \$949,450 |
| 2030 - 2034 | - | - | - | - | 3,095,000 | 1,637,300 | \$4,732,300 |
| 2035 - 2039 | - | - | - | - | 3,750,000 | 987,000 | \$4,737,000 |
| 2040 - 2042 | - | - | - | - | 2,625,000 | 212,800 | \$2,837,800 |
| Totals | \$35,000 | \$525 | \$87 | \$35,612 | \$14,110,000 | \$7,670,350 | \$21,780,350 |

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 2019 and 2018, and water utility net revenues are as follows:

| | <u>2019</u> | <u>2018</u> |
|-----------------------------|-------------|-------------|
| Principal and interest paid | \$ 981,265 | \$ 983,820 |
| Net revenues | 1,810,679 | 2,013,579 |

Annual future principal and interest payments are expected to require 52% of water utility net revenues.

NON-CURRENT LIABILITIES SUMMARY – COMMUNICATIONS

The electric utility has advanced \$35,327,000 to the communications utility for capital improvements and acquisition of a cable television system. On November 25, 2014, the Board approved an amendment to this loan agreement that included loan forgiveness of \$25,327,000, changing the fixed interest rate from 3.53% to 0.50%, and modifying the amortization of the note from a 30-year period to a 20-year period. These new terms became effective January 1, 2015. Annual principal payments began January 1, 2016; semi-annual payments of interest are due each January 1 and July 1.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 5 – NON-CURRENT LIABILITIES (cont.)

NON-CURRENT LIABILITIES SUMMARY – COMMUNICATIONS (cont.)

On December 14, 2017, the Communications Revenue Bond, Series 2017 was signed with a local bank providing \$10,000,000 for telecommunications systems improvements and extensions to the municipal Communications Utility. Principal bears interest at the rate of 2.95% per annum. Both principal and interest are payable in nineteen equal quarterly installments of \$540,916.15 each, due on March 31, June 30, September 30, and December 31 in each of the years 2018 to 2022, inclusive. Upon default of the bond obligations, a proceeding may be brought in law or in equity by suit, action or mandamus to enforce compliance with the bond's terms, or action may be brought to obtain the appointment of a receiver to take possession of and operate the communications utility and to perform the duties required by the bond resolution and the Code of Iowa.

Non-current liabilities activity for the year ending December 31, 2019:

| | Balance | Additions/ Reduction | Payments/ Amortization/ Reclassification s | Balance | Due Within |
|--|----------------------|-------------------------|---|----------------------|---------------------|
| | 1/1/2019 | | | 12/31/2019 | One Year |
| Note payable to banks | \$ 8,123,965 | \$ - | \$ (1,945,397) | \$ 6,178,568 | \$ 2,003,424 |
| Note payable to electric utility | 8,078,994 | - | (486,270) | 7,592,724 | - |
| Total Long-Term Debt | 16,202,959 | - | (2,431,667) | 13,771,292 | 2,003,424 |
| Less: Current installments | (1,945,397) | - | (58,027) | (2,003,424) | - |
| Long-Term Debt, Net of Current Portion | 14,257,562 | - | (2,489,694) | 11,767,868 | 2,003,424 |
| Unearned revenue | 193,479 | 1 | (17,600) | 175,880 | 17,500 |
| Net OPEB liability | 126,628 | 11,096 | 7,086 | 144,810 | - |
| Health & dental care provision | 80,777 | 640,836 | (721,613) | - | - |
| Net pension liability | 1,699,129 | 504,065 | 723,568 | 2,926,762 | - |
| Noncurrent Liabilities | <u>\$ 16,357,575</u> | <u>\$ 1,155,998</u> | <u>\$ (2,498,253)</u> | <u>\$ 15,015,320</u> | <u>\$ 2,020,924</u> |

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 5 – NON-CURRENT LIABILITIES (cont.)

NON-CURRENT LIABILITIES SUMMARY – COMMUNICATIONS (cont.)

Non-current liabilities activity for the year ending December 31, 2018:

| | Balance | | Payments/ Amortization/ Reclassifications | Balance | Due Within |
|--|----------------------|-------------------|---|----------------------|---------------------|
| | 1/1/2018 | Additions | | 12/31/2018 | One Year |
| Note payable to banks | \$10,000,000 | \$ - | \$ (1,876,035) | \$ 8,123,965 | \$ 1,945,397 |
| Note payable to electric utility | 8,562,844 | - | (483,850) | 8,078,994 | - |
| Total Long-Term Debt | 18,562,844 | - | (2,359,885) | 16,202,959 | 1,945,397 |
| Less: Current installments | (1,875,198) | - | (70,199) | (1,945,397) | - |
| Long-Term Debt, Net of Current Portion | 16,687,646 | - | (2,430,084) | 14,257,562 | 1,945,397 |
| Unearned revenue | 211,979 | - | (18,500) | 193,479 | 17,600 |
| Net OPEB liability | 120,370 | 17,143 | (10,885) | 126,628 | - |
| Health & dental care provision | 124,111 | 585,455 | (628,789) | 80,777 | - |
| Net pension liability | 2,481,937 | (432,852) | (349,956) | 1,699,129 | - |
| Noncurrent Liabilities | <u>\$ 19,626,043</u> | <u>\$ 169,746</u> | <u>\$ (3,438,214)</u> | <u>\$ 16,357,575</u> | <u>\$ 1,962,997</u> |

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 5 – NON-CURRENT LIABILITIES (cont.)

NON-CURRENT LIABILITIES MATURITY SCHEDULE – COMMUNICATIONS

Communications loan debt service requirements to maturity follow as of December 31, 2019:

| Year Ending | Electric Utility Loan | | | Bank Loan - Direct Placement | | |
|-------------|-----------------------|------------------|--------------------|------------------------------|-------------------|---------------------|
| | Principal | Interest | | Principal | Interest | |
| December 31 | Amount | 0.50% | Total | Amount | 2.95% | Total |
| 2020 | \$ - | \$39,179 | \$39,179 | \$ 2,003,424 | \$160,241 | \$ 2,163,665 |
| 2021 | 488,701 | 36,742 | 525,443 | 2,063,182 | 100,482 | 2,163,664 |
| 2022 | 491,144 | 34,292 | 525,436 | <u>2,111,962</u> | <u>38,942</u> | <u>2,150,904</u> |
| 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 | 513,693 | 11,687 | 525,380 | | | |
| 2032 | 516,262 | 9,112 | 525,374 | | | |
| 2033 | 518,843 | 6,525 | 525,368 | | | |
| 2034 | 521,437 | 3,924 | 525,361 | | | |
| 2035 | <u>524,044</u> | <u>1,310</u> | <u>525,354</u> | | | |
| Totals | <u>\$ 7,592,724</u> | <u>\$327,440</u> | <u>\$7,920,164</u> | <u>\$ 6,178,568</u> | <u>\$ 299,665</u> | <u>\$ 6,478,233</u> |

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 2019 and 2018, and communications utility net revenues are as follows:

| | 2019 | 2018 |
|-----------------------------|--------------|--------------|
| Principal and interest paid | \$ 2,691,540 | \$ 2,690,329 |
| Net revenues | 3,590,655 | 4,051,271 |

Annual future principal and interest payments are expected to require 25% of communications utility net revenues.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

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:

| | 2019 | 2018 |
|----------------------------------|----------------|----------------|
| Plant in Service | \$ 430,192,497 | \$ 427,434,063 |
| Construction Work in Progress | 3,734,521 | 2,907,265 |
| Accumulated Depreciation | (367,788,725) | (366,385,695) |
| Net Investment in Capital Assets | \$ 66,138,293 | \$ 63,955,633 |

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 6 – NET POSITION (cont.)

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

| | 2019 | 2018 |
|---|---------------|---------------|
| Plant in Service | \$ 39,654,815 | \$ 36,746,146 |
| Construction Work in Progress | 937,948 | 2,423,696 |
| Accumulated Depreciation | (12,155,549) | (11,520,531) |
| Sub-Totals | 28,437,214 | 27,649,311 |
| Less: Capital Related Debt | | |
| Customer advances for construction | 197,607 | 198,250 |
| Current portion of capital related long term debt | 425,000 | 413,000 |
| Long-term portion of capital related long term debt | 13,720,000 | 14,145,000 |
| Unamortized bond premium | 749,397 | 850,856 |
| Sub-Totals | 15,092,004 | 15,607,106 |
| Net Investment in Capital Assets | \$ 13,345,210 | \$ 12,042,205 |

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

| | 2019 | 2018 |
|---|---------------|---------------|
| Plant in Service | \$ 45,782,414 | \$ 34,222,183 |
| Construction Work in Progress | 478,215 | 9,910,057 |
| Accumulated Depreciation | (25,911,591) | (28,573,612) |
| Sub-Totals | 20,349,038 | 15,558,628 |
| Less: Capital Related Debt | | |
| Current portion of capital related long term debt | 2,003,424 | 1,945,397 |
| Long-term portion of capital related long term debt | 4,175,144 | 6,178,568 |
| Sub-Totals | 6,178,568 | 8,123,965 |
| Net Investment in Capital Assets | \$ 14,170,470 | \$ 7,434,663 |

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS

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

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2019 and 2018

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

Retirees participating in the plan contribute 100% of the blended premium. The utility, by contributing its portion of the blended premium for active employees, in effect contributes the difference between the blended premium and a retiree age adjusted premium. For a small group of grandfathered retirees, the utility pays a \$50 healthcare supplement.

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

| Measurement date | 12/31/2018 | 12/31/2017 |
|--|-------------------|-------------------|
| Fiscal year end | 12/31/2019 | 12/31/2018 |
| Active plan members | 259 | 264 |
| Inactive plan members entitled to but not yet receiving benefits | 0 | 0 |
| Retired plan members or beneficiaries currently receiving benefits | <u>28</u> | <u>25</u> |
| TOTAL | <u>287</u> | <u>289</u> |

For fiscal years 2019, 2018, and 2017, the utility contributed \$44,748, \$44,748, and \$44,748, respectively, to the plan for retiree benefit payments.

The following schedule of changes in the total OPEB liability is based on the actuarial valuation report as of December 31, 2018.

| | 2019 | 2018 |
|--|-------------------|------------------|
| Service cost | \$ 34,071 | \$ 35,606 |
| Interest on net OPEB obligation | 37,603 | 36,710 |
| Adjustment to annual required contribution | - | - |
| Differences between expected and actual experience | 55,389 | 14,157 |
| Changes in assumptions | (54,416) | - |
| Benefit payments | <u>(44,748)</u> | <u>(44,748)</u> |
| Net change in total OPEB obligation | 27,899 | 41,725 |
| Net OPEB Obligation - Beginning of Year | 907,499 | 865,774 |
| Net OPEB Obligation - End of Year | <u>\$ 935,398</u> | <u>\$907,499</u> |

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

For the years ended December 31, 2019 and December 31, 2018, the utility recognized OPEB expense of \$27,899 and \$41,725, respectively. At December 31, 2019, the utility reported deferred outflows of resources and deferred inflow of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Changes in assumptions | \$ - | \$136,351 |
| Difference between actual and expected experience | 93,014 | - |
| Contributions subsequent to measurement date | 44,748 | - |
| | <u>\$137,762</u> | <u>\$136,351</u> |

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

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

At December 31, 2018, the utility reported deferred outflows of resources and deferred inflow of resources related to OPEB from the following sources:

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

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

| Fiscal Year ending 12/31 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---------------------------------|---|--|
| 2020 | \$14,418 | \$22,224 |
| 2021 | 14,418 | 22,224 |
| 2022 | 14,418 | 22,224 |
| 2023 | 14,418 | 22,224 |
| 2024 | 14,418 | 22,224 |
| Thereafter | 20,924 | \$25,231 |
| Totals | \$93,014 | \$136,351 |

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

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

| Sensitivity of the Net OPEB Liability to Changes in the Discount Rate | | | |
|--|--------------------------|----------------------------|--------------------------|
| | 1% decrease 2.97% | Discount Rate 3.97% | 1% Increase 4.97% |
| Net OPEB Liability 12/31/19 | \$1,014,710 | \$935,398 | \$864,652 |
| | 1% decrease 3.09% | Discount Rate 4.09% | 1% Increase 5.09% |
| Net OPEB Liability 12/31/18 | \$989,805 | \$907,499 | \$833,944 |
| Sensitivity of the Net OPEB Liability to Changes in Healthcare Trend Rate | | | |
| | 1% decrease | Current Rate | 1% Increase |
| Net OPEB Liability 12/31/19 | \$855,730 | \$935,398 | \$1,027,976 |
| Net OPEB Liability 12/31/18 | \$824,983 | \$907,499 | \$1,003,134 |

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

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

There are no plan assets under this plan.

Actuarial valuations of an ongoing plan involve estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

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

ACTUARIAL ASSUMPTIONS

The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Discount rate | 3.97% Barclays Municipal GO Long Term (17+Y) index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher, as of the measurement date. |
| Mortality rate | RP-2006 (underlying baseline table from SOA RP-2014 study) |
| Mortality improvement | Principal 2014-10 MI scale: this scale is based on the RPEC_2014_v2018 model reflecting historical U.S. mortality data to 2016, published by the SOA in October of 2018. Due to the 2-year step-back, last historical graduated data year in the scale is 2014. |
| Retirement rates | Ages 62-64 - 25%; Age 65 – 100% |
| Withdrawal | 2003 Society of Actuaries Basic Plan Age Table, multiplied by 0.60. |
| Healthcare cost increases | 2019 – 2.50%; 2020 – 6.75% decreasing by 0.25% per year through 2028; 2029+ 4.50%/year. |
| Participation rate | 75% of future retirees |

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

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

| Single-Employer Defined Benefit OPEB Plan Aggregate Tables | | |
|--|------------------|------------------|
| Aggregate Net OPEB Liability Schedule | | |
| | <u>2019</u> | <u>2018</u> |
| Electric | \$681,778 | \$684,728 |
| Water | 101,724 | 90,151 |
| Communications | 144,810 | 126,628 |
| MAGIC | <u>7,086</u> | <u>5,992</u> |
| | <u>\$935,398</u> | <u>\$907,499</u> |
| Aggregate Deferred Outflows of Resources Schedule | | |
| | <u>2019</u> | <u>2018</u> |
| Electric | \$100,409 | \$79,019 |
| Water | 14,981 | 10,398 |
| Communications | 21,328 | 14,555 |
| MAGIC | 1,044 | 728 |
| | <u>\$137,762</u> | <u>\$104,700</u> |
| Aggregate Deferred Inflows of Resources Schedule | | |
| | <u>2019</u> | <u>2018</u> |
| Electric | \$99,381 | \$90,561 |
| Water | 14,828 | 11,916 |
| Communications | 21,109 | 16,682 |
| MAGIC | <u>1,033</u> | <u>830</u> |
| | <u>\$136,351</u> | <u>\$119,989</u> |
| Aggregate OPEB Expense Schedule | | |
| | <u>2019</u> | <u>2018</u> |
| Electric | \$8,163 | \$31,294 |
| Water | 1,217 | 4,172 |
| Communications | 1,734 | 6,259 |
| MAGIC | <u>85</u> | <u>-</u> |
| | <u>\$11,199</u> | <u>\$41,725</u> |

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

NOTE 8 – SINGLE-EMPLOYER DEFINED BENEFIT PENSION PLAN

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, the information about the fiduciary net position of the Plan and additions to/deductions from Muscatine Water and Electric Employees' Pension Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments in separate accounts held at The Principal Financial Group (the plan administrator) are commingled pools, rather than individual securities; they are valued as of the 12/31/18 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 or new employees that were participants of IPERS can choose to participate in either IPERS or the Plan. Total covered valuation payroll for the years ended December 31, 2019 and December 31, 2018 were \$21,914,340 and \$20,860,718, respectively. Participants are 100% vested at the completion of five years of service. Benefits are generally equal to 1.5% of the employee's average highest five consecutive years of compensation (Average Compensation) multiplied by credited years of service. An additional benefit is available in an amount equal to 0.5% of the employee's Average Compensation in excess of Social Security Covered Compensation, if any, multiplied by credited years of service, up to 35 years. Benefit provisions are established under the Plan as adopted by the utility's Board of Trustees. The funding is approved and amended by the utilities' five-member Board of Trustees, who are appointed by Muscatine's mayor and ratified by the city council. There are no non-employer contributing entities, as defined by GASB 67, *Financial Reporting for Pension Plans*, and GASB 68, *Accounting and Financial Reporting for Pensions*, for this plan. There are no special funding situations, as defined by GASB 67 and 68, for the Plan. The Plan currently does not issue a stand-alone financial report.

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

| | <u>12/31/2018</u> | <u>12/31/2017</u> |
|--|-------------------|-------------------|
| Active plan members | 259 | 256 |
| Inactive plan members entitled to but not yet receiving benefits | 95 | 98 |
| Disabled plan members entitled to benefits | 0 | 0 |
| Retired plan members or beneficiaries currently receiving benefi | <u>192</u> | <u>184</u> |
| TOTAL | <u>546</u> | <u>538</u> |

The pension plan provides for retirement, disability, and death benefits. There have been no changes in plan provisions during the measurement period and between the December 31, 2018 measurement date and the end of the December 31, 2019 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, 2019. 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, 2019 is \$3,345,873, equal to 15.3% of covered valuation payroll; the ADC for the measurement period ending December 31, 2018 is \$3,204,619, equal to 15.4% of covered valuation payroll. Employer contributions, for the years ending December 31, 2019, December 31, 2018, and December 31, 2017 equaled \$3,345,873, \$3,504,169, and \$3,233,148, respectively.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

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

ACTUARIAL ASSUMPTIONS

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

A measurement period of December 31, 2017 to December 31, 2018 has been used for the plan year ending December 31, 2018 for GASB 67 reporting and for the fiscal year ending December 31, 2019 for GASB 68 reporting. The net pension liability reported for the year ending December 31, 2019 was measured as of December 31, 2018, using the pension liability that was determined by an actuarial valuation as of December 31, 2018. The plan administrator does a comprehensive review of the economic and demographic assumptions; the following were used for the year endings December 31, 2019 and December 31, 2018:

| | <u>2019</u> | <u>2018</u> |
|---|--|-------------|
| Inflation | 2.25% | 2.00% |
| Investment rate of return | 6.25% | 6.25% |
| Salary increases (age-based)-both years | Age 25-6.18%; Age 40-4.72%; Age 55-3.88% | |
| Retirement rate | 2019: 25% at age 62; 25% at age 63; 25% at age 64; 25% at age 65 2018: Age 65 | |
| Wage base | 3.25% | 3.00% |
| Marriage rate | 75% | 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 are based on RP-2006 total dataset mortality table projected to future years with historical and assumed mortality improvement rates using the Principal Mortality Improvement Scale (PFG2014-10).

The expected long-term return on plan assets assumption was developed as a weighted average rate based on the target asset allocation of the plan and the Long-Term Capital Market Assumptions (CMA) 2018. 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 2018 is 20-30 years.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2019 and 2018

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

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

| <u>Asset Class</u> | <u>Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-------------------------------|-------------------------|---|
| US Equity - Large Cap | 29.60% | 7.70% |
| US Equity - Mid Cap | 3.40% | 7.95% |
| US Equity - Small Cap | 1.80% | 8.50% |
| Non-US Equity | 18.20% | 7.95% |
| REITs | 0.40% | 7.60% |
| Real Estate (direct property) | 6.00% | 5.55% |
| TIPS | 0.60% | 3.50% |
| Core Bond | 38.00% | 4.00% |
| High Yield | <u>2.00%</u> | 6.45% |
| Total | <u>100.00%</u> | |

The discount rate used to determine the end of period total pension liability is 6.12%. 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 2018 to 2070. Benefit payments after 2116 are projected to be \$0. The long-term rate of return of 6.25% is used to calculate the actuarial present value of projected payments for each future period when the projected fiduciary net position is greater than the projected expected benefit payments. Otherwise, a municipal bond rate of 3.97% 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 12/31/2018 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, 2019 and December 31, 2018, the utility recognized pension expense of \$5,298,711 and \$3,993,001, respectively. At December 31, 2019, the utility (including MAGIC – see Note 17) reported deferred outflows of resources and deferred inflow of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Changes of assumptions | \$3,032,239 | \$399,857 |
| Difference between actual and expected experience | 1,196,303 | 694,398 |
| Difference between projected and actual earnings | 4,013,959 | - |
| Contributions subsequent to measurement date | 3,345,873 | - |
| | <u>\$11,588,374</u> | <u>\$1,094,255</u> |

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

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

At December 31, 2018, the utility (including MAGIC – see Note 17) reported deferred outflows of resources and deferred inflow of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Changes of assumptions | \$4,470,141 | \$335,570 |
| Difference between actual and expected experience | 668,351 | 1,023,883 |
| Difference between projected and actual earnings | - | 2,500,955 |
| Contributions subsequent to measurement date | 3,504,169 | - |
| | <u>\$8,642,661</u> | <u>\$3,860,408</u> |

Contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in the pension expense as follows:

| Fiscal Year ending 12/31 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---------------------------------|---|--|
| 2020 | 3,253,012 | 466,324 |
| 2021 | 2,363,548 | 459,828 |
| 2022 | 899,066 | 144,965 |
| 2023 | 1,726,875 | 23,138 |
| Totals | <u>\$8,242,501</u> | <u>\$1,094,255</u> |

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

| | 1% decrease 5.12% | Discount Rate 6.12% | 1% Increase 7.12% |
|--------------------------------|--------------------------|----------------------------|--------------------------|
| Net Pension Liability 12/31/19 | \$32,974,949 | \$21,264,381 | \$11,437,080 |
| | 1% decrease 5.25% | Discount Rate 6.25% | 1% Increase 7.25% |
| Net Pension Liability 12/31/18 | \$25,187,725 | \$13,599,677 | \$3,892,592 |

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

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

SCHEDULE OF CHANGES IN NET PENSION LIABILITY

| Reporting Period Ending | 12/31/2019 | 12/31/2018 |
|---|----------------------------|----------------------------|
| <i><u>TOTAL PENSION LIABILITY</u></i> | | |
| Service cost | 1,470,422 | 1,513,685 |
| Interest | 5,411,414 | 5,196,759 |
| Benefit payments | (3,443,179) | (3,166,243) |
| Difference between expected and actual experience | 942,640 | 450,770 |
| Change in assumptions | (201,125) | (347,807) |
| Change in benefit terms | - | - |
| Net Change in Total Pension Liability | \$4,180,172 | \$3,647,164 |
| Total Pension Liability, beginning of period | \$86,939,732 | \$83,292,568 |
| Total Pension Liability, end of period | <u>\$91,119,904</u> | <u>\$86,939,732</u> |
| <i><u>FIDUCIARY NET POSITION</u></i> | | |
| Employer contributions | 3,504,169 | 3,233,148 |
| Net investment income | (3,545,522) | 9,741,653 |
| Benefit payments | (3,443,179) | (3,166,243) |
| Administration expenses | - | - |
| Net Change in Fiduciary Net Position | (\$3,484,532) | \$9,808,558 |
| Fiduciary Net Position, beginning of period | \$73,340,055 | \$63,531,497 |
| Fiduciary Net Position, end of period | <u>\$69,855,523</u> | <u>\$73,340,055</u> |
| NET PENSION LIABILITY | <u>\$21,264,381</u> | <u>\$13,599,677</u> |

FIDUCIARY PENSION TRUST FUND – GASB 67 DISCLOSURES

For the measurement date 12/31/19, the following assumptions were updated: 1) the mortality base table changed from RP2006 to Pri-2012; 2) the mortality improvement scale reflects historical U.S. mortality data to 2016; and 3) the discount rate of 6.25% is used to determine the end of period total pension liability.

As of the measurement date 12/31/19, the following plan members (including MAGIC employees – see Note 17) were covered by the benefit terms:

| | <u>12/31/2019</u> |
|--|-------------------|
| Active plan members | 266 |
| Inactive plan members entitled to but not yet receiving benefits | 99 |
| Disabled plan members entitled to benefits | 0 |
| Retired plan members or beneficiaries currently receiving benefits | <u>209</u> |
| TOTAL | <u>574</u> |

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

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

FIDUCIARY PENSION TRUST FUND – GASB 67 DISCLOSURES (cont.)

| Measurement date 12/31/19 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Changes of assumptions | \$1,594,337 | \$1,506,541 |
| Difference between actual and expected experience | 781,615 | 687,094 |
| Difference between projected and actual earnings | - | 4,429,835 |
| Contributions subsequent to measurement date | - | - |
| | <u>\$2,375,952</u> | <u>\$6,623,470</u> |

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

| | 1% decrease 5.25% | Discount Rate 6.25% | 1% Increase 7.25% |
|-----------------------|-------------------|---------------------|-------------------|
| Net Pension Liability | \$21,507,144 | \$9,936,010 | \$209,184 |

SCHEDULE OF CHANGES IN NET PENSION LIABILITY

| Measurement Period Ending | 12/31/2019 |
|---|---------------------------|
| <u>TOTAL PENSION LIABILITY</u> | |
| Service cost | 1,557,289 |
| Interest | 5,552,211 |
| Benefit payments | (3,692,986) |
| Difference between expected and actual experience | (413,970) |
| Change in assumptions | (1,597,802) |
| Change in benefit terms | - |
| Net Change in Total Pension Liability | \$1,404,742 |
| Total Pension Liability, beginning of period | \$91,119,904 |
| Total Pension Liability, end of period | <u>\$92,524,646</u> |
| <u>FIDUCIARY NET POSITION</u> | |
| Employer contributions | 3,345,873 |
| Net investment income | 13,147,954 |
| Benefit payments | (3,692,986) |
| Administration expenses | (67,728) |
| Net Change in Fiduciary Net Position | \$12,733,113 |
| Fiduciary Net Position, beginning of period | \$69,855,523 |
| Fiduciary Net Position, end of period | <u>\$82,588,636</u> |
| NET PENSION LIABILITY | <u>\$9,936,010</u> |

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

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

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

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

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

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

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

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

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

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

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

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

IPERS members were required to contribute 5.95% from January 1, 2015 through June 30, 2018 and 6.29% from July 1, 2018 through June 30, 2021 of their annual covered salary. The utility was required to contribute 8.93% from January 1, 2015 through June 30, 2018 and 9.44% from July 1, 2018 through June 30, 2021 of employees covered annual salaries. The contributions to IPERS for the years ending December 31, 2019, December 31, 2018, and December 31, 2017 were \$66,922, \$59,468, and \$56,861, respectively, equal to the required contributions for those years. A measurement period of July 1, 2018 to June 30, 2019 has been used for the fiscal year ending December 31, 2019 for GASB 68 reporting.

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

At December 31, 2019, the utility reported a liability of \$482,470 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The utility’s proportion of the net pension liability was based on the utility’s share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2019, the utility’s collective proportion was .008276 percent, which was a decrease of .000736 percent from its proportion measured as of June 30, 2018.

For the years ended December 31, 2019 and December 31, 2018, the utility recognized IPERS expense of -\$64,652 and \$164,808, respectively. At December 31, 2019, the 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 | \$1,338 | \$17,347 |
| Changes of assumptions | 51,679 | - |
| Difference between projected and actual earnings | - | 54,368 |
| Contributions subsequent to measurement date | 36,263 | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | 76,329 | 72,035 |
| | \$165,609 | \$143,750 |

At December 31, 2018, the 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 | \$3,126 | \$12,886 |
| Changes of assumptions | 81,331 | - |
| Difference between projected and actual earnings | - | 15,665 |
| Contributions subsequent to measurement date | 29,199 | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | 98,073 | 63,526 |
| | \$211,729 | \$92,077 |

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

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

Contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows and inflows of 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 |
|---------------------------------|---|--|
| 2020 | \$53,595 | \$58,840 |
| 2021 | 37,501 | 39,021 |
| 2022 | 21,445 | 19,347 |
| 2023 | 13,227 | 14,341 |
| 2024 | 3,578 | 8,454 |
| 2025 | - | <u>3,747</u> |
| Totals | <u>\$129,346</u> | <u>\$143,750</u> |

There were no non-employer contributing entities at IPERS.

ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2019 and June 30, 2018 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 2.6% (effective June 30, 2017) |
| Investment rate of return | 7.0% (effective June 30, 2017) |
| Salary increases | 3.25%-16.25% depending on years of service (effective June 30, 2017) |
| Wage base | 3.25% (based on 2.6% inflation assumption and 0.65% real wage inflation; effective June 30, 2017) |

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2014 Mortality Table for all groups, with mortality improvements modeled using Scale MP-2017.

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

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

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

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|--------------------------|----------------------|--|
| Core-plus fixed income | 27.0% | 1.71% |
| Domestic equity | 22.0% | 5.60% |
| International equity | 15.0% | 6.08% |
| Private equity | 11.0% | 10.13% |
| Private real estate | 7.5% | 4.76% |
| Global smart beta equity | 3.0% | 5.82% |
| Public credit | 3.5% | 3.32% |
| Public real assets | 7.0% | 2.81% |
| Private credit | 3.0% | 3.01% |
| Cash | 1.0% | -0.21% |
| TOTAL | <u>100.0%</u> | |

The discount rate used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions from employees and employers will be made at the contractually required rates, which are set by the Contribution Rate Funding Policy and derived from the actuarial valuation. 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 6.0% | Discount Rate 7.0% | 1% Increase 8.0% |
|--------------------------------------|------------------|--------------------|------------------|
| Net Pension Liability-IPERS 12/31/19 | \$856,711 | \$482,470 | \$168,561 |
| Net Pension Liability-IPERS 12/31/18 | \$967,609 | \$570,121 | \$236,687 |

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, 2019 and December 31, 2018, the water utility reported payables to the defined benefit pension plan of \$5,959 and \$4,548 for legally required employer contributions and \$3,970 and \$3,030 for legally required employee contributions, respectively, which had not yet been remitted to IPERS.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 10 – AGGREGATE PENSION SCHEDULES

| Aggregate Net Pension Liability Schedule - 2019 | | | |
|--|-----------------------------|------------------|---------------------|
| | Single-Employer Defined | | |
| | <u>Benefit Pension Plan</u> | <u>IPERS</u> | <u>Total</u> |
| Electric | \$16,896,280 | | \$16,896,280 |
| Water | 1,276,019 | \$482,470 | 1,758,489 |
| Communications | 2,926,762 | - | 2,926,762 |
| MAGIC | <u>165,320</u> | - | <u>165,320</u> |
| | <u>\$21,264,381</u> | <u>\$482,470</u> | <u>\$21,746,851</u> |
| Aggregate Deferred Outflows of Resources Schedule - 2019 | | | |
| | Single-Employer Defined | | |
| | <u>Benefit Pension Plan</u> | <u>IPERS</u> | <u>Total</u> |
| Electric | \$9,052,920 | \$1,995 | \$9,054,915 |
| Water | 726,594 | \$158,097 | 884,691 |
| Communications | 1,713,548 | 5,517 | 1,719,065 |
| MAGIC | <u>95,312</u> | - | <u>95,312</u> |
| | <u>\$11,588,374</u> | <u>\$165,609</u> | <u>\$11,753,983</u> |
| Aggregate Deferred Inflows of Resources Schedule - 2019 | | | |
| | Single-Employer Defined | | |
| | <u>Benefit Pension Plan</u> | <u>IPERS</u> | <u>Total</u> |
| Electric | \$851,112 | | \$851,112 |
| Water | 68,477 | \$143,750 | 212,227 |
| Communications | 165,566 | - | 165,566 |
| MAGIC | <u>9,100</u> | - | <u>9,100</u> |
| | <u>\$1,094,255</u> | <u>\$143,750</u> | <u>\$1,238,005</u> |
| Aggregate Pension Expense Schedule - 2019 | | | |
| | Single-Employer Defined | | |
| | <u>Benefit Pension Plan</u> | <u>IPERS</u> | <u>Total</u> |
| Electric | \$4,184,074 | | \$4,184,074 |
| Water | 333,819 | \$10,142 | 343,961 |
| Communications | 738,322 | - | 738,322 |
| MAGIC | <u>42,496</u> | - | <u>42,496</u> |
| | <u>\$5,298,711</u> | <u>\$10,142</u> | <u>\$5,308,853</u> |

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2019 and 2018

NOTE 10 – AGGREGATE PENSION SCHEDULES (cont.)

| Aggregate Net Pension Liability Schedule - 2018 | | | |
|--|-----------------------------|------------------|---------------------|
| | Single-Employer Defined | | |
| | <u>Benefit Pension Plan</u> | <u>IPERS</u> | <u>Total</u> |
| Electric | \$11,054,529 | | \$11,054,529 |
| Water | 748,255 | \$570,121 | 1,318,376 |
| Communications | 1,699,129 | | 1,699,129 |
| MAGIC | <u>97,764</u> | | <u>97,764</u> |
| | <u>\$13,599,677</u> | <u>\$570,121</u> | <u>\$14,169,798</u> |
| Aggregate Deferred Outflows of Resources Schedule - 2018 | | | |
| | Single-Employer Defined | | |
| | <u>Benefit Pension Plan</u> | <u>IPERS</u> | <u>Total</u> |
| Electric | \$6,991,555 | | \$6,991,555 |
| Water | 499,227 | \$211,729 | 710,956 |
| Communications | 1,087,931 | | 1,087,931 |
| MAGIC | <u>63,948</u> | | <u>63,948</u> |
| | <u>\$8,642,661</u> | <u>\$211,729</u> | <u>\$8,854,390</u> |
| Aggregate Deferred Inflows of Resources Schedule - 2018 | | | |
| | Single-Employer Defined | | |
| | <u>Benefit Pension Plan</u> | <u>IPERS</u> | <u>Total</u> |
| Electric | \$3,089,325 | | \$3,089,325 |
| Water | 245,846 | \$92,077 | 337,923 |
| Communications | 495,674 | | 495,674 |
| MAGIC | <u>29,563</u> | | <u>29,563</u> |
| | <u>\$3,860,408</u> | <u>\$92,077</u> | <u>\$3,952,485</u> |
| Aggregate Pension Expense Schedule - 2018 | | | |
| | Single-Employer Defined | | |
| | <u>Benefit Pension Plan</u> | <u>IPERS</u> | <u>Total</u> |
| Electric | \$3,197,599 | | \$3,197,599 |
| Water | 253,153 | \$121,340 | 374,493 |
| Communications | 511,503 | | 511,503 |
| MAGIC | <u>30,746</u> | | <u>30,746</u> |
| | <u>\$3,993,001</u> | <u>\$121,340</u> | <u>\$4,114,341</u> |

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2019 and 2018

NOTE 11 – SIGNIFICANT CUSTOMERS

Approximately \$30,252,500 or 32% in 2019 and \$25,013,000 or 26% in 2018 of the electric utility's operating revenues were derived from sales to one customer. Approximately \$3,390,000 or 49% in 2019 and \$3,271,000 or 49% in 2018 of the water utility's operating revenues were derived from sales to one customer.

NOTE 12 – RESTATEMENT OF NET POSITION

Net position for the water utility has been restated to change measurement dates for the IPERS plan to be in accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*.

Water Utility

| | | |
|--|----|-------------------|
| Pension deferred outflows of resources - December 31, 2018 (as reported) | \$ | 736,774 |
| Adjustment | | <u>(25,818)</u> |
| Pension deferred outflows of resources – December 31, 2018 (as restated) | \$ | <u>710,956</u> |
| | | |
| Net pension liability - December 31, 2018 (as reported) | \$ | 1,265,481 |
| Adjustment | | <u>52,895</u> |
| Net pension liability – December 31, 2018 (as restated) | \$ | <u>1,318,376</u> |
| | | |
| Pension deferred inflows of resources - December 31, 2018 (as reported) | \$ | 319,256 |
| Adjustment | | <u>18,667</u> |
| Pension deferred inflows of resources – December 31, 2018 (as restated) | \$ | <u>337,923</u> |
| | | |
| Other operating expenses - December 31, 2018 (as reported) | \$ | 4,021,169 |
| Adjustment | | <u>29,442</u> |
| Other operating expenses – December 31, 2018 (as restated) | \$ | <u>4,050,611</u> |
| | | |
| Net position – January 1, 2018 (as reported) | \$ | 16,591,589 |
| Adjustment | | <u>(67,938)</u> |
| Net position – January 1, 2018 (as restated) | \$ | <u>16,523,651</u> |

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

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 51,991 MWH, approximately 5.8% 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 650,000 tons of coal in 2019 under a contract with one supplier. If additional tons become necessary, they will be purchased on the OTC market or by working directly with the mine.

The utility has rail transportation agreements with two separate companies for the delivery of coal. The utility's first agreement is for coal shipped from the Powder River Basin (PRB), Wyoming to an interchange with the local delivery carrier. The current contract with the BNSF (originating carrier) expires December 31, 2022. The utility's minimum requirement is 100% of the tons shipped from the PRB up to the utility's annual tonnage nomination. In the event the utility does not meet their nominated tons, the utility has agreed to pay a per ton fee as compensation for lost traffic.

The agreement with the Canadian Pacific Railway for the shipment of coal from the interchange point to the utility's generating station expires April 30, 2020. A new agreement is expected to be in place prior to expiration of the current agreement. The Canadian Pacific Railway is only offering one-year agreements at this time.

In April 2017, the utility contracted to sell steam to a local customer through April 2020; another extension was agreed to in October 2019 to sell steam through December 2022. The agreement includes a minimum flow rate, adjusted as necessary to accommodate operational circumstances.

NOTE 14 – ENVIRONMENTAL REGULATIONS

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

NOTE 15 – INTERFUND AND RELATED PARTY TRANSACTIONS

The electric utility sold power to the water utility amounting to approximately \$1,165,200 in 2019 and \$1,056,400 in 2018. The electric utility sold power to the communications utility amounting to approximately \$21,100 in 2019 and \$21,400 in 2018. The electric utility purchased water from the water utility amounting to approximately \$396,500 in 2019 and \$357,200 in 2018. The electric utility purchased communications services from the communications utility amounting to approximately \$165,900 for 2019 and \$167,200 for 2018.

The electric utility rents space to the water utility and the communications utility at the Administration/Operations Center. This amounted to \$75,240 in 2019 and \$74,484 in 2018 for the water utility's rent, and \$121,672 in 2019 and \$118,128 in 2018 for the communications utility's rent.

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

NOTE 15 – INTERFUND AND RELATED PARTY TRANSACTIONS (cont.)

Electric utility amounts receivable from the water utility were \$91,000 and \$90,000 at December 31, 2019 and 2018, respectively. Electric utility amounts payable to the water utility were \$34,300 at December 31, 2019 and \$29,400 at December 31, 2018. Electric utility amounts receivable from the communications utility were \$45,400 and \$41,700 at December 31, 2019 and 2018, respectively. Electric utility amounts payable to the communications utility were \$13,700 and \$14,000 at December 31, 2019 and 2018, 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. Annual principal payments began January 1, 2016; semi-annual payments of interest are due each January 1 and July 1. All or any portion of such loan may be prepaid at any time by the communications utility without penalty.

The electric utility's interest receivable from the communications utility was \$0 at December 31, 2019 and December 31, 2018. Interest income on the loan amounted to \$40,395 for 2019 and \$42,814 for 2018.

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) | 2019 | 2018 | 2017 |
|--|----------|----------|----------|
| Health/dental care self-insurance reserve | | | |
| Reserve liability, beginning of year | \$ 1,401 | \$ 1,487 | \$ 1,143 |
| Add: Provision for reserve, current year | 4,241 | 4,376 | 4,727 |
| Less: Payments on reserve | (4,208) | (4,069) | (4,056) |
| Total Reserve Liability, end of year | 1,434 | 1,794 | 1,814 |
| Incurred but not reported claims | (450) | (393) | (327) |
| Non-Current Reserve Liability, End of Year | \$ 984 | \$ 1,401 | \$ 1,487 |
| (Thousands of dollars) | 2019 | 2018 | 2017 |
| Workers compensation self-insurance reserve | | | |
| Reserve liability, beginning of year | \$ 408 | \$ 390 | \$ 526 |
| Add: Provision for reserve | 462 | 256 | 192 |
| Less: Payments on reserve | (334) | (238) | (328) |
| Reserve Liability, End of Year | \$ 536 | \$ 408 | \$ 390 |

MUSCATINE POWER AND WATER

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

NOTE 17 – JOINT VENTURE

The utility is a member organization along with the City of Muscatine and the County of Muscatine in a joint venture under Chapter 28E of the Iowa Code to operate the Muscatine Area Geographic Information Consortium (MAGIC). The purpose of MAGIC is to improve the efficiency and effectiveness of its member organizations through the coordinated development of geographic and land information systems technology and data. MAGIC is governed by a six-member board composed of two appointees from each member organization. Each member organization has one vote on all matters. MAGIC's board determines the funding required by each member organization. Upon dissolution of the joint venture, the net position of MAGIC will be distributed on a pro-rata basis based on funding. Complete financial statements for MAGIC can be obtained from the Muscatine Power and Water Administration/Operations Center, 3205 Cedar Street, Muscatine, Iowa 52761.

The utility accounts for this investment under the equity method since it has the ability to exercise significant influence over the joint venture and it has an explicit equity interest in the joint venture. The utility has rights to the information systems technology and data and the cost of such rights are amortized over their expected average useful life of 26 years. The utility's share of MAGIC's operating expenses is expensed as incurred.

NOTE 18 – CLOSURE AND POST-CLOSURE CARE COST

State and federal laws and regulations require the electric utility to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the electric utility reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1.2 million reported as landfill closure and post-closure care liability at December 31, 2019, represents the remaining cumulative amount reported to date based on the use of approximately 83 percent of the estimated capacity of the landfill's phases one and two. The electric utility will recognize the remaining estimated cost of closure and post-closure care of \$242,800 as the remaining estimated capacity is filled. The electric utility partially closed the landfill's phase one in 2019 at an expense of \$427,000. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. The electric utility is required by state and federal laws and regulations to file a statement to demonstrate financial assurance for closure and/or post-closure care costs.

NOTE 19 – SUBSEQUENT EVENTS

WATER RATES

In December 2019, an overall 3.5% for water service was approved by the Board to become effective with billings starting after April 1, 2020, and again after April 1, 2021. The April 1, 2020 was later extended to May 1, 2020 due to the COVID-19 pandemic.

COMMUNICATIONS RATES

In February 2020, increases for TV/Video services were approved by the Board to become effective with billings starting after April 1, 2020. The April 1, 2020 was later extended to May 1, 2020 due to the COVID-19 pandemic. Select Digital TV service will increase \$3.00 to \$80.99 per month; the broadcast surcharge will increase \$1.70 to \$16.70 per month; and a regional sports charge of \$4.40 per month will be added, if applicable.

REQUIRED SUPPLEMENTARY INFORMATION

MUSCATINE POWER AND WATER

Required Supplementary Information – Single-Employer Defined Benefit Pension Plan
For the Year Ended December 31, 2019 (unaudited)

SCHEDULE OF CHANGES IN NET PENSION LIABILITY

| TOTAL PENSION LIABILITY | | | | | | |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Measurement date | 12/31/2019 | 12/31/2018 | 12/31/2017 | 12/31/2016 | 12/31/2015 | 12/31/2014 |
| Fiscal Year | 12/31/2020 | 12/31/2019 | 12/31/2018 | 12/31/2017 | 12/31/2016 | 12/31/2015 |
| Service cost | \$1,557,289 | \$1,470,422 | \$1,513,685 | \$1,389,645 | \$1,293,507 | \$1,397,201 |
| Interest | 5,552,211 | 5,411,414 | 5,196,759 | 5,128,482 | 4,857,025 | 4,743,318 |
| Benefit payments | (3,692,986) | (3,443,179) | (3,166,243) | (2,793,981) | (2,672,730) | (2,370,911) |
| Difference between expected and actual experience | (413,970) | 942,640 | 450,770 | (1,006,283) | 652,758 | (943,990) |
| Change in assumptions | (1,597,802) | (201,125) | (347,807) | 4,507,826 | (123,402) | 3,959,905 |
| Net Change in Total Pension Liability | \$1,404,742 | \$4,180,172 | \$3,647,164 | \$7,225,689 | \$4,007,158 | \$6,785,523 |
| Total Pension Liability: | | | | | | |
| Beginning of period | <u>\$91,119,904</u> | <u>\$86,939,732</u> | <u>\$83,292,568</u> | <u>\$76,066,879</u> | <u>\$72,059,721</u> | <u>\$65,274,198</u> |
| End of period | <u>\$92,524,646</u> | <u>\$91,119,904</u> | <u>\$86,939,732</u> | <u>\$83,292,568</u> | <u>\$76,066,879</u> | <u>\$72,059,721</u> |
| PLAN FIDUCIARY NET POSITION | | | | | | |
| Employer contributions | \$3,345,873 | \$3,504,169 | \$3,233,148 | \$2,781,411 | \$2,683,000 | \$2,619,320 |
| Net investment income | 13,147,954 | (3,545,522) | 9,741,653 | 3,529,390 | (266,965) | 3,183,800 |
| Benefit payments | (3,692,986) | (3,443,179) | (3,166,243) | (2,793,981) | (2,672,730) | (2,370,911) |
| Administration expenses | (67,728) | - | - | (4,500) | - | (1,950) |
| Net Change in Plan Fiduciary Net Position | \$12,733,113 | (\$3,484,532) | \$9,808,558 | \$3,512,320 | (\$256,695) | \$3,430,259 |
| Plan Fiduciary Net Position: | | | | | | |
| Beginning of period | <u>\$69,855,523</u> | <u>\$73,340,055</u> | <u>\$63,531,497</u> | <u>\$60,019,177</u> | <u>\$60,275,872</u> | <u>\$56,845,613</u> |
| End of period | <u>\$82,588,636</u> | <u>\$69,855,523</u> | <u>\$73,340,055</u> | <u>\$63,531,497</u> | <u>\$60,019,177</u> | <u>\$60,275,872</u> |
| NET PENSION LIABILITY | <u>\$9,936,010</u> | <u>\$21,264,381</u> | <u>\$13,599,677</u> | <u>\$19,761,071</u> | <u>\$16,047,702</u> | <u>\$11,783,849</u> |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability: | | | | | | |
| | 89.3% | 76.7% | 84.4% | 76.3% | 78.9% | 83.6% |
| Money-Weighted Rate of Return on Pension Plan Investments | | | | | | |
| | 18.92% | -4.87% | 15.62% | 5.95% | -0.45% | 5.67% |
| Covered Valuation Payroll: | \$21,461,252 | \$20,802,753 | \$19,722,272 | \$19,812,794 | \$20,849,573 | \$19,530,308 |
| Net Pension Liability as a Percentage of Covered Valuation Payroll: | | | | | | |
| | 46.3% | 102.2% | 69.0% | 99.7% | 77.0% | 60.3% |

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

See Independent Auditors' Report

MUSCATINE POWER AND WATER

Required Supplementary Information – Single-Employer Defined Benefit Pension Plan
For the Year Ended December 31, 2019 (unaudited)

METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES:

| | |
|------------------------------|--|
| Actuarial cost method | Entry Age Normal Method |
| Asset valuation method | Market Value |
| Investment rate of return | 6.25% |
| Inflation | 2.25% |
| Retirement rate | Ages 62-64 - 25%; Age 65 – 100% |
| 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_v2018 model |

See Independent Auditors' Report

MUSCATINE POWER AND WATER

Required Supplementary Information – Iowa Public Employees’ Retirement System
For the Year Ended December 31, 2019 (unaudited)

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

| | <u>12/31/2019</u> | <u>12/31/2018</u> | <u>12/31/2017</u> | <u>12/31/2016</u> | <u>12/31/2015</u> |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Proportion of the Net Pension Liability | 0.008276% | 0.009012% | 0.007749% | 0.006906% | 0.00916% |
| Proportionate share of the Net Pension Liability | \$482,470 | \$570,121 | \$483,234 | \$343,338 | \$363,277 |
| Covered Valuation Payroll | \$705,123 | \$579,595 | \$551,040 | \$476,102 | \$595,572 |
| Proportionate share of the Net Pension Liability as a % of its Covered Valuation Payroll | 68.4% | 98.4% | 87.7% | 72.1% | 61.0% |
| Plan Fiduciary Net Position as a % of the Total Pension Liability | 84.4% | 83.6% | 81.8% | 85.2% | 87.6% |

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 2018 valuation implemented the following refinements as a result of a quadrennial experience study:

- Updated mortality rates.
- Assumed retirement rates were modified.

The 2017 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.00 percent to 2.60 percent
- Decreased the assumed rate of interest on member accounts from 3.75 percent to 3.50 percent per year.

See Independent Auditors’ Report

MUSCATINE POWER AND WATER

Required Supplementary Information – Iowa Public Employees' Retirement System
For the Year Ended December 31, 2019 (unaudited)

CHANGES IN ACTUARIAL ASSUMPTIONS (cont.):

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.

MUSCATINE POWER AND WATER

Required Supplementary Information – Iowa Public Employees' Retirement System
For the Year Ended December 31, 2019 (unaudited)

SCHEDULE OF THE WATER UTILITY'S IPERS CONTRIBUTIONS:

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|---------------|---------------|---------------|---------------|---------------|
| Statutorily required contribution | \$66,922 | \$59,468 | \$56,861 | \$49,963 | \$46,930 |
| Contributions in relation to the statutorily required contribution | <u>66,922</u> | <u>59,468</u> | <u>56,861</u> | <u>49,963</u> | <u>46,930</u> |
| Contribution deficiency (excess) | - | - | - | - | - |
| Covered employee payroll | \$708,921 | \$648,271 | \$636,745 | \$559,496 | \$525,531 |
| Contributions as a percentage of covered-employee payroll | 9.44% | 9.17% | 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.

MUSCATINE POWER AND WATER

Required Supplementary Information – OPEB Plan
For the Year Ended December 31, 2019 (unaudited)

| Schedule of Changes in Net OPEB Liability | | | |
|---|-------------------------|-------------------------|-------------------------|
| Measurement date | 12/31/2018 | 12/31/2017 | 12/31/2016 |
| Fiscal Year | 12/31/2019 | 12/31/2018 | 12/31/2017 |
| TOTAL OPEB LIABILITY | | | |
| Service cost | \$34,071 | \$35,606 | \$35,606 |
| Interest | 37,603 | 36,710 | 36,710 |
| Benefit payments | (44,748) | (44,748) | (44,748) |
| Difference between expected and actual experience | 55,389 | 14,157 | 67,861 |
| Change in assumptions | (54,416) | - | (135,819) |
| Net Change in Total OPEB Liability | \$27,899 | \$41,725 | (\$40,390) |
| Total OPEB Liability, beginning of period | <u>\$907,499</u> | <u>\$865,774</u> | <u>\$906,164</u> |
| Total OPEB Liability, end of period | <u>\$935,398</u> | <u>\$907,499</u> | <u>\$865,774</u> |
| FIDUCIARY NET POSITION | | | |
| Employer contributions | \$44,748 | \$44,748 | \$44,748 |
| Net investment income | - | - | - |
| Benefit payments | (44,748) | (44,748) | (44,748) |
| Administration expenses | - | - | - |
| Net Change in Fiduciary Net Position | - | - | - |
| Fiduciary Net Position, beginning of period | - | - | - |
| Fiduciary Net Position, end of period | - | - | - |
| NET OPEB LIABILITY | <u>\$935,398</u> | <u>\$907,499</u> | <u>\$865,774</u> |
| Fiduciary Net Position as a Percentage of the Total OPEB Liability | 0.0% | 0.0% | 0.0% |
| Covered Valuation Payroll | \$20,860,718 | \$20,468,578 | \$20,283,973 |
| Net OPEB Liability as a Percentage of Covered Employee Payroll | 4.5% | 4.4% | 4.3% |

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

MUSCATINE POWER AND WATER

Required Supplementary Information – OPEB Plan
For the Year Ended December 31, 2019 (unaudited)

| Schedule of Employer (ER) Contributions | | | |
|---|-------------------|-------------------|-------------------|
| | 12/31/2018 | 12/31/2017 | 12/31/2016 |
| Measurement date | 12/31/2018 | 12/31/2017 | 12/31/2016 |
| Fiscal Year | 12/31/2019 | 12/31/2018 | 12/31/2017 |
| CONTRIBUTIONS | | | |
| ER contributions | \$44,748 | \$44,748 | \$44,748 |
| ER contributions received by the plan | 44,748 | 44,748 | 44,748 |
| Contribution deficiency/(excess) | - | - | - |
| RATIOS | | | |
| Covered employee payroll | \$20,860,718 | \$20,468,578 | \$20,283,973 |
| ER contributions received as a percentage of covered employee payroll | 0.21% | 0.22% | 0.22% |
| ADC ASSUMPTIONS | | | |
| Long-term rate of return on assets | N/A | N/A | N/A |
| Interest rate | 3.97% | 4.09% | 4.09% |
| Salary increase assumption | N/A | N/A | N/A |
| COLA increase assumption | N/A | N/A | N/A |
| Retirement age assumption | Rates | Rates | Rates |
| Plan changes | None | None | None |

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

MUSCATINE POWER AND WATER

Required Supplementary Information – OPEB Plan
For the Year Ended December 31, 2019 (unaudited)

METHODS AND ASSUMPTIONS USED TO DETERMINE OPEB LIABILITY:

| | |
|---------------------------|--|
| Actuarial cost method | Entry Age Normal Method |
| Discount rate | 3.97% |
| Mortality rate | RP-2006 (underlying baseline table from SOA RP-2014 study) |
| Retirement rates | Ages 62-64 - 25%; Age 65 – 100% |
| Healthcare cost increases | 2019 – 2.5%; 2020 – 6.75% decreasing by 0.25% per year through 2028; 2029+ 4.50%/year |
| Participation rate | 75% of future retirees |

SUPPLEMENTARY INFORMATION

REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditors' Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Muscatine Power and Water as of and for the year ended December 31, 2019, and have issued our report dated April 24, 2020.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal controls such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below to be a material weakness.

2019 – 01 Internal Control Over Financial Reporting

Criteria

AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*, requires auditors to report a weakness if there is a deficiency in internal controls that would not prevent, or detect and correct, a material misstatement on a timely manner.

Condition

Management had previously utilized a measurement date greater than the 12 month from year-end requirement outlined in Government Accounting Standards Board (GASB) Statement No. 68 in the past. Further, the 2019 financial statements required material changes to conform with GASB standards and Generally Accepted Accounting Standards (GAAP).

2019 – 01 Internal Control Over Financial Reporting (cont.)

Cause

Management did not take the necessary steps prior to financial statement submission to the auditors to ensure the financial statements were complete and in conformance with applicable accounting standards.

Effect

The 2019 financial statements were missing necessary disclosures to be in conformance with GASB, which required multiple revisions of the financial statements. Further, the correction of the measurement date resulted in a restatement.

Recommendation

We recommend management implement processes and procedures to ensure the financial statements are complete and are in accordance with GAAP and as issued by GASB, which includes management review of the financial statements prior to submission to the auditors. Further, we recommend management designate certain staff to receive GASB-specific training to ensure required GASB standards are timely and adequately implemented.

Management Response

Muscatine Power and Water experienced significant turnover in key positions over the course of 2019, with a new Manager Accounting and Finance, a new Senior Analyst, and an Interim Director Finance and Administrative Services. Throughout the year, key controls have been reviewed and changes made to improve upon them. Management will review and implement additional controls in this area. Management will continue to identify, improve upon, and document control responsibilities. Key staff will also be identified and assigned responsibility for GASB review and implementation with training and support provided for them.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Muscatine Power and Water's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
April 24, 2020

MUSCATINE POWER AND WATER

SCHEDULE OF FINDINGS RELATED TO GOVERNMENT AUDITING STANDARDS AND REQUIRED STATUTORY REPORTING As of and for the Year Ended December 31, 2019

FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

- A-18 Official Depositories – A resolution naming official depositories has been approved by the utility. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2019.
- B-18 Certified Budget – Disbursements during the year ended December 31, 2019, did not exceed the amounts budgeted.
- C-18 Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- D-18 Travel Expense – No disbursements of utility money for travel expenses of spouses of city officials or employees were noted.
- E-18 Business Transactions – No business transactions between the utility and utility officials or employees were noted.
- F-18 Bond Coverage – Surety bond coverage of city officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- G-18 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- H-18 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the utility's investment policy were noted.
- I-18 Revenue Bonds – The utility has complied with all provisions of the Revenue Electric Bond Covenants and Revenue Water Bond Covenants. All required payments to the sinking, reserve and improvement funds were made.
- J-17 Code of Iowa Communications Legislation Requirements – Nothing came to our attention that the utility was not in compliance with the requirements of the Code of Iowa Section 388.10 *Municipal Utility Providing Telecommunications Services* regarding the subsidization of telecommunications operations by the electric and water utilities.
- K-17 The audit identified the following material weakness:
Internal Control over Financial Reporting