



MUSCATINE POWER AND WATER
ANNUAL REPORT

RESPONSIBLE. RELIABLE.
READY FOR
TOMORROW.



SAFETY COMMUNITY
CUSTOMER SERVICE ENVIRONMENTAL CUST
RELIABILITY STEWARDSHIP
COMMUNICATIONS
MUSCATINE POWER AND WATER
EMPLOYEES 2010
ENVIRONMENTAL POWER & WATER
STEWARDSHIP SERVICE
2010
CUSTOMER MP & W
SATISFACTION
RELIABILITY EMPLOY
2010
CUSTOMER S
COMPETITIVELY MEET THE NEEDS &
EXPECTATIONS OF OUR CUSTOMERS
MUSCATINE POWER AND WATER WILL
COMPETITIVELY MEET THE NEEDS AND
OF OUR CUSTOMERS WITH AN
MENTALLY RESPONSIBLE AND
OF SERVICES FOR THE DIRECT
BENEFIT OF THE COMMUNITY
DIRECT BENEFIT
OF THE COMMUNITY
PRODUCTIVITY
UNIQUE MIX OF
IONS SERVICES
COMMUNICATIONS
MPW ENVIRONMENTALLY
RESPONSIBLE
RELIABIL
THE NEEDS AND EXPECTATIONS OF
OUR CUSTOMERS SAFE

Table of Contents

- 04** Letter to Customer/Owners
- 05** Management's Discussion & Analysis
- 13** Statements of Revenues, Expenses & Changes in Net Assets (Deficit)
- 14** Statements of Net Assets
- 16** Statements of Cash Flow
- 18** Notes to Financial Statements
- 31** Independent Auditors' Report

Muscatine Power and Water (MP&W) is a customer-driven, municipal utility located in Muscatine, Iowa, an historic town of approximately 22,700 on the banks of the Mississippi River, 20 miles downstream from the Illinois/Iowa Quad Cities. We provide electric, water and communications products and services. MP&W's Water Utility was founded in 1900. The Electric Utility was founded in 1922. Our Communications Utility was founded in 1997.

MP&W is the largest municipal electric utility in Iowa in terms of sales and generation. We have approximately 11,248 electric customers and 9,599 water customers. We own and operate three coal-fired boilers and four electric generators with a combined nameplate capacity of 293.55 MW. Our facilities for water production, treatment, and distribution pump an average of 25.5 million gallons of water a day.

A hybrid fiber coax (HFC) system serves as the backbone for our state-of-the-art Communications Utility. This HFC system includes fiber-optic loops and coaxial-cable connections to individual homes and businesses. MP&W's Communications Utility products include MPW Digital TV, MachLink® high-speed Internet (featuring cable-modem, wireless, and dial-up service) and municipal area network services. We serve 7,633 cable subscribers, 6,724 MachLink® subscribers and 17 MAN customers. Some of our cable and Internet subscribers reside beyond the city limits.

As a municipal utility, MP&W is dedicated to competitively meeting the needs and expectations of our customers with an environmentally responsible and unique mix of services for the direct benefit of our community.

Letter to Customer/Owners

Despite financial and operational challenges in 2010, Muscatine Power and Water (MP&W) proved we are Responsible, Reliable, and Ready for Tomorrow.

In response to the challenges presented by the Great Recession, initiatives were undertaken by MP&W in 2010 to ensure our financial stability. MP&W determined and executed all possible cost-containment options for capital and expense projects, including postponing projects that were not deemed critical; labor and benefit expenses were significantly reduced through attrition and elimination of several positions. MP&W also identified, applied for, and received several grants through the American Recovery and Reinvestment Act to help offset expenditures on specific projects. Our customers benefited from those measures as they lowered the magnitude of the rate increases that were instituted for our various utility services. While MP&W made difficult decisions in 2010, we remained dedicated to providing quality, reliable electric, water, and communications utility services with excellent customer service at the lowest possible cost.

In September 2009, MP&W joined the Midwest Independent Transmission System Operator (MISO). Membership provides the Electric Utility access to a sizable, efficient energy market. Strategic participation in this market has allowed MP&W to maximize margins derived from the sale of energy and minimize the cost of energy purchased for our native system customers.

While responding to the challenges of the economic downturn, MP&W remained committed to reliability. The results of our Reliability Standards and Critical Infrastructure Protection (CIP) compliance audit conducted by the Midwest Reliability Organization (MRO) were very good. For the third straight year, MP&W received recognition from the American Public Power Association with the award of an RP3 designation, which recognizes public power utilities that demonstrate proficiency in four key disciplines: reliability, safety, training and system improvement. A very successful transition to an all-digital cable TV service was completed in early 2010. The implementation of new digital technology and modifications to existing systems reclaimed system capacity, part of which was used to provide 48 additional HD Channels and faster internet speeds.

Every fall the management team meets to update our Strategic Plan for the following year; during the process we recognized the challenges before us and laid out a plan to address the most critical issues across all three utilities.

A new critical issue in 2010 focused on exploring and implementing new lean initiatives that improve efficiencies, enhance revenues, and reduce costs while preserving safety, customer service, and reliability. In the past we focused on identifying and implementing cost-saving measures; however, this new initiative extends beyond reducing costs and looks at ways to maximize efficiencies.

Other 2010 MP&W critical issues focused on safety, human resources, energy efficiency, legislation, and the communications utility. We were successful fostering a "Safety Culture" that promotes an accident-free workplace with shared responsibility among all employees, as our measured safety performance was the best it has been in years. We continued to design and implement human resource initiatives to address current and future staffing needs, utilizing employee talents and skill sets, and promoting organizational teamwork and resource sharing. We positively influenced MP&W's operations and our customer/owners' energy consumption and impact on the environment, with emphasis given to energy efficiency which reduced energy consumption by nearly 5.0 million kWh. We proactively monitored energy, water, and environmental legislation, identifying and quantifying the potential impacts and alternatives available to the Utility. Last but not least, we improved the bottom line of the communications utility, through new service development, increased efficiency, market responsiveness, and improved service levels.

Initiatives we implemented in 2010 helped to ensure that we operate in a responsible manner, provide reliable services, and we are definitely ready for tomorrow.

Board of Trustees

Gary L. Carlson Chairperson
Joan U. Axel Vice Chairperson
Warren W. Heidbreder Trustee
Doyle D. Tubandt Trustee
D. Scott Ingstad Trustee

Senior Management

Salvatore L. LoBianco General Manager
Gary W. Wieskamp Director, Utility Relations
Donald W. Kerker Director, Finance & Administrative Services
Raymond E. Danz Director, Power Production & Supply
Erika D. Cox Director, Customer & Employee Services
Brandy D. Olson Director, Legal & Regulatory Services



Sal LoBianco

Sal LoBianco
General Manager



Gary L. Carlson

Gary L. Carlson
Chairperson

Management's Discussion & Analysis

The following is provided as a narrative analysis of the Electric, Water, and Communications Utilities' financial activities based on currently known facts, decisions, and conditions. This should be read in conjunction with the Statements of Net Assets; the Statements of Revenues, Expenses, and Changes in Net Assets (Deficit); and the Statements of Cash Flows, which follow.

Overview of the Financial Statements

The Statements of Revenues, Expenses, and Changes in Net Assets (Deficit) report all revenues and expenses for the year. The Statements of Net Assets include all assets and liabilities, and indicate those that are restricted by the Board of Water, Electric, and Communications Trustees (the Board). The Statements of Cash Flows report the cash from operating

activities, as well as cash from noncapital financing activities, investing activities, and capital and related financing activities.

A summary of Muscatine Power and Water's (MP&W's) Statements of Net Assets are presented in Table 1. The Statements of Revenues, Expenses, and Changes in Net Assets are presented in Table 2.

TABLE 1 CONDENSED STATEMENTS OF NET ASSETS

In thousands \$	2010	2009	2008
Current assets			
Unrestricted	\$ 38,249	\$ 31,371	\$ 32,949
Restricted	38,036	38,689	48,599
Total current assets	76,285	70,060	81,548
Non-current assets			
Capital assets	140,389	153,219	162,600
Other assets	37,058	37,906	38,724
Total non-current assets	177,447	191,125	201,324
TOTAL ASSETS	\$ 253,732	\$ 261,185	\$ 282,872
Current liabilities	\$ 22,582	\$ 20,441	\$ 21,206
Non-current liabilities	57,913	66,489	78,103
Deferred revenue	17,155	17,903	29,303
Total liabilities and deferred revenue	97,650	104,833	128,612
Net Assets			
Invested in capital and intangible assets, net of related debt	109,080	114,944	113,678
Restricted	37,297	37,629	47,248
Unrestricted	9,705	3,779	(6,666)
Total net assets	156,082	156,352	154,260
TOTAL LIABILITIES, DEFERRED REVENUE, AND NET ASSETS	\$ 253,732	\$ 261,185	\$ 282,872

TABLE 2 CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

In thousands \$	2010	2009	2008
Operating revenues	\$ 111,915	\$ 94,358	\$ 94,299
Operating expenses	(111,006)	(91,150)	(91,925)
Operating income	909	3,208	2,374
Nonoperating revenues	1,455	1,989	4,012
Nonoperating expenses	(2,806)	(3,451)	(4,019)
Net nonoperating expenses	(1,351)	(1,462)	(7)
Net income before capital contributions	(442)	1,746	2,367
Capital contributions	172	346	354
CHANGE IN NET ASSETS	(270)	2,092	2,721
Net Assets – Beginning of Year	156,352	154,260	151,539
NET ASSETS - END OF YEAR	\$ 156,082	\$ 156,352	\$ 154,260

Management's Discussion & Analysis (continued)

The Water Utility reported change in net assets of \$302,000 in 2010 compared to \$148,000 in 2009 and \$654,000 in 2008. Total retail water sales increased in 2010 by 2.6%; decreased by 3.8% in 2009; and increased by 2.1% in 2008. Operating expenses decreased 2.5% in 2010; increased 5.6% in 2009; and decreased in 2008 by 2.3%.

A 3.0% overall price adjustment went into effect with water usage starting April 1, 2010, 2009, and 2008. In November 2010, a 4.0% water rate increase was approved by the Board to become effective with water usage starting April 1, 2011. These adjustments were in response to an increase in capital requirements necessary to provide for fire protection, community growth, and higher operation and maintenance costs.

Financial Position:

(As reported in the Statements of Net Assets)

Cash and investment balances are lower by \$34,000 and \$1,256,000, respectively, compared to the prior year, primarily due to capital expenditures for well motor-control replacements, reservoir structural repairs, well construction and re-drilling, and water main projects.

Capital assets represent 92.5% of the total assets in 2010. Capital assets increased in 2010, primarily due to the well motor-control replacements, totaling \$377,000, and the construction of a new well and re-drilling an existing well, costing \$221,000.

Customer advances for construction includes the City of Muscatine's contributions for the south end water main project less

MP&W's refunds of \$200 for each customer that attached directly to the water main extension; the remaining advance was approximately \$1,021,000 at the end of 2010, 2009, and 2008.

In November 2009, the Water Utility closed on a loan allowing borrowing of up to \$466,000 from the Iowa Finance Authority (IFA). The IFA, in cooperation with the Iowa Department of Natural Resources, administers the program that allows 20% of the loan to be forgivable as long as the borrower complies with all "American Recovery and Reinvestment Act of 2009" requirements. The loan will be used to help finance the well motor-control replacement project. Only \$265,000 of the loan fund borrowing had been drawn as of December 31, 2010. The remaining amount is projected to be drawn in 2011. The interest rate on the loan is 3.0%, plus a 0.25% servicing fee, with a 10-year repayment term.

Beginning in 2010, the Utility is recording the liability for the post-employment health benefit provision, required by the Governmental Accounting Standards Board Statement No. 45. An actuarial study was performed to determine annual required contribution and the Utility's net obligation. The Water Utility's liability as of December 31, 2010, equals \$12,000.

Results of Operation:

(As reported in the Statements of Revenues, Expenses, and Changes in Net Assets)

MP&W's industrial customers account for 49.5% of total 2010 water sales.

Total water sales revenue for 2010 was higher than 2009 by \$107,000; gallons

of water sold were higher for industrial and commercial classes, while residential and power plant's gallons were lower. Overall, gallons sold increased 1.6%. Total water sales revenue for 2009 was lower than the previous year by \$162,000 and gallons of water sold were lower for all classes of customers, averaging 10.9% less due to the local economy and mild summer weather.

2010 maintenance expenses were \$75,000, or 12.1%, lower than 2009 due to fewer main repairs in 2010. 2009 maintenance expenses were \$174,000, or 39.6%, higher than in 2008 due to costly water main repairs.

Investment income was approximately \$18,000 lower in 2010 and \$43,000 lower in both 2009 and 2008 compared to the prior year, due to realizing a lower rate of return and lower cash and investment balances.

Interest expense is for the IFA loan, which closed in November 2009. The total amount borrowed is \$265,000 as of December 31, 2010. The interest rate on the loan is 3.0%, plus a 0.25% servicing fee, with a 10-year repayment term.

The 2010 capital contribution is the forgivable portion of the IFA loan. Capital contributions in 2009 reflect developer-financed water main construction projects.

Water

Utility Financial Analysis

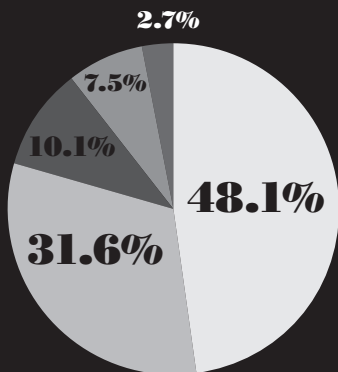
Financial Highlights (in thousands)

Statements of Net Assets	2010	2009	2008
Cash and investments	\$ 422	\$ 456	\$ 1,712
Total capital assets	14,921	14,473	13,217
Total assets	16,139	15,690	15,815
Net assets, invested in capital, Net of related debt	12,668	12,455	11,037
Net assets, unrestricted	724	634	1,905

Statements of Revenues, Expenses, and Changes in Net Assets	2010	2009	2008
Operating revenues	\$ 4,235	\$ 4,123	\$ 4,299
Operating expenses	4,013	4,115	3,898
Net nonoperating revenues (expenses)	(12)	19	69
Capital contributions	92	121	183
Change in net assets	302	148	654

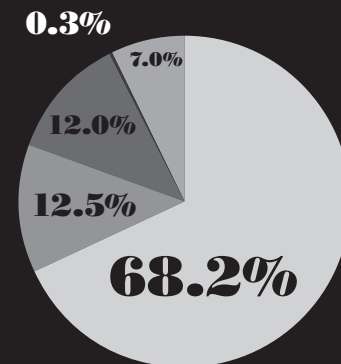
Water Utility Source of Funds: \$4,328,000

48.1%	Contract Customers	7.5%	Power Plants
31.6%	Residential	2.7%	Capital Contributions/Other
10.1%	Commercial		

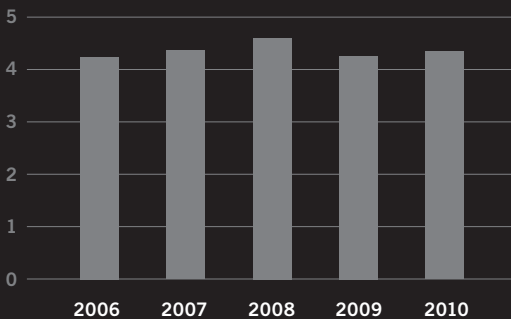


Water Utility Use of Funds: \$4,328,000

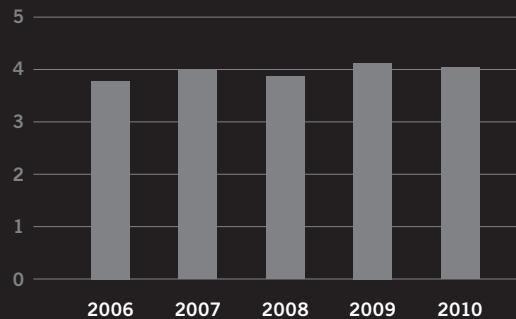
68.2%	Operations	0.3%	Interest Expense
12.5%	Maintenance	7.0%	Change in Net Assets
12.0%	Depreciation		



Water Utility Total Revenues (in millions)



Water Utility Total Expenses (in millions)



Management's Discussion & Analysis (continued)

The Communications Utility posted a change in net deficit of \$1,616,000 in 2010, compared to \$1,445,000 in 2009, and \$791,000 in 2008. Total operating revenues increased \$1,043,000, or 10.2%, in 2010; and \$310,000, or 3.1%, in 2009.

2010 operating expenses were higher by \$1,006,000 or 9.5%, primarily due to increased programming costs, promotional fees for discounted and free services, and higher depreciation expense of digital boxes incurred due to the digital conversion of the CATV system. Operating expenses were higher by \$1,053,000, or 11.1%, in 2009 primarily due to increased programming costs, more cable promotion expenses, and higher depreciation expense of digital boxes and cable head end equipment incurred due to the digital conversion of the CATV system discussed below.

The most recent price adjustments for communications services became effective January 1, 2010. MPW Digital TV Basic and Select cable service charges increased approximately 5.0%. This increase was primarily due to continued rising programming costs, debt service requirements, and other general inflationary factors. Standalone Internet service prices increased slightly.

In 2008, a conversion to an all-digital CATV system began. This project benefits customers by providing bandwidth capacity for the addition of more standard digital and HD programming as well as enhanced Internet speeds, among other features. The cost of this conversion is estimated at \$5,652,000. A loan agreement was entered into with the three local banks in December 2008 primarily for the financing of this conversion. The agreement allowed the Communications Utility to draw down a total amount of up to \$4,800,000 through December 31, 2010, at an annual interest rate of 4.7%. Semi-annually interest payments began July 1, 2009. Principal repayment will be paid annually beginning January 1, 2012. As of December 31, 2010, \$4,800,000 was borrowed through this loan agreement.

Financial Position:

(As reported in the Statements of Net Assets)

Cash and investment balances are higher in 2010 by \$4,160,000 compared to 2009, primarily due to the loan proceeds from the three local banks in December 2010. 2009 cash and investment balances are lower by \$1,729,000 compared to 2008, primarily due to capital expenditures for the digital conversion project.

Capital assets represent 57.6% of the total assets.

The intangible asset is the unamortized value of the customer base acquired in 2003.

The notes payable to the banks were issued in December 2008 to help fund the digital transition project and other capital costs. Semi-annual interest payments began July 1, 2009; principal payments will begin January 1, 2012. Interest accrued for this loan is shown payable from restricted assets.

The note payable due to the Electric Utility was for the initial construction, expansion, and operations of the Communications Utility. Interest payments have been made on the loan each January 1 and July 1, with the exception of the interest due January 1, 2010, which was made in December 2009. Principal repayment will begin January 1, 2016. This debt as to both principal and interest is subordinate to the bank loans. Interest accrued for this loan is shown payable from unrestricted assets.

Beginning in 2010, the Utility is recording the liability for the post-employment health benefit provision, required by the Governmental Accounting Standards Board Statement No. 45. An actuarial study was performed to determine annual required contribution and the Utility's net obligation. The Communications Utility's liability as of December 31, 2010, equals \$21,000.

Results of Operation:

(As reported in the Statements of Revenues, Expenses, and Changes in Net Deficit)

Although the total number of CATV subscribers decreased both in 2010 and 2009, operating revenues increased each year due to price adjustments. 2010 CATV operating revenues, excluding advertising sales, increased by \$665,000, or 10.3%, over 2009. For the year 2009, CATV operating revenues, excluding advertising sales, increased by \$381,000, or 6.3%, over 2008. Cable advertising sales were \$64,000 higher in 2010 than 2009 and \$193,000 lower in 2009 compared to 2008. In 2010, the number of data/Internet subscribers increased and associated Internet revenues increased \$314,000. Internet revenues increased \$135,000, or 4.5%, in 2009 over 2008 due to an increase in subscribers. Municipal Area Network revenues increased by \$2,000, or 0.7%, in 2010; and decreased by \$22,000, or 6.1%, in 2009.

2010 operating expenses increased 9.5%, or \$1,006,000, over 2009. Operations expense is \$759,000 greater primarily due to increased CATV programming costs and promotion expenses. Maintenance expenses are approximately the same as 2009 at \$837,000. Depreciation expense is \$247,000 higher due to acquiring a large number of digital boxes in 2009 associated with the digital conversion of the CATV system discussed above. Amortization expense is attributable to the January 2003 customer acquisition, which is being amortized over 10 years.

Investment income was lower than the previous year by \$18,000 in 2010 and \$41,000 in 2009 due to earning a lower rate of return and lower cash and investment balances.

Communications

Utility Financial Analysis

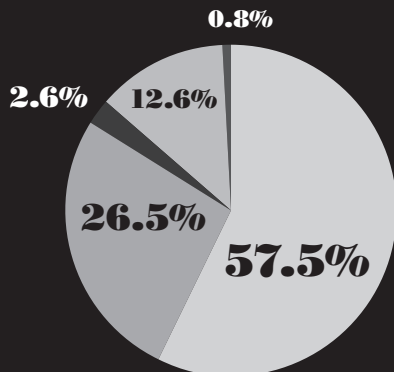
Financial Highlights (in thousands)

Statements of Net Assets	2010	2009	2008
Cash and investments	\$ 5,735	\$ 1,575	\$ 3,303
Total capital assets	11,956	12,558	12,583
Total assets	20,770	17,844	20,407
Notes payable	40,127	36,215	36,215
Net assets, invested in capital and intangible assets	8,730	14,043	14,827
Net assets, unrestricted	\$ (29,881)	\$ (33,558)	\$ (32,917)

Statements of Revenues, Expenses, and Changes in Net Deficit	2010	2009	2008
Operating revenues	\$ 11,240	\$ 10,197	\$ 9,887
Operating expenses	11,564	10,557	9,504
Nonoperating revenues	9	27	75
Interest expense	1,301	1,294	1,249
Change in net deficit	1,616	1,445	791

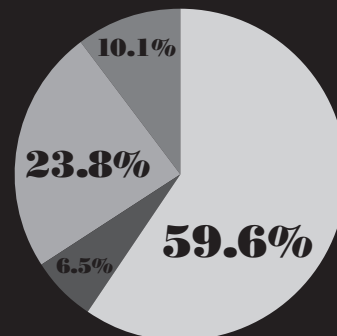
Comm. Utility Source of Funds: \$12,865,000

57.5%	CATV	12.6%	Change in Net Deficit
26.5%	Internet	0.8%	Capital Contributions/Other
2.6%	MAN		

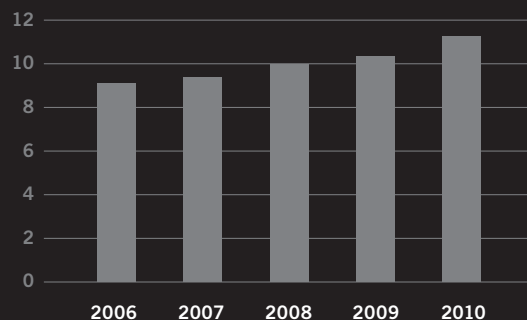


Comm. Utility Use of Funds: \$12,865,000

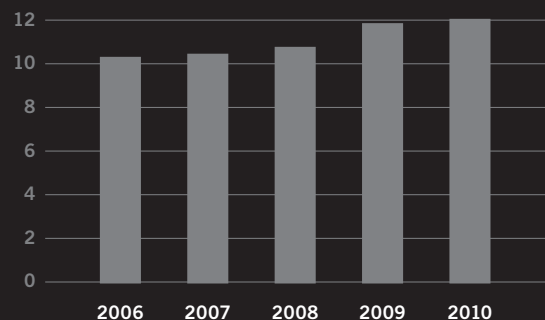
59.6%	Operations	23.8%	Depreciation/Amortization
6.5%	Maintenance	10.1%	Interest Expense



Comm. Utility Total Revenues (in millions)



Comm. Utility Total Expenses (in millions)



Management's Discussion & Analysis (continued)

The Electric Utility has excess generation capacity. Over the last decade, that excess capacity has allowed the Electric Utility to sell energy into the wholesale energy market at prices significantly above its variable production costs. Margins on those wholesale energy sales allowed for lower retail rates and made it possible to fund the Extraordinary Operation and Maintenance Account (EO&M Account). The EO&M Account was established in 2001 as a reserve to pay extraordinary operating and maintenance expenses and debt service.

During 2010 and 2009, net transfers of \$748,000 and \$11,400,000 respectively were made from the EO&M Account to the Revenue Fund to provide for debt service. The effect of the transfers in 2010 was to reduce deferred revenue by \$748,000, leaving balances of \$17,155,000 in deferred revenue and \$17,211,000 in the EO&M Account. In 2009 the effect was to reduce deferred revenue by \$11,400,000, leaving balances of \$17,903,000 in deferred revenue and \$18,225,000 in the EO&M Account.

After the transfers in 2010 and 2009, the change in net assets was \$1,044,000 and \$3,390,000. Other factors affecting the change in net assets in 2010 compared to 2009 are higher wholesale and retail sales and lower maintenance and interest costs, offset by higher coal, coal transportation, and purchased power costs. Factors affecting the change in net assets in 2009 compared to 2008 are the reduction of production fuel costs, offset by lower wholesale and retail sales and increased purchased power costs.

On September 1, 2009, MP&W joined the Midwest Independent System Operator (MISO) as a transmission-owning member. From that date forward, all generation is offered into the MISO market on a day-ahead basis, and all native system energy needs are supplied from MISO. Wholesale sales and purchased power vary significantly between 2010 and 2009 because of this change. An across-the-board price adjustment of 4% was implemented in the Electric Utility effective July 1, 2010, due to the depressed wholesale energy market and higher delivered coal costs. This was the first price adjustment since 2002. This long

period of price stability was made possible by generation reliability, cost control, and success selling excess energy. Modest retail price increases are forecasted in 2011 and beyond with the magnitude of those increases dependent upon the wholesale energy market.

MP&W's unenhanced electric revenue bond rating is indicated as "A+" by Standard & Poor's and Fitch Ratings. These ratings indicate that the bonds are of investment-grade quality.

Financial Position:

(As reported in the Statements of Net Assets)

Cash and investment balances are lower by \$776,000 compared to 2009 and lower further by \$14,476,000 compared to 2008, primarily due to the decrease in wholesale and retail sales and the increased cost of delivered coal.

Fuel inventory was down \$746,000 in 2010 compared to 2009. 2010 year-end coal tonnage was 27.7% lower than 2009, while the price per ton was 30.0% higher. 2009's end-of-the-year fuel inventory increased by \$6,818,000 from 2008 due to less fuel used and the receipt of 1.1 million tons of coal offered in the final year of the coal supply contract to take advantage of favorable coal and transportation prices.

Emissions allowance inventory decreased significantly in 2010 due to the average market price of allowances falling by approximately 70%.

The Electric Utility entered into a hedging agreement for 73,200 MWH (50 MWs hourly) to mitigate the risk of price increases on power purchased to meet native system power requirements during the planned outage of Unit 9 from March 1, 2011 to April 30, 2011.

Restricted assets of \$38,008,000, as of December 31, 2010; \$38,668,000, as of December 31, 2009; and \$48,598,000 as of December 31, 2008 include the Debt Service Reserve Fund, Bond Sinking Fund, Rate Stabilization Fund, and EO&M Account. These funds have been set aside for uses specified by the Board or by bond

covenants. The reduced balances in 2010 and 2009 are due to transfers from the EO&M Account to the Revenue Fund for debt service and from the EO&M Account and Rate Stabilization Fund to the Debt Service Reserve Fund to meet minimum reserve funding requirements.

Capital assets in 2010 represent 52.4% of total assets. Depreciation and retirements exceeded capital expenditures resulting in a reduction in net utility plant of 10.0% in 2010 and 7.8% in 2009.

The note receivable from the Communications Utility was for the initial construction, expansion, and operations of the Communications Utility. Interest payments have been made on the loan each January 1 and July 1. Principal repayment will begin January 1, 2016. This debt as to both principal and interest is subordinate to the Communications Utility's bank loans.

MP&W, the City of Muscatine, and Muscatine County organized the Muscatine Area Geographic Information Consortium (MAGIC) under a 28E agreement in December 2001. As a separate entity, MAGIC's purpose is to improve the efficiency and effectiveness of its member organizations through the coordinated development and deployment of geographic and land information systems (GIS/LIS) technology, data, and services. Joint venture rights of \$163,000 at December 31, 2010; \$198,000 at December 31, 2009; and \$191,000 at December 31, 2008, represent MP&W's contributions less amortization.

Accrued expenses and the health/dental care provision in 2010 include a total of \$2,093,000 for self-insured health and dental care reserves in excess of claims paid. This reserve has decreased by \$117,000 in 2010, but increased by \$343,000 in 2009 from 2008. Also included in accrued expenses are accrued payroll and vacation, which totaled \$1,310,000 in 2010; \$1,244,000 in 2009; and \$1,074,000 in 2008.

No new debt has been issued since 2002. Long-term debt has been reduced by \$11,946,000 in 2010; \$11,343,000 in 2009; and \$12,664,000 in 2008. It is anticipated that the Electric Utility will be

Electric

Utility Financial Analysis

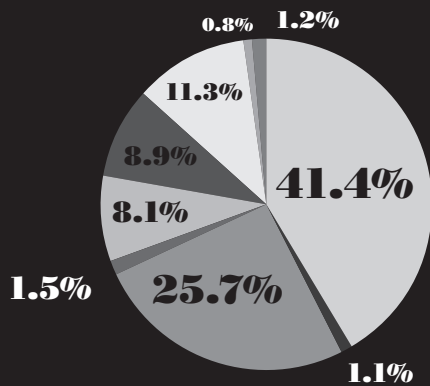
Financial Highlights (in thousands)

Statements of Net Assets	2010	2009	2008
Cash and investments	\$ 38,013	\$ 38,789	\$ 53,265
Total capital assets	113,512	126,188	136,801
Total assets	216,823	227,652	246,651
Outstanding debt	25,856	37,802	49,145
Deferred revenue	17,155	17,903	29,303
Net assets, invested in capital, net of related debt	87,683	88,466	87,814
Net assets, restricted	37,297	37,629	47,248
Net assets, unrestricted	38,862	36,703	24,347

Statements of Revenues, Expenses, and Changes in Net Assets	2010	2009	2008
Operating revenues	\$ 96,440	\$ 80,038	\$ 80,114
Operating expenses	95,429	76,478	78,523
Nonoperating revenues	1,445	1,942	3,867
Interest expense	1,491	2,156	2,770
Capital contributions	79	43	171
Change in Net Assets	1,044	3,390	2,859

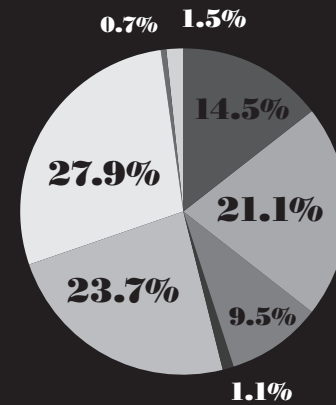
Electric Utility Source of Funds: \$97,964,000

41.4%	Wholesale	8.1%	Residential
1.1%	Water/Communications Utilities & Wastewater Plant	8.9%	Commercial
25.7%	Industrial	11.3%	Steam Sales
1.5%	Investment Income	0.8%	Deferred Revenue Utilization
		1.2%	Capital Contributions/Other

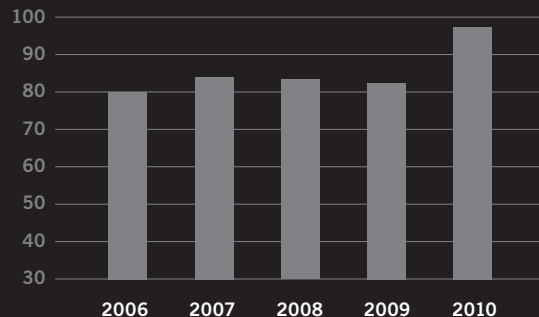


Electric Utility Uses of Funds: \$97,964,000

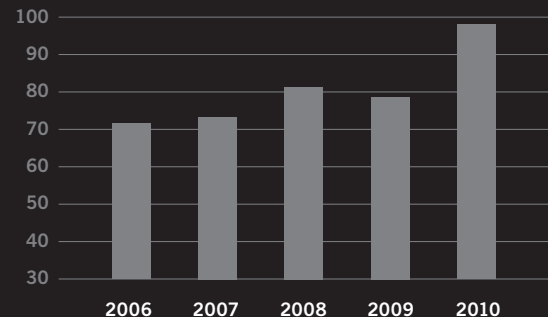
14.5%	Depreciation	23.7%	Production Fuel
21.1%	Operations	27.9%	Purchased Power
9.5%	Maintenance	0.7%	Emissions Allowance
1.1%	Change in Net Assets	1.5%	Interest Expense



Electric Utility Total Revenues (in millions)



Electric Utility Total Expenses (in millions)



Management's Discussion & Analysis (continued)

debt-free by 2012. MP&W is required by its bond covenants to maintain a debt service coverage of 1.0 times. The debt service coverage ratio was 1.17 times for 2010, before the net transfers of \$748,000 from the EO&M Account and 1.22 times after the transfers; 0.61 times for 2009 before the \$11,400,000 transfer from the EO&M Account and before the \$5,977,000 transfer from the Rate Stabilization Fund; and 1.85 times after the transfers; and 1.31 times for 2008.

In 2010, transfers in and out of the EO&M Account, netting \$748,000, were made to cover debt service requirements. In 2009, the \$11,400,000 transfer from deferred revenue took place to partially fund the January 1 debt service payment and the Debt Service Reserve Fund.

In 1998, the Electric Utility purchased a surety from AMBAC to cover the funding requirements of the Debt Service Reserve Fund. A part of the bond covenants that allowed this method of funding also required that the issuer of the surety maintain an AAA bond rating. In 2008, the rating agencies either downgraded AMBAC below AAA or withdrew their rating altogether. As a result of this, bond covenants required the Utility to either replace the surety or fund the Debt Service Reserve Fund with Utility funds within 12 months of this event. Therefore, the Utility elected to transfer \$1,500,000 from the EO&M Account and \$5,977,000 from the Rate Stabilization Fund into the Debt Service Reserve Fund in June 2009.

Beginning in 2010, the Utility is recording the liability for the post-employment health benefit provision, required by the Governmental Accounting Standards Board Statement No. 45. An actuarial study was performed to determine annual required contribution and the Utility's net obligation. The Electric Utility's liability as of December 31, 2010, equals \$118,000.

Results of Operation:

(As reported in the Statements of Revenues, Expenses, and Changes in Net Assets)

The 2010 retail kWh usage was 3.3% higher than 2009, resulting in \$2,042,000 more revenue. kWhs sold and billed in 2009

were 5.6% lower than in 2008. The 2009 revenue was \$2,139,000 lower than 2008.

Due to the poor national economic climate in 2009, the Utility experienced lower wholesale electric sales, however, these sales rebounded in 2010. Total wholesale sales revenue is not comparable between 2010 and 2009 due to joining MISO September 1, 2009, and subsequently selling all power into the MISO market. Average prices for the past three years compare as follows: \$35.91/MWh in 2010; \$30.22/MWh in 2009; and \$49.82/MWh in 2008.

October 2010 began the 11th year of a 20-year steam sale agreement with MP&W's largest industrial customer, Grain Processing Corporation (GPC). The original 10-year agreement was amended in March 2006 to extend the contract for an additional 10 years. In 2010, 7.2% more pounds were sold at a 5.0% lower average price, resulting in \$212,000 more revenue than in 2009. 2010 revenue includes \$604,000 to accrue GPC's share of NO_x allowances consumed and \$863,000 for SO₂ allowances consumed. In 2009, 4.7% more pounds were sold plus revenue includes \$1,637,000 to accrue GPC's share of NO_x allowances consumed, resulting in \$2,045,000 more revenue than in 2008.

In 2010 and 2009, the utilization of previously deferred revenue in the amounts of \$748,000 and \$11,400,000, respectively, were necessary to help meet the debt service payments due January 1, 2011, and January 1, 2010.

In 2010, fuel costs were \$4,077,000 higher than 2009 due to 9.7% more coal burned and 13.0% higher average cost per ton; purchased power was \$18,383,000 higher due to native system energy requirements being purchased from MISO for the entire year; emissions allowances were \$1,121,000 lower due to a lower market value for allowances. Maintenance expenses were \$2,465,000 lower than in 2009, due to no planned outages and related maintenance costs for Unit 9.

In 2009, because of both lower native system and wholesale revenues, a program went into place to reduce costs where

possible. 2009 fuel costs were \$6,752,000 lower than 2008 due to 23.8% less coal burned; purchased power was \$5,965,000 higher due to native system energy requirements being purchased from MISO effective September 1, 2009; emissions allowances were \$1,711,000 higher due to the reinstatement of the Clean Air Interstate Rule, effective January 1, 2009; other operating expenses were \$714,000 lower than in 2008; and some non-essential maintenance projects were postponed, reducing costs by \$2,656,000.

Investment income in 2010 and 2009 was \$497,000 and \$1,613,000, respectively, lower than the prior year due to realizing a lower rate of return and lower cash and investment balances. The fair market value of investments decreased in 2010 and 2009 by \$380,000 and \$326,000, respectively. The net increase in the fair value of investments was \$557,000 in 2008. The interest rate on the note receivable from the Communications Utility loan was 3.53% for all three years.

Interest on long-term debt is lower each year due to principal amounts of \$11,930,000 in 2010; \$11,305,000 in 2009; and \$12,595,000 in 2008 maturing on January 1, as well as no new debt being issued.

The 2010 capital contributions of \$79,000 are from the City of Muscatine for transformers. The capital contribution for 2009 is \$43,000 from the Midwest ISO for a test server. Capital contributions in 2008 include \$81,000 from an industrial customer for a transformer and switchgear, and \$90,000 from the City of Muscatine for a line relocation.

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 and Administrative Services, at 3205 Cedar Street, Muscatine, Iowa 52761.

Financials : Statements of Revenues, Expenses and Changes in Net Assets (Deficit)

For the Years Ended December 31, 2010 and 2009

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2010	2009	2010	2009	2010	2009	2010	2009
OPERATING REVENUES								
Retail sales	\$ 42,960,985	\$ 40,918,579	\$ 4,207,885	\$ 4,101,366	\$ 11,150,732	\$ 10,106,131	\$ 58,319,602	\$ 55,126,076
Wholesale electric sales	40,535,035	15,892,039	-	-	-	-	40,535,035	15,892,039
Steam sales	11,089,012	10,877,226	-	-	-	-	11,089,012	10,877,226
Other	1,107,239	949,864	26,759	21,649	89,063	90,884	1,223,061	1,062,397
Utilization of previously deferred revenue	748,000	11,400,000	-	-	-	-	748,000	11,400,000
Total operating revenues	96,440,271	80,037,708	4,234,644	4,123,015	11,239,795	10,197,015	111,914,710	94,357,738
OPERATING EXPENSES								
Production fuel	23,240,870	19,163,805	-	-	-	-	23,240,870	19,163,805
Purchased power	27,314,007	8,931,455	-	-	-	-	27,314,007	8,931,455
Emissions allowance	659,927	1,780,667	-	-	-	-	659,927	1,780,667
Other operating expenses	20,711,508	20,758,321	2,951,414	3,026,879	7,662,866	6,904,167	31,325,788	30,689,367
Maintenance	9,268,167	11,732,743	540,423	615,078	837,231	836,972	10,645,821	13,184,793
Depreciation	14,234,724	14,110,560	520,845	473,484	2,290,464	2,043,216	17,046,033	16,627,260
Amortization	-	-	-	-	773,137	773,059	773,137	773,059
Total operating expenses	95,429,203	76,477,551	4,012,682	4,115,441	11,563,698	10,557,414	111,005,583	91,150,406
Operating income (loss)	1,011,068	3,560,157	221,962	7,574	(323,903)	(360,399)	909,127	3,207,332
NONOPERATING REVENUES (EXPENSES)								
Investment income	197,786	695,272	948	19,225	9,205	27,458	207,939	741,955
Interest income on note receivable from communications utility	1,247,043	1,247,043	-	-	-	-	1,247,043	1,247,043
Interest expense	(1,491,345)	(2,156,042)	(13,226)	(253)	(1,301,406)	(1,294,256)	(2,805,977)	(3,450,551)
Net nonoperating revenues (expenses)	(46,516)	(213,727)	(12,278)	18,972	(1,292,201)	(1,266,798)	(1,350,995)	(1,461,553)
Net income (loss) before capital contributions	964,552	3,346,430	209,684	26,546	(1,616,104)	(1,627,197)	(441,868)	1,745,779
CAPITAL CONTRIBUTIONS	79,102	43,302	92,081	120,988	-	181,972	171,183	346,262
CHANGE IN NET ASSETS (DEFICIT)	1,043,654	3,389,732	301,765	147,534	(1,616,104)	(1,445,225)	(270,685)	2,092,041
Net assets (deficit) - beginning of year	162,798,658	159,408,926	13,089,443	12,941,909	(19,535,638)	(18,090,413)	156,352,463	154,260,422
NET ASSETS (DEFICIT) - END OF YEAR	\$ 163,842,312	\$ 162,798,658	\$ 13,391,208	\$ 13,089,443	\$ (21,151,742)	\$ (19,535,638)	\$ 156,081,778	\$ 156,352,463

Financials : Statements of Net Assets

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2010	2009	2010	2009	2010	2009	2010	2009
ASSETS								
CURRENT ASSETS								
Unrestricted assets								
Cash	\$ 5,108	\$ 120,252	\$ 422,229	\$ 205,123	\$ 794,865	\$ 1,066,831	\$ 1,222,202	\$ 1,392,206
Investments	-	-	-	251,000	4,912,000	487,000	4,912,000	738,000
Receivables:								
Customer accounts	8,627,628	6,370,079	482,781	438,663	1,102,347	979,666	10,212,756	7,788,408
Interest	668,380	335,495	5	1,188	6,685	402	675,070	337,085
Inventories:								
Fuel	11,118,587	11,864,879	-	-	-	-	11,118,587	11,864,879
Emissions allowances	209,739	1,656,711	-	-	-	-	209,739	1,656,711
Materials and supplies	6,450,081	6,374,122	289,486	287,113	284,994	299,347	7,024,561	6,960,582
Prepaid and deferred expenses	537,516	522,105	23,351	25,954	117,057	84,663	677,924	632,722
Hedge asset	2,196,100	-	-	-	-	-	2,196,100	-
Total unrestricted assets	29,813,139	27,243,643	1,217,852	1,209,041	7,217,948	2,917,909	38,248,939	31,370,593
Restricted assets								
Cash	21,610,535	10,223,289	-	-	28,019	20,868	21,638,554	10,244,157
Investments	16,397,650	28,445,201	-	-	-	-	16,397,650	28,445,201
Total restricted assets	38,008,185	38,668,490	-	-	28,019	20,868	38,036,204	38,689,358
Total current assets	67,821,324	65,912,133	1,217,852	1,209,041	7,245,967	2,938,777	76,285,143	70,059,951
NON-CURRENT ASSETS								
Capital assets								
Utility plant in service	404,829,179	403,794,657	23,497,236	22,648,930	29,035,507	28,578,727	457,361,922	455,022,314
Construction work in progress	242,626	182,430	47,281	93,873	70,300	67,517	360,207	343,820
Less: accumulated depreciation	(291,559,776)	(277,789,364)	(8,623,443)	(8,269,326)	(17,149,844)	(16,087,958)	(317,333,063)	(302,146,648)
Total capital assets	113,512,029	126,187,723	14,921,074	14,473,477	11,955,963	12,558,286	140,389,066	153,219,486
Other assets								
Unamortized debt issuance costs	-	27,283	-	7,382	21,906	27,383	21,906	62,048
Note receivable from communications utility	35,327,000	35,327,000	-	-	-	-	35,327,000	35,327,000
Joint venture rights	162,532	197,510	-	-	-	-	162,532	197,510
Intangible assets, net of accumulated amortization								
2010 - \$6,184,639; 2009 - \$5,411,502	-	-	-	-	1,546,273	2,319,410	1,546,273	2,319,410
Total other assets	35,489,532	35,551,793	-	7,382	1,568,179	2,346,793	37,057,711	37,905,968
Total non-current assets	149,001,561	161,739,516	14,921,074	14,480,859	13,524,142	14,905,079	177,446,777	191,125,454
TOTAL ASSETS	\$ 216,822,885	\$ 227,651,649	\$ 16,138,926	\$ 15,689,900	\$ 20,770,109	\$ 17,843,856	\$ 253,731,920	\$ 261,185,405

Financials • Statements of Net Assets (continued)

December 31, 2010 and 2009

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2010	2009	2010	2009	2010	2009	2010	2009
LIABILITIES, DEFERRED REVENUE, AND NET ASSETS (DEFICIT)								
CURRENT LIABILITIES								
Payable from unrestricted assets								
Trade accounts payable	\$ 1,479,372	\$ 1,446,562	\$ 158,143	\$ 244,568	\$ 564,107	\$ 580,694	\$ 2,201,622	\$ 2,271,824
Customer advances for construction	-	-	77,811	34,129	-	-	77,811	34,129
Accrued interest payable	-	-	-	-	623,521	-	623,521	-
Accrued expenses	3,007,785	4,048,585	167,872	155,403	352,418	320,541	3,528,075	4,524,529
Customer deposits	597,792	620,463	-	-	-	-	597,792	620,463
Hedge liability	2,196,100	-	-	-	-	-	2,196,100	-
Total payable from unrestricted assets	7,281,049	6,115,610	403,826	434,100	1,540,046	901,235	9,224,921	7,450,945
Payable from restricted assets								
Current portion of long-term debt	12,585,000	11,930,000	32,000	-	-	-	12,617,000	11,930,000
Accrued interest payable	711,013	1,039,088	1,192	228	28,019	20,868	740,224	1,060,184
Total payable from restricted assets	13,296,013	12,969,088	33,192	228	28,019	20,868	13,357,224	12,990,184
Total current liabilities	20,577,062	19,084,698	437,018	434,328	1,568,065	922,103	22,582,145	20,441,129
NON-CURRENT LIABILITIES & DEFERRED REVENUE								
Long term debt, net of current portion	13,271,301	25,871,847	233,096	7,407	-	-	13,504,397	25,879,254
Deferred revenue	17,155,162	17,903,162	-	-	-	-	17,155,162	17,903,162
Post-employment health benefit provision	118,166	-	11,756	-	20,799	-	150,721	-
Health care provision	1,858,882	1,993,284	155,346	174,876	205,987	242,391	2,220,215	2,410,551
Customer advances for construction	-	-	1,910,502	1,983,846	-	-	1,910,502	1,983,846
Notes payable to banks	-	-	-	-	4,800,000	888,000	4,800,000	888,000
Note payable to electric utility	-	-	-	-	35,327,000	35,327,000	35,327,000	35,327,000
Total non-current liabilities and deferred revenue	32,403,511	45,768,293	2,310,700	2,166,129	40,353,786	36,457,391	75,067,997	84,391,813
NET ASSETS (DEFICIT)								
Invested in capital and intangible assets, net of related debt	87,683,011	88,466,317	12,667,665	12,455,477	8,729,618	14,022,555	109,080,294	114,944,349
Restricted	37,297,172	37,629,402	-	-	-	-	37,297,172	37,629,402
Unrestricted	38,862,129	36,702,939	723,543	633,966	(29,881,360)	(33,558,193)	9,704,312	3,778,712
Total net assets (deficit)	163,842,312	162,798,658	13,391,208	13,089,443	(21,151,742)	(19,535,638)	156,081,778	156,352,463
TOTAL LIABILITIES, DEFERRED REVENUE, AND NET ASSETS (DEFICIT)	\$ 216,822,885	\$ 227,651,649	\$ 16,138,926	\$ 15,689,900	\$ 20,770,109	\$ 17,843,856	\$ 253,731,920	\$ 261,185,405

Financials : Statements of Cash Flows

For the Years Ended December 31, 2010 and 2009

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2010	2009	2010	2009	2010	2009	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES								
Cash received from retail sales	\$ 42,509,061	\$ 40,887,462	\$ 4,162,282	\$ 4,099,781	\$ 10,731,097	\$ 9,804,909	\$ 57,402,440	\$ 54,792,152
Cash received from wholesale electric sales	39,918,749	14,951,070	-	-	-	-	39,918,749	14,951,070
Cash received from steam sales	9,672,985	9,265,783	-	-	-	-	9,672,985	9,265,783
Cash received from advertising sales	-	-	-	-	296,553	235,617	296,553	235,617
Cash received from other operating sources	1,989,432	2,316,560	33,369	60,150	239,310	479,853	2,262,111	2,856,563
Cash paid for coal	(22,648,740)	(26,179,197)	-	-	-	-	(22,648,740)	(26,179,197)
Cash paid for purchased power	(27,113,822)	(7,805,687)	-	-	-	-	(27,113,822)	(7,805,687)
Cash paid to suppliers	(9,548,587)	(12,177,644)	(1,526,211)	(1,531,549)	(5,334,153)	(5,045,939)	(16,408,951)	(18,755,132)
Cash paid for employee payroll, taxes and benefits	(21,619,228)	(21,197,910)	(1,991,898)	(2,023,941)	(3,227,453)	(3,001,006)	(26,838,579)	(26,222,857)
Reimbursements by related parties for expenses paid	226,619	164,441	-	-	-	-	226,619	164,441
Net cash flows from operating activities	13,386,469	224,878	677,542	604,441	2,705,354	2,473,434	16,769,365	3,302,753
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES								
Interest received on note receivable from communications utility	623,522	1,870,565	-	-	-	-	623,522	1,870,565
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Capital expenditures	(1,587,191)	(3,700,459)	(1,059,385)	(1,907,866)	(1,797,406)	(2,364,979)	(4,443,982)	(7,973,304)
Proceeds from sale of assets	52,209	107,565	929	-	2,575	-	55,713	107,565
Loan proceeds	-	-	349,769	4,596	3,912,000	-	4,261,769	4,596
Debt issue expenses	-	-	-	(4,596)	-	-	-	(4,596)
Bond principal payments	(11,930,000)	(11,305,000)	-	-	-	-	(11,930,000)	(11,305,000)
Bond interest payments	(1,750,100)	(2,389,063)	-	-	-	-	(1,750,100)	(2,389,063)
Interest paid on notes payable	-	-	(4,880)	-	(665,258)	(1,893,172)	(670,138)	(1,893,172)
Net cash flows from capital and related financing activities	(15,215,082)	(17,286,957)	(713,567)	(1,907,866)	1,451,911	(4,258,151)	(14,476,738)	(23,452,974)
CASH FLOWS FROM INVESTING ACTIVITIES								
Proceeds from investments matured and sold	83,230,770	79,205,507	541,359	1,365,000	2,328,447	2,194,000	86,100,576	82,764,507
Investments purchased	(71,422,448)	(61,604,291)	(290,359)	(411,000)	(6,753,447)	(1,506,000)	(78,466,254)	(63,521,291)
Purchase of joint venture rights	(58,780)	(94,170)	-	-	-	-	(58,780)	(94,170)
Interest received on investments	770,424	1,158,193	2,131	47,051	3,538	56,116	776,093	1,261,360
Accrued interest purchased	(42,773)	(5,723)	-	-	(618)	-	(43,391)	(5,723)
Net cash flows from investing activities	12,477,193	18,659,516	253,131	1,001,051	(4,422,080)	744,116	8,308,244	20,404,683
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,272,102	3,468,002	217,106	(302,374)	(264,815)	(1,040,601)	11,224,393	2,125,027
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR								
Current unrestricted cash	120,252	4,612,579	205,123	507,497	1,066,831	2,126,931	1,392,206	7,247,007
Current restricted cash	10,223,289	2,262,960	-	-	20,868	1,369	10,244,157	2,264,329
	10,343,541	6,875,539	205,123	507,497	1,087,699	2,128,300	11,636,363	9,511,336
CASH AND CASH EQUIVALENTS - END OF YEAR								
Current unrestricted cash	5,108	120,252	422,229	205,123	794,865	1,066,831	1,222,202	1,392,206
Current restricted cash	21,610,535	10,223,289	-	-	28,019	20,868	21,638,554	10,244,157
	\$ 21,615,643	\$ 10,343,541	\$ 422,229	\$ 205,123	\$ 822,884	\$ 1,087,699	\$ 22,860,756	\$ 11,636,363

Financials : Statements of Cash Flows (continued)

For the Years Ended December 31, 2010 and 2009

	ELECTRIC UTILITY		WATER UTILITY		COMMUNICATIONS UTILITY		TOTALS	
	2010	2009	2010	2009	2010	2009	2010	2009
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES								
Operating income (loss)	\$ 1,011,068	\$ 3,560,157	\$ 221,962	\$ 7,574	\$ (323,903)	\$ (360,399)	\$ 909,127	\$ 3,207,332
Noncash items in operating income								
Depreciation	14,234,724	14,110,560	520,845	473,484	2,290,464	2,043,216	17,046,033	16,627,260
Amortization of joint venture rights and intangible assets	93,759	88,029	-	-	773,137	773,059	866,896	861,088
Converter/modem net write-off	-	-	-	-	12,825	44,892	12,825	44,892
Utilization of previously deferred revenue	(748,000)	(11,400,000)	-	-	-	-	(748,000)	(11,400,000)
Changes in assets and liabilities								
Customer accounts receivable	(2,257,549)	945,540	(44,118)	45,232	(122,681)	4,417	(2,424,348)	995,189
Other receivable	-	311,874	-	6,497	-	6,497	-	324,868
Inventories	2,117,305	(8,097,962)	(2,373)	65,372	14,353	2,527	2,129,285	(8,030,063)
Prepaid and deferred expenses	(41,286)	(58,675)	2,604	(12,248)	(32,393)	(11,156)	(71,075)	(82,079)
Trade accounts payable	87,864	(1,255,036)	(26,073)	(9,024)	77,280	(70,009)	139,071	(1,334,069)
Accrued expenses	(1,088,745)	2,035,039	4,695	27,554	16,272	40,390	(1,067,778)	2,102,983
Customer deposits	(22,671)	(14,648)	-	-	-	-	(22,671)	(14,648)
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 13,386,469	\$ 224,878	\$ 677,542	\$ 604,441	\$ 2,705,354	\$ 2,473,434	\$ 16,769,365	\$ 3,302,753
SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES								
Unrealized gain (loss) in investments	\$ (239,229)	\$ (343,217)	\$ -	\$ -	\$ -	\$ -	\$ (239,229)	\$ (343,217)
Amortization of bond discounts/premium, deferred loss on debt refunding and bond/debt issue costs	37,611	39,810	7,382	25	5,477	5,477	50,470	45,312
Unpaid capital expenditures	103,004	158,058	18,728	79,080	161,240	255,107	282,972	492,245
Contributions in aid of construction	-	-	-	(13,955)	-	-	-	(13,955)

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Accounting

Muscatine Power and Water (utility) is a municipal utility serving the City of Muscatine, Iowa (municipality) and surrounding areas whose rates are set by the Board of Water, Electric, and Communications Trustees (Board). The electric utility is engaged in the generation, transmission, and distribution of electric power and steam and other related activities. The water utility is engaged in the supply, purification, and distribution of water and other related activities. The communications utility is engaged in providing cable, Internet, and network services and other related activities. The equity of the utility is vested in the City of Muscatine, Iowa.

The financial statements of the utility are presented in conformity with accounting principles generally accepted in the United States of America. In reporting financial activity, the utility applies all applicable Government Accounting Standards Board (GASB) pronouncements, as well as private-sector standards of accounting and financial reporting issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The utility has elected not to follow private-sector standards of accounting and financial reporting issued after that date. In addition, the electric and water utilities meet the criteria and, accordingly, follow the accounting and reporting requirements of FASB ASC 980, "Regulated Operations", formerly known as SFAS 71, "Accounting for the Effects of Certain Types of Regulation", which requires that the effects of the rate-making process be recorded in the financial statements.

Reporting Entity

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

Measurement Focus, Basis 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, except when the utility applies the accounting and reporting requirements of FAS 71 in deferring revenues for recognition in future periods or recognition of deferred revenues in the current period.

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

Cash and Cash Equivalents

The utility's cash and cash equivalents are considered to be general checking, saving and money market accounts. For purposes of the statement of cash flows, cash and cash equivalents have original maturities of 90 days or less from December 31, 2010 and 2009.

Receivables

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

Inventories

Inventories consist of fuel (coal), emission allowances, and materials and supplies valued at weighted-average cost. 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 \$1,000 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 less salvage is charged to the accumulated provision for depreciation.

Depreciation of capital assets is provided using the straight-line method over the estimated useful lives of the respective assets. The composite depreciation rates for 2010 and 2009 are as follows:

	2010	2009
ELECTRIC UTILITY		
Generation plant	3.2%	3.2%
Transmission and distribution plant	3.8	3.8
General plant	7.8	7.8
WATER UTILITY		
Source of supply	3.3%	3.3%
Pumping equipment	3.2	3.2
Purification system	2.7	2.7
Distribution system	2.2	2.2
General plant	2.5	-
COMMUNICATIONS UTILITY		
CATV	9.1%	7.8%
Data / Internet	7.7	8.5
MAN	3.6	3.6
General plant	8.0	8.8

On an ongoing basis, the utility reviews capital assets for impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. If such events or changes in circumstances occur, the utility will recognize an impairment loss. No such loss was recognized in 2010 or 2009.

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.

Amortization of Debt Discounts/Premiums and Bond Issuance Costs

Debt discounts/premiums and bond issuance costs are being amortized over the life of the bonds/debt using the effective interest method.

Compensated Absences

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

Deferred Revenue

The Board may, at its discretion, set aside earnings to help maintain stability in the utility's long-term rate structure. These earnings may be used for extraordinary operating expenses and debt service when deemed necessary by the Board. In 2010, \$748,000, and in 2009, \$11,400,000 were used for debt service.

Equity Classifications

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets less any unspent debt proceeds.
- b. Restricted net assets – Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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.

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 March 30, 2010 and effective for service beginning July 1, 2010.

Current water rates were approved on November 24, 2009 and effective for service beginning April 1, 2010.

Current communications rates were approved on November 24, 2009 and effective for service beginning January 1, 2010.

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/amortization 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 2010 for the electric, water, and communications utilities are \$378,203, \$51,298, and \$87,821, respectively. The unbilled revenue recorded in 2009 for the electric, water, and communications utilities are \$381,941, \$50,390, and \$70,175, 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 assets.

Recent Accounting Pronouncements

In June 2007, the Governmental Accounting Standards Board (GASB) issued Statement No. 51, “Accounting and Financial Reporting for Intangible Assets”, which provided guidance identifying, accounting for and reporting intangible assets. Intangible assets are defined as assets that lack physical substance, are non-financial in nature, and have an initial useful life extending beyond a single reporting period. The statement provides that intangible assets be classified as capital assets, except for items explicitly excluded from the scope of the standard. This statement was effective for the utility beginning in 2010. Application of this standard may restate portions of these financial statements.

In June 2008, GASB issued Statement No. 53, “Accounting and Financial Reporting for Derivative Instruments”. This statement addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments. The utility implemented this standard in 2010.

Income Tax Status

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

Reclassifications

Certain amounts in the 2009 financial statements may have been reclassified in order to conform to the 2010 presentation.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

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

Custodial Credit Risk

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

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

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

Notes to Financial Statements (continued)

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the utility will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All investments held at December 31, 2010 and 2009 were considered to be in risk category one (investments held in trust on behalf of the utility), therefore, not subject to custodial credit risk.

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

Credit Risk

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

As of December 31, 2010 and December 31, 2009, the utility's investments were rated as follows:

INVESTMENT TYPE	STANDARD & POOR'S	MOODY'S
US agencies	AAA	Aaa

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

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer.

At December 31, 2010 and 2009, investments held with issuers, each totaling more than 5 percent of the total portfolio, were concentrated as follows:

ISSUER	% OF PORTFOLIO	
	2010	2009
US Treasury Bills	37.3%	-
Federal Home Loan Bank	53.1%	82.2%
Federal Home Loan Mortgage Corporation	5.8%	11.4%

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.

Although there is investment concentration at December 31, 2010 and December 31, 2009, the utility believes the risk to be minimal. Investments held are issued by U.S. Treasuries or federal agencies and rated AAA by Standard & Poor's and Aaa by Moody's.

Interest Rate Risk

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

At December 31, 2010, the utility's investments were as follows:

INVESTMENT TYPE	Fair Value	MATURITY IN YEARS		
		< 1 Year	1-5 Years	> 5 Years
U.S. Treasuries	\$ 4,998,600	\$ 4,998,600	\$ -	\$ -
U.S. agencies	\$ 8,399,050	\$ 7,118,204	\$ 41,396	\$ 1,239,450
Totals	\$ 13,397,650	\$ 12,116,804	\$ 41,396	\$ 1,239,450

At December 31, 2009, the utility's investments were as follows:

INVESTMENT TYPE	Fair Value	MATURITY IN YEARS		
		< 1 Year	1-5 Years	> 5 Years
U.S. agencies	\$ 10,760,201	\$ 3,605,061	\$ 5,346,329	\$ 1,808,811

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

NOTE 3 - CAPITAL ASSETS**Electric Utility**

A summary of changes in electric capital assets for 2010 follows:

	BALANCE 1/01/10	ADDITIONS/ RECLASSIFICATIONS	RETIREMENTS	TRANSFERS	BALANCE 12/31/10
Land and land rights ¹	\$ 1,874,600	\$ -	\$ -	\$ -	\$ 1,874,600
Generation plant	327,558,492	(38,150)	(72,548)	499,626	327,947,420
Transmission and distribution plant	55,256,794	440,596	(88,784)	374,599	55,983,205
General plant	19,104,771	39,674	(339,180)	218,689	19,023,954
Total utility plant in service	403,794,657	442,120	(500,512)	1,092,914	404,829,179
Construction work in progress ¹	182,430	1,356,540	(203,430)	(1,092,914)	242,626
Total electric utility plant	403,977,087	\$ 1,798,660	\$ (703,942)	\$ -	405,071,805
Less: accumulated depreciation					
Generation plant	223,873,066	\$ 10,622,868	\$ (52,467)	\$ -	234,443,467
Transmission and distribution plant	39,040,947	2,124,624	(53,199)	-	41,112,372
General plant	14,875,351	1,487,232	(358,646)	-	16,003,937
Total accumulated depreciation	277,789,364	\$ 14,234,724	\$ (464,312)	\$ -	291,559,776
Net electric capital assets	\$ 126,187,723				\$ 113,512,029

A summary of changes in electric capital assets for 2009 follows:

	BALANCE 1/01/09	ADDITIONS/ RECLASSIFICATIONS	RETIREMENTS	TRANSFERS	BALANCE 12/31/09
Land and land rights ¹	\$ 1,874,600	\$ -	\$ -	\$ -	\$ 1,874,600
Generation plant	324,566,999	76,412	(547,477)	3,462,558	327,558,492
Transmission and distribution plant	54,422,985	531,871	(306,691)	608,629	55,256,794
General plant	19,013,495	31,901	(216,004)	275,379	19,104,771
Total utility plant in service	399,878,079	640,184	(1,070,172)	4,346,566	403,794,657
Construction work in progress ¹	1,594,072	3,046,867	(111,943)	(4,346,566)	182,430
Total electric utility plant	401,472,151	\$ 3,687,051	\$ (1,182,115)	\$ -	403,977,087
Less: accumulated depreciation					
Generation plant	213,890,203	\$ 10,530,768	\$ (547,905)	\$ -	223,873,066
Transmission and distribution plant	37,179,785	2,091,288	(230,126)	-	39,040,947
General plant	13,601,291	1,488,504	(214,444)	-	14,875,351
Total accumulated depreciation	264,671,279	\$ 14,110,560	\$ (992,475)	\$ -	277,789,364
Net electric capital assets	\$ 136,800,872				\$ 126,187,723

¹ Capital assets not being depreciated

Notes to Financial Statements (continued)

Water Utility

A summary of changes in water capital assets for 2010 follows:

	BALANCE 1/01/10	ADDITIONS/ RECLASSIFICATIONS	RETIREMENTS	TRANSFERS	BALANCE 12/31/10
Land and land rights ¹	\$ 1,052,321	\$ -	\$ -	\$ -	\$ 1,052,321
Source of supply	1,874,664	-	(23,757)	-	1,850,907
Pumping equipment	1,620,083	(537)	(80,091)	554,775	2,094,230
Purification equipment	1,052,164	-	(875)	-	1,051,289
Distribution system	15,959,962	48,511	(27,545)	367,978	16,348,906
General plant	1,089,736	12,510	(20,181)	17,518	1,099,583
Total utility plant in service	22,648,930	60,484	(152,449)	940,271	23,497,236
Construction work in progress ¹	93,873	921,767	(28,088)	(940,271)	47,281
Total water utility plant	22,742,803	\$ 982,251	\$ (180,537)	\$ -	23,544,517
Less: accumulated depreciation					
Source of supply	1,107,811	\$ 62,484	\$ (27,197)	\$ -	1,143,098
Pumping equipment	476,404	52,272	(91,780)	-	436,896
Purification system	720,294	28,080	(1,003)	-	747,371
Distribution system	4,902,414	350,726	(26,617)	-	5,226,523
General plant	1,062,403	27,333	(20,181)	-	1,069,555
Total accumulated depreciation	8,269,326	\$ 520,895	\$ (166,778)	\$ -	8,623,443
Net water capital assets	\$ 14,473,477				\$ 14,921,074

A summary of changes in water capital assets for 2009 follows:

	BALANCE 1/01/09	ADDITIONS/ RECLASSIFICATIONS	RETIREMENTS	TRANSFERS	BALANCE 12/31/09
Land and land rights ¹	\$ 1,052,321	\$ -	\$ -	\$ -	\$ 1,052,321
Source of supply	1,874,874	(210)	-	-	1,874,664
Pumping equipment	1,536,828	(131)	(51,029)	134,415	1,620,083
Purification equipment	1,052,164	-	-	-	1,052,164
Distribution system	15,135,544	25,730	(739,297)	1,537,985	15,959,962
General plant	1,092,636	5,685	(30,233)	21,648	1,089,736
Total utility plant in service	21,744,367	31,074	(820,559)	1,694,048	22,648,930
Construction work in progress ¹	88,732	1,727,626	(28,437)	(1,694,048)	93,873
Total water utility plant	21,833,099	\$ 1,758,700	\$ (848,996)	\$ -	22,742,803
Less: accumulated depreciation					
Source of supply	1,045,315	\$ 62,496	\$ -	\$ -	1,107,811
Pumping equipment	477,920	49,512	(51,028)	-	476,404
Purification system	692,214	28,080	-	-	720,294
Distribution system	5,308,365	333,396	(739,347)	-	4,902,414
General plant	1,092,636	-	(30,233)	-	1,062,403
Total accumulated depreciation	8,616,450	\$ 473,484	\$ (820,608)	\$ -	8,269,326
Net water capital assets	\$ 13,216,649				\$ 14,473,477

¹ Capital assets not being depreciated

Notes to Financial Statements (continued)

Communications Utility

A summary of changes in communications capital assets for 2010 follows:

	BALANCE 1/01/10	ADDITIONS/ RECLASSIFICATIONS	RETIREMENTS	TRANSFERS	BALANCE 12/31/10
CATV	\$ 19,760,755	\$ 993,151	\$ (171,477)	\$ 33,396	\$ 20,615,825
Data/Internet	3,150,648	135,106	(99,309)	144,448	3,330,893
MAN	4,382,145	37,056	(948,413)	289,819	3,760,607
General plant	1,285,179	3,984	(48,217)	87,236	1,328,182
Total utility plant in service	28,578,727	1,169,297	(1,267,416)	554,899	29,035,507
Construction work in progress ¹	67,517	563,710	(6,028)	(554,899)	70,300
Total communications utility plant	28,646,244	\$ 1,733,007	\$ (1,273,444)	\$ -	29,105,807
Less: accumulated depreciation					
CATV	10,406,360	\$ 1,788,492	\$ (138,207)	\$ -	12,056,645
Data/Internet	2,055,910	241,884	(93,740)	-	2,204,054
MAN	2,922,738	157,680	(948,414)	-	2,132,004
General plant	702,950	102,408	(48,217)	-	757,141
Total accumulated depreciation	16,087,958	\$ 2,290,464	\$ (1,228,578)	\$ -	17,149,844
Net communications capital assets	\$ 12,558,286				\$ 11,955,963

A summary of changes in communications capital assets for 2009 follows:

	BALANCE 1/01/09	ADDITIONS/ RECLASSIFICATIONS	RETIREMENTS	TRANSFERS	BALANCE 12/31/09
CATV	\$ 19,238,657	\$ 1,239,671	\$ (1,351,812)	\$ 634,239	\$ 19,760,755
Data/Internet	3,142,254	80,851	(110,647)	38,190	3,150,648
MAN	4,376,810	5,335	-	-	4,382,145
General plant	1,286,153	2,674	(23,198)	19,550	1,285,179
Total utility plant in service	28,043,874	1,328,531	(1,485,657)	691,979	28,578,727
Construction work in progress ¹	21,389	742,900	(4,793)	(691,979)	67,517
Total communications utility plant	28,065,263	\$ 2,071,431	\$ (1,490,450)	\$ -	28,646,244
Less: accumulated depreciation					
CATV	10,203,628	\$ 1,507,980	\$ (1,305,248)	\$ -	10,406,360
Data/Internet	1,900,767	266,256	(111,113)	-	2,055,910
MAN	2,767,050	155,688	-	-	2,922,738
General plant	610,910	113,292	(21,252)	-	702,950
Total accumulated depreciation	15,482,355	\$ 2,043,216	\$ (1,437,613)	\$ -	16,087,958
Net communications capital assets	\$ 12,582,908				\$ 12,558,286

¹ Capital assets not being depreciated

Notes to Financial Statements (continued)

NOTE 4 - RESTRICTED ASSETS

Restricted assets represent amounts set aside under the terms of the bond resolutions relating to the electric revenue bonds, or under the terms of the communications loan agreement, or by the Board. In accordance with the covenants of the bond resolutions, the amounts have been segregated into various funds or accounts. The extraordinary operation and maintenance account may be used for extraordinary operating expenses and debt service at the discretion of the Board. In accordance with the communications loan agreement, the communications system loan repayment sinking fund is used solely for the purpose of paying the interest on and principal of the bank loans. The composition of the restricted assets at December 31, 2010 and 2009 is as follows:

	ELECTRIC UTILITY		COMMUNICATIONS UTILITY	
	2010	2009	2010	2009
RESTRICTED ASSETS				
Sinking fund	\$ 13,296,013	\$ 12,969,088	\$ 28,019	\$ 20,868
Debt service reserve fund	7,500,767	7,474,030	-	-
Extraordinary operation and maintenance account	17,211,405	18,225,372	-	-
TOTAL RESTRICTED ASSETS	\$ 38,008,185	\$ 38,668,490	\$ 28,019	\$ 20,868

NOTE 5 - NON-CURRENT LIABILITIES AND DEFERRED REVENUE

Non-Current Liabilities and Deferred Revenue Summary - Electric

The following revenue bonds have been issued:

ISSUE DATE	ORIGINAL AMOUNT	PURPOSE
October 2, 2001	\$ 49,090,000	Advance Refunding of a portion of the 1992 Series bonds

Non-current liabilities and deferred revenue activity for the year ended December 31, 2010

	BALANCE 1/01/10	ADDITIONS	PAYMENTS/ AMORTIZATION/ RECLASSIFICATIONS	BALANCE 12/31/10	DUE WITHIN ONE YEAR
Series 2001 revenue bonds	\$ 37,785,000	\$ -	\$ (11,930,000)	\$ 25,855,000	\$ 12,585,000
Unamortized portion of deferred loss on refundings	(213,378)	-	141,008	(72,370)	-
Unamortized portion of revenue bond premiums	230,225	-	(156,554)	73,671	-
Total long-term debt	37,801,847	-	(11,945,546)	25,856,301	-
Less: current installments	(11,930,000)	-	(655,000)	(12,585,000)	-
Long-term debt, net of current portion	25,871,847	-	(12,600,546)	13,271,301	-
Deferred revenue	17,903,162	-	(748,000)	17,155,162	-
Post-employment health benefit provision	-	118,166	-	118,166	-
Health care provision	1,993,284	-	(134,402)	1,858,882	-
Non-current liabilities and deferred revenue	\$ 45,768,293	\$ 118,166	\$ (13,482,948)	\$ 32,403,511	\$ 12,585,000

Non-current liabilities and deferred revenue activity for the year ended December 31, 2009:

	BALANCE 1/01/09	ADDITIONS	PAYMENTS/ AMORTIZATION/ RECLASSIFICATIONS	BALANCE 12/31/09	DUE WITHIN ONE YEAR
Series 2001 revenue bonds	\$ 49,090,000	\$ -	\$ (11,305,000)	\$ 37,785,000	\$ 11,930,000
Unamortized portion of deferred loss on refundings	(419,449)	-	206,071	(213,378)	-
Unamortized portion of revenue bond premiums	474,174	-	(243,949)	230,225	-
Total long-term debt	49,144,725	-	(11,342,878)	37,801,847	-
Less: current installments	(11,305,000)	-	(625,000)	(11,930,000)	-
Long-term debt, net of current portion	37,839,725	-	(11,967,878)	25,871,847	-
Deferred revenue	29,303,164	-	(11,400,002)	17,903,162	-
Health care provision	1,674,608	318,676	-	1,993,284	-
Non-current liabilities and deferred revenue	\$ 68,817,497	\$ 318,676	\$ (23,367,880)	\$ 45,768,293	\$ 11,930,000

Non-Current Liabilities Maturity Schedule – Electric

The revenue bonds, which rank on a parity with each other, are secured by future net revenues of the electric utility as defined in the bond resolutions. Revenue bonds debt service requirements to maturity follow:

Year ending December 31	SERIES 2001		
	PRINCIPAL AMOUNT	INTEREST 5.5%	TOTAL
2011	\$ 12,585,000	\$ 1,075,938	\$ 13,660,938
2012	13,270,000	364,925	13,634,925
Totals	\$ 25,855,000	\$ 1,440,863	\$ 27,295,863

Notes to Financial Statements (continued)

In prior years, the utility provided for the advance refunding of certain revenue bonds. In connection with these advance refundings, the utility deposited certain amounts in irrevocable trust funds for the repayment of all principal and interest on the advance refunded bonds. The utility is contingently liable for repayment of these bonds, which in the aggregate amounted to \$40,635,000 at December 31, 2010. The bonds and corresponding trust funds are not included on the Statements of Net Assets at December 31, 2010 and 2009 as the outstanding bonds are considered defeased.

The bond resolutions contain certain covenants, which among others, require the collection, segregation and distribution of utility plant revenue into various segregated funds, place certain restrictions on future borrowing and leasing or disposition of assets, require the maintenance of a minimum debt service coverage ratio, and require that minimum insurance coverage be maintained.

All electric utility revenues, net of specified operating expenses, are pledged as security of the electric debt until fully paid. Principal and interest paid in 2010 and 2009, and electric utility net revenues are as follows:

	2010	2009
Principal and interest paid	\$ 13,680,100	\$ 13,694,063
Net revenues	17,098,235	25,881,477

Annual future principal and interest payments are expected to require 80% of electric utility net revenues.

Non-Current Liabilities Summary - Water

Non-current liabilities activity for the year ending December 31, 2010.

	BALANCE 1/01/10	ADDITIONS/ (REDUCTIONS)	PAYMENTS/ AMORTIZATION/ RECLASSIFICATIONS	BALANCE 12/31/10	DUE WITHIN ONE YEAR
Long term debt, net of current portion	\$ 7,407	\$ 257,689	\$ -	\$ 265,096	\$ 32,000
Post-employment health benefit provision	-	11,756	-	11,756	-
Health care provision	174,876	(19,530)	-	155,346	-
Customer advances for construction	1,983,846	(43,682)	(29,662)	1,910,502	-
Non-current liabilities	\$ 2,166,129	\$ 206,233	\$ (29,662)	\$ 2,342,700	\$ 32,000

Non-current liabilities activity for the year ending December 31, 2009.

	BALANCE 1/01/09	ADDITIONS/ (REDUCTIONS)	PAYMENTS/ AMORTIZATION/ RECLASSIFICATIONS	BALANCE 12/31/09	DUE WITHIN ONE YEAR
Long term debt, net of current portion	\$ -	\$ 7,407	\$ -	\$ 7,407	\$ -
Health care provision	147,753	27,123	-	174,876	-
Customer advances for construction	2,029,117	(13,955)	(31,316)	1,983,846	-
Non-current liabilities	\$ 2,176,870	\$ 20,575	\$ (31,316)	\$ 2,166,129	\$ -

Non-Current Liabilities Maturity Schedule – Water

All water utility revenues, net of specified operating expenses, are pledged as security of the water debt until fully paid. Interest due and paid in 2010 amounted to \$4,880. There was no principal due in 2010. Annual future principal payments will be calculated in 2011 when determination has been made of the total amounts that will be drawn from this loan.

Non-Current Liabilities Summary - Communications

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

The electric utility has advanced \$35,327,000 to the communications utility for capital improvements and acquisition of a cable television system. Effective November 28, 2006, the interest rate was fixed at 3.53% beginning January 1, 2007 by action of the Board. Semi-annual payments of interest only are due each January 1 and July 1. A Board resolution, which passed November 25, 2008, approved an annual principal repayment schedule with payments beginning January 1, 2016 over a 30 year period. This debt, as to both principal and interest, is and shall be junior and subordinate in all respects to the bank loans and interest thereon during the term of the bank loan agreement.

Non-current liabilities activity for the year ending December 31, 2010

	BALANCE 01/01/10	ADDITIONS/ (REDUCTIONS)	PAYMENTS/ AMORTIZATION/ RECLASSIFICATIONS	BALANCE 12/31/10	DUE WITHIN ONE YEAR
Post-employment health benefit provision	\$ -	\$ 20,799	\$ -	\$ 20,799	\$ -
Health care provision	242,391	(36,404)	-	205,987	-
Note payable to banks	888,000	3,912,000	-	4,800,000	-
Note payable to electric utility	35,327,000	-	-	35,327,000	-
Non-current liabilities	\$ 36,457,391	\$ 3,896,395	\$ -	\$ 40,353,786	\$ -

Non-current liabilities activity for the year ending December 31, 2009:

	BALANCE 01/01/09	ADDITIONS	PAYMENTS/ AMORTIZATION/ RECLASSIFICATIONS	BALANCE 12/31/09	DUE WITHIN ONE YEAR
Health care provision	\$ 196,430	\$ 45,961	\$ -	\$ 242,391	\$ -
Note payable to banks	888,000	-	-	888,000	-
Note payable to electric utility	35,327,000	-	-	35,327,000	-
Non-current liabilities	\$ 36,411,430	\$ 45,961	\$ -	\$ 36,457,391	\$ -

Notes to Financial Statements (continued)

Non-Current Liabilities Maturity Schedule – Communications

Communications loan debt service requirements to maturity follow as of December 31, 2010:

Year ending December 31	LOAN TO ELECTRIC UTILITY			BANK LOANS		
	PRINCIPAL AMOUNT	INTEREST 3.53%	TOTAL	PRINCIPAL AMOUNT	INTEREST 4.7%	TOTAL
2011	\$ -	\$ 1,247,043	\$ 1,247,043	\$ -	\$ 140,818	\$ 140,818
2012	-	1,247,043	1,247,043	885,000	204,803	1,089,803
2013	-	1,247,043	1,247,043	915,000	162,502	1,077,502
2014	-	1,247,043	1,247,043	960,000	118,440	1,078,440
2015	-	1,247,043	1,247,043	1,005,000	72,263	1,077,263
2016 - 2020	3,653,811	5,921,712	9,575,523	1,035,000	24,322	1,059,322
2021 - 2025	4,345,874	5,217,434	9,563,308	-	-	-
2026 - 2030	5,169,020	4,379,758	9,548,778	-	-	-
2031 - 2035	6,148,077	3,383,422	9,531,499	-	-	-
2036 - 2040	7,312,576	2,198,369	9,510,945	-	-	-
2041 - 2045	8,697,642	788,858	9,486,500	-	-	-
Totals	\$ 35,327,000	\$ 28,124,768	\$ 63,451,768	\$ 4,800,000	\$ 723,148	\$ 5,523,148

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 2010 and 2009, and communications utility net revenues are as follows:

	2010	2009
Principal and interest paid	\$ 665,258	\$ 1,893,172
Net revenues	2,751,467	2,483,329

Annual future principal and interest payments are expected to require 71% of communications utility net revenues.

NOTE 6 - DERIVATIVE INSTRUMENT

The derivative instrument was entered into on September 16, 2010. Its purpose was to lock in on a price of \$30.00 per MWH for energy that will be purchased to meet native system needs during the Unit 9's scheduled outage from March 1 through April 30, 2011. The utility's actual cost for energy may be higher or lower. No money was exchanged in 2010. This contract was evaluated pursuant to GASB No. 53 to determine whether it met the definition of a derivative instrument and if so, whether it effectively hedged the expected fair value associated with commodity price risk exposure. The utilities apply hedge accounting for derivatives that are deemed effective hedges. The derivative instrument was determined to be effective. The fair value of this contract was estimated by comparing the contract price to forward market prices quoted by an independent external pricing service.

The fair value, change in fair value and notional amount of the derivative instrument outstanding at December 31, 2010 is as follows:

CLASSIFICATION	CHANGE IN FAIR VALUE	FAIR VALUE	NOTIONAL
Hedging derivative instrument-electricity	\$ 2,196,100	\$ 2,196,100	73,200 MWH

Objective and terms of hedging derivative instruments – The objectives and terms of the utilities' hedging derivative instrument that was outstanding at December 31, 2010 is summarized in the table below. The table shows the utilities' trading strategy.

NOTIONAL AMOUNT	ELECTRICITY			
	BEGINNING DATE	ENDING DATE	MINIMUM PRICE	MAXIMUM PRICE
73,200 MWH	03/1/11	04/30/11	\$ 23.75	\$ 36.75

The utility is subject to the following risks when entering into derivative instruments:

Credit risk – Credit risk is the exposure resulting when the counterparty is unable or unwilling to fulfill its present and future financial obligations. The counterparty to this transaction is Tenaska Power Services Co. (TPS); TPS is not publicly rated.

The utility granted TPS a \$2 million margin threshold for this transaction, and will only call for additional margin when the utility's exposure exceeds this threshold.

Basis risk – Basis risk is the risk that arises when variable rates or prices of a derivative instrument and a hedged item are based on different reference rates. This transaction has no basis risk.

Termination risk – Termination risk is the risk that a derivative instrument's unscheduled end will affect the utility's asset and liability strategy or will present the utility with potentially unscheduled termination payments to the counterparty. One aspect of termination risk is that the utility would lose the hedging benefit of the derivative that

Notes to Financial Statements (continued)

become subject to a termination event. Another termination risk is that if at the time of the termination event the mark to market value of the derivative is a liability that the utility would be required to pay that amount. This transaction has no such termination payment terms.

Rollover risk – Rollover risk is the risk that a derivative instrument associated with a hedged item does not extend to the maturity of that hedged item. This transaction has no rollover provisions.

Market access risk – Market access risk is the risk that the utility will not be able to enter credit markets or that credit will become more costly. A strong credit rating tends to broaden an entity's credit market access and bond-holder base while achieving lower-cost funding. The utility's unenhanced electric revenue bond rating is indicated as "A+" by Standard & Poor's and Fitch Ratings as of December 31, 2010.

NOTE 7 - NET ASSETS

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

Invested in capital assets, net of related debt - This component of net assets 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 assets component as the unspent proceeds.

Restricted - This component of net assets consists of constraints placed on net asset 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.

Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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 assets invested in capital assets, net of related debt:

	2010	2009
Plant in service	\$ 404,829,179	\$ 403,794,657
Construction work in progress	242,626	182,430
Accumulated depreciation	(291,559,776)	(277,789,364)
Sub-totals	113,512,029	126,187,723
Less: capital related debt		
Current portion of capital related long term debt	12,585,000	11,930,000
Long-term portion of capital related long term debt	13,270,000	25,855,000
Unamortized debt issuance costs	(27,283)	(80,441)
Unamortized debt premium	73,671	230,225
Unamortized loss on advance refunding	(72,370)	(213,378)
Sub-totals	25,829,018	37,721,406
Total net assets invested in capital assets, net of related debt	\$ 87,683,011	\$ 88,466,317

The following calculation supports the water net assets invested in capital assets:

	2010	2009
Plant in service	\$ 23,497,236	\$ 22,648,930
Construction work in progress	47,281	93,873
Accumulated depreciation	(8,623,443)	(8,269,326)
Sub-totals	14,921,074	14,473,477
Less: capital related debt		
Customer advances for construction	1,988,313	2,017,975
Current portion of capital related long term debt	32,000	-
Long-term portion of capital related long term debt	233,096	7,407
Unamortized debt issuance costs	-	(7,382)
Sub-totals	2,253,409	2,018,000
Total net assets invested in capital assets	\$ 12,667,665	\$ 12,455,477

The following calculation supports the communications net assets invested in capital and intangible assets:

	2010	2009
Plant in service	\$ 29,035,507	\$ 28,578,727
Construction work in progress	70,300	67,517
Accumulated depreciation	(17,149,844)	(16,087,958)
Sub-totals	11,955,963	12,558,286
Intangible assets	8,155,187	8,155,187
Accumulated amortization	(6,608,914)	(5,835,777)
Sub-totals	1,546,273	2,319,410
Less: capital related debt		
Long-term portion of capital related long term debt	4,800,000	888,000
Unamortized debt issuance costs	(27,382)	(32,859)
Sub-totals	4,772,618	855,141
Total net assets invested in capital and intangible assets	\$ 8,729,618	\$ 14,022,555

Deficit Balances

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

As of December 31, 2010 and 2009 the Communications Utility had a net deficit of \$21.2 million and \$19.5 million respectively. This deficit is anticipated to be funded with future customer revenues in excess of expenses.

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS

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

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

Notes to Financial Statements (continued)

For fiscal years 2010 and 2009, the utility contributed \$2,512,000 and \$2,564,000, respectively, to the plan for claim payments plus administrative costs, net of payments received from employees and retirees for premiums.

The following OPEB obligation is based on the actuarial valuation report as of December 31, 2008. The annual OPEB cost is assumed to remain constant until a revised actuarial study is performed in 2011.

Annual required contribution	\$ 53,581
Interest on net OPEB obligation	1,392
Adjustment to annual required contribution	(1,935)
Annual OPEB cost	53,038
Contributions made	(14,400)
Increase in net OPEB obligation	38,638
Net OPEB Obligation - Beginning of Year	112,083
Net OPEB Obligation - End of Year	\$ 150,721

The utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for December 31, 2008 was as follows:

FISCAL YEAR ENDING	ANNUAL OPEB COST	% OF ANNUAL OPEB COST CONTRIBUTED	NET OPEB OBLIGATION
12/31/08	\$ 53,038	27 %	\$ 73,445

The funded status of the plan as of December 31, 2008, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 430,836
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 430,836
Funded ratio (actuarial value of plan assets/AAL)	-
Covered payroll (active plan members)	\$ 18,811,367
UAAL as a percentage of covered payroll	2.3%

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

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

In the actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4% investment rate of return and an annual healthcare cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 5% after six years. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2008, was 30 years.

NOTE 9 - PENSION PLAN

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

The annual pension costs of \$1,933,274 for 2010; \$1,670,289 for 2009; \$1,104,964 for 2008; and \$979,179 for 2007 (including MAGIC-see note 14) were equal both to the utility's annual required contribution and actual contributions made by the utility. Accordingly, the utility has no net pension obligation at December 31, 2010. The electric, water, and communications utilities' portions of the 2010 Plan contribution were \$1,615,225, \$85,645, and \$219,828, respectively.

The annual required contribution is equal to normal cost plus level-dollar amortization of unfunded actuarial accrued liability over 20 years. The annual required contribution for 2010 was determined as part of the January 1, 2010 actuarial valuation using the projected unit credit cost method. The actuarial assumptions included; (a) a 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases of 5.0%, and (c) the later of attained age of 65 or 5 years of plan participation. The utility's actuary issues an annual Financial Accounting Disclosure Report to fulfill the reporting requirements of these financial statement notes as required by the Governmental Accounting Standards Board.

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

FISCAL YEAR ENDING	ANNUAL REQUIRED COST (ARC)	% OF ARC CONTRIBUTED	NET PENSION OBLIGATION
12/31/05	\$ 806,451	100%	\$ -
12/31/06	882,170	100	-
12/31/07	979,179	100	-
12/31/08	1,104,964	100	-
12/31/09	1,670,289	100	-
12/31/10	1,933,274	100	-

Notes to Financial Statements (continued)

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

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY (AAL) (b)	UNFUNDED (OVERFUNDED) AAL (UAAL/OAAL) (b-a)	FUNDED RATIO (a/b)	ANNUAL COVERED PAYROLL (c)	UAAL/OAAL AS A PERCENTAGE OF COVERED PAYROLL (b-a/c)
01/01/05	\$ 31,717,900	\$ 28,835,478	\$ (2,882,422)	110.0%	\$ 15,766,176	(18.3)%
01/01/06	35,065,410	32,739,278	(2,326,132)	107.1	15,947,709	(14.6)
01/01/07	38,984,729	36,020,200	(2,964,529)	108.2	17,216,510	(17.2)
01/01/08	42,579,530	38,845,371	(3,734,159)	109.6	17,770,750	(21.0)
01/01/09	41,901,750	43,004,091	1,102,341	97.4	18,811,367	5.9
01/01/10	41,554,008	44,893,762	3,339,754	92.6	18,760,186	17.8

The water utility also contributes to IPERS for full time utility employees who have elected not to participate in the Plan provided by the utility. IPERS is a cost-sharing multi-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

IPERS members were required to contribute 4.1% through June 30, 2009; 4.3% from July 1, 2009 through June 30, 2010; and 4.5% beginning July 1, 2010 of their annual covered salary and the utility was required to contribute 6.35% through June 30, 2009; 6.65% from July 1, 2009 through June 30, 2010; and 6.95% beginning July 1, 2010 of employees' covered salary. Contribution requirements are established by State statute. The utility's contributions to IPERS for the years ended December 31, 2010 and 2009 were \$39,764 and \$42,733, respectively, equal to the required contributions for those years.

NOTE 10 - SIGNIFICANT CUSTOMERS

Approximately \$26,044,000 or 27% in 2010 and \$25,001,000 or 31% in 2009 of the electric utility's operating revenues were derived from sales to one customer. Approximately \$1,918,000 or 45% in 2010 and \$1,866,000 or 45% in 2009 of the water utility's operating revenues were derived from sales to one customer.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The utility has a two year coal supply contract for a total contract annual minimum of 350,000 tons of coal through the year 2011 with a fixed annual price.

The utility has rail transportation agreements with two separate companies for the delivery of coal through December 31, 2014 and December 31, 2012. The utility's first agreement is for coal shipped from the Powder River Basin (PRB), Wyoming to an interchange with the local delivery carrier. The contract term is from 2010 through 2014 where the rate is firm for the first three years and adjusted quarterly for years 2013 and 2014 plus monthly fuel surcharges. The utility's minimum requirement is 100% of the tons shipped, up to the annual tonnage nomination, from the PRB. In the event the utility does not meet their minimum requirement, the utility has agreed to pay a per ton penalty for the shortfall.

The other rail agreement covers the shipment of coal from the interchange to the utility's electric generating station by the local delivery carrier. The contract rate is determined by the interchange that the train travels through, and is adjusted quarterly. There is no annual minimum tonnage requirement.

The utility has contracted to sell steam to a local customer. The ten-year agreement began July 1, 2000. The customer is obligated to take a minimum annual quantity of steam each year (2,338,920 kilo pounds). The contract was amended in 2007 to add an additional ten years to the agreement. The amendment obligates the customer to certain environmental capital costs (approximately \$2 million) and ongoing SO₂, NO_x and mercury emission allowance costs. If the contract is cancelled during the amendment period, the customer has agreed to reimburse the utility for any of the unrecovered environmental capital costs.

The utility has Board-approved open contracts for approximately \$490,000. As of December 31, 2010, approximately \$458,000 of this amount has been expended.

NOTE 12 - 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 the Clean Air Act will be recovered through rates charged to its customers.

NOTE 13 - INTERFUND AND RELATED PARTY TRANSACTIONS

The electric utility sold power to the water utility amounting to approximately \$764,500 in 2010 and \$783,300 in 2009. The electric utility sold power to the communications utility amounting to approximately \$16,000 in 2010 and \$15,700 in 2009. The electric utility purchased water from the water utility amounting to approximately \$322,700 and \$342,200 for 2010 and 2009, respectively. The electric utility purchased communications services from the communications utility amounting to approximately \$168,900 for 2010 and \$157,800 for 2009, and advertising amounting to \$4,800 and \$5,400 in 2010 and 2009, respectively.

The electric utility rents space to the water utility and the communications utility at the Administration/Operations Center. This amounted to \$75,576 in 2010 and \$68,424 in 2009 for the water utility's rent, and \$114,636 in 2010 and \$103,788 in 2009 for the communications utility's rent.

Electric utility amounts receivable from the water utility were \$64,516 and \$72,483 at December 31, 2010 and 2009, respectively. Electric utility amounts payable to the water utility were \$26,681 and \$26,426 at December 31, 2010 and 2009, respectively. Electric utility amounts receivable from the communications utility were \$16,228 and \$4,485 at December 31, 2010 and 2009, respectively. Electric utility amounts payable to the communications utility were \$875 and \$1,390 at December 31, 2010 and 2009, respectively.

Notes to Financial Statements (continued)

Prior to 2002, the electric utility loaned the communications utility \$21,400,000 for the financing of the initial construction and operation of the communications utility. Prior to July 1, 2004 additional amounts totaling \$13,927,000 were approved for the financing of the expansion of the communications utility, increasing the total loan to \$35,327,000.

Effective November 28, 2006, the interest rate was fixed at 3.53% beginning January 1, 2007 by action of the Board. Semi-annual payments of interest only are due each January 1 and July 1. A Board resolution, which passed November 25, 2008, approved an annual principal repayment schedule, with payments beginning January 1, 2016. This debt as to both principal and interest is and shall be junior and subordinate in all respects to the bank loans and interest thereon during the term of the bank loan agreement.

All or any portion of such loan may be prepaid at any time by the communications utility without penalty.

At December 31, 2010 and 2009, electric utility interest receivable from the communications utility was \$623,522 and \$0, respectively. Interest income on the loan amounted to \$1,247,043 for 2010 and 2009.

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 of companies that are customers of the utility. Most employees are also customers of the utility.

NOTE 14 - ACQUISITION

On January 3, 2003, the utility acquired a cable television system and the related assets serving subscribers in and around the Cities of Muscatine and Fruitland, Iowa at a price of \$9,000,000. Of this amount, \$7.7 million was considered an intangible asset and is being amortized over 10 years, ending in 2012.

NOTE 15 - 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)	2010	2009
HEALTH/DENTAL CARE SELF INSURANCE RESERVE		
Reserve liability, beginning of year	\$ 2,687	\$ 2,266
Add: provision for reserve, current year	3,223	3,274
Less: payments on reserve	(3,392)	(2,853)
Total reserve liability, end of year	2,518	2,687
Incurred but not reported claims	(298)	(276)
Non-current reserve liability, end of year	\$ 2,220	\$ 2,411
WORKERS COMPENSATION SELF INSURANCE RESERVE		
Reserve liability, beginning of year	144	186
Add: provision for reserve	333	231
Less: payments on reserve	(198)	(273)
Reserve liability, end of year	\$ 279	\$ 144

NOTE 16 - 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 assets of MAGIC will be distributed on a prorata basis based on funding. Complete financial statements for MAGIC can be obtained from the Muscatine Power and Water Administration/Operations Center, 3205 Cedar Street, Muscatine, Iowa 52761.

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

NOTE 17 - SUBSEQUENT EVENTS

Water Rates

In November 2010, a 4% water rate increase was approved by the Board to become effective with water usage starting April 1, 2011.

Communication Rates

In November 2010, a communications utility cable television rate adjustment of 5% and 5.5%, respectively, for MPW Basic service and MPW Digital TV Select service was approved by the Board to become effective January 1, 2011.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets and the related statements of revenues, expenses and changes in net assets (deficit) and cash flows of Muscatine Power and Water (utility), a component unit of the City of Muscatine, Iowa, as identified in the accompanying table of contents, as of and for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the utility as of December 31, 2010 and 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2011 on our consideration of Muscatine Power and Water's internal control over financial reporting and 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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 12 is not a required part of the financial statements but is supplementary information required by

the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consist principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Muscatine Power and Water has not presented the Schedule of Funding Progress that the *Governmental Accounting Standards Board* requires to supplement, although not be a part of, the financial statements.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 25, 2011



Candor. Insight. Results.

