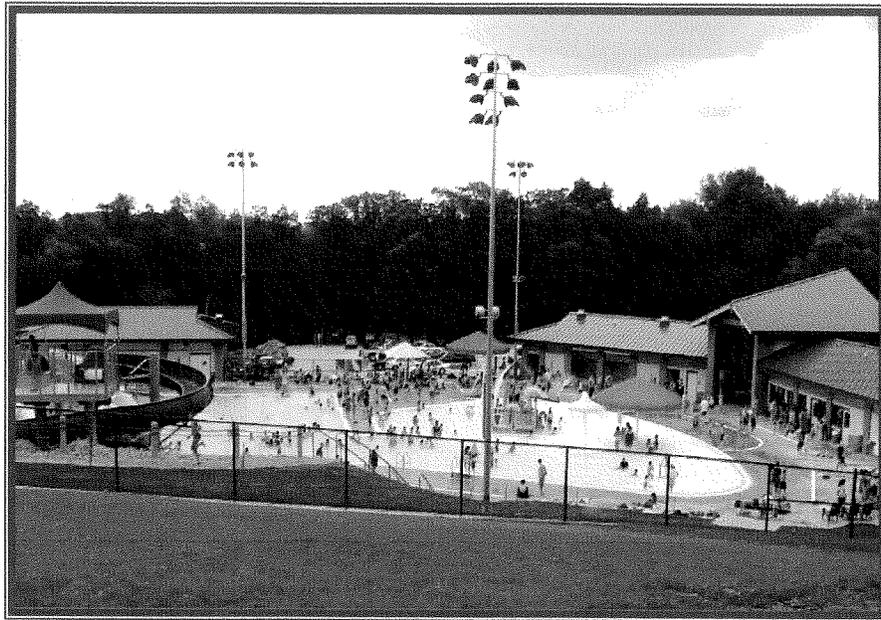


City of Muscatine, Iowa



Comprehensive Annual Financial Report

For the Year Ended June 30, 2004

CITY OF MUSCATINE, IOWA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2004

SUBMITTED BY:

ADMINISTRATIVE SERVICES DEPARTMENT
CITY OF MUSCATINE, IOWA

David P. Casstevens
Administrative Services Director

Nancy A. Lueck
Finance Officer

Cover:

The Muscatine Aquatic Center, one of the projects included in the City's
Pearl of the Mississippi Project, opened June 3, 2004.

Photo by:

Dan Beenen

CITY OF MUSCATINE, IOWA

**Comprehensive Annual Financial Report
For the Year Ended June 30, 2004**

TABLE OF CONTENTS

INTRODUCTORY SECTION

Table of Contents	1
Letter of Transmittal	3
GFOA Certificate of Achievement	8
City Organizational Chart	9
List of Principal Officials	10

FINANCIAL SECTION

Independent Auditor's Report	11
Management's Discussion and Analysis.....	13
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	24
Statement of Activities	25
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	26
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	27
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	28
Statement of Net Assets – Proprietary Funds.....	29
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds.....	30
Statement of Cash Flows – Proprietary Funds	31
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds.....	32
Notes to the Financial Statements	33
Required Supplementary Information:	
Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Budgetary Basis:	
General Fund	60
Employee Benefits Special Revenue Fund.....	61
Local Option Sales Tax Special Revenue Fund	62
Notes to Required Supplementary Information.....	63
Combining Fund Statements and Schedules:	
Combining Balance Sheet – Non-Major Governmental Funds.....	64
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds	65
Combining Balance Sheet – Non-Major Special Revenue Funds	66
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Special Revenue Funds.....	68
Combining Balance Sheet – Non-Major Capital Projects Funds	70

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Capital Projects Funds.....	72
Combining Balance Sheet – Non-Major Permanent Funds.....	74
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Permanent Funds	75
Combining Statement of Net Assets – Non-Major Enterprise Funds	76
Combining Statement of Revenues, Expenses and Changes in Net Assets – Non-Major Enterprise Funds	78
Combining Statement of Cash Flows – Non-Major Enterprise Funds.....	80
Combining Statement of Net Assets – Internal Service Funds	82
Combining Statement of Revenues, Expenses and Changes in Net Assets – Internal Service Funds.....	83
Combining Statement of Cash Flows – Internal Service Funds.....	84
Combining Statement of Fiduciary Assets and Liabilities – Agency Funds.....	85
Combining Statement of Changes in Assets and Liabilities – Agency Funds	86

STATISTICAL SECTION (Unaudited)

General Government Expenditures by Function.....	Table 1	87
General Government Revenues by Source	Table 2	88
General Government Tax Revenue by Source.....	Table 2A	89
Property Tax Levies and Collections	Table 3	90
Assessed and Estimated Actual Value of Property.....	Table 4	91
Property Tax Rates for Direct and Overlapping Governments.....	Table 5	93
Principal Taxpayers	Table 6	94
Computation of Legal Debt Margin.....	Table 7	95
Ratio of Net General Obligation Bonded Debt to Assessed Value and Net General Obligation Bonded Debt Per Capita	Table 8	96
Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt to Total General Government Expenditures.....	Table 9	97
Computation of Direct and Overlapping Bonded Debt - General Obligation Bonds	Table 10	98
Construction, Property Value and Bank Deposits	Table 11	99
Demographic Statistics	Table 12	101
Miscellaneous Statistics.....	Table 13	102
Principal Officials - Salaries and Length of Service.....	Table 14	103

COMPLIANCE SECTION

Information Provided to Comply with <i>Government Auditing Standards</i> and OMB Circular A-133: Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	104
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	106
Schedule of Expenditures of Federal Awards.....	108
Notes to the Schedule of Expenditures of Federal Awards	110
Schedule of Findings and Questioned Costs.....	111



City Hall, 215 Sycamore St.
Muscatine, IA 52761-3840
(563) 264-1550 Voice/TT
Fax (563) 264-0750

FINANCE & RECORDS

TO: Honorable Mayor and City Council

DATE: November 3, 2004

Iowa law requires that all cities publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Muscatine for the fiscal year ended June 30, 2004.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material aspects.

The City's financial statements have been audited by Eide Bailly, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the City's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are included in the compliance section of this report.

"I remember Muscatine for its sunsets. I have never seen any
on either side of the ocean that equaled them" - Mark Twain

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Muscatine was incorporated in 1851 by a special act of the Iowa State Legislature and is located on the Mississippi River, which is the eastern boundary of the state of Iowa. The City is located 160 miles east of Des Moines, 200 miles west of Chicago, and is the county seat of Muscatine County. The City occupies a land area of approximately 17 square miles and serves a population of 22,697 people.

The City operates under the mayor-council form of government and has a City Administrator. Policy-making and legislative authority are vested in a mayor and seven council members. The city council is responsible, among other things, for passing ordinances and resolutions, adopting the budget, appointing committees, and hiring both the City Administrator and the City Attorney. The City Administrator is responsible for carrying out the policies and ordinances of the city council, for overseeing the day-to-day operations of the government, and for appointing the heads of various departments. The council is elected on a non-partisan basis. Council members serve four-year staggered terms and the mayor is elected to serve a two-year term. Five of the council members are elected by district. The mayor and the two remaining council members are elected at large.

The City provides a full range of services including police and fire protection; roadway maintenance; water pollution control; solid waste management; recreational and cultural activities and facilities; and a general aviation airport.

The annual budget serves as the foundation for the City's financial planning and control. All departments of the City are required to submit requests for appropriation to the City Administrator in December each year. The City Administrator uses these requests as the starting point for developing a proposed budget. The City Administrator then presents this proposed budget to the Council for review in February. The council is required to hold a public hearing on the proposed budget and to adopt a final budget no later than March 15. The budget is prepared by fund and department. Budget-to-actual comparisons are provided in this report for the City's general fund and major special revenue funds. These reports are located in the Required Supplementary Information subsection of this report, which starts on page 60.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local Economy. The City of Muscatine has a history of business and industrial development equal to cities of much larger size. Muscatine is the corporate headquarters of Bandag Incorporated, makers of procured tire tread rubber, and HNI Corporation, makers of office furniture. Other major employers located in the Muscatine area include Heinz USA, food processing; Monsanto Company, herbicides and plastics; BT Prime-Mover Inc., front-end loaders, etc.; Grain Processing Corporation, corn distillates and feed; and Stanley Consultants

Inc., consulting engineers and architects. The presence of many diverse companies has provided the Muscatine economy with economic stability and employment security for many years. Muscatine Power and Water, the City of Muscatine's municipal light, water and communications utility, operates the largest municipal power plant in the State of Iowa. This plant provides for abundant supplies of low cost electricity. The City's Water Pollution Control Plant has undergone renovation over the years and currently has the capacity to triple the volume of wastewater it treats with only marginal increases in operating expenditures. The City operates a general aviation airport and has excellent railroad service provided by the Iowa, Chicago & Eastern (IC&E) Railroad.

All of these elements provide an excellent atmosphere for continued economic stability and growth.

Long-term Financial Planning. The City of Muscatine is currently involved in the Pearl of the Mississippi Project. This project consists of eight components that will provide new and upgraded facilities for community residents and visitors alike. The total project costs of approximately \$9.6 million will fund a new aquatic center, marina improvements, boat launch relocation, a new skate park, community center renovations, bike and walking trail extension, community art and an environmental learning center. The City is committed to approximately \$1 million of the total \$9.6 million in total project costs with the majority of funds coming from local corporations, foundations, businesses, and individuals. The City also was awarded a \$1 million State of Iowa Community Attractions and Tourism (CAT) grant to be used for the Pearl of the Mississippi Project.

On May 10, 1994, the citizens of Muscatine voted to implement a 1% local option sales tax for the purpose of funding storm and sanitary sewer renovation and extension projects. The tax was imposed effective July 1, 1994, for a five-year period. On August 4, 1998, Muscatine voters overwhelmingly approved the renewal of the 1% local option sales tax for another five years to continue funding sewer projects. In January 2003, voters approved using up to 10% of the local option tax for the Pearl of the Mississippi Project effective April 30, 2003.

On January 27, 2004, voters again overwhelmingly approved extending the local option sales tax for an additional five years. The proceeds will continue to be allocated 90% for sewer projects and the remaining 10% for the Pearl of the Mississippi Project. The 1% local option sales tax raises approximately \$2 million each year. This effort demonstrates the community's commitment to a sound municipal infrastructure to enhance the quality of life and to encourage economic development activities.

Cash management policies and practices. Cash temporarily idle during the year was invested in certificates of deposit and money market accounts. The city's investment policy is to solicit competitive bids from the three local banks and the Iowa Public Agency Investment Trust. If the rates bid are equal to or greater than the rates on comparable term U.S. Treasury securities, the policy provides that the bank certificates of deposit are purchased. The rates secured were also equal to or above the minimum rates prescribed by the State Treasurer's office. Interest rates on certificates of deposit for operating funds during the year ranged from .95% to 2.91%. Daily funds are invested in money market accounts. Investments for the general City operations are accounted for in an investment pool unless specifically allocated to individual funds. Interest is allocated semi-annually to the individual funds based on available cash balances. The City received \$216,271 on a cash basis in interest during fiscal year 2003/2004.

Risk Management. The City has a comprehensive risk management and insurance program. The Citizen Insurance Advisory Committee, consisting of representatives from various major industries in the community, continues to provide assistance to the City in administering this program. Employee safety meetings are held regularly and the employee Safety Awareness Team continues to participate in the review of employee accidents and in recommending changes in safety policies and work practices.

Police and Fire Pension System. Effective January 1, 1992, the statewide Municipal Fire and Police Retirement System of Iowa (MFPRSI) replaced the separate systems previously maintained by cities in the State of Iowa for the police and fire employees. With the consolidation of the local pension systems into the new system, actuarial valuations were completed which determined the liability of each of the local systems in the State to the new system based on actuarial assumptions adopted for the new system. The actuarial liabilities for the City of Muscatine's system were \$3,549,140 and \$4,395,315 for the police and fire systems, respectively. These funds were transferred to the State system. Funds remaining in the local systems on June 30, 1992 totaled \$1,767,009. These funds are accounted for in the Police and Fire Pension Fund, a special revenue fund, and are being utilized to partially fund current contributions to the State system. During 2003/2004 \$234,000 of funds were utilized to fund current contributions to the MFPRSI and the balance in the Police and Fire Pension Fund was \$193,368 on June 30, 2004. The city's contribution rate was 20.48% of applicable wages for the year.

Retirement System for Public Employees. All employees of the City of Muscatine are required by State law to be members of either the Iowa Public Employees Retirement System established by Chapter 97B of the State code or the retirement system for police officers and firefighters established by Chapter 411 of the State Code. By special provisions within the retirement programs, certain management personnel have opted to participate in the International City Management Association Retirement Corporation plan in lieu of the State programs.

The Iowa Public Employees Retirement System (IPERS) is administered by the State of Iowa. The system is funded by contributions from employees and employers on an actuarial basis and contributions are sufficient to fully fund benefits being credited. The City's responsibility is limited to payment of the contributions. Contributions are at a rate of 5.75% for the employer and 3.7% for the employee.

The City offers its employees a deferred compensation plan administered by the International City Management Association created in accordance with Internal Revenue Code Section 457. This plan is available to all permanent employees and permits them to defer a portion of their salary until future years. The City Administrator, the Police chief, and the Fire Chief may opt to participate in this program in lieu of participation in the other State retirement programs if they meet criteria established in the State Code. Other City employees may participate in this program in addition to required participation in the Iowa Public Employees Retirement System or the Municipal Fire and Police Retirement System. Their contributions are a direct reduction to base pay. During the fiscal year ended June 30, 2004, 70 employees contributed to the program.

Additional information on the City's pension arrangements and post employment benefits can be found in the notes to the financial statements.

Awards and Acknowledgements

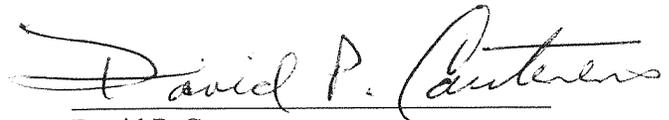
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Muscatine for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2003. This was the 10th consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City has also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for fiscal year 2004/2005. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device. The award for the 2004/2005 budget was the 20th consecutive year that the City of Muscatine has received the GFOA's Award for Distinguished Budget Presentation. The GFOA's Distinguished Budget Presentation Award is good for a period of one year. The City of Muscatine plans to submit its budget document for the 2005/2006 fiscal year to the GFOA to again be considered for this award.

In regard to the preparation of this report and the accounting activity throughout the year in the Department of Finance and Records, I would like to express my appreciation to all members of this department for their assistance and contributions for this endeavor. I would especially like to thank Finance Officer Nancy Lueck, whose hard work and professional financial management standards continue to be principally responsible for the quality of this report. Also appreciated is the continued interest and support by the members of the City Council in planning and conducting the financial operations of the city in a responsible and prudent manner in these times of limited resources and ever-increasing demands. Lastly, I would extend our appreciation to Eide Bailly LLP for their assistance and suggestions in regard to the preparation of the Comprehensive Annual Financial Report.

Respectfully submitted,



David P. Casstevens
Director of Administrative Services

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Muscatine,
Iowa

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

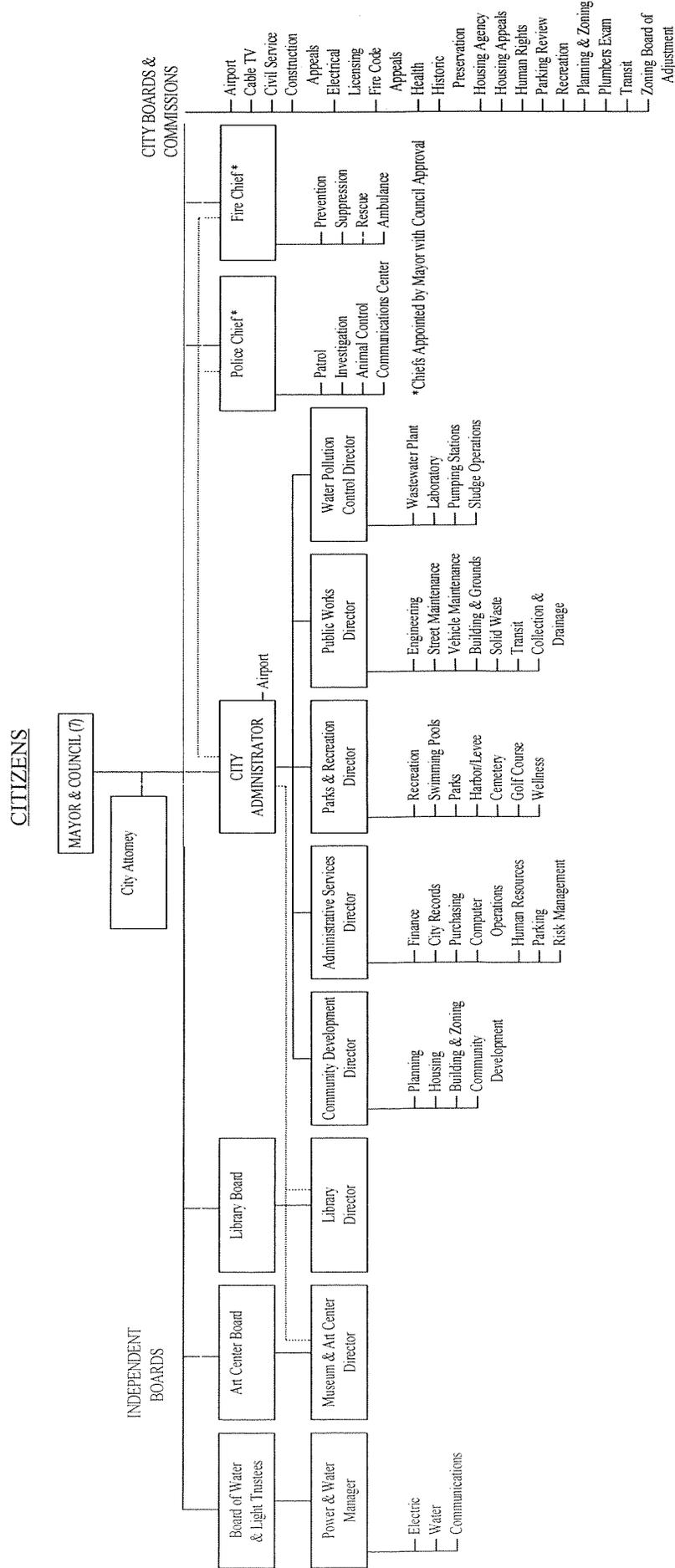


President

Executive Director

CITY OF MUSCATINE, IOWA

ORGANIZATIONAL STRUCTURE



CITY OF MUSCATINE, IOWA

**List of Principal Officials
June 30, 2004**

Richard W. O'Brien, Mayor

CITY COUNCIL

Jerry Lange
At Large

Osama Shihadeh
At Large

Philip Fitzgerald
First Ward

Anne Lesnet
Second Ward

Scott Day
Third Ward

Jerry Root
Fourth Ward

Bill Trent
Fifth Ward

COUNCIL APPOINTED OFFICIALS

City Administrator
Corporation Counsel

A.J. Johnson
Harvey G. Allbee, Jr.

DEPARTMENT DIRECTORS

Art Center Director
Administrative Services Director
Fire Chief
Library Director
Parks & Recreation Director
Police Chief
Public Works Director
Water Pollution Control Director

Barbara Longtin
David P. Casstevens
Steve Dalbey
Peter Press
Larry I. Wolf
Gary Coderoni
Randy E. Hill
Don Freel



Consultants • Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Muscatine, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Muscatine, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Muscatine. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Muscatine Power and Water, a discretely presented component unit, which represent 99% each of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Muscatine Power and Water, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit 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 audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Muscatine, Iowa, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year 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 September 24, 2004, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 and the budgetary comparison information, listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City of Muscatine. The introductory section, combining nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Muscatine. The combining nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Erin Bailey LLP

Dubuque, Iowa
September 24, 2004

Management's Discussion and Analysis

As management of the City of Muscatine, we present this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2004. This narrative is intended to supplement the letter of transmittal and the financial statements and should provide the reader with contextual information that will advance our goal of full disclosure.

Financial Highlights

- The assets of the City of Muscatine exceeded its liabilities at the close of the most recent fiscal year by \$112,887,213 (net assets). Of this amount, \$13,877,240 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$2,727,491 during the year. This increase is primarily due to local option sales taxes collected during the year, which will be used for future year sewer-related capital projects and also receipt of contributions for capital assets including contributions received for the Pearl of the Mississippi Project.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$11,145,725, an increase of \$119,332 in comparison with the prior year. Of the ending balance, approximately 83% (\$9,261,149) was unreserved and is available for spending within the statutory guidelines pertaining to each fund at the City's discretion.
- At the end of the current fiscal year, the City's unreserved fund balance for the general fund was \$1,877,669, or 16.5% of total general fund expenditures.
- The City's total debt decreased by \$220,408 (1.2%) during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include Public Safety, Public Works, Health and Social Service, Culture and Recreation, Community and Economic Development, General Government, and Interest and Fees on long-term debt. The business-type activities of the City include Water Pollution Control, Refuse Collection, Transfer Station, Airport, Parking, Transit, Golf Course, Boat Harbor, Marina, Cable Television, Ambulance, and Public Housing.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also two legally separate entities, Muscatine Power and Water and the Muscatine County Solid Waste Agency for which the City of Muscatine is considered to be financially accountable. Financial information for these two *component units* is reported separately from the financial information presented for the primary government itself. Muscatine Power and Water issues separate financial statements. The Solid Waste Agency does not issue separate financial statements.

The government-wide financial statements can be found on pages 24-25 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. This information is useful in evaluating the City's near-term financing requirements and is typically the basis that is used for developing the next annual budget.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

The City has five major governmental funds: the General Fund, the Employee Benefits Fund, the Local Option Sales Tax Fund, the Debt Service Fund, and the Pearl of the Mississippi Project Fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for these major funds. Data from all other non-major governmental funds are combined into a single aggregated presentation and are referenced under a single column as Other Governmental Funds. Individual fund data for each of the non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 26-28 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. They are the enterprise funds and the internal service funds. While both types of proprietary funds are run in a business-like manner, enterprise funds are included in business-type activities since they serve the entire community, while internal service funds are included in *governmental activities* since they predominantly benefit the City's governmental functions.

Enterprise funds are used to report the functions presented as business-type activities in the government-wide financial statements. The City has twelve (12) enterprise funds. Two of the enterprise funds, the Water Pollution Control Fund and the Transfer Station Fund, are considered major funds and are reported individually throughout the report. The other ten (10) non-major enterprise funds are grouped together for reporting purposes and listed under a single heading, Other Enterprise Funds. Detail information for each of the ten (10) non-major enterprise funds is provided in combining statements elsewhere in this report.

Internal service funds are an accounting tool used to accumulate and allocate costs internally among the City's various functions. The City has four internal service funds: Equipment Services, Central Supplies, Health Insurance, and Dental Insurance. Individual fund data for the Internal Service Funds is provided in the form of combining statements in the latter section of this report.

The basic proprietary fund financial statements can be found on pages 29-31 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City has four fiduciary funds, all of which are maintained as agency funds, with no attempt to create ongoing fund balances.

The basic fiduciary funds financial statement can be found on page 32 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33-59.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Required supplementary information includes budgetary comparison schedules for the general fund and major special revenue funds.

The combining statements referred to earlier in connection with non-major governmental funds, non-major enterprise funds and internal service funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

As stated earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$112,887,213 at the close of the fiscal year ended June 30, 2004.

By far the largest portion of the City's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF MUSCATINE'S NET ASSETS

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 22,444,944	\$ 21,576,438	\$ 7,573,738	\$ 7,230,580	\$ 30,018,682	\$ 28,807,018
Capital assets	58,506,065	55,171,602	55,325,737	56,480,687	113,831,802	111,652,289
Total assets	<u>80,951,009</u>	<u>76,748,040</u>	<u>62,899,475</u>	<u>63,711,267</u>	<u>143,850,484</u>	<u>140,459,307</u>
Long-term liabilities outstanding	9,314,117	8,419,688	7,647,737	8,485,773	16,961,854	16,905,461
Other liabilities	12,308,286	11,881,650	1,693,131	1,512,474	14,001,417	13,394,124
Total liabilities	<u>21,622,403</u>	<u>20,301,338</u>	<u>9,340,868</u>	<u>9,998,247</u>	<u>30,963,271</u>	<u>30,299,585</u>
Net assets:						
Invested in capital assets, net of related debt	48,955,154	46,209,004	47,010,683	47,317,599	95,965,837	93,526,603
Restricted	3,044,136	4,262,984	-	-	3,044,136	4,262,984
Unrestricted	7,329,316	5,974,714	6,547,924	6,395,421	13,877,240	12,370,135
Total net assets	<u>\$ 59,328,606</u>	<u>\$ 56,446,702</u>	<u>\$ 53,558,607</u>	<u>\$ 53,713,020</u>	<u>\$ 112,887,213</u>	<u>\$ 110,159,722</u>

A portion of the City's net assets (2.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$13,877,240) may be used to meet the City's ongoing obligation to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

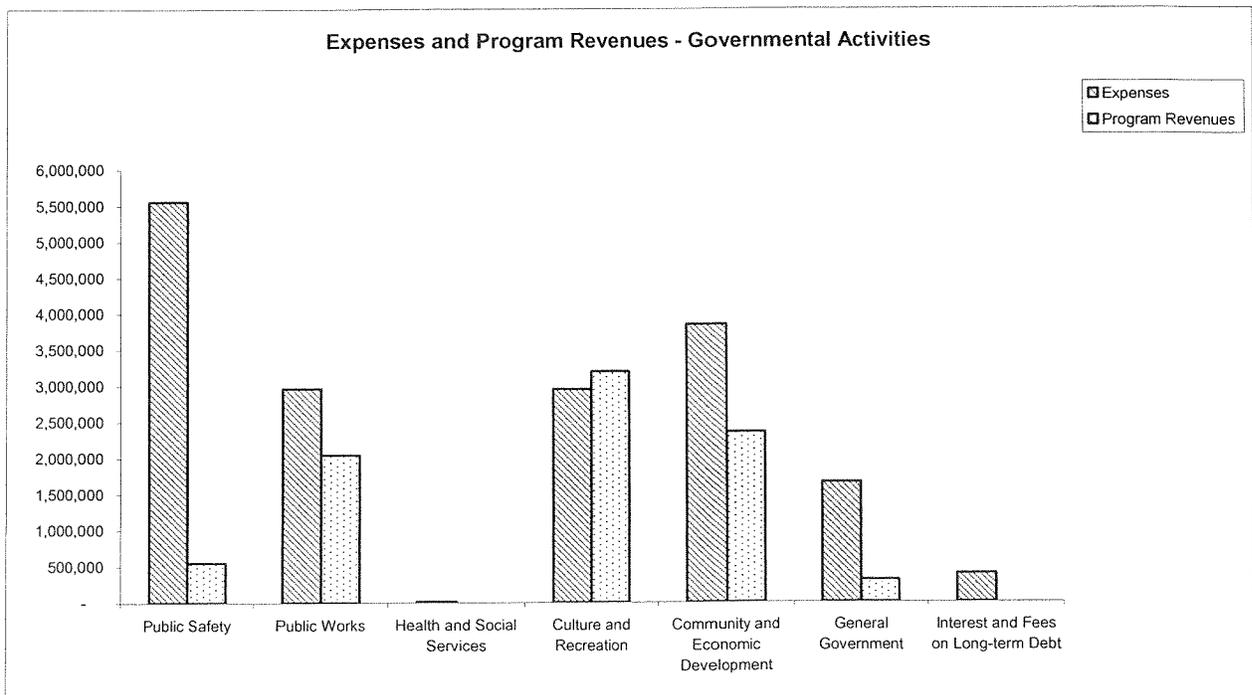
Governmental activities. Governmental activities increased the City's net assets by \$2,881,904. The increase in net assets of governmental activities is primarily due to the increase in fund balance of \$1,770,654 in the Local Option Sales Tax special revenue fund and the increase in capital assets net of related debt. Local option sales tax funds received in the 2003/2004 fiscal year will be used for future year sewer-related capital projects (90%) and the Pearl of the Mississippi Project (10%). Key elements of the increase in the net assets of governmental activities are as follows:

CITY OF MUSCATINE CHANGES IN NET ASSETS

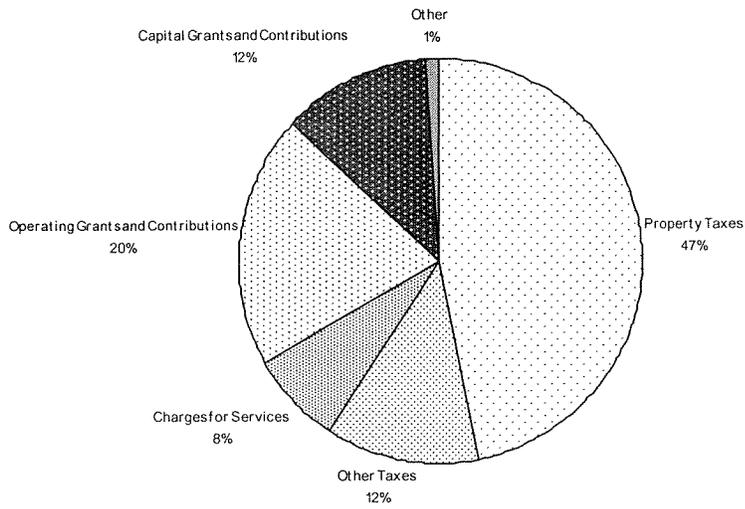
	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$ 1,647,881	\$ 1,440,531	\$ 8,688,464	\$ 8,232,102	\$ 10,336,345	\$ 9,672,633
Operating grants, contributions and restricted interest	4,271,667	3,940,767	594,674	600,280	4,866,341	4,541,047
Capital grants and contributions	2,544,051	644,403	364,601	143,759	2,908,652	788,162
General revenues:						
Property taxes	9,983,521	9,726,834	-	-	9,983,521	9,726,834
Utility taxes	67,339	79,468	-	-	67,339	79,468
Local option sales tax	2,210,111	2,103,843	-	-	2,210,111	2,103,843
Hotel/motel tax	310,798	274,654	-	-	310,798	274,654
Intergovernmental, not restricted to specific programs	101,874	445,079	-	-	101,874	445,079
Unrestricted investment earnings	111,595	113,151	78,901	103,668	190,496	216,819
Other	40,387	56,122	3,108	-	43,495	56,122
Total revenues	21,289,224	18,824,852	9,729,748	9,079,809	31,018,972	27,904,661
Expenses:						
Public safety	5,561,580	5,309,173	-	-	5,561,580	5,309,173
Public works	2,970,927	3,409,044	-	-	2,970,927	3,409,044
Health and social service	16,560	18,400	-	-	16,560	18,400
Culture and recreation	2,957,891	3,146,370	-	-	2,957,891	3,146,370
Community and economic development	3,849,722	2,659,516	-	-	3,849,722	2,659,516
General government	1,659,438	1,639,035	-	-	1,659,438	1,639,035
Interest and fees on long-term debt	397,429	424,222	-	-	397,429	424,222
Water pollution control	-	-	4,094,791	3,900,792	4,094,791	3,900,792
Transfer station	-	-	2,002,761	2,090,482	2,002,761	2,090,482
Refuse collection	-	-	1,221,882	1,177,342	1,221,882	1,177,342
Airport	-	-	621,520	550,558	621,520	550,558
Parking	-	-	204,879	191,746	204,879	191,746
Transit	-	-	618,308	636,108	618,308	636,108
Golf course	-	-	451,551	449,905	451,551	449,905
Boat harbor	-	-	41,486	42,253	41,486	42,253
Marina	-	-	8,430	15,662	8,430	15,662
Cable television	-	-	31,137	37,340	31,137	37,340
Ambulance	-	-	749,644	660,808	749,644	660,808
Public housing	-	-	831,545	792,855	831,545	792,855
Total expenses	17,413,547	16,605,760	10,877,934	10,545,851	28,291,481	27,151,611
Increase (decrease) in net assets before transfers	3,875,677	2,219,092	(1,148,186)	(1,466,042)	2,727,491	753,050
Transfers in (out)	(993,773)	(225,183)	993,773	225,183	-	-
Increase (decrease) in net assets	2,881,904	1,993,909	(154,413)	(1,240,859)	2,727,491	753,050
Net assets, June 30, 2003	56,446,702	54,452,793	53,713,020	54,953,879	110,159,722	109,406,672
Net assets, June 30, 2004	\$ 59,328,606	\$ 56,446,702	\$ 53,558,607	\$ 53,713,020	\$ 112,887,213	\$ 110,159,722

- Revenues for governmental activities increased by \$2,464,372 during the year.
- Charges for services increased by \$207,350. This was due in part to increased parks and recreation revenues of \$80,600 which included revenues from the new aquatic center. Parks and recreation revenues were lower than normal the previous year since the former swimming pool was not opened in 2003. Building and Zoning charges for services also increased by \$72,522 during the year.

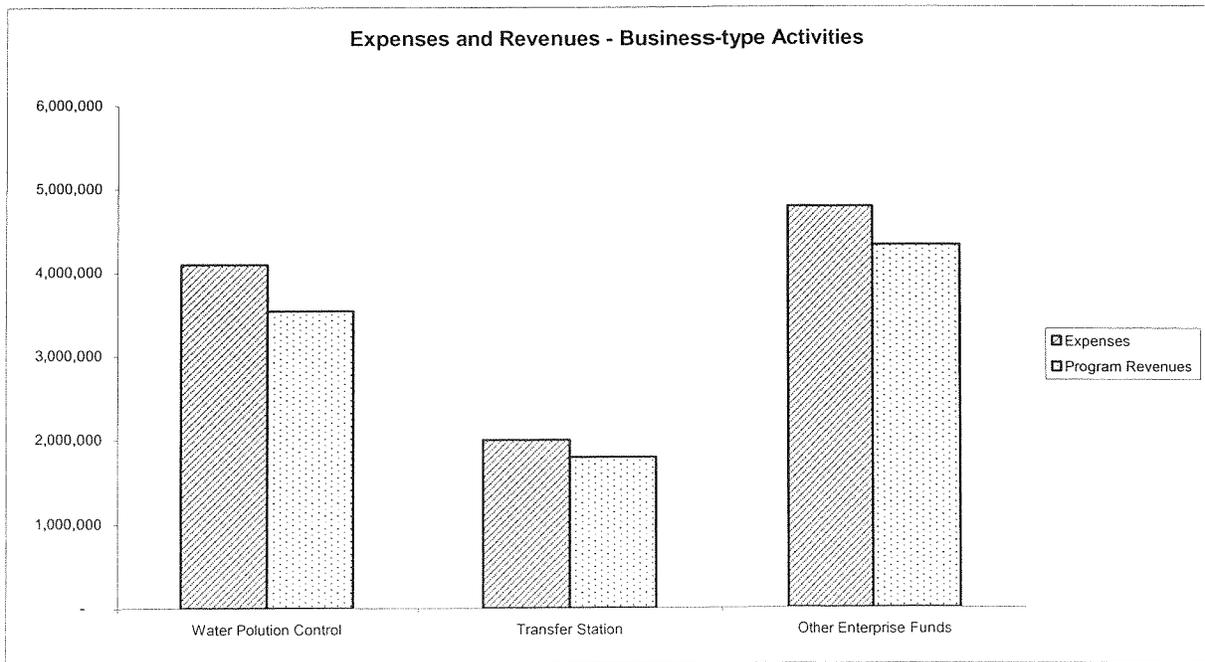
- Operating grants increased by \$330,900 during the year which included an increase of \$283,877 in Section 8 housing funds.
- Capital grants and contributions increased by \$1,899,648 due to contributions received for the Pearl of the Mississippi Project.
- Intergovernmental revenues not restricted to specific programs decreased by \$343,205 during the year due to the elimination of \$360,000 of funding from the State of Iowa.
- Expenses for governmental activities increased by \$807,787 or 4.9% from the previous year.
- The most significant increase in governmental expenses was in the community and economic development function. The increase totaled \$1,190,206 and included a \$262,626 increase in expenses for the Section 8 housing program, a \$125,000 state CEBA grant passed through the City to a local industry and \$533,000 of costs reimbursed to the City's utility to extend water service to the south end of the city.



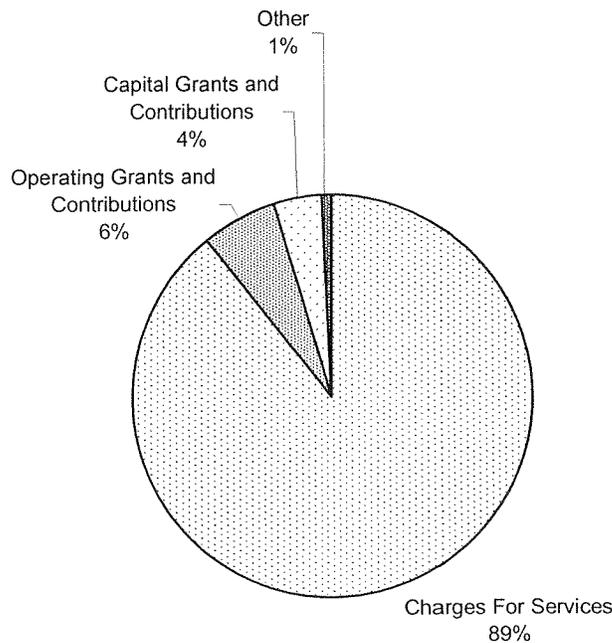
Revenues By Source - Governmental Activities



Business-type activities. As stated earlier, business-type activities decreased the City's total net assets by \$154,413, due to normal depreciation of capital assets. The decreases in net assets were primarily in the Water Pollution Control, Parking, Transit, Golf Course, Cable Television, and Public Housing funds. Net assets increased by \$655,108 in the Airport fund due to capital asset additions including \$578,966 of construction in progress on the new airport terminal building. This project was financed with tax increment revenue bonds which will be repaid from the Southend Tax Increment special revenue fund.



Revenues By Source - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$11,145,725, an increase of \$119,332 in comparison with the prior year. This increase was primarily due to an increase in the Local Option Sales Tax fund balance. Local option sales taxes collected during the fiscal year were accumulated to fund future capital projects.

Approximately 83.1% of the total combined ending fund balances (\$9,261,149) constitutes unreserved fund balance, which is available for spending within statutory guidelines pertaining to each fund at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

The general fund is the chief operating fund of the City of Muscatine. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$1,877,669, while total fund balance was \$1,914,343. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved and reserved general fund balances were virtually the same at the end of the fiscal year and represent about 16.5% of total general fund expenditures.

The City of Muscatine's general fund balance decreased by \$40,576 during the current fiscal year. While the City's budget provided for a larger decrease in fund balance, this decrease was primarily due to the reduction in state funding received during the year.

As stated earlier the Local Option Sales Tax fund balance had a significant increase during the fiscal year (\$1,770,654) and these funds will be used for future capital projects.

The Pearl of the Mississippi capital project fund had expenditures of \$4,555,084 and contributions and interest revenue of \$2,156,306 during the year. The skatepark and aquatic center portions of this project were completed during the year. Other components of the overall estimated \$9.6 million project were under design for construction in the 2004/2005 and 2005/2006 years.

Proprietary funds. The City of Muscatine's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Total net assets for the City's enterprise funds as of June 30, 2004 was \$53,558,607, a decrease of \$154,413 from the previous fiscal year. This is primarily due to depreciation expense that totaled \$2,869,904 for the year. Of the net assets of the enterprise funds, \$47,010,683 is invested in capital assets, net of related debt. Unrestricted net assets totaled \$6,547,924, an increase of \$152,503 compared to the previous year.

The City's internal service funds include Equipment Services, Central Supplies, Health Insurance and Dental Insurance. Net assets for the internal service funds totaled \$833,474 as of June 30, 2004, an increase of \$37,696 from the previous year.

General Fund Budgetary Highlights

Differences between the original General Fund budget and the final amended budget were significant. The amended budget reflects a reduction of \$317,400 in revenue primarily due to a reduction in state funding. Expenditures in the amended budget were reduced by \$131,400 as a result of the revenue reduction. During the year, revenues were 1.3% more than budgeted and expenditures were 2.9% less than budgetary estimates. This resulted in eliminating the need to draw upon the existing general fund balance to the extent that had been anticipated and budgeted. A schedule detailing this activity can be found on page 60 of this report.

Capital Asset and Debt Administration

Capital assets. The City of Muscatine's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounts to \$113,831,802 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, park facilities, streets, and bridges. The City of Muscatine's investment in capital assets for the current fiscal year increased by \$3,334,463 for governmental activities compared to the prior year and decreased by \$1,154,950 for business-type activities.

Major capital asset events during the current fiscal year included the following:

- Additions to capital assets (net of asset retirements) totaled \$6,229,393.
- Major asset additions included \$3,804,667 for a new Aquatic Center and \$218,023 for a skatepark (major components of the Pearl of the Mississippi Project); \$1,043,931 for property acquisitions; \$314,000 for a dredge for the City's riverfront; and \$586,083 for construction in progress on the new airport terminal building.
- Depreciation expense totaled \$5,246,165 for the year with \$2,376,261 in the governmental activities and \$2,869,904 in the business-type activities.

**City of Muscatine Capital Assets
(Net of Depreciation)**

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
Land, art work and construction in progress, not being depreciated	\$ 13,112,393	\$ 12,392,595	\$ 3,310,711	\$ 2,390,911	\$ 16,423,104	\$ 14,783,506
Other capital assets net of accumulated depreciation	45,393,672	42,779,007	52,015,026	54,089,776	97,408,698	96,868,783
Total capital assets	<u>\$ 58,506,065</u>	<u>\$ 55,171,602</u>	<u>\$ 55,325,737</u>	<u>\$ 56,480,687</u>	<u>\$ 113,831,802</u>	<u>\$ 111,652,289</u>

Additional information on the City of Muscatine's capital assets can be found in note 6 on pages 46-49 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$18,555,795. Of this amount, \$15,050,795 comprises debt backed by the full faith and credit of the city. However, 55.2% of this total (\$8,315,054) is debt that serves enterprise funds and is abated by their charges for services. The remainder of the City of Muscatine's debt represents revenue bonds secured solely by specific revenue sources.

**City of Muscatine Outstanding Debt
General Obligation and Revenue Bonds**

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 6,735,741	\$ 8,273,115	\$ 8,315,054	\$ 9,163,088	\$ 15,050,795	\$ 17,436,203
Revenue bonds	3,505,000	1,340,000	-	-	3,505,000	1,340,000
Total	<u>\$ 10,240,741</u>	<u>\$ 9,613,115</u>	<u>\$ 8,315,054</u>	<u>\$ 9,163,088</u>	<u>\$ 18,555,795</u>	<u>\$ 18,776,203</u>

The City's total bonded debt decreased by \$220,408 during the year. The City issued \$2,305,000 of tax increment revenue bonds in 2004 for airport improvements, water service, and property acquisition. A total of \$2,526,437 of debt was retired.

The City maintained its A-1 rating from Moody's for general obligation debt.

Additional information on the City's long-term debt can be found in note 8 on pages 50-54 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Muscatine County was 4.2% for calendar year 2003 compared to 4.1% the previous year. Separate unemployment figures are not maintained for the City of Muscatine.
- The City's taxable value decreased by 1.4% for the 2003/2004 year and decreased by 1.5% for the upcoming 2004/2005 fiscal year. The decrease for 2004/2005 was the result of a 5.7% decrease in residential property values caused by a decrease in the state rollback factor for residential property from 51.3874% to 48.4558%.
- The upcoming budget provided funding for capital improvement projects to continue in 2004/2005. Local option sales tax funds will be used to fund sanitary and storm sewer projects in the City (90%) and also be used for funding for the "Pearl of the Mississippi Project" (10%). The "Pearl of the Mississippi Project" includes a new aquatic center, trail extension, skatepark, community art, marina improvements, boat launch relocation, Riverview Center renovation and the Environmental Learning Center. These projects total \$9.6 million. The aquatic center and skatepark were completed in the fiscal year ended June 30, 2004. The remaining projects are scheduled to be substantially completed in the 2004/2005 fiscal year with the projects completed during 2005/2006. Funding for these projects was secured from grants, private donations, bond proceeds and local option sales tax.
- The 2004/2005 budget provides for increases in sewer fees and golf fees.

Requests for Information

This financial report is designed to provide a general overview of the City of Muscatine's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrative Services Director, 215 Sycamore Street, Muscatine, Iowa, 52761.

City of Muscatine, Iowa

Statement of Net Assets
June 30, 2004

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Muscatine County Solid Waste Agency	Muscatine Power & Water
ASSETS					
Cash and pooled investments	\$ 10,539,746	\$ 5,173,897	\$ 15,713,643	\$ -	\$ 40,248
Investments	1,382,944	579,218	1,962,162	-	3,951,959
Receivables (net of allowance for uncollectibles):					
Interest	43,956	25,226	69,182	1,856	1,034,366
Taxes	9,355,407	-	9,355,407	-	-
Accounts	76,342	1,233,339	1,309,681	-	7,719,567
Special assessments	15,403	-	15,403	-	-
Intergovernmental	879,506	342,330	1,221,836	-	-
Loan receivable from component unit	-	172,680	172,680	-	-
Inventories	101,122	3,470	104,592	-	11,043,681
Prepays	23,570	2,304	25,874	-	796,168
Deferred charges	26,948	36,276	63,224	-	870,245
Restricted assets:					
Temporarily restricted:					
Cash and pooled investments	-	4,998	4,998	593,985	9,632
Investments	-	-	-	-	35,954,197
Capital assets:					
Land, art work and construction in progress, not being depreciated	13,112,393	3,310,711	16,423,104	445,531	4,873,315
Other capital assets net of accumulated depreciation	45,393,672	52,015,026	97,408,698	512,455	-
Utility plant in service	-	-	-	-	188,282,072
Intangible assets (net of accumulated depreciation)	-	-	-	-	7,075,678
Joint venture rights	-	-	-	-	266,092
Total assets	80,951,009	62,899,475	143,850,484	1,553,827	261,917,220
LIABILITIES					
Accounts payable and accruals	1,066,436	538,597	1,605,033	84,377	4,907,855
Retainages payable	100,958	9,965	110,923	-	-
Deposits	-	26,558	26,558	-	1,642,589
Matured bonds and interest payable	419	-	419	-	-
Accrued interest payable	30,867	33,392	64,259	-	874,375
Deferred revenue	9,240,618	37,986	9,278,604	-	8,526,778
Liabilities payable from restricted assets:					
Current installment of long-term debt	-	-	-	-	10,230,000
Accrued interest payable	-	-	-	-	2,472,524
Noncurrent liabilities:					
Due within one year	1,868,988	1,046,633	2,915,621	5,161	30,959
Due in more than one year	9,314,117	7,622,747	16,936,864	9,145	95,747,873
Loan due to primary government	-	-	-	172,680	-
Closure/post-closure obligation	-	24,990	24,990	1,021,043	-
Total liabilities	21,622,403	9,340,868	30,963,271	1,292,406	124,432,953
NET ASSETS					
Invested in capital assets, net of related debt	48,955,154	47,010,683	95,965,837	957,986	81,857,840
Restricted for:					
Debt service	61,560	-	61,560	-	-
Public works	620,588	-	620,588	-	-
Community and economic development	119,261	-	119,261	-	-
Public safety	49,199	-	49,199	-	-
Employee benefits	119,720	-	119,720	-	-
Capital projects	701,869	-	701,869	-	-
Perpetual care, nonexpendable	786,888	-	786,888	-	-
Endowments:					
Nonexpendable	132,000	-	132,000	-	-
Expendable	453,051	-	453,051	-	-
Other purposes	-	-	-	-	23,261,305
Unrestricted	7,329,316	6,547,924	13,877,240	(696,565)	32,365,122
Total net assets	\$ 59,328,606	\$ 53,558,607	\$ 112,887,213	\$ 261,421	\$ 137,484,267

The notes to the financial statements are an integral part of this statement.

City of Muscatine, Iowa
Statement of Activities
For the Year Ended June 30, 2004

Functions:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants and Contributions	Primary Government		Total	Muscatine County Solid Waste Agency	Muscatine Power & Water
					Governmental Activities	Business-Type Activities			
Primary Government:									
Governmental activities:									
Public safety	\$ 5,561,580	\$ 310,762	\$ 243,479	\$ -	\$ (5,007,339)	\$ -	\$ -	\$ -	\$ -
Public works	2,970,927	143,089	1,901,843	-	(925,995)	-	-	-	-
Health and social services	16,560	-	-	-	(16,560)	-	-	-	-
Culture and recreation	2,957,891	537,726	118,048	2,544,051	241,934	-	-	-	-
Community and economic development	3,849,722	349,250	2,008,297	-	(1,492,175)	-	-	-	-
General government	1,659,438	307,054	-	-	(1,352,384)	-	-	-	-
Interest and fees on long-term debt	397,429	-	-	-	(397,429)	-	-	-	-
Total governmental activities	17,413,547	1,647,881	4,271,667	2,544,051	(8,949,948)	-	-	-	-
Business-type activities:									
Water pollution control	4,094,791	3,537,974	-	-	-	(556,817)	-	-	-
Refuse collection	1,221,882	1,257,199	-	-	-	35,317	-	-	-
Transfer station	2,002,761	1,750,444	43,507	-	-	(208,810)	-	-	-
Airport	621,520	43,639	45,658	251,682	-	(280,541)	-	-	-
Parking	204,879	171,614	-	-	-	(33,265)	-	-	-
Transit	618,308	86,731	252,618	-	-	(278,959)	-	-	-
Golf course	451,551	412,069	-	-	-	(39,482)	-	-	-
Boat harbor	41,486	19,552	-	-	-	(21,934)	-	-	-
Manna	8,430	7,129	-	-	-	(1,301)	-	-	-
Cable television	31,137	236,479	-	-	-	205,342	-	-	-
Ambulance	749,644	792,432	-	-	-	42,788	-	-	-
Public housing	831,545	373,202	252,891	112,919	-	(92,533)	-	-	-
Total business-type activities	10,877,934	8,688,464	594,674	364,601	(8,949,948)	(1,230,195)	-	-	-
Total primary government	\$ 28,291,481	\$ 10,336,345	\$ 4,866,341	\$ 2,908,652		(10,180,143)	-	-	-
Component Units:									
Muscatine County Solid Waste Agency	\$ 420,336	\$ 704,385	\$ -	\$ -	-	-	284,049	-	-
Muscatine Power & Water	75,912,139	70,427,244	-	-	-	-	-	(5,484,895)	-
Total component units	\$ 76,332,475	\$ 71,131,629	\$ -	\$ -	-	-	284,049	(5,484,895)	-
General revenues:									
Property taxes			9,983,521						
Utility taxes			67,339						
Local option sales tax			2,210,111						
Hotel/motel taxes			310,798						
Intergovernmental			101,874						
Unrestricted investment income			111,595						
Gain on sale of capital assets			4,187						
Payment in lieu of taxes			28,100						
Contributions to endowments			8,100						
Transfers			(993,773)						
Total general revenues, contributions to endowments and transfers			11,831,852						
Change in net assets			2,881,904						
Net assets, June 30, 2003			56,446,702						
Net assets, June 30, 2004			\$ 59,328,606			\$ 53,558,607	\$ 261,421	\$ 137,484,267	\$ 2,560,403

The notes to the financial statements are an integral part of this statement.

City of Muscatine, Iowa

Balance Sheet
Governmental Funds
June 30, 2004

	General	Employee Benefits	Local Option Sales Tax	Debt Service	Pearl of the Mississippi Project	Other Governmental Funds	Total Governmental Funds
Assets:							
Cash and pooled investments	\$ 1,778,286	\$ 96,582	\$ 4,651,067	\$ 37,171	\$ 395	\$ 3,003,983	\$ 9,567,484
Investments	-	-	-	-	-	1,382,944	1,382,944
Receivables (net of allowance for uncollectibles):							
Interest	4,469	-	15,127	3,213	3,414	14,686	40,909
Taxes	5,410,885	1,970,173	-	1,806,393	-	167,956	9,355,407
Accounts	72,840	-	-	-	-	-	72,840
Special assessments	-	-	-	-	-	15,403	15,403
Intergovernmental	209,826	-	333,243	-	-	336,437	879,506
Advances to other funds	-	-	-	-	-	90,148	90,148
Prepaid insurance	23,570	-	-	-	-	-	23,570
Total assets	7,499,876	2,066,755	4,999,437	1,846,777	3,809	5,011,557	21,428,211
Liabilities and fund balances							
Liabilities:							
Accounts payable and accruals	239,854	-	-	82	105,914	490,108	835,958
Retainages payable	-	-	-	-	100,958	-	100,958
Advances from other funds	-	-	-	-	-	90,148	90,148
Matured general obligation bond interest payable	-	-	-	419	-	-	419
Deferred revenue	5,345,679	1,947,035	-	1,784,716	-	177,573	9,255,003
Total liabilities	5,585,533	1,947,035	-	1,785,217	206,872	757,829	10,282,486
Fund balances:							
Reserved for:							
Encumbrances	36,674	-	-	-	-	-	36,674
Advances to other funds	-	-	-	-	-	90,148	90,148
Perpetual care	-	-	-	-	-	782,545	782,545
Endowments	-	-	-	-	-	222,743	222,743
Debt service	-	-	-	61,560	-	-	61,560
Capital projects	-	-	-	-	-	690,906	690,906
Unreserved, reported in:							
General fund	1,877,669	-	-	-	-	-	1,877,669
Special revenue funds	-	119,720	4,999,437	-	(203,063)	1,956,405	6,872,499
Capital projects funds	-	-	-	-	-	510,981	510,981
Total fund balances	1,914,343	119,720	4,999,437	61,560	(203,063)	4,253,728	11,145,725
Total liabilities and fund balances	\$ 7,499,876	\$ 2,066,755	\$ 4,999,437	\$ 1,846,777	\$ 3,809	\$ 5,011,557	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	58,494,424
Unamortized balance of deferred charge for bond issuance costs not reported in the funds	26,948
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	14,385
Internal service funds are used by management to charge the costs of equipment services, central supplies and health insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	833,474
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bonds payable	(10,240,741)
Capital lease payable	(12,039)
Accrued interest payable	(30,867)
Compensated absences	(902,703)
Net assets of governmental activities	\$ 59,328,606

The notes to the financial statements are an integral part of this statement.

City of Muscatine, Iowa

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

For the Year Ended June 30, 2004

	General	Employee Benefits	Local Option Sales Tax	Debt Service	Pearl of the Mississippi Project	Other Governmental Funds	Total Governmental Funds
Revenues:							
Taxes:							
Property	\$ 5,355,406	\$ 1,868,118	\$ -	\$ 1,805,073	\$ -	\$ 954,924	\$ 9,983,521
Utility	39,503	13,793	-	12,818	-	1,225	67,339
Hotel/motel	310,798	-	-	-	-	-	310,798
Local option sales	-	-	2,210,111	-	-	-	2,210,111
Licenses and permits	312,573	-	-	-	-	-	312,573
Fines and forfeitures	143,730	-	-	-	-	-	143,730
Intergovernmental	380,538	-	-	34,551	-	3,976,210	4,391,299
Charges for services	390,484	-	-	-	-	-	390,484
Use of money and property	136,797	-	46,418	8,277	18,526	60,204	270,222
Special assessments	-	-	-	-	-	8,751	8,751
Other	572,611	-	-	-	2,137,780	180,078	2,890,469
Total revenues	7,642,440	1,881,911	2,256,529	1,860,719	2,156,306	5,181,392	20,979,297
Expenditures:							
Current:							
Public safety	5,227,516	-	-	-	-	10,331	5,237,847
Public works	1,399,487	-	-	-	-	-	1,399,487
Health and social services	16,560	-	-	-	-	-	16,560
Culture and recreation	2,144,249	-	-	-	-	89,537	2,233,786
Community and economic development	708,418	-	-	-	-	2,092,581	2,800,999
General government	1,564,697	-	-	-	-	-	1,564,697
Debt service:							
Principal	2,614	-	-	1,538,404	-	140,000	1,681,018
Interest	876	-	-	321,561	-	73,430	395,867
Paying agent	-	-	-	2,582	-	-	2,582
Capital outlay:							
Public safety	41,657	-	-	-	-	78,963	120,620
Public works	116,548	-	-	-	-	574,323	690,871
Culture and recreation	158,129	-	-	-	4,555,084	207,834	4,921,047
Community and economic development	-	-	-	-	-	1,060,250	1,060,250
General government	24,664	-	-	-	-	63,733	88,397
Total expenditures	11,405,415	-	-	1,862,547	4,555,084	4,390,982	22,214,028
Revenues over (under) expenditures	(3,762,975)	1,881,911	2,256,529	(1,828)	(2,398,778)	790,410	(1,234,731)
Other financing sources (uses):							
Tax increment revenue bonds issued	-	-	-	-	-	2,305,000	2,305,000
Transfers in	4,071,880	234,000	-	-	221,011	757,224	5,284,115
Transfers out	(349,481)	(2,001,034)	(485,875)	-	-	(3,398,662)	(6,235,052)
Total other financing sources (uses)	3,722,399	(1,767,034)	(485,875)	-	221,011	(336,438)	1,354,063
Net change in fund balances	(40,576)	114,877	1,770,654	(1,828)	(2,177,767)	453,972	119,332
Fund balances, June 30, 2003	1,954,919	4,843	3,228,783	63,388	1,974,704	3,799,756	11,026,393
Fund balances, June 30, 2004	\$ 1,914,343	\$ 119,720	\$ 4,999,437	\$ 61,560	\$ (203,063)	\$ 4,253,728	\$ 11,145,725

The notes to the financial statements are an integral part of this statement.

City of Muscatine, Iowa

**Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities**

Year Ended June 30, 2004

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 119,332
<p>Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets:</p>	
Capital asset purchases capitalized	5,408,728
Depreciation expense	(2,372,494)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to increase net assets.</p>	
	301,996
<p>Revenues in the governmental funds not reflected as revenue in the statement of activities since recognized in prior years</p>	
Collection of prior year special assessments	(7,536)
<p>The issuance of long-term debt (i.e. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>	
Tax increment bond proceeds	(2,305,000)
General obligation bond principal payments	1,538,404
Tax increment bond principal payments	140,000
Capital lease principal payments	2,614
Net effects of bond issuance costs, premiums and discounts	5,818
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:</p>	
Change in compensated absences	10,297
Change in accrued interest payable	2,049
<p>Internal service funds are used by management to charge the costs of equipment services, central office supplies, health and dental insurance to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities.</p>	
	37,696
Change in net assets of governmental activities	\$ 2,881,904

The notes to the financial statements are an integral part of this statement.

City of Muscatine, Iowa

Statement of Net Assets
Proprietary Funds
June 30, 2004

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water Pollution Control	Transfer Station	Other Enterprise Funds	Total	
Assets:					
Current assets:					
Cash and pooled investments	\$ 4,323,563	\$ -	\$ 850,334	\$ 5,173,897	\$ 972,262
Investments	-	-	579,218	579,218	-
Receivables (net of allowance for uncollectibles):					
Interest	17,698	-	7,528	25,226	3,047
Accounts	412,034	441,959	379,346	1,233,339	3,502
Intergovernmental:					
Federal	-	-	330,816	330,816	-
State	-	-	11,514	11,514	-
Advances to other funds	839,981	-	74,934	914,915	941
Advances to component unit	172,680	-	-	172,680	-
Inventories	-	-	3,470	3,470	101,122
Prepaid insurance	-	-	2,304	2,304	-
Total current assets	5,765,956	441,959	2,239,464	8,447,379	1,080,874
Noncurrent assets:					
Restricted cash and pooled investments	-	4,998	-	4,998	-
Deferred charges	6,509	27,136	2,631	36,276	-
Capital assets:					
Land	474,486	175,000	1,887,115	2,536,601	-
Land improvements	52,600	1,019,897	9,359,595	10,432,092	-
Buildings and building improvements	31,384,517	7,428,336	9,880,357	48,693,210	-
Equipment	1,303,155	253,603	534,571	2,091,329	116,928
Vehicles	637,901	371,376	1,327,866	2,337,143	17,980
Infrastructure	25,380,327	-	-	25,380,327	-
Construction in progress	188,027	-	586,083	774,110	-
Less accumulated depreciation	(23,244,774)	(2,536,883)	(11,137,418)	(36,919,075)	(123,267)
Total capital assets net of accumulated depreciation	36,176,239	6,711,329	12,438,169	55,325,737	11,641
Total noncurrent assets	36,182,748	6,743,463	12,440,800	55,367,011	11,641
Total assets	41,948,704	7,185,422	14,680,264	63,814,390	1,092,515
Liabilities:					
Current liabilities:					
Accounts payable and accruals	146,631	55,379	336,587	538,597	230,478
Retainages payable	-	-	9,965	9,965	-
Compensated absences payable	79,096	18,716	77,383	175,195	13,692
Advances from other funds	-	839,981	74,934	914,915	941
Deposits	-	-	26,558	26,558	-
Accrued interest payable	7,153	23,064	3,175	33,392	-
Deferred revenue	-	-	37,986	37,986	-
General obligation bonds	371,866	438,321	61,251	871,438	-
Total current liabilities	604,746	1,375,461	627,839	2,608,046	245,111
Noncurrent liabilities:					
General obligation bonds	1,597,465	5,131,627	714,524	7,443,616	-
Compensated absences	102,053	18,588	58,490	179,131	13,930
Transfer station closure obligation	-	24,990	-	24,990	-
Total noncurrent liabilities	1,699,518	5,175,205	773,014	7,647,737	13,930
Total liabilities	2,304,264	6,550,666	1,400,853	10,255,783	259,041
Net assets:					
Invested in capital assets, net of related debt	34,206,908	1,141,381	11,662,394	47,010,683	11,641
Unrestricted	5,437,532	(506,625)	1,617,017	6,547,924	821,833
Total net assets	\$ 39,644,440	\$ 634,756	\$ 13,279,411	\$ 53,558,607	\$ 833,474

The notes to the financial statements are an integral part of this statement.

City of Muscatine, Iowa

Statement of Revenues, Expenses and Changes in Net Assets
 Proprietary Funds
 For the Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water Pollution Control	Transfer Station	Other Enterprise Funds	Total	
Operating revenues:					
Charges for sales and services	\$ 3,472,511	\$ 1,705,919	\$ 3,253,434	\$ 8,431,864	\$ 605,244
Employer contributions	-	-	-	-	1,409,290
Employee contributions	-	-	-	-	74,801
Other contributions	-	-	-	-	51,013
Other	65,463	44,525	146,612	256,600	-
Total operating revenues	3,537,974	1,750,444	3,400,046	8,688,464	2,140,348
Operating expenses:					
Cost of sales and services:					
Personal services	1,504,130	183,267	1,946,749	3,634,146	180,239
Commodities	161,319	24,510	278,526	464,355	300,430
Contractual services	661,895	1,152,312	1,241,780	3,055,987	1,574,343
Administration	110,000	-	249,800	359,800	11,600
Depreciation	1,552,923	309,149	1,007,832	2,869,904	3,767
Total operating expenses	3,990,267	1,669,238	4,724,687	10,384,192	2,070,379
Operating income (loss)	(452,293)	81,206	(1,324,641)	(1,695,728)	69,969
Non-operating revenues (expenses):					
Intergovernmental	-	43,507	551,167	594,674	-
Interest revenue	59,094	-	19,807	78,901	10,563
Interest expense	(103,223)	(330,809)	(44,669)	(478,701)	-
Bond issuance costs	(1,301)	(2,714)	(263)	(4,278)	-
Gain (loss) on sale of fixed assets	-	-	(7,655)	(7,655)	-
Non-operating revenues (expenses), net	(45,430)	(290,016)	518,387	182,941	10,563
Income (loss) before capital contributions and operating transfers	(497,723)	(208,810)	(806,254)	(1,512,787)	80,532
Capital contributions - grants	-	-	364,601	364,601	-
Transfers in	264,864	-	1,085,551	1,350,415	-
Transfers out	-	-	(356,642)	(356,642)	(42,836)
Change in net assets	(232,859)	(208,810)	287,256	(154,413)	37,696
Net assets, June 30, 2003	39,877,299	843,566	12,992,155	53,713,020	795,778
Net assets, June 30, 2004	\$ 39,644,440	\$ 634,756	\$ 13,279,411	\$ 53,558,607	\$ 833,474

The notes to the financial statements are an integral part of this statement.

City of Muscatine, Iowa
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water Pollution Control	Transfer Station	Other Enterprise Funds	Total	
Cash flows from operating activities					
Receipts from customers and users	\$ 3,460,500	\$ 1,636,340	\$ 3,383,249	\$ 8,480,089	\$ -
Receipts from interfund services provided	-	-	-	-	2,138,240
Payments to suppliers	(830,827)	(1,067,969)	(1,351,982)	(3,250,778)	(1,841,974)
Payments to employees	(1,116,441)	(139,644)	(1,511,998)	(2,768,083)	(128,553)
Payments for employee benefits	(381,074)	(40,335)	(421,422)	(842,831)	(46,885)
Payments for interfund services used	(144,027)	(55,310)	(488,164)	(687,501)	(11,600)
Net cash provided (used) by operating activities	<u>988,131</u>	<u>333,082</u>	<u>(390,317)</u>	<u>930,896</u>	<u>109,228</u>
Cash flows from noncapital financing activities					
Transfers to other funds	-	-	(356,642)	(356,642)	(42,836)
Transfers from other funds	264,864	-	1,085,551	1,350,415	-
Advances from other funds	-	377,180	62,735	439,915	-
Advances to other funds	(305,685)	-	(74,934)	(380,619)	-
Advance to solid waste component unit	(172,680)	-	-	(172,680)	-
Repayment of advances from other funds	-	-	(44,001)	(44,001)	(348)
Repayment of advances to other funds	-	-	(15,295)	(15,295)	348
Subsidies from federal, state and local grants	-	43,507	502,017	545,524	-
Net cash provided (used) by noncapital financing activities	<u>(213,501)</u>	<u>420,687</u>	<u>1,159,431</u>	<u>1,366,617</u>	<u>(42,836)</u>
Cash flows from capital and related financing activities					
Capital contributions	-	-	182,560	182,560	-
Purchase of capital assets	(422,435)	-	(1,080,319)	(1,502,754)	-
Principal paid on capital debt	(376,596)	(452,656)	(62,344)	(891,596)	-
Interest paid on capital debt	(101,385)	(296,115)	(40,769)	(438,269)	-
Proceeds from sales of capital assets	-	-	3,108	3,108	-
Net cash provided (used) by capital and related financing activities	<u>(900,416)</u>	<u>(748,771)</u>	<u>(997,764)</u>	<u>(2,646,951)</u>	<u>-</u>
Cash flows from investing activities					
Proceeds from sales and maturities of investments	-	-	1,246,430	1,246,430	-
Purchase of investments	-	-	(1,041,347)	(1,041,347)	-
Interest received	51,685	-	19,115	70,800	9,201
Net cash provided (used) by investing activities	<u>51,685</u>	<u>-</u>	<u>224,198</u>	<u>275,883</u>	<u>9,201</u>
Net increase (decrease) in cash and pooled investments	(74,101)	4,998	(4,452)	(73,555)	75,593
Cash and pooled investments, June 30, 2003	<u>4,397,664</u>	<u>-</u>	<u>854,786</u>	<u>5,252,450</u>	<u>896,669</u>
Cash and pooled investments, June 30, 2004	<u>\$ 4,323,563</u>	<u>\$ 4,998</u>	<u>\$ 850,334</u>	<u>\$ 5,178,895</u>	<u>\$ 972,262</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Cash flows from operating activities:					
Operating income (loss)	\$ (452,293)	\$ 81,206	\$ (1,324,641)	\$ (1,695,728)	\$ 69,969
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	1,552,923	309,149	1,007,832	2,869,904	3,767
Changes in assets and liabilities:					
(Increase) decrease in:					
Accounts receivable	(77,474)	(114,104)	(19,369)	(210,947)	1,576
Inventories	-	-	(853)	(853)	5,278
Prepaid insurance	-	-	(2,304)	(2,304)	-
Increase (decrease) in:					
Accounts payable and accruals	(41,640)	28,553	(66,878)	(79,965)	27,520
Compensated absences payable	6,615	3,288	13,324	23,227	4,801
Deferred revenue	-	-	3,071	3,071	(3,683)
Deposits	-	-	(499)	(499)	-
Transfer station closure obligation	-	24,990	-	24,990	-
Total adjustments	<u>1,440,424</u>	<u>251,876</u>	<u>934,324</u>	<u>2,626,624</u>	<u>39,259</u>
Net cash provided (used) by operating activities	<u>\$ 988,131</u>	<u>\$ 333,082</u>	<u>\$ (390,317)</u>	<u>\$ 930,896</u>	<u>\$ 109,228</u>

The notes to the financial statements are an integral part of this statement.

City of Muscatine, Iowa

Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2004

	<u>Agency Funds</u>
Assets:	
Cash and pooled investments	\$ 600,730
Accounts receivable	50,115
Advances to other funds	<u>44,083</u>
Total assets	<u><u>694,928</u></u>
Liabilities:	
Accounts payable and accruals	650,845
Advances from other funds	<u>44,083</u>
Total liabilities	<u><u>\$ 694,928</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF MUSCATINE, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

The notes to the financial statements contain a summary of significant accounting policies and other information considered necessary for an understanding of the financial statements of the City and are an integral part of this report. The index to the notes is as follows:

1. Summary of Significant Accounting Policies
2. Budgets
3. Deposits and Investments
4. Interfund Receivables and Payables
5. Restricted Assets
6. Capital Assets
7. Capital Lease
8. Long-Term Debt
9. Landfill Closure and Postclosure Care Cost
10. Retirement Systems
11. Deficit Fund Equity
12. Post Employment Health and Dental Care Benefits
13. Industrial Revenue Bonds
14. Risk Management
15. Commitments and Contingencies
16. New Governmental Accounting Standards Board (GASB) Standards

CITY OF MUSCATINE, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Muscatine, Iowa, was chartered in 1851 under the laws of the state of Iowa, later amended in July 1975 under the Home Rule City Act. The City operates under a Mayor/Council/City Administrator form of government and provides a broad range of services to its citizens, including general government, public safety, public works, community development, cultural and park facilities. The City also operates an airport, parking facilities, public housing facilities, transit system, sewer and sanitation utilities, a municipal golf course, public library and a municipal museum and art center.

As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Muscatine and its component units, entities for which the City is considered to be financially accountable. The City has no blended component units. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the City.

Discretely Presented Component Units

Muscatine County Solid Waste Agency (Agency). The Agency has been organized as a joint venture under Chapter 28E of the Code of Iowa between the City of Muscatine; Muscatine County; and the municipalities of Fruitland, Stockton, West Liberty, and Wilton, Iowa. The Agency is responsible for the disposal of all solid waste for member municipalities and unincorporated portions of Muscatine County.

The City of Muscatine appoints a representative to the Agency's governing board whose vote (based on the City's population) accounts for 56% of the board's voting authority. A two-thirds vote is required for board action; therefore, the City does not appoint a voting majority of the Agency's governing board. Nonetheless, the Agency is considered a component unit of the City because of its fiscal dependence on the City. The City Council approves the Agency's budget, sets its rates, and approves any debt issuances.

The Agency has a June 30 year-end. Separate financial statements are not issued for the Agency, and the Agency accounts for all of its financial transactions in a single fund.

Muscatine Power & Water (MP&W). MP&W is a municipal utility which provides water, electric and communication service to users within the City of Muscatine and in other urban and rural areas within Muscatine County. MP&W's governing board is appointed by the Mayor and approved by the City Council. MP&W provides a financial benefit to the City by providing electricity for City buildings and all street and traffic lighting free of charge to the City.

MP&W has a December 31 year-end. Complete financial statements for MP&W may be obtained at its administrative offices at Muscatine Power & Water, 3205 Cedar Street, Muscatine, Iowa 52761.

Joint Venture

The City is a member organization along with Muscatine County and Muscatine Power and Water in a joint venture organized under Chapter 28E of the Iowa Code to develop and 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. A six-member board composed of two appointees from each member organization governs MAGIC. Each member organization has one vote on all matters. Each member organization is responsible for one-third of the operating expenses incurred by MAGIC. In the event MAGIC is terminated, the material benefits realized from the liquidation of any and all of its assets shall be divided among the participating organizations on a pro rata basis after any and all claims against MAGIC have been satisfied. In accordance with the Governmental Accounting Standards Board's *Codification*, a claim to assets upon the joint venture's dissolution is not considered to be an equity interest. Therefore no investment in the joint venture is reported on the face of the financial statements of the City. There are no separately issued financial statements for this joint venture.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Muscatine County/Municipal Disaster Services (Civil Defense) Board; Muscatine Community Nursing Services Board; Crossroads Workshop Board; Muscatine Island Flood Control Commission; Muscatine County Assessor's Conference Board; and Muscatine County Drug Task Force.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The Statement of Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year-end. Sales taxes are considered measurable and available at the time the underlying transaction occurs provided they are collected within 60 days after year-end. Income and other taxes are considered measurable and available when they have been collected by the state or other levying authority. Special assessments receivable are recognized at the time of their levy. The related revenue is recognized at the time the assessment is due or collected. Licenses and permits, fines and forfeitures and miscellaneous revenue are recognized as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recognized as earned.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *employee benefits fund* accounts for property taxes levied for police and fire retirement contributions, FICA and IPERS, and other employee benefits, as provided in Section 384.6 of the Code of Iowa.

The *local option sales tax fund* accounts for revenue from the 1% local option tax approved by the voters of the City and designated for storm and sanitary sewer improvements. Effective May 1, 2003, voters approved using up to 10% of future local option tax for the Pearl of the Mississippi Project.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Pearl of the Mississippi project fund* accounts for all resources used in the acquisition and construction of capital facilities related to the Pearl of the Mississippi project.

The government reports the following major proprietary funds:

The *water pollution control fund* accounts for the operation of a municipally owned sewer treatment plant which provides services to the City. All activities necessary for such services are provided for in this fund as well as plant and various sewer system improvement projects.

The *transfer station fund* accounts for the operation of the refuse transfer station and recycling center.

Additionally, the government reports the following fund types:

Internal service funds account for equipment services, central supply distribution and employee health and dental benefits provided to other departments of the government on a cost reimbursement basis.

Fiduciary fund types are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. Following is the City's fiduciary fund type:

Agency funds function primarily as a clearing mechanism for cash resources which are collected by a governmental unit, held as such for a brief period and then disbursed to the authorized recipient.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's sewer and transfer station functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the government's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statute authorizes the City, the Agency, and MP&W to invest public funds in obligations of the United States government and its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City is authorized by the City Council to invest in obligations of the United States government and its agencies and instrumentalities; in certificates of deposit or other evidences of deposit at federally insured depository institutions; and investments in joint investment trusts authorized by resolution of the City Council.

Investments of the City, the Agency, and Muscatine Power & Water are stated at fair value with the exception of the investment in the Iowa Public Agency Investment Trust which is stated at amortized cost.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds" to indicate the non-current nature of the interfund loans. All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

The County Treasurer bills and collects taxes for the City. Taxes for the year ended June 30, 2004, were certified with the County during the preceding fiscal year and were due in two equal installments by September 30, 2003 and March 31, 2004. Any County collections on the 2003-2004 tax levy remitted to the City within sixty days subsequent to June 30, 2004, are recorded as property tax revenues in the governmental fund statements. Taxes not collected and remitted to the City within sixty days subsequent to June 30, 2004, are delinquent and have been recorded as receivables and deferred revenue in the governmental fund statements. By statute, the city is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax askings and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied in both the governmental fund statements and the government-wide statements.

3. Inventories

Inventories of proprietary funds are recorded as expenditures when consumed rather than when purchased. The City's inventories are valued at cost using the first-in/first-out (FIFO) method. MP&W's inventories are valued at their weighted average cost.

4. Restricted Assets

Restricted assets of the Transfer Station fund represents amounts set aside under law to provide for Transfer Station closure costs.

Restricted assets of the Muscatine County Solid Waste agency represent amounts set aside under law to provide for the cost of future landfill closure and post-closure costs.

Restricted assets of Muscatine Power & Water represent amounts set aside under the terms of the bond regulations relating to the utility's revenue bonds.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	12-20
Buildings	40
Equipment	4-20
Vehicles	8-10
Sewer system	50
Infrastructure	40-75

MP&W's utility plant is stated at original cost, which includes the cost of contracted services, material, labor, overhead and an allowance for borrowed funds used during construction. Contributions in aid of construction are offset against the cost of the utility plant.

6. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation pay is payable to employees upon retirement or termination. Sick pay is payable upon retirement, in which event employees are paid for 40% of all eligible hours. Beginning July 1, 2000, retirement sick pay for non-union employees is paid to a post-employment health plan to be used for health care cost of the retirees. Beginning July 1, 2001, retirement sick pay for Fire bargaining unit and Blue/White Collar bargaining unit employees is also paid to the post employment health plan. A liability for those amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Reservations of retained earnings are limited to outside third-party restrictions.

NOTE 2. BUDGETS

The City prepares and adopted an annual budget on a function basis for the City as a whole, rather than at the fund level, as prescribed by Iowa statutes. The State of Iowa requires the annual budgets for the year beginning July 1 be certified to the County Auditor no later than March 15 preceding the beginning of the fiscal year. Preliminary budget review of all operating department requests is conducted by the City Administrator. The budget proposal as presented to the City Council by the City Administrator is a complete financial plan for the upcoming fiscal year. The proposal is submitted on or before the first Monday of February. The City Council holds various budget meetings with the City Administrator, Administrative Services Director, department heads, and boards and commissions, as well as holding a public hearing prior to adopting the budget. The Council adopts the budget by resolution and certifies it to the County Auditor by the 15th of March preceding the beginning of the fiscal year. This budget becomes the appropriation for the operations of the City.

After the initial annual budget is adopted, it may be amended for specified purposes. Budget amendments must be prepared and adopted in the same manner as the original budget. Management is not authorized to amend the budget or to make budgetary transfers between functions without the approval of the City Council. For the year ended June 30, 2004, the budget was amended twice to increase expenditures \$40,660 primarily for public improvements.

The City Council also approves a five-year capital improvement program. This capital improvement program is reviewed and revised annually by the City Council; a public hearing also is held in regard to proposed capital improvements for the City.

Annual budgets are adopted for all funds, with the exception of certain internal service and permanent funds, on a basis consistent with accounting principles generally accepted in the United States of America, except that encumbrances are also recognized as a valid and proper charge against the budget appropriations in the year in which the commitment was issued. These budgets are presented in a function format. The budget must include the amount to be raised by property taxation, income from sources other than property taxation, and expenditures for each function – Public Safety, Public Works, Health and Social Services, Culture and Recreation, Community and Economic Development, General Government, Debt Service, Capital Projects, business-type activities and non-program. The legal level of control (the level on which expenditures may not legally exceed appropriations) is the function level.

Revenue is credited to the individual fund types while expenditures/expenses are classified according to function areas within the specific funds for budgetary control purposes. Encumbrances and expenditures/expenses are compared to budget appropriations according to the ten general function designations.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances include purchase orders, contracts, and other commitments for the expenditures of resources, which reserve a portion of the appropriation. For financial reporting purposes, encumbrances outstanding at year-end are recognized and reflected as a reserved portion of the fund balance. Actual expenditures are recognized only when the goods or services are actually received.

For budgetary purposes, encumbrances are recognized as a valid and proper charge against the budget appropriations in the year in which the commitment was issued. Encumbrances do not lapse at year-end and provide authorization for expenditure the following year. Unencumbered appropriations lapse at year-end.

All general obligation bond payments, including those which for financial reporting purposes are accounted for through the enterprise funds, are budgeted through the debt service fund.

A reconciliation of the general, special revenue, debt service, capital projects, and permanent fund expenditures and fund balances, as presented in accordance with accounting principles generally accepted in the United States of America (GAAP) to the amounts presented on the budgetary basis is as follows:

Governmental Fund Types:

	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Permanent Funds
GAAP basis expenditures	\$ 11,405,415	\$ 2,605,792	\$ 1,862,547	\$ 6,322,513	\$ 17,761
Current year encumbrances	36,674	-	-	-	-
Prior year encumbrances, actual	(27,428)	-	-	-	-
Enterprise fund:					
General obligation bond principal	-	-	891,596	-	-
General obligation bond interest	-	-	438,269	-	-
Budgetary basis - expenditures and encumbrances	<u>\$ 11,414,661</u>	<u>\$ 2,605,792</u>	<u>\$ 3,192,412</u>	<u>\$ 6,322,513</u>	<u>\$ 17,761</u>
GAAP basis fund balances	\$ 1,914,343	\$ 7,161,367	\$ 61,560	\$ 998,824	\$ 1,009,631
Encumbrances	(36,674)	-	-	-	-
Budgetary basis fund balance	<u>\$ 1,877,669</u>	<u>\$ 7,161,367</u>	<u>\$ 61,560</u>	<u>\$ 998,824</u>	<u>\$ 1,009,631</u>

A comparison of actual expenditures/expenses with the certified budget amounts is as follows:

Fund	Public Safety	Public Works	Health and Social Service	Culture and Recreation	Community and Economic Development
General	\$ 5,272,279	\$ 1,511,141	\$ 16,560	\$ 2,291,025	\$ 708,418
Special revenue	89,294	-	-	153,442	2,092,581
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	-
Permanent	-	-	-	17,761	-
Enterprise	-	-	-	-	-
Internal service	-	-	-	-	-
Total	<u>\$ 5,361,573</u>	<u>\$ 1,511,141</u>	<u>\$ 16,560</u>	<u>\$ 2,462,228</u>	<u>\$ 2,800,999</u>
Certified budget amounts	<u>\$ 5,469,843</u>	<u>\$ 1,625,600</u>	<u>\$ 16,600</u>	<u>\$ 2,502,783</u>	<u>\$ 2,773,356</u>

	General Government	Debt Service	Capital Projects	Business- Type	Totals
General	\$ 1,611,748	\$ 3,490	\$ -	\$ -	\$ 11,414,661
Special revenue	57,045	213,430	-	-	2,605,792
Debt service	-	3,192,412	-	-	3,192,412
Capital projects	-	-	6,322,513	-	6,322,513
Permanent	-	-	-	-	17,761
Enterprise	-	-	-	10,089,454	10,089,454
Internal service	-	-	-	1,467,156	1,467,156
Total	<u>\$ 1,668,793</u>	<u>\$ 3,409,332</u>	<u>\$ 6,322,513</u>	<u>\$ 11,556,610</u>	<u>\$ 35,109,749</u>
Certified budget amounts	<u>\$ 1,728,669</u>	<u>\$ 3,406,261</u>	<u>\$ 7,707,700</u>	<u>\$ 12,620,540</u>	<u>\$ 37,851,352</u>

Actual expenditures exceeded the budget amounts in the community and economic development and debt service functions. Community and economic development expenditures exceeded the budgeted amount by \$27,643 due to the receipt of a \$125,000 State Community Economic Betterment Account (CEBA) grant late in the fiscal year. These funds were passed through the City to a local industry. Debt service expenditures exceeded the budget by \$3,071. This was due to lease-purchase payments of \$3,490 for Finance department equipment which were budgeted in the general government function rather than the debt service area.

A reconciliation of the enterprise and internal service funds actual expenses with program budget amounts is shown as follows:

	<u>Enterprise</u>	<u>Internal Service</u>
Actual expenses for the year	\$ 10,877,934	\$ 2,070,379
Adjustments:		
Equipment services expenses	-	(600,629)
Central supplies expenses	-	(2,594)
Prior year encumbrances	(135,103)	-
Current year encumbrances	232,263	-
Current year capital outlay additions	1,726,571	-
Current year depreciation	(2,869,904)	-
Bond issuance cost amortization	(4,278)	-
Loss on sale of fixed assets	(10,763)	-
Closure cost liability	(24,990)	-
Solid waste agency component unit	776,425	-
Debt service:		
General obligation bond interest	(478,701)	-
	<u>\$ 10,089,454</u>	<u>\$ 1,467,156</u>
Certified budget expenditures		

The following individual funds had actual expenditures in excess of the budgeted amounts for the year ended June 30, 2004:

	<u>Budget</u>	<u>Actual</u>	<u>Amount over Budget</u>
Special revenue funds:			
CEBA grant	\$ -	\$ 125,000	\$ 125,000
Art center special funds	42,750	87,321	44,571
Permanent funds:			
Cemetery special trusts	1,450	1,656	206
Enterprise funds:			
Airport operations	851,950	949,577	97,627
Transfer station	1,289,900	1,335,099	45,199

NOTE 3. DEPOSITS AND INVESTMENTS

The deposits and investments of the Solid Waste Agency are pooled with those of the City. Disclosures referring to deposits and investments of the City include the pooled amounts belonging to the Agency.

As of June 30, 2004, the deposits and investments of the City consist of the following:

Petty cash and undeposited cash	\$ 34,738
Cash in bank	79,172
Savings accounts	27,990
Money market accounts	1,107,342
Iowa Public Agency Investment Trust	96,276
Certificates of deposit	<u>17,530,000</u>
	<u>\$ 18,875,518</u>

As of June 30, 2004, the carrying amount of the City's deposits with financial institutions totaled \$18,778,452 and the bank balances were \$18,756,690. These bank balances were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City invests in the Diversified portfolio of the Iowa Public Agency Investment Trust (IPAIT). IPAIT was created pursuant to Iowa Code Chapter 28E in 1987 to enable eligible Iowa public agencies to safely and effectively invest their available operating and reserve funds. The Diversified portfolio has followed established money market mutual fund investment parameters designed to maintain a \$1 per unit net asset value since inception and was registered with the Securities and Exchange Commission (SEC) in accordance with 17 C.F.R. Section 270.2a-7 in May 1993. The Diversified Fund was among the first local government investment pools in the country to do so and has been formally regulated by the SEC since that time. The fair value of the City's position in the IPAIT pool is the same as the value of the pool. The investment in the Iowa Public Agency Investment Trust is not subject to categorization.

The City's investments during the year did not vary substantially from those at year-end in amounts or level of risk.

As of December 31, 2003 MP&W's deposits and investments consist of the following:

	<u>Fair Value</u>
Cash in bank	\$ 49,880
U.S. government securities	<u>39,906,156</u>
	<u>\$ 39,956,036</u>

As of December 31, 2003, the carrying amount of MP&W's deposits with financial institutions totaled \$24,492, and the bank balances were \$688,760. These bank balances were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

As of December 31, 2003, all of MP&W's investments were considered to be in risk category 1.

NOTE 4. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances at June 30, 2004 consist of the following:

		Due from					
		Nonmajor Governmental	Transfer Station	Nonmajor Enterprise	Internal Service	Fiduciary	Totals
Due to	Nonmajor governmental	\$ 90,148	\$ -	\$ -	\$ -	\$ -	\$ 90,148
	Water pollution control	-	839,981	-	-	-	839,981
	Nonmajor enterprise	-	-	74,934	-	-	74,934
	Internal service	-	-	-	941	-	941
	Fiduciary	-	-	-	-	44,083	44,083
Total		\$ 90,148	\$ 839,981	\$ 74,934	\$ 941	\$ 44,083	\$ 1,050,087

The \$839,981 balance due from the Transfer Station is the result of a loan for working capital needs resulting from amounts in accounts receivable at year end and reduced waste volumes being received at this facility. It is not expected that this amount will be eliminated in the subsequent year.

The non-major enterprise fund amount includes \$14,477 due from the Marina operation due to this operation continuing to operate at a deficit. This deficit is not expected to be eliminated in the subsequent year.

The remaining balances result from (1) working capital for inventory in the internal service funds, and (2) the time lag of receipts into the various funds.

Interfund transfers for the year are as follows:

		Transfers from						
		General	Employee Benefits	Local Option Sales Tax	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Totals
Transfers to	General	\$ -	\$ 2,001,034	\$ -	\$ 1,671,368	\$ 356,642	\$ 42,836	\$ 4,071,880
	Employee benefits	-	-	-	234,000	-	-	234,000
	Pearl of the Mississippi project	-	-	221,011	-	-	-	221,011
	Nonmajor governmental	163,930	-	-	593,294	-	-	757,224
	Water pollution control	-	-	264,864	-	-	-	264,864
	Nonmajor enterprise	185,551	-	-	900,000	-	-	1,085,551
Total		\$ 349,481	\$ 2,001,034	\$ 485,875	\$ 3,398,662	\$ 356,642	\$ 42,836	\$ 6,634,530

Transfers are used to move revenues from the fund that State statutes or the budget requires them to be collected in to the fund the State statutes or the budget requires them to be expended.

NOTE 5. RESTRICTED ASSETS

Transfer Station assets of \$4,998 at June 30, 2004 are classified as restricted because their use is restricted to provide for Transfer Station closure costs.

Solid Waste Agency assets of \$593,985 at June 30, 2004 are classified as restricted because their use is restricted to provide for the cost of future landfill closure and post-closure costs.

MP&W's restricted assets represent amounts set aside under the terms of the bond resolutions relating to the utility's revenue bonds or by the Board. In accordance with the covenants of the bond resolutions, the amounts have been segregated into various funds or accounts. The rate stabilization fund and the depreciation, extension and improvement fund may be used for capital or other funding requirements, and the extraordinary operation and maintenance account may be used for extraordinary operating expenses at the discretion of the board.

The composition of the restricted funds as of December 31, 2003, was as follows:

Current accounts:	
Bond sinking fund	\$ 12,706,925
Depreciation, extension and improvement fund	1,527,613
Rate stabilization fund	13,650,146
Extraordinary operation and maintenance account	<u>8,079,145</u>
Total restricted assets	<u>\$ 35,963,829</u>

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 is as follows:

Primary government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 7,521,206	\$ 721,404	\$ -	\$ 8,242,610
Art work	4,673,451	32,100	-	4,705,551
Construction in progress	197,938	5,225,674	(5,259,380)	164,232
Total capital assets, not being depreciated	<u>12,392,595</u>	<u>5,979,178</u>	<u>(5,259,380)</u>	<u>13,112,393</u>
Capital assets, being depreciated:				
Land improvements	6,534,375	4,056,358	-	10,590,733
Buildings	7,551,041	-	(808,331)	6,742,710
Building improvements	684,269	104,530	(6,275)	782,524
Equipment	4,261,583	434,622	(65,577)	4,630,628
Vehicles	3,504,627	107,474	(223,337)	3,388,764
Infrastructure	47,522,979	345,715	-	47,868,694
Total capital assets, being depreciated	<u>70,058,874</u>	<u>5,048,699</u>	<u>(1,103,520)</u>	<u>74,004,053</u>
Less accumulated depreciation for:				
Land improvements	(3,096,070)	(412,540)	-	(3,508,610)
Buildings	(4,284,070)	(165,484)	808,331	(3,641,223)
Building improvements	(159,127)	(47,580)	1,883	(204,824)
Equipment	(1,519,169)	(365,134)	63,100	(1,821,203)
Vehicles	(2,134,295)	(258,298)	220,970	(2,171,623)
Infrastructure	(16,087,136)	(1,175,762)	-	(17,262,898)
Total accumulated depreciation	<u>(27,279,867)</u>	<u>(2,424,798)</u>	<u>1,094,284</u>	<u>(28,610,381)</u>
Total capital assets, being depreciated, net	<u>42,779,007</u>	<u>2,623,901</u>	<u>(9,236)</u>	<u>45,393,672</u>
Governmental activities capital assets, net	<u>\$ 55,171,602</u>	<u>\$ 8,603,079</u>	<u>\$ (5,268,616)</u>	<u>\$ 58,506,065</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 2,214,074	\$ 322,527	\$ -	\$ 2,536,601
Construction in progress	176,837	1,167,179	(569,906)	774,110
Total capital assets, not being depreciated	<u>2,390,911</u>	<u>1,489,706</u>	<u>(569,906)</u>	<u>3,310,711</u>
Capital assets, being depreciated:				
Land improvements	10,300,632	131,460	-	10,432,092
Buildings	46,006,678	-	(37,435)	45,969,243
Building improvements	2,433,322	290,645	-	2,723,967
Equipment	2,043,743	126,019	(78,433)	2,091,329
Vehicles	2,220,445	219,177	(102,479)	2,337,143
Sewer system	25,284,665	95,662	-	25,380,327
Total capital assets, being depreciated	<u>88,289,485</u>	<u>862,963</u>	<u>(218,347)</u>	<u>88,934,101</u>
Less accumulated depreciation for:				
Land improvements	(4,987,691)	(623,567)	-	(5,611,258)
Buildings	(18,944,426)	(1,278,253)	26,672	(20,196,007)
Building improvements	(938,309)	(119,906)	-	(1,058,215)
Equipment	(1,101,963)	(163,410)	70,934	(1,194,439)
Vehicles	(1,392,195)	(227,664)	102,479	(1,517,380)
Sewer system	(6,835,125)	(506,651)	-	(7,341,776)
Total accumulated depreciation	<u>(34,199,709)</u>	<u>(2,919,451)</u>	<u>200,085</u>	<u>(36,919,075)</u>
Total capital assets, being depreciated, net	<u>54,089,776</u>	<u>(2,056,488)</u>	<u>(18,262)</u>	<u>52,015,026</u>
Business type activities capital assets, net	<u>\$ 56,480,687</u>	<u>\$ (566,782)</u>	<u>\$ (588,168)</u>	<u>\$ 55,325,737</u>

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities:	
Public safety	\$ 279,497
Public works	1,350,975
Culture and recreation	703,075
Community and economic development	14,150
General government	24,797
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>3,767</u>
Total depreciation expense – governmental activities	<u>\$ 2,376,261</u>

Business-type activities:		
Water pollution control plant	\$	1,552,923
Refuse collection		80,621
Transfer station		309,149
Airport		479,792
Parking		37,291
Transit		39,410
Golf course		82,499
Boat harbor		9,807
Ambulance		40,075
Public housing		<u>238,337</u>
 Total depreciation expense – business-type activities	\$	<u>2,869,904</u>

Discretely presented component units

Activity for the Solid Waste Agency for the year ended June 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 445,531	\$ -	\$ -	\$ 445,531
Capital assets, being depreciated:				
Land improvements	41,975	-	-	41,975
Buildings	42,314	-	-	42,314
Equipment	9,237	-	-	9,237
Vehicles	18,095	-	-	18,095
Leachate collection system	<u>564,686</u>	<u>-</u>	<u>-</u>	<u>564,686</u>
Total capital assets, being depreciated	<u>676,307</u>	<u>-</u>	<u>-</u>	<u>676,307</u>
Less accumulated depreciation for:				
Land improvements	(8,498)	(3,124)	-	(11,622)
Buildings	(12,929)	(933)	-	(13,862)
Equipment	(3,233)	(924)	-	(4,157)
Vehicles	(18,095)	-	-	(18,095)
Leachate collection system	<u>(97,293)</u>	<u>(18,823)</u>	<u>-</u>	<u>(116,116)</u>
Total accumulated depreciation	<u>(140,048)</u>	<u>(23,804)</u>	<u>-</u>	<u>(163,852)</u>
Total capital assets, being depreciated, net	<u>536,259</u>	<u>(23,804)</u>	<u>-</u>	<u>512,455</u>
Solid Waste Agency capital assets, net	<u>\$ 981,790</u>	<u>\$ (23,804)</u>	<u>\$ -</u>	<u>\$ 957,986</u>

Activity for Muscatine Power & Water for the year ended December 31, 2003 was as follows.

	Beginning Balance	Increases/ Reclassifications	Decreases	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land and land rights	\$ 3,074,504	\$ -	\$ -	\$ -	\$ 3,074,504
Construction work in progress	2,519,978	6,268,985	-	(6,990,152)	1,798,811
Total capital assets, not being depreciated	5,594,482	6,268,985	-	(6,990,152)	4,873,315
Capital assets, being depreciated:					
Generation plant	303,022,147	14,432	(668,299)	3,213,072	305,581,352
Transmission and distribution plant	44,892,937	576,419	(111,080)	1,112,617	46,470,893
General plant	18,252,340	116,953	(514,012)	836,357	18,691,638
Source of supply	1,446,848	-	-	693	1,447,541
Pumping equipment	997,131	31,823	(970)	9,507	1,037,491
Purification equipment	970,331	5,705	-	-	976,036
Distribution system	9,840,082	250,557	(38,543)	422,137	10,474,233
Network operations plant	18,785,855	1,420,446	(141,166)	1,395,769	21,460,904
Total capital assets being depreciated	398,207,671	2,416,335	(1,474,070)	6,990,152	406,140,088
Less accumulated depreciation for:					
Generation plant	157,274,606	9,900,525	(668,299)	-	166,506,832
Transmission and distribution plant	26,359,678	1,724,134	(111,080)	-	27,972,732
General plant	8,988,418	1,374,559	(475,234)	-	9,887,743
Unallocated contribution in aid of construction	660,488	-	-	-	660,488
Source of supply	793,861	48,228	-	-	842,089
Pumping equipment	452,851	32,640	(970)	-	484,521
Purification system	530,432	25,908	-	-	556,340
Distribution system	4,006,009	218,963	(38,542)	-	4,186,430
Network operations plant and general plant	4,683,951	2,256,835	(179,945)	-	6,760,841
Total accumulated depreciation	203,750,294	15,581,792	(1,474,070)	-	217,858,016
Total capital assets, being depreciated, net	194,457,377	(13,165,457)	-	6,990,152	188,282,072
Muscatine Power & Water capital assets, net	\$ 200,051,859	\$ (6,896,472)	\$ -	\$ -	\$ 193,155,387

NOTE 7. CAPITAL LEASE

The government has entered into a lease agreement as lessee for financing the acquisition of finance department equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The asset acquired through capital lease is as follows:

Copier	\$ 14,863
Less accumulated depreciation	(4,459)
Book value June 30, 2004	<u>\$ 10,404</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2004 were as follows:

<u>Year Ending June 30</u>	
2005	\$ 3,490
2006	3,490
2007	3,490
2008	<u>3,198</u>
Total minimum lease payments	13,668
Less: amount representing interest	<u>(1,630)</u>
Present value of minimum lease payments	<u>\$ 12,038</u>

NOTE 8. LONG-TERM DEBT

General Obligation Bonds. The general obligation bonds outstanding as of June 30, 2004 total \$15,050,795. These bonds bear interest at rates ranging from 1.10% to 5.20%. Portions of the general obligation bond issues have been used to acquire or expand the enterprise fund facilities. In some instances, revenue generated by the enterprise funds is used to pay the general long-term debt principal and interest. The liability for those bonds, which are expected to be paid by the enterprise funds, is included in those funds.

General obligation bonds as of June 30, 2004 consist of the following individual issues:

	<u>Issue Date</u>	<u>Amount Issued</u>	<u>Interest Rates</u>	<u>Balance 6/30/2004</u>		<u>Governmental Activities</u>	<u>Business-Type Activities</u>
General obligation bonds							
General corporate	12/1/1995	\$ 3,800,000	4.35-5.20	\$ 2,036,080.00 *	\$	330,000	\$ 1,706,080
General corporate	6/1/1997	1,735,000	4.70-5.00	700,000		700,000	-
General corporate	6/1/1998	7,765,000	4.25-4.80	4,934,643 **		295,000	4,639,643
General corporate	6/1/1999	3,910,000	4.125-4.40	2,109,331 ***		140,000	1,969,331
General corporate	6/1/2001	4,300,000	4.00-4.40	3,500,000		3,500,000	-
General corporate	6/1/2002	100,000	3.25	50,000		50,000	-
General corporate	6/1/2003	1,780,000	1.10-3.00	1,720,741 ****		1,720,741	-
				<u>\$ 15,050,795</u>		<u>\$ 6,735,741</u>	<u>\$ 8,315,054</u>

* Net of unamortized discount of \$8,920

** Net of unamortized discount/charge of \$395,357

*** Net of unamortized discount of \$15,669

**** Net of unamortized discount of \$9,259

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending June 30</u>	<u>Governmental</u>		<u>Business-Type</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 1,113,971	\$ 254,761	\$ 871,438	\$ 400,701
2006	1,128,971	212,736	896,438	361,536
2007	1,008,971	169,132	941,438	320,635
2008	793,971	129,928	996,438	276,980
2009	743,971	100,590	1,031,439	230,290
2010-2014	1,945,886	135,573	3,577,863	566,475
	<u>\$ 6,735,741</u>	<u>\$ 1,002,720</u>	<u>\$ 8,315,054</u>	<u>\$ 2,156,617</u>

Tax Increment Revenue Bonds. The City issued \$1,795,000 of tax increment revenue bonds in June 1997. The proceeds of these bonds are to be used to pay a portion of the cost of carrying out projects in the Downtown Urban Renewal Area. Repayment of these bonds is to come from the incremental taxes from the Downtown Tax Increment Fund. In April 2004 the City issued an additional \$420,000 of tax increment revenue bonds for property acquisition in the Downtown Urban Renewal Area and in June 2004 \$1,885,000 of tax increment bonds were issued to fund public improvements in the Southend Urban Renewal Area.

Tax increment revenue bonds as of June 30, 2004 consist of the following issues:

	<u>Issue Date</u>	<u>Amount Issued</u>	<u>Interest Rates</u>	<u>Balance June 30, 2004</u>
Tax Increment Revenue Bonds:				
Urban Renewal Tax Increment Revenue Bonds	6/26/1997	1,795,000	5.15-5.75	\$ 1,200,000
Urban Renewal Tax Increment Revenue Bonds	4/23/2004	420,000	1.80-4.25	420,000
Urban Renewal Tax Increment Revenue Bonds	6/24/2004	1,885,000	2.10-5.90	<u>1,885,000</u>
				<u>\$ 3,505,000</u>

Annual debt service requirements to maturity for tax increment revenue bonds are as follows:

<u>Year Ending June 30</u>	<u>Governmental</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 260,000	\$ 163,517
2006	265,000	157,716
2007	280,000	146,978
2008	285,000	135,138
2009	300,000	122,666
2010-2014	1,190,000	399,299
2015-2019	630,000	192,210
2009-2012	295,000	25,965
	<u>\$ 3,505,000</u>	<u>\$ 1,343,489</u>

Changes in Long-Term Debt. Long-term liability activity for the year ended June 30, 2004, was as follows:

Primary government

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 8,283,403	\$ -	\$ (1,538,403)	\$ 6,745,000	\$ 1,115,000
Tax increment revenue bonds	1,340,000	2,305,000	(140,000)	3,505,000	260,000
Less issuance discounts	(10,288)	-	1,029	(9,259)	(1,029)
Total bonds payable	9,613,115	2,305,000	(1,677,374)	10,240,741	1,373,971
Capital leases	14,653	-	(2,614)	12,039	2,790
Compensated absences	935,822	583,402	(588,898)	930,326	492,228
Governmental activity long-term liabilities	<u>\$ 10,563,590</u>	<u>\$ 2,888,402</u>	<u>\$ (2,268,886)</u>	<u>\$ 11,183,106</u>	<u>\$ 1,868,989</u>
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 9,626,597	\$ -	\$ (891,596)	\$ 8,735,001	\$ 915,000
Less issuance discounts	(463,509)	-	43,562	(419,947)	(43,562)
Total bonds payable	9,163,088	-	(848,034)	8,315,054	871,438
Compensated absences	331,099	256,224	(232,995)	354,328	175,195
Business-type activity long-term liabilities	<u>\$ 9,494,187</u>	<u>\$ 256,224</u>	<u>\$ (1,081,029)</u>	<u>\$ 8,669,382</u>	<u>\$ 1,046,633</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for these funds are included as part of the above totals for governmental activities. At year-end \$27,622 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, compensated absences are generally liquidated by the general fund.

Discretely presented component units

Activity for the Solid Waste Agency for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 13,486	\$ 5,863	\$ (5,042)	\$ 14,307	\$ 5,162

Activity for Muscatine Power & Water Electric Utility for the year ended December 31, 2003, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Series 1998 revenue bonds	\$ 19,880,000	\$ -	\$ (9,650,000)	\$ 10,230,000
Series 2001 revenue bonds	49,090,000	-	-	49,090,000
Series 2002 revenue bonds	48,000,000	-	-	48,000,000
	116,970,000	-	(9,650,000)	107,320,000
Unamortized portion of deferred loss on refundings	(4,451,567)	-	953,110	(3,498,457)
Unamortized portion of revenue bond discounts	(7,897)	-	7,897	-
Unamortized portion of revenue bond premiums	2,492,761	-	(336,431)	2,156,330
Total long-term debt	115,003,297	\$ -	\$ (9,025,424)	105,977,873
Less current installments	9,650,000			10,230,000
Long-term debt, net of current portion	<u>\$ 105,353,297</u>			<u>\$ 95,747,873</u>

The revenue bonds, which rank on a parity with each other, are secured by future net revenues of the utility as defined in the bond resolutions. At December 31, 2003, they mature and bear interest as follows:

Maturity Date	Series 2002		Series 2001		Series 1998	
	Principal Amount	Interest Rate	Principal Amount	Interest Rate	Principal Amount	Interest Rate
January 1, 2004	-	-	-	-	\$ 10,230,000	6.000%
2005	\$ 11,465,000	2.7%	-	-	-	-
2006	11,780,000	3.2	-	-	-	-
2007	12,160,000	3.6	-	-	-	-
2008	12,595,000	4.0	-	-	-	-
2009	-	-	\$ 11,305,000	5.5%	-	-
2010	-	-	11,930,000	5.5	-	-
2011	-	-	12,585,000	5.5	-	-
2012	-	-	13,270,000	5.5	-	-
	<u>\$ 48,000,000</u>		<u>\$ 49,090,000</u>		<u>\$ 10,230,000</u>	

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 \$97,830,000 at December 31, 2003. The bonds and corresponding trust funds are not included on the balance sheet at December 31, 2003 as the outstanding bonds are considered defeased.

On November 25, 2002, the utility issued \$48,000,000 in revenue bonds with an average interest rate of 3.4 percent to advance refund \$47,195,000 of outstanding 1986 series bonds with an average interest rate of 5.5 percent. The net proceeds of \$47,263,400 (after payment of \$736,600 in underwriting fees, insurance, and other issuance costs) plus an additional \$1,154,877 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1986 series bonds. As a result, the 1986 series bonds are considered to be defeased and the liability for those bonds has been removed from the balance sheet.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,493,356. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations over the life of the new bonds using the effective - interest method. The utility completed the advance refunding to reduce its total debt service payments over the next five (5) years by \$2,126,538 (net of \$1,154,877 of cash deposited to the escrow) and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,970,352.

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.

Activity for Muscatine Power & Water Communications Utility for the year ended December 31, 2003, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Other long-term obligations	\$ 281,496	\$ -	\$ (250,537)	\$ 30,959
Less current portion	179,636			30,959
Long-term liabilities, net of current portion	<u>\$ 101,860</u>			<u>\$ -</u>

NOTE 9. LANDFILL CLOSURE AND POSTCLOSURE CARE COST

State and federal laws and regulations require the Muscatine County Solid Waste Management Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure.

Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Agency reports a portion of these closure and post closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,021,043 reported as landfill closure and post closure care liability at June 30, 2004, represents the cumulative amount reported to date based on the use of 53% of the estimated capacity of the current landfill property. The Agency will recognize the remaining estimated cost of closure and post closure care of \$489,057 as the remaining estimated capacity is filled.

These amounts are based on what it would cost to perform all closure and post closure care in 2004. The Agency expects the currently-permitted landfill property to reach its capacity in 2027. Actual costs may be higher due to inflation, changes in technology or changes in regulations. The Agency has begun to accumulate resources to fund these costs in accordance with state and federal requirements.

NOTE 10. RETIREMENT SYSTEMS

Iowa Public Employees Retirement System

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-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.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$352,453, \$348,653, and \$345,257, respectively, equal to the required contributions for each year.

Municipal Fire and Police Retirement System of Iowa

The City contributes to the Municipal Fire and Police Retirement System of Iowa, which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by State statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 104th Street, Urbandale, Iowa 50322.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 17% of earnable compensation. Contribution requirements are established by State statute. The City's contributions to the Plan for the years ended June 30, 2004, 2003 and 2002 were \$641,133, \$515,548 and \$487,336, respectively, which met the required minimum contribution for each year.

International City Management Association

According to specific provisions of the State Code of Iowa, a police chief or a fire chief of a local participating government may request from the Police Retirement Board or Fire Retirement Board exemption from the retirement system. This exemption allows that such contributions of the City for their retirement may be made to the International City Management Association's (ICMA) retirement program. The amount is not to exceed an amount which would have been made under the provisions of Section 411 of the State Code of Iowa. The police chief of the City has taken this option. Therefore, during the year the City has contributed a total of \$8,459 to this retirement program for the police chief. The City's contribution rate was comparable to the FICA and IPERS rates for other City employees.

Also, the Iowa Public Employees Retirement System regulations exempt the City Administrator from participating in the state retirement system. Therefore, the City has made a retirement contribution to the ICMA retirement system for the City Administrator in lieu of IPERS. For the year ended June 30, 2004, this contribution totaled \$6,174, which represents a contribution level of 6% plus a lump sum contribution of \$500.

NOTE 11. DEFICIT FUND EQUITY

Several funds of the City have a fund balance deficit or have a deficit net assets as of June 30, 2004. These funds and the amount of the deficit are as follows:

<u>Fund</u>	<u>Deficit Amount</u>
Capital projects:	
Pearl of the Mississippi project	\$ 203,063
Enterprise:	
Marina operations	11,019
Internal service:	
Dental insurance	33

None of these deficits are considered a violation of any law, and they are all expected to be eliminated through future operations.

NOTE 12. POST EMPLOYMENT HEALTH AND DENTAL CARE BENEFITS

The City provides certain health care benefits for its retired employees. Upon normal retirement, employees have the option of continuing health and dental insurance coverage at their cost until the age of 65. For the year ended June 30, 2004, twenty-five individuals participated in this continuation of health insurance coverage at a cost to these individuals of \$97,780.

The City, additionally, has an employee benefit program for employees laid off as a result of budget reductions. The employee must be at least 55 years of age but no more than 65 years of age except for the case of a police officer or a firefighter who must be at least 50 years of age but no more than 55 years of age. Employees must also have had at least 15 years of continuous service with the City. The City will provide 100% paid single medical insurance for the employee until the employee reaches the age of 65 or until the employee is re-employed in a position where medical insurance is available or obtains medical insurance from another source. The City will pay 90% of the family coverage if such individual had family coverage during the time of employment for a period of one year after termination after which the City will pay 75% the second year, 50% the third year and 25% after the fourth year. Participation by the City will cease in the fifth year. For police officers and firefighters, this provision is effective until the age of 55. For the year ended June 30, 2004, one individual was eligible for benefits under this program at a cost to the City of \$478.

In 1986, Congress approved the Consolidated Omnibus Budget Reconciliation Act of 1986 which includes the provision for the continuation of group insurance coverage to either the employee or dependents depending upon the circumstances. For the City, this coverage includes health insurance and dental insurance. The death of a covered employee, a divorce or legal separation of the covered employee from the employee's spouse, the covered employee's commencement of Medicare coverage, the cessation of a dependent child's coverage under the terms of the plan, the termination of employment other than by reason of gross misconduct of the covered employee or the reduction of hours of the employee are events which would allow for such continuation. The continuation period is thirty-six months except for the termination of employment or reduction of hours, which allows for only an eighteen-month period. The premium for coverage during the continuation period is to be paid by the employee or the employee's dependent to the City on a monthly basis. It is the employee's responsibility to notify the employer of any change in status, which might involve the continuation of coverage. For the year ended June 30, 2004, five individuals participated in the continuation of insurance coverage at a cost to the individuals of \$8,883.

NOTE 13. INDUSTRIAL REVENUE BONDS

The City has, during recent years, participated in several issues of industrial revenue bonds, issued for the purpose of constructing privately owned manufacturing and other related facilities within the City. These bonds are neither direct nor contingent liabilities of the City. The revenue from property purchased with the bond proceeds is pledged for the full payment of principal and interest on the bonds, and the bondholders can look only to these sources for repayment. The total bonds outstanding for all issues is approximately \$18,907,280 as of June 30, 2004.

NOTE 14. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the government carries commercial insurance.

The City has established a Health Insurance Fund for insuring benefits provided to City employees and covered dependents which is included in the Internal Service Funds. Health benefits were self-insured up to a specific stop loss amount of \$75,000, and an aggregate stop loss of approximately \$1,524,000 for 2004. Coverage from a private insurance company is maintained for losses in excess of the aggregate stop loss amount. All claims handling procedures are performed by a third party claims administrator. Incurred but not reported claims have been accrued as a liability based upon the claims administrator's estimate. The estimated liability does not include any allocated or unallocated claims adjustment expense. Settled claims have not exceeded commercial coverage in any of the last three fiscal years.

All funds of the City participate in the program and make payments to the Health Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims. The claims liability of \$189,243 in the Health Insurance Fund is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in reported liabilities for the fiscal years ended June 30, 2004 and 2003 are summarized as follows:

Liabilities at July 1, 2002	\$ 214,917
Claims and changes in estimates during fiscal year 2003	1,251,046
Claim payments	<u>(1,294,354)</u>
Liabilities at June 30, 2003	\$ 171,609
Claims and changes in estimates during fiscal year 2004	1,399,963
Claim payments	<u>(1,382,329)</u>
Liabilities at June 30, 2004	<u>\$ 189,243</u>

NOTE 15. COMMITMENTS AND CONTINGENCIES

The City Attorney has reported that as of June 30, 2004, there were claims and losses that are on file against the City. The City has the authority to levy additional taxes outside the regular limit to fund any uninsured judgment against the City. However, it is estimated that the potential settlement of these claims not covered by insurance would not materially affect future financial statements of the City.

Additionally, the employee benefit program for employees laid off as a result of budget reductions allows for the lump sum payment for unused sick leave in accordance with the standard policy currently in effect. The sick leave payoff provision is provided to all employees who are laid off as part of the budgetary process regardless of age or length of City employment. For the year ended June 30, 2004, there was one payment to an employee under this program in the amount of \$6,783.

The City has various outstanding contracts, which are accounted for in the Capital Projects, Water Pollution Control and Airport Funds. The remaining commitment on these contracts as of June 30, 2004, is \$4,108,460.

As a member of the Muscatine Area Geographic Information Consortium (MAGIC), the City is responsible for one-third of the operating expenses incurred by MAGIC. The City's contribution for fiscal year 2005 is set at \$36,300.

The Solid Waste Agency had remaining contract commitments of \$8,985 as of June 30, 2004.

The Utility has a coal supply contract for a total contract minimum of 500,000 tons of coal for the years 2004 and 2005.

The Utility has an energy supply agreement to sell 10 megawatts of annual capacity with an 85% minimum load factor through May 31, 2007, and also contracted to sell 12 to 22 megawatts of annual capacity with an 85% minimum load factor through April 30, 2005, to two unaffiliated utilities. The contracts require the delivery of energy only if capacity is available or energy can otherwise be acquired by Muscatine Power & Water from other sources.

The Utility has contracted to sell steam to a local customer. The term of the agreement is for ten years beginning July 1, 2000. The customer is obligated to take a minimum annual quantity of steam each year (2,338,920 kilopounds). As part of the contract, the Utility made capital improvements of approximately \$12 million, which are expected to be recovered in revenues from the customer under the terms of the agreement. If the customer elects to terminate the agreement before the end of the contract, the customer has agreed to reimburse the Utility for any unrecovered capital improvements.

The Utility has a rail transportation agreement with two separate companies for the delivery of coal through December 31, 2006 and December 31, 2012. The utility's first agreement is for coal shipped from Campbell and Converse Counties, Wyoming to an interchange with the local delivery carrier. The price is subject to annual adjustment. The Utility's minimum requirement is that all tons shipped, up to 1,100,000 annually, from Campbell and Converse Counties, Wyoming shall be covered by this agreement. In the event that the utility does not meet their minimum requirement, the utility has agreed to pay a per ton penalty for up to 1,100,000 tons annually. The second 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.

NOTE 16. NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARDS (GASB) STANDARDS

The Governmental Accounting Standards Board (GASB) has issued five statements not yet implemented by the City of Muscatine. The statements, which might impact the City of Muscatine, are as follows:

Statement No. 40, *Deposit and Investment Risk Disclosures* issued March 2003, will be effective for the City for the fiscal year ending June 30, 2005. This statement addresses common deposit and investment risks related to credit risk, interest rate risk, and foreign current risk.

Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* issued November 2003, will be effective for the City for the fiscal year ending June 30, 2006. This statement establishes accounting and financial reporting standards for impairment of capital assets and also clarifies and establishes accounting requirements for insurance recoveries.

Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* issued April 2004, will be effective for the City for the fiscal year ended June 30, 2008. This statement establishes uniform financial reporting standards for other post employment benefit (OPEB) plans and supersedes the interim guidance included in statement No. 26. This statement affects reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports.

Statement No. 44, *Economic Condition Reporting: The Statistical Section* issued May 2004, will be effective for the City for the fiscal year ended June 30, 2006. This statement amends previous guidance regarding preparation of the statistical section for governments that issue a comprehensive annual financial report.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* issued June 2004, will be effective for the city for the fiscal year ended June 30, 2009. This statement establishes standards for the measurement, recognition, and display of (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

The City's management has not yet determined the effect these statements will have on the City's financial statements.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

City of Muscatine, Iowa
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - Budgetary Basis

For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
Property	\$ 5,358,647	\$ 5,358,647	\$ 5,355,406	\$ (3,241)
Utility	51,476	51,476	39,503	(11,973)
Hotel/motel	300,000	285,000	310,798	25,798
Licenses and permits	286,500	286,200	312,573	26,373
Fines and forfeitures	144,000	146,900	143,730	(3,170)
Intergovernmental	747,500	394,650	380,538	(14,112)
Charges for services	327,650	320,200	390,484	70,284
Use of money and property	97,900	132,250	136,797	4,547
Other	548,750	569,700	572,611	2,911
Total revenues	<u>7,862,423</u>	<u>7,545,023</u>	<u>7,642,440</u>	<u>97,417</u>
Expenditures:				
Current:				
Public safety	5,305,600	5,361,400	5,272,279	89,121
Public works	1,790,400	1,625,600	1,511,141	114,459
Health and social service	18,400	16,600	16,560	40
Culture and recreation	2,423,500	2,363,600	2,291,025	72,575
Community and economic development	714,400	725,300	708,418	16,882
General government	1,631,900	1,660,300	1,611,748	48,552
Debt service:				
Principal	-	-	2,614	(2,614)
Interest	-	-	876	(876)
Total expenditures	<u>11,884,200</u>	<u>11,752,800</u>	<u>11,414,661</u>	<u>338,139</u>
Revenues over (under) expenditures	<u>(4,021,777)</u>	<u>(4,207,777)</u>	<u>(3,772,221)</u>	<u>435,556</u>
Other financing sources (uses):				
Transfers in	4,195,666	4,268,760	4,071,880	(196,880)
Transfers out	<u>(353,498)</u>	<u>(355,082)</u>	<u>(349,481)</u>	<u>5,601</u>
Total other financing sources (uses)	<u>3,842,168</u>	<u>3,913,678</u>	<u>3,722,399</u>	<u>(191,279)</u>
Net change in fund balance	(179,609)	(294,099)	(49,822)	244,277
Fund balance, June 30, 2003	<u>1,581,556</u>	<u>1,926,667</u>	<u>1,927,491</u>	<u>824</u>
Fund balance, June 30, 2004	<u>\$ 1,401,947</u>	<u>\$ 1,632,568</u>	<u>\$ 1,877,669</u>	<u>\$ 245,101</u>

City of Muscatine, Iowa
Employee Benefits Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - Budgetary Basis

For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
Property	\$ 1,865,563	\$ 1,865,563	\$ 1,868,118	\$ 2,555
Utility	17,966	17,966	13,793	(4,173)
Total revenues	<u>1,883,529</u>	<u>1,883,529</u>	<u>1,881,911</u>	<u>(1,618)</u>
Other financing sources (uses):				
Transfers in	234,000	234,000	234,000	-
Transfers out	<u>(2,106,171)</u>	<u>(2,068,726)</u>	<u>(2,001,034)</u>	<u>67,692</u>
Total other financing sources (uses)	<u>(1,872,171)</u>	<u>(1,834,726)</u>	<u>(1,767,034)</u>	<u>67,692</u>
Net change in fund balance	11,358	48,803	114,877	66,074
Fund balance (deficit), June 30, 2003	<u>(11,358)</u>	<u>4,843</u>	<u>4,843</u>	<u>-</u>
Fund balance, June 30, 2004	<u>\$ -</u>	<u>\$ 53,646</u>	<u>\$ 119,720</u>	<u>\$ 66,074</u>

City of Muscatine, Iowa
 Local Option Sales Tax Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual - Budgetary Basis

For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Local option sales tax	\$ 1,957,200	\$ 2,210,100	\$ 2,210,111	\$ 11
Use of money and property	20,000	25,000	46,418	21,418
Total revenues	1,977,200	2,235,100	2,256,529	21,429
Other financing sources (uses):				
Transfers out	(1,395,720)	(811,176)	(485,875)	325,301
Net change in fund balance	581,480	1,423,924	1,770,654	346,730
Fund balance, June 30, 2003	2,870,207	3,228,783	3,228,783	-
Fund balance, June 30, 2004	<u>\$ 3,451,687</u>	<u>\$ 4,652,707</u>	<u>\$ 4,999,437</u>	<u>\$ 346,730</u>

CITY OF MUSCATINE, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2004

Note 1. Basis of Budgeting

Annual budgets are adopted for all funds, with the exception of certain internal service and permanent funds, on a basis consistent with accounting principles generally accepted in the United State of America (GAAP), except that encumbrances are also recognized as a valid and proper charge against the budget appropriations in the year in which the commitment was issued. Encumbrances represent commitments related to unperformed contracts for goods or services and include purchase orders, contracts or other commitments for expenditures of resources, which reserve a portion of the appropriation. For budgetary purposes, encumbrances are recognized as a valid and proper charge against the budget appropriation in the year in which the commitment was issued. Encumbrances do not lapse at year-end and provide authorization for expenditure the following year. In the preceding budget schedules, expenditures include current fiscal year encumbrances and exclude the payment of prior year encumbrances.

Note 2. Reconciliation between Basis of Budgeting and GAAP

A reconciliation of the major governmental fund expenditures and fund balances, as presented in accordance with accounting principles generally accepted in the United States of America (GAAP) to the amounts presented on the budgetary basis is as follows:

	Major Governmental Funds		
	General Fund	Employee Benefits Fund	Local Option Sales Tax Fund
GAAP basis expenditures	\$ 11,405,415	\$ -	\$ -
Current year encumbrances	36,674	-	-
Prior year encumbrances, actual	(27,428)	-	-
Budgetary basis - expenditures and encumbrances	<u>\$ 11,414,661</u>	<u>\$ -</u>	<u>\$ -</u>
GAAP basis fund balances	\$ 1,914,343	\$ 119,720	\$ 4,999,437
Encumbrances	(36,674)	-	-
Budgetary basis fund balance	<u>\$ 1,877,669</u>	<u>\$ 119,720</u>	<u>\$ 4,999,437</u>

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are utilized to account for revenues derived from specific sources which are accounted for as separate funds. These funds are as follows:

COMMUNITY DEVELOPMENT BLOCK GRANT - Accounts for block grants received to rehabilitate and improve designated declining areas within the City.

ROAD USE TAX - Accounts for road use tax allocated to the City to be used to maintain and improve the City's street system.

EQUIPMENT REPLACEMENT - Accounts for appropriations for and replacement of capital equipment for general operations of the City.

COMPUTER REPLACEMENT - Accounts for appropriations for and replacement of computer hardware and software for the general operations of the City.

SECTION 8 HOUSING PROGRAM - Accounts for the operations of the City's Section 8 Housing Program which provides rental assistance to low income individuals and families in the City.

EMERGENCY TAX - Accounts for proceeds from the \$.27 per \$1,000 emergency tax levy.

POLICE AND FIRE PENSION - Accounts for the pension funds retained by the City when the former Police and Fire Pension Trusts were replaced by the statewide Municipal Fire and Police Retirement System of Iowa (MFPRSI) effective January 1, 1992. Funds are required to be used to make contributions to the MFPRSI.

CEBA GRANT - Accounts for State Community and Economic Betterment (CEBA) grants which provides funding for construction or expansion of local industries.

POLICE FORFEITURES - Accounts for funds received by the police department from seized and forfeited properties under guidelines established by the U.S. Department of Justice and the State of Iowa.

LAW ENFORCEMENT BLOCK GRANT - Accounts for funds received through this federal grant program which provides funding for crime prevention, law enforcement equipment and law enforcement overtime.

DOWNTOWN TAX INCREMENT - Accounts for the incremental taxes from the expanded Downtown Urban Renewal Area and the debt service requirements on the tax increment revenue bonds which financed improvements in the downtown area.

SOUTHEND TAX INCREMENT - Accounts for the incremental taxes from the Southend Urban Renewal Area which funded an economic development grant for an expanding business in this area and other improvements in the southend area.

NORTHEAST TAX INCREMENT - Accounts for the incremental taxes from the Northeast Urban Renewal Area.

ART CENTER SPECIAL FUNDS - Accounts for the Alice Dodge Schaeffer Trust, the principal and interest of which is used for the conservation of furnishings, which accompanied this trust. Also accounts for the General Donations Trust which is used for cash donations to the Art Center either for specific purchases or general donations to be used to fund acquisitions designated by the Board of Trustees of the Art Center. Also accounts for funds received from the estate of Brad Burns.

LIBRARY SPECIAL FUNDS - Accounts for the Library Gift and Memorial Trust used for general donations to the Musser Public Library; the Homebound Delivery Trust used for donations to further the home delivery program; and the Library Circulation System/Technology Upgrade Trust used to account for funds received from grants from the Roy J. Carver Charitable Trust to be used for equipment for computerization of the circulation system, a computerized card catalog and other technology improvements at the Library.

PARKS DONATIONS – Accounts for funds from the estate of Frank C. Bishop to be used for park improvements.

INSURANCE FUND - Accounts for funds returned to the City for favorable claims experience under the City's general liability and automobile liability policies.

CAPITAL PROJECTS FUNDS

The Capital Projects Funds are utilized to account for financial resources to be used for the acquisition or construction of capital facilities and other major fixed assets, with the exception of those that are financed by Enterprise and Internal Service Funds. The project funds reflect the nature of the capital projects and are as follows:

COMMUNITY DEVELOPMENT IMPROVEMENTS FUND - Accounts for urban renewal improvements, housing rehabilitation, and building demolition projects in designated areas of the City.

STREET AND SIDEWALK IMPROVEMENTS FUND - Accounts for annual street resurfacing, curb replacement, and sidewalk construction programs.

OTHER STREET IMPROVEMENTS FUND - Accounts for other street projects throughout the City.

RIVERFRONT IMPROVEMENT PROJECTS FUND - Accounts for riverfront development and levee improvement projects.

OTHER PUBLIC IMPROVEMENTS FUND - Accounts for construction and improvements to City buildings, improvements of City park facilities and the geographical information system (GIS) project.

PERMANENT FUNDS

Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings and not principal may be used for purposes that benefit the City's programs and services.

McWhirter-Gilmore Trust - Accounts for funds received which accompanied the gift of the Musser Mansion museum facility. Interest earnings on this trust are used for the maintenance of the museum building.

Perpetual Care Trust - Accounts for the portion of cemetery lot sales designated for perpetual care.

Perpetual Care Interest Trust – Accounts for interest earned on cemetery perpetual care funds which is required to be used for the operation and maintenance of the cemetery facility.

Cemetery Special Trusts - Accounts for funds received, the interest earnings of which are designated to be used to maintain specific cemetery lots or to provide floral arrangements for these lots.

City of Muscatine, Iowa

Non-Major Governmental Funds
 Combining Balance Sheet
 June 30, 2004

	Special Revenue	Capital Projects	Permanent	Totals
Assets:				
Cash and pooled investments	\$ 1,362,702	\$ 1,617,624	\$ 23,657	\$ 3,003,983
Investments	402,944	-	980,000	1,382,944
Receivables (net of allowance for uncollectibles):				
Interest	7,057	1,655	5,974	14,686
Taxes	167,956	-	-	167,956
Special assessments	-	15,403	-	15,403
Intergovernmental	336,125	312	-	336,437
Advances to other funds	85,805	-	4,343	90,148
Total assets	<u>2,362,589</u>	<u>1,634,994</u>	<u>1,013,974</u>	<u>5,011,557</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable and accruals	71,386	418,722	-	490,108
Advances from other funds	85,805	-	4,343	90,148
Deferred revenue	163,188	14,385	-	177,573
Total liabilities	<u>320,379</u>	<u>433,107</u>	<u>4,343</u>	<u>757,829</u>
Fund balances:				
Reserved for:				
Advances to other funds	85,805	-	4,343	90,148
Perpetual care	-	-	782,545	782,545
Endowments	-	-	222,743	222,743
Capital projects	-	690,906	-	690,906
Unreserved	1,956,405	510,981	-	2,467,386
Total fund balances	<u>2,042,210</u>	<u>1,201,887</u>	<u>1,009,631</u>	<u>4,253,728</u>
Total liabilities and fund balances	<u>\$ 2,362,589</u>	<u>\$ 1,634,994</u>	<u>\$ 1,013,974</u>	<u>\$ 5,011,557</u>

City of Muscatine, Iowa

Non-Major Governmental Funds
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Year Ended June 30, 2004

	Special Revenue	Capital Projects	Permanent	Totals
Revenues:				
Taxes:				
Property	\$ 954,924	\$ -	\$ -	\$ 954,924
Utility	1,225	-	-	1,225
Intergovernmental	3,930,898	45,312	-	3,976,210
Use of money and property	30,867	6,732	22,605	60,204
Special assessments	-	8,751	-	8,751
Other	113,634	58,344	8,100	180,078
Total revenues	<u>5,031,548</u>	<u>119,139</u>	<u>30,705</u>	<u>5,181,392</u>
Expenditures:				
Current:				
Public safety	10,331	-	-	10,331
Culture and recreation	71,776	-	17,761	89,537
Community and economic development	2,092,581	-	-	2,092,581
Debt service:				
Principal	140,000	-	-	140,000
Interest	73,430	-	-	73,430
Capital outlay:				
Public safety	78,963	-	-	78,963
Public works	-	574,323	-	574,323
Culture and recreation	81,666	126,168	-	207,834
Community and economic development	-	1,060,250	-	1,060,250
General government	57,045	6,688	-	63,733
Total expenditures	<u>2,605,792</u>	<u>1,767,429</u>	<u>17,761</u>	<u>4,390,982</u>
Revenues over (under) expenditures	<u>2,425,756</u>	<u>(1,648,290)</u>	<u>12,944</u>	<u>790,410</u>
Other financing sources (uses):				
Tax increment revenue bonds issued	-	2,305,000	-	2,305,000
Transfers in	122,169	635,055	-	757,224
Transfers out	<u>(2,466,993)</u>	<u>(912,835)</u>	<u>(18,834)</u>	<u>(3,398,662)</u>
Total other financing sources (uses)	<u>(2,344,824)</u>	<u>2,027,220</u>	<u>(18,834)</u>	<u>(336,438)</u>
Net change in fund balances	80,932	378,930	(5,890)	453,972
Fund balances, June 30, 2003	<u>1,961,278</u>	<u>822,957</u>	<u>1,015,521</u>	<u>3,799,756</u>
Fund balances, June 30, 2004	<u>\$ 2,042,210</u>	<u>\$ 1,201,887</u>	<u>\$ 1,009,631</u>	<u>\$ 4,253,728</u>

City of Muscatine, Iowa

Non-Major Special Revenue Funds
Combining Balance Sheet
June 30, 2004

	Community Development Block Grant	Road Use Tax	Equipment Replacement	Computer Replacement	Section 8 Housing Program	Emergency Tax	Police and Fire Pension	Police Forfeitures
Assets:								
Cash and pooled investments	\$ -	\$ 468,402	\$ 29,342	\$ 2,530	\$ 2,325	\$ -	\$ -	\$ 14,718
Investments	-	-	-	-	48,099	-	194,845	-
Receivables (net of allowance for uncollectibles):								
Interest	-	1,783	229	-	29	-	523	-
Taxes	-	-	-	-	-	165,237	-	-
Intergovernmental	102,744	150,403	-	-	82,978	-	-	-
Advances to other funds	-	-	85,805	-	-	-	-	-
Total assets	102,744	620,588	115,376	2,530	133,431	165,237	195,368	14,718
Liabilities and fund balances								
Liabilities:								
Accounts payable and accruals	-	-	-	1,118	14,170	-	-	-
Advances from other funds	81,756	-	-	-	-	2,049	2,000	-
Deferred revenue	-	-	-	-	-	163,188	-	-
Total liabilities	81,756	-	-	1,118	14,170	165,237	2,000	-
Fund balances:								
Reserved for advances to other funds	-	-	85,805	-	-	-	-	-
Unreserved, undesignated	20,988	620,588	29,571	1,412	119,261	-	193,368	14,718
Total fund balances	20,988	620,588	115,376	1,412	119,261	-	193,368	14,718
Total liabilities and fund balances	\$ 102,744	\$ 620,588	\$ 115,376	\$ 2,530	\$ 133,431	\$ 165,237	\$ 195,368	\$ 14,718

<u>Law Enforcement Block Grant</u>	<u>Downtown Tax Increment</u>	<u>Southend Tax Increment</u>	<u>Northeast Tax Increment</u>	<u>Art Center Special Funds</u>	<u>Library Special Funds</u>	<u>Parks Donations</u>	<u>Insurance</u>	<u>Total</u>
\$ 38,177	\$ 218,452	\$ 119,860	\$ 46,477	\$ 53,183 160,000	\$ 199,413	\$ 45,113	\$ 124,710	\$ 1,362,702 402,944
-	-	-	-	-	-	-	-	-
109	1,040	617	153	1,433	572	147	422	7,057
-	-	2,719	-	-	-	-	-	167,956
-	-	-	-	-	-	-	-	336,125
-	-	-	-	-	-	-	-	85,805
<u>38,286</u>	<u>219,492</u>	<u>123,196</u>	<u>46,630</u>	<u>214,616</u>	<u>199,985</u>	<u>45,260</u>	<u>125,132</u>	<u>2,362,589</u>
3,805	-	-	-	51,356	937	-	-	71,386
-	-	-	-	-	-	-	-	85,805
-	-	-	-	-	-	-	-	163,188
<u>3,805</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,356</u>	<u>937</u>	<u>-</u>	<u>-</u>	<u>320,379</u>
-	-	-	-	-	-	-	-	85,805
<u>34,481</u>	<u>219,492</u>	<u>123,196</u>	<u>46,630</u>	<u>163,260</u>	<u>199,048</u>	<u>45,260</u>	<u>125,132</u>	<u>1,956,405</u>
<u>34,481</u>	<u>219,492</u>	<u>123,196</u>	<u>46,630</u>	<u>163,260</u>	<u>199,048</u>	<u>45,260</u>	<u>125,132</u>	<u>2,042,210</u>
<u>\$ 38,286</u>	<u>\$ 219,492</u>	<u>\$ 123,196</u>	<u>\$ 46,630</u>	<u>\$ 214,616</u>	<u>\$ 199,985</u>	<u>\$ 45,260</u>	<u>\$ 125,132</u>	<u>\$ 2,362,589</u>

City of Muscatine, Iowa

Non-Major Special Revenue Funds
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Year Ended June 30, 2004

	Community Development Block Grant	Road Use Tax	Equipment Replacement	Computer Replacement	Section 8 Housing Program	Emergency Tax	Police and Fire Pension	CEBA Grant	Police Forfeitures
Revenues:									
Taxes:									
Property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 165,823	\$ -	\$ -	\$ -
Utility	-	-	-	-	-	1,225	-	-	-
Intergovernmental:									
HUD grants	-	-	-	-	1,756,324	-	-	-	-
Road use tax	-	1,901,808	-	-	-	-	-	-	-
Federal grants	102,694	-	-	-	-	-	-	-	-
State grants	-	-	-	-	-	-	-	125,000	-
Interest	-	6,100	884	107	255	-	10,638	-	75
Other	15,050	-	10,846	81	5,403	-	-	-	30,790
Total revenues	117,744	1,907,908	11,730	188	1,761,982	167,048	10,638	125,000	30,865
Expenditures:									
Current:									
Public safety	-	-	-	-	-	-	-	-	10,173
Culture and recreation	-	-	-	-	-	-	-	-	-
Community and economic development	-	-	-	-	1,726,725	-	-	125,000	-
Capital outlay:									
Public safety	-	-	25,533	-	-	-	-	-	18,091
Culture and recreation	-	-	34,810	-	-	-	-	-	-
General government	-	-	-	57,045	-	-	-	-	-
Debt service:									
Principal	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-
Total expenditures	-	-	60,343	57,045	1,726,725	-	-	125,000	28,264
Revenues over (under) expenditures	117,744	1,907,908	(48,613)	(56,857)	35,257	167,048	10,638	-	2,601
Other financing sources (uses):									
Transfers in	-	-	78,785	40,000	-	-	-	-	-
Transfers out	(102,694)	(1,794,877)	-	-	-	(167,048)	(234,000)	-	-
Total other financing sources (uses)	(102,694)	(1,794,877)	78,785	40,000	-	(167,048)	(234,000)	-	-
Net change in fund balances	15,050	113,031	30,172	(16,857)	35,257	-	(223,362)	-	2,601
Fund balances, June 30, 2003	5,938	507,557	85,204	18,269	84,004	-	416,730	-	12,117
Fund balances, June 30, 2004	\$ 20,988	\$ 620,588	\$ 115,376	\$ 1,412	\$ 119,261	\$ -	\$ 193,368	\$ -	\$ 14,718

<u>Law Enforcement Block Grant</u>	<u>Downtown Tax Increment</u>	<u>Southend Tax Increment</u>	<u>Northeast Tax Increment</u>	<u>Art Center Special Funds</u>	<u>Library Special Funds</u>	<u>Parks Donations</u>	<u>Insurance</u>	<u>Total</u>
\$ -	\$ 391,269	\$ 200,151	\$ 197,681	\$ -	\$ -	\$ -	\$ -	\$ 954,924
-	-	-	-	-	-	-	-	1,225
-	-	-	-	-	-	-	-	1,756,324
-	-	-	-	-	-	-	-	1,901,808
30,458	-	-	-	-	-	-	-	133,152
-	-	-	-	-	14,614	-	-	139,614
493	3,074	1,630	477	2,901	2,089	508	1,636	30,867
-	-	-	-	21,965	29,499	-	-	113,634
<u>30,951</u>	<u>394,343</u>	<u>201,781</u>	<u>198,158</u>	<u>24,866</u>	<u>46,202</u>	<u>508</u>	<u>1,636</u>	<u>5,031,548</u>
158	-	-	-	-	-	-	-	10,331
-	-	-	-	58,000	13,776	-	-	71,776
-	89,095	3,500	148,261	-	-	-	-	2,092,581
35,339	-	-	-	-	-	-	-	78,963
-	-	-	-	29,321	17,535	-	-	81,666
-	-	-	-	-	-	-	-	57,045
-	140,000	-	-	-	-	-	-	140,000
-	73,430	-	-	-	-	-	-	73,430
<u>35,497</u>	<u>302,525</u>	<u>3,500</u>	<u>148,261</u>	<u>87,321</u>	<u>31,311</u>	<u>-</u>	<u>-</u>	<u>2,605,792</u>
(4,546)	91,818	198,281	49,897	(62,455)	14,891	508	1,636	2,425,756
3,384	-	-	-	-	-	-	-	122,169
-	(3,192)	(123,915)	(3,267)	-	-	-	(38,000)	(2,466,993)
<u>3,384</u>	<u>(3,192)</u>	<u>(123,915)</u>	<u>(3,267)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(38,000)</u>	<u>(2,344,824)</u>
(1,162)	88,626	74,366	46,630	(62,455)	14,891	508	(36,364)	80,932
<u>35,643</u>	<u>130,866</u>	<u>48,830</u>	<u>-</u>	<u>225,715</u>	<u>184,157</u>	<u>44,752</u>	<u>161,496</u>	<u>1,961,278</u>
<u>\$ 34,481</u>	<u>\$ 219,492</u>	<u>\$ 123,196</u>	<u>\$ 46,630</u>	<u>\$ 163,260</u>	<u>\$ 199,048</u>	<u>\$ 45,260</u>	<u>\$ 125,132</u>	<u>\$ 2,042,210</u>

City of Muscatine, Iowa

Non-Major Capital Projects Funds
 Combining Balance Sheet
 June 30, 2004

	<u>Community Development Improvements</u>	<u>Street and Sidewalk Improvements</u>	<u>Other Street Improvements</u>	<u>Riverfront Improvement Projects</u>
Assets:				
Cash and pooled investments	\$ 684,032	\$ 318,538	\$ 333,199	\$ 212,338
Receivables:				
Interest	-	-	846	641
Special assessments	-	4,172	11,231	-
Intergovernmental	-	-	-	-
Total assets	<u>684,032</u>	<u>322,710</u>	<u>345,276</u>	<u>212,979</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable	128,006	288,694	153	-
Deferred revenue	-	3,934	10,451	-
Total liabilities	<u>128,006</u>	<u>292,628</u>	<u>10,604</u>	<u>-</u>
Fund balances:				
Reserved for capital projects	556,026	-	134,880	-
Unreserved, undesignated	-	30,082	199,792	212,979
Total fund balances	<u>556,026</u>	<u>30,082</u>	<u>334,672</u>	<u>212,979</u>
Total liabilities and fund balances	<u>\$ 684,032</u>	<u>\$ 322,710</u>	<u>\$ 345,276</u>	<u>\$ 212,979</u>

Other Public Improvements	Total
\$ 69,517	\$ 1,617,624
168	1,655
-	15,403
312	312
69,997	1,634,994

1,869	418,722
-	14,385
1,869	433,107
-	690,906
68,128	510,981
68,128	1,201,887
\$ 69,997	\$ 1,634,994

City of Muscatine, Iowa

Non-Major Capital Projects Funds
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Year Ended June 30, 2004

	<u>Community Development Improvements</u>	<u>Street and Sidewalk Improvements</u>	<u>Other Street Improvements</u>	<u>Riverfront Improvement Projects</u>
Revenues:				
Intergovernmental:				
State grants	\$ -	\$ -	\$ -	\$ -
Sales tax refund	-	-	-	-
Interest	-	369	3,001	2,257
Special assessments	-	3,113	5,638	-
Other:				
Contributions	500	-	-	21,025
Reimbursement of costs	2,850	-	-	35
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	3,350	3,482	8,639	23,317
Expenditures:				
Capital outlay:				
Public works	-	548,989	22,077	3,257
Culture and recreation	-	-	-	58,110
Community and economic development	1,060,250	-	-	-
General government	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	1,060,250	548,989	22,077	61,367
Revenues over (under) expenditures	<hr/> <u>(1,056,900)</u>	<hr/> <u>(545,507)</u>	<hr/> <u>(13,438)</u>	<hr/> <u>(38,050)</u>
Other financing sources (uses):				
Tax increment revenue bonds issued	1,405,000	-	-	-
Transfers in	218,470	361,989	-	54,596
Transfers out	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	1,623,470	361,989	-	54,596
Net change in fund balances	566,570	(183,518)	(13,438)	16,546
Fund balances (deficits), June 30, 2003	<hr/> <u>(10,544)</u>	<hr/> <u>213,600</u>	<hr/> <u>348,110</u>	<hr/> <u>196,433</u>
Fund balances, June 30, 2004	<hr/> <u>\$ 556,026</u>	<hr/> <u>\$ 30,082</u>	<hr/> <u>\$ 334,672</u>	<hr/> <u>\$ 212,979</u>

<u>Other Public Improvements</u>	<u>Total</u>
\$ 45,000	\$ 45,000
312	312
1,105	6,732
-	8,751
33,934	55,459
-	2,885
<u>80,351</u>	<u>119,139</u>
-	574,323
68,058	126,168
-	1,060,250
6,688	6,688
<u>74,746</u>	<u>1,767,429</u>
<u>5,605</u>	<u>(1,648,290)</u>
900,000	2,305,000
-	635,055
<u>(912,835)</u>	<u>(912,835)</u>
<u>(12,835)</u>	<u>2,027,220</u>
(7,230)	378,930
<u>75,358</u>	<u>822,957</u>
<u>\$ 68,128</u>	<u>\$ 1,201,887</u>

City of Muscatine, Iowa

Non-Major Permanent Funds
Combining Balance Sheet
June 30, 2004

	<u>McWhirter- Gilmore Trust</u>	<u>Perpetual Care Trust</u>	<u>Perpetual Care Interest Trust</u>	<u>Cemetery Special Trusts</u>	<u>Total</u>
Assets:					
Cash and pooled investments	\$ 13,131	\$ 2,545	\$ -	\$ 7,981	\$ 23,657
Investments	120,000	780,000	-	80,000	980,000
Receivables:					
Interest	990	-	4,343	641	5,974
Advances to other funds	-	4,343	-	-	4,343
Total assets	<u>134,121</u>	<u>786,888</u>	<u>4,343</u>	<u>88,622</u>	<u>1,013,974</u>
Liabilities and fund balances					
Liabilities:					
Advances from other funds	-	-	4,343	-	4,343
Fund balances:					
Reserved for advances to other funds	-	4,343	-	-	4,343
Reserved for perpetual care	-	782,545	-	-	782,545
Reserved for endowments	134,121	-	-	88,622	222,743
Total fund balances	<u>134,121</u>	<u>786,888</u>	<u>-</u>	<u>88,622</u>	<u>1,009,631</u>
Total liabilities and fund balances	<u>\$ 134,121</u>	<u>\$ 786,888</u>	<u>\$ 4,343</u>	<u>\$ 88,622</u>	<u>\$ 1,013,974</u>

City of Muscatine, Iowa

Non-Major Permanent Funds
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Year Ended June 30, 2004

	McWhirter- Gilmore Trust	Perpetual Care Trust	Perpetual Care Interest Trust	Cemetery Special Trusts	Total
Revenues:					
Cemetery perpetual care	\$ -	\$ 8,100	\$ -	\$ -	\$ 8,100
Interest	1,709	-	18,834	2,062	22,605
Total revenues	1,709	8,100	18,834	2,062	30,705
Expenditures:					
Current:					
Culture and recreation	16,105	-	-	1,656	17,761
Revenues over (under) expenditures	(14,396)	8,100	18,834	406	12,944
Other financing uses:					
Transfers out	-	-	(18,834)	-	(18,834)
Net change in fund balances	(14,396)	8,100	-	406	(5,890)
Fund balances, June 30, 2003	148,517	778,788	-	88,216	1,015,521
Fund balances, June 30, 2004	\$ 134,121	\$ 786,888	\$ -	\$ 88,622	\$ 1,009,631

NON-MAJOR ENTERPRISE FUNDS

The Enterprise Funds are utilized to account for operations and activities that are financed and operated in a manner similar to a private business enterprise, and where the cost of providing goods and services to the general public on a continuing basis is expected to be recovered primarily through user charges. The City has also established Enterprise Funds when the determination has been made that it is advantageous to segregate revenues earned, expenses incurred and/or net income for purposes of capital maintenance, public policy, management control or accountability.

REFUSE COLLECTION - Accounts for the operations involved in the collection of refuse from residential dwellings and certain commercial businesses in the City.

AIRPORT OPERATIONS - Accounts for the activities of the Municipal Airport. This activity is supported by user charges and a subsidy from the General Fund.

PARKING OPERATIONS - Accounts for the operations of "on" and "off-street" parking meters and parking in designated lots. All activities necessary to provide for such services are accounted for in this fund including, but not limited to, meter enforcement, maintenance and administration.

TRANSIT OPERATIONS - Accounts for the operations of the municipal transit system. The system is funded from user fees, grants, and property taxes from a special levy.

GOLF COURSE - Accounts for the operation and maintenance of the Municipal Golf Course. This includes activities necessary to provide for the operation of the course as well as capital improvements.

BOAT HARBOR - Accounts for the operation and maintenance of the municipal boat harbor in addition to capital improvements to the harbor.

MARINA OPERATIONS - Accounts for the operation of the City's gas barge which provides fuel sales to boaters on the Mississippi River.

CABLE TELEVISION OPERATIONS - Accounts for the operation of the local government information access channel. Financing is solely from franchise fees received from the local cablevision provider. The funds are utilized for the operation and purchase of equipment for the development of governmental programs.

AMBULANCE OPERATIONS - Accounts for the Fire Department Ambulance Service which began providing service July 1, 2000.

PUBLIC HOUSING - Accounts for the operations of the City's public housing program which includes a 100-unit elderly housing facility, a 50-unit family facility and two scattered site housing units.

City of Muscatine, Iowa

Non-Major Enterprise Funds
Combining Statement of Net Assets
June 30, 2004

	Refuse Collection	Airport Operations	Parking Operations	Transit Operations	Golf Course
Assets:					
Current assets:					
Cash and pooled investments	\$ 121,277	\$ 177,692	\$ 39,754	\$ 262,143	\$ 47,035
Investments	-	-	-	-	-
Receivables (net of allowance for uncollectibles):					
Interest	594	-	344	967	-
Accounts	179,282	1,149	639	1,868	8,273
Intergovernmental:					
Federal	-	324,521	-	-	-
State	-	-	-	7,158	-
Advances to other funds	-	-	74,934	-	-
Inventories	-	-	-	-	-
Prepaid insurance	-	-	-	-	-
Total current assets	301,153	503,362	115,671	272,136	55,308
Noncurrent assets:					
Deferred charges	2,631	-	-	-	-
Capital assets:					
Land	-	987,380	579,686	-	80,000
Land improvements	-	7,506,549	464,008	-	1,102,678
Buildings and building improvements	1,312,083	656,860	-	14,231	618,132
Equipment	160,319	21,145	32,370	-	261,378
Vehicles	488,876	37,671	-	481,078	7,246
Construction in progress	-	586,083	-	-	-
Less accumulated depreciation	(676,840)	(4,671,269)	(240,442)	(425,001)	(868,408)
Total capital assets net of accumulated depreciation	1,284,438	5,124,419	835,622	70,308	1,201,026
Total noncurrent assets	1,287,069	5,124,419	835,622	70,308	1,201,026
Total assets	1,588,222	5,627,781	951,293	342,444	1,256,334
Liabilities:					
Current liabilities:					
Accounts payable and accruals	10,047	213,531	448	1,183	15,998
Retainages payable	-	9,965	-	-	-
Compensated absences payable	26,563	-	5,385	8,172	12,978
Advances from other funds	-	-	-	-	-
Deposits	-	-	-	-	-
Accrued interest payable	3,175	-	-	-	-
Deferred revenue	511	2,920	23,458	1,204	1,326
General obligation bonds	61,251	-	-	-	-
Total current liabilities	101,547	226,416	29,291	10,559	30,302
Noncurrent liabilities:					
General obligation bonds	714,524	-	-	-	-
Compensated absences	23,074	-	4,173	2,853	7,255
Total noncurrent liabilities	737,598	-	4,173	2,853	7,255
Total liabilities	839,145	226,416	33,464	13,412	37,557
Net assets:					
Invested in capital assets, net of related debt	508,663	5,124,419	835,622	70,308	1,201,026
Unrestricted	240,414	276,946	82,207	258,724	17,751
Total net assets	\$ 749,077	\$ 5,401,365	\$ 917,829	\$ 329,032	\$ 1,218,777

Boat Harbor	Marina Operations	Cable Television Operations	Ambulance Operations	Public Housing	Total
\$ 7,577	\$ -	\$ -	\$ 185,033	\$ 9,823	\$ 850,334
-	-	-	-	579,218	579,218
-	-	316	598	4,709	7,528
964	-	60,141	117,068	9,962	379,346
-	-	-	-	6,295	330,816
4,356	-	-	-	-	11,514
-	-	-	-	-	74,934
-	3,470	-	-	-	3,470
-	-	-	2,304	-	2,304
12,897	3,470	60,457	305,003	610,007	2,239,464
-	-	-	-	-	2,631
-	-	-	-	240,049	1,887,115
196,161	-	-	-	90,199	9,359,595
-	-	-	-	7,279,051	9,880,357
-	-	-	6,499	52,860	534,571
-	-	-	271,434	41,561	1,327,866
-	-	-	-	-	586,083
(100,173)	-	-	(157,050)	(3,998,235)	(11,137,418)
95,988	-	-	120,883	3,705,485	12,438,169
95,988	-	-	120,883	3,705,485	12,440,800
108,885	3,470	60,457	425,886	4,315,492	14,680,264
4,736	12	-	9,334	81,298	336,587
-	-	-	-	-	9,965
402	-	-	11,302	12,581	77,383
-	14,477	60,457	-	-	74,934
-	-	-	-	26,558	26,558
-	-	-	-	-	3,175
-	-	-	-	8,567	37,986
-	-	-	-	-	61,251
5,138	14,489	60,457	20,636	129,004	627,839
-	-	-	-	-	714,524
883	-	-	4,776	15,476	58,490
883	-	-	4,776	15,476	773,014
6,021	14,489	60,457	25,412	144,480	1,400,853
95,988	-	-	120,883	3,705,485	11,662,394
6,876	(11,019)	-	279,591	465,527	1,617,017
\$ 102,864	\$ (11,019)	\$ -	\$ 400,474	\$ 4,171,012	\$ 13,279,411

City of Muscatine, Iowa

Non-Major Enterprise Funds
 Combining Statement of Revenues, Expenses and Changes in Net Assets
 Year Ended June 30, 2004

	Refuse Collection	Airport Operations	Parking Operations	Transit Operations	Golf Course
Operating revenues:					
Charges for sales and services:					
Charges for services	\$ 1,253,431	\$ -	\$ -	\$ -	\$ -
Parking fees	-	-	166,965	-	-
Transit fees	-	-	-	86,731	-
Golf course fees	-	-	-	-	342,089
Boat harbor fees	-	-	-	-	-
Management fees	-	8,700	-	-	-
Rents	-	26,018	-	-	-
Franchise fees	-	-	-	-	-
Other	3,768	8,921	4,649	-	69,980
Total operating revenues	1,257,199	43,639	171,614	86,731	412,069
Operating expenses:					
Cost of sales and services:					
Personal services	437,006	-	139,318	436,581	178,403
Commodities	30,215	2,755	8,855	37,655	75,068
Contractual services	582,708	122,010	5,815	94,062	71,581
Administration	46,400	6,200	13,600	10,600	44,000
Depreciation	80,621	479,792	37,291	39,410	82,499
Total operating expenses	1,176,950	610,757	204,879	618,308	451,551
Operating income (loss)	80,249	(567,118)	(33,265)	(531,577)	(39,482)
Non-operating revenues (expenses):					
Federal, state and local grants	-	45,658	-	252,618	-
Interest revenue	2,118	-	1,484	3,438	392
Interest expense	(44,669)	-	-	-	-
Bond issuance costs	(263)	-	-	-	-
Gain (loss) on sale of fixed assets	3,108	(10,763)	-	-	-
Non-operating revenues (expenses), net	(39,706)	34,895	1,484	256,056	392
Income (loss) before capital contributions and transfers	40,543	(532,223)	(31,781)	(275,521)	(39,090)
Capital contributions - grants	-	251,682	-	-	-
Transfers in	-	935,649	-	149,902	-
Transfers out	-	-	(50,000)	-	-
Change in net assets	40,543	655,108	(81,781)	(125,619)	(39,090)
Net assets, June 30, 2003	708,534	4,746,257	999,610	454,651	1,257,867
Net assets, June 30, 2004	\$ 749,077	\$ 5,401,365	\$ 917,829	\$ 329,032	\$ 1,218,777

<u>Boat Harbor</u>	<u>Marina Operations</u>	<u>Cable Television Operations</u>	<u>Ambulance Operations</u>	<u>Public Housing</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 761,032	\$ -	\$ 2,014,463
-	-	-	-	-	166,965
-	-	-	-	-	86,731
-	-	-	-	-	342,089
16,941	-	-	-	-	16,941
-	-	-	-	-	8,700
-	-	-	-	355,048	381,066
-	-	236,479	-	-	236,479
2,611	7,129	-	31,400	18,154	146,612
<u>19,552</u>	<u>7,129</u>	<u>236,479</u>	<u>792,432</u>	<u>373,202</u>	<u>3,400,046</u>
11,820	1,959	-	458,377	283,285	1,946,749
488	5,418	186	40,985	76,901	278,526
7,571	1,053	21,551	102,407	233,022	1,241,780
11,800	-	9,400	107,800	-	249,800
9,807	-	-	40,075	238,337	1,007,832
<u>41,486</u>	<u>8,430</u>	<u>31,137</u>	<u>749,644</u>	<u>831,545</u>	<u>4,724,687</u>
<u>(21,934)</u>	<u>(1,301)</u>	<u>205,342</u>	<u>42,788</u>	<u>(458,343)</u>	<u>(1,324,641)</u>
-	-	-	-	252,891	551,167
55	-	1,161	1,693	9,466	19,807
-	-	-	-	-	(44,669)
-	-	-	-	-	(263)
-	-	-	-	-	(7,655)
<u>55</u>	<u>-</u>	<u>1,161</u>	<u>1,693</u>	<u>262,357</u>	<u>518,387</u>
(21,879)	(1,301)	206,503	44,481	(195,986)	(806,254)
-	-	-	-	112,919	364,601
-	-	-	-	-	1,085,551
-	-	(306,642)	-	-	(356,642)
(21,879)	(1,301)	(100,139)	44,481	(83,067)	287,256
<u>124,743</u>	<u>(9,718)</u>	<u>100,139</u>	<u>355,993</u>	<u>4,254,079</u>	<u>12,992,155</u>
<u>\$ 102,864</u>	<u>\$ (11,019)</u>	<u>\$ -</u>	<u>\$ 400,474</u>	<u>\$ 4,171,012</u>	<u>\$ 13,279,411</u>

City of Muscatine, Iowa
Non-Major Enterprise Funds
Combining Statement of Cash Flows
Year Ended June 30, 2004

	Refuse Collection	Airport Operations	Parking Operations	Transit Operations	Golf Course
Cash flows from operating activities					
Receipts from customers and users	\$ 1,249,788	\$ 43,790	\$ 174,368	\$ 84,819	\$ 411,723
Payments to suppliers	(526,666)	(126,087)	(14,887)	(49,013)	(147,139)
Payments to employees	(318,822)	-	(109,199)	(367,288)	(138,926)
Payments for employee benefits	(113,918)	-	(28,437)	(68,571)	(37,192)
Payments for interfund services used	(142,741)	(8,518)	(13,600)	(94,601)	(44,423)
Net cash provided (used) by operating activities	<u>147,641</u>	<u>(90,815)</u>	<u>8,245</u>	<u>(494,654)</u>	<u>44,043</u>
Cash flows from noncapital financing activities					
Transfers to other funds	-	-	(50,000)	-	-
Transfers from other funds	-	935,649	-	149,902	-
Advances from other funds	-	-	-	-	-
Advances to other funds	-	-	(74,934)	-	-
Repayment of advances to other funds	-	(71,494)	-	-	-
Repayment of advances from other funds	-	-	-	-	-
Subsidies from federal, state and local grants	-	-	-	251,816	-
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>864,155</u>	<u>(124,934)</u>	<u>401,718</u>	<u>-</u>
Cash flows from capital and related financing activities					
Capital contributions	-	-	-	-	-
Purchase of capital assets	(108,030)	(595,648)	-	-	(41,945)
Principal paid on capital debt	(62,344)	-	-	-	-
Interest paid on capital debt	(40,769)	-	-	-	-
Proceeds from sales of capital assets	3,108	-	-	-	-
Net cash provided (used) by capital and related financing activities	<u>(208,035)</u>	<u>(595,648)</u>	<u>-</u>	<u>-</u>	<u>(41,945)</u>
Cash flows from investing activities					
Proceeds from sales and maturities of investments	-	-	-	-	-
Purchase of investments	-	-	-	-	-
Interest received	1,923	-	1,409	3,194	392
Net cash provided (used) by investing activities	<u>1,923</u>	<u>-</u>	<u>1,409</u>	<u>3,194</u>	<u>392</u>
Net increase (decrease) in cash and pooled investments	(58,471)	177,692	(115,280)	(89,742)	2,490
Cash and pooled investments, June 30, 2003	<u>179,748</u>	<u>-</u>	<u>155,034</u>	<u>351,885</u>	<u>44,545</u>
Cash and pooled investments, June 30, 2004	<u>\$ 121,277</u>	<u>\$ 177,692</u>	<u>\$ 39,754</u>	<u>\$ 262,143</u>	<u>\$ 47,035</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Cash flows from operating activities:					
Operating income (loss)	\$ 80,249	\$ (567,118)	\$ (33,265)	\$ (531,577)	\$ (39,482)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	80,621	479,792	37,291	39,410	82,499
Changes in assets and liabilities:					
(Increase) decrease in:					
Accounts receivable	(7,570)	(385)	991	(1,327)	(524)
Inventories	-	-	-	-	-
Prepaid insurance	-	-	-	-	-
Increase (decrease) in:					
Accounts payable and accruals	(10,083)	(3,640)	(216)	(1,296)	(912)
Compensated absences payable	4,265	-	1,681	721	2,284
Deferred revenue	159	536	1,763	(585)	178
Deposits	-	-	-	-	-
Total adjustments	<u>67,392</u>	<u>476,303</u>	<u>41,510</u>	<u>36,923</u>	<u>83,525</u>
Net cash provided (used) by operating activities	<u>\$ 147,641</u>	<u>\$ (90,815)</u>	<u>\$ 8,245</u>	<u>\$ (494,654)</u>	<u>\$ 44,043</u>

Boat Harbor	Marina Operations	Cable Television Operations	Ambulance Operations	Public Housing	Total
\$ 18,588	\$ 7,346	\$ 228,386	\$ 795,948	\$ 368,493	\$ 3,383,249
(5,779)	(7,665)	(22,619)	(136,452)	(315,675)	(1,351,982)
(8,329)	(1,682)	-	(347,784)	(219,968)	(1,511,998)
(3,291)	(277)	-	(109,419)	(60,317)	(421,422)
(11,800)	-	(9,400)	(116,538)	(46,543)	(488,164)
<u>(10,611)</u>	<u>(2,278)</u>	<u>196,367</u>	<u>85,755</u>	<u>(274,010)</u>	<u>(390,317)</u>
-	-	(306,642)	-	-	(356,642)
-	-	-	-	-	1,085,551
-	2,278	60,457	-	-	62,735
-	-	-	-	-	(74,934)
-	-	27,493	-	-	(44,001)
(15,295)	-	-	-	-	(15,295)
-	-	-	-	250,201	502,017
<u>(15,295)</u>	<u>2,278</u>	<u>(218,692)</u>	<u>-</u>	<u>250,201</u>	<u>1,159,431</u>
33,428	-	-	-	149,132	182,560
-	-	-	-	(334,696)	(1,080,319)
-	-	-	-	-	(62,344)
-	-	-	-	-	(40,769)
-	-	-	-	-	3,108
<u>33,428</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(185,564)</u>	<u>(997,764)</u>
-	-	-	-	1,246,430	1,246,430
-	-	-	-	(1,041,347)	(1,041,347)
55	-	1,014	1,274	9,854	19,115
<u>55</u>	<u>-</u>	<u>1,014</u>	<u>1,274</u>	<u>214,937</u>	<u>224,198</u>
7,577	-	(21,311)	87,029	5,564	(4,452)
-	-	21,311	98,004	4,259	854,786
<u>\$ 7,577</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 185,033</u>	<u>\$ 9,823</u>	<u>\$ 850,334</u>
<u>\$ (21,934)</u>	<u>\$ (1,301)</u>	<u>\$ 205,342</u>	<u>\$ 42,788</u>	<u>\$ (458,343)</u>	<u>\$ (1,324,641)</u>
9,807	-	-	40,075	238,337	1,007,832
(964)	217	(8,093)	3,516	(5,230)	(19,369)
-	(853)	-	-	-	(853)
-	-	-	(2,304)	-	(2,304)
2,280	(341)	(882)	507	(52,295)	(66,878)
200	-	-	1,173	3,000	13,324
-	-	-	-	1,020	3,071
-	-	-	-	(499)	(499)
<u>11,323</u>	<u>(977)</u>	<u>(8,975)</u>	<u>42,967</u>	<u>184,333</u>	<u>934,324</u>
<u>\$ (10,611)</u>	<u>\$ (2,278)</u>	<u>\$ 196,367</u>	<u>\$ 85,755</u>	<u>\$ (274,010)</u>	<u>\$ (390,317)</u>

INTERNAL SERVICE FUNDS

Internal Service Funds are established to finance and account for services and commodities furnished by one department or agency of the City to other departments or agencies of the City. Internal Service Funds are as follows:

EQUIPMENT SERVICES FUND - Accounts for the operations and maintenance of the central garage. All costs incurred for the maintenance of City vehicles and operation of the facility are charged to departments on a cost reimbursement basis.

CENTRAL SUPPLIES FUND - Accounts for the central inventory of office supplies which are provided to City departments on a cost reimbursement basis.

HEALTH INSURANCE FUND - Accounts for the costs related to the City's self-insurance plan which provides health insurance benefits to employees.

DENTAL INSURANCE FUND - Accounts for the costs related to the City's self-insurance plan which provides dental insurance benefits to employees.

City of Muscatine, Iowa

Internal Service Funds
Combining Statement of Net Assets
June 30, 2004

	Equipment Services	Central Supplies	Health Insurance	Dental Insurance	Total
Assets:					
Current assets:					
Cash and pooled investments	\$ 57,443	\$ -	\$ 904,250	\$ 10,569	\$ 972,262
Receivables:					
Interest	-	-	3,047	-	3,047
Accounts	3,502	-	-	-	3,502
Advances to other funds	-	-	941	-	941
Inventories	99,443	1,679	-	-	101,122
Total current assets	160,388	1,679	908,238	10,569	1,080,874
Capital assets:					
Equipment	116,928	-	-	-	116,928
Vehicles	17,980	-	-	-	17,980
Less accumulated depreciation	(123,267)	-	-	-	(123,267)
Total capital assets net of accumulated depreciation	11,641	-	-	-	11,641
Total assets	172,029	1,679	908,238	10,569	1,092,515
Liabilities:					
Current liabilities:					
Accounts payable and accruals	30,633	-	189,243	10,602	230,478
Compensated absences payable	13,692	-	-	-	13,692
Advances from other funds	-	941	-	-	941
Total current liabilities	44,325	941	189,243	10,602	245,111
Noncurrent liabilities:					
Compensated absences payable	13,930	-	-	-	13,930
Total liabilities	58,255	941	189,243	10,602	259,041
Net assets:					
Invested in capital assets, net of related debt	11,641	-	-	-	11,641
Unrestricted	102,133	738	718,995	(33)	821,833
Total net assets	\$ 113,774	\$ 738	\$ 718,995	\$ (33)	\$ 833,474

City of Muscatine, Iowa

Internal Service Funds
 Combining Statement of Revenues, Expenses and Changes in Net Assets
 Year Ended June 30, 2004

	Equipment Services	Central Supplies	Health Insurance	Dental Insurance	Total
Operating revenues:					
Charges for sales and services:					
Services	\$ 401,557	\$ -	\$ -	\$ -	\$ 401,557
Fuel	201,119	-	-	-	201,119
Supply charges	-	2,568	-	-	2,568
Employer contributions	-	-	1,362,088	47,202	1,409,290
Employee contributions	-	-	37,009	37,792	74,801
Other contributions	-	-	50,174	839	51,013
Total operating revenues	<u>602,676</u>	<u>2,568</u>	<u>1,449,271</u>	<u>85,833</u>	<u>2,140,348</u>
Operating expenses:					
Cost of sales and services:					
Personal services	180,239	-	-	-	180,239
Commodities	297,836	2,594	-	-	300,430
Contractual services	107,187	-	1,382,329	84,827	1,574,343
Administration	11,600	-	-	-	11,600
Depreciation	3,767	-	-	-	3,767
Total operating expenses	<u>600,629</u>	<u>2,594</u>	<u>1,382,329</u>	<u>84,827</u>	<u>2,070,379</u>
Operating income (loss)	2,047	(26)	66,942	1,006	69,969
Non-operating revenues:					
Interest revenue	-	-	10,477	86	10,563
Income (loss) before transfers	2,047	(26)	77,419	1,092	80,532
Transfers out	-	-	(42,836)	-	(42,836)
Change in net assets	2,047	(26)	34,583	1,092	37,696
Net assets, June 30, 2003	<u>111,727</u>	<u>764</u>	<u>684,412</u>	<u>(1,125)</u>	<u>795,778</u>
Net assets, June 30, 2004	<u>\$ 113,774</u>	<u>\$ 738</u>	<u>\$ 718,995</u>	<u>\$ (33)</u>	<u>\$ 833,474</u>

City of Muscatine, Iowa

Internal Service Funds
 Combining Statement of Cash Flows
 Year Ended June 30, 2004

	Equipment Services	Central Supplies	Health Insurance	Dental Insurance	Total
Cash flows from operating activities					
Receipts from interfund services provided	\$ 604,251	\$ 2,568	\$ 1,445,588	\$ 85,833	\$ 2,138,240
Payments to suppliers	(391,354)	(2,220)	(1,364,695)	(83,705)	(1,841,974)
Payments to employees	(128,553)	-	-	-	(128,553)
Payments for employee benefits	(46,885)	-	-	-	(46,885)
Payments for interfund services used	(11,600)	-	-	-	(11,600)
Net cash provided (used) by operating activities	<u>25,859</u>	<u>348</u>	<u>80,893</u>	<u>2,128</u>	<u>109,228</u>
Cash flows from noncapital financing activities					
Transfers to other funds	-	-	(42,836)	-	(42,836)
Repayment of advances from other funds	-	(348)	-	-	(348)
Repayment of advances to other funds	-	-	348	-	348
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>(348)</u>	<u>(42,488)</u>	<u>-</u>	<u>(42,836)</u>
Cash flows from capital and related financing activities					
Purchase of capital assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities					
Interest received	<u>-</u>	<u>-</u>	<u>9,115</u>	<u>86</u>	<u>9,201</u>
Net increase in cash and pooled investments	25,859	-	47,520	2,214	75,593
Cash and pooled investments, June 30, 2003	<u>31,584</u>	<u>-</u>	<u>856,730</u>	<u>8,355</u>	<u>896,669</u>
Cash and pooled investments, June 30, 2004	<u>\$ 57,443</u>	<u>\$ -</u>	<u>\$ 904,250</u>	<u>\$ 10,569</u>	<u>\$ 972,262</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Cash flows from operating activities:					
Operating income (loss)	\$ 2,047	\$ (26)	\$ 66,942	\$ 1,006	\$ 69,969
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	3,767	-	-	-	3,767
Changes in assets and liabilities:					
(Increase) decrease in:					
Accounts receivable	1,576	-	-	-	1,576
Inventories	4,872	406	-	-	5,278
Increase (decrease) in:					
Accounts payable and accruals	8,796	(32)	17,634	1,122	27,520
Compensated absences payable	4,801	-	-	-	4,801
Deferred revenue	-	-	(3,683)	-	(3,683)
Total adjustments	<u>23,812</u>	<u>374</u>	<u>13,951</u>	<u>1,122</u>	<u>39,259</u>
Net cash provided (used) by operating activities	<u>\$ 25,859</u>	<u>\$ 348</u>	<u>\$ 80,893</u>	<u>\$ 2,128</u>	<u>\$ 109,228</u>

FIDUCIARY FUNDS

AGENCY FUNDS

Agency Funds are those used to account for assets held by a government as an agent for individuals, private organizations, or other governments or funds.

PAYROLL CLEARING FUND - Accounts for the collection and payment of employee payroll withholdings and City contributions for payroll taxes.

MISCELLANEOUS CLEARING FUND - Accounts for general City expenditures to be allocated to other funds and miscellaneous funds received by the City as an agent for individuals, organizations or other funds.

HOUSING REVOLVING FUND - Accounts for general City expenditures allocated to the City's Housing Programs, which are reimbursed by the Housing Programs.

VEHICLE IMPOUND FUND - Accounts for net proceeds from the sale of abandoned vehicles required to be remitted to the State of Iowa.

City of Muscatine, Iowa

Combining Statement of Fiduciary Assets and Liabilities
 Agency Funds
 June 30, 2004

	<u>Payroll Clearing</u>	<u>Miscellaneous Clearing</u>	<u>Housing Revolving</u>	<u>Vehicle Impound</u>	<u>Totals</u>
Assets:					
Cash and pooled investments	\$ 599,576	\$ 4	\$ -	\$ 1,150	\$ 600,730
Accounts receivable	-	2	44,257	5,856	50,115
Advances to other funds	44,083	-	-	-	44,083
Total assets	<u>643,659</u>	<u>6</u>	<u>44,257</u>	<u>7,006</u>	<u>694,928</u>
Liabilities:					
Accounts payable and accruals	643,659	6	174	7,006	650,845
Advances from other funds	-	-	44,083	-	44,083
Total liabilities	<u>\$ 643,659</u>	<u>\$ 6</u>	<u>\$ 44,257</u>	<u>\$ 7,006</u>	<u>\$ 694,928</u>

City of Muscatine, Iowa

Combining Statement of Changes in Assets and Liabilities
All Agency Funds
Year Ended June 30, 2004

	Balance June 30, 2003	Increases	Decreases	Balance June 30, 2004
<u>Payroll Clearing Fund</u>				
Assets:				
Cash and pooled investments	\$ 490,135	\$ 11,979,924	\$ 11,870,483	\$ 599,576
Advances to other funds	48,135	-	4,052	44,083
Total assets	<u>\$ 538,270</u>	<u>\$ 11,979,924</u>	<u>\$ 11,874,535</u>	<u>\$ 643,659</u>
Liabilities:				
Accounts payable and accruals	<u>\$ 538,270</u>	<u>\$ 3,796,879</u>	<u>\$ 3,691,490</u>	<u>\$ 643,659</u>
<u>Miscellaneous Clearing Fund</u>				
Assets:				
Cash and pooled investments	\$ -	\$ 4	-	\$ 4
Accounts receivable	8,050	-	8,048	2
Total assets	<u>\$ 8,050</u>	<u>\$ 4</u>	<u>\$ 8,048</u>	<u>\$ 6</u>
Liabilities:				
Accounts payable and accruals	\$ -	\$ 6	-	\$ 6
Advances from other funds	8,050	-	8,050	-
Total liabilities	<u>\$ 8,050</u>	<u>\$ 6</u>	<u>\$ 8,050</u>	<u>\$ 6</u>
<u>Housing Revolving Fund</u>				
Assets:				
Accounts receivable	<u>\$ 41,123</u>	<u>\$ 3,134</u>	<u>-</u>	<u>\$ 44,257</u>
Liabilities:				
Accounts payable and accruals	\$ 1,038	\$ -	\$ 864	\$ 174
Advances from other funds	40,085	3,998	-	44,083
Total liabilities	<u>\$ 41,123</u>	<u>\$ 3,998</u>	<u>\$ 864</u>	<u>\$ 44,257</u>
<u>Vehicle Impound Fund</u>				
Assets:				
Cash and pooled investments	\$ 2,575	\$ 46,748	\$ 48,173	\$ 1,150
Accounts receivable	7,828	5,856	7,828	5,856
Total assets	<u>\$ 10,403</u>	<u>\$ 52,604</u>	<u>\$ 56,001</u>	<u>\$ 7,006</u>
Liabilities:				
Accounts payable and accruals	<u>\$ 10,403</u>	<u>\$ 85,151</u>	<u>\$ 88,548</u>	<u>\$ 7,006</u>
<u>Total</u>				
Assets:				
Cash and pooled investments	\$ 492,710	\$ 12,026,676	\$ 11,918,656	\$ 600,730
Accounts receivable	57,001	8,990	15,876	50,115
Advances to other funds	48,135	-	4,052	44,083
Total assets	<u>\$ 597,846</u>	<u>\$ 12,035,666</u>	<u>\$ 11,938,584</u>	<u>\$ 694,928</u>
Liabilities:				
Accounts payable and accruals	\$ 549,711	\$ 3,882,036	\$ 3,780,902	\$ 650,845
Advances from other funds	48,135	3,998	8,050	44,083
Total liabilities	<u>\$ 597,846</u>	<u>\$ 3,886,034</u>	<u>\$ 3,788,952</u>	<u>\$ 694,928</u>

Table 1

City of Muscatine, Iowa

General Government Expenditures by Function (1)
Last Ten Fiscal Years
(Unaudited)

<u>Fiscal Year</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Health and Social Services</u>	<u>Culture and Recreation</u>	<u>Community and Economic Development</u>	<u>General Government</u>	<u>Debt Service</u>	<u>Total</u>
1994/95								\$ 13,185,757 (2)
1995/96								12,561,098 (2)
1996/97								12,840,954 (2)
1997/98	\$ 4,131,473	\$ 1,512,449	\$ 159,500	\$ 1,955,338	\$ 2,548,228	\$ 1,282,017	\$ 1,554,335	13,143,340
1998/99	4,545,645	1,517,109	136,050	2,119,310	2,115,723	1,325,189	1,672,303	13,431,329
1999/2000	4,596,289	1,766,951	186,121	2,193,259	1,827,385 (3)	1,465,108	1,487,439	13,522,552
2000/2001	4,777,817	1,816,869	53,150	2,273,611	1,957,322	1,658,824	1,503,292	14,040,885
2001/2002	5,009,197	1,701,722	49,200	2,328,587	2,518,100	1,622,373	1,935,598	15,164,777
2002/2003	5,159,266	1,740,813	18,400	2,549,678	2,436,092	1,631,662	1,970,296	15,506,207
2003/2004	5,358,467	1,516,035	16,560	2,455,820	2,800,999	1,646,406	2,079,467	15,873,754

1. Includes general, special revenue and debt service funds.
2. General government expenditures by current function classifications not available prior to 1997/1998.
3. Effective in 1999/2000, the public housing program was changed from a special revenue fund to an enterprise fund.

Table 2

City of Muscatine, Iowa
 General Government Revenues by Source (1)
 Last Ten Fiscal Years
 (Unaudited)

<u>Fiscal Year</u>	<u>Taxes</u>	<u>Licenses and Permits</u>	<u>Fines and Forfeitures</u>	<u>Intergovernmental</u>	<u>Charges for Services</u>	<u>Use of Money and Property</u>	<u>Miscellaneous</u>	<u>Total</u>
1994/95	\$ 9,103,682	\$ 253,564	\$ 93,303	\$ 4,567,397	\$ 325,913	\$ 518,525	\$ 416,072	\$ 15,278,456
1995/96	9,312,525	221,546	103,718	3,751,551	350,699	566,370	640,751	14,947,160
1996/97	9,875,298	227,388	117,207	3,994,096	372,991	566,561	691,201	15,844,742
1997/98	10,092,310	300,294	131,100	4,067,420	344,692	613,654	549,681	16,099,151
1998/99	10,372,182	195,727	141,260	3,790,263	385,492	661,629	523,763	16,070,316
1999/2000	10,689,867	215,766	164,953	3,848,371	405,083	382,187	484,561	16,190,788
2000/2001	11,388,288	226,706	148,759	4,222,790	374,289	358,124	600,954	17,319,910
2001/2002	11,536,099	214,632	142,024	4,403,277	356,687	179,817	633,794	17,466,330
2002/2003	12,184,799	237,283	156,130	4,255,859	306,335	171,299	756,284	18,067,989
2003/2004	12,571,769	312,573	143,730	4,345,987	390,484	222,359	686,245	18,673,147

1. Includes general, special revenue and debt service funds.

City of Muscatine, Iowa

**General Government Tax Revenue by Source
Last Ten Fiscal Years
(Unaudited)**

<u>Fiscal Year</u>	<u>General Property Tax</u>	<u>Incremental Property Tax</u>	<u>Utility Excise Tax (1)</u>	<u>Mobile Home Tax</u>	<u>Hotel/Motel Tax</u>	<u>Bank Franchise Tax (2)</u>	<u>Local Option Sales Tax</u>	<u>Total</u>
1994/95	\$ 7,095,038	\$ 114,511	\$ -	\$ 18,640	\$ 243,642	\$ 111,341	\$ 1,520,510	\$ 9,103,682
1995/96	7,067,954	141,704	-	16,178	257,174	60,678	1,768,837	9,312,525
1996/97	7,204,490	145,349	-	18,523	267,781	76,207	2,162,948	9,875,298
1997/98	7,472,791	187,579	-	18,859	286,572	56,784	2,069,725	10,092,310
1998/99	7,467,075	322,425	-	17,107	298,822	-	2,266,753	10,372,182
1999/2000	7,701,160	469,764	-	17,118	294,318	-	2,207,507	10,689,867
2000/2001	7,974,925	544,471	68,144	18,010	330,850	-	2,451,888	11,388,288
2001/2002	8,544,437	637,922	72,767	19,366	276,207	-	1,985,400	11,536,099
2002/2003	8,959,144	749,270	79,468	18,420	274,654	-	2,103,843	12,184,799
2003/2004	9,176,000	789,101	67,339	18,420	310,798	-	2,210,111	12,571,769

1. Gas and electric utilities were assessed general property taxes based on assessed valuations through 1999/2000; beginning in 2000/2001 these utilities are subject to an excise tax based on the amount of energy delivered in a one year period.
2. Bank franchise tax revenue classified as intergovernmental revenue beginning in 1998/99.

Table 3

City of Muscatine, Iowa

Property Tax Levies and Collections
Last Ten Fiscal Years
(Unaudited)

<u>Fiscal Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections (1)</u>	<u>Percent of Current Taxes Collected</u>	<u>Delinquent Tax Collections (1)</u>	<u>Total Tax Collections (1)</u>	<u>Ratio of Total Tax Collections to Total Tax Levy</u>
1994/95	\$ 7,164,612	\$ 7,079,967	98.8%	\$ 23,716	\$ 7,103,683	99.15%
1995/96	7,138,245	7,062,798	98.9%	5,252	7,068,050	99.02%
1996/97	7,282,264	7,237,981	99.4%	3,101	7,241,082	99.43%
1997/98	7,533,340	7,471,347	99.2%	1,444	7,472,791	99.20%
1998/99	7,560,049	7,465,048	98.7%	2,027	7,467,075	98.77%
1999/2000	7,752,936	7,699,537	99.3%	1,623	7,701,160	99.33%
2000/2001	8,026,525	7,974,736	99.4%	189	7,974,925	99.36%
2001/2002	8,631,013	8,543,226	99.0%	1,211	8,544,437	99.00%
2002/2003	8,997,159	8,957,497	99.6%	1,647	8,959,144	99.58%
2003/2004	9,180,577	9,170,392	99.9%	5,608	9,176,000	99.95%

1. Tax collections reflect payments received by the Muscatine County Treasurer's office from July 1 through June 30 of each year. Taxes levied for the current year are classified as delinquent if not paid by June 30 each year.

City of Muscatine, Iowa

Assessed and Estimated Actual Value of Property
Last Ten Fiscal Years
(Unaudited)

Collection Year	Real Property		Utilities		Military Exemption
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Real Property
1994/95	\$ 532,951,637	\$ 652,782,421	\$ 13,943,490	\$ 13,943,490	\$ 3,385,820
1995/96	547,897,830	671,237,727	11,142,799	11,462,723	3,325,627
1996/97	539,550,635	721,343,141	10,400,773	10,406,517	3,254,326
1997/98	549,560,139	732,630,353	10,214,909	10,214,909	3,220,628
1998/99	561,663,114	782,644,353	10,710,915	10,717,885	3,149,442
1999/2000	584,809,493	796,494,570	11,680,094	11,680,094	3,069,850
2000/2001	590,368,783	815,381,924	6,143,188 (1)	6,146,267 (1)	2,949,646
2001/2002	613,400,400	833,832,752	6,095,471	6,095,471	2,857,078
2002/2003	619,377,611	916,590,756	6,739,905	6,741,897	2,772,444
2003/2004	610,168,821	908,712,628	7,163,614	7,163,614	2,679,844

1. Beginning in 2000/2001 gas and electric utilities have been excluded from the values shown as the taxation of these utilities is no longer based on assessed values. These utilities will pay an excise tax based on the amount of energy delivered in a one year period.

Table 4

<u>Total</u>		
<u>Assessed Value</u>	<u>Estimated Actual Value</u>	<u>Ratio of Total Assessed Value to Total Estimated Actual Value</u>
\$ 543,509,307	\$ 666,725,911	81.5%
555,715,002	682,700,450	81.4%
546,697,082	731,749,658	74.7%
556,554,420	742,845,262	74.9%
569,224,587	793,362,238	71.7%
593,419,737	808,174,664	73.4%
593,562,325	821,528,191	72.3%
616,638,793	839,928,223	73.4%
623,345,072	923,332,653	67.5%
614,652,591	915,876,242	67.1%

City of Muscatine, Iowa

Property Tax Rates for Direct and Overlapping Governments
 (Per \$1,000 of Valuation)
 Last Ten Fiscal Years
 (Unaudited)

Fiscal Year	City	County Consolidated	School Districts		Totals by School District	
			Muscatine Community	Louisa-Muscatine Community	Muscatine Community	Louisa-Muscatine Community
1994/95	\$ 13.19860	\$ 8.80236	\$ 17.23509	\$ 13.15443	\$ 39.23605	\$ 35.15539
1995/96	12.85667	7.76513	17.21905	13.33267	37.84085	33.95447
1996/97	13.32421	7.77573	15.84077	12.55649	36.94071	33.65643
1997/98	13.52104	7.72170	15.59428	12.54750	36.83702	33.79024
1998/99	13.24425	7.80018	16.00286	12.62077	37.04729	33.66520
1999/2000	13.03131	7.73462	15.06575	12.99862	35.83168	33.76455
2000/2001	13.46552	7.74389	14.34646	13.87696	35.55587	35.08637
2001/2002	13.93626	7.61234	14.41514	14.40012	35.96374	35.94872
2002/2003	14.35640	7.66580	14.56445	15.75821	36.58665	37.78041
2003/2004	14.84914	7.58716	15.51555	13.86347	37.95185	36.29977

Source: Muscatine County Auditor's Office

City of Muscatine, Iowa

Principal Taxpayers
(Unaudited)

<u>Taxpayer</u>	<u>Type of Business</u>	<u>January 1, 2002 Assessed Valuation</u>	<u>Percent of Total Assessed Value</u>
HNI Corporation (HON Industries/HON Financial)	Office furniture manufacturer	\$ 43,673,330	7.1%
Grain Processing/Kent Feeds	Corn distillates, livestock feed, soybeans and forage seeds	37,559,680	6.1%
Bandag, Inc.	Pre-cured tread rubber and related equipment and supplies	16,820,840	2.7%
Heinz, U.S.A.	Food processing	10,259,450	1.7%
Wal-Mart Stores, Inc.	Discount store	8,956,790	1.5%
Davenport Farm & Fleet, Inc. (Blain's Farm & Fleet)	Retail store	6,785,350	1.1%
BT Prime Mover	Industrial trucks and endloaders	6,037,150	1.0%
Muscatine Mall Associates LLP	Shopping mall	5,911,740	1.0%
Hy-Vee Inc.	Grocery store	5,896,680	1.0%
SECO Investment Co. (Stanley Engineering Co.)	Engineers and architects	5,845,690	1.0%
Central State Bank	Bank	5,314,880	0.9%
TJD, LLC (CAM II)	Warehousing	4,491,240	0.7%
First National Bank of Muscatine	Bank	4,261,670	0.7%
Pretium Packaging	Packaging products	3,181,540	0.5%
		<u>\$ 164,996,030</u>	<u>27.0%</u>

Source: Muscatine County Auditor's Office

City of Muscatine, Iowa
Computation of Legal Debt Margin
June 30, 2004
(Unaudited)

Total assessed valuation as of January 1, 2003		<u>\$ 935,583,731</u>
Debt limit - 5% of assessed valuation		\$ 46,779,187
Amount of debt applicable to debt limit:		
General obligation bonds	\$ 15,480,000	
Lease-purchase obligation	12,039	
Tax increment revenue bonds	<u>3,505,000</u>	
		<u>18,997,039</u>
Legal debt margin		<u>\$ 27,782,148</u>

City of Muscatine, Iowa

**Ratio of Net General Obligation Bonded Debt
to Assessed Value and Net General Obligation Bonded Debt Per Capita
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year	Popula- tion (1)	Assessed Value (2)	Gross General Obligation Bonded Debt (3)	Less Debt Service Fund	Debt Payable From Enterprise Funds (4)	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
1994/95	22,881	\$ 543,509,307	\$ 16,919,235	\$ 494,193	\$ 9,257,262	\$ 7,167,780	1.3188%	\$ 313.26
1995/96	22,881	555,715,002	18,661,369	105,212	11,107,826	7,448,331	1.3403%	325.52
1996/97	22,881	546,697,082	18,261,455	104,688	9,973,798	8,182,969	1.4968%	357.63
1997/98	22,881	556,554,420	17,107,743	168,044	9,277,195	7,662,504	1.3768%	334.89
1998/99	22,881	569,224,587	19,211,724	91,279	12,297,321	6,823,124	1.1987%	298.20
1999/2000	22,881	593,419,737	17,450,181	103,468	11,541,643	5,805,070	0.9782%	253.71
2000/2001	22,697	593,562,325	19,928,951	121,610	10,773,739	9,033,602	1.5219%	398.01
2001/2002	22,697	616,638,793	17,907,721	64,261	9,990,914	7,852,546	1.2734%	345.97
2002/2003	22,697	623,345,072	17,436,203	63,388	9,163,088	8,209,727	1.3170%	361.71
2003/2004	22,697	614,652,591	15,050,795	61,560	8,315,054	6,674,181	1.0858%	294.06

1. Source: U.S. Census Bureau.
2. See Table 4.
3. Amount does not include special assessment bonds and revenue bonds.
4. These amounts reflect general obligation bonds that are being repaid from enterprise fund revenues.

City of Muscatine, Iowa

**Ratio of Annual Debt Service Expenditures
for General Obligation Bonded Debt (1)
to Total General Government Expenditures
Last Ten Fiscal Years
(Unaudited)**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest (2)</u>	<u>Total Debt Service</u>	<u>Total General Government Expenditures (3)</u>	<u>Ratio of Debt Service to General Government Expenditures</u>
1994/95	\$ 1,032,015	\$ 357,059	\$ 1,389,074	\$ 13,185,757	10.5%
1995/96	1,283,430	324,704	1,608,134	12,561,097	12.8%
1996/97	1,000,886	318,431	1,319,317	12,840,954	10.3%
1997/98	1,097,109	365,888	1,462,997	13,143,340	11.1%
1998/99	1,176,145	348,178	1,524,323	13,431,329	11.3%
1999/2000	1,005,865	310,895	1,316,760	13,522,552	9.7%
2000/2001	1,053,326	267,711	1,321,037	14,040,885	9.4%
2001/2002	1,338,404	399,359	1,737,763	15,164,777	11.5%
2002/2003	1,457,174	300,606	1,757,780	15,506,207	11.3%
2003/2004	1,538,404	321,561	1,859,965	15,873,754	11.7%

1. General obligation bonds reported in the enterprise funds have been excluded.
2. Excludes paying agent costs.
3. Includes general, special revenue and debt service funds.

City of Muscatine, Iowa

**Computation of Direct and Overlapping Bonded Debt
General Obligation Bonds
June 30, 2004
(Unaudited)**

	<u>Net General Bonded Debt June 30, 2004</u>	<u>Percent Applicable to City</u>	<u>Direct and Overlapping Debt</u>
Direct:			
City of Muscatine	\$ 6,735,741 (1)	100.00%	\$ 6,735,741
Overlapping:			
Muscatine Community School District	\$ 1,495,000	70.20%	\$ 1,049,490
Louisa-Muscatine School District	2,470,000	14.53%	358,891
Muscatine County	4,725,000	46.85%	2,213,663
Eastern Iowa Community College	<u>33,140,000</u>	7.27%	<u>2,409,278</u>
Total overlapping	<u>\$ 41,830,000</u>		<u>\$ 6,031,322</u>
Total direct and overlapping debt	<u><u>\$ 48,565,741</u></u>		<u><u>\$ 12,767,063</u></u>

1. Excludes general obligation bonds reported in enterprise funds.

Sources:

Muscatine Community School District
Louisa-Muscatine School District
Muscatine County Auditor's Office
Eastern Iowa Community College

City of Muscatine, Iowa

Construction, Property Value and Bank Deposits
Last Ten Calendar Years
(Unaudited)

Building Permits (1)

<u>Year</u>	<u>Commercial Construction</u>		<u>Industrial Construction</u>		<u>Residential Construction</u>	
	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>
1994	11	\$ 17,806,806	5	\$ 7,436,530	38	\$ 4,212,082
1995	16	10,276,670	4	923,363	41	3,874,978
1996	10	10,850,176	5	9,644,900	35	6,693,873
1997	14	6,158,120	10	10,527,677	27	2,608,105
1998	8	3,115,564	11	13,584,203	39	4,645,476
1999	8	4,131,582	7	4,004,736	18	4,456,855
2000	6	1,794,096	7	1,703,593	23	4,390,422
2001	3	1,939,868	3	501,585	26	3,871,100
2002	4	3,125,531	3	410,000	37	7,970,109
2003	8	4,090,210	4	678,998	28	7,896,740

1. Source: City Building and Zoning Department. Includes new construction and remodeling.
2. Estimated actual valuation - see Table 4
3. Sources: First National Bank of Muscatine, Central State Bank and Community Bank

Table 11

Property Values (2)

<u>Commercial</u>	<u>Industrial</u>	<u>Residential</u>	<u>Other</u>	<u>Total</u>	<u>Bank Deposits (3)</u>
\$ 115,890,470	\$ 77,868,505	\$ 374,944,750	\$ 98,022,186	\$ 666,725,911	\$ 388,514,000
118,024,639	81,507,136	379,506,613	103,662,062	682,700,450	395,803,000
111,808,616	80,689,366	438,941,270	100,310,406	731,749,658	401,694,000
113,883,134	83,799,717	444,335,277	100,827,134	742,845,262	444,850,000
130,194,081	85,061,816	481,751,490	96,354,851	793,362,238	466,809,000
141,001,356	86,900,503	485,952,668	94,320,137	808,174,664	475,846,000
163,720,819	98,244,262	493,053,312	66,509,798	821,528,191	488,392,000
183,724,111	109,053,872	503,316,711	43,833,526	839,928,220	487,228,000
183,636,430	111,824,334	604,952,105	22,919,784	923,332,653	489,921,000
179,354,859	114,983,487	613,054,817	8,483,079	915,876,242	496,266,000

City of Muscatine, Iowa

Demographic Statistics
Last Ten Fiscal Years
(Unaudited)

<u>Fiscal Year</u>	<u>Popula- tion (1)</u>	<u>Personal Per Capita Income (2)</u>	<u>Median Age (1)</u>	<u>Percent High School Graduates or Higher (1)</u>	<u>School Enrollment (3)</u>	<u>Unemploy- ment Rate (4)</u>
1994/95	22,881	\$ 21,580	35.3	74.2%	5,596	3.9%
1995/96	22,881	22,090	35.3	74.2%	5,402	3.4%
1996/97	22,881	23,692	35.3	74.2%	5,419	4.9%
1997/98	22,881	24,659	35.3	74.2%	5,311	4.2%
1998/99	22,881	25,531	35.3	74.2%	5,277	2.7%
1999/2000	22,881	26,192	35.3	74.2%	5,259	2.8%
2000/2001	22,697	26,877	35.8	80.3%	5,393	2.7%
2001/2002	22,697	27,633	35.8	80.3%	5,457	3.7%
2002/2003	22,697	27,953	35.8	80.3%	5,385	4.1%
2003/2004	22,697	N/A	35.8	80.3%	5,375	4.2%

Sources:

1. United States Census Bureau
2. Iowa Workforce Development. Per capita income for the City of Muscatine is not available. The amounts shown are for Muscatine County and reflect average per capita income for the calendar years which end midway through the fiscal years shown.
3. Muscatine Community School District
4. Iowa Workforce Development. Unemployment rates for the City of Muscatine are not available. The rates shown are rates for Muscatine County and reflect average annual unemployment for the calendar years which end midway through the fiscal years shown.

City of Muscatine, Iowa

Miscellaneous Statistics
June 30, 2004
(Unaudited)**General information:**

Date chartered	February 1, 1851
Form of government	Mayor/Council/City Administrator
Number of employees (excluding seasonal)	
Full-time equivalent	231
Area in square miles	17.2
Miles of streets	117

City facilities and services:

Parks and recreation:	
Parks	18
Park acreage	258
Golf course	1
Swimming pools	2
Softball and baseball diamonds	19
Soccer fields	8
Tennis courts	10
Cemetery:	
Number of acres	150
Library:	
Number of registered borrowers	18,700
Number of items in collection	134,455
Art center and museum	1
Police protection:	
Number of stations	1
Number of sworn officers	37
Fire protection and ambulance service:	
Number of stations	2
Number of fire/ambulance personnel	36
Sewer system:	
Number of treatment plants	1
Daily average treatment in gallons	3.0 million
Maximum daily capacity in gallons	15.0 million
Public transportation system:	
Buses	10
Fixed routes served	3
Shuttle vehicles operated	2
Municipal airport:	
Primary runway length (in feet)	5,500
Crosswind runway length (in feet)	4,000

Source: City of Muscatine department records

City of Muscatine, Iowa

**Principal Officials
Salaries and Length of Service
June 30, 2004
(Unaudited)**

	<u>Annual Salary</u>	<u>Years of Service</u>
Elected officials:		
Richard O'Brien, Mayor	\$ 5,500	9
Osama Shihadeh, Council Member at Large	4,000	1
Jerry Lange, Council Member at Large	4,000	3
Philip Fitzgerald, Council Member - First Ward	4,000	12
Anne Lesnet, Council Member - Second Ward	4,000	7
Scott Day, Council Member - Third Ward	4,000	6
Jerry Root, Council Member - Fourth Ward	4,000	7
Bill Trent, Council Member - Fifth Ward	4,000	5
Council appointed officials:		
A.J. Johnson, City Administrator	\$ 93,818	15
Harvey G. Allbee Jr., City Attorney	\$ 90.00/hour	24
Department directors:		
Barbara Longtin, Art Center Director	\$ 58,938	15
David P. Casstevens, Administrative Services Director	83,911	14
Steve Dalbey, Fire Chief	69,528	13
Peter Press, Library Director	64,124	3
Larry I. Wolf, Parks and Recreation Director	69,416	23
Gary Coderoni, Police Chief	70,228	14
Randy E. Hill, Public Works Director	74,231	14
Don Freel, Water Pollution Control Director	69,416	14

Source: City of Muscatine records

**INFORMATION PROVIDED TO COMPLY WITH
OMB CIRCULAR A-133
AND
*GOVERNMENT AUDITING STANDARDS***



Consultants • Certified Public Accountants

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

To the Honorable Mayor and
Members of the City Council
City of Muscatine, Iowa

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Muscatine, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 24, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; Chapter 11 of the Code of Iowa; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Muscatine, Iowa, in a separate letter dated September 24, 2004. There were no prior year reportable conditions.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City of Muscatine, Iowa. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. All prior year statutory comments have been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Muscatine, Iowa, and other parties to whom the City of Muscatine, Iowa, may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Muscatine, Iowa, during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Eida Bailly LLP

Dubuque, Iowa
September 24, 2004



Consultants • Certified Public Accountants

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and
Members of the City Council
City of Muscatine, Iowa

Compliance

We have audited the compliance of the City of Muscatine, Iowa, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The City's major federal programs are identified in the summary of independent auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; Chapter 11 of the Code of Iowa; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City of Muscatine, Iowa, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items II-A-04 through II-C-04.

Internal Control Over Compliance

The management of the City of Muscatine, Iowa, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Muscatine, Iowa, and other parties to whom the City of Muscatine, Iowa, may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Erida Bailey LLP

Dubuque, Iowa
September 24, 2004

CITY OF MUSCATINE, IOWA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency or Pass-Through-Number</u>	<u>Program Expenditures</u>
Direct:			
Department of Housing and Urban Development:			
Public and Indian Housing	14.850	IA04900104J	\$ <u>156,977</u>
Section 8 Housing Choice Vouchers	14.871	IA05-V049-001/044	<u>1,726,725</u>
Public Housing Capital Fund	14.872	IA05-P049-50102	59,733
Public Housing Capital Fund	14.872	IA05-P049-50103	120,724
Public Housing Capital Fund	14.872	IA05-P049-50203	<u>28,375</u>
			<u>208,832</u>
Department of Justice:			
Local Law Enforcement Block Grants Program	16.592	2002-LB-BX-0984	<u>31,947</u>
Bulletproof Vest Partnership Program	16.607	N/A	<u>787</u>
Public Safety Partnership and Community Policing Grants	16.710	2003-OM-WX-0149	<u>9,881</u>
Department of Transportation:			
Airport Improvement Program	20.106	3-19-0063-10	295,425
Airport Improvement Program	20.106	3-19-0063-11	<u>1,915</u>
			<u>297,340</u>
Office of National Drug Control Policy:			
High Intensity Drug Trafficking Area Grant	N/A	12PMWP562	5,075
High Intensity Drug Trafficking Area Grant	N/A	13PMWP562	57,458
High Intensity Drug Trafficking Area Grant	N/A	14PMWP556	<u>22,102</u>
			<u>84,635</u>
Total Direct			<u>2,517,124</u>
Indirect:			
Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/ State's Program	14.228	03-HSG-082	<u>102,694</u>
Department of the Interior:			
State Historical Society of Iowa:			
National Register of Historic Places	15.914	CLG-02-02	2,967
National Register of Historic Places	15.914	HS01-026	45,000
National Register of Historic Places	15.914	2004-05	<u>3,225</u>
			<u>51,192</u>

(continued)

CITY OF MUSCATINE, IOWA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

(continued)

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Program Expenditures</u>
Indirect: (continued)			
Department of Justice:			
Governor's Office of Drug Control Policy:			
Violence Against Women Formula Grants	16.588	VW-04-6113	\$ <u>3,592</u>
Department of Transportation:			
Iowa Department of Transportation:			
Formula Grants for Other Than Urbanized Areas	20.509	TF04137	68
Formula Grants for Other Than Urbanized Areas	20.509	18-4024-533-04	<u>105,912</u>
			<u>105,980</u>
Job Access – Reverse Commute	20.516	37-X008-533-02	6,918
Job Access – Reverse Commute	20.516	37-X008-533-03	<u>19,625</u>
			<u>26,543</u>
Iowa Department of Public Safety:			
State and Community Highway Safety	20.600	PAP 03-04, Task 27	2,584
State and Community Highway Safety	20.600	PAP 04-04, Task 27	<u>4,184</u>
			<u>6,768</u>
Environmental Protection Agency:			
Iowa Department of Public Health and Linn County, Iowa:			
State Indoor Radon Grants	66.032	5884RC02	<u>2,538</u>
Total Indirect			<u>299,307</u>
Total			<u>\$ 2,816,431</u>

N/A = Not Available

See Notes to the Schedule of Expenditures of Federal Awards

CITY OF MUSCATINE, IOWA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Muscatine, Iowa, and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF MUSCATINE, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were noted.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were:
 - CFDA Number 14.871 – Section 8 Housing Choice Vouchers
 - CFDA Number 20.106 – Airport Improvement Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Muscatine, Iowa, qualified as a low-risk auditee.

Part II: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

CFDA Number 14.871: Section 8 Housing Choice Vouchers
Agency Number: IA05-V049-001/044
Department of Housing and Urban Development

II-A-04 Reasonable Rent – In performing our tenant file review, we noted instances when there was an increase in rent to the owner, but there was no documentation of an updated determination that the increased rents were reasonable.

Recommendation – We recommend that City staff perform and document a reasonable rent determination before any increase in rent to the owner to ensure compliance with appropriate federal regulations.

Response – The City will perform and document a reasonable rent determination before rent increases to owners are processed.

Conclusion – Response accepted.

II-B-04 Income Verification – In performing our tenant file review, we noted an instance when an applicant reported income from three sources. Documentation of verification of the income was present for only two of the three income sources.

Recommendation – We recommend that City staff review each applicant's file prior to granting admission to the program to ensure that the proper verifications have been performed in accordance with the City's administrative plan and appropriate federal regulations.

Response – The City will review its procedures to verify that all income documentation is received as required.

Conclusion – Response accepted.

II-C-04 Housing Assistance Payments (HAP) – In performing our tenant file review we noted an instance when the payment to the owner per the HAP register was less than the amount shown on the HAP contract and Form HUD-50058.

Recommendation – We recommend that City staff perform a review to ensure that the actual payments to owners are in agreement with the HAP contracts and Form HUD-50058. We also recommend that any amounts previously underpaid to owners be paid to them as soon as possible.

Response – City staff will periodically reconcile owner check amounts to tenant file amounts. The amount due to this landlord has been paid.

Conclusion – Response accepted.

Part III: Other Findings Related to Required Statutory Reporting:

III-A-04 Official Depositories – A resolution naming official depositories has been approved by the City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

III-B-04 Certified Budget – Disbursements during the year ended June 30, 2004, exceeded the amounts budgeted in the community and economic development and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should be amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Community and economic development expenditures exceeded the budgeted amount by \$27,643 due to the receipt of a \$125,000 State Community Economic Betterment Account (CEBA) grant late in the fiscal year after the last budget amendment was adopted. These funds were passed through the City to a local industry. Debt service expenditures exceeded the budget by \$3,071. This was due to lease-purchase payments of \$3,490 for Finance Department equipment which was budgeted in the general government function rather than the debt service area.

Conclusion – Response accepted.

III-C-04 Questionable Expenditures – We noted no expenditures that we believe might fail to meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

III-D-04 Travel Expense – No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

III-E-04 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Vonda Ludke, part-time Housing Office Coordinator, husband owns Spectrum Personnel, Ltd.	Temporary employment services	\$ 77,223

In accordance with Chapter 362.5(4) of the Code of Iowa, the transactions with Spectrum Personnel, Ltd. do not represent conflicts of interest since they were entered into through competitive bidding.

III-F-04 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

III-G-04 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-H-04 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

III-I-04 Revenue Bonds – We noted no instances of noncompliance with the provisions of the City’s revenue bond resolutions.