City of Muscatine, Iowa

Comprehensive Annual Financial Report

For the Year Ended June 30, 2012

CITY OF MUSCATINE, IOWA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2012

SUBMITTED BY:

FINANCE DEPARTMENT
CITY OF MUSCATINE, IOWA

Nancy A. Lueck
Finance Director

LeAnna McCullough
Accounting Supervisor

COVER:

Weed Park Entrance

PHOTO BY:

Dan Beenen

CITY OF MUSCATINE, IOWA

Comprehensive Annual Financial Report
For the Year Ended June 30, 2012

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MUSCATINE

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FINANCE & RECORDS

TO: Honorable Mayor and City Council

DATE: December 5, 2012

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, 2012.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

McGladrey LLP, Certified Public Accountants, have issued an unqualified ("clean") opinion on the City of Muscatine's financial statements for the year ended June 30, 2012. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

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.

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 22,886 people. The City is empowered to levy a tax on all property located within its boundaries.

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 City Council is required to hold a public hearing on and adopt a budget for each fiscal year no later than March 15th of the preceding year. The annual budget serves as the foundation for the City's financial planning and control. The budget is prepared by function, fund and department. The legal level of control is at the function level. The budget may be amended by resolution of City Council following a required public hearing.

The City's government-wide financial statements include two discretely presented component units. These component units are those entities for which the City is considered to be financially accountable. These entities are the Muscatine County Solid Waste Management Agency (Agency) and Muscatine Power and Water (MP&W). The Agency is comprised of eight governmental entities in Muscatine County and based on the City of Muscatine population, the City accounts for 56% of the board's voting authority. The City Council also approves the Agency's budget, sets its rates and approves any debt issuance. MP&W is a municipal utility which provides water, electric, and communications services within the City of Muscatine and in other areas within Muscatine County. MP&W's governing board is appointed by the Mayor and approved by 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. These entities are reported in separate columns in the government-wide statements to emphasize that they are legally separate from the City.

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 HNI Corporation, makers of office furniture. Other major employers located in the Muscatine area include H.J. Heinz LP, food processing; Bridgestone-Bandag, makers of pre-cured tire tread rubber, Monsanto Company, herbicides and plastics; Raymond-Muscatine, front-end loaders, etc.; Muscatine Foods Corporation, corn distillates and feed; Stanley Consultants Inc., consulting engineers and architects; and Musco Sports Lighting LLC, sports lighting systems. The presence of many diverse companies has provided the Muscatine economy with economic stability and employment security for many years. Unemployment rates over the past ten calendar years ranged from 3.2% to 8.1% with the rate for 2011 at 6.4%. Prior to 2009, 2010, and 2011 when the rates were 8.1%, 7.6%, and 6.4%, respectively, the highest previous rate was 4.6% in 2008. The recent higher rates are attributed to the local effect from the national economy. 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 Canadian Pacific Railroad.

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

Long-term Financial Planning

On May 10, 1994, the citizens of Muscatine first 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. Voters approved continuation of the local option sales tax for two subsequent 5-year periods through June 30, 2009. This tax was used primarily for storm and sanitary storm sewer projects with the exception of 10% that was allocated to the Pearl of the Mississippi project from May 1, 2003 through June 30, 2009. The 1% local option sales tax generated over $2.6 million in the most recent year.

In 2008 the City held an election for the continuation of this tax. The ballot question approved by voters extended this tax for an additional ten years (though June 30, 2019) with up to 20% of the proceeds to be used for the City's Pavement Management Program with the remaining 80% to be used for storm and sanitary sewer improvement projects. Future sewer projects have been identified including those required by an Order for Compliance on Consent issued by the United States Environmental Protection Agency (E.P.A.). Provisions of the Order require the City to complete separation of the combined sewers in the Hershey Avenue area by December 31, 2011, and separation for the remaining combined portions of the sewer system including the West Hill area by December 31, 2024. The City recently received approval from the E.P.A for extension of this completion deadline for the multi-phase, multi-year West Hill area sewer separation to December 31, 2028. The Hershey Avenue Sewer Separation project was completed in 2011/2012 and the contract for the first phase of the West Hill Sewer Separation project was awarded in May of 2012. The election to continue the local option tax again received strong support by voters.

The City began a comprehensive Pavement Management Program in 2007. Allocations totaling over $5 million funded the initial upgrade of streets throughout the City. These improvements were substantially completed by June 30, 2010. The initial costs of this program were funded with general obligation bond proceeds. Annual allocations to maintain all streets at this higher level began in 2010/2011 with funding from the 20% allocation of local option sales tax. This 20% allocation was $531,100 in 2011/2012. In addition to street improvements funded from local option sales taxes, engineering design is currently underway for major improvements to both Cedar Street and Colorado Street. Those projects will be funded from federal grants and general obligation bond proceeds.

The City continues to complete improvements at the municipal airport as part of the long range plan for this facility. In 2011/2012 construction of the hangar access road and improvements to the municipal hangar and T-hangars were completed. Construction was also underway on the runway lighting improvement project. Projects for the upcoming year include completion of the airport runway lighting project, airfield maintenance, and the airport hangar access security and T-hangar drainage project.

Since 2003/2004 the City has made operational changes to address funding reductions to the City's General fund as a result of reductions in funding from the State of Iowa which began in

2003/2004 and continued in 2004/2005. The state eliminated approximately $360,000 in annual funding to the City of Muscatine beginning in 2003/2004 and an additional $70,000 annually was eliminated in 2004/2005. In response to these reductions, the City made a number of significant budget changes which included personnel reductions, funding transfers and consolidation of services. Full-time equivalent employees of the City are fifteen (15) less than what was included in the original 2003/2004 budget. Nine (9) of these positions were eliminated when the City of Muscatine and Muscatine County combined their emergency dispatch services effective in September, 2004. Both entities have and will continue to benefit both financially and operationally by combining their dispatch services.

A key issue in the development of the 2010/2011 budget was the consideration of and ultimate adoption of a Utility Franchise Fee on Alliant Energy, the provider of natural gas to the community. The ordinance change adopting this fee provides that the fee may be up to 5% on natural gas sales by Alliant in the community. The initial rate was set at 2% which was effective July 1, 2010. Implementation of this fee allowed for a reduction in the City's property tax rate for 2010/2011 and future years. The establishment of this fee allowed the City to diversify its funding sources used for the provision of General Fund services and reduce the City's property tax rate. With this franchise fee in place for up to 5% of gas sales, this also allows flexibility in future years for the City Council to modify this rate if needed to continue to provide expected levels of City services to residents. This rate can be modified by giving a 90-day notice to Alliant Energy. For the 2012/2013 year City Council chose to reduce the Utility Franchise Fee rate to 1% which is projected to generate $112,500. This reduction was possible since there have been strong revenues in other areas of the General Fund budget, specifically Automatic Traffic Enforcement (ATE) fines, fees for Fire department inspections and permits, and increased hotel/motel taxes.

The City made a number of structural and operational changes in 2010/2011 in an effort to place the General Fund in a better financial position for 2011/2012 and future budget years. These included (1) a reduction of one full-time position in the Park Maintenance budget; seasonal staff was increased to partially offset this reduction for a net savings of $49,300, (2) elimination of one full-time custodian position with contract cleaning services partially offsetting the cost savings for a net savings of $7,400, (3) funding economic development administrative costs and the Chamber economic development allocation with Tax Increment Financing (TIF) funds (a total of $137,500 in 2011/2012), (4) not filling the budgeted ¾ time Automatic Traffic Enforcement (Red Light Camera) Technician in the Police department net of the cost of creating an additional sergeant position for this function ($30,000 savings), and (5) transferring the dredge operation to the Water Pollution Control fund ($42,000 General Fund savings). These items total $266,200 which provided a positive impact on the General Fund for 2011/2012 and will continue to have a positive impact on the General Fund in future years.

Additional changes implemented in 2011/2012 focused on department efficiencies and cost savings including (1) using sponsorships for the Parks seasonal brochure and Golf score cards saving $4,700 annually; (2) the new eleven foot mower in the Parks department and trackhoe for grave digging at the Cemetery both saved man hours that were redirected to other functions in those divisions; (3) additional Park sites were "adopted" under the "Adopt a Park" program with this program expanding from four sites in 2010 to eleven in 2011; (4) redesigning the Library circulation system process eliminating a 35-hour/week position and creating a new 30-hour/week "Holds" person at a lower pay rate for a savings of $17,800; (5) using staggered work times in the Police investigations division which reduced overtime and call-ins saving an estimated $3,500 in overtime costs annually; (6) activities in the Engineering (engineering design for smaller projects), Community Development (Comprehensive Plan update), and Art Center (printing) were done in-house rather than under contracts resulting in varying amounts of cost savings; (7) using

inmate labor to clear the Airport fence line of unwanted growth saved an estimated $22,000; and (8) the use of automatic traffic enforcement cameras has allowed the Police department to re-direct their time to other areas of law enforcement.

Departments will continue to look for efficiencies and cost savings in their operations in 2012/2013 and future years. The City's goal for the upcoming year of establishing a formal "Lean" program will assist departments in identifying and implementing efficiencies and cost savings applicable to their department operations. With limited financial resources expected to be available in future years and a growing demand for municipal services, the City must continue to take significant steps to enhance revenue streams as well as reduce expenditures where appropriate to meet these challenges.

Relevant Financial Policies

The City's budget policies provide that the City's unreserved General Fund balance be at least 10% of budgeted General Fund expenditures. The City implemented Governmental Accounting Standards Board (GASB) Statement No. 54 in 2010/2011. This Statement provided for the following new classifications of governmental fund balances: nonspendable, restricted, committed, assigned, and unassigned. The unassigned portion of the General Fund balance is similar to the previous classification of unreserved balance referenced in the City's financial policies. The unassigned General Fund balance at June 30, 2011 was $2,141,534 which was 14.3% of General Fund expenditures. The unassigned General Fund balance increased to $3,319,319 at June 30, 2012 which is 21.2% of General Fund expenditures. This was an increase of $1,177,785 compared to the prior year unassigned balance. The City has been striving to increase the General Fund balance in recent years over the minimum required by the City's financial policies. The General Fund balance increase is attributed to several categories of revenues exceeding their budget estimates and most General Fund departments operating under their budget allocations. The major revenue sources which exceeded their budget estimates included building permits and related fees ($56,787 over the budgeted amount), parks and recreation fees ($69,575 over the budget estimate with most of this increase from the Aquatic Center due to the very hot and dry summer), automatic traffic enforcement fines ($133,887 over the estimate), and court fines ($48,187 over the estimate).

For the 2012/2013 budget, taxable property values increased by 2.8% which will provide $173,971 more in tax funding from the general fund tax levy which has been at the maximum rate of $8.10 per $1,000 of valuation in all recent years. There was growth in residential property valuations of 5.4%. Commercial property valuations, however, increased by only .5% and industrial property valuations decreased for 2012/2013 by .9% due to revaluation of these properties by the County Assessor.

As noted in the previous section, beginning in 2010/2011 the City implemented a 2% utility franchise fee on the provider of natural gas services in the community. This fee will decrease to 1% for 2012/2013. The availability of this new revenue source will assist in continuing to fund the City's core General Fund services to the community. This fee is budgeted to generate $112,500 in the upcoming 2012/2013 fiscal year. As noted above, this fee may be increased up to 5% by City Council action with a 90-day notice to the utility.

The City continues to claim less than the full amount of incremental taxes available from the Downtown and Southend Tax Increment Financing (TIF) areas. As growth in valuations in these areas has exceeded original projections, balances have been accumulating in these funds in advance of the debt schedules in effect. Not claiming the full amount allows a portion of the

increased values in each area to go back onto regular taxable valuations of all taxing entities affected. Approximately $532,000 of incremental taxes were not claimed by the City for 2011/2012 and this amount is estimated at $519,000 for 2012/2013. This results in increased regular taxable values and increased taxes generated by the $8.10 General Fund levy.

The effects of the changes implemented by City Council in 2010/2011 and 2011/2012 as well as those implemented in previous years in reducing the General Fund workforce, combining services with Muscatine County, and claiming less than the full amount of incremental taxes will continue to be realized in future years. These changes as well as the implementation of the utility franchise fee beginning in 2010/2011 have placed the City in a more favorable position to address funding requirements for the provision of General Fund services in future years.

Major Initiatives

The City continues to strive to make significant capital improvements to the City's infrastructure and facilities. Major budget initiatives for 2012/2013 include (1) completion of engineering design and starting construction for major improvements to Cedar Street, and Colorado Street; (2) construction on the first phase of the multi-year, multi-phase West Hill separation project with the first phase scheduled to be completed late in 2013; (3) final engineering design for the second phase of the West Hill Sewer Separation project; (4) completion of the Mad Creek Sewer Extension project in conjunction with the voluntary annexation of 400 acres of property including a mobile home park in the northeast section of the city; and (5) replacement of the fairway irrigation system at the golf course.

Awards and Acknowledgements Updated

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, 2011. This was the 18th 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 2012/2013. 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 2012/2013 budget was the 28th 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 2013/2014 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 Finance Department, we would like to express our appreciation to all members of this department for their assistance and contributions for this endeavor. 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, we would extend our appreciation to McGladrey LLP, Certified Public Accountants, for their assistance and suggestions in regard to the preparation of the Comprehensive Annual Financial Report.

Respectfully submitted,

Gregg Mandsager
City Administrator

Nancy A. Lueck
Finance Director

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, 2011

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.

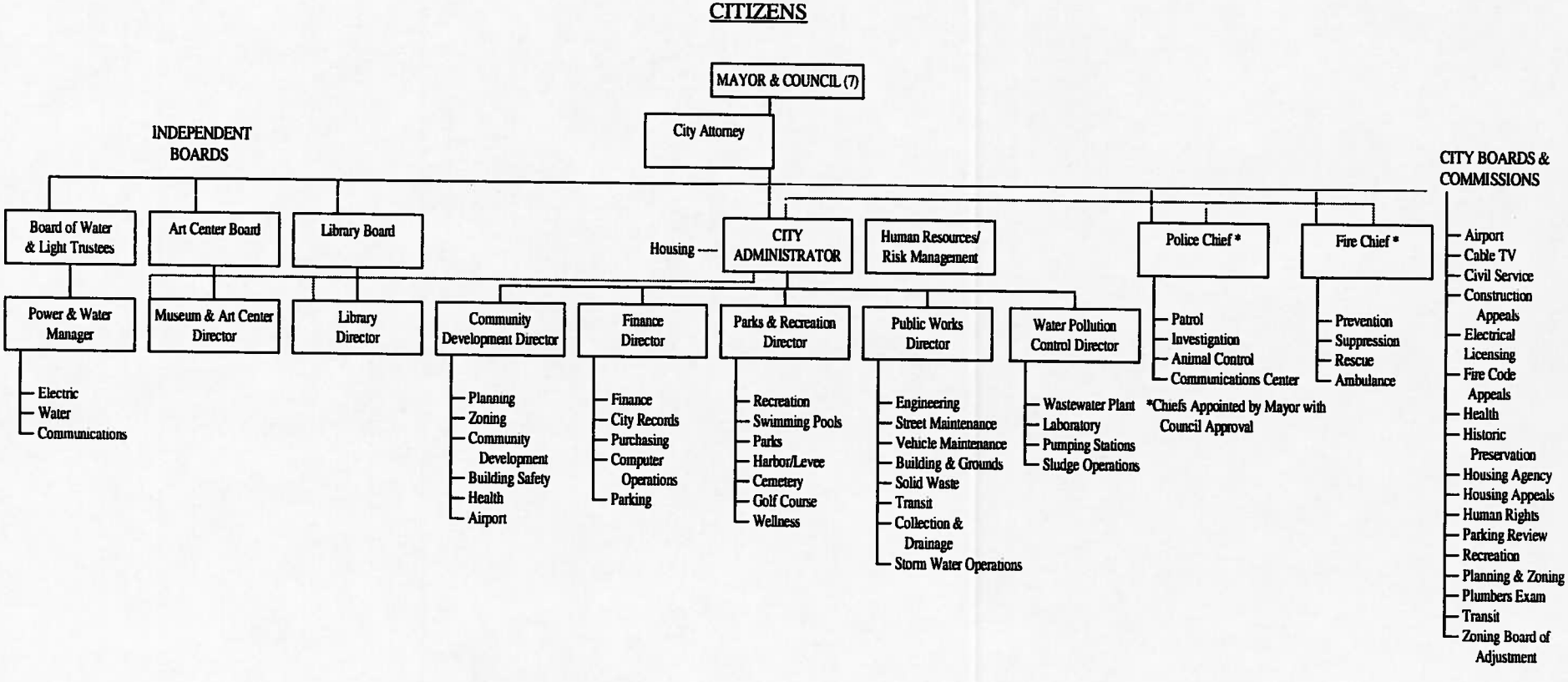
Linda C. Davidson

President

Executive Director

CITY OF MUSCATINE, IOWA

ORGANIZATIONAL STRUCTURE



CITY OF MUSCATINE, IOWA

List of Principal Officials
June 30, 2012

DeWayne Hopkins, Mayor

CITY COUNCIL

Scott Natvig At Large	Osama Shihadeh At Large
Philip Fitzgerald First Ward	Mark LeRette Second Ward
Tom Spread Third Ward	Bob Bynum Fourth Ward

Jeanette Phillips
Fifth Ward

COUNCIL APPOINTED OFFICIALS

City Administrator	Gregg Mandsager
City Attorney	Matt Brick

DEPARTMENT DIRECTORS

Art Center Director	Barbara Christensen
Finance Director	Nancy A. Lueck
Fire Chief	Jerry Ewers
Library Director	Pam Collins
Parks & Recreation Director	Richard Klimes
Community Development Director	Steve Boka
Police Chief	Brett Talkington
Public Works Director	Randall E. Hill
Water Pollution Control Director	Roger Kirby

McGladrey

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Muscatine, Iowa
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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Muscatine, Iowa's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, Muscatine Power & Water, which represents 98 percent, 100 percent and 99 percent, respectively, 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 & 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 2012, and the respective changes in financial position and the 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 December 5, 2012, on our consideration of the City of Muscatine, Iowa'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.

Member of the RSM international network of independent accounting, tax and consulting firms.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 16 through 29, budgetary comparison schedule of revenues, expenditures and changes in fund balance budget to GAAP reconciliation and schedule of funding progress for other postemployment benefit plan on pages 71 through 75 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Muscatine, Iowa's basic financial statements. The combining and individual nonmajor fund financial statements and other schedules, listed in the table of contents as supplementary information, 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, *Audit of States, Local Governments and Nonprofit Organizations* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described previously, and the report of other auditors, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion on or provide any assurance on it.

McGladrey LLP

Davenport, Iowa
December 5, 2012

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, 2012. 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 $133,517,114 (net assets). Of this amount, $10,284,407 (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 $2,721,567 during the year. Most of this increase is in the governmental activities ($2,596,655) with the balance ($124,912) in the business-type activities.

- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $12,314,803, an increase of $4,814,032 in comparison with the prior year. This overall increase is primarily in the general, local option sales tax and capital projects funds. The general fund balance increased by $1,040,755 due to strong revenue collections as well as expenditures coming in under the budgeted amounts. The local option sales tax fund balance increased by $1,201,161 with those funds to be used for the West Hill Sewer Separation project. Capital project fund balances increased by $2,632,885 due to $4,496,400 in proceeds from the June, 2012 bond issue which funded prior year, current year and future year street improvement projects, construction of a new southend fire station, and levee improvements. Of the ending balance, approximately 11% ($1,319,935) was nonspendable, 62% ($7,651,467) was restricted, 2% ($256,263) was assigned, and 25% ($3,087,138) was unassigned. Restricted, committed, assigned, and unassigned funds are 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 unassigned fund balance for the general fund was $3,319,319, or 21.2% of total general fund expenditures.

- The City's total debt increased by $2,196,594 (6.6%) during the current fiscal year. During the year $4,715,000 in new general obligation debt was issued and $2,198,611 was retired. No new tax increment revenue bonds were issued and $190,000 was retired. Sewer revenue loans outstanding decreased by $129,795 during the year.

Overview of the Financial Statements

This discussion and analysis is 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, Transfer Station, Refuse Collection, Airport, Parking, Transit, Golf Course, Boat Harbor, Marina, 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 30-31 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 four major governmental funds: the General Fund, the Employee Benefits Fund, the Local Option Sales Tax Fund, and the Debt Service 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 32-35 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 eleven (11) enterprise funds. Three of the enterprise funds, the Water Pollution Control Fund, Transfer Station Fund, and Refuse Collection Fund, are considered major funds and are reported individually throughout the report. The other eight (8) 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 eight (8) 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 36-40 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 three 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 41 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 42-70.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Required supplementary information includes (1) a budgetary comparison schedule on the aggregate basis for the City's budgeted governmental and proprietary funds, and (2) the schedule of funding progress for the City's other post employment benefits plan.

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 $133,517,114 at the close of the fiscal year ended June 30, 2012.

By far the largest portion of the City's net assets (85.7%) 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	
	2012	2011	2012	2011	2012	2011
Current and other assets	$ 28,512,152	$ 23,930,732	$ 9,528,547	$ 11,133,799	$ 38,040,699	$ 35,064,531
Capital assets	66,531,763	65,289,355	81,553,383	81,766,901	148,085,146	147,056,256
Total assets	95,043,915	89,220,087	91,081,930	92,900,700	186,125,845	182,120,787
Long-term liabilities outstanding	19,795,510	16,675,485	17,451,630	18,236,646	37,247,140	34,912,131
Other liabilities	14,292,189	14,185,041	1,069,402	2,228,068	15,361,591	16,413,109
Total liabilities	34,087,699	30,860,526	18,521,032	20,464,714	52,608,731	51,325,240
Net assets:						
Invested in capital assets, net of related debt	49,843,849	50,534,706	64,583,715	63,959,885	114,427,564	114,494,591
Restricted	8,626,783	4,914,742	178,360	135,331	8,805,143	5,050,073
Unrestricted	2,485,584	2,910,113	7,798,823	8,340,770	10,284,407	11,250,883
Total net assets	$ 60,956,216	$ 58,359,561	$ 72,560,898	$ 72,435,986	$ 133,517,114	$ 130,795,547

A portion of the City's net assets (6.6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets ($10,284,407) 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. The same situation held true for the prior fiscal year.

Net assets invested in capital assets net of related debt decreased by $67,027 during the year. Restricted net assets increased by $3,755,070. Unrestricted net assets decreased by $966,476 during the year with $424,529 of this reduction in the governmental activities and the remaining $541,947 in business-type activities.

CITY OF MUSCATINE CHANGES IN NET ASSETS

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	$ 3,366,985	$ 2,247,562	$ 12,060,724	$ 11,518,470	$ 15,427,709	$ 13,766,032
Operating grants, contributions and restricted interest	4,915,000	4,861,170	659,185	924,856	5,574,185	5,786,026
Capital grants and contributions	1,398,288	3,398,652	661,419	349,116	2,059,707	3,747,768
General revenues:						
Property taxes	12,861,006	12,478,438	-	-	12,861,006	12,478,438
Utility taxes	58,048	52,274	-	-	58,048	52,274
Local option sales tax	2,543,654	2,533,919	-	-	2,543,654	2,533,919
Hotel/motel tax	347,771	363,664	-	-	347,771	363,664
Cable franchise tax	225,902	236,253	-	-	225,902	236,253
Utility franchise fees	170,225	227,680	-	-	170,225	227,680
Intergovernmental, not restricted to specific programs	156,229	154,551	-	-	156,229	154,551
Unrestricted investment earnings	16,177	22,297	17,875	24,232	34,052	46,529
Other	6,373	7,850	-	11,216	6,373	19,066
Total revenues	26,065,658	26,584,310	13,399,203	12,827,890	39,464,861	39,412,200
Expenses:						
Public safety	7,933,672	7,231,247	-	-	7,933,672	7,231,247
Public works	4,603,469	6,104,574	-	-	4,603,469	6,104,574
Health and social service	17,800	17,800	-	-	17,800	17,800
Culture and recreation	4,072,299	3,991,705	-	-	4,072,299	3,991,705
Community and economic development	3,063,468	3,232,025	-	-	3,063,468	3,232,025
General government	2,129,477	2,088,819	-	-	2,129,477	2,088,819
Interest and fees on long-term debt	504,515	570,313	-	-	504,515	570,313
Water pollution control	-	-	5,757,128	5,083,681	5,757,128	5,083,681
Transfer station	-	-	2,302,385	2,174,384	2,302,385	2,174,384
Refuse collection	-	-	2,015,577	1,827,138	2,015,577	1,827,138
Airport	-	-	462,094	566,129	462,094	566,129
Parking	-	-	244,115	247,292	244,115	247,292
Transit	-	-	1,077,339	1,016,663	1,077,339	1,016,663
Golf course	-	-	871,848	818,018	871,848	818,018
Boat harbor	-	-	31,036	29,041	31,036	29,041
Marina	-	-	19,507	12,802	19,507	12,802
Ambulance	-	-	473,350	426,829	473,350	426,829
Public housing	-	-	1,164,215	1,120,421	1,164,215	1,120,421
Total expenses	22,324,700	23,236,483	14,418,594	13,322,398	36,743,294	36,558,881
Increase (decrease) in net assets before transfers	3,740,958	3,347,827	(1,019,391)	(494,508)	2,721,567	2,853,319
Tranfers in (out)	(1,144,303)	(4,528,370)	1,144,303	4,528,370	-	-
Increase (decrease) in net assets	2,596,655	(1,180,543)	124,912	4,033,862	2,721,567	2,853,319
Net assets, beginning of year	58,359,561	59,540,104	72,435,986	68,402,124	130,795,547	127,942,228
Net assets, end of year	$ 60,956,216	$ 58,359,561	$ 72,560,898	$ 72,435,986	$ 133,517,114	$ 130,795,547

Governmental activities. Governmental activities increased the City's net assets by $2,596,655. This overall increase was in part due to the increases in the balances of the general and local option sales tax funds. Key elements of the overall increase are as follows:

- Revenues for governmental activities decreased in total by $518,652 or 2.0% from the previous year primarily due to the decrease of $2,000,364 in capital grants and contributions. This decrease was partially offset by increases in charges for services, operating grants and contributions, and property taxes.

- Charges for services for governmental activities increased by $1,119,423. Charges for services in the public safety function increased by $699,551 with $620,354 of this increase due to revenue from automatic traffic enforcement (ATE) fines and $14,370 from increased court fines. The ATE cameras became operational in the spring of 2011 and 2011/2012 was the first full fiscal year of their operation. Charges for services in the public works function increased by $372,477 and culture and recreation charges increased by $66,903. These increases offset the decreases of $3,657 in the community and economic development and $15,851 in the general government functions.

- Operating grants and contributions for governmental activities increased by $53,830 primarily due to an increase in police grants.

- Capital grants and contributions decreased by $2,000,364 from the previous year. This overall decrease was primarily due to an art collection donated to the Muscatine Art Center ($2,153,000) in the 2010/2011 year.

- Property taxes increased by $382,568 during the year or 3.1%.

- Local option sales taxes increased by $9,735 or .4% during the year.

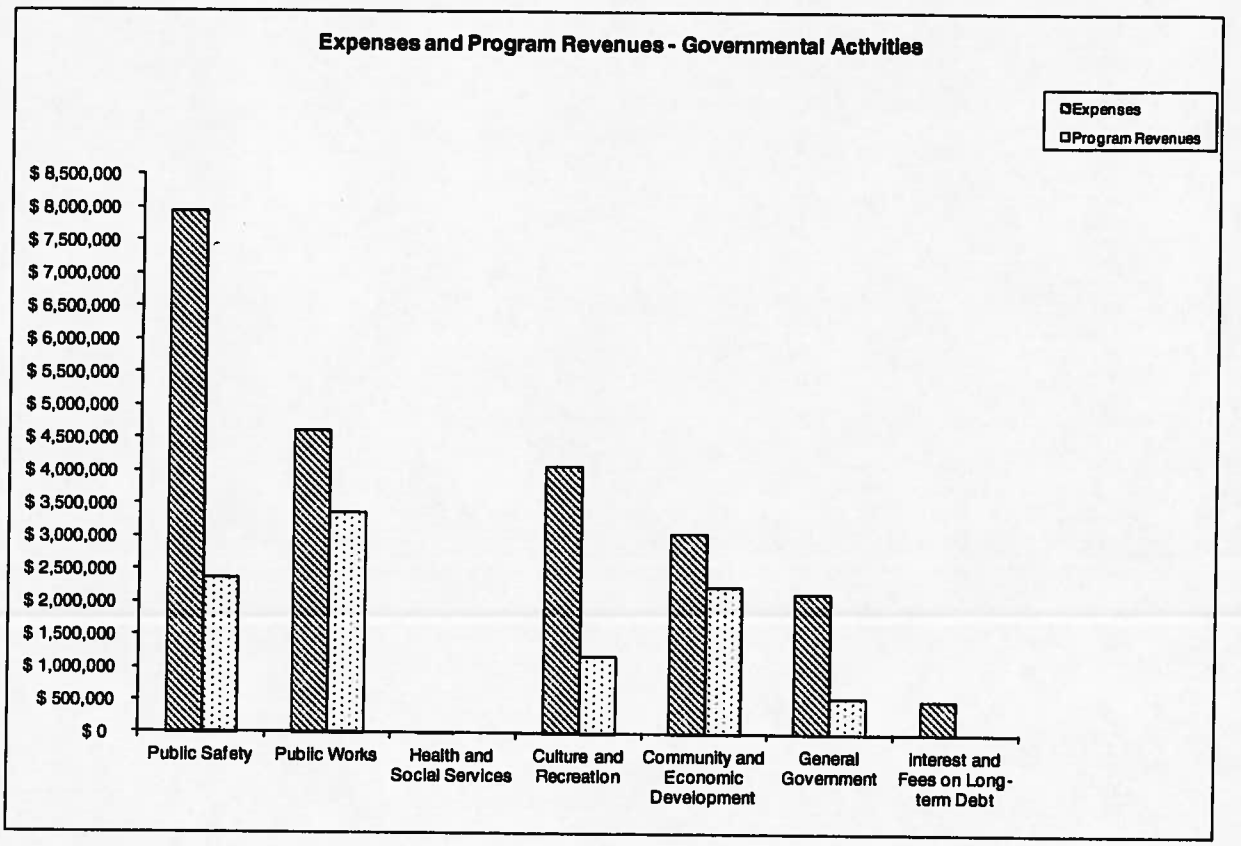
- Hotel/motel taxes decreased by $15,893 or 4.4%.

- Revenues from the 2% utility franchise fee on the provider of natural gas in the community decreased by $57,455 or 25.2% due to the mild winter of 2011/2012.

- Unrestricted investment earnings decreased by $6,120 or 27.5% during the year due to the continued low interest rates.

- Expenses for governmental activities decreased by $911,783 or 3.9% from the previous year. Prior year expenses included a $1,274,415 one-time payment to the Army Corps of Engineers for the City's share of the Mad Creek Levee improvement project.

- Governmental expenses increased in the public safety ($702,425), culture and recreation ($80,594), and general government ($40,658) functions. There were decreases in the public works ($1,501,105) and community and economic development ($168,557) functions. Interest and fee expenses also decreased by $65,798.


Expenses and Program Revenues - Governmental Activities
Expenses
Program Revenues
$ 8,500,000
$ 8,000,000
$ 7,500,000
$ 7,000,000
$ 6,500,000
$ 6,000,000
$ 5,500,000
$ 5,000,000
$ 4,500,000
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$ 1,500,000
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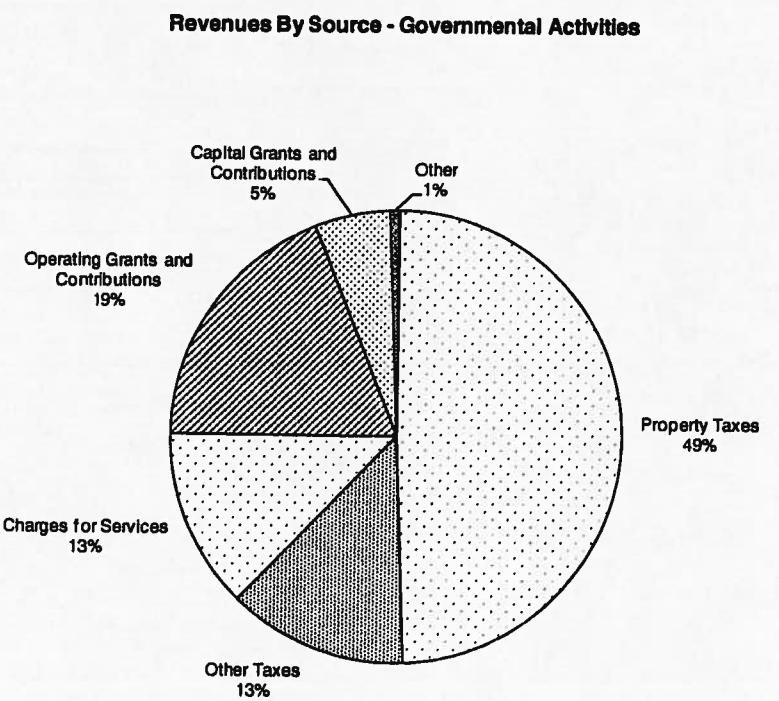
$ 500,000
$ 0
Public Safety
Public Works
Health and Social Services
Culture and Recreation
Community and Economic Development
General Government
Interest and Fees on Long-term Debt


Revenues By Source - Governmental Activities
Capital Grants and Contributions 5%
Other 1%
Operating Grants and Contributions 19%
Property Taxes 49%
Charges for Services 13%
Other Taxes 13%

Business-type activities. Business-type activities increased the City's total net assets by $124,912, accounting for 4.6% of the total increase in the City of Muscatine's net assets during the year. Increases in net assets were reported in the Water Pollution Control, Transfer Station, Refuse Collection, Airport, Golf Course, Boat Harbor, and Marina funds. Decreases in net assets were reported in the Parking, Transit, Ambulance, and Public Housing funds. Key elements of these changes are as follows:

- Net assets of the Water Pollution Control fund increased by $292,468 during the year primarily due to capital asset additions. Transfers from the Local Option Sales Tax fund funded $884,159 of sewer-related capital project costs during the year.

- Net assets of the Transfer Station fund increased by $470,612 during the year. This increase includes a $50,000 transfer from the Refuse Collection fund to reduce the operating deficit in this fund. During the year there was also a $725,670 transfer from the debt service fund to fund the Transfer Station debt requirements for the year.

- Net assets of the Refuse Collection fund increased by $44,004 during the year.

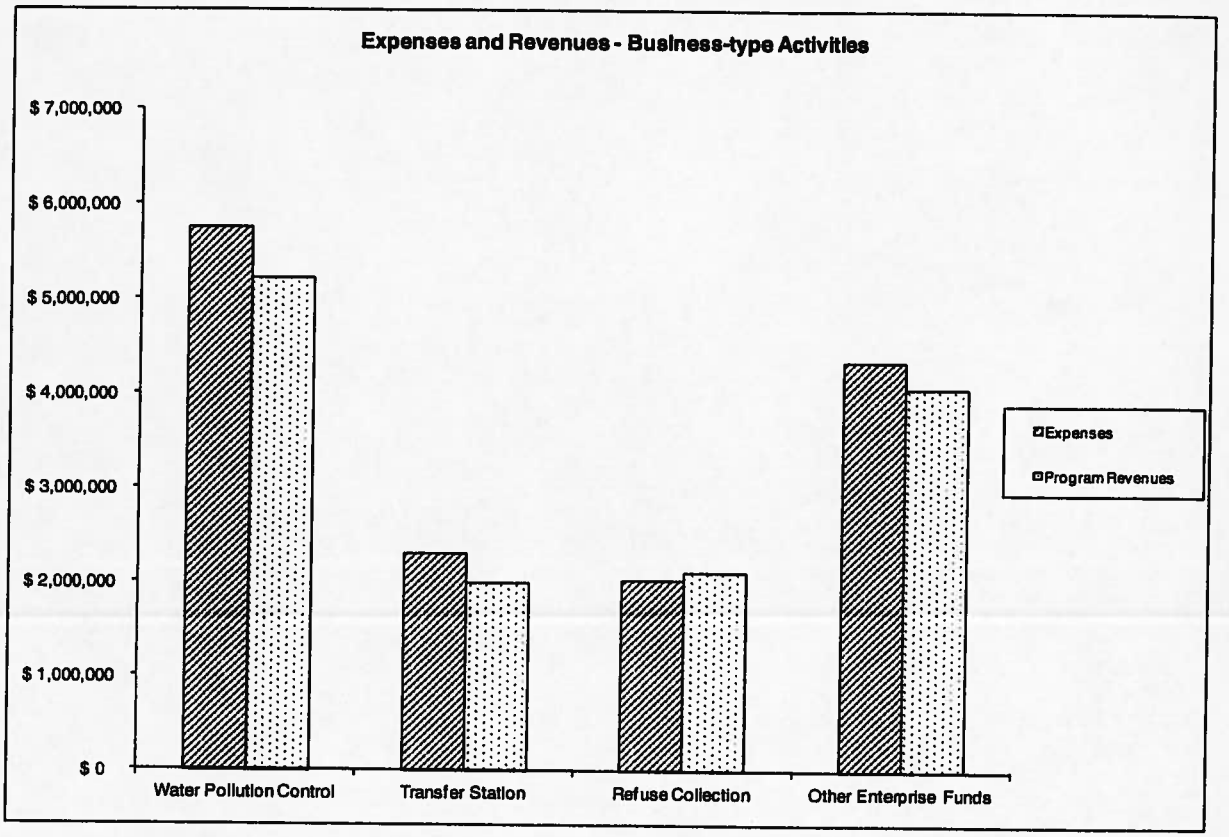
- Revenues for the business-type activities increased in total by $571,313 (4.5%).

- Charges for services increased in total by $542,254. Water Pollution Control Plant charges for services increased by $198,673 and refuse collection charges increased by $149,053 due to rate increases. Transfer Station charges for services increased by $152,372 due to increased waste volume at this facility. Golf fees and charges increased by $100,563 and Boat Harbor fees and charges increased by $12,476, both due to favorable weather conditions. Public housing charges increased by $98,570 during the year due to increased rents and other tenant charges.

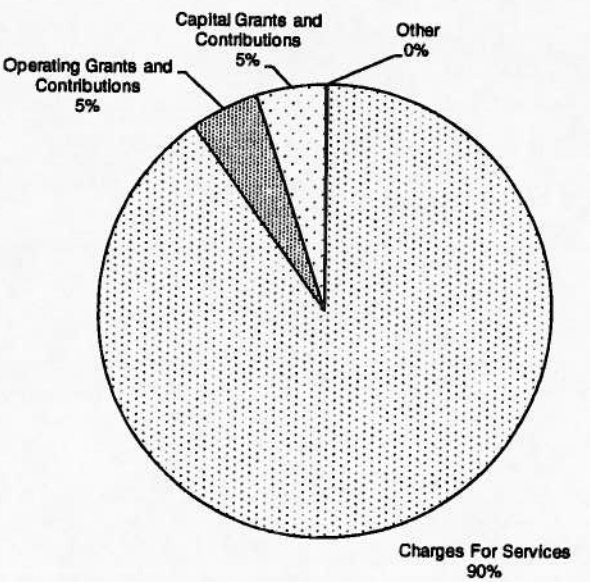
- Operating grants and contributions decreased by $265,671. Public housing operating grants decreased by $279,143 due to changes in the federal housing program operating subsidy calculation.

- Capital grants and contributions increased by $312,303. Airport capital grants increased by $131,799 and grant funding for sewer projects increased by $181,257. Unrestricted interest earnings decreased by $6,357 due to the continued low interest rates.

- Expenses for the business-type activities increased $1,096,196 (8.2%). Expenses increased by $673,447 in the Water Pollution Control fund, by $128,001 in the Transfer Station fund, $188,439 in the Refuse Collection fund, by $60,676 in the Transit fund, by $53,830 in the Golf Course fund, by $1,995 in the Boat Harbor fund, by $6,705 in the Marina fund, by $46,521 in the Ambulance fund, and by $43,794 in the Public Housing fund. Expenses decreased by $104,035 in the Airport fund and $3,177 in the Parking 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.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $12,314,803, an increase of $4,814,032 in comparison with the prior year. This increase was primarily due to the $1,040,755 increase in fund balance in the General fund, a $1,201,161 increase in the local option sales tax fund, and a $2,632,885 increase in fund balance in the capital projects funds. The general fund balance increase was due to strong revenue collections as well as expenditures coming in under the budgeted amounts. The local option fund balance increase was a planned increase to accumulate funds for a major sewer separation project. Capital project fund balances increased due to $4,496,400 in bond proceeds from the June, 2012 issue which funded prior year, current year, and future year street improvement projects, construction of a new fire station, and levee improvements.

Of the combined $12,314,803 governmental fund balances at year end 10.7% ($1,319,935) is classified as nonspendable and includes prepaid items, advances to other funds, and permanent fund principal. A total of $7,651,467 (62.1%) is classified as restricted by grantors, state or federal laws, or enabling legislation. Assigned fund balances total $256,263 (2.1%) with these funds assigned for purchases on order, future equipment purchases, and risk management. The remaining $3,087,138 is classified as unassigned (25.1%). By definition unassigned balances include all deficit balances. The Community Development Improvements and Riverfront Improvements capital projects funds had unassigned fund balance deficits at year end of $14,546 and $246,085, respectively. These deficits will be eliminated with future year revenues.

The general fund is the chief operating fund of the City of Muscatine. At the end of the current fiscal year, the unassigned fund balance of the General Fund was $3,319,319, while the total fund balance was $3,580,803. The General Fund balance includes $5,221 classified as nonspendable for prepayments. The assigned portion of the balance totals $256,263 which includes $50,157 for purchases on order, $145,564 for future equipment purchases, and $60,542 for risk management. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The unassigned and total general fund balances at the end of the fiscal year represent 21.2% and 22.9%, respectively, of total general fund expenditures. These percentages increased favorably from the prior year computation of unassigned and total fund balances of 14.3% and 17.0%, respectively. The City' of Muscatine's general fund balance increased by $1,040,755 during the current fiscal year.

The Employee Benefits fund balance increased during the year by $16,054. Taxes are levied in this fund for employee benefits for general fund employees. The increase in fund balance during the year is due to savings in employee benefits due to vacancies during the year.

The Local Option Sales Tax fund balance increased during the fiscal year by $1,201,161. These funds are being accumulated to fund the West Hill Sewer Separation project.

The Debt Service Fund balance decreased $5,136 due to the budgeted use of prior year excess bond proceeds.

The fund balances in the Other Governmental Funds increased in total by $2,561,198. This was primarily due to the increase in the capital projects fund balance of $2,632,885, which was due to the $4,496,400 general obligation bond issue in June of 2012.

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, 2012 was $72,474,035, an increase of $114,711 from the previous fiscal year. Of the net assets of the enterprise funds, $64,583,715 is invested in capital assets, net of related debt. Restricted net assets totaled $178,360. Unrestricted net assets totaled $7,711,960, a decrease of $552,148 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 $1,715,360 as of June 30, 2012, a decrease of $16,167 from the previous year. This overall decrease was due to decreases in the Equipment Services and Dental Insurance funds.

General Fund Budgetary Highlights

During the year there was a $282,036 increase in General Fund appropriations between the original General Fund budget and the final amended budget. Budgeted revenues and transfers in to the General Fund increased by $710,345 from the original to the amended budget. Following are the main components of the overall budget increases during the year:

- The $204,700 increase in the public safety function budget included $46,000 in the police department, $150,300 in the fire department, and $8,400 for emergency management. The increase in the police budget was primarily due to the department being awarded a three-year U.S. Department of Justice COPS grant to fund 100% of the cost of two new police officers. This grant was effective midway through the fiscal year. The increase in the fire department budget included $92,900 for major repairs to the aerial ladder truck and $50,000 for increased overtime due to military leave, light duty, and other employee leaves of absences.

- The culture and recreation function increased in total by $59,600. This overall increase includes increases totaling $45,200 in the various Parks department budgets with the most significant increases for increased maintenance costs at the cemetery and increased maintenance and operating costs at the Aquatic Center. The Art Center budget was increased by $14,400 due to a State Cultural Affairs grant in that amount awarded after the original budget was adopted.

- The community and economic development function appropriation was increased by $22,500 for the year due to increases in the Community Development budget. Amendments included increased personnel costs to allow for training time for new inspectors that replaced individuals retiring during the year, increased fuel costs, and increased funding for contracted nuisance abatement costs.

- Public works department expenditures were amended downward in total by $12,200 with this decrease primarily in the street cleaning activity.

- The amended budget included a $9,200 increase in the general government function expenditures. Increases in the Legal Services ($5,000) and Human Resources ($16,800) budgets were partially offset by a decrease in the Building and Ground budget ($12,100).

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, 2012, amounts to $148,085,146 (net of accumulated depreciation). This investment in capital assets includes land, buildings and building 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 $1,242,408 for governmental activities compared to the prior year and decreased by $213,518 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 $6,922,952.

- Major asset additions included $2,157,836 for street improvements; $481,156 for trail projects; $749,408 for the Water Pollution Control Plant Comprehensive Facilities Improvement project; $1,334,868 in sewer system improvements; $1,070,373 for the new Southend Fire Station; and $426,524 for Airport improvements.

- Depreciation expense totaled $6,624,793 for the year with $3,208,413 in the governmental activities and $3,416,380 in the business-type activities.

City of Muscatine Capital Assets

(Net of Depreciation)

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Land, art work and construction in progress, not being depreciated	$ 20,734,527	$ 17,642,829	$ 4,524,371	$ 26,227,553	$ 25,258,898	$ 43,870,382
Other capital assets net of accumulated depreciation	45,797,236	47,646,526	77,029,012	55,539,348	122,826,248	103,185,874
Total capital assets	$ 66,531,763	$ 65,289,355	$ 81,553,383	$ 81,766,901	$ 148,085,146	$ 147,056,256

Additional information on the City of Muscatine's capital assets can be found in note 5 on pages 55-57 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of $35,286,757. Of this amount, $18,667,192 is debt backed by the full faith and credit of the City. Of this amount $1,490,103 is debt that serves enterprise funds and therefore is reflected as debt of the respective enterprise funds with the remainder of the general obligation bonds $17,177,089 reflected as debt of the governmental activities. 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	
	2012	2011	2012	2011	2012	2011
General obligation bonds	$ 17,177,089	$ 13,953,147	$ 1,490,103	$ 2,197,656	$ 18,667,192	$ 16,150,803
Revenue bonds	1,140,000	1,330,000	15,479,565	15,609,360	16,619,565	16,939,360
Total	$ 18,317,089	$ 15,283,147	$ 16,969,668	$ 17,807,016	$ 35,286,757	$ 33,090,163

The City's total bonded debt increased by $2,196,594 during the year. The City issued $4,715,000 in new general obligation bonds in 2011/2012 and issued $412,205 in new sewer revenue debt. Debt retired included $2,235,000 in general obligation bonds, $190,000 of tax increment revenue bonds, and $542,000 in sewer revenue bonds.

State statutes limit the amount of general obligation debt to 5% of the total actual valuation of property in the City of Muscatine. The current debt limit of the City of Muscatine is $60,567,395. The amount of debt applicable to the debt limit totals $19,845,000. The City's debt is significantly less than the maximum debt limit allowed.

The City was assigned an Aa2 rating from Moody's for the City's general obligation debt issue in June of 2012. This rating was assigned using Moody's new rating scale and is the same rating as that assigned for the June, 2010 bond issue.

Additional information on the City's long-term debt can be found in note 6 on pages 58-62 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Muscatine County was 6.4% for calendar year 2011 compared to 7.6% the previous year. Separate unemployment figures are not maintained for the City of Muscatine.

- The City's taxable value increased by 2.6% for the 2011/2012 year and increased by 2.8% for the upcoming 2012/2013 fiscal year.

- The upcoming budget provides funding for capital improvement projects to continue. Local option sales tax funds will continue to be used to fund sanitary and storm sewer projects in the City (80%) and also ongoing costs of the City's pavement management program (20%).

- In 2012/2013 the City will continue the ongoing maintenance portion of the Comprehensive Pavement Management Program. Prior year funding allocations totaling over $5 million were used to complete the initial upgrade of the City's streets. Annual allocations to maintain streets at this higher level will be funded from the 20% allocation of local option sales tax.

- In 2007 the City signed a Consent Order with the Environmental Protection Agency (E.P.A.) which requires the City to complete specific major sewer separation projects by 2024. The West Hill Sewer Separation project is the remaining project mandated by this Consent Order. This is a multi-year, multi-phase project estimated to reach or exceed $50 million in total costs. The City recently received notification that our request to extend the completion deadline to 2028 was approved by the E.P.A. Local option sales tax funds will fund a significant portion of the cost of

this project. The local option sales tax funds, however, will need to be supplemented with future sewer revenue bonds or other funds to complete the financing for this project. The City is setting aside annual allocations from the Water Pollution Control fund operating budget so these funds will be available to assist with financing this project.

- The 2012/2013 budget provides for increases in sewer fees and golf fees were increased for the 2012 golfing season. No fee increases are budgeted for the transfer station, refuse collection, parking, boat harbor, airport, or transit.

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 Finance Director, 215 Sycamore Street, Muscatine, Iowa, 52761.

City of Muscatine, Iowa

Statement of Net Assets
June 30, 2012

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Muscatine County Solid Waste Agency	Muscatine Power & Water
ASSETS					
Cash and pooled investments	$ 11,944,605	$ 5,127,670	$ 17,072,275	$ -	$ 1,497,693
Investments	1,417,708	391,612	1,809,320	-	3,960,251
Receivables (net of allowance for uncollectibles):					
Interest	5,871	156	6,027	-	107,829
Taxes	13,243,815	-	13,243,815	-	-
Accounts	308,326	1,974,170	2,282,496	-	8,022,304
Intergovernmental	1,368,010	72,053	1,440,063	-	-
Loan receivable from component unit	-	1,455,642	1,455,642	-	-
Internal balances	(86,863)	86,863	-	-	-
Inventories	157,456	50,529	207,985	-	22,956,130
Prepaids	5,221	43,024	48,245	-	586,946
Deferred charges	148,003	148,468	296,471	-	9,370
Restricted assets:					
Temporarily restricted:					
Cash and pooled investments	-	178,360	178,360	1,252,819	10,194,517
Investments	-	-	-	-	916,621
Capital assets:					
Land, art work and construction in progress, not being depreciated	20,734,527	4,524,371	25,258,898	1,080,608	3,275,968
Other capital assets net of accumulated depreciation	45,797,236	77,029,012	122,826,248	1,580,162	-
Utility plant in service	-	-	-	-	128,384,490
Intangible assets (net of accumulated depreciation)	-	-	-	-	773,136
Joint venture rights	-	-	-	-	123,220
Total assets	95,043,915	91,081,930	186,125,845	3,913,589	180,808,475
LIABILITIES					
Accounts payable and accruals	941,602	701,436	1,643,038	61,330	8,803,219
Retainages payable	133,809	234,626	368,435	-	-
Deposits	-	43,976	43,976	-	2,499,721
Matured bonds and interest payable	419	-	419	-	-
Accrued interest payable	42,427	46,063	88,490	-	-
Escrow liability	5,286	-	5,286	-	-
Unearned revenue	13,168,646	43,301	13,211,947	-	10,367,345
Liabilities payable from restricted assets:					
Current installment of long-term debt	-	-	-	-	912,000
Accrued interest payable	-	-	-	-	113,993
Noncurrent liabilities:					
Due within one year	2,252,302	1,480,870	3,733,172	1,177	-
Due in more than one year	17,543,208	15,932,115	33,475,323	143	4,340,594
Loan due to primary government	-	-	-	1,455,642	-
Closure/post-closure obligation	-	38,645	38,645	2,494,809	-
Total liabilities	34,087,699	18,521,032	52,608,731	4,013,101	27,036,872
NET ASSETS					
Invested in capital assets, net of related debt	49,843,849	64,583,715	114,427,564	2,660,770	125,469,514
Restricted for:					
Debt service	133,772	139,715	273,487	-	-
Public works	3,429,393	-	3,429,393	-	-
Community and economic development	442,672	-	442,672	-	-
Public safety	2,778	-	2,778	-	-
Employee benefits	164,258	-	164,258	-	-
Tax increment financing projects	1,171,982	-	1,171,982	-	-
Culture and recreation	43,698	-	43,698	-	-
Capital projects	1,629,175	-	1,629,175	-	-
Perpetual care, nonexpendable	843,316	-	843,316	-	-
Endowments:					
Nonexpendable	168,115	-	168,115	-	-
Expendable	597,624	-	597,624	-	-
Other purposes	-	38,645	38,645	-	10,998,338
Unrestricted	2,485,584	7,798,823	10,284,407	(2,760,282)	17,303,751
Total net assets (deficit)	$ 60,956,216	$ 72,560,898	$ 133,517,114	$ (99,512)	$ 153,771,603

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, 2012

Functions:	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants, Contributions and Restricted Interest	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units: Muscatine County Solid Waste Agency	Component Units: Muscatine Power & Water
Primary Government:									
Governmental activities:									
Public safety	$ 7,933,672	$ 1,230,430	$ 362,226	$ 768,743	$ (5,572,273)	$ -	$ (5,572,273)		
Public works	4,603,469	634,870	2,498,138	233,469	(1,236,992)	-	(1,236,992)		
Health and social services	17,800	-	-	-	(17,800)	-	(17,800)		
Culture and recreation	4,072,299	545,297	237,010	385,700	(2,904,292)	-	(2,904,292)		
Community and economic development	3,063,468	426,917	1,817,626	-	(818,925)	-	(818,925)		
General government	2,129,477	529,471	-	10,376	(1,589,630)	-	(1,589,630)		
Interest and fees on long-term debt	504,515	-	-	-	(504,515)	-	(504,515)		
Total governmental activities	22,324,700	3,366,985	4,915,000	1,398,288	(12,644,427)	-	(12,644,427)		
Business-type activities:									
Water pollution control	5,757,128	4,947,231	769	268,978	-	(540,150)	(540,150)		
Transfer station	2,302,385	1,958,817	37,118	-	-	(306,450)	(306,450)		
Refuse collection	2,015,577	2,110,442	-	-	-	94,865	94,865		
Airport	462,094	42,124	13,682	392,441	-	(13,847)	(13,847)		
Parking	244,115	182,220	-	-	-	(61,895)	(61,895)		
Transit	1,077,339	177,055	524,484	-	-	(375,800)	(375,800)		
Golf course	871,848	874,501	-	-	-	2,653	2,653		
Boat harbor	31,036	39,814	-	-	-	8,778	8,778		
Marina	19,507	18,757	-	-	-	(750)	(750)		
Ambulance	473,350	1,167,042	-	-	-	693,692	693,692		
Public housing	1,164,215	542,721	83,132	-	-	(538,362)	(538,362)		
Total business-type activities	14,418,594	12,060,724	659,185	661,419	-	(1,037,266)	(1,037,266)		
Total primary government	$ 36,743,294	$ 15,427,709	$ 5,574,185	$ 2,059,707	(12,644,427)	(1,037,266)	(13,681,693)		
Component Units:									
Muscatine County Solid Waste Agency	$ 1,141,653	$ 1,323,650	$ 117,177	$ -				$ 299,174	$ -
Muscatine Power & Water	110,116,652	106,268,301	-	74,521				-	(3,773,830)
Total component units	$ 111,258,305	$ 107,591,951	$ 117,177	$ 74,521				299,174	(3,773,830)
General revenues:									
Property taxes					12,861,006	-	12,861,006	-	-
Utility taxes					58,048	-	58,048	-	-
Local option sales tax					2,543,654	-	2,543,654	-	-
Hotel/motel taxes					347,771	-	347,771	-	-
Cable franchise taxes					225,902	-	225,902	-	-
Utility franchise fees					170,225		170,225		
Intergovernmental, unrestricted					156,229	-	156,229	-	-
Unrestricted investment income					16,177	17,875	34,052	-	1,463,165
Gain on sale of capital assets					-	-	-	-	490
Contributions to endowments					6,373	-	6,373	-	-
Transfers					(1,144,303)	1,144,303	-	-	-
Total general revenues, contributions to endowments and transfers					15,241,082	1,162,178	16,403,260	-	1,463,655
Change in net assets					2,596,655	124,912	2,721,567	299,174	(2,310,175)
Net assets (deficit), June 30, 2011					58,359,561	72,435,986	130,795,547	(398,686)	156,081,778
Net assets (deficit), June 30, 2012					$ 60,956,216	$ 72,560,898	$ 133,517,114	$ (99,512)	$ 153,771,603

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

City of Muscatine, Iowa

Balance Sheet
Governmental Funds
June 30, 2012

	General	Employee Benefits	Local Option Sales Tax	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:						
Cash and pooled investments	$ 3,378,303	$ 130,759	$ 2,163,469	$ 110,637	$ 4,296,775	$ 10,079,943
Investments	-	-	-	-	1,417,708	1,417,708
Receivables (net of allowance for uncollectibles):						
Interest	40	-	-	-	5,831	5,871
Taxes	6,994,450	3,044,755	-	2,350,434	854,176	13,243,815
Accounts	283,509	-	-	-	5,855	289,364
Intergovernmental	243,498	-	433,937	-	690,575	1,368,010
Advances to other funds	-	-	-	-	355,457	355,457
Prepaid insurance	5,221	-	-	-	-	5,221
Total assets	$ 10,905,021	$ 3,175,514	$ 2,597,406	$ 2,461,071	$ 7,626,377	$ 26,765,389
Liabilities and fund balances						
Liabilities:						
Accounts payable and accruals	$ 366,169	$ -	$ -	$ 464	$ 285,527	$ 652,160
Retainages payable	-	-	-	-	133,809	133,809
Advances from other funds	-	-	-	-	355,457	355,457
Escrow liability	-	-	-	-	5,286	5,286
Matured general obligation bond interest payable	-	-	-	419	-	419
Deferred revenue	6,958,049	3,011,256	8,156	2,326,416	999,578	13,303,455
Total liabilities	7,324,218	3,011,256	8,156	2,327,299	1,779,657	14,450,586
Fund balances:						
Nonspendable						
Prepaid items	5,221	-	-	-	-	5,221
Advances to other funds	-	-	-	-	355,457	355,457
Permanent fund principal	-	-	-	-	959,257	959,257
Restricted for:						
Grant purposes	-	-	-	-	923,751	923,751
Housing assistance payments	-	-	-	-	138,799	138,799
Tax levy purposes	-	164,258	-	-	1,171,982	1,336,240
Sewer and street projects			2,589,250	-	-	2,589,250
Debt service	-	-	-	133,772	-	133,772
Housing and community development	-	-	-	-	220,265	220,265
Art center	-	-	-	-	379,699	379,699
Library	-	-	-	-	223,101	223,101
Capital projects	-	-	-	-	1,629,175	1,629,175
Other purposes	-	-	-	-	77,415	77,415
Assigned to:						
Purchases on order	50,157	-	-	-	-	50,157
Future equipment purchases	145,564	-	-	-	-	145,564
Risk management	60,542	-	-	-	-	60,542
Unassigned	3,319,319	-	-	-	(232,181)	3,087,138
Total fund balances	3,580,803	164,258	2,589,250	133,772	5,846,720	12,314,803
Total liabilities and fund balances	$ 10,905,021	$ 3,175,514	$ 2,597,406	$ 2,461,071	$ 7,626,377	$ 26,765,389

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

City of Muscatine, Iowa

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2012

Total governmental fund balances	$ 12,314,803
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.	66,517,385
Other long-term assets are not available to pay for current period expenditures and, therefore are deferred in the funds.	134,809
Unamortized balance of deferred charge for bond issuance costs not reported in the funds	148,003
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.	1,715,360
Internal service fund allocations to business-type activities	(86,863)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bonds payable	(18,317,089)
Accrued interest payable	(42,427)
Compensated absences	(1,201,748)
Other post-employment benefits	(226,017)
Net assets of governmental activities	$ 60,956,216

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, 2012

	General	Employee Benefits	Local Option Sales Tax	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes:						
Property	$ 6,735,158	$ 3,085,921	$ -	$ 2,229,634	$ 810,293	$ 12,861,006
Utility	32,607	14,950	-	10,492	-	58,049
Hotel/motel	347,771	-	-	-	-	347,771
Cable franchise	225,902	-	-	-	-	225,902
Utility franchise	170,225	-	-	-	-	170,225
Local option sales	-	-	2,655,498	-	-	2,655,498
Licenses and permits	308,385	-	-	-	-	308,385
Fines and forfeitures	1,029,833	-	-	-	-	1,029,833
Intergovernmental	524,743	-	-	119,838	5,804,716	6,449,297
Charges for services	556,802	-	-	-	-	556,802
Use of money and property	184,165	-	2,775	1,510	37,793	226,243
Other	967,337	-	-	-	559,060	1,526,397
Total revenues	11,082,928	3,100,871	2,658,273	2,361,474	7,211,862	26,415,408
Expenditures:						
Current:						
Public safety	7,410,523	-	-	-	4,401	7,414,924
Public works	1,998,400	-	-	-	-	1,998,400
Health and social services	17,800	-	-	-	-	17,800
Culture and recreation	2,763,288	-	-	-	71,333	2,834,621
Community and economic development	759,448	-	-	-	2,349,641	3,109,089
General government	1,981,756	-	-	-	-	1,981,756
Debt service:						
Principal	-	-	-	1,485,000	190,000	1,675,000
Interest	-	-	-	438,917	69,698	508,615
Paying agent	-	-	-	2,700	-	2,700
Bond issuance costs	-	-	-	3,148	25,181	28,329
Capital outlay:						
Public safety	180,209	-	-	-	1,226,024	1,406,233
Public works	187,079	-	-	-	3,057,783	3,244,862
Culture and recreation	296,675	-	-	-	499,403	796,078
Community and economic development	-	-	-	-	27,756	27,756
General government	48,648	-	-	-	125,296	173,944
Total expenditures	15,643,826	-	-	1,929,765	7,646,516	25,220,107
Revenues over (under) expenditures	(4,560,898)	3,100,871	2,658,273	431,709	(434,654)	1,195,301
Other financing sources (uses):						
General obligation bonds issued	-	-	-	-	4,496,400	4,496,400
Refunding bonds issued	-	-	-	218,600	-	218,600
Transfers in	6,036,475	-	-	70,225	1,032,463	7,139,163
Transfers out	(434,822)	(3,084,817)	(1,457,112)	(725,670)	(2,533,011)	(8,235,432)
Total other financing sources (uses)	5,601,653	(3,084,817)	(1,457,112)	(436,845)	2,995,852	3,618,731
Net change in fund balances	1,040,755	16,054	1,201,161	(5,136)	2,561,198	4,814,032
Fund balances, June 30, 2011	2,540,048	148,204	1,388,089	138,908	3,285,522	7,500,771
Fund balances, June 30, 2012	$ 3,580,803	$ 164,258	$ 2,589,250	$ 133,772	$ 5,846,720	$ 12,314,803

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, 2012

Net change in fund balances - total governmental funds	$ 4,814,032
Amounts reported for governmental activities in the statement of activities are different because:	
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:	
Capital asset purchases capitalized	4,453,802
Depreciation expense	(3,206,354)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to increase net assets:	
Loss on disposal of capital assets	(16,123)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	67,985
Revenues in the governmental funds not reflected as revenue in the statement of activities since recognized in prior years	(420,740)
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:	
General obligation bond proceeds	(4,496,400)
General obligation refunding bond proceeds	(218,600)
General obligation bond principal payments	1,485,000
Tax increment bond principal payments	190,000
Net effects of bond issuance costs, premiums and discounts	46,748
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:	
Change in compensated absenses	35,136
Other post-employment benefits	(114,130)
Change in accrued interest payable	2,667
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 allocated between governmental and business-type activities in the Statement of Activities:	
Net revenue (expense) of internal service funds	(16,167)
Allocation of net revenue (expense) to business-type activities	(10,201)
Change in net assets of governmental activities	$ 2,596,655

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, 2012

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Water Pollution Control	Transfer Station	Refuse Collection	Other Enterprise Funds	Total	
Assets:						
Current assets:						
Cash and pooled investments	$ 4,722,935	$ -	$ 45,485	$ 359,250	$ 5,127,670	$ 1,864,662
Investments	-	-	-	391,612	391,612	-
Receivables (net of allowance for uncollectibles):						
Interest	-	-	-	156	156	-
Accounts	596,309	866,942	279,993	230,926	1,974,170	18,962
Intergovernmental:						
Federal	-	-	-	58,048	58,048	-
State	-	-	-	9,204	9,204	-
County	-	-	-	4,801	4,801	-
Due from other funds	10,007	-	-	526	10,533	1,199
Inventories	-	-	-	50,529	50,529	157,456
Prepaid items	-	-	-	43,024	43,024	-
Total current assets	5,329,251	866,942	325,478	1,148,076	7,669,747	2,042,279
Noncurrent assets:						
Restricted cash and pooled investments	139,715	38,645	-	-	178,360	-
Deferred charges	142,555	5,198	715	-	148,468	-
Advances to component unit	1,455,642	-	-	-	1,455,642	-
Advances to other funds	809,434	-	-	-	809,434	-
Capital assets:						
Land	484,836	175,000	-	2,173,659	2,833,495	-
Land improvements	173,126	1,019,897	-	11,859,943	13,052,966	-
Buildings and building improvements	49,114,292	7,428,336	1,312,083	10,502,373	68,357,084	-
Equipment	4,505,783	311,607	108,521	854,486	5,780,397	109,280
Vehicles	962,681	560,263	573,548	1,324,238	3,420,730	87,747
Infrastructure	45,274,672	-	-	-	45,274,672	-
Construction in progress	1,168,318	-	-	522,558	1,690,876	-
Less accumulated depreciation	(35,806,617)	(4,734,539)	(1,013,575)	(17,302,106)	(58,856,837)	(182,649)
Total capital assets net of accumulated depreciation	65,877,091	4,760,564	980,577	9,935,151	81,553,383	14,378
Total noncurrent assets	68,424,437	4,804,407	981,292	9,935,151	84,145,287	14,378
Total assets	73,753,688	5,671,349	1,306,770	11,083,227	91,815,034	2,056,657
Liabilities:						
Current liabilities:						
Accounts payable and accruals	411,121	58,163	58,003	174,149	701,436	289,442
Retainages payable	233,926	-	-	700	234,626	-
Compensated absences payable	99,038	5,359	26,757	57,164	188,318	18,338
Due to other funds	-	-	-	10,533	10,533	1,199
Deposits	-	-	-	43,976	43,976	-
Accrued interest payable	41,798	3,749	516	-	46,063	-
Unearned revenue	-	-	417	42,884	43,301	-
State revolving fund loan	560,000	-	-	-	560,000	-
General obligation bonds	-	643,047	89,505	-	732,552	-
Total current liabilities	1,345,883	710,318	175,198	329,406	2,560,805	308,979
Noncurrent liabilities:						
Advance from other funds	-	809,434	-	-	809,434	-
General obligation bonds	-	665,022	92,529	-	757,551	-
State revolving fund loan	14,919,565	-	-	-	14,919,565	-
Compensated absences	93,894	3,621	30,409	44,050	171,974	26,106
Other post-employment benefits	44,820	5,700	15,266	17,239	83,025	6,212
Transfer station closure obligation	-	38,645	-	-	38,645	-
Total noncurrent liabilities	15,058,279	1,522,422	138,204	61,289	16,780,194	32,318
Total liabilities	16,404,162	2,232,740	313,402	390,695	19,340,999	341,297
Net assets:						
Invested in capital assets, net of related debt	50,397,526	3,452,495	798,543	9,935,151	64,583,715	14,378
Restricted for:						
Debt service	139,715	-	-	-	139,715	-
Closure costs	-	38,645	-	-	38,645	-
Unrestricted	6,812,285	(52,531)	194,825	757,381	7,711,960	1,700,982
Total net assets	$ 57,349,526	$ 3,438,609	$ 993,368	$ 10,692,532	$ 72,474,035	$ 1,715,360

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

City of Muscatine, Iowa

Reconciliation of Proprietary Funds Net Assets
to the Net Assets of Business-Type Activities

June 30, 2012

Total enterprise fund net assets	$ 72,474,035
Amounts reported for enterprise activities in the statement of net assets are different because:	
Internal service funds are used by management to charge the costs of certain services to individual funds. Internal service fund net assets increased during the year. A portion of this increase has been allocated to business-type activities in the statement of net assets	86,863
Net assets of business-type activities	$ 72,560,898

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, 2012

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Water Pollution Control	Transfer Station	Refuse Collection	Other Enterprise Funds	Total	
Operating revenues:						
Charges for sales and services	$ 4,862,543	$ 1,951,487	$ 2,106,064	$ 2,834,348	$ 11,754,442	$ 1,132,054
Employer contributions	-	-	-	-	-	2,260,817
Employee contributions	-	-	-	-	-	189,823
Other contributions	-	-	-	-	-	147,952
Other	84,688	7,330	4,378	209,886	306,282	1,871
Total operating revenues	4,947,231	1,958,817	2,110,442	3,044,234	12,060,724	3,732,517
Operating expenses:						
Cost of sales and services:						
Personal services	2,043,853	217,817	698,372	1,674,372	4,634,414	288,257
Commodities	254,289	39,582	66,464	624,395	984,730	634,973
Contractual services	724,619	1,713,377	1,091,096	958,603	4,487,695	2,760,466
Administration	162,400	2,400	59,900	128,600	353,300	17,900
Depreciation	2,157,369	222,406	87,265	949,340	3,416,380	2,059
Total operating expenses	5,342,530	2,195,582	2,003,097	4,335,310	13,876,519	3,703,655
Operating income (loss)	(395,299)	(236,765)	107,345	(1,291,076)	(1,815,795)	28,862
Non-operating revenues (expenses):						
Intergovernmental	16	37,118	-	621,298	658,432	-
Interest revenue	14,023	-	183	4,422	18,628	3,005
Interest expense	(404,417)	(102,812)	(13,166)	-	(520,395)	-
Bond issuance costs amortization	(12,768)	(2,599)	(358)	-	(15,725)	-
Gain (loss) on sale of capital assets	(4,526)	-	-	(11,630)	(16,156)	-
Non-operating revenues (expenses), net	(407,672)	(68,293)	(13,341)	614,090	124,784	3,005
Income (loss) before capital contributions and transfers	(802,971)	(305,058)	94,004	(676,986)	(1,691,011)	31,867
Capital contributions - grants	268,978	-	-	392,441	661,419	-
Transfers in	884,159	775,670	-	443,749	2,103,578	-
Transfers out	(57,698)	-	(50,000)	(851,577)	(959,275)	(48,034)
Change in net assets	292,468	470,612	44,004	(692,373)	114,711	(16,167)
Net assets, June 30, 2011	57,057,058	2,967,997	949,364	11,384,905	72,359,324	1,731,527
Net assets, June 30, 2012	$ 57,349,526	$ 3,438,609	$ 993,368	$ 10,692,532	$ 72,474,035	$ 1,715,360

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

City of Muscatine, Iowa

Reconciliation of the Change in Net Assets of Enterprise Funds to the Statement of Activities

For the Year Ended June 30, 2012

Net change in net assets in enterprise funds	$ 114,711
Amounts reported for proprietary activities in the statement of activities are different because:	
Internal service funds are used by management to charge the costs of various activities internally to individual funds. Internal service fund net assets increased during the year. A portion of this increase has been allocated to business-type activities in the statement of net assets	10,201
Change in net assets of business-type activities	$ 124,912

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, 2012

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Water Pollution Control	Transfer Station	Refuse Collection	Other Enterprise Funds	Total	
Cash flows from operating activities						
Receipts from customers and users	$ 4,865,950	$ 1,680,528	$ 2,113,429	$ 3,072,184	$ 11,732,091	$ -
Receipts from interfund services provided	-	-	-	-	-	3,717,642
Payments to suppliers	(888,370)	(1,649,961)	(1,011,756)	(1,236,252)	(4,786,339)	(3,465,203)
Payments to employees	(1,419,516)	(148,737)	(463,693)	(1,301,617)	(3,333,563)	(192,303)
Payments for employee benefits	(601,554)	(64,723)	(220,650)	(361,592)	(1,248,519)	(88,865)
Payments for interfund services used	(196,052)	(83,345)	(210,687)	(531,684)	(1,021,768)	(17,900)
Net cash provided (used) by operating activities	1,760,458	(266,238)	206,643	(358,961)	1,341,902	(46,629)
Cash flows from noncapital financing activities						
Transfers to other funds	(57,698)	-	(50,000)	(851,577)	(959,275)	(48,034)
Transfers from other funds	884,159	775,670	-	443,749	2,103,578	-
Advances from other funds	-	179,120	-	526	179,646	1,199
Advances to other funds	(179,120)	-	-	(526)	(179,646)	(1,199)
Repayment of advance to solid waste component unit	601,507	-	-	-	601,507	-
Repayment of advances from other funds	-	-	(11,448)	(24,289)	(35,737)	(1,597)
Repayment of advances to other funds	28,490	-	-	7,247	35,737	1,597
Subsidies from federal, state and local grants	16	37,118	-	651,971	689,105	-
Net cash provided (used) by noncapital financing activities	1,277,354	991,908	(61,448)	227,101	2,434,915	(48,034)
Cash flows from capital and related financing activities						
Proceeds from capital debt	412,205	-	-	-	412,205	-
Capital contributions	357,544	-	-	486,233	843,777	-
Purchase of capital assets	(3,443,942)	-	-	(934,038)	(4,377,980)	(13,142)
Principal paid on capital debt	(542,000)	(659,250)	(90,750)	-	(1,292,000)	-
Interest paid on capital debt	(477,056)	(66,420)	(9,143)	-	(552,619)	-
Proceeds from sale of capital assets	-	-	-	3,250	3,250	-
Net cash provided (used) by capital and related financing activities	(3,693,249)	(725,670)	(99,893)	(444,555)	(4,963,367)	(13,142)
Cash flows from investing activities						
Proceeds from sales and maturities of investments	-	-	-	727,210	727,210	-
Purchase of investments	-	-	-	(286,680)	(286,680)	-
Interest received	14,023	-	183	8,933	23,139	3,005
Net cash provided (used) by investing activities	14,023	-	183	449,463	463,669	3,005
Net increase (decrease) in cash and pooled investments	(641,414)	-	45,485	(126,952)	(722,881)	(104,800)
Cash and pooled investments, June 30, 2011	5,504,064	38,645	-	486,202	6,028,911	1,969,462
Cash and pooled investments, June 30, 2012	$ 4,862,650	$ 38,645	$ 45,485	$ 359,250	$ 5,306,030	$ 1,864,662
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Cash flows from operating activities:						
Operating income (loss)	$ (395,299)	$ (236,765)	$ 107,345	$ (1,291,076)	$ (1,815,795)	$ 28,862
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	2,157,369	222,406	87,265	949,340	3,416,380	2,059
Changes in assets and liabilities:						
(Increase) decrease in:						
Accounts receivable	(81,281)	(278,289)	3,047	23,139	(333,384)	(14,875)
Inventories	-	-	-	(10,724)	(10,724)	(19,423)
Prepaid items	-	-	-	(38,624)	(38,624)	-
Increase (decrease) in:						
Accounts payable and accruals	56,886	22,053	(4,983)	(6,990)	66,966	(50,341)
Compensated absences payable	473	997	5,393	3,440	10,303	3,997
Other post-employment benefits	22,310	3,360	8,636	7,723	42,029	3,092
Unearned revenue	-	-	(60)	3,216	3,156	-
Deposits	-	-	-	1,595	1,595	-
Total adjustments	2,155,757	(29,473)	99,298	932,115	3,157,697	(75,491)
Net cash provided (used) by operating activities	$ 1,760,458	$ (266,238)	$ 206,643	$ (358,961)	$ 1,341,902	$ (46,629)
Non-cash capital and related financing activities:						
Capitalized interest	$ 113,475	$ -	$ -	$ -	$ 113,475	$ -
Accounts payable used to purchase capital assets	(1,154,169)	-	-	(115,018)	(1,269,187)	-

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, 2012

	Agency Funds
Assets:	
Cash and pooled investments	$ 673,122
Accounts receivable	53,050
Advances to other funds	52,641
Total assets	778,813
Liabilities:	
Accounts payable and accruals	726,172
Advances from other funds	52,641
Total liabilities	$ 778,813

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

CITY OF MUSCATINE, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

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, and 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, Nichols, Conesville and Atalissa, 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. The intent of the organization is not to accumulate excess funds and based upon the balance at year end the future contributions are adjusted accordingly. 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 Joint Communications Commission; Muscatine County/Municipal Disaster 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 activities) 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, contributions and interest 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, other then agency funds. Agency funds use the full accrual basis of accounting but do not have a measurement focus and therefore report only assets and liabilities. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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 property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period and all other revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The City has determined that there are various revenues, except for property tax revenues, including reimbursement of expenditures that are received between 60 and 90 days and therefore have adopted a 90 day availability period in order to keep the revenues and expenditures in the same current period. 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 90 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. Effective July 1, 2009, voters approved using up to 20% of future local option tax for the City's pavement management program with the remaining funds to be used for storm and sanitary sewer improvements.

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 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.

The *refuse collection fund* accounts for the collection of solid waste from residential property in the City as well as from some commercial customers.

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 to account for assets held by the City as an agent for payroll processing, housing programs, and miscellaneous other entities.

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 City 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, which approximates fair value.

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 nonspendable amount in applicable governmental funds to indicate they are not available for appropriation and are not available financial resources.

The County Treasurer bills and collects taxes for the City. Taxes for the year ended June 30, 2012, were certified with the County during the preceding fiscal year and were due in two equal installments by September 30, 2011 and March 31, 2012. Any County collections on the 2011-2012 tax levy remitted to the City within sixty days subsequent to June 30, 2012, 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, 2012, 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 and Prepaid Items

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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

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 Water Pollution Control fund represents amounts set aside as required under the State Revolving Fund loan to pay interest and principal of the bonds and any parity obligations.

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 resolutions relating to the utility's revenue bonds or by the Board.

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 statement of net assets and in the proprietary funds statement of net assets. 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 one year. 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of assets constructed. Capitalized interest was $113,475 in the Water Pollution Control fund.

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:

Assets	Years
Land improvements	10-50
Buildings	15-40
Building improvements	5-40
Equipment	4-20
Vehicles	4-15
Sewer system	50
Infrastructure	7-75

MP&W's utility plant is stated at original cost, which includes the cost of contracted services, material, labor, overhead, and on significant projects, an allowance for borrowed funds used during construction.

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. Intangible Asset

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

8. 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 effective interest rate 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.

9. Fund Equity

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, state or federal laws, or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

Assigned – Amounts constrained by the City's intent to use them for a specific purpose. The authority to assign fund balance has been delegated by City Council to the Finance Director.

Unassigned – All amounts not included in other spendable classifications. The General fund is the only fund that would report a positive amount in unassigned fund balance.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the City policy is to pay the expenditure from restricted fund balance and then from less-restrictive classifications – committed, assigned, then unassigned.

10. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent bond proceeds. As of June 30, 2012, there were unspent bond proceeds totaling $1,629,175 in the non-major Capital Projects funds. Net assets are reported as restricted when

there are limitations imposed on their use through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Net assets restricted through enabling legislation consists of $3,429,393 for public works, $164,258 for employee benefits, $2,778 for public safety, and $1,171,982 for tax increment financing projects.

The City first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 2. 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, 2012, the deposits and investments of the City consist of the following:

Petty cash and undeposited cash	$ 48,672
Cash in bank	20,837
Savings accounts	43,976
Money market accounts	15,116,119
Iowa Public Agency Investment Trust	4,404,292
Certificates of deposit	1,352,000
	$ 20,985,896

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 City has investments in IPAIT which were valued at an amortized cost of $4,404,292 pursuant to Rule 2 a-7 under the Investment Company Act of 1940.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk – The City's investment policy provides that City funds may be invested in interest bearing money market accounts, interest bearing checking accounts, and certificates of deposit at any approved bank in the City of Muscatine. Approved banks must be on the list of banks approved for public investments by the Treasurer of the State of Iowa and investments must be entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. City funds may also be invested in obligations of the United States government, its agencies and instrumentalities, and in the Iowa Public Agency Investment Trust (IPAIT). The City's investment in IPAIT is unrated.

Concentration of credit risk – The City's investment policy is to diversify its investment portfolio. Assets shall be diversified, where possible, to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2012 the carrying amount of the City's deposits with financial institutions totaled $16,532,932 and the bank balances were $16,652,899. 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.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City had no custodially-held investments during the year.

As of December 31, 2011 MP&W's deposits and investments consist primarily of U.S. agency securities, and certificates of deposit as follows:

	Fair Value
Cash	$ 11,692,210
Certificates of deposit	3,960,251
U.S. agency securities	916,621
	$ 16,569,082

As of December 31, 2011 the carrying amount of MP&W's deposits with financial institutions totaled $11,689,575, and the bank balances were $12,192,135. 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.

It is the policy of Muscatine Power & Water to maintain all deposits and investments within category one in accordance with GASB No. 3 which includes authorized investment vehicles that are insured or registered or which are collateralized by or evidenced by securities held by the utility or its agent in the utility's name.

Credit Risk

As of December 31, 2011, Muscatine Power & Water's investments were rated as follows:

Investment Type	*Standard & Poor's*	*Moody's*
US agencies	A+	Aaa

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

Concentration of Credit Risk

At December 31, 2011, Muscatine Power & Water investments held with issuers, each totaling more than 5 percent of the total portfolio, were concentrated as follows:

Issuer	*% of Portfolio*
FNMA	25.1%
Federal Home Loan Mortgage Corp.	59.4%
GNMA	15.5%

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

Interest Rate Risk

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. At December 31, 2011, Muscatine Power & Water's investments were as follows:

Investment Type	*Maturity In Years*			
	Fair Value	Less than 1 Year	1-5 Years	Greater than 5 Years
U.S. agencies	$ 916,621	$ 0	$ 16,357	$ 900,624

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

NOTE 3. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances at June 30, 2012 consist of the following:

		Due from/advance to					
		Nonmajor Governmental	Transfer Station	Nonmajor Enterprise	Internal Service	Fiduciary	Totals
Due to/Advance from	Nonmajor governmental	$ 355,457	$ -	$ -	$ -	$ -	$ 355,457
	Water pollution control	-	809,434	10,007	-	-	819,441
	Nonmajor enterprise	-	-	526	-	-	526
	Internal service	-	-	-	1,199	-	1,199
	Fiduciary	-	-	-	-	52,641	52,641
	Total	$ 355,457	$ 809,434	$ 10,533	$ 1,199	$ 52,641	$ 1,229,264

The $809,434 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 remaining balances result from (1) working capital for inventory in the enterprise and internal service funds, and (2) the time lag of receipts into the various funds.

In addition, the City has a loan to Muscatine County Solid Waste Agency, a discretely presented component unit of $1,455,642 as of June 30, 2012. The loan is for capital costs including costs for the development of new cells for disposal of waste at the landfill. The new cells are expected to have a remaining capacity of 202,000 tons of waste or 5.5 years of use based on projected annual waste volumes.

Interfund transfers for the year are as follows:

		Transfers from									
		General	Employee Benefits	Local Option Sales Tax	Debt Service	Nonmajor Governmental	Water Pollution Control	Refuse Collection	Nonmajor Enterprise	Internal Service	Totals
Transfers to	General	$ -	$ 3,084,817	$ -	$ -	$ 2,117,324	$ -	$ -	$ 786,300	$ 48,034	$ 6,036,475
	Debt service	-	-	-	-	70,225	-	-	-	-	70,225
	Nonmajor governmental	76,346	-	572,953	-	260,189	57,698	-	65,277	-	1,032,463
	Water pollution control	-	-	884,159	-	-	-	-	-	-	884,159
	Transfer station	-	-	-	725,670	-	-	50,000	-	-	775,670
	Nonmajor enterprise	358,476	-	-	-	85,273	-	-	-	-	443,749
	Total	$ 434,822	$ 3,084,817	$ 1,457,112	$ 725,670	$ 2,533,011	$ 57,698	$ 50,000	$ 851,577	$ 48,034	$ 9,242,741

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

NOTE 4. RESTRICTED ASSETS

Transfer Station assets of $38,645 at June 30, 2012 are classified as restricted because their use is restricted to provide for Transfer Station closure costs.

Water Pollution Control assets of $139,715 at June 30, 2012 are classified as restricted because their use is restricted under the State Revolving Fund loan.

Solid Waste Agency assets of $1,252,819, at June 30, 2012 are classified as restricted because their use is restricted to provide for the cost of future landfill closure and post-closure costs.

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

The composition of the restricted funds as of December 31, 2011 was as follows:

Current accounts:	
Extraordinary operation and maintenance account	$ 10,113,336
Communications loan sinking fund	997,802
Total restricted assets	$ 11,111,138

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 is as follows:

Primary government

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	$ 9,061,931	$ 87,585	$ -	$ -	$ 9,149,516
Art work	7,462,776	-	-	-	7,462,776
Construction in progress	1,118,122	3,004,113	-	-	4,122,235
Total capital assets, not being depreciated	17,642,829	3,091,698	-	-	20,734,527
Capital assets, being depreciated:					
Land improvements	17,460,616	485,231	-	-	17,945,847
Buildings	7,739,520	-	-	-	7,739,520
Building improvements	2,069,707	53,166	-	-	2,122,873
Equipment	4,979,971	330,485	(97,399)	-	5,213,057
Vehicles	4,465,423	71,246	(231,515)	(24,536)	4,280,618
Other Assets	22,968	-	-	-	22,968
Infastructure	57,877,529	435,118	-	-	58,312,647
Total capital assets, being depreciated	94,615,734	1,375,246	(328,914)	(24,536)	95,637,530
Less accumulated depreciation for:					
Land improvements	(7,948,755)	(714,116)	-	-	(8,662,871)
Buildings	(4,862,589)	(177,571)	-	-	(5,040,160)
Building improvements	(753,055)	(117,777)	-	-	(870,832)
Equipment	(3,223,751)	(300,698)	97,399	-	(3,427,050)
Vehicles	(3,403,733)	(239,390)	215,392	24,536	(3,403,195)
Other Assets	(2,297)	(4,594)	-	-	(6,891)
Infastructure	(26,775,028)	(1,654,267)	-	-	(28,429,295)
Total accumulated depreciation	(46,969,208)	(3,208,413)	312,791	24,536	(49,840,294)
Total capital assets, being depreciated, net	47,646,526	(1,833,167)	(16,123)	-	45,797,236
Governmental activities capital assets, net	$ 65,289,355	$ 1,258,531	$ (16,123)	$ -	$ 66,531,763

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type Activities:					
Capital assets, not being depreciated:					
Land	$ 2,823,495	$ 10,000	$ -	$ -	$ 2,833,495
Construction in progress	23,404,058	355,204	(22,068,386)	-	1,690,876
Total capital assets, not being depreciated	26,227,553	365,204	(22,068,386)	-	4,524,371
Capital assets, being depreciated:					
Land improvements	12,791,618	261,348	-	-	13,052,966
Buildings	46,330,155	18,464,749	-	-	64,794,904
Building improvements	3,486,194	90,598	(14,612)	-	3,562,180
Equipment	5,665,467	335,174	(220,244)	-	5,780,397
Vehicles	3,598,684	-	(202,490)	24,536	3,420,730
Sewer system	39,501,091	5,773,581	-	-	45,274,672
Total capital assets, being depreciated	111,373,209	24,925,450	(437,346)	24,536	135,885,849
Less accumulated depreciation for:					
Land improvements	(9,702,166)	(414,502)	-	-	(10,116,668)
Buildings	(27,255,253)	(1,333,096)	-	-	(28,588,349)
Building improvements	(2,017,390)	(180,467)	6,332	-	(2,191,525)
Equipment	(2,856,099)	(355,389)	209,118	-	(3,002,370)
Vehicles	(2,175,490)	(285,169)	202,490	(24,536)	(2,282,705)
Sewer system	(11,827,463)	(847,757)	-	-	(12,675,220)
Total accumulated depreciation	(55,833,861)	(3,416,380)	417,940	(24,536)	(58,856,837)
Total capital assets, being depreciated, net	55,539,348	21,509,070	(19,406)	-	77,029,012
Business type activities capital assets, net	$ 81,766,901	$ 21,874,274	$ (22,087,792)	$ -	$ 81,553,383

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

Governmental activities:	
Public safety	$ 318,437
Public works	1,803,979
Culture and recreation	1,034,142
Community and economic development	4,542
General government	45,254
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	2,059
Total depreciation expense – governmental activities	$ 3,208,413
Business-type activities:	
Water pollution control	$ 2,157,369
Refuse collection	87,265
Transfer station	222,406
Airport	349,115
Parking	61,449
Transit	86,875
Golf course	95,012
Boat harbor	6,034
Ambulance	54,036
Public housing	296,819
Total depreciation expense – business-type activities	$ 3,416,380

Discretely presented component units

Activity for the Solid Waste Agency for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 1,080,608	$ -	$ -	$ 1,080,608
Total capital assets, not being depreciated	1,080,608	-	-	1,080,608
Capital assets, being depreciated:				
Land improvements	1,873,587	-	-	1,873,587
Buildings	37,314	-	-	37,314
Equipment	31,317	-	-	31,317
Leachate collection system	616,835	-	-	616,835
Total capital assets, being depreciated	2,559,053	-	-	2,559,053
Less accumulated depreciation for:				
Land improvements	(416,416)	(257,852)	-	(674,268)
Buildings	(15,393)	(933)	-	(16,326)
Equipment	(14,389)	(1,472)	-	(15,861)
Leachate collection system	(252,570)	(19,866)	-	(272,436)
Total accumulated depreciation	(698,768)	(280,123)	-	(978,891)
Total capital assets, being depreciated, net	1,860,285	(280,123)	-	1,580,162
Solid Waste Agency capital assets, net	$ 2,940,893	$ (280,123)	$ -	$ 2,660,770

Activity for Muscatine Power & Water for the year ended December 31, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land and land rights	$ 2,926,921	$ -	$ (10)	$ -	$ 2,926,911
Construction work in progress	360,207	3,861,827	(169,136)	(3,703,841)	349,057
Total capital assets, not being depreciated	3,287,128	3,861,827	(169,146)	(3,703,841)	3,275,968
Capital assets, being depreciated:					
Generation plant	327,947,420	-	(870,032)	1,409,775	328,487,163
Transmission and distribution plant	55,983,205	591,205	(200,595)	605,177	56,978,992
General plant	21,451,719	70,834	(287,229)	619,285	21,854,609
Source of supply	1,850,907	179,222	(46,302)	143,978	2,127,805
Pumping equipment	2,094,230	-	(203,373)	152,393	2,043,250
Purification equipment	1,051,289	-	-	-	1,051,289
Distribution system	16,348,906	72,243	(25,128)	212,528	16,608,549
Network operations plant	27,707,325	894,433	(51,169)	560,705	29,111,294
Total capital assets being depreciated	454,435,001	1,807,937	(1,683,828)	3,703,841	458,262,951
Less accumulated depreciation for:					
Generation plant	(234,443,467)	(7,444,500)	861,977	-	(241,025,990)
Transmission and distribution plant	(41,112,372)	(2,153,652)	178,909	-	(43,087,115)
General plant	(17,830,633)	(1,581,912)	287,060	-	(19,125,485)
Source of supply	(1,143,098)	(61,692)	46,302	-	(1,158,488)
Pumping equipment	(436,896)	(68,124)	24,151	-	(480,869)
Purification system	(747,371)	(28,055)	-	-	(775,426)
Distribution system	(5,226,523)	(359,556)	25,127	-	(5,560,952)
Network operations plant and general plant	(16,392,703)	(2,289,108)	17,675	-	(18,664,136)
Total accumulated depreciation	(317,333,063)	(13,986,599)	1,441,201	-	(329,878,461)
Total capital assets, being depreciated, net	137,101,938	(12,178,662)	(242,627)	3,703,841	128,384,490
Muscatine Power & Water capital assets, net	$ 140,389,066	$ (8,316,835)	$ (411,773)	$ -	$ 131,660,458
Muscatine Power & Water intangible asset	$ 1,546,273	$ -	$ (773,137)	$ -	$ 773,136

NOTE 6. LONG-TERM DEBT

General Obligation Bonds. The general obligation bonds outstanding as of June 30, 2012 total $18,667,192. These bonds bear interest at rates ranging from .40% to 4.00%. 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 obligation 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, 2012 consist of the following individual issues:

	Issue Date	Amount Issued	Interest Rates	Balance 6/30/2012		Governmental Activities	Business-Type Activities
General obligation bonds							
General corporate	6/1/2006	$ 2,990,000	3.85-4.00	$ 1,428,782	(1)	$ 1,428,782	$ -
General corporate	6/1/2008	5,120,000	3.00-3.50	3,761,594	(2)	3,761,594	-
General refunding	6/1/2008	6,560,000	3.25	1,490,103	(3)	-	1,490,103
General corporate	6/1/2010	7,425,000	2.00-3.125	7,271,713	(4)	7,271,713	-
General corporate and refunding	6/1/2012	4,715,000	.40-1.90	4,715,000	(5)	4,715,000	-
				$ 18,667,192		$ 17,177,089	$ 1,490,103

1. Net of unamoritzed discount of $6,218
2. Net of unamoritzed premium of $1,594
3. Net of unamoritzed premium/deferred charges of $84,897
4. Net of unamoritzed premium of $51,713
5. No premium or discount

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

Year Ending June 30	Governmental		Business-Type	
	Principal	Interest	Principal	Interest
2013	$ 1,543,020	$ 447,819	$ 732,552	$ 51,188
2014	1,572,800	407,277	757,551	26,000
2015	2,287,493	366,711	-	-
2016	2,396,456	306,023	-	-
2017	2,236,692	236,648	-	-
2018-2021	7,140,628	394,089	-	-
	$ 17,177,089	$ 2,158,567	$ 1,490,103	$ 77,188

Tax Increment Revenue Bonds. In April 2004 the City issued $420,000 of tax increment revenue bonds bearing interest at 4.25% for property acquisition in the Downtown Urban Renewal Area. These bonds were paid in full during 2012. In June 2004 $1,885,000 of tax increment bonds were issued to fund public improvements in the Southend Urban Renewal Area.

TIF Revenues Pledged. The City has pledged a portion of future urban renewal tax increment revenues to repay the Tax Increment Revenue Bonds noted above. The urban renewal tax increment revenues were projected to produce 100% of the debt service requirements over the life of the bonds. Total principal and interest remaining on the bonds are $1,474,753 payable through 2021. For the current year, principal and interest paid and total incremental tax revenues were $259,698 and $620,150, respectively.

Tax increment revenue bonds as of June 30, 2012 consist of the following issues:

	Issue Date	Amount Issued	Interest Rates	Balance June 30, 2012
Tax Increment Revenue Bonds:				
Urban Renewal Tax Increment	06/24/2004	$ 1,885,000	4.55-5.80%	$ 1,140,000

Annual debt service requirements to maturity for the tax increment revenue bond is as follows:

Year Ending	Governmental	
June 30	Principal	Interest
2013	$ 105,000	$ 61,308
2014	110,000	56,320
2015	115,000	50,930
2016	120,000	45,065
2017	125,000	38,705
2018-2021	565,000	82,425
	$ 1,140,000	$ 334,753

State Revolving Fund (SRF) Revenue Loan. In November of 2008, the City entered into a State Revolving Fund Loan with the State of Iowa in the amount of $16,500,000 to finance comprehensive improvements at the City's Water Pollution Control Plant. As of June 30, 2012, the loan balance is $15,428,000. The Loan has an interest rate of 3% and a loan servicing fee of .25% per annum of the principal amount of the loan outstanding. Repayment of this loan is to come from future revenues of the Plant.

State Revolving Fund Revenues Pledged. The City is required to establish, impose, adjust, and provide for the collection of fees to be charged to customers of the Water Pollution Control Plant to produce gross revenues at least sufficient to pay operating and maintenance costs of the plant and to leave a net balance equal to at least 110% of the principal and interest on all of the bonds and any other parity obligations due in such fiscal year as they become due. The City is also required to establish a Sewer Revenue Bond Sinking Fund into which there shall be set aside from net revenues, sufficient funds to pay interest on and principal of all of the bonds and any parity obligations as the same become due.

Annual debt service requirements for the state revolving fund revenue loan are as follows:

Year Ending	Business-Type		
June 30	Principal	Interest	Fees
2013	$ 560,000	$ 462,990	$ 38,583
2014	578,000	446,190	37,183
2015	597,000	428,850	35,738
2016	616,000	410,940	34,245
2017	636,000	392,460	32,705
2018-2022	3,505,000	1,663,350	138,614
2023-2027	4,114,000	1,102,200	91,851
2028-2032	4,822,000	443,670	36,973
	$ 15,428,000	$ 5,350,650	$ 445,892

On April 15, 2010, the City entered into a State Revolving Fund (SRF) Planning and Design Loan in the amount of $108,000 for engineering design services for a sewer extension project in the northeast section of the City. As of June 30, 2012 the City had drawn down $51,565 of the loan amount. The principal of the Planning and Design Loan is payable three years from the project note date or May 5, 2013. If the City enters into an SRF construction loan for this project, the Planning and Design Loan repayment will be incorporated into the payment schedule for the permanent SRF financing for this project.

Long-term liability activity for the year ended June 30, 2012 was as follows:

Primary government

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 13,900,000	$ 4,715,000	$ (1,485,000)	$ 17,130,000	$ 1,535,000
Tax increment revenue bonds	1,330,000	-	(190,000)	1,140,000	105,000
Premiums/discounts	53,147	-	(6,058)	47,089	8,020
Total bonds payable	15,283,147	4,715,000	(1,681,058)	18,317,089	1,648,020
Compensated absences	1,277,331	754,046	(785,185)	1,246,192	604,282
Other post-employment benefits liability	115,007	117,222	-	232,229	-
Governmental activity long-term liabilities	$ 16,675,485	$ 5,586,268	$ (2,466,243)	$ 19,795,510	$ 2,252,302
Business-type activities:					
Bonds payable:					
General obligation bonds	$ 2,325,000	$ -	$ (750,000)	$ 1,575,000	$ 775,000
State revolving fund loan	15,562,739	407,261	(542,000)	15,428,000	560,000
State revolving fund planning and design loan	46,621	4,944	-	51,565	-
Premiums and deferred charges	(127,344)	-	42,447	(84,897)	(42,448)
Total bonds payable	17,807,016	412,205	(1,249,553)	16,969,668	1,292,552
Compensated absences	349,989	261,660	(251,357)	360,292	188,318
Other post-employment benefits liability	40,996	42,029	-	83,025	-
Closure/post-closure obligation	38,645	-	-	38,645	-
Business-type activity long-term liabilities	$ 18,236,646	$ 715,894	$ (1,500,910)	$ 17,451,630	$ 1,480,870

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 $44,444, of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, compensated absences and other post employment benefits are generally liquidated by the general fund.

Discretely presented component units

Activity for the Solid Waste Agency for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$ 835	$ 1,054	$ (569)	$ 1,320	$ 1,177
Closure/post-closure obligation	2,396,644	98,165	-	2,494,809	-
Total liabilities	$ 2,397,479	$ 99,219	$ (569)	$ 2,496,129	$ 1,177

Activity for Muscatine Power & Water for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Series 2001 revenue bonds	$ 25,855,000	$ -	$ (25,855,000)	$ -
Unamortized portion of deferred loss on refundings	(72,370)	-	72,370	-
Unamortized portion of revenue bond premiums	73,671	-	(73,671)	-
State revolving fund loan	265,096	40,904	(32,000)	274,000
Note payable to bank	4,800,000	-	-	4,800,000
Post-employment health benefit provision	150,721	27,873	-	178,594
Total long-term debt	31,072,118	$ 68,777	$ (25,888,301)	5,252,594
Less current installments	12,617,000			912,000
Long-term debt, net of current portion	$ 18,455,118			$ 4,340,594

The revenue bonds, which rank on a parity with each other, are secured by future net revenues of the electric utility as defined in the bond resolutions.

In December 2008, the communications utility acquired loans from three local banks to cover the digital transition project and other capital costs. The loan agreement allows the communications utility to draw down a total amount of up to $4,800,000 through December 31, 2010, at an annual interest rate of 4.7%. Interest will be paid semi-annually beginning July 1, 2009; principal repayment will be paid annually beginning January 1, 2012. As of December 31, 2011, the communications utility borrowed the entire $4,800,000.

On November 18, 2009, the utility closed on a loan from the Iowa Department of Natural Resources' State Drinking Water Revolving Loan Fund for the well motor control project. The loan is administered by the Iowa Finance Authority. The loan agreement provided for the borrowing of up to $494,000; total amount borrowed was $399,000. The project qualified for ARRA (Stimulus Act) funding as a "green" water project and eligible for $93,000 loan forgiveness. The interest rate on the loan is 3.0% interest, plus a 0.25% servicing fee, with a 10-year repayment term. Interest payments are payable semi-annually and began June 1, 2010; principal payments began June 1, 2011 and are due annually. Total outstanding loan payable at December 31, 2011 was $274,000.

At December 31, 2011, the bank loan and state revolving fund loan mature and bear interest as follows:

	Bank Loan		State Revolving Fund Loan		
Year Ending December 31	Principal Amount	Interest	Principal Amount	Interest	Servicing Fee
2012	$ 885,000	$ 204,803	$ 27,000	$ 7,826	$ 685
2013	915,000	162,502	28,000	6,990	618
2014	960,000	118,440	29,000	6,135	548
2015	1,005,000	72,263	29,000	5,265	475
2016	1,035,000	24,322	30,000	4,380	402
2017-2020	-	-	131,000	8,055	835
Totals	$ 4,800,000	$ 582,330	$ 274,000	$ 38,651	$ 3,563

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 $29,680,000 at December 31, 2011. The bonds and corresponding trust funds are not included on the balance sheet at December 31, 2011 as the outstanding bonds are considered defeased.

Water and communications utility revenues, net of specified operating expenses, are pledged as security of the water and communications debt until fully paid. Principal and interest paid in 2011 and water and communications utility net revenues are as follows:

	Water	Communications
Principal and interest paid	$ 40,744	$ 140,818
Net revenues	797,250	3,486,023

Annual future principal and interest payments are expected to require 4% and 56% of the water and communications utility net revenues, respectively.

NOTE 7. 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 $2,494,809 reported as landfill closure and post closure care liability at June 30, 2012, represents the cumulative amount reported to date based on the use of 67.27% of the estimated capacity of the current landfill property. The Agency will recognize the remaining estimated cost of closure and post closure care of $1,213,691 as the remaining estimated capacity is filled over the 18 remaining years.

These amounts are based on what it would cost to perform all closure and post closure care in 2012. The Agency expects the currently-permitted landfill property to reach its capacity in 2030. 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 8. 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.

In the current year plan members were required to contribute 5.38% of their annual covered salary and the City was required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010 were $596,712, $507,528, and $470,940 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, 7155 Lake Drive, Suite 201, West Des Moines, Iowa 50266.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate for the year ended June 30, 2012 was 24.76% of earnable compensation. Contribution requirements are established by State statute. The City's contributions to the Plan for the years ended June 30, 2012, 2011, and 2010 were $1,029,441, $778,181, and $654,034, respectively, which met the required minimum contribution for each year.

NOTE 9. DEFICIT FUND EQUITY

Two of the City's funds had fund balance deficits as of June 30, 2012. These funds and the amount of the deficits are as follows:

Fund	Deficit Amount
Non-major capital projects:	
Community development improvements	$ 14,546
Riverfront improvement projects	246,085

These deficits are not considered a violation of any law, and are expected to be eliminated through future operations.

NOTE 10. OTHER POST EMPLOYMENT HEALTH AND DENTAL CARE BENEFITS (OPEB)

Plan description: The City sponsors a single-employer health care plan for its active and retired employees. Upon normal retirement, employees have the option of continuing health and dental insurance coverage at their cost until the age of 65.

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.

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.

Funding policy: The City establishes and amends contribution requirements. The current funding policy of the City is to pay health claims as they occur. This arrangement does not qualify as OPEB plan assets under GASB reporting.

The required contribution is based on projected pay-as-you-go financing. For the year ended June 30, 2012, the City contributed $5,323, which was net of retiree premiums received of $147,951.

Annual OPEB Cost and Net OPEB Obligation: The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not-to-exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the City's net OPEB obligation to the postemployment health plan:

Annual Required Contribution	$	156,774
Interest on net OPEB obligation		7,800
Adjustment to annual required contribution		0
Annual OPEB cost (expense)		164,574
Contributions and payments made		5,323
Increase in net OPEB obligation		159,251
Net OPEB obligation – July 1, 2011		156,003
Net OPEB obligation – June 30, 2012	$	315,254

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2012 and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	$ 161,741	54.04%	$ 97,249
June 30, 2011	155,310	62.17%	156,003
June 30, 2012	164,574	3.23%	315,254

Funded status and funding progress: As of July 1, 2010 the most recent valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $1,302,300 and the actuarial value of assets is zero resulting in an unfunded actuarial accrued liability (UAAL) of $1,302,300. The covered payroll (annual payroll of active employees covered by the plan) was $10,108,158 and the ratio of the UAAL to the covered payroll was 13 percent.

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

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

In the actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 3 percent salary increase, 5 percent investment rate of return (net of administrative expenses) which is based on the expected long-term investment return of the employer's own investments used to pay plan benefits, and an annual health care cost trend rate of 6 percent declining to an ultimate rate of 5 percent. The UAAL is being amortized as a level dollar of projected payroll on an open basis. The amortization of UAAL is done over a period of 30 years.

NOTE 11. 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 $3,520,000 as of June 30, 2012.

NOTE 12. 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. Settled claims have not exceeded commercial coverage in any of the last three fiscal years.

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 $2,942,000 for 2012. 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 $212,882 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, 2012 and 2011 are summarized as follows:

Liabilities at July 1, 2010	$ 147,611
Claims and changes in estimates during fiscal year 2011	2,055,789
Claim payments	(1,945,542)
Liabilities at June 30, 2011	$ 257,858
Claims and changes in estimates during fiscal year 2012	2,094,943
Claim payments	(2,139,919)
Liabilities at June 30, 2012	$ 212,882

NOTE 13. COMMITMENTS AND CONTINGENCIES

The City Attorney has reported that as of June 30, 2012, 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.

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, 2012, is $5,739,159.

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 2013 is set at $87,860.

The City has signed an Order for Compliance On Consent issued by the United States Environmental Protection Agency. Provisions of the Order require the City to complete separation of the combined sewers including the West Hill area by December 31, 2024. Preliminary cost estimates for the projects could reach or exceed $50 million. Estimates will be re-evaluated as planning progresses. It is anticipated that the majority of the cost of these projects will be funded by the proceeds from the 1% local option sales tax.

Muscatine Power & Water has committed to purchasing 250,000 tons of coal in 2012 on the spot market under five different contracts with four different suppliers.

Muscatine Power & Water has rail transportation agreements with two separate companies for the delivery of coal through December 31, 2017 and December 31, 2016. The utility's first agreement is for coal shipped from the Powder River Basin (PRB), Wyoming to an interchange with the local delivery carrier. The contract term is from July 1, 2011 through December 31, 2017 where the rate is adjusted quarterly beginning January 2012 plus monthly fuel surcharges. The utility's minimum requirement is 100% of the tons shipped from the PRB up to the utility's annual tonnage nomination. In the event the utility does not meet their nominated tons, the utility has agreed to pay a per ton penalty for the shortfall.

Shipment of coal from the interchange point to the utility's generating station is covered by one agreement that expires December 31, 2012 and another that begins January 1, 2013 and expires December 31, 2016. The first agreement covers the shipment of coal from the interchange to the utility's electric generating station. The contract rate is determined by the interchange that the train travels through, and is adjusted quarterly. There is no annual minimum tonnage requirement. The second rail agreement covers the shipment of coal from the interchange to the utility's electric generating station. The contract rate is adjusted quarterly. There is no minimum annual shipping requirement; however, the utility will nominate their needs by November 1 of the preceding year. In the event the utility does not meet their nominated tons, the utility has agreed to pay a per ton penalty for the shortfall.

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

Muscatine Power & Water has Board-approved open contracts for approximately $174,000. As of December 31, 2011, approximately $169,000 of this amount has been expended.

NOTE 14. NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS

The City adopted the following statements during the year ended June 30, 2012:

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* issued January 2010, was effective for the City beginning with its year ending June 30, 2012. This Statement addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. GASB 57 amends GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Adoption of this statement had no effect on the City.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), issued July 2011, was effective for the City beginning with its year ending June 30, 2012. This Statement clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are: (*a*) the collectability of swap payments is considered to be probable, (*b*) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in the Statement, and (*c*) the counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event. When all of these conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied. Adoption of this statement had no effect on the City.

As of June 30, 2012, the GASB had issued several statements not yet implemented by the City. The statements which might impact the City are as follows.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010, will be effective for the City beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. Specifically, this Statement improves financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. This Statement also improves the decision usefulness of financial reporting by requiring that specific relevant disclosures be made by transferors and governmental operators about SCAs.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, issued November 2010, will be effective for the City beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The amendments to the criteria for including component units allow users of financial statements to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. The amendments to the criteria for blending also improve the focus of a financial reporting entity on the primary government by ensuring that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and by clarifying which component units have that characteristic.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued January 2011, will be effective for the City beginning with its year ending June 30, 2013. This Statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. This Statement incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. By incorporating and maintaining this guidance in a single source, the GASB believes that GASB 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial reports.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued July 2011, will be effective for the City beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets.*

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* issued April 2012, will be effective for the City beginning with its year ending June 30, 2014. This Statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB Concepts Statement (CON) No. 4, *Elements of Financial Statements*, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in CON 4. Based on those definitions, this Statement reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, the Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources.

GASB Statement No. 66, *Technical Corrections - 2012*, issued April 2012, will be effective for the City beginning with its year ending June 30, 2014. This Statement enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This Statement amends GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of a state or local government's risk financing activities to the general fund and the internal service fund types. As a result, governments would base their decisions about governmental fund type usage for risk financing activities on the definitions in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* This Statement also amends GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for: (*a*) operating lease payments that vary from a straight-line basis; (*b*) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans; and (*c*) servicing

fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes would eliminate any uncertainty regarding the application of GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases,* and result in guidance that is consistent with the requirements in GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,* respectively.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* issued June 2012, will be effective for the City beginning with its year ending June 30, 2015. This Statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* and GASB Statement No. 50, *Pension Disclosures,* as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. This Statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information.

REQUIRED

SUPPLEMENTARY

INFORMATION

City of Muscatine, Iowa

Budgetary Comparison Schedule of
Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - Budgetary Basis
Budgeted Governmental and Proprietary Funds

Required Supplementary Information

For the Year Ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final Budget to Actual Variance
				Original	Final	
Revenues:						
Taxes:						
Property	$ 12,031,835	$ -	$ 12,031,835	$ 11,993,253	$ 11,993,253	$ 38,582
Tax increment financing	810,293	-	810,293	798,000	806,520	3,773
Other city taxes	3,476,323	-	3,476,323	3,265,081	3,531,881	(55,558)
Licenses and permits	308,385	23,665	332,050	320,100	298,200	33,850
Use of money and property	226,242	703,541	929,783	1,035,510	1,008,770	(78,987)
Intergovernmental	6,329,459	1,431,311	7,760,770	7,674,573	8,369,643	(608,873)
Charges for services	556,802	12,306,423	12,863,225	12,655,000	12,640,250	222,975
Miscellaneous	2,556,231	2,943,632	5,499,863	4,828,300	4,956,340	543,523
Total revenues	26,295,570	17,408,572	43,704,142	42,569,817	43,604,857	99,285
Expenditures:						
Public safety	7,567,506	-	7,567,506	7,501,400	7,716,100	(148,594)
Public works	2,057,197	-	2,057,197	2,249,600	2,237,400	(180,203)
Health and social service	17,800	-	17,800	17,800	17,800	-
Culture and recreation	3,154,162	-	3,154,162	3,098,850	3,243,950	(89,788)
Community and economic development	3,107,839	-	3,107,839	3,107,570	3,178,725	(70,886)
General government	2,044,339	-	2,044,339	2,111,900	2,118,808	(74,469)
Debt service	3,013,803	-	3,013,803	2,796,679	3,011,679	2,124
Capital projects	4,912,814	-	4,912,814	5,403,700	5,987,300	(1,074,486)
Business type activities	-	17,813,815	17,813,815	19,193,808	19,625,528	(1,811,713)
Total expenditures	25,875,460	17,813,815	43,689,275	45,481,307	47,137,290	(3,448,015)
Revenues over (under) expenditures	420,110	(405,243)	14,867	(2,911,490)	(3,532,433)	3,547,300
Other financing sources (uses):						
Proceeds of long term debt	4,615,805	484,996	5,100,801	5,016,500	5,132,244	(31,443)
Proceeds of capital asset sales	-	-	-	-	416,250	(416,250)
Transfers in	5,641,318	5,149,927	10,791,245	11,749,769	14,514,903	(3,723,658)
Transfers out	(5,719,395)	(5,071,850)	(10,791,245)	(11,749,769)	(14,514,903)	3,723,658
Total other financing sources (uses)	4,537,728	563,073	5,100,801	5,016,500	5,548,494	(447,693)
Net change in fund balances	4,957,838	157,830	5,115,668	2,105,010	2,016,061	3,099,607
Fund balances, June 30, 2011	7,306,809	8,915,093	16,221,902	13,720,190	16,217,928	3,974
Fund balances, June 30, 2012	$ 12,264,647	$ 9,072,923	$ 21,337,570	$ 15,825,200	$ 18,233,989	$ 3,103,581

See notes to Required Supplementary Information.

City of Muscatine, Iowa

Budget to GAAP Reconciliation

Required Supplementary Information

For the Year Ended June 30, 2012

	Governmental Funds			Proprietary Funds		
	Budget Basis	Adjustments	GAAP Basis	Enterprise and Budgeted Internal Service Funds Budget Basis	Adjustments	Enterprise and Internal Service Funds GAAP Basis
Revenues	$ 26,295,570	$ 119,838	$ 26,415,408	$ 17,408,572	$ (273,847)	$ 17,134,725
Expenditures/expenses	25,875,460	(655,353)	25,220,107	17,813,815	318,635	18,132,450
Net	420,110	775,191	1,195,301	(405,243)	(592,482)	(997,725)
Other financing sources (uses), net	4,537,728	(918,997)	3,618,731	563,073	533,196	1,096,269
Beginning fund balances/net assets	7,306,809	193,962	7,500,771	8,915,093	65,175,758	74,090,851
Ending fund balances/net assets	$ 12,264,647	$ 50,156	$ 12,314,803	$ 9,072,923	$ 65,116,472	$ 74,189,395

See notes to Required Supplementary Information.

City of Muscatine, Iowa

Other Postemployment Benefit Plan

Required Supplementary Information

Schedule of Funding Progress

Fiscal Year Ended June 30	Actuarial Valuation Date	Actuarial Value of Net Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over-funded) AAL (UALL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	7-1-2008	-	$ 1,437,500	$ 1,437,500	0%	$ 9,589,347	15.0%
2011	7-1-2010	-	1,302,300	1,302,300	0%	9,966,290	13.1%
2012	7-1-2010	-	1,302,300	1,302,300	0%	10,108,158	12.9%

See notes to Required Supplementary Information.

CITY OF MUSCATINE, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2012

NOTE 1. Budget Preparation and Adoption

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. The budget must include the amount to be raised by property taxation, income from sources other than property taxation, and expenditures for each of the functional areas described in Note 3.

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, Finance 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.

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.

Note 2. Basis of Budgeting

Annual budgets are adopted following required public notice and hearings 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 (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 purchases on order related to unperformed contracts for goods or services with the exception of capital projects fund contracts. 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. Additionally, all general obligation bond payments including those which for accounting purposes are accounted for through enterprise funds are budgeted in the debt service fund.

NOTE 3. Budget Functions

Formal and legal budgetary control is based upon nine major classes of expenditures known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, Enterprise Funds and certain Permanent and Internal Service Funds. Although the City's budget document presents expenditures by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements in total by $1,655,983. This overall increase is primarily due to changes in capital project construction schedules, grant funds awarded after the original budget was adopted, and refunding $215,000 of outstanding general obligation debt. These budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2012 expenditures did not exceed their budgeted amounts in all functions with the exception of the debt service function which exceeded the budgeted amount by $2,124 due to refunding bond issuance costs.

NOTE 4. Other Postemployment Benefit Plan

The information in the required supplementary schedule was determined as part of the actuarial valuations as of July 1, 2008 and July 1, 2010. Additional information is as follows:

1. The cost method used to determine the ARC is the Projected Unit Credit Actuarial Cost method.
2. There are no plan assets.
3. Economic assumptions in the July 1, 2010 valuation are as follows: health care cost trend rate of 6% for year one and 5% for year two and after, an investment return rate of 5.0%, and a 3% annual salary increase.
4. The amortization method is open period, level dollar.

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.

1ST TIME HOME OWNERS PROGRAM – Accounts for funds received to provide education and counseling services to assist persons interested in purchasing their own homes.

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

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.

SUNSET PARK EDUCATION PROGRAM – Accounts for the children's after school education program at the Sunset Park public housing apartment complex.

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.

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 economic development incentives for expanding businesses in this area, other improvements in the southend area, and the debt requirements on the tax increment revenue bonds which financed improvements in the southend area.

CEDAR DEVELOPMENT TAX INCREMENT – Accounts for incremental taxes from the Cedar Development Urban Renewal Area.

MUSCATINE MALL TAX INCREMENT – Accounts for incremental taxes from the Muscatine Mall Urban Renewal Area.

HEINZ TAX INCREMENT – Accounts for incremental taxes from the Industrial/Heinz 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 and the Homebound Delivery Trust used for donations to further the home delivery program.

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

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 capital 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 the City's pavement management program including ongoing maintenance of the improved streets.

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

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

OTHER PUBLIC IMPROVEMENTS FUND - Accounts for construction and improvements to City buildings, improvements of City park facilities and equipment and technology acquisitions.

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, 2012

	Special Revenue	Capital Projects	Permanent	Totals
Assets:				
Cash and pooled investments	$ 2,295,335	$ 1,956,518	$ 44,922	$ 4,296,775
Investments	445,708	-	972,000	1,417,708
Receivables (net of allowance for uncollectibles):				
Interest	1,204	-	4,627	5,831
Taxes	854,176	-	-	854,176
Intergovernmental	401,585	288,990	-	690,575
Accounts	5,745	-	110	5,855
Advances to other funds	10,228	329,170	16,059	355,457
Total assets	4,013,981	2,574,678	1,037,718	7,626,377
Liabilities and fund balances				
Liabilities:				
Accounts payable and accruals	26,644	258,883	-	285,527
Retainages payable	-	133,809	-	133,809
Advances from other funds	-	329,170	26,287	355,457
Escrow liability	5,286	-	-	5,286
Deferred revenue	872,926	126,652	-	999,578
Total liabilities	904,856	848,514	26,287	1,779,657
Fund balances:				
Nonspendable:				
Advances to other funds	10,228	329,170	16,059	355,457
Permanent fund principal	-	-	959,257	959,257
Restricted for:				
Grant purposes	923,751	-	-	923,751
Housing assistance payments	138,799	-	-	138,799
Tax levy purposes	1,171,982	-	-	1,171,982
Housing and community development	220,265	-	-	220,265
Law enforcement	2,778	-	-	2,778
Art center	374,523	-	5,176	379,699
Library	223,101	-	-	223,101
Parks and recreation	43,698	-	-	43,698
Cemetery	-	-	30,939	30,939
Street improvement projects	-	1,477,850	-	1,477,850
Building improvement projects	-	103,860	-	103,860
Parks and recreation projects	-	47,465	-	47,465
Unassigned	-	(232,181)	-	(232,181)
Total fund balances	3,109,125	1,726,164	1,011,431	5,846,720
Total liabilities and fund balances	$ 4,013,981	$ 2,574,678	$ 1,037,718	$ 7,626,377

City of Muscatine, Iowa

Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2012

	Special Revenue	Capital Projects	Permanent	Totals
Revenues:				
Taxes:				
Property	$ 810,293	$ -	$ -	$ 810,293
Intergovernmental	3,953,579	1,851,137	-	5,804,716
Use of money and property	9,278	1,081	27,434	37,793
Other	77,207	475,480	6,373	559,060
Total revenues	4,850,357	2,327,698	33,807	7,211,862
Expenditures:				
Current:				
Public safety	4,401	-	-	4,401
Culture and recreation	67,307	-	4,026	71,333
Community and economic development	2,349,641	-	-	2,349,641
General government	-	-	-	-
Debt service:				
Principal	190,000	-	-	190,000
Interest	69,698	-	-	69,698
Bond issuance costs	-	25,181	-	25,181
Capital outlay:				
Public safety	-	1,226,024	-	1,226,024
Public works	-	3,057,783	-	3,057,783
Culture and recreation	23,448	475,955	-	499,403
Community and economic development	-	27,756	-	27,756
General government	-	125,296	-	125,296
Total expenditures	2,704,495	4,937,995	4,026	7,646,516
Revenues over (under) expenditures	2,145,862	(2,610,297)	29,781	(434,654)
Other financing sources (uses):				
General obligation bonds issued	-	4,496,400	-	4,496,400
Transfers in	65,277	967,186	-	1,032,463
Transfers out	(2,288,187)	(220,404)	(24,420)	(2,533,011)
Total other financing sources (uses)	(2,222,910)	5,243,182	(24,420)	2,995,852
Net change in fund balances	(77,048)	2,632,885	5,361	2,561,198
Fund balances, June 30, 2011	3,186,173	(906,721)	1,006,070	3,285,522
Fund balances, June 30, 2012	$ 3,109,125	$ 1,726,164	$ 1,011,431	$ 5,846,720

City of Muscatine, Iowa

Non-Major Special Revenue Funds
Combining Balance Sheet
June 30, 2012

	Community Development Block Grant	1st Time Home Owners Program	Road Use Tax	Section 8 Housing Program	Sunset Park Education Program	Police Forfeitures
Assets:						
Cash and pooled investments	$ 42,640	$ 166,510	$ 439,550	$ 3,593	$ 10,680	$ 2,778
Investments	-	-	-	265,708	-	-
Receivables (net of allowance for uncollectibles):						
Interest	-	-	-	1	-	-
Taxes	-	-	-	-	-	-
Accounts	-	4,463	-	1,282	-	-
Intergovernmental	-	-	400,593	992	-	-
Advances to other funds	-	-	-	-	-	-
Total assets	42,640	170,973	840,143	271,576	10,680	2,778
Liabilities and fund balances						
Liabilities:						
Accounts payable and accruals	-	4,028	-	18,957	-	-
Escrow liability	-	-	-	5,286	-	-
Deferred revenue	-	-	-	24,926	-	-
Total liabilities	-	4,028	-	49,169	-	-
Fund balances:						
Nonspendable:						
Advances to other funds	-	-	-	-	-	-
Restricted for:						
Grant purposes	-	-	840,143	83,608	-	-
Housing assistance payments	-	-	-	138,799	-	-
Tax levy purposes	-		-	-	-	-
Housing and community development	42,640	166,945	-	-	10,680	-
Law enforcement	-	-	-	-	-	2,778
Art center	-	-	-	-	-	-
Library	-	-	-	-	-	-
Parks and recreation	-	-	-	-	-	-
Total fund balances	42,640	166,945	840,143	222,407	10,680	2,778
Total liabilities and fund balances	$ 42,640	$ 170,973	$ 840,143	$ 271,576	$ 10,680	$ 2,778

Downtown Tax Increment	Southend Tax Increment	Cedar Development Tax Increment	Muscatine Mall Tax Increment	Heinz Tax Increment	Art Center Special Funds	Library Special Funds	Parks Donations	Total
$ 77,139	$ 1,069,720	$ 13,544	$ 3,405	$ 2,318	$ 193,320	$ 226,440	$ 43,698	$ 2,295,335
-	-	-	-	-	180,000	-	-	445,708
-	-	-	-	-	1,203	-	-	1,204
210,000	431,176	182,000	15,000	16,000	-	-	-	854,176
-	-	-	-	-	-	-	-	5,745
-	-	-	-	-	-	-	-	401,585
-	-	-	-	-	-	-	10,228	10,228
287,139	1,500,896	195,544	18,405	18,318	374,523	226,440	53,926	4,013,981
-	320	-	-	-	-	3,339	-	26,644
-	-	-	-	-	-	-	-	5,286
210,000	425,000	182,000	15,000	16,000	-	-	-	872,926
210,000	425,320	182,000	15,000	16,000	-	3,339	-	904,856
-	-	-	-	-	-	-	10,228	10,228
-	-	-	-	-	-	-	-	923,751
-	-	-	-	-	-	-	-	138,799
77,139	1,075,576	13,544	3,405	2,318	-	-	-	1,171,982
-	-	-	-	-	-	-	-	220,265
-	-	-	-	-	-	-	-	2,778
-	-	-	-	-	374,523	-	-	374,523
-	-	-	-	-	-	223,101	-	223,101
-	-	-	-	-	-	-	43,698	43,698
77,139	1,075,576	13,544	3,405	2,318	374,523	223,101	53,926	3,109,125
$ 287,139	$ 1,500,896	$ 195,544	$ 18,405	$ 18,318	$ 374,523	$ 226,440	$ 53,926	$ 4,013,981

City of Muscatine, Iowa

Non-Major Special Revenue Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2012

	Community Development Block Grant	1st Time Home Owners Program	Road Use Tax	Section 8 Housing Program	Sunset Park Education Program	Police Forfeitures
Revenues:						
Taxes:						
Property	$ -	$ -	$ -	$ -	$ -	$ -
Intergovernmental:						
HUD grants	-	-	-	1,752,477	-	-
Road use tax	-	-	2,164,577	-	-	-
Federal grants	-	1,699	-	-	-	-
State grants	-	-	-	-	-	-
Local grants	-	23,303	-	-	-	-
Interest	30	252	-	341	20	5
Other:						
Donations	-	-	-	-	20,095	-
Miscellaneous	10,000	3,649	-	4,991	300	-
Total revenues	10,030	28,903	2,164,577	1,757,809	20,415	5
Expenditures:						
Current:						
Public safety	-	-	-	-	-	4,401
Culture and recreation	-	-	-	-	-	-
Community and economic development	-	39,507	-	1,894,985	14,142	-
Capital outlay:						
Culture and recreation	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total expenditures	-	39,507	-	1,894,985	14,142	4,401
Revenues over (under) expenditures	10,030	(10,604)	2,164,577	(137,176)	6,273	(4,396)
Other financing sources (uses):						
Transfers in	-	65,277	-	-	-	-
Transfers out	-	-	(2,079,960)	-	-	-
Total other financing sources (uses)	-	65,277	(2,079,960)	-	-	-
Net change in fund balances	10,030	54,673	84,617	(137,176)	6,273	(4,396)
Fund balances, June 30, 2011	32,610	112,272	755,526	359,583	4,407	7,174
Fund balances, June 30, 2012	$ 42,640	$ 166,945	$ 840,143	$ 222,407	$ 10,680	$ 2,778

Downtown Tax Increment	Southend Tax Increment	Cedar Development Tax Increment	Muscatine Mall Tax Increment	Heinz Tax Increment	Art Center Special Funds	Library Special Funds	Parks Donations	Total
$ 212,394	$ 407,756	$ 161,824	$ 14,159	$ 14,160	$ -	$ -	$ -	$ 810,293
-	-	-	-	-	-	-	-	1,752,477
-	-	-	-	-	-	-	-	2,164,577
-	-	-	-	-	-	-	-	1,699
-	-	-	-	-	-	11,523	-	11,523
-	-	-	-	-	-	-	-	23,303
237	2,035	43	6	5	5,832	381	91	9,278
-	-	-	-	-	8,229	26,233	670	55,227
-	-	-	-	-	204	2,836	-	21,980
212,631	409,791	161,867	14,165	14,165	14,265	40,973	761	4,850,357
-	-	-	-	-	-	-	-	4,401
-	-	-	-	-	20,713	46,549	45	67,307
57,716	162,000	157,440	12,489	11,362	-	-	-	2,349,641
-	-	-	-	-	4,340	19,108	-	23,448
85,000	105,000	-	-	-	-	-	-	190,000
3,613	66,085	-	-	-	-	-	-	69,698
146,329	333,085	157,440	12,489	11,362	25,053	65,657	45	2,704,495
66,302	76,706	4,427	1,676	2,803	(10,788)	(24,684)	716	2,145,862
-	-	-	-	-	-	-	-	65,277
(70,225)	(137,517)	-	-	(485)	-	-	-	(2,288,187)
(70,225)	(137,517)	-	-	(485)	-	-	-	(2,222,910)
(3,923)	(60,811)	4,427	1,676	2,318	(10,788)	(24,684)	716	(77,048)
81,062	1,136,387	9,117	1,729	-	385,311	247,785	53,210	3,186,173
$ 77,139	$ 1,075,576	$ 13,544	$ 3,405	$ 2,318	$ 374,523	$ 223,101	$ 53,926	$ 3,109,125

City of Muscatine, Iowa

Non-Major Capital Projects Funds
Combining Balance Sheet
June 30, 2012

	Community Development Improvements	Street and Sidewalk Improvements	Other Street Improvements	Riverfront Improvement Projects
Assets:				
Cash and pooled investments	$ -	$ 123,005	$ 1,541,972	$ 6,284
Receivables:				
Intergovernmental	-	-	88,197	134,595
Advances to other funds	-	-	329,170	-
Total assets	-	123,005	1,959,339	140,879
Liabilities and fund balances				
Liabilities:				
Accounts payable	4,969	105,315	51,644	547
Retainages payable	-	5,528	64,922	-
Deferred revenue	-	-	19,465	66,824
Advances from other funds	9,577	-	-	319,593
Total liabilities	14,546	110,843	136,031	386,964
Fund balances:				
Nonspendable:				
Advances to other funds	-	-	329,170	-
Restricted for:				
Street improvement projects	-	-	1,477,850	-
Building improvement projects	-	-	-	-
Parks and recreation projects	-	-	-	-
Unassigned	(14,546)	12,162	16,288	(246,085)
Total fund balances	(14,546)	12,162	1,823,308	(246,085)
Total liabilities and fund balances	$ -	$ 123,005	$ 1,959,339	$ 140,879

Other Public Improvements	Total
$ 285,257	$ 1,956,518
66,198	288,990
-	329,170
351,455	2,574,678
96,408	258,883
63,359	133,809
40,363	126,652
-	329,170
200,130	848,514
-	329,170
-	1,477,850
103,860	103,860
47,465	47,465
-	(232,181)
151,325	1,726,164
$ 351,455	$ 2,574,678

City of Muscatine, Iowa

Non-Major Capital Projects Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2012

	Community Development Improvements	Street and Sidewalk Improvements	Other Street Improvements	Riverfront Improvement Projects
Revenues:				
Intergovernmental:				
Federal grants	$ -	$ -	$ 571,517	$ 158,775
State grants	-	-	-	68,019
Interest	-	125	427	10
Other:				
Sale of property	-	-	349,943	-
Contributions	-	5,253	-	6,345
Reimbursement of costs	-	-	23,064	-
Total revenues	-	5,378	944,951	233,149
Expenditures:				
Current:				
Bond issuance costs	-	-	21,847	421
Capital outlay:				
Public safety	-	-	-	-
Public works	-	706,030	2,233,807	117,946
Culture and recreation	-	-	-	388
Community and economic development	27,756	-	-	-
General government	-	-	-	-
Total expenditures	27,756	706,030	2,255,654	118,755
Revenues over (under) expenditures	(27,756)	(700,652)	(1,310,703)	114,394
Other financing sources (uses):				
General obligation bonds issued	-	-	3,900,900	75,200
Transfers in	485	706,030	105,910	72,248
Transfers out	-	(105,910)	(20,717)	-
Total other financing sources (uses)	485	600,120	3,986,093	147,448
Net change in fund balances	(27,271)	(100,532)	2,675,390	261,842
Fund balances (deficits), June 30, 2011	12,725	112,694	(852,082)	(507,927)
Fund balances (deficits), June 30, 2012	$ (14,546)	$ 12,162	$ 1,823,308	$ (246,085)

Other Public Improvements	Total
$ 334,071	$ 1,064,363
718,755	786,774
519	1,081
-	349,943
75,200	86,798
15,675	38,739
1,144,220	2,327,698
2,913	25,181
1,226,024	1,226,024
-	3,057,783
475,567	475,955
-	27,756
125,296	125,296
1,829,800	4,937,995
(685,580)	(2,610,297)
520,300	4,496,400
82,513	967,186
(93,777)	(220,404)
509,036	5,243,182
(176,544)	2,632,885
327,869	(906,721)
$ 151,325	$ 1,726,164

City of Muscatine, Iowa

Non-Major Permanent Funds
Combining Balance Sheet
June 30, 2012

	McWhirter-Gilmore Trust	Perpetual Care Trust	Perpetual Care Interest Trust	Cemetery Special Trusts	Total
Assets:					
Cash and pooled investments	$ 44,775	$ 147	$ -	$ -	$ 44,922
Investments	60,000	827,000	-	85,000	972,000
Receivables:					
Interest	401	-	4,059	167	4,627
Accounts	-	110	-	-	110
Advances to other funds	-	16,059	-	-	16,059
Total assets	105,176	843,316	4,059	85,167	1,037,718
Liabilities and fund balances					
Liabilities:					
Advances from other funds	-	-	4,059	22,228	26,287
Fund balances:					
Nonspendable:					
Advances to other funds	-	16,059	-	-	16,059
Permanent fund principal	100,000	827,257	-	32,000	959,257
Restricted for:					
Cemetery	-	-	-	30,939	30,939
Art center	5,176	-	-	-	5,176
Total fund balances	105,176	843,316	-	62,939	1,011,431
Total liabilities and fund balances	$ 105,176	$ 843,316	$ 4,059	$ 85,167	$ 1,037,718

City of Muscatine, Iowa

Non-Major Permanent Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2012

	McWhirter-Gilmore Trust	Perpetual Care Trust	Perpetual Care Interest Trust	Cemetery Special Trusts	Total
Revenues:					
Cemetery perpetual care	$ -	$ 6,373	$ -	$ -	$ 6,373
Interest	1,910	-	24,420	1,104	27,434
Total revenues	1,910	6,373	24,420	1,104	33,807
Expenditures:					
Current:					
Culture and recreation	-	-	-	4,026	4,026
Revenues over (under) expenditures	1,910	6,373	24,420	(2,922)	29,781
Other financing uses:					
Transfers out	-	-	(24,420)	-	(24,420)
Net change in fund balances	1,910	6,373	-	(2,922)	5,361
Fund balances, June 30, 2011	103,266	836,943	-	65,861	1,006,070
Fund balances, June 30, 2012	$ 105,176	$ 843,316	$ -	$ 62,939	$ 1,011,431

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 net income for purposes of capital maintenance, public policy, management control or accountability.

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.

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 and a 50-unit family facility.

City of Muscatine, Iowa

Non-Major Enterprise Funds
Combining Statement of Net Assets
June 30, 2012

	Airport Operations	Parking Operations	Transit Operations	Golf Course	Boat Harbor
Assets:					
Current assets:					
Cash and pooled investments	$ -	$ 94,984	$ 88,586	$ 129,149	$ 8,201
Investments	-	-	-	-	-
Receivables (net of allowance for uncollectibles):					
Interest	-	-	-	-	-
Accounts	271	1,816	11,321	731	-
Intergovernmental:					
Federal	39,729	-	18,319	-	-
State	9,204	-	-	-	-
County	-	-	-	-	-
Due from other funds	-	526	-	-	-
Inventories	-	-	-	47,234	-
Prepaid items	-	-	-	4,400	-
Total current assets	49,204	97,326	118,226	181,514	8,201
Noncurrent assets:					
Capital assets:					
Land	1,408,973	579,686	-	80,000	-
Land improvements	9,024,924	1,288,350	-	1,133,691	206,105
Buildings and building improvements	1,665,785	-	20,426	785,533	-
Equipment	143,422	42,370	6,054	407,139	-
Vehicles	117,342	-	688,490	16,534	-
Construction in progress	387,360	-	-	-	-
Less accumulated depreciation	(8,238,763)	(607,586)	(490,807)	(1,403,147)	(163,343)
Total capital assets net of accumulated depreciation	4,509,043	1,302,820	224,163	1,019,750	42,762
Total noncurrent assets	4,509,043	1,302,820	224,163	1,019,750	42,762
Total assets	4,558,247	1,400,146	342,389	1,201,264	50,963
Liabilities:					
Current liabilities:					
Accounts payable and accruals	8,098	141	1,931	40,226	1,344
Retainages payable	700	-	-	-	-
Compensated absences payable	-	8,717	14,545	10,450	557
Due to other funds	10,007	-	-	-	-
Deposits	-	-	-	-	-
Unearned revenue	3,600	19,080	476	10,673	-
Total current liabilities	22,405	27,938	16,952	61,349	1,901
Noncurrent liabilities:					
Compensated absences	-	10,446	4,987	6,712	44
Other post-employment benefits	-	2,485	1,864	4,659	-
Total noncurrent liabilities	-	12,931	6,851	11,371	44
Total liabilities	22,405	40,869	23,803	72,720	1,945
Net assets:					
Invested in capital assets, net of related debt	4,509,043	1,302,820	224,163	1,019,750	42,762
Unrestricted	26,799	56,457	94,423	108,794	6,256
Total net assets	$ 4,535,842	$ 1,359,277	$ 318,586	$ 1,128,544	$ 49,018

Marina Operations	Ambulance Operations	Public Housing	Total
$ -	$ 30,532	$ 7,798	$ 359,250
-	-	391,612	391,612
-	-	156	156
250	208,809	7,728	230,926
-	-	-	58,048
-	-	-	9,204
-	4,801	-	4,801
-	-	-	526
3,295	-	-	50,529
-	-	38,624	43,024
3,545	244,142	445,918	1,148,076
-	-	105,000	2,173,659
-	-	206,873	11,859,943
-	-	8,030,629	10,502,373
-	143,654	111,847	854,486
-	430,866	71,006	1,324,238
-	135,198	-	522,558
-	(317,532)	(6,080,928)	(17,302,106)
-	392,186	2,444,427	9,935,151
-	392,186	2,444,427	9,935,151
3,545	636,328	2,890,345	11,083,227
2,151	16,403	103,855	174,149
-	-	-	700
-	3,962	18,933	57,164
526	-	-	10,533
-	-	43,976	43,976
-	-	9,055	42,884
2,677	20,365	175,819	329,406
-	4,233	17,628	44,050
-	1,553	6,678	17,239
-	5,786	24,306	61,289
2,677	26,151	200,125	390,695
-	392,186	2,444,427	9,935,151
868	217,991	245,793	757,381
$ 868	$ 610,177	$ 2,690,220	$ 10,692,532

City of Muscatine, Iowa

Non-Major Enterprise Funds
Combining Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2012

	Airport Operations	Parking Operations	Transit Operations	Golf Course	Boat Harbor
Operating revenues:					
Charges for sales and services:					
Charges for services	$ -	$ -	$ -	$ -	$ -
Parking fees	-	182,220	-	-	-
Transit fees	-	-	176,542	-	-
Golf course fees	-	-	-	846,767	-
Boat harbor fees	-	-	-	-	39,814
Management fees	9,900	-	-	-	-
Rents	32,224	-	-	-	-
Other	-	-	513	27,734	-
Total operating revenues	42,124	182,220	177,055	874,501	39,814
Operating expenses:					
Cost of sales and services:					
Personal services	-	150,510	652,417	348,810	12,932
Commodities	3,360	3,404	129,863	241,347	585
Contractual services	101,719	9,538	190,428	136,804	6,554
Administration	7,900	19,900	16,100	47,200	5,000
Depreciation	349,115	61,449	86,875	95,012	6,034
Total operating expenses	462,094	244,801	1,075,683	869,173	31,105
Operating income (loss)	(419,970)	(62,581)	(898,628)	5,328	8,709
Non-operating revenues (expenses):					
Federal, state and local grants	13,682	-	524,484	-	-
Interest revenue	1	153	21	161	-
Gain (loss) on sale of capital assets	-	-	-	(3,350)	-
Non-operating revenues (expenses), net	13,683	153	524,505	(3,189)	-
Income (loss) before capital contributions and transfers	(406,287)	(62,428)	(374,123)	2,139	8,709
Capital contributions - grants	392,441	-	-	-	-
Transfers in	129,020	-	301,472	-	-
Transfers out	-	-	-	-	-
Change in net assets	115,174	(62,428)	(72,651)	2,139	8,709
Net assets, June 30, 2011	4,420,668	1,421,705	391,237	1,126,405	40,309
Net assets, June 30, 2012	$ 4,535,842	$ 1,359,277	$ 318,586	$ 1,128,544	$ 49,018

Marina Operations	Ambulance Operations	Public Housing	Total
$ -	$ 1,115,642	$ -	$ 1,115,642
-	-	-	182,220
-	-	-	176,542
-	-	-	846,767
-	-	-	39,814
-	-	-	9,900
-	-	431,239	463,463
18,757	51,400	111,482	209,886
18,757	1,167,042	542,721	3,044,234
1,726	125,080	382,897	1,674,372
14,565	116,782	114,489	624,395
3,216	146,862	363,482	958,603
-	32,500	-	128,600
-	54,036	296,819	949,340
19,507	475,260	1,157,687	4,335,310
(750)	691,782	(614,966)	(1,291,076)
-	-	83,132	621,298
-	375	3,711	4,422
-	-	(8,280)	(11,630)
-	375	78,563	614,090
(750)	692,157	(536,403)	(676,986)
-	-	-	392,441
775	12,482	-	443,749
-	(786,300)	(65,277)	(851,577)
25	(81,661)	(601,680)	(692,373)
843	691,838	3,291,900	11,384,905
$ 868	$ 610,177	$ 2,690,220	$ 10,692,532

City of Muscatine, Iowa

Non-Major Enterprise Funds
Combining Statement of Cash Flows
Year Ended June 30, 2012

	Airport Operations	Parking Operations	Transit Operations	Golf Course	Boat Harbor
Cash flows from operating activities					
Receipts from customers and users	$ 42,344	$ 175,499	$ 181,275	$ 878,785	$ 40,815
Payments to suppliers	(103,415)	(13,095)	(42,002)	(385,900)	(7,697)
Payments to employees	-	(115,318)	(529,239)	(262,641)	(10,518)
Payments for employee benefits	-	(29,303)	(123,152)	(81,645)	(2,152)
Payments for interfund services used	(9,281)	(19,900)	(295,601)	(50,187)	(5,000)
Net cash provided (used) by operating activities	(70,352)	(2,117)	(808,719)	98,412	15,448
Cash flows from noncapital financing activities					
Transfers to other funds	-	-	-	-	-
Transfers from other funds	129,020	-	301,472	-	-
Advances from other funds	-	-	-	-	-
Advances to other funds	-	(526)	-	-	-
Repayment of advances from other funds	(17,042)	-	-	-	(7,247)
Repayment of advances to other funds	-	7,247	-	-	-
Subsidies from federal, state and local grants	13,682	-	555,157	-	-
Net cash provided (used) by noncapital financing activities	125,660	6,721	856,629	-	(7,247)
Cash flows from capital and related financing activities					
Capital contributions	486,233	-	-	-	-
Purchase of capital assets	(541,542)	-	(6,195)	(58,958)	-
Proceeds from sale of capital assets	-	-	-	3,250	-
Net cash provided (used) by capital and related financing activities	(55,309)	-	(6,195)	(55,708)	-
Cash flows from investing activities					
Proceeds from sales and maturities of investments	-	-	-	-	-
Purchase of investments	-	-	-	-	-
Interest received	1	153	21	161	-
Net cash provided (used) by investing activities	1	153	21	161	-
Net increase (decrease) in cash and pooled investments	-	4,757	41,736	42,865	8,201
Cash and pooled investments, June 30, 2011	-	90,227	46,850	86,284	-
Cash and pooled investments, June 30, 2012	$ -	$ 94,984	$ 88,586	$ 129,149	$ 8,201
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Cash flows from operating activities:					
Operating income (loss)	$ (419,970)	$ (62,581)	$ (898,628)	$ 5,328	$ 8,709
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	349,115	61,449	86,875	95,012	6,034
Changes in assets and liabilities:					
(Increase) decrease in:					
Accounts receivable	(26)	(756)	4,304	2,254	1,001
Inventories	-	-	-	(13,253)	-
Prepaid items	-	-	-	-	-
Increase (decrease) in:					
Accounts payable and accruals	283	(153)	(1,212)	2,517	(558)
Compensated absences payable	-	4,652	(902)	2,205	262
Other post-employment benefits	-	1,237	928	2,319	-
Deferred revenue	246	(5,965)	(84)	2,030	-
Deposits	-	-	-	-	-
Total adjustments	349,618	60,464	89,909	93,084	6,739
Net cash provided (used) by operating activities	$ (70,352)	$ (2,117)	$ (808,719)	$ 98,412	$ 15,448
Non-cash capital and related financing activities:					
Change in accounts payable used to purchase capital assets	$ (115,018)	$ -	$ -	$ -	$ -

Marina Operations	Ambulance Operations	Public Housing	Total
$ 18,893	$ 1,183,089	$ 551,484	$ 3,072,184
(19,536)	(234,558)	(430,049)	(1,236,252)
(1,527)	(100,434)	(281,940)	(1,301,617)
(199)	(23,047)	(102,094)	(361,592)
-	(65,364)	(86,351)	(531,684)
(2,369)	759,686	(348,950)	(358,961)
-	(786,300)	(65,277)	(851,577)
775	12,482	-	443,749
526	-	-	526
-	-	-	(526)
-	-	-	(24,289)
-	-	-	7,247
-	-	83,132	651,971
1,301	(773,818)	17,855	227,101
-	-	-	486,233
-	(212,928)	(114,415)	(934,038)
-	-	-	3,250
-	(212,928)	(114,415)	(444,555)
-	-	727,210	727,210
-	-	(286,680)	(286,680)
-	375	8,222	8,933
-	375	448,752	449,463
(1,068)	(226,685)	3,242	(126,952)
1,068	257,217	4,556	486,202
$ -	$ 30,532	$ 7,798	$ 359,250
$ (750)	$ 691,782	$ (614,966)	$ (1,291,076)
-	54,036	296,819	949,340
136	16,047	179	23,139
2,529	-	-	(10,724)
-	-	(38,624)	(38,624)
(4,284)	(3,778)	195	(6,990)
-	826	(3,603)	3,440
-	773	2,466	7,723
-	-	6,989	3,216
-	-	1,595	1,595
(1,619)	67,904	266,016	932,115
$ (2,369)	$ 759,686	$ (348,950)	$ (358,961)
$ -	$ -	$ -	$ (115,018)

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, 2012

	Equipment Services	Central Supplies	Health Insurance	Dental Insurance	Total
Assets:					
Current assets:					
Cash and pooled investments	$ 46,253	$ -	$ 1,789,951	$ 28,458	$ 1,864,662
Receivables:					
Accounts	9,371	-	9,591	-	18,962
Due from other funds	-	-	1,199	-	1,199
Inventories	155,324	2,132	-	-	157,456
Total current assets	210,948	2,132	1,800,741	28,458	2,042,279
Capital assets:					
Equipment	109,280	-	-	-	109,280
Vehicles	87,747	-	-	-	87,747
Less accumulated depreciation	(182,649)	-	-	-	(182,649)
Total capital assets net of accumulated depreciation	14,378	-	-	-	14,378
Total assets	225,326	2,132	1,800,741	28,458	2,056,657
Liabilities:					
Current liabilities:					
Accounts payable and accruals	72,354	160	212,882	4,046	289,442
Compensated absences payable	18,338	-	-	-	18,338
Due to other funds	-	1,199	-	-	1,199
Total current liabilities	90,692	1,359	212,882	4,046	308,979
Noncurrent liabilities:					
Compensated absences payable	26,106	-	-	-	26,106
Other post employment benefits	6,212	-	-	-	6,212
Total noncurrent liabilities	32,318	-	-	-	32,318
Total liabilities	123,010	1,359	212,882	4,046	341,297
Net assets:					
Net assets invested in capital assets	14,378	-	-	-	14,378
Unrestricted	87,938	773	1,587,859	24,412	1,700,982
Total net assets	$ 102,316	$ 773	$ 1,587,859	$ 24,412	$ 1,715,360

City of Muscatine, Iowa

Internal Service Funds
Combining Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2012

	Equipment Services	Central Supplies	Health Insurance	Dental Insurance	Total
Operating revenues:					
Charges for sales and services:					
Services	$ 642,710	$ -	$ -	$ -	$ 642,710
Fuel	486,640	-	-	-	486,640
Supply charges	-	2,704	-	-	2,704
Employer contributions	-	-	2,202,663	58,154	2,260,817
Employee contributions	-	-	133,143	56,680	189,823
Other contributions	-	-	143,127	4,825	147,952
Other operating revenue	844	-	1,027	-	1,871
Total operating revenues	1,130,194	2,704	2,479,960	119,659	3,732,517
Operating expenses:					
Cost of sales and services:					
Personal services	288,257	-	-	-	288,257
Commodities	632,340	2,633	-	-	634,973
Contractual services	207,481	-	2,424,756	128,229	2,760,466
Administration	14,900	-	3,000	-	17,900
Depreciation	2,059	-	-	-	2,059
Total operating expenses	1,145,037	2,633	2,427,756	128,229	3,703,655
Operating income (loss)	(14,843)	71	52,204	(8,570)	28,862
Non-operating revenues:					
Interest revenue	-	-	2,936	69	3,005
Income (loss) before transfers	(14,843)	71	55,140	(8,501)	31,867
Transfers out	-	-	(48,034)	-	(48,034)
Change in net assets	(14,843)	71	7,106	(8,501)	(16,167)
Net assets, June 30, 2011	117,159	702	1,580,753	32,913	1,731,527
Net assets, June 30, 2012	$ 102,316	$ 773	$ 1,587,859	$ 24,412	$ 1,715,360

City of Muscatine, Iowa

Internal Service Funds
Combining Statement of Cash Flows
Year Ended June 30, 2012

	Equipment Services	Central Supplies	Health Insurance	Dental Insurance	Total
Cash flows from operating activities					
Receipts from interfund services provided	$ 1,124,910	$ 2,704	$ 2,470,369	$ 119,659	$ 3,717,642
Payments to suppliers	(856,706)	(2,306)	(2,469,732)	(136,459)	(3,465,203)
Payments to employees	(192,303)	-	-	-	(192,303)
Payments for employee benefits	(88,865)	-	-	-	(88,865)
Payments for interfund services used	(14,900)	-	(3,000)	-	(17,900)
Net cash provided (used) by operating activities	(27,864)	398	(2,363)	(16,800)	(46,629)
Cash flows from noncapital financing activities					
Transfers to other funds	-	-	(48,034)	-	(48,034)
Advances from other funds	-	1,199	-	-	1,199
Advances to other funds	-	-	(1,199)	-	(1,199)
Repayment of advances from other funds	-	(1,597)	-	-	(1,597)
Repayment of advances to other funds	-	-	1,597	-	1,597
Net cash provided (used) by noncapital financing activities	-	(398)	(47,636)	-	(48,034)
Cash flows from capital and related financing activities					
Purchase of capital assets	(13,142)	-	-	-	(13,142)
Cash flows from investing activities					
Interest received	-	-	2,936	69	3,005
Net increase (decrease) in cash and pooled investments	(41,006)	-	(47,063)	(16,731)	(104,800)
Cash and pooled investments, June 30, 2011	87,259	-	1,837,014	45,189	1,969,462
Cash and pooled investments, June 30, 2012	$ 46,253	$ -	$ 1,789,951	$ 28,458	$ 1,864,662
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Cash flows from operating activities:					
Operating income (loss)	$ (14,843)	$ 71	$ 52,204	$ (8,570)	$ 28,862
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	2,059	-	-	-	2,059
Changes in assets and liabilities:	-				
(Increase) decrease in:					
Accounts receivable	(5,284)	-	(9,591)	-	(14,875)
Inventories	(19,590)	167	-	-	(19,423)
Increase (decrease) in:					
Accounts payable and accruals	2,705	160	(44,976)	(8,230)	(50,341)
Compensated absences payable	3,997	-	-	-	3,997
Other post employment benefits payable	3,092	-	-	-	3,092
Total adjustments	(13,021)	327	(54,567)	(8,230)	(75,491)
Net cash provided (used) by operating activities	$ (27,864)	$ 398	$ (2,363)	$ (16,800)	$ (46,629)

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.

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.

City of Muscatine, Iowa

Combining Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2012

	Payroll Clearing	Miscellaneous Clearing	Housing Revolving	Totals
Assets:				
Cash and pooled investments	$ 672,760	$ 362	$ -	$ 673,122
Accounts receivable	-	15	53,035	53,050
Advances to other funds	52,641	-	-	52,641
Total assets	725,401	377	53,035	778,813
Liabilities:				
Accounts payable and accruals	725,401	377	394	726,172
Advances from other funds	-	-	52,641	52,641
Total liabilities	$ 725,401	$ 377	$ 53,035	$ 778,813

City of Muscatine, Iowa

Combining Statement of Changes in Assets and Liabilities
All Agency Funds
Year Ended June 30, 2012

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Payroll Clearing Fund				
Assets:				
Cash and pooled investments	$ 560,265	$ 15,409,952	$ 15,297,457	$ 672,760
Advances to other funds	56,319	-	3,678	52,641
Total assets	$ 616,584	$ 15,409,952	$ 15,301,135	$ 725,401
Liabilities:				
Accounts payable and accruals	$ 616,584	$ 4,441,319	$ 4,332,502	$ 725,401
Miscellaneous Clearing Fund				
Assets:				
Cash and pooled investments	$ 4,340	$ -	$ 3,978	$ 362
Accounts receivable	274	-	259	15
Total assets	$ 4,614	$ -	$ 4,237	$ 377
Liabilities:				
Accounts payable and accruals	$ 4,614	$ -	$ 4,237	$ 377
Housing Revolving Fund				
Assets:				
Accounts receivable	$ 56,597	$ -	$ 3,562	$ 53,035
Liabilities:				
Accounts payable and accruals	$ 278	$ 116	$ -	$ 394
Advances from other funds	56,319	-	3,678	52,641
Total liabilities	$ 56,597	$ 116	$ 3,678	$ 53,035
Total				
Assets:				
Cash and pooled investments	$ 564,605	$ 15,409,952	$ 15,301,435	$ 673,122
Accounts receivable	56,871	-	3,821	53,050
Advances to other funds	56,319	-	3,678	52,641
Total assets	$ 677,795	$ 15,409,952	$ 15,308,934	$ 778,813
Liabilities:				
Accounts payable and accruals	$ 621,476	$ 4,441,435	$ 4,336,739	$ 726,172
Advances from other funds	56,319	-	3,678	52,641
Total liabilities	$ 677,795	$ 4,441,435	$ 4,340,417	$ 778,813

MUSCATINE COUNTY SOLID WASTE AGENCY
COMPONENT UNIT

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, Atalissa, Nichols, and Conesville, Iowa. The Agency is responsible for the disposal of all solid waste for member municipalities and unincorporated portions of Muscatine County.

Muscatine County Solid Waste Agency
Component Unit

Statement of Net Assets
June 30, 2012

Assets:	
Restricted assets:	
Cash and pooled investments	$ 1,252,819
Capital assets:	
Land	1,080,608
Land improvements	2,490,422
Buildings	37,314
Equipment	31,317
Less accumulated depreciation	(978,891)
Total capital assets (net of accumulated depreciation)	2,660,770
Total assets	3,913,589
Liabilities and net assets	
Current liabilities:	
Accounts payable and accruals	61,330
Compensated absences payable	1,177
Total current liabilities	62,507
Noncurrent liabilities:	
Loan due to primary government	1,455,642
Closure/post-closure obligation	2,494,809
Compensated absences payable	143
Total noncurrent liabilities	3,950,594
Total liabilities	4,013,101
Net assets:	
Invested in capital assets	2,660,770
Unrestricted	(2,760,282)
Total net assets (deficit)	$ (99,512)

Muscatine County Solid Waste Agency
Component Unit

Statement of Revenues, Expenses and Changes in Net Assets (Deficit)
Year Ended June 30, 2012

Operating revenues:	
Charges for services	$ 1,308,650
Other operating revenues	15,000
Total operating revenues	1,323,650
Operating expenses:	
Cost of services:	
Personal services	25,306
Commodities	13,303
Contractual services	776,121
Administration	46,800
Depreciation	280,123
Total operating expenses	1,141,653
Operating income	181,997
Non-operating revenue:	
Intergovernmental revenue	117,177
Net income	299,174
Net assets (deficit), June 30, 2011	(398,686)
Net assets (deficit), June 30, 2012	$ (99,512)

Muscatine County Solid Waste Agency
Component Unit

Statement of Cash Flows
Year Ended June 30, 2012

Cash flows from operating activities		
Receipts from customers and users	$	1,330,080
Payments to suppliers		(678,453)
Payments to employees		(18,330)
Payments for employee benefits		(6,491)
Payments for interfund services used		(46,800)
Net cash provided by operating activities		580,006
Cash flows from noncapital financing activities		
Repayment of loan from primary government		(601,507)
Subsidies from federal, state and local governments		117,177
Net cash provided (used) by noncapital financing activities		(484,330)
Net increase in cash and pooled investments		95,676
Cash and pooled investments, June 30, 2011		1,157,143
Cash and pooled investments, June 30, 2012	$	1,252,819
Reconciliation of operating income to net cash provided by operating activities:		
Cash flows from operating activities:		
Operating income	$	181,997
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		280,123
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable		6,430
Increase (decrease) in:		
Accounts payable and accruals		12,806
Compensated absences payable		485
Closure/post-closure liability		98,165
Total adjustments		398,009
Net cash provided by operating activities	$	580,006

STATISTICAL SECTION

This part of the City of Muscatine's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents **Page**

Financial Trends (Schedules 1 – 5) 103-109

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Revenue Capacity (Schedules 6 – 9) 110-113

These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.

Debt Capacity (Schedules 10 – 13) 114-117

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information (Schedules 14 – 15) 118-119

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information (Schedules 16 – 18) 120-122

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

Schedule 1

City of Muscatine, Iowa
Net Assets by Component
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year									
	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
Governmental activities										
Invested in capital assets, net of related debt	$ 46,209,004	$ 48,955,154	$ 51,221,230	$ 50,011,138	$ 51,581,004	$ 50,833,005	$ 50,303,012	$ 48,735,481	$ 50,534,706	$ 49,843,849
Restricted	4,262,984	3,044,136	2,948,998	3,420,397	3,305,450	5,644,659	2,989,872	2,899,555	4,914,742	8,626,783
Unrestricted	5,974,714	7,329,316	5,250,409	5,466,892	6,823,222	6,272,247	7,330,802	7,905,068	2,910,113	2,485,584
Total governmental activities net assets	$ 56,446,702	$ 59,328,606	$ 59,420,637	$ 58,898,427	$ 61,709,676	$ 62,749,911	$ 60,623,686	$ 59,540,104	$ 58,359,561	$ 60,956,216
Business-type activities										
Invested in capital assets, net of related debt	$ 47,317,599	$ 47,010,683	$ 47,550,543	$ 51,101,160	$ 52,481,362	$ 53,255,999	$ 57,286,029	$ 60,488,326	$ 63,959,885	$ 64,583,715
Restricted	-	-	-	-	-	-	190,093	413,321	135,331	178,360
Unrestricted	6,395,421	6,547,924	6,529,619	6,582,593	6,023,561	7,796,532	7,105,081	7,500,477	8,340,770	7,798,823
Total business-type activities net assets	$ 53,713,020	$ 53,558,607	$ 54,080,162	$ 57,683,753	$ 58,504,923	$ 61,052,531	$ 64,581,203	$ 68,402,124	$ 72,435,986	$ 72,560,898
Primary government										
Invested in capital assets, net of related debt	$ 93,526,603	$ 95,965,837	$ 98,771,773	$ 101,112,298	$ 104,062,366	$ 104,089,004	$ 107,589,041	$ 109,223,807	$ 114,494,591	$114,427,564
Restricted	4,262,984	3,044,136	2,948,998	3,420,397	3,305,450	5,644,659	3,179,965	3,312,876	5,050,073	8,805,143
Unrestricted	12,370,135	13,877,240	11,780,028	12,049,485	12,846,783	14,068,779	14,435,883	15,405,545	11,250,883	10,284,407
Total primary government net assets	$ 110,159,722	$ 112,887,213	$ 113,500,799	$ 116,582,180	$ 120,214,599	$ 123,802,442	$ 125,204,889	$ 127,942,228	$ 130,795,547	$133,517,114

Schedule 2

City of Muscatine, Iowa
Changes in Net Assets
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year									
Expenses	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
Governmental activities:										
Public safety	$ 5,309,173	$ 5,561,580	$ 6,081,788	$ 6,164,169	$ 6,476,982	$ 6,972,493	$ 7,136,808	$ 6,038,292	$ 7,231,247	$ 7,933,672
Public works	3,409,044	2,970,927	3,220,525	3,802,168	3,299,503	3,498,689	5,262,061	4,392,189	6,104,574	4,603,469
Health and social services	18,400	16,560	15,700	16,660	26,700	16,660	16,660	17,100	17,800	17,800
Culture and recreation	3,146,370	2,957,891	3,466,568	3,967,702	3,774,353	3,773,895	3,970,285	4,393,742	3,991,705	4,072,299
Community and economic development	2,659,516	3,849,722	3,217,531	2,234,880	2,446,232	2,757,190	2,656,737	2,918,941	3,232,025	3,063,468
General government	1,639,035	1,659,438	1,725,955	1,844,803	1,866,359	1,880,724	1,967,161	2,877,107	2,088,819	2,129,477
Interest and fees on long-term debt	424,222	397,429	422,410	379,549	432,626	391,759	473,916	439,305	570,313	504,515
Total governmental activities expense	16,605,760	17,413,547	18,150,477	18,409,931	18,322,755	19,291,410	21,483,628	21,076,676	23,236,483	22,324,700
Business-type activities:										
Water pollution control	3,900,792	4,094,791	4,134,898	4,329,934	4,581,077	4,649,437	4,992,317	5,413,555	5,083,681	5,757,128
Transfer station	2,090,482	2,002,761	2,181,508	2,130,005	2,363,530	2,486,114	1,519,980	2,240,614	2,174,384	2,302,385
Refuse collection	1,177,342	1,221,882	1,243,306	1,283,743	1,423,922	1,390,113	2,228,048	1,798,493	1,827,138	2,015,577
Airport	550,558	621,520	551,070	579,586	545,259	561,312	605,009	709,883	566,129	462,094
Parking	191,746	204,879	205,301	220,508	210,405	244,774	201,409	228,674	247,292	244,115
Transit	636,108	618,308	678,757	763,123	781,763	872,252	907,562	1,028,876	1,016,663	1,077,339
Golf course	449,905	451,551	468,149	439,438	586,908	778,125	825,757	798,587	818,018	871,848
Boat harbor	42,253	41,486	33,273	33,630	37,325	33,015	34,648	31,605	29,041	31,036
Marina	15,662	8,430	8,004	27,176	24,203	12,461	10,961	19,451	12,802	19,507
Cable Television	37,340	31,137	-	-	-	-	-	-	-	-
Ambulance	660,808	749,644	914,100	908,058	912,403	428,659	483,223	390,308	426,829	473,350
Public housing	792,855	831,545	935,354	882,502	911,298	924,183	975,076	994,013	1,120,421	1,164,215
Total business-type activities expense	10,545,851	10,877,934	11,353,720	11,597,703	12,378,093	12,380,445	12,783,990	13,654,059	13,322,398	14,418,594
Total primary government expense	$ 27,151,611	$ 28,291,481	$ 29,504,197	$ 30,007,634	$ 30,700,848	$ 31,671,855	$ 34,267,618	$ 34,730,735	$ 36,558,881	$ 36,743,294

(Continued)

(Continued)	Fiscal Year 2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
Program Revenues										
Governmental activities:										
Charges for services:										
Public safety	$ 293,522	$ 310,762	$ 356,703	$ 306,954	$ 383,518	$ 421,978	$ 438,932	$ 339,786	$ 530,879	$ 1,230,430
Public works	157,213	143,089	179,104	141,803	140,649	151,785	319,112	231,564	262,393	634,870
Culture and recreation	421,507	537,726	599,761	577,257	616,982	598,707	494,131	448,271	478,394	545,297
Community and economic development	244,164	349,250	372,703	407,977	398,479	405,832	358,812	480,137	430,574	426,917
General government	324,125	307,054	324,733	432,880	382,812	410,042	473,567	506,364	545,322	529,471
Operating grants and contributions	3,940,767	4,271,667	4,617,475	4,805,002	4,263,038	4,229,961	4,736,388	5,211,201	4,861,170	4,915,000
Capital grants and contributions	644,403	2,544,051	894,158	1,733,592	2,018,077	963,114	108,213	1,726,091	3,398,652	1,398,288
Total governmental activities program revenues	6,025,701	8,463,599	7,344,637	8,405,465	8,203,555	7,181,419	6,929,155	8,943,414	10,507,384	9,680,273
Business-type activities:										
Charges for services:										
Water pollution control	2,948,850	3,537,974	3,612,206	3,745,884	3,854,728	4,259,343	4,518,700	4,627,301	4,748,558	4,947,231
Transfer station	1,944,351	1,750,444	1,898,293	1,767,744	1,893,083	2,090,391	1,498,300	1,822,105	1,806,445	1,958,817
Refuse collection	1,254,825	1,257,199	1,261,040	1,312,208	1,364,809	1,462,820	1,555,388	1,905,643	1,961,389	2,110,442
Airport	43,446	43,639	46,086	43,564	47,351	41,023	39,523	37,647	37,833	42,124
Parking	183,525	171,614	161,344	188,146	178,128	204,733	194,821	176,103	175,691	182,220
Transit	76,497	86,731	90,457	106,144	129,429	183,586	185,653	175,505	169,004	177,055
Golf course	408,070	412,069	402,214	402,832	532,104	719,281	764,679	821,005	773,938	874,501
Boat harbor	32,389	19,552	18,745	21,782	26,022	23,899	23,359	29,104	27,338	39,814
Marina	14,069	7,129	5,200	26,616	22,494	10,721	6,599	19,623	13,473	18,757
Cable Television	194,049	236,479	-	-	-	-	-	-	-	-
Ambulance	742,151	792,432	850,406	735,295	817,532	968,157	1,048,722	1,038,306	1,360,650	1,167,042
Public housing	389,880	373,202	362,487	367,010	382,556	424,905	420,104	557,631	444,151	542,721
Operating grants and contributions	600,280	594,674	551,160	619,692	674,031	1,017,826	1,008,488	961,896	924,856	659,185
Capital grants and contributions	143,759	364,601	296,941	642,818	324,539	353,324	1,317,819	919,232	349,116	661,419
Total business-type activities program revenues	8,976,141	9,647,739	9,556,579	9,979,735	10,246,806	11,760,009	12,582,155	13,091,101	12,792,442	13,381,328
Total primary government program revenues	$ 15,001,842	$ 18,111,338	$ 16,901,216	$ 18,385,200	$ 18,450,361	$ 18,941,428	$ 19,511,310	$ 22,034,515	$ 23,299,826	$ 23,061,601
Net (Expense)/Revenue										
Governmental activities	$ (10,580,059)	$ (8,949,948)	$ (10,805,840)	$ (10,004,466)	$ (10,119,200)	$ (12,109,991)	$ (14,554,473)	$ (12,133,262)	$ (12,729,099)	$ (12,644,427)
Business-type activities	(1,569,710)	(1,230,195)	(1,797,141)	(1,617,968)	(2,131,287)	(620,436)	(201,835)	(562,958)	(529,956)	(1,037,266)
Total primary government net expense	$ (12,149,769)	$ (10,180,143)	$ (12,602,981)	$ (11,622,434)	$ (12,250,487)	$ (12,730,427)	$ (14,756,308)	$ (12,696,220)	$ (13,259,055)	$ (13,681,693)

(Continued)

(Continued)	Fiscal Year 2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
General Revenues and Other Changes in Net Assets										
Governmental activities:										
Taxes										
Property taxes	$ 9,726,834	$ 9,983,521	$ 10,242,610	$ 10,916,665	$ 11,763,138	$ 12,141,875	$ 12,040,376	$ 12,114,066	$ 12,478,438	$ 12,861,006
Utility taxes	79,468	67,339	63,638	59,209	63,986	67,703	64,358	63,449	52,274	58,048
Local option sales tax	2,103,843	2,210,111	1,938,370	2,290,018	2,589,592	2,688,049	2,864,582	2,471,108	2,533,919	2,543,654
Hotel/motel taxes	274,654	310,798	327,575	306,075	338,818	366,261	344,354	302,273	363,664	347,771
Cable franchise taxes	-	-	238,788	245,132	242,164	239,812	239,039	236,192	236,253	225,902
Utility franchise taxes	-	-	-	-	-	-	-	-	227,680	170,225
Intergovernmental, unrestricted	472,310	129,974	64,870	61,834	99,002	150,424	149,913	151,270	154,551	156,229
Unrestricted investment income	113,151	111,595	203,275	337,227	455,562	399,317	267,227	45,999	22,297	16,177
Gain on sale of capital assets	22,231	4,187	-	248,667	-	-	-	-	-	-
Contributions to endowments	6,660	8,100	4,500	8,820	8,735	7,980	6,620	5,550	7,850	6,373
Transfers	(225,183)	(993,773)	(2,185,755)	(4,991,391)	(2,630,548)	(2,911,195)	(3,548,221)	(4,340,227)	(4,528,370)	(1,144,303)
Total governmental activities	12,573,968	11,831,852	10,897,871	9,482,256	12,930,449	13,150,226	12,428,248	11,049,680	11,548,556	15,241,082
Business-type activities:										
Unrestricted investment income	103,668	78,901	130,688	230,168	317,561	256,849	182,286	43,652	24,232	17,875
Gain on sale of capital assets	-	3,108	2,253	-	4,348	-	-	-	11,216	-
Transfers	225,183	993,773	2,185,755	4,991,391	2,630,548	2,911,195	3,548,221	4,340,227	4,528,370	1,144,303
Total business-type activities	328,851	1,075,782	2,318,696	5,221,559	2,952,457	3,168,044	3,730,507	4,383,879	4,563,818	1,162,178
Total primary government	$ 12,902,819	$ 12,907,634	$ 13,216,567	$ 14,703,815	$ 15,882,906	$ 16,318,270	$ 16,158,755	$ 15,433,559	$ 16,112,374	$ 16,403,260
Changes in Net Assets										
Governmental activities	$ 1,993,909	$ 2,881,904	$ 92,031	$ (522,210)	$ 2,811,249	$ 1,040,235	$ (2,126,225)	$ (1,083,582)	$ (1,180,543)	$ 2,596,655
Business-type activities	(1,240,859)	(154,413)	521,555	3,603,591	821,170	2,547,608	3,528,672	3,820,921	4,033,862	124,912
Total primary government	$ 753,050	$ 2,727,491	$ 613,586	$ 3,081,381	$ 3,632,419	$ 3,587,843	$ 1,402,447	$ 2,737,339	$ 2,853,319	$ 2,721,567

Schedule 3

City of Muscatine, Iowa
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
(Unaudited)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11 (1)	2011/12
General Fund										
Reserved	$ 28,252	$ 36,674	$ 27,589	$ 27,156	$ 65,640	$ 11,833	$ 119,222	$ 155,132	$ -	$ -
Unreserved	1,926,667	1,877,669	1,697,668	1,715,921	1,670,285	1,733,810	1,641,489	1,720,635	-	-
Nonspendable	-	-	-	-	-	-	-	-	15,637	5,221
Assigned	-	-	-	-	-	-	-	-	382,877	256,263
Unassigned	-	-	-	-	-	-	-	-	2,141,534	3,319,319
Total General Fund	$ 1,954,919	$ 1,914,343	$ 1,725,257	$ 1,743,077	$ 1,735,925	$ 1,745,643	$ 1,760,711	$ 1,875,767	$ 2,540,048	$ 3,580,803
All other governmental funds										
Reserved	$ 3,227,576	$ 1,847,902	$ 3,534,473	$ 2,111,183	$ 2,675,724	$ 4,162,323	$ 2,349,556	$ 3,659,652	$ -	$ -
Unreserved, reported in:										
Special revenue funds	5,178,670	6,872,499	3,202,064	6,292,089	6,965,479	8,589,873	7,606,228	7,026,552	-	-
Capital projects funds	665,228	510,981	184,922	(460,420)	(688,952)	(4,856)	(1,564,725)	(565,270)	-	-
Nonspendable	-	-	-	-	-	-	-	-	2,437,508	1,314,714
Restricted	-	-	-	-	-	-	-	-	4,062,133	7,651,467
Unassigned	-	-	-	-	-	-	-	-	(1,538,918)	(232,181)
Total all other governmental funds	$ 9,071,474	$ 9,231,382	$ 6,921,459	$ 7,942,852	$ 8,952,251	$ 12,747,340	$ 8,391,059	$ 10,120,934	$ 4,960,723	$ 8,734,000

1. In 2010/2011 the City implemented GASB Statement 54. Under this Statement several former special revenue funds were re-classified and are now considered part of the City's general fund. This Statement also provided for new classifications of governmental fund balances: nonspendable, restricted, committed, assigned, and unassigned.

Schedule 4

City of Muscatine, Iowa
Changes of Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
(Unaudited)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/2012
Revenues										
Taxes	$ 12,184,799	$ 12,571,769	$ 12,810,981	$ 13,817,099	$ 14,997,698	$ 15,503,700	$ 15,484,709	$ 15,235,088	$ 15,792,228	$ 16,318,451
Licenses and permits	237,283	312,573	301,322	332,378	324,913	319,931	324,492	285,956	271,372	308,385
Fines and forfeitures	156,130	143,730	149,785	126,720	144,427	203,136	177,324	183,714	393,340	1,029,833
Intergovernmental	4,585,829	4,391,299	4,613,775	5,695,585	5,170,180	4,247,598	4,830,706	6,461,868	6,031,516	6,449,297
Charges for services	306,335	390,484	478,454	416,045	418,119	437,472	480,659	449,346	444,456	556,802
Use of money and property	238,720	270,222	354,965	532,674	654,064	620,396	453,027	232,725	205,724	226,243
Special assessments	20,201	8,751	6,882	5,926	3,764	-	-	-	-	-
Other	1,080,417	2,890,469	1,695,158	1,472,920	1,488,012	1,201,473	1,174,617	1,112,327	1,249,691	1,526,397
Total revenues	18,809,714	20,979,297	20,411,322	22,399,347	23,201,177	22,533,706	22,925,534	23,961,024	24,388,327	26,415,408
Expenditures										
Public safety	4,949,302	5,237,847	5,397,682	5,743,778	6,122,631	6,704,267	6,887,993	6,687,695	6,818,872	7,414,924
Public works	1,585,422	1,399,487	1,487,544	1,553,652	1,640,026	1,821,559	2,021,234	2,017,868	2,092,212	1,998,400
Health and social services	18,400	16,560	15,700	16,660	26,700	16,660	16,660	17,100	17,800	17,800
Culture and recreation	2,237,717	2,233,786	2,366,457	2,445,399	2,513,499	2,632,617	2,708,935	2,823,824	2,815,312	2,834,621
Community and economic development	2,435,788	2,800,999	2,388,844	2,076,963	2,271,322	2,548,056	2,646,867	2,889,973	3,003,602	3,109,089
General government	1,575,566	1,564,697	1,594,378	1,754,878	1,754,039	1,803,850	1,869,708	1,846,437	1,936,768	1,981,756
Capital outlay	2,891,805	6,881,185	5,709,323	4,300,157	3,611,445	4,127,296	5,629,604	7,539,211	5,162,510	5,648,873
Debt service:										
Principal	1,587,384	1,681,018	1,377,790	1,397,975	1,343,176	1,361,385	1,520,837	1,620,615	1,977,932	1,675,000
Interest	380,812	395,867	418,977	370,960	431,653	378,304	475,087	422,906	579,145	508,615
Paying agent	2,100	2,582	2,400	2,500	2,800	2,800	1,600	1,800	2,250	2,700
Bond issuance costs	-	-	-	-	-	6,962	-	-	-	28,329
Total expenditures	17,664,296	22,214,028	20,759,095	19,662,922	19,717,291	21,403,756	23,778,525	25,867,429	24,406,403	25,220,107
Excess of revenues over (under) expenditures	1,145,418	(1,234,731)	(347,773)	2,736,425	3,483,886	1,129,950	(852,991)	(1,906,405)	(18,076)	1,195,301
Other financing sources (uses)										
General obligation bonds issued	1,780,000	-	-	2,990,000	-	5,120,000	-	7,425,000	-	4,496,400
General obligation bond premium (discount)	(10,288)	-	-	(15,548)	-	2,655	-	21,741	-	-
Refunding bonds issued						1,714,384	-	-	-	218,600
Refunding bond premium						2,220	-	-	-	-
Payment of refunded bonds	-	-	-	-	-	(1,680,000)	-	-	-	-
Tax increment revenue bonds issued	-	2,305,000	-	-	-	-	-	-	-	-
Proceeds from capital lease	14,863	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	275,840	-	-	-	-	-	-
Insurance recoveries	-	-	-	-	103,514	379,589	-	-	-	-
Transfers in	4,781,693	5,284,115	5,074,263	4,905,672	5,783,805	6,431,380	5,819,738	6,377,061	6,585,087	7,139,163
Transfers out	(4,963,653)	(6,235,052)	(7,225,499)	(9,853,176)	(8,368,958)	(9,295,371)	(9,307,960)	(10,072,466)	(11,062,941)	(8,235,432)
Total other financing sources (uses)	1,602,615	1,354,063	(2,151,236)	(1,697,212)	(2,481,639)	2,674,857	(3,488,222)	3,751,336	(4,477,854)	3,618,731
Net change in fund balances	$ 2,748,033	$ 119,332	$ (2,499,009)	$ 1,039,213	$ 1,002,247	$ 3,804,807	$ (4,341,213)	$ 1,844,931	$ (4,495,930)	$ 4,814,032
Debt service as a percentage of non-capital expenditures	12.3%	12.4%	10.8%	10.5%	10.6%	9.6%	9.8%	9.9%	11.6%	10.5%

Schedule 5

City of Muscatine, Iowa
Tax Revenues by Source, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
(Unaudited)

Fiscal Year	General Property Tax	Incremental Property Tax (TIF Districts)	Utility Excise Tax	Mobile Home Tax	Hotel/Motel Tax	Cable Franchise Tax (1)	Utility Franchise Tax (2)	Local Option Sales Tax	Total
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
2004/2005	9,233,886	990,224	63,638	18,500	327,575	238,788	-	1,938,370	12,810,981
2005/2006	9,841,238	1,056,387	59,209	19,040	306,075	245,132	-	2,290,018	13,817,099
2006/2007	10,737,977	1,004,423	63,986	20,738	338,818	242,164	-	2,589,592	14,997,698
2007/2008	11,131,690	990,255	67,703	19,930	366,261	239,812	-	2,688,049	15,503,700
2008/2009	11,350,093	671,050	64,358	19,233	344,354	239,039	-	2,796,582	15,484,709
2009/2010	11,332,799	763,184	63,449	18,083	302,273	236,192	-	2,519,108	15,235,088
2010/2011	11,689,172	771,639	52,274	17,627	363,664	236,253	227,680	2,433,919	15,792,228
2011/2012	12,031,835	810,293	58,049	18,878	347,771	225,902	170,225	2,655,498	16,318,451
Change 2002/2003 to 2011/2012	34.3%	8.1%	-27.0%	2.5%	26.6%			26.2%	33.9%

1. Cable franchise tax revenue was accounted for in an enterprise fund through 2003/2004; beginning in 2004/2005 this revenue is accounted for in the General Fund.
2. A Utiltiy Franchise Fee on the provider of natural gas services was implemented in 2010/2011 at the rate of 2%.

Schedule 6

City of Muscatine, Iowa
Taxable Value and Estimated Actual Value of Property
Last Ten Fiscal Years
(Unaudited)

Tax Collection Year	Residential Property	Commercial Property	Industrial Property	Machinery & Equipment (1)	Railroads and Utilities	Less: Military Exemption	Total Taxable Value	Total Direct Tax Rate (per $1,000 of Valuation)	Estimated Actual Value	Taxable Value as a Percentage of Estimated Actual Value
2002/2003	$312,053,447	$179,321,943	$111,824,874	$ 14,739,532	$ 6,739,905	$ 2,772,444	$621,907,257	$ 14.35640	$ 921,894,838	67.5%
2003/2004	314,511,010	179,354,859	114,983,487	-	7,163,614	2,679,844	613,333,126	14.84914	914,556,777	67.1%
2004/2005	304,751,605	181,561,051	114,149,216	-	6,486,449	2,547,347	604,400,974	15.14549	935,583,731	64.6%
2005/2006	309,991,311	196,029,944	116,742,479	-	7,311,377	2,455,752	627,619,359	15.51344	969,948,931	64.7%
2006/2007	332,674,470	203,766,173	122,163,719	-	7,712,376	2,382,598	663,934,140	16.03891	1,063,565,913	62.4%
2007/2008	336,495,971	211,504,406	115,798,968	-	6,652,746	2,376,768	668,075,323	16.52992	1,076,411,985	62.1%
2008/2009	339,854,784	233,055,584	121,374,018	-	6,926,265	2,278,038	698,932,613	16.15095	1,136,242,003	61.5%
2009/2010	357,670,553	238,025,912	124,706,905	-	7,312,791	2,215,335	725,500,826	15.55353	1,157,482,324	62.7%
2010/2011	372,746,348	239,793,310	119,283,095	-	7,233,428	2,126,455	736,929,726	15.77146	1,163,419,885	63.3%
2011/2012	397,168,357	235,275,621	118,497,883	-	7,339,282	2,070,643	756,210,500	15.77146	1,182,251,155	64.0%

1. The State of Iowa eliminated taxes on all new machinery and equipment beginning in the 1995/96 year and began phasing out taxes on existing machinery and equipment. This tax was fully eliminated as of the 2003/2004 year.

Source: Muscatine County Auditor's Office

Schedule 7

City of Muscatine, Iowa
Direct and Overlapping Property Tax Rates
(Rates per $1,000 of Valuation)
Last Ten Fiscal Years
(Unaudited)

	City Direct Rates									Overlapping Rates			Totals by School District	
											School Districts			
Fiscal Year	General Fund	Employee Benefit	Debt Service	Transit	Tort Liability	Levee	Emergency	Emergency Management	Total Direct Rate	County Consolidated	Muscatine Community	Louisa-Muscatine Community	Muscatine Community	Louisa-Muscatine Community
2002/2003	$8.10000	$2.65255	$2.68750	$0.31875	$0.26010	$0.06750	$0.27000	$ -	$ 14.35640	$ 7.66580	$ 14.56445	$ 15.75821	$ 36.58665	$ 37.78041
2003/2004	8.10000	3.04167	2.82657	0.24223	0.30117	0.06750	0.27000	-	14.84914	7.58716	15.51555	13.86347	37.95185	36.29977
2004/2005	8.10000	3.22143	2.81627	0.35191	0.31838	0.06750	0.27000	-	15.14549	7.41669	16.28523	15.76815	38.84741	38.33033
2005/2006	8.10000	3.26353	3.09837	0.35615	0.35789	0.06750	0.27000	-	15.51344	7.73543	15.55390	15.89643	38.80277	39.14530
2006/2007	8.10000	4.07275	2.93250	0.21753	0.37863	0.06750	0.27000	-	16.03891	8.44031	14.70326	14.85256	39.18248	39.33178
2007/2008	8.10000	4.46685	2.78130	0.49418	0.35009	0.06750	0.27000	-	16.52992	8.79042	15.15328	14.95807	40.47362	40.27841
2008/2009	8.10000	4.07576	2.95759	0.22751	0.31040	0.06750	0.27000	0.14219	16.15095	8.64189	14.86671	15.03328	39.65955	39.82612
2009/2010	8.10000	3.55524	2.90101	0.31516	0.34462	0.06750	0.27000	-	15.55353	9.18309	14.90569	13.78199	39.64231	38.51861
2010/2011	8.10000	3.79446	3.14336	0.24310	0.34304	0.06750	0.08000	-	15.77146	9.60976	14.90920	14.08973	40.29042	39.47095
2011/2012	8.10000	4.06191	2.85051	0.39489	0.29665	0.06750	-	-	15.77146	9.51343	15.36192	13.78625	40.64681	39.07114

Notes - Per State statutes maximum tax rates apply to the General Fund, Transit, Levee and Emergency levies. The City has been at the maximum rate of $8.10 for the General Fund, and $.0675 for the Levee as shown above. A maximum rate of $.95 applies to the Transit tax and a maximum rate of $.27 applies to the Emergency tax; the City's Transit & Emergency levies are less than the maximum allowed.

Source: Muscatine County Auditor's Office

Schedule 8

City of Muscatine, Iowa
Principal Property Tax Payers
Current Year and Nine Years Ago
(Unaudited)

Taxpayer	January 1, 2010 Valuation (for 2011/2012 Tax Levy) Assessed Valuation	Rank	Percent of Total Assessed Value	January 1, 2001 Valuation (for 2002/2003 Tax Levy) Assessed Valuation (1)	Rank	Percent of Total Assessed Value
Grain Processing/Kent Feeds	$ 39,186,620	1	5.2%	$ 46,928,431	1	7.5%
HNI Corporation (HON Industries/HON Financial)	33,775,630	2	4.5%	43,534,140	2	7.0%
Heinz, U.S.A.	11,760,240	3	1.6%	11,908,281	4	1.9%
Wal-Mart Stores, Inc.	10,202,870	4	1.3%	8,956,790	5	1.4%
Warehouse Distributing, LLC	10,166,440	5	1.3%			
Menard Inc.	9,704,700	6	1.3%			
Bridgestone Bandag LLC / Bandag, Inc.	8,552,610	7	1.1%	17,845,813	3	2.9%
Cobblestone Apartments	8,164,440	8	1.1%			
Riverbend Leasing, LLC	7,915,050	9	1.0%			
GRIDCO, LLC	7,581,400	10	1.0%			
Davenport Farm & Fleet, Inc. (Blain's Farm & Fleet)	7,003,000	11	0.9%	6,785,350	6	1.1%
Central State Bank	6,242,380	12	0.8%	5,040,567	11	0.8%
First National Bank of Muscatine	6,179,360	13	0.8%	4,265,310	13	0.7%
Hy-Vee Inc.	5,831,090	14	0.8%	5,289,690	10	0.9%
BT Prime Mover	5,724,810	15	0.8%	6,037,150	8	1.0%
W I D, Inc.	5,435,250	16	0.7%			
SECO Investment Co. (Stanley Engineering Co.)	5,264,280	17	0.7%	6,114,630	7	1.0%
Cottonwood Apartments LLC	4,902,230	18	0.6%			
Muscatine Mall Associates LLP				4,750,600	12	0.8%
Hilltop Journey Inc (Shopping mall)				5,344,320	9	0.9%
Pretium Packaging				3,066,536	14	0.5%
Jelms Hotel Company LLC (Muscatine Holiday Inn)				2,745,420	15	0.4%
	$ 193,592,400		25.5%	$ 178,613,028		28.8%

1. January 1, 2001 assessed valuations included machinery and equipment values. The State of Iowa eliminated taxes on new machinery and equipment beginning in 1995/96 and began phasing out taxes on existing machinery and equipment. This tax was fully eliminated as of the 2003/2004 year. This was a significant factor in the decrease in assessed valuations for Grain Processing/Kent Feeds and HNI Corporation.

Source: Muscatine County Auditor's Office

Schedule 9

City of Muscatine, Iowa
Property Tax Levies and Collections
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Delinquent Tax Collections (2)	Total Tax Collections (2)	Ratio of Total Tax Collections to Total Tax Levy (3)
		Amount (1)	Percent of Levy Collected (3)			
2002/2003	$ 8,997,159	$ 8,957,497	99.56%	$ 1,647	$ 8,959,144	99.58%
2003/2004	9,180,577	9,170,392	99.89%	5,608	9,176,000	99.95%
2004/2005	9,239,618	9,229,567	99.89%	4,319	9,233,886	99.94%
2005/2006	9,837,794	9,836,626	99.99%	4,612	9,841,238	100.04%
2006/2007	10,736,626	10,733,950	99.98%	4,027	10,737,977	100.01%
2007/2008	11,122,293	11,122,888	100.01%	8,802	11,131,690	100.08%
2008/2009	11,348,069	11,345,388	99.98%	4,705	11,350,093	100.02%
2009/2010	11,350,546	11,325,483	99.78%	7,316	11,332,799	99.84%
2010/2011	11,692,917	11,681,035	99.90%	8,138	11,689,173	99.97%
2010/2011	11,993,253	12,001,729	100.07%	30,106	12,031,835	100.32%

1. Current 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.
2. Delinquent tax collections reflect the amounts of delinquent taxes the City received during the year. Information is not available from the County Treasurer's Office as to the year(s) for which the delinquent tax collections apply.
3. Collection percentages are close to 100% each year since the State of Iowa provides for "tax sales" in June of each year for properties with unpaid taxes. Substantially all of the taxes are paid by investors purchasing tax certificates from the "tax sales". Collections in excess of 100% are due to rounding differences when tax rates are applied to property valuations, differences in tax credits reimbursed by the State of Iowa, or changes in taxable valuations by the County Assessor after the City's budget is certified.

Schedule 10

City of Muscatine, Iowa
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(Unaudited)

	Governmental Activities			Business-Type Activities				
Fiscal Year	General Obligation Bonds	Tax Increment Bonds	Capital Lease	General Obligation Bonds	State Revolving Fund Loan	Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
2002/2003	$ 8,273,115	$ 1,340,000	$ 14,653	$ 9,163,088	$ -	$ 18,790,856	2.9%	$ 828
2003/2004	6,735,741	3,505,000	12,039	8,315,054	-	18,567,834	2.8%	818
2004/2005	5,621,770	3,245,000	9,249	7,443,616	-	16,319,635	2.3%	719
2005/2006	7,467,253	2,980,000	6,273	6,547,178	-	17,000,704	2.3%	749
2006/2007	6,409,835	2,700,000	3,097	5,605,740	-	14,718,672	1.9%	648
2007/2008	10,462,294	2,415,000	-	4,587,029	606,783	18,071,106	2.2%	796
2008/2009	9,254,498	2,115,000	-	3,554,215	3,598,195	18,521,908	2.2%	816
2009/2010	15,452,533	1,805,000	-	2,897,277	13,289,062	33,443,872	4.2%	1,473
2010/2011	13,953,147	1,330,000	-	2,197,656	15,609,360	33,090,163	4.0%	1,446
2011/2012	17,177,089	1,140,000	-	1,490,103	15,479,565	35,286,757	N/A	1,542

Note - Details regarding the City's outstanding debt can be found in the notes to the financial statements.

1. See the Schedule of Demographic and Economic Statistics (Table14) for personal income and population data.

Schedule 11

City of Muscatine, Iowa
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	General Obligation Bonds	Estimated Actual Value of Property (1)	Percentage of Actual Valuation	Population (2)	Per Capita
2002/2003	$ 17,436,203	$ 921,894,838	1.9%	22,697	$ 768
2003/2004	15,050,795	914,556,777	1.6%	22,697	663
2004/2005	13,065,386	935,583,731	1.4%	22,697	576
2005/2006	14,014,431	969,948,931	1.4%	22,697	617
2006/2007	12,015,575	1,063,565,913	1.1%	22,697	529
2007/2008	15,049,323	1,076,411,985	1.4%	22,697	663
2008/2009	12,808,713	1,136,242,003	1.1%	22,697	564
2009/2010	18,349,810	1,157,482,324	1.6%	22,697	808
2010/2011	16,150,803	1,163,419,885	1.4%	22,886	706
2011/2012	18,667,192	1,182,251,155	1.6%	22,886	816

Note - Net assets restricted for debt service is restricted for future interest payments. Further details regarding the City's outstanding debt can be found in the notes to the financial statements.

Sources:

1. Muscatine County Auditor's Office
2. United States Census Bureau

Schedule 12

City of Muscatine, Iowa
Direct and Overlapping Governmental Activities Debt
As of June 30, 2012
(Unaudited)

Governmental Unit	Debt Outstanding	Estimated Percent Applicable to City (1)	Estimated Share of Direct and Overlapping Debt
Debt repaid with property taxes			
Muscatine County	$ 10,095,000	47.80%	$ 4,825,410
Eastern Iowa Community College (EICC)	27,100,000	6.34%	1,718,140
Other debt			
Eastern Iowa Community College (EICC)	39,175,000	6.34%	2,483,695
Subtotal, overlapping debt			$ 9,027,245
City direct debt (2)		100.00%	18,317,089
Total direct and overlapping debt			$ 27,344,334

1. The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the other governmental unit's taxable assessed value that is within the City of Muscatine's boundaries and dividing it by each governmental unit's total taxable value. These estimates were used for both debt to be repaid with property taxes as well as debt for the EICC to be repaid from sources other than property tax.
2. Excludes general obligation bonds reported in business-type activities.

Sources:
Muscatine County Auditor's Office
Eastern Iowa Community College

Note - Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City of Muscatine. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Muscatine. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt of each overlapping government.

Schedule 13

City of Muscatine, Iowa
Legal Debt Margin Information
Last Ten Fiscal Years
(Unaudited)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Debt limit (1)	$46,094,742	$45,727,839	$46,779,187	$48,497,447	$53,178,296	$53,820,599	$56,812,100	$ 57,874,116	$ 58,170,994	$ 60,567,395
Total debt applicable to limit	19,264,653	18,997,039	16,704,249	17,356,273	15,028,097	17,770,000	15,170,000	20,275,000	17,555,000	19,845,000
Legal debt margin	$26,830,089	$26,730,800	$30,074,938	$31,141,174	$38,150,199	$36,050,599	$41,642,100	$ 37,599,116	$ 40,615,994	$ 40,722,395
Total debt applicable to the limit as a percentage of debt limit	41.79%	41.54%	35.71%	35.79%	28.26%	33.02%	26.70%	35.03%	30.18%	32.77%

Legal Debt Margin Calculation for Fiscal Year 2011/2012

Total assessed valuation as of January 1, 2010	$1,211,347,898
Debt limit - 5% of assessed valuation	$ 60,567,395
Amount of debt applicable to debt limit:	
General obligation bonds	18,705,000
Tax increment revenue bonds	1,140,000
Total debt applicable to debt limit	19,845,000
Legal debt margin	$ 40,722,395

1. Under state law the City's debt may not exceed 5% of the total actual valuation of property.

Schedule 14

City of Muscatine, Iowa
Demographic and Economic Statistics
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Population (1)	Personal Income (2)	Personal Per Capita Income (2)	Median Age (1)	Percent High School Graduates or Higher (1)	School Enrollment (3)	Unemployment Rate (4)
2002/2003	22,697	$ 646,228,984	$ 28,472	35.8	80.3%	5,385	4.1%
2003/2004	22,697	658,167,606	28,998	35.8	80.3%	5,375	4.2%
2004/2005	22,697	715,817,986	31,538	35.8	80.3%	5,280	4.5%
2005/2006	22,697	730,820,703	32,199	35.8	80.3%	5,305	4.2%
2006/2007	22,697	778,575,191	34,303	35.8	80.3%	5,387	3.2%
2007/2008	22,697	819,180,124	36,092	35.8	80.3%	5,403	3.5%
2008/2009	22,697	834,886,448	36,784	35.8	80.3%	5,247	4.6%
2009/2010	22,697	804,449,771	35,443	35.8	80.3%	5,395	8.1%
2010/2011	22,886	826,184,600	36,100	38.2	85.2%	5,293	7.6%
2011/2012	22,886	N/A	N/A	38.2	85.2%	5,305	6.4%

Sources:

1. United States Census Bureau
2. Bureau of Economic Analysis. 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. Personal income for the City has been estimated using the per capita income for Muscatine County multiplied by the City's population. Personal income information is not yet available for 2011.
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.

Schedule 15

City of Muscatine, Iowa
Principal Employers
Current Year and Nine Years Ago
(Unaudited)

Employer	2012 Approximate Number of Employees (1)	2012 Rank	2012 Percentage of Estimated Total County Employment (2)	2003 Approximate Number of Employees (1)	2003 Rank	2003 Percentage of Estimated Total County Employment (2)
HNI Corporation//The HON Company, Allsteel	3,400	1	17.8%	3,000	1	13.7%
Grain Processing/Kent Feeds	1,011	2	5.3%	1,268	2	5.8%
Muscatine Community School District	800	3	4.2%	1,100	3	5.0%
Trinity Muscatine (Formerly Unity Health Care)	482	4	2.5%	496	6	2.3%
Monsanto Company	390	5	2.0%	480	7	2.2%
Musco Sports Lighting	380	6	2.0%	204	14	0.9%
Wal-Mart Superstore	337	7	1.8%	373	8	1.7%
Hy-Vee Food Store	317	8	1.7%	345	9	1.6%
Muscatine Power & Water	300	9	1.6%	306	10	1.4%
Heinz, U.S.A.	295	10	1.5%	762	4	3.5%
SECO Investment Co. (Stanley Engineering Co.)	271	11	1.4%	257	11	1.2%
Raymond-Muscatine, Inc. (Previously BT Prime Mover)	235	12	1.2%	210	13	1.0%
City of Muscatine	224	13	1.2%	238	12	1.1%
Muscatine County	198	14	1.0%	197	15	0.9%
Bridgestone Bandag LLC (Formerly Bandag, Inc.)	180	15	0.9%	550	5	2.5%
	8,820		46.1%	9,786		44.8%

Sources:

1. Muscatine Chamber of Commerce & Industry provided the 2012 employment figures. The 2003 figures were from City of Muscatine historical records and may be on a basis which differs from the data provided by the Muscatine Chamber of Commerce & Industry.
2. Iowa Workforce Development. Employment data for the City of Muscatine is not available. Employers listed are the largest in the immediate area of the City of Muscatine. Percentages shown are based on total employment in Muscatine County. The average monthly employment in Muscatine County was 21,904 in 2012 and 22,106 in 2003.

Schedule 16

City of Muscatine, Iowa
Full-Time Equivalent Employees by Function
(Excludes Seasonal Employees)
Last Ten Fiscal Years
(Unaudited)

Function	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/2010	2010/2011	2011/2012
General government	18.54	17.12	16.80	17.50	17.85	17.35	17.35	17.05	16.00	16.00
Public Safety:										
Police										
Officers (1)	38.00	37.00	37.75	38.00	38.00	38.00	39.00	40.00	39.00	41.00
Civilians (2)	13.50	13.50	4.87	3.60	3.75	3.88	3.88	3.88	3.88	3.88
Fire										
Firefighters and officers (3)	30.50	29.50	28.50	29.00	29.50	36.00	36.00	36.00	36.00	36.00
Civilians	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Culture and recreation										
Library	16.00	15.58	15.75	15.75	15.75	15.75	15.75	15.93	15.91	15.74
Art center	4.55	4.30	4.43	4.33	4.33	4.33	4.34	4.04	4.57	4.54
Parks and recreation (4)	13.75	13.75	13.25	12.82	13.00	12.75	12.75	12.75	11.83	11.75
Community and economic development (5)	9.00	9.00	7.00	7.00	7.00	6.50	6.50	6.17	6.67	6.72
Public works (6)	20.75	16.75	16.75	16.75	16.74	16.84	16.50	16.51	16.51	16.51
Business-type:										
Parking	3.50	3.65	3.65	3.65	3.60	3.60	3.10	3.10	3.10	3.10
Golf course (7)	3.00	3.00	3.00	2.75	2.00	3.00	3.00	3.00	3.00	3.00
Boat harbor	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Transit	2.83	2.83	2.83	2.83	2.83	3.03	3.03	3.03	3.03	3.03
Refuse collection	9.80	9.80	9.80	9.80	9.80	10.30	10.30	11.33	10.45	10.66
Landfill	0.83	0.83	0.83	0.33	0.33	0.33	0.33	0.33	0.30	0.25
Transfer station	3.17	3.17	3.17	3.67	3.67	3.67	3.67	3.67	3.58	3.42
Water pollution control	29.75	29.75	29.50	29.50	29.50	29.70	31.00	30.33	29.61	29.61
Ambulance (8)	7.75	7.75	8.75	8.25	7.75	1.25	1.25	1.25	1.25	1.25
Housing	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.75	12.50	12.13
Equipment services	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Totals (9)	240.47	232.53	221.88	220.78	220.65	221.53	223.00	223.87	221.94	223.34

1. Police officer positions fluctuated primarily due to grant funding for special police programs.
2. Police civilian positions were reduced by 9.5 equivalent positions when the City's dispatch center was combined with the Muscatine County dispatch operation in 2004/2005.
3. Firefighter positions were allocated to the Ambulance operation through 2006/2007. This number fluctuated each year. Beginning in 2007/2008 all firefighter positions are being charged to the Fire Department budget with a portion of the overall personnel costs allocated to the Ambulance Fund.
4. Parks and recreation positions were reduced by 1.5 in 2002/2003 when the City began contracting the operation of the Cemetery office.
5. Staffing in the Community Development department was reduced due to the decline in General Fund revenues.
6. Public works staffing was reduced by 3 in the Engineering division beginning in 2003/2004.
7. The City changed from a contractual arrangement with a Golf Professional to having a Golf Pro on staff beginning in 2007/2008.
8. The City began providing ambulance service July 1, 2000 adding 6 equivalent positions. Beginning in 2007/2008 all firefighter positions are being charged to the Fire Department budget with a portion of the overall personnel costs allocated to the Ambulance Fund.
9. The overall decline in positions in 2003/2004 and 2004/2005 was due to the decline in revenues to provide General Fund services.

Source: City of Muscatine records

City of Muscatine, Iowa
Operating Indicators by Function/Department
Last Ten Calendar or Fiscal Years
(Unaudited)

Calendar Year Indicators

Function/Department	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Public Safety:										
Police										
Calls for service	26,543	26,555	24,590	21,638	20,427	21,437	20,066	22,011	18,667	20,312
Traffic enforcement	5,574	5,535	4,946	4,020	5,188	4,616	3,425	4,066	3,406	3,247
Arrests	1,789	2,229	2,068	1,971	2,062	2,114	2,195	2,111	1,827	1,885
Parking tickets issued	1,792	2,037	2,122	1,852	1,764	1,710	1,721	1,438	1,280	1,329
Fire (includes ambulance)										
Calls for service	2,779	3,143	3,085	3,161	2,963	3,530	3,650	3,414	3,711	3,916
Culture and recreation:										
Parks and recreation										
Weed Park Pool/Aquatic Center attendance (1)(4)	19,152	-	46,576	55,948	45,891	41,076	46,649	33,462	39,813	41,620
Adult program participants (2)	862	1,075	1,006	272	328	376	408	499	532	634
Children's program participants	1,684	1,333	1,558	1,698	1,547	1,602	1,610	1,590	2,006	2,066
Cemetery burials	132	126	111	99	104	99	97	96	97	104
Community and economic development:										
Building-related permits	1,277	1,150	1,231	1,063	969	1,195	915	902	925	1,021
Business-type:										
Golf course										
Rounds played	37,666	35,989	32,768	33,195	31,825	29,748	32,687	34,767	33,374	31,491

Fiscal Year Indicators

Function/Department	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Culture and recreation:										
Library										
Registered borrowers	19,779	19,910	20,756	22,298	20,315	16,504	16,415	17,671	17,512	18,639
Circulation	306,950	312,623	331,445	324,179	319,446	332,355	336,210	357,897	311,425	355,993
Art center										
Attendance	16,653	18,451	17,945	18,088	15,640	22,582	19,704	26,054	27,522	29,552
Public works:										
Miles of streets maintained	136	138	139	140	140	140	140	140	140	140
Business-type activities:										
Transit										
Total passengers	141,143	131,117	136,476	136,265	151,434	180,382	188,303	172,306	172,580	188,277
Parking (3)										
Tickets issued	17,708	15,763	14,764	15,598	15,764	13,204	9,704	8,465	8,684	11,212
Refuse collection										
Tons of refuse collected	8,593	8,521	8,888	9,449	9,482	8,731	8,129	8,391	8,180	7,765
Transfer station										
Tons of waste processed	45,911	41,435	44,423	41,356	44,883	49,263	41,320	29,915	31,492	32,004
Tons recycled (contractor)	5,571	4,734	4,854	5,721	6,215	5,830	5,388	4,993	4,609	4,886
Water pollution control										
Cubic feet of wastewater treated (in millions)	192.78	187.47	183.18	173.38	208.26	279.03	289.79	301.01	314.76	201.15

1. The former Weed Park Pool did not open for the 2003 season due to mechanical problems. The Aquatic Center replaced the former pool and opened for the 2004 season.
2. The decline in adult program participants in 2005 is due to the City no longer organizing the adult softball league. A private organization now coordinates this league.
3. In 2007/2008, parking was reconfigured in the downtown area. Parking meters were removed from Second Street and free 3-hour parking was established. The number of parking tickets issued decreased significantly with this change.
4. Weed Park Aquatic Center attendance varies with summer temperatures and rain days.

Source: City of Muscatine records

Schedule 18

City of Muscatine, Iowa
Capital Asset Statistics by Function/Department
Last Ten Fiscal Years
(Unaudited)

Function/Department	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Public Safety:										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol vehicles (1)	9	9	9	9	9	9	9	9	9	12
Fire										
Fire stations	2	2	2	2	2	2	2	2	2	2
Aerial tower	1	1	1	1	1	1	1	1	1	1
Fire pumpers	3	3	3	3	4	4	4	4	4	4
Hazmat vehicle	1	1	1	1	1	1	1	1	1	1
Ambulances	3	3	4	4	4	4	4	4	4	5
Culture and recreation:										
Library	1	1	1	1	1	1	1	1	1	1
Art center and museum	1	1	1	1	1	1	1	1	1	1
Parks and recreation:										
Parks	18	18	14	14	14	14	14	14	14	14
Park acreage	258	258	246	254	254	254	254	254	254	254
Swimming pools	2	2	2	2	2	2	2	2	2	2
Softball and baseball diamonds	20	19	19	19	19	19	19	19	19	19
Soccer fields	8	8	8	8	8	8	8	8	8	8
Tennis courts	10	10	8	8	8	8	8	10	10	10
Cemeteries	1	1	1	1	1	1	1	1	1	1
Cemetery acreage	150	150	150	150	150	150	150	150	150	150
Public works:										
Miles of streets	136	138	139	140	140	140	140	140	140	140
Business-type activities										
Transit:										
Buses	10	10	10	10	10	10	10	11	11	11
Golf course	1	1	1	1	1	1	1	1	1	1
Airport:										
Airport	1	1	1	1	1	1	1	1	1	1
Primary runway length (in feet)	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500
Solid waste:										
Transfer station/recycling center	1	1	1	1	1	1	1	1	1	1
Refuse collection vehicles	5	5	5	5	5	5	5	5	5	5
Water pollution control:										
Plants	1	1	1	1	1	1	1	1	1	1
Daily capacity (in gallons)	15 million	15 million	15 million	15 million	15 million	15 million	15 million	15 million	15 million	16.4 million

Source: City of Muscatine records

1. The 2011/2012 patrol car vehicles include two School Resource Officer vehicles and one Canine vehicle.

McGladrey

Independent Auditor's 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
Muscatine, Iowa

We have audited the financial statements of 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, 2012, which collectively comprise the City of Muscatine, Iowa's basic financial statements and have issued our report thereon dated December 5, 2012. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Other auditors audited the financial statements of Muscatine Power and Water, a discretely presented component unit, as described in our report on the City of Muscatine, Iowa's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting on compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

Management of the City of Muscatine, Iowa is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Muscatine, Iowa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Muscatine, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Muscatine, Iowa's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Muscatine, Iowa'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 immaterial instances of noncompliance that are described in Part IV of the schedule of findings and questioned costs.

Comments involving statutory and other legal matters about the City of Muscatine, Iowa's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the basic 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 interpretation of those statues.

We noted certain matters that we reported to management of the City of Muscatine, Iowa in a separate letter dated December 5, 2012.

This report is intended solely for the information and use of the Mayor and City Council, management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey LLP

Davenport, Iowa
December 5, 2012

McGladrey

Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on 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
Muscatine, Iowa

Scope of this Report

The City of Muscatine, Iowa's basic financial statements include the financial statements of Muscatine Power and Water which was audited by other auditors. The financial statements of Muscatine Power and Water were not audited in accordance with the OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Accordingly, our audit, described below, does not extend to the discretely presented component unit.

Compliance

We have audited the City of Muscatine, Iowa's compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement that* could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The City of Muscatine, Iowa's major federal programs are identified in the summary of 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 of Muscatine, Iowa's management. Our responsibility is to express an opinion on the City of Muscatine, Iowa'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; 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 Nonprofit Organizations*. Those standards and OMB Circular A-133 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 of Muscatine, Iowa'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 on the City of Muscatine, Iowa's compliance with those requirements.

In our opinion, the City of Muscatine, Iowa complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

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Internal Control Over Compliance

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 of Muscatine, Iowa'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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Muscatine, Iowa's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Mayor and Members of the City Council, management, others within the City, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey LLP

Davenport, Iowa
December 5, 2012

City of Muscatine, Iowa

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Identifying Number	Expenditures
U.S. Department of Housing and Urban Development			
Direct:			
Section 8 Housing Choice Vouchers	14.871	IA049VO0090/0094	$ 1,503,285
Section 8 Housing Choice Vouchers	14.871	IA049AF0060/0068	200,245
Section 8 Housing Choice Vouchers	14.871	2010-FSS8-IA049-5229	48,947
Public and Indian Housing Operating Subsidy	14.850	IA04900000111D	83,132
Passed through Iowa Finance Authority,			
Home Owner Education Grant Housing Counseling Program	14.169	HC10-0841-001	1,699
Subtotal			1,837,308
U.S. Department of Transportation			
Passed through Iowa Department of Transportation:			
Formula Grants for Other than Urbanized Areas	20.509	18-0030-533-12	260,771
Public Transportation Research and Technology Project	20.514	26-X002-533-11	1,557
Non-Urbanized Operating Assistance Project	20.509	85-0032-533-09	34,668
Job Access/Reverse Commute Grant	20.516	37-X016-533-12	42,977
New Freedoms Program	20.521	57-X008-533-12	7,419
Training Fellowship	20.509	TF 2012-097	358
Training Fellowship	20.509	TF 2012-110	250
Training Fellowship	20.509	TF 2012-282	333
Training Fellowship	20.509	TF 2012-283	128
Training Fellowship	20.509	TF 2012-284	128
Training Fellowship	20.509	TF 2012-285	128
Highway Planning and Construction	20.205	STP-U-5330(618)--70-70	228,216
Highway Planning and Construction	20.205	STP-U-5330(614)--27-70	281,824
Highway Planning and Construction	20.205	EDP-5330(613)--7Y-70	334,071
Passed through Iowa Department of Public Safety:			
State and Community Highway Safety	20.600	PAP 11-02, Task 8	3,467
State and Community Highway Safety	20.600	PAP 12-02, Task 8	13,674
Subtotal			1,209,969
Federal Aviation Administration			
Direct:			
Airport Improvement Program:			
Airport Runway Lighting Improvements	20.106	AIP-3-19-0063-15	318,791
Airfield Maintenance	20.106	AIP 3-19-0063-17-2012	13,851
Airport Obstruction Removal	20.106	AIP 3-19-0063-18-2012	7,207
Subtotal			339,849

(Continued)

City of Muscatine, Iowa

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Identifying Number	Expenditures
U.S. Department of Justice			
Direct:			
Edward Byrne Justice Assistance Grant (Byrne/JAG) Program	16.738	2011-DJ-BX-2425	$ 20,801
ARRA - Edward Byrne Memorial Justice Assistance Grant Program/ Grants to Units of Local Governments	16.804	2009-SBJ-B9-1353	241
Edward Byrne Justice Assistance Grant (Byrne/JAG) Program	16.738	2010-Dj-BX-0778	20,867
Edward Byrne Justice Assistance Grant (Byrne/JAG) Program	16.738	2009-DJ-BX-0230	5,295
Bulletproof Vest Partnership Program	16.607	N/A	5,098
Public Safety Partnership and Community Policing Grants	16.710	2011-UM-WX-0050	49,094
Passed through Iowa Department of Justice,			
Stop Violence Against Women Grant	16.588	VW-12-58A	5,984
Passed through Iowa Governor's Alliance on Substance Abuse and			
Muscatine County, ARRA- Edward Byrne Memorial Justice			
Assistance Programs/Grant to Units of Local Government	16.803	09-JAG-16463	39,413
Subtotal			146,793
Office of National Drug Control Policy			
Passed through Iowa Department of Public Safety:			
High Intensity Drug Trafficking Area Grant	07.G11MW0002A	G11MW0002A	37,269
High Intensity Drug Trafficking Area Grant	07.G12MW0002A	G12MW0002A	37,371
Subtotal			74,640
U.S. Department of Labor			
Passed through State of Iowa and Generations Area Agency on Aging,			
Senior Community Service Employment Program	17.235	N/A	19,711
Environmental Protection Agency			
Direct:			
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF98795801	37,331
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF98795901	8,061
Subtotal			45,392
United States Department of Energy			
Passed through State of Iowa Office of Energy Independence,			
ARRA - Energy Efficiency and Conservation Block Grant			
Program (EECBG) Recovery	81.128	EECBG-11-18811	10,376
U.S. Department of Homeland Security			
Passed through Scott County, Iowa,			
Homeland Security Grant Program	97.067	2009-SS-T9-0034-12a and 2010-SS-T0-0031-18	72,795
Passed through Iowa Department of Public Defense,			
Hazard Mitigation Grant Program	97.039	HMGP-Dr-1930-0028 01	26,460
Subtotal			99,255
Total			$ 3,783,293

See Notes to Schedule of Expenditures of Federal Awards.

City of Muscatine, Iowa

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Muscatine, Iowa (the City) and Muscatine County Solid Waste Agency, it's discretely presented component unit and is presented on the accrual or modified accrual basis of accounting. All federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through other governmental agencies expended during the year, is included in the schedule. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States and Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

Note 2. Significant Accounting Policies

Revenue from federal awards is recognized when the City has done everything necessary to establish its right to revenue. In the governmental funds, revenue from federal grants is recognized when they become both measureable and available. For proprietary funds, revenue from federal grants is recognized when they are earned. Expenditures of federal awards are recognized in the accounting period when the liability is incurred and has met the eligibility criteria of the federal grant.

Note 3. Subrecipients

Of the federal expenditures presented in the schedule of expenditures of federal awards, the City provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Edward Byrne Justice Assistance Grant (Byrne/JAG) Program	16.738	$ 26,129

City of Muscatine, Iowa

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2012

Number	Comment	Status	Corrective Action or Other Explanation
Findings Related to Federal Awards			
11-III-A	The City did not reconcile split-funded employees for the actual hours worked in the program compared to the budgeted hours use to charge the federal grant for employees in the Section 8 Housing Choice Voucher Grants for the first half of the fiscal year.	Corrected	
Other Findings Related to Required Statutory Reporting			
11-IV-D	The City has business transactions with a related party that may represent a conflict of interest since they were not entered into through competitive bidding.	Corrected	

City of Muscatine, Iowa

Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☑ No
- Significant deficiency(ies) identified? ☐ Yes ☑ None Reported
- Noncompliance material to financial statements noted? ☐ Yes ☑ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☑ No
- Significant deficiency(ies) identified? ☐ Yes ☑ None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☑ No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
20.106	Airport Improvement Program
14.871	Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low-risk auditee? ☑ Yes ☐ No

(Continued)

II. **Findings Related to the Financial Statement Audit as Required to be Reported in Accordance with Generally Accepted Government Auditing Standards**

A. **Internal Controls**

None reported

B. **Compliance Findings**

None reported

III. **Findings and Questioned Costs for Federal Awards**

A. **Internal Controls**

None reported

B. **Compliance Findings**

None reported

IV. **Other Findings Related to Required Statutory Reporting**

12-IV-A – Certified Budget: Disbursements during the year ended June 30, 2012 exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

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

Response: The debt service function budget was exceeded due to issuance costs of refunding bonds issued. The budget will be amended for these costs in the future, if applicable.

12-IV-B – Questionable Expenditures: No questionable disbursements were noted.

12-IV-C – Travel Expense: No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

12-IV-D – Business Transactions: Business transactions between the City and City officials or employees are detailed as follows:

Transaction Description	Amount
Temporary employment services	$ 345

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, this transaction does not appear to represent a conflict of interest since total transactions with the individual were less than $1,500 during the fiscal year.

12-IV-E – Bond Coverage: Surety bond coverage of City officials and employees is in accordance with statutory provisions.

12-IV-F – Council Minutes: No transactions were found that we believe should have been approved in the Council minutes but were not.

12-IV-G – 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.

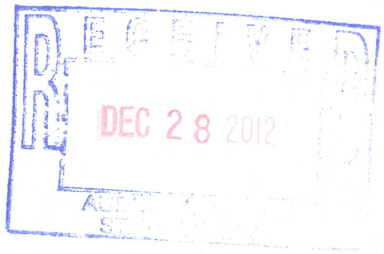
12-IV-H – Revenue Notes: No instances of noncompliance with the provisions of the City's revenue bond resolutions.

City of Muscatine, Iowa

Corrective Action Plan
Year Ended June 30, 2012

Current Number	Comment	Corrective Action Plan	Anticipated Date of Completion	Contact Person
Other Findings Related to Required Statutory Reporting				
12-IV-A	Disbursements during the year ended June 30, 2012 exceeded the amount budgeted in the debt service function.	See corrective action plan at 12-IV-A	June 30, 2013	Nancy Lueck, Finance Director

McGladrey



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

In connection with our audit of the financial statements of the City of Muscatine, Iowa as of and for the year ended June 30, 2012, we identified deficiencies in internal control over financial reporting (control deficiencies).

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Following are descriptions of other identified control deficiencies that we determined did not constitute significant deficiencies or material weaknesses:

Accounts Receivable: The Senior Account Clerk posts the write-offs to the accounts receivable system after the write-off has been approved by the Finance Director. While an approval is obtained, there is no review of the actual write-offs to the accounts receivable system. We recommend a review of the actual write-offs posted be reviewed by an independent individual and statements are sent to the customers on a monthly basis.

Payroll: Timesheets are to be approved by the department head for all departments. We noted one instance where a payroll expenditure was paid, but the timesheet was not approved by the department head. We recommend that all expenditures be reviewed for proper departmental approval before they are paid.

This communication is intended solely for the information and use of management, the Mayor and City Council and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey LLP

Davenport, Iowa
December 5, 2012