

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, 2013. 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 and deferred outflows of resources of the City of Muscatine exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$135,465,228 (net position). Of this amount, \$9,783,412 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$2,244,585 during the year. This overall increase is due to the \$2,523,690 increase in the business-type activities which was in part offset by a decrease in the governmental activities of \$279,105.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$10,319,341, a decrease of \$1,995,462 in comparison with the prior year. This overall decrease is primarily in the local option sales tax and capital projects funds. The local option sales tax fund balance decreased by \$694,710 with those funds used for the West Hill Sewer Separation project. Capital project fund balances decreased by \$1,117,778 primary due to the expenditure of prior year bond proceeds for current year capital project costs, primarily street projects. Of the ending balance, approximately 13% (\$1,315,180) was nonspendable, 54% (\$5,632,650) was restricted, 5% (\$506,407) was assigned, and 28% (\$2,865,104) 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 \$3,073,412, or 18.8% of total general fund expenditures.
- The City's total debt decreased by \$2,919,070 (8.3%) during the current fiscal year. During the year \$1,115,000 in general obligation refunding debt was issued and \$3,409,312 in general obligation debt was retired. No new tax increment revenue bonds were issued and \$105,000 was retired. Sewer revenue loans outstanding decreased by \$606,565 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 position* presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between these four categories reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 three legally separate entities, Muscatine Power and Water, the Muscatine Convention and Visitors Bureau, and the Muscatine County Solid Waste Agency, for which the City of Muscatine is considered to be financially accountable. Financial information for these three *component units* is reported separately from the financial information presented for the primary government itself. Muscatine Power and Water issues separate financial statements. The Muscatine Convention and Visitors Bureau and the Solid Waste Agency do not issue separate financial statements.

The government-wide financial statements can be found on pages 31-32 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 33-36 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 37-41 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 42 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 43-70.

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 position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$135,465,228 at the close of the fiscal year ended June 30, 2013.

By far the largest portion of the City's net position (87.8%) 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 POSITION

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 26,280,394	\$ 28,512,152	\$ 8,831,464	\$ 9,528,547	\$ 35,111,858	\$ 38,040,699
Capital assets	66,711,244	66,531,763	83,498,523	81,553,383	150,209,767	148,085,146
Total assets	92,991,638	95,043,915	92,329,987	91,081,930	185,321,625	186,125,845
Deferred outflows of resources	6,218	-	43,404	-	49,622	-
Long-term liabilities outstanding	18,284,870	19,795,510	16,183,542	17,451,630	34,468,412	37,247,140
Other liabilities	726,968	1,185,446	1,253,729	1,069,402	1,980,697	2,254,848
Total liabilities	19,011,838	20,980,956	17,437,271	18,521,032	36,449,109	39,501,988
Deferred inflows of resources	13,456,910	13,106,743	-	-	13,456,910	13,106,743
Net position:						
Net investment in capital assets	51,062,032	49,843,849	67,867,972	64,583,715	118,930,004	114,427,564
Restricted	6,614,924	8,626,783	136,888	178,360	6,751,812	8,805,143
Unrestricted	2,852,152	2,485,584	6,931,260	7,798,823	9,783,412	10,284,407
Total net position	\$ 60,529,108	\$ 60,956,216	\$ 74,936,120	\$ 72,560,898	\$ 135,465,228	\$ 133,517,114

A portion of the City's net position (5.0%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$9,783,412) 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 position, 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 investment in capital assets increased by \$4,502,440 during the year. Restricted net position decreased by \$2,053,331. Unrestricted net position decreased by \$500,995 during the year with the unrestricted net position of business-type activities decreasing by \$867,563 and the unrestricted net position of governmental activities increasing by \$366,568.

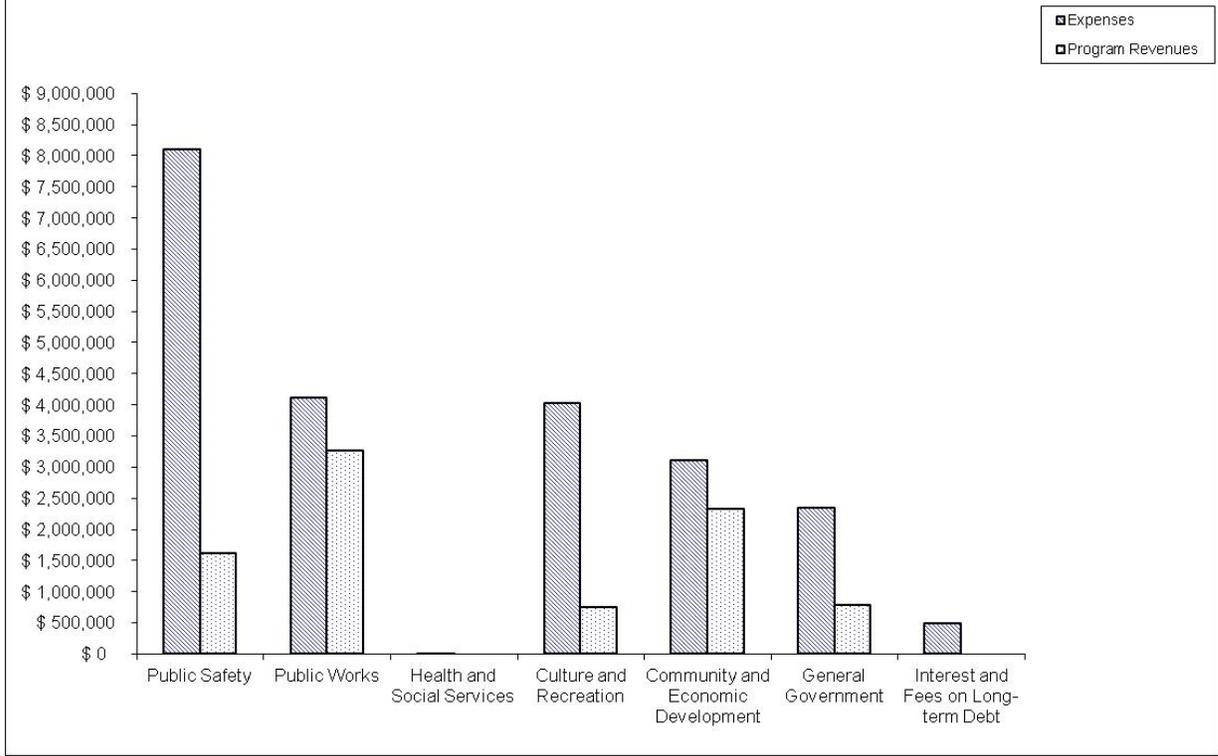
CITY OF MUSCATINE CHANGES IN NET POSITION

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:						
Program revenues:						
Charges for services	\$ 3,053,992	\$ 3,366,985	\$ 12,423,768	\$ 12,060,724	\$ 15,477,760	\$ 15,427,709
Operating grants, contributions and restricted interest	4,922,364	4,915,000	820,150	659,185	5,742,514	5,574,185
Capital grants and contributions	767,392	1,398,288	561,426	661,419	1,328,818	2,059,707
General revenues:						
Property taxes	13,117,510	12,861,006	-	-	13,117,510	12,861,006
Utility taxes	57,576	58,048	-	-	57,576	58,048
Local option sales tax	2,567,849	2,543,654	-	-	2,567,849	2,543,654
Hotel/motel tax	335,701	347,771	-	-	335,701	347,771
Cable franchise tax	222,288	225,902	-	-	222,288	225,902
Utility franchise fees	103,931	170,225	-	-	103,931	170,225
Intergovernmental, not restricted to specific programs	150,031	156,229	-	-	150,031	156,229
Unrestricted investment earnings	13,582	16,177	9,379	17,875	22,961	34,052
Other	6,958	6,373	19,874	-	26,832	6,373
Total revenues	25,319,174	26,065,658	13,834,597	13,399,203	39,153,771	39,464,861
Expenses:						
Public safety	8,106,891	7,933,672	-	-	8,106,891	7,933,672
Public works	4,111,389	4,603,469	-	-	4,111,389	4,603,469
Health and social service	20,000	17,800	-	-	20,000	17,800
Culture and recreation	4,018,788	4,072,299	-	-	4,018,788	4,072,299
Community and economic development	3,099,380	3,063,468	-	-	3,099,380	3,063,468
General government	2,352,743	2,129,477	-	-	2,352,743	2,129,477
Interest and fees on long-term debt	496,578	504,515	-	-	496,578	504,515
Water pollution control	-	-	6,088,562	5,757,128	6,088,562	5,757,128
Transfer station	-	-	2,140,480	2,302,385	2,140,480	2,302,385
Refuse collection	-	-	2,068,419	2,015,577	2,068,419	2,015,577
Airport	-	-	551,499	462,094	551,499	462,094
Parking	-	-	237,933	244,115	237,933	244,115
Transit	-	-	1,121,524	1,077,339	1,121,524	1,077,339
Golf course	-	-	864,167	871,848	864,167	871,848
Boat harbor	-	-	27,878	31,036	27,878	31,036
Marina	-	-	13,873	19,507	13,873	19,507
Ambulance	-	-	500,046	473,350	500,046	473,350
Public housing	-	-	1,089,036	1,164,215	1,089,036	1,164,215
Total expenses	22,205,769	22,324,700	14,703,417	14,418,594	36,909,186	36,743,294
Increase (decrease) in net position before transfers	3,113,405	3,740,958	(868,820)	(1,019,391)	2,244,585	2,721,567
Transfers in (out)	(3,392,510)	(1,144,303)	3,392,510	1,144,303	-	-
Increase (decrease) in net position	(279,105)	2,596,655	2,523,690	124,912	2,244,585	2,721,567
Net position, beginning of year (as restated)	60,808,213	58,359,561	72,412,430	72,435,986	133,220,643	130,795,547
Net position, end of year	\$ 60,529,108	\$ 60,956,216	\$ 74,936,120	\$ 72,560,898	\$ 135,465,228	\$ 133,517,114

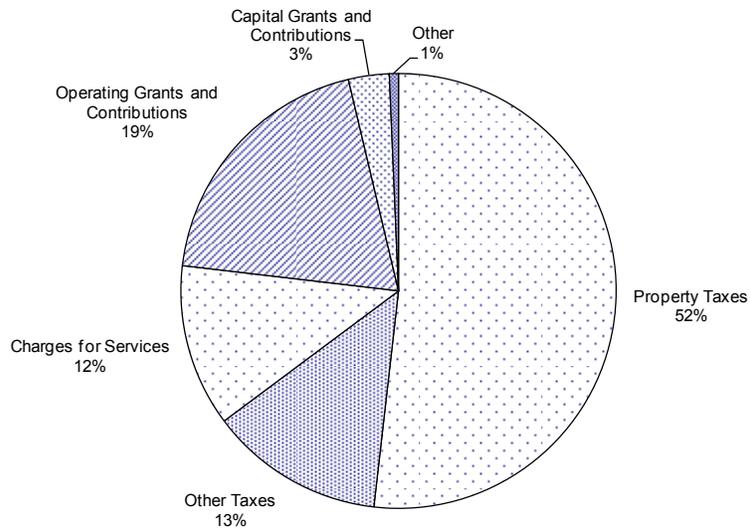
Governmental activities. Governmental activities decreased the City’s net position by \$279,105. This overall decrease was primarily due to the increase in transfers out, a substantial portion of which is the local option sales tax transfer for the West Hill Sewer Separation project accounted for in the Water Pollution Control fund.

- Revenues for governmental activities decreased in total by \$746,484 or 2.9% from the previous year primarily due to a decrease of \$630,896 in capital grants and contributions and a decrease in charges for services of \$312,993. These decreases were partially offset by increases in property taxes and local option sales taxes.
- Charges for services for governmental activities decreased by \$312,993. Charges for services in the public safety function decreased by \$92,893 primarily due to a decrease in automatic traffic enforcement (ATE) fines. The ATE cameras became operational in the spring of 2011 and 2011/2012 was the first full fiscal year of their operation. The ATE fines decreased in 2012/2013 due to increased compliance with traffic laws in these areas. Charges for services in the public works function decreased by \$410,607 and culture and recreation charges decreased by \$56,841. The public works decrease was primarily due to one-time charges in 2011/2012 related to a street project. The decrease in culture and recreation was due to less favorable weather conditions in the spring of 2013 which impacted aquatic center revenues as well as revenues for other recreation programs. These decreases were partially offset by increases of \$29,757 in the community and economic development and \$217,591 in the general government functions.
- Operating grants and contributions for governmental activities increased slightly (by \$7,364) compared to the previous year. .
- Capital grants and contributions decreased by \$630,896 from the previous year primarily due to decreased grant funding for capital projects. Prior year capital grants included the final state grant payment of \$718,755 for the new Southend Fire Station.
- Property taxes increased by \$256,504 during the year or 2.0%.
- Local option sales taxes increased by \$24,195 or 1.0% during the year.
- Hotel/motel taxes decreased by \$12,070 or 3.5%.
- The reduction of \$66,294 in utility franchise fees is due to City Council reducing the franchise fee rate from 2% to 1% as part of the budget for 2012/2013. The City's franchise fee ordinance allows the rate to be up to 5%. This rate can be changed by City Council action by giving a minimum of a 90 day notice to the utility company.
- Unrestricted investment earnings decreased by \$2,595 or 16.0% during the year due to the continued low interest rates.
- Expenses for governmental activities decreased by \$118,931 or .5% from the previous year.
- Governmental expenses increased in the public safety (\$173,219), community development (\$35,912), general government (\$223,266), and health and social services (\$2,200) functions. Expenses decreased in the public works (\$492,080) and culture and recreation (\$53,511) functions. Interest and fee expenses also decreased by \$7,937.

Expenses and Program Revenues - Governmental Activities

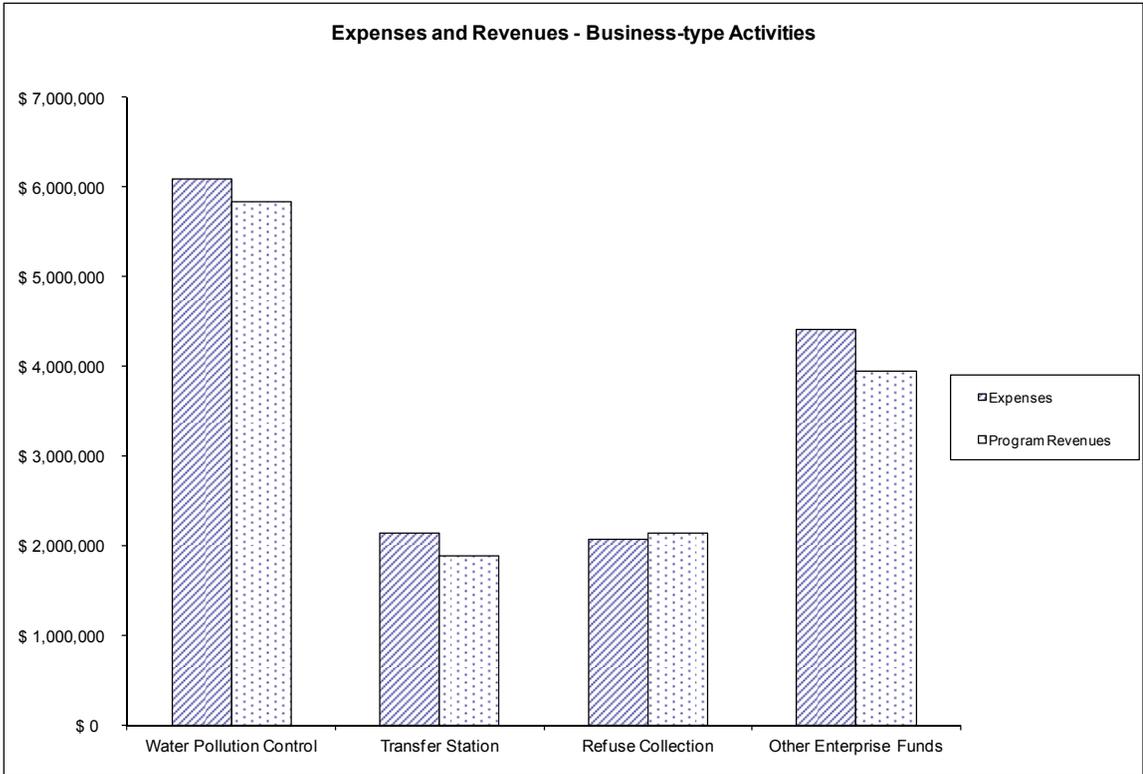


Revenues By Source - Governmental Activities

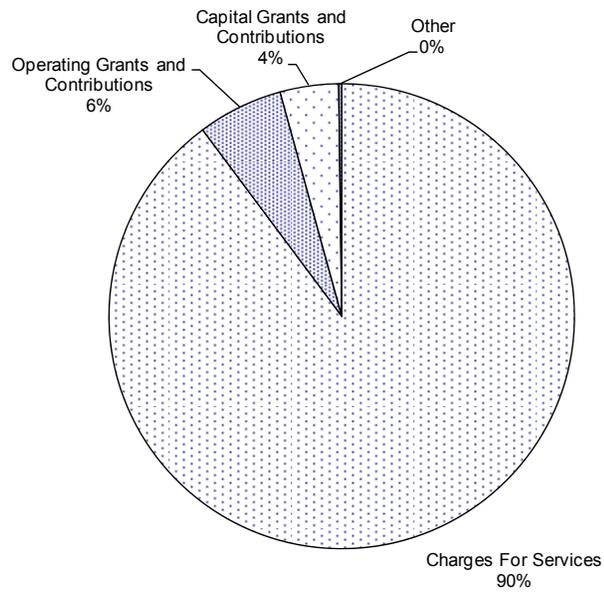


Business-type activities. Business-type activities increased the City's total net position by \$2,523,690, accounting for all of the total increase in the City of Muscatine's net position during the year. Increases in net position were reported in the Water Pollution Control, Transfer Station, Refuse Collection, Boat Harbor, and Ambulance funds. Decreases in net position were reported in the Airport, Parking, Transit, Golf Course, Marina, and Public Housing funds. Key elements of these changes are as follows:

- Net position of the Water Pollution Control fund increased by \$2,847,872 during the year primarily due to capital asset additions. Transfers from the Local Option Sales Tax fund funded \$3,130,824 of sewer-related capital project costs during the year.
- Net position of the Transfer Station fund increased by \$479,979 during the year. During the year there was a \$726,219 transfer from the debt service fund to fund the transfer station debt requirements for the year.
- Net position of the Refuse Collection fund increased by \$55,802 during the year.
- Net position of the non-major enterprise funds decreased by \$951,183 during the year with the most significant decreases in the Public Housing (\$361,243), Airport (\$293,366), Golf Course (\$128,110), and Transit (\$116,087) funds.
- Revenues for the business-type activities increased in total by \$435,394 (3.3%).
- Charges for services increased in total by \$363,044. Water pollution control charges for services increased by \$452,526 and refuse collection charges increased by \$27,330. The increase in water pollution control charges was due to a rate increase. Transfer station charges for services decreased by \$108,389 as a result of decreased waste volume at this facility. There were decreases in Golf fees and charges of \$133,807, boat harbor charges of \$11,149, and marina charges of \$5,678, all related to the extremely wet spring weather in 2013. Ambulance fees and charges increased by \$184,672 during the year due to increased ambulance runs and public housing charges decreased by \$67,235 since the prior year amount included \$67,134 in one-time revenue.
- Operating grants and contributions increased by \$160,965. Public housing operating grants increased by \$179,879. The prior year amount was lower than most years due to changes in the federal housing program operating subsidy calculations.
- Capital grants and contributions decreased by \$99,993. Water pollution control capital grants increased by \$170,382 and Airport capital grants decreased by \$270,375. Unrestricted investment income decreased by \$8,496 due to the continued low interest rates.
- Expenses for the business-type activities increased \$284,823 (2.0%). Expenses increased by \$331,434 in the Water Pollution Control fund, decreased by \$161,905 in the Transfer Station fund, and increased by \$52,842 in the Refuse Collection fund. Expenses increased by \$89,405 in the Airport fund, by \$44,185 in the Transit fund, and by \$26,696 in the Ambulance fund. Expenses decreased by \$6,182 in the Parking fund, by \$7,681 in the Golf Court fund, by \$3,158 in the Boat Harbor fund, by \$5,634 in the Marina fund, and by \$75,179 in the Public Housing 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 \$10,319,341, a decrease of \$1,995,462 in comparison with the prior year. This decrease was primarily due to the \$1,117,778 decrease in the capital projects funds, \$694,710 decrease in the local option sales tax fund, decrease of \$113,890 in the employee benefits fund, and a decrease of \$40,425 in the debt service fund. The decrease in the capital projects funds was primarily due to the expenditure of prior year general obligation bond proceeds on current year capital project costs. The local option sales tax fund decrease was primarily due to use of accumulated balance in this fund for a major sewer project. The decreases in the employee benefits and debt service funds were budgeted decreases to fund current year employee benefit and debt service costs.

Of the combined \$10,319,341 governmental fund balances at year end 12.7% (\$1,315,180) is classified as nonspendable and includes prepaid items, advances to other funds, and permanent fund principal. A total of \$5,632,650 (54.6%) is classified as restricted by grantors, state or federal laws, or enabling legislation. Assigned fund balances total \$506,407 (4.9%) with these funds assigned for purchases on order, future equipment purchases, risk management, and future grant commitments. The remaining \$2,865,104 is classified as unassigned (27.8%). 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 \$14,219 and \$209,005, 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 \$3,073,412, while the total fund balance was \$3,668,147. The General Fund balance includes \$88,328 classified as nonspendable for prepayments. The assigned portion of the balance totals \$506,407 which includes \$250,993 for purchases on order, \$141,838 for future equipment purchases, \$73,576 for risk management, and \$40,000 for a future grant commitment. 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 18.8% and 22.4%, respectively, of total general fund expenditures. These percentages decreased from the prior year computation of unassigned and total fund balances of 21.2% and 22.9%, respectively. These decreases were planned decreases since the City budgeted to purchase a new fire engine (\$496,438) and new financial software (\$160,000) from the General fund in 2012/2013. The City of Muscatine's general fund balance increased by \$87,344 during the current fiscal year.

The Employee Benefits fund balance decreased during the year by \$113,890. Taxes are levied in this fund for employee benefits for general fund employees. The decrease in fund balance was due to the budgeted use of a portion of the prior year balance in this fund which had accumulated due to savings in employee benefit costs from vacancies in prior years.

The Local Option Sales Tax fund balance decreased during the fiscal year by \$694,710. Funds accumulated in this fund in prior years were used to fund Phase I of the West Hill Sewer Separation project.

The Debt Service Fund balance decreased \$40,425 due to the budgeted use of prior year excess bond proceeds.

The fund balances in the Other Governmental Funds decreased in total by \$1,233,781. This was primarily due to the decreases in the capital projects fund balances of \$1,117,778. Most of this decrease was due to the expenditure of prior year general obligation bond proceeds on current year capital project costs.

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 position for the City's enterprise funds as of June 30, 2013 was \$74,758,037, an increase of \$2,432,470 from the previous fiscal year. Of the net position of the enterprise funds, \$67,867,972 is the net investment in capital assets of the enterprise funds. Restricted net position totaled \$136,888. Unrestricted net position totaled \$6,753,177, a decrease of \$958,783 compared to the previous year.

The City's internal service funds include Equipment Services, Central Supplies, Health Insurance, and Dental Insurance. Net position for the internal service funds totaled \$1,904,869 as of June 30, 2013, an increase of \$189,509 from the previous year. This overall increase was primarily due to an increase in the Health Insurance fund.

General Fund Budgetary Highlights

During the year there was a \$564,990 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 \$326,344 from the original to the amended budget. Following are the main components of the overall budget increases during the year:

- The \$130,130 overall increase in the public safety function budget included increases of \$124,000 in the fire department and \$7,930 for emergency management. The police budget decreased slightly (\$1,800) between the original budget and the amended budget. The increase in the fire budget included increases in various areas of the budget including increased allocations for fuel, vehicle and equipment repair parts and services, increased personnel costs including retirement pay for a former assistant chief, and increased insurance costs. The increase in the emergency management budget was primarily due to the matching funds (15%) for a homeland security grant which funded the emergency siren activation upgrade to a radio controlled system
- The culture and recreation function increased in total by \$87,100. This overall increase includes increases totaling \$63,900 in the various Parks department budgets. The Park department increase included \$22,200 for a new park shelter in Weed Park which was 100% funded from donations, with the balance of the increase in various other park activities, primarily for increased maintenance costs. The Art Center budget was increased by \$23,200 which included an increase of \$13,500 from a State Cultural Affairs grant in that amount awarded after the original budget was adopted and an increase of \$9,700 in insurance costs for the art center's collections.
- The community and economic development function appropriation was increased by \$4,700 primarily for economic development administrative and legal costs.

- Public works department expenditures were amended upward in total by \$35,900 with this increase primarily in the roadway maintenance activity.
- The amended budget included a \$37,000 increase in the general government function expenditures. Significant increases were in the Human Resources (\$16,000), Risk Management (\$12,700), and Buildings and Grounds (\$55,500) budgets. These increases were partially offset by decreases in other general government activity budgets.

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, 2013, amounts to \$150,209,767 (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 \$179,481 for governmental activities compared to the prior year and increased by \$1,945,140 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 \$8,660,549.
- Major asset additions included \$2,179,968 in street improvements; \$4,470,176 in sewer system improvements; \$330,164 for the golf course irrigation system, \$496,438 for a new fire engine, and \$79,686 for Airport improvements.
- Depreciation expense totaled \$7,050,824 for the year with \$3,343,878 in the governmental activities and \$3,706,946 in the business-type activities.

City of Muscatine Capital Assets (Net of Depreciation)

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Land, art work and construction in progress, not being depreciated	\$ 19,880,556	\$ 20,734,527	\$ 8,446,710	\$ 4,524,371	\$ 28,327,266	\$ 25,258,898
Other capital assets net of accumulated depreciation	46,830,688	45,797,236	75,051,813	77,029,012	121,882,501	122,826,248
Total capital assets	\$ 66,711,244	\$ 66,531,763	\$ 83,498,523	\$ 81,553,383	\$ 150,209,767	\$ 148,085,146

Additional information on the City of Muscatine’s capital assets can be found in note 4 on pages 55-58 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$32,367,687. Of this amount, \$16,459,687 is debt backed by the full faith and credit of the City. Of this amount \$800,955 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 \$15,658,732 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	
	2013	2012	2013	2012	2013	2012
General obligation bonds	\$ 15,658,732	\$ 17,177,089	\$ 800,955	\$ 1,490,103	\$ 16,459,687	\$ 18,667,192
Revenue bonds	1,035,000	1,140,000	14,873,000	15,479,565	15,908,000	16,619,565
Total	\$ 16,693,732	\$ 18,317,089	\$ 15,673,955	\$ 16,969,668	\$ 32,367,687	\$ 35,286,757

The City's total bonded debt decreased by \$2,919,070 during the year. The City issued \$1,115,000 in general obligation refunding bonds during the year and issued \$5,000 in new sewer revenue debt. The \$5,000 in sewer revenue debt was the final amount on the State Revolving Fund Loan which financed major improvements to the Water Pollution Control plant. Debt retired included \$3,405,000 in general obligation bonds, \$105,000 of tax increment revenue bonds, and \$611,565 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 \$60,902,264. The amount of bonded debt applicable to the debt limit totals \$17,450,000. The City also has Tax Increment Financing rebate agreements which total to a maximum obligation of \$13,690,463 as of the end of the year. The bonded debt and rebate agreements total to \$31,140,463. Although tax increment rebate agreements are required to be included in the computation of debt subject to the debt limit, these obligations are totally financed by incremental taxes received from the benefitted properties. The City's debt, including the rebate agreement obligations, 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 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 5 on pages 58-63 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Muscatine County was 5.5% for calendar year 2012 compared to 6.4% the previous year. Separate unemployment figures are not maintained for the City of Muscatine.
- The City's taxable value increased by 2.8% for the 2012/2013 year and increased by 2.3% for the upcoming 2013/2014 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%).
- Two major street reconstruction projects are scheduled for 2014 - Cedar Street from Parham to Houser and Colorado Street. These projects will be financed with a combination of grant funds, general obligation bonds, road use taxes, and local option sales taxes.
- In 2013/2014 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. In November of 2012 the City received notification that the request to extend the deadline to 2028 had been approved by the E.P.A. 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. 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 2013/2014 budget provides for increases in sewer fees. No fee increases are budgeted for the transfer station, refuse collection, parking, golf course, 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.