CITY OF MUSCATINE, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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:

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 Convention and Visitors Bureau (CVB). The CVB was established as a non-profit corporation as defined in section 501(c)(6) of the Internal Revenue Code in the current year. The initial CVB Board of Directors was appointed by the Mayor. Thereafter board member appointments will be made according to provisions of the CVB’s bylaws. The City of Muscatine has allocated 25% of the hotel/motel tax revenue to the CVB which is substantially all of the CVB’s financial resources. Because of its fiscal dependence on the City the CVB is considered a component unit of the City. The CVB has a June 30 year-end. Separate financial statements are not issued for the CVB.

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 position 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 Position presents the City's nonfiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories.

Net investment in capital assets 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 position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has 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.

The City adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources. Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, items previously reported as assets and liabilities in the current year. The adoption of these Statements changed the presentation of the basic financial statements to a statement of net position format and restated net position, as disclosed in Note 14.

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, deferred outflows of resources, liabilities and deferred inflows of resources. 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 and budgeted for. 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 and budgeted for, 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.

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.

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, the CVB 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, the CVB 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, 2013, were certified with the County during the preceding fiscal year and were due in two equal installments by September 30, 2012 and March 31, 2013. Any County collections on the 2012-2013 tax levy remitted to the City within sixty days subsequent to June 30, 2013, 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, 2013, are delinquent and have been recorded as receivables and deferred inflows of resources 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 and budgeted for 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. Transfer Station assets of $38,645 at June 30, 2013 are classified as restricted because their use is restricted 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. Water Pollution Control assets of $98,243 at June 30, 2013 are classified as restricted because their use is restricted under the State Revolving Fund loan.

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. Solid Waste Agency assets of $1,360,499, at June 30, 2013 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, 2012 was as follows:

Current accounts:	
Extraordinary operation and maintenance account	$ 6,032,610
Communications loan sinking fund	1,007,016
Total restricted assets	$ 7,039,626

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 position and in the proprietary funds statement of net position. 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.

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. Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

7. 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.

8. Long-Term Obligations

In the government-wide financial statements, and proprietary 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 statement of net position. Bond premiums and discounts 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 expenses at the time the debt is incurred.

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. Deferred Inflows of Resources

In addition to liabilities, the statement of net position and balances sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues from three sources: Property taxes, other taxes, and intergovernmental revenue. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In the City’s government-wide statements, only the property tax revenues remain a deferred inflow and will become an inflow in the year they are levied and budgeted for.

10. 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 resolutions 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. It is the City's policy that 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. Residual deficit amounts of other governmental funds would also be reported as unassigned.

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.

11. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net investment in capital assets 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 investment in capital assets excludes unspent bond proceeds. As of June 30, 2013, there were unspent bond proceeds totaling $1,038,302 in the non-major Capital Projects funds. Net position is reported as restricted when there are limitations imposed on its use through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Net position restricted through enabling legislation consists of $2,786,595 for public works, $50,368 for employee benefits, $41,579 for public safety, and $1,091,092 for tax increment financing projects.

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

NOTE 2. DEPOSITS AND INVESTMENTS

The deposits and investments of the Solid Waste Agency and Muscatine Convention and Visitors Bureau (CVB) are pooled with those of the City. Disclosures referring to deposits and investments of the City include the pooled amounts belonging to the Agency and CVB.

As of June 30, 2013, the deposits and investments of the City consist of the following:

Petty cash and undeposited cash	$ 82,324
Cash in bank	297,201
Savings accounts	45,651
Money market accounts	14,902,012
Iowa Public Agency Investment Trust	2,552,319
Certificates of deposit	1,152,000
	$ 19,031,507

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 $2,552,319 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, 2013 the carrying amount of the City's deposits with financial institutions totaled $16,396,864 and the bank balances were $16,512,632. 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, 2012 MP&W's deposits and investments consist primarily of cash and certificates of deposit as follows:

	Fair Value
Cash	$ 20,677,434
Certificates of deposit	3,027,000
	$ 23,704,434

As of December 31, 2012 the carrying amount of MP&W's deposits with financial institutions totaled $23,701,398, and the bank balances were $24,219,135. 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.

As of December 31, 2012, Muscatine Power & Water had no investments subject to credit risk, concentration of risk, or interest rate risk.

NOTE 3. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances at June 30, 2013 consist of the following:

		Due from/advance to					
		Nonmajor Governmental	**Transfer Station**	**Nonmajor Enterprise**	**Internal Service**	**Fiduciary**	**Totals**
Due to/Advance from	Nonmajor governmental	$ 244,578	$ -	$ -	$ -	$ -	$ 244,578
	Water pollution control	-	449,449	194,860	-	-	644,309
	Nonmajor enterprise	-	-	5,212	-	-	5,212
	Internal service	-	-	-	1,095	-	1,095
	Fiduciary	-	-	-	-	50,500	50,500
	Total	$ 244,578	$ 449,449	$ 200,072	$ 1,095	$ 50,500	$ 945,694

The $449,449 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 $1,022,347 as of June 30, 2013. 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 169,000 tons of waste or 4.5 years of use based on projected annual waste volumes.

Interfund transfers for the year are as follows:

Transfers to	Transfers from: General	Employee Benefits	Local Option Sales Tax	Debt Service	Nonmajor Governmental	Transfer Station	Nonmajor Enterprise	Internal Service	Totals
General	$ -	$ 3,144,204	$ -	$ -	$ 1,903,156	$ -	$ 839,000	$ 46,326	$ 5,932,686
Debt service	-	-	-	-	209,625	-	-	-	209,625
Nonmajor governmental	237,772	-	90,968	-	558,727	-	-	-	887,467
Water pollution control	-	-	3,130,824	-	-	-	-	-	3,130,824
Transfer station	-	-	-	726,219	-	-	-	-	726,219
Refuse collection	-	-	-	-	-	1,349	-	-	1,349
Nonmajor enterprise	374,467	-	-	-	-	-	-	-	374,467
Total	$ 612,239	$ 3,144,204	$ 3,221,792	$ 726,219	$ 2,671,508	$ 1,349	$ 839,000	$ 46,326	$ 11,262,637

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. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 is as follows:

Primary government

	Beginning Balance		Increases	Decreases	Transfers	Ending Balance
Governmental activities:						
Capital assets, not being depreciated:						
Land	$ 9,149,516		$ 1,011,694	$ (4,000)	$ -	$ 10,157,210
Art work	7,462,776		43,000	-	-	7,505,776
Construction in progress	4,122,235		3,041,179	(4,945,844)	-	2,217,570
Total capital assets, not being depreciated	20,734,527		4,095,873	(4,949,844)	-	19,880,556
Capital assets, being depreciated:						
Land improvements	17,945,847		13,080	-	-	17,958,927
Buildings	7,739,520		1,506,708	(8,652)	-	9,237,576
Building improvements	2,122,873		222,314	-	-	2,345,187
Equipment	5,213,057		158,077	(7,750)	-	5,363,384
Vehicles	4,280,618		321,155	(168,729)	(361)	4,432,683
Other Assets	22,968		-	-	-	22,968
Infrastructure	58,312,647		2,183,349	-	-	60,495,995
Total capital assets, being depreciated	95,637,530		4,404,683	(185,131)	(361)	99,856,721
Less accumulated depreciation for:						
Land improvements	(8,662,871)		(718,569)	-	-	(9,381,440)
Buildings	(5,040,160)		(196,560)	8,652	-	(5,228,068)
Building improvements	(870,832)		(124,708)	-	-	(995,540)
Equipment	(3,427,050)		(291,682)	7,750	-	(3,710,982)
Vehicles	(3,403,195)		(232,091)	141,376	361	(3,493,549)
Other Assets	(6,891)		(4,594)	-	-	(11,485)
Infrastructure	(28,429,295)		(1,775,674)	-	-	(30,204,969)
Total accumulated depreciation	(49,840,294)		(3,343,878)	157,778	361	(53,026,033)
Total capital assets, being depreciated, net	45,797,236	-	1,060,805	(27,353)	-	46,830,688
Governmental activities capital assets, net	$ 66,531,763	$ -	$ 5,156,678	$ (4,977,197)	$ -	$ 66,711,244

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type Activities:					
Capital assets, not being depreciated:					
Land	$ 2,833,495	$ 52,078	$ -	$ -	$ 2,885,573
Construction in progress	1,690,876	5,307,564	(1,437,303)	-	5,561,137
Total capital assets, not being depreciated	4,524,371	5,359,642	(1,437,303)	-	8,446,710
Capital assets, being depreciated:					
Land improvements	13,052,966	416,056	(149,316)	-	13,319,706
Buildings	64,794,904	148,367	-	-	64,943,271
Building improvements	3,562,180	370,650	(21,917)	-	3,910,913
Equipment	5,780,397	643,671	(220,467)	-	6,203,601
Vehicles	3,420,730	185,585	-	361	3,606,676
Sewer system	45,274,672	-	-	-	45,274,672
Total capital assets, being depreciated	135,885,849	1,764,329	(391,700)	361	137,258,839
Less accumulated depreciation for:					
Land improvements	(10,116,668)	(404,165)	149,316	-	(10,371,517)
Buildings	(28,588,349)	(1,565,936)	-	-	(30,154,285)
Building improvements	(2,191,525)	(189,035)	10,959	-	(2,369,601)
Equipment	(3,002,370)	(381,254)	196,843	-	(3,186,781)
Vehicles	(2,282,705)	(261,062)	0	(361)	(2,544,128)
Sewer system	(12,675,220)	(905,494)	-	-	(13,580,714)
Total accumulated depreciation	(58,856,837)	(3,706,946)	357,118	(361)	(62,207,026)
Total capital assets, being depreciated, net	77,029,012	(1,942,617)	(34,582)	-	75,051,813
Business type activities capital assets, net	$ 81,553,383	$ 3,417,025	$ (1,471,885)	$ -	$ 83,498,523

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

Governmental activities:	
Public safety	$ 304,428
Public works	1,934,894
Culture and recreation	1,043,856
Community and economic development	6,267
General government	51,687
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	2,746
Total depreciation expense – governmental activities	$ 3,343,878
Business-type activities:	
Water pollution control	$ 2,457,414
Refuse collection	83,840
Transfer station	211,567
Airport	358,298
Parking	45,704
Transit	80,163
Golf course	104,759
Boat harbor	4,865
Ambulance	60,461
Public housing	299,875
Total depreciation expense – business-type activities	$ 3,706,946

Discretely presented component units

Activity for the Solid Waste Agency for the year ended June 30, 2013 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	(674,268)	(257,852)	-	(932,120)
Buildings	(16,326)	(933)	-	(17,259)
Equipment	(15,861)	(1,472)	-	(17,333)
Leachate collection system	(272,436)	(19,866)	-	(292,302)
Total accumulated depreciation	(978,891)	(280,123)	-	(1,259,014)
Total capital assets, being depreciated, net	1,580,162	(280,123)	-	1,300,039
Solid Waste Agency capital assets, net	$ 2,660,770	$ (280,123)	$ -	$ 2,380,647

Activity for Convention and Visitors Bureau for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Equipment	$ -	$ 11,412	$ -	$ 11,412
Total capital assets, being depreciated	-	11,412	-	11,412
Less accumulated depreciation for:				
Equipment	-	(1,141)	-	(1,141)
Total accumulated depreciation	-	(1,141)	-	(1,141)
Total capital assets, being depreciated, net	-	10,271	-	10,271
Convention and Visitors Bureau capital assets, net	$ -	$ 10,271	$ -	$ 10,271

Activity for Muscatine Power & Water for the year ended December 31, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land and land rights	$ 2,926,911	$ -	$ -	$ -	$ 2,926,911
Construction work in progress	349,057	4,408,738	(354,532)	(3,680,648)	722,615
Total capital assets, not being depreciated	3,275,968	4,408,738	(354,532)	(3,680,648)	3,649,526
Capital assets, being depreciated:					
Generation plant	328,487,163	521	(426,399)	1,249,716	329,311,001
Transmission and distribution plant	56,978,992	589,286	(99,829)	513,690	57,982,139
General plant	21,854,609	129,655	(512,016)	1,093,029	22,565,277
Source of supply	2,127,805	14,293	-	2,878	2,144,976
Pumping equipment	2,043,250	-	-	-	2,043,250
Purification equipment	1,051,289	-	-	-	1,051,289
Distribution system	16,608,549	18,008	(92,236)	355,504	16,889,825
Network operations plant	29,111,294	949,143	(530,766)	465,831	29,995,502
Total capital assets being depreciated	458,262,951	1,700,906	(1,661,246)	3,680,648	461,983,259
Less accumulated depreciation for:					
Generation plant	(241,025,990)	(7,468,308)	336,749	-	(248,157,549)
Transmission and distribution plant	(43,087,115)	(2,193,396)	114,043	-	(45,166,468)
General plant	(19,125,485)	(1,649,376)	410,338	-	(20,364,523)
Source of supply	(1,158,488)	(70,932)	-	-	(1,229,420)
Pumping equipment	(480,869)	(65,976)	-	-	(546,845)
Purification system	(775,426)	(28,056)	-	-	(803,482)
Distribution system	(5,560,952)	(366,396)	565,706	-	(5,361,642)
Network operations plant and general plant	(18,664,136)	(2,246,976)	-	-	(20,911,112)
Total accumulated depreciation	(329,878,461)	(14,089,416)	1,426,836	-	(342,541,041)
Total capital assets, being depreciated, net	128,384,490	(12,388,510)	(234,410)	3,680,648	119,442,218
Muscatine Power & Water capital assets, net	$ 131,660,458	$ (7,979,772)	$ (588,942)	$ -	$ 123,091,744
Muscatine Power & Water intangible asset	$ 773,136	$ -	$ (773,136)	$ -	$ -

NOTE 5. LONG-TERM DEBT

General Obligation Bonds. The general obligation bonds outstanding as of June 30, 2013 total $16,459,687. These bonds bear interest at rates ranging from .40% to 3.50%. 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.

On March 7, 2013, the City of Muscatine issued $1,115,000 in General Obligation Refunding Bonds, Series 2013 with interest rates ranging from 0.55 percent to 0.90 percent to current refund $1,095,000 of the 2006 General Obligation Corporate Purpose Bonds, with interest rates from 3.90 percent to 4.00 percent. The proceeds were used to pay $15,021 in issuance costs immediately and the remainder was used on June 1, 2013 for the redemption of the 2006 Bonds. The net change was a decrease in cash flows related to the current refunding of $48,465. The economic gain resulting from the current refunding was $52,225.

General obligation bonds as of June 30, 2013 consist of the following individual issues:

	Issue Date	Amount Issued	Interest Rates	Balance 6/30/2013		Governmental Activities	Business-Type Activities
General obligation bonds							
General corporate	6/1/2008	$ 5,120,000	3.25-3.50	$ 3,106,329	(1)	$ 3,106,329	$ -
General refunding	6/1/2008	6,560,000	3.25	800,955	(2)	-	800,955
General corporate	6/1/2010	7,425,000	2.00-3.125	7,017,403	(3)	7,017,403	-
General corporate and refunding	6/1/2012	4,715,000	.40-1.90	4,420,000	(4)	4,420,000	-
General corporate and refunding	3/7/2013	1,115,000	.55-.90	1,115,000	(5)	1,115,000	-
				$ 16,459,687		$ 15,658,732	$ 800,955

1. Net of unamoritzed premium of $1,329
2. Net of unamoritzed premium of $955
3. Net of unamoritzed premium of $42,403
4. No premium or discount
5. No premium or discount

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

Year Ending	Governmental		Business-Type	
June 30	Principal	Interest	Principal	Interest
2014	$ 1,585,000	$ 374,104	$ 800,955	$ 26,000
2015	2,294,047	343,243	-	-
2016	2,393,010	294,198	-	-
2017	2,236,692	236,648	-	-
2018	2,295,273	177,388	-	-
2019-2021	4,854,710	216,701	-	-
	$ 15,658,732	$ 1,642,282	$ 800,955	$ 26,000

Tax Increment Revenue Bonds. 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 $1,308,445 payable through 2021. For the current year, principal and interest paid and total incremental tax revenues were $166,308 and $626,708, respectively.

Tax increment revenue bonds as of June 30, 2013 consist of the following issues:

	Issue Date	Amount Issued	Interest Rates	Balance June 30, 2013
Tax Increment Revenue Bonds:				
Urban Renewal Tax Increment	06/24/2004	$ 1,885,000	4.75-5.80%	$ 1,035,000

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

Year Ending	Governmental	
June 30	Principal	Interest
2014	$ 110,000	$ 56,320
2015	115,000	50,930
2016	120,000	45,065
2017	125,000	38,705
2018	130,000	31,955
2019-2021	435,000	50,470
	$ 1,035,000	$ 273,445

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, 2013, the loan balance is $14,873,000. 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 Loan 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
2014	$ 578,000	$ 446,172	$ 37,183
2015	597,000	428,850	35,738
2016	616,000	410,940	34,245
2017	636,000	392,460	32,705
2018	657,000	373,380	31,115
2019-2023	3,619,000	1,558,200	129,852
2024-2028	4,248,000	978,780	81,566
2029-2032	3,922,000	298,860	24,905
	$ 14,873,000	$ 4,887,642	$ 407,309

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. The City decided to finance this project from available reserve funds during the current year, paying the outstanding balance of $51,565 in March of 2013.

Long-term liability activity for the year ended June 30, 2013 was as follows:

Primary government

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 17,130,000	$ 1,115,000	$ (2,630,000)	$ 15,615,000	$ 1,585,000
Tax increment revenue bonds	1,140,000	-	(105,000)	1,035,000	110,000
Premiums/discounts	47,089	-	(3,357)	43,732	-
Total bonds payable	18,317,089	1,115,000	(2,738,357)	16,693,732	1,695,000
Compensated absences	1,246,192	809,110	(761,434)	1,293,868	621,549
Other post-employment benefits liability	232,229	65,041	-	297,270	-
Governmental activity long-term liabilities	$ 19,795,510	$ 1,989,151	$ (3,499,791)	$ 18,284,870	$ 2,316,549
Business-type activities:					
Bonds payable:					
General obligation bonds	$ 1,575,000	$ -	$ (775,000)	$ 800,000	$ 800,000
State revolving fund loan	15,428,000	5,000	(560,000)	14,873,000	578,000
State revolving fund planning and design loan	51,565	-	(51,565)	-	-
Premiums and deferred charges	1,910	-	(955)	955	955
Total bonds payable	17,056,475	5,000	(1,387,520)	15,673,955	1,378,955
Compensated absences	360,292	293,614	(287,799)	366,107	184,033
Other post-employment benefits liability	83,025	21,810	-	104,835	-
Closure/post-closure obligation	38,645	-	-	38,645	-
Business-type activity long-term liabilities	$ 17,538,437	$ 320,424	$ (1,675,319)	$ 16,183,542	$ 1,562,988

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 $47,678, 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, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$ 1,320	$ 1,080	$ (812)	$ 1,588	$ 1,406
Closure/post-closure obligation	2,494,809	63,765	-	2,558,574	-
Total liabilities	$ 2,496,129	$ 64,845	$ (812)	$ 2,560,162	$ 1,406

Activity for Muscatine Power & Water for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
State revolving fund loan	$ 274,000	$ -	$ (27,000)	$ 247,000
Note payable to bank	4,800,000	-	(885,000)	3,915,000
Post-employment health benefit provision	178,594	29,757	-	208,351
Total long-term debt	5,252,594	$ 29,757	$ (912,000)	4,370,351
Less current installments	912,000			943,000
Long-term debt, net of current portion	$ 4,340,594			$ 3,427,351

In December 2008, the communications utility acquired loans from three local banks to cover the digital transition project and other capital costs. The loan agreement allowed the communications utility to draw down a total amount of up to $4,800,000 through December 31, 2010, at an annual interest rate of 4.7%. Interest is to be paid semi-annually beginning July 1, 2009; principal repayment is to be paid annually beginning January 1, 2012. During the current year the communications utility made principal payment totaling $885,000. As of December 31, 2012, the total outstanding loan payable is $3,915.00.

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; the 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. The total outstanding loan payable at December 31, 2012 was $247,000.

At December 31, 2012, the bank loan and state revolving fund loan mature and bear interest as follows:

	Bank Loan		State Revolving Fund Loan		
Year Ending December 31	Prinicipal Amount	Interest	Prinicipal Amount	Interest	Servicing Fee
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	-	-	31,000	3,465	328
2018-2020	-	-	100,000	4,590	507
Totals	$ 3,915,000	$ 377,527	$ 247,000	$ 30,825	$ 2,878

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 $17,860,000 at December 31, 2012. The bonds and corresponding trust funds are not included on the balance sheet at December 31, 2012 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 2012 and water and communications utility net revenues are as follows:

	Water	Communications
Principal and interest paid	$ 35,511	$ 1,713,324
Net revenues	754,835	3,366,321

Annual future principal and interest payments are expected to require 5% and 59% of the water and communications utility net revenues, respectively.

NOTE 6. 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 $2,558,574 reported as landfill closure and post closure care liability at June 30, 2013, represents the cumulative amount reported to date based on the use of 69.09% of the estimated capacity of the current landfill property. The Agency will recognize the remaining estimated cost of closure and post closure care of $1,144,626 as the remaining estimated capacity is filled over the 17 remaining years.

These amounts are based on what it would cost to perform all closure and post closure care in 2013. 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 7. 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 5.78% of their annual covered salary and the City was required to contribute 8.67% of annual covered payroll. Contribution requirements are established by State statute. The City’s contributions to IPERS for the years ended June 30, 2013, 2012, and 2011 were $649,684, $596,712, and $507,528 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, 2013 was 26.12% of earnable compensation. Contribution requirements are established by State statute. The City's contributions to the Plan for the years ended June 30, 2013, 2012, and 2011 were $1,138,473, $1,029,441, and $778,181 respectively, which met the required minimum contribution for each year.

NOTE 8. DEFICIT FUND EQUITY

Two of the City's funds had fund balance deficits as of June 30, 2013. These funds and the amount of the deficits are as follows:

Fund	Deficit Amount
Non-major capital projects:	
Community development improvements	$ 14,219
Riverfront improvement projects	209,005

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

NOTE 9. 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, 2013, the City contributed $11,219, which was net of retiree premiums received of $159,741.

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	$ 102,814
Interest on net OPEB obligation	15,764
Adjustment to annual required contribution	(20,508)
Annual OPEB cost (expense)	98,070
Contributions and payments made	11,219
Increase in net OPEB obligation	86,851
Net OPEB obligation – July 1, 2012	315,254
Net OPEB obligation – June 30, 2013	$ 402,105

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, 2013 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, 2011	$ 155,310	62.17%	$ 156,003
June 30, 2012	164,574	3.23%	315,254
June 30, 2013	98,070	11.44%	402,105

Funded status and funding progress: As of July 1, 2012 the most recent valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $850,500 and the actuarial value of assets is zero resulting in an unfunded actuarial accrued liability (UAAL) of $850,500. The covered payroll (annual payroll of active employees covered by the plan) was $10,143,280 and the ratio of the UAAL to the covered payroll was 8.4 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 5 percent per year. 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 10. 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 $3,405,000 as of June 30, 2013.

NOTE 11. 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 $2,909,000 for 2013. 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 $201,160 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, 2013 and 2012 are summarized as follows:

Liabilities at July 1, 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
Claims and changes in estimates during fiscal year 2013	2,003,087
Claim payments	(2,014,809)
Liabilities at June 30, 2013	$ 201,160

NOTE 12. COMMITMENTS AND CONTINGENCIES

The City Attorney has reported that as of June 30, 2013, 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, 2013, is $4,789,512.

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 2014 is set at $102,880.

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, 2028. 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 committed to purchasing 522,000 tons of coal in 2012 on the spot market under ten different contracts with six different suppliers. In May 2012, 58,000 tons of 8800 BTU coal was sold simultaneously with a purchase of 54,000 tons of 8400 BTU coal that was delivered later in the year.

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 fee as compensation for lost traffic.

Shipment of coal from the interchange point to the utility's generating station is covered by one agreement that expired 12/31/2012 and another that begins January 1, 2013 and expires December 31, 2016. The contract rate in both agreements is adjusted quarterly. There is no annual minimum tonnage requirement in either agreement; however, in the second agreement, 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 fee as compensation for lost traffic.

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 sulfur dioxide (SO_2), nitrogen oxide (NO_x) and mercury emission allowance costs. If the contract is cancelled during the amendment period, the customer has agreed to reimburse the utility for any of the unrecovered environmental capital costs.

Muscatine Power & Water entered into a contract with a developer who constructed a new section of water main for water service to a new subdivision. The route of the developer's main coincided with the utility's expansion plan for water main and the utility agreed to reimburse the developer for the cost differential for increasing the eight-inch water main to a 16-inch water main to accommodate future development in the area. At December 31, 2012, the utility owed the developer $125,946 for the construction.

In 2012, Muscatine Power & Water entered into a loan agreement with First National Bank of Muscatine for a line of credit in an amount not to exceed $10,000,000. The terms of the loan require monthly interest payments on the outstanding principal at the Prime Rate as published in the *Wall Street Journal;* a quarterly fee of 3/8% on the unused amount is also due. The loan matures on January 15, 2014. No advances were drawn against the loan during 2012 and no amount were outstanding at December 321, 2012

NOTE 13. NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS

As of June 30, 2013, the GASB had issued several statements not yet implemented by the City. The City has not yet determined the impact of the statements not yet implemented. The statements which might impact the City are as follows:

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.

NOTE 14. RESTATEMENT

As a result of the adoption of GASB Statement No. 65, the beginning net position of the governmental activities, business type activities, water pollution control fund, transfer station fund, and refuse collection fund were restated. The effect on fiscal year 2012 is as follows:

	Governmental Activities
Net position June 30, 2012, as previously reported	$ 60,956,216
Bond issuance costs previously reported as assets	(148,003)
Net position June 30, 2012, as restated	$ 60,808,213

	Business Type Activities
Net position June 30, 2012, as previously reported	$ 72,560,898
Bond issuance costs previously reported as assets	(148,468)
Net position June 30, 2012, as restated	$ 72,412,430

	Water Pollution Control Fund
Net position June 30, 2012, as previously reported	$ 57,349,526
Bond issuance costs previously reported as assets	(142,555)
Net position June 30, 2012, as restated	$ 57,206,971

	Transfer Station Fund
Net position June 30, 2012, as previously reported	$ 3,438,609
Bond issuance costs previously reported as assets	(5,198)
Net position June 30, 2012, as restated	$ 3,433,411

	Refuse Collection Fund
Net position June 30, 2012, as previously reported	$ 993,368
Bond issuance costs previously reported as assets	(715)
Net position June 30, 2012, as restated	$ 992,653

Prior to adoption of GASB Statement No. 65, bond issuance costs were capitalized and amortized over the life of the debt. Amortization expense that was recognized during the year ended June 30, 2012 was $17,959 for Governmental Activities and $15,725 for Business Type Activities. The Business Type Activities amount consisted of $12,768 for the Water Pollution Control Fund, $2,599 for the Transfer Station Fund, and $358 for the Refuse Collection Fund.