

## 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, 2011. This narrative is intended to supplement the letter of transmittal and the financial statements and should provide the reader with contextual information that will advance our goal of full disclosure.

### Financial Highlights

- The assets of the City of Muscatine exceeded its liabilities at the close of the most recent fiscal year by \$130,795,547 (net assets). Of this amount, \$11,250,883 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$2,853,319 during the year. The most significant increase is in the Water Pollution Control Fund where net assets increased by \$3,988,790.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,500,771, a decrease of \$4,495,930 in comparison with the prior year. This overall decrease is primarily in the local option sales tax and capital projects funds. The accumulated local option fund balance decreased by \$2,314,101 with these funds used for a major sewer separation project. Capital project fund balances decreased by \$2,461,928 due to project costs funded from prior year bond proceeds as well as project costs which will be funded from the City's next general obligation bond issue scheduled for the spring of 2012. Of the ending balance, approximately 33% (\$2,453,145) was nonspendable, 54% (\$4,062,133) was restricted, 5% (\$382,877) was assigned, and 8% (\$602,616) 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 \$2,141,534, or 14.3% of total general fund expenditures.
- The City's total debt decreased by \$353,709 (1.1%) during the current fiscal year. During the year no new general obligation debt was issued and \$2,199,007 was retired. No new tax increment revenue bonds were issued and \$475,000 was retired. Sewer revenue loans outstanding increased by \$2,320,298 during the year.

### Overview of the Financial Statements

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

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

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

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

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

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

The government-wide financial statements can be found on pages 29-30 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 31-34 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 35-39 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 40 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 41-70.

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

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

## Government-wide Financial Analysis

As stated earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$130,795,547 at the close of the fiscal year ended June 30, 2011.

By far the largest portion of the City's net assets (87.5%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### CITY OF MUSCATINE'S NET ASSETS

	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 23,930,732	\$ 27,810,754	\$ 11,133,799	\$ 10,611,273	\$ 35,064,531	\$ 38,422,027
Capital assets	65,289,355	63,872,537	81,766,901	76,674,665	147,056,256	140,547,202
Total assets	89,220,087	91,683,291	92,900,700	87,285,938	182,120,787	178,969,229
Long-term liabilities outstanding	16,675,485	18,556,394	18,236,646	16,589,699	34,912,131	35,146,093
Other liabilities	14,185,041	13,586,793	2,228,068	2,294,115	16,413,109	15,880,908
Total liabilities	30,860,526	32,143,187	20,464,714	18,883,814	51,325,240	51,027,001
Net assets:						
Invested in capital assets, net of related debt	50,534,706	48,735,481	63,959,885	60,488,326	114,494,591	109,223,807
Restricted	4,914,742	2,899,555	135,331	413,321	5,050,073	3,312,876
Unrestricted	2,910,113	7,905,068	8,340,770	7,500,477	11,250,883	15,405,545
Total net assets	\$ 58,359,561	\$ 59,540,104	\$ 72,435,986	\$ 68,402,124	\$ 130,795,547	\$ 127,942,228

A portion of the City's net assets (3.9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$11,250,883) may be used to meet the City's ongoing obligation to citizens and creditors.

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

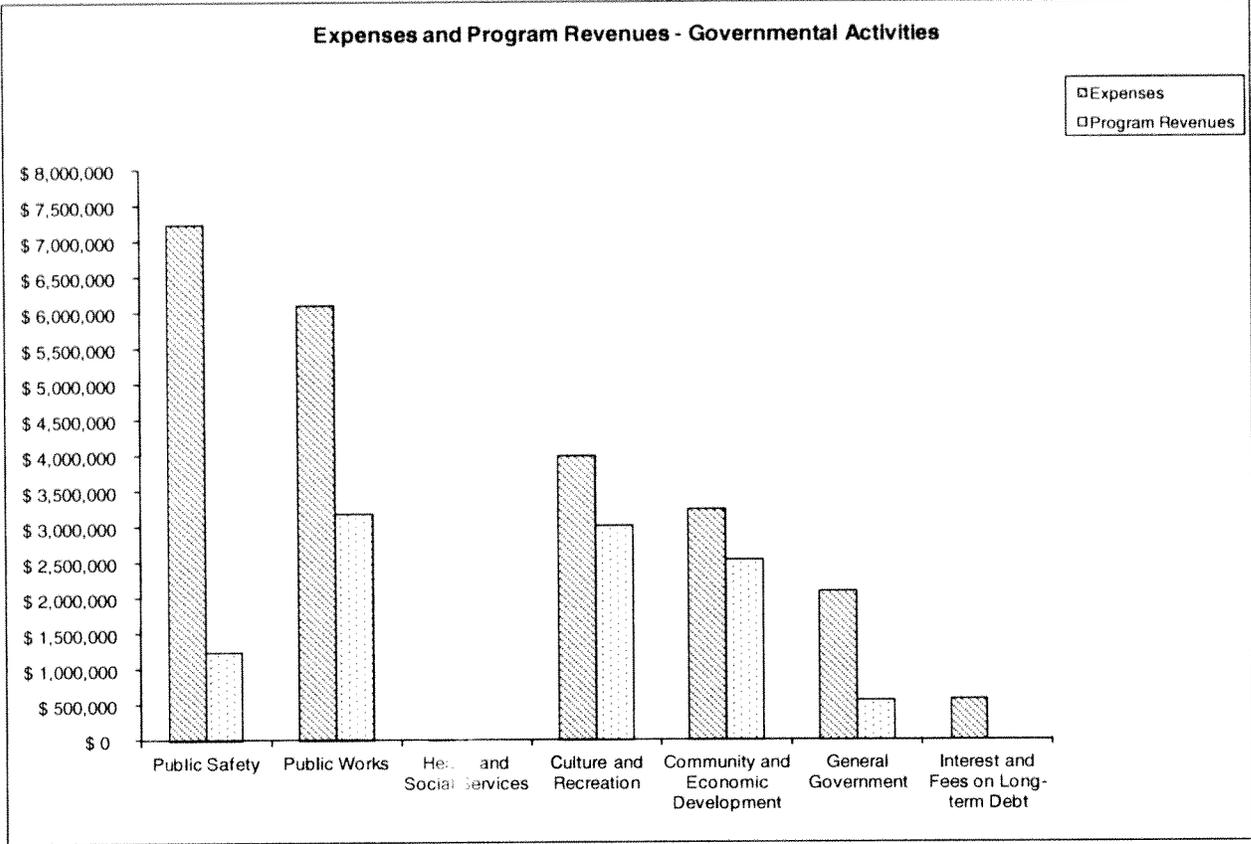
Net assets invested in capital assets net of related debt increased by \$5,270,784 during the year. Restricted net assets increased by \$1,737,197. Unrestricted net assets decreased by \$4,154,662 during the year primarily due to the use of local option sales tax funds to fund a major sewer improvement project.

## CITY OF MUSCATINE CHANGES IN NET ASSETS

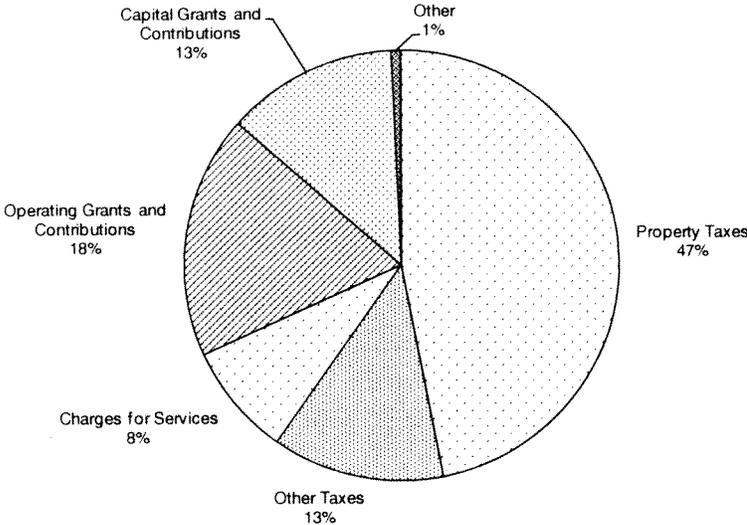
	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 2,247,562	\$ 2,006,122	\$ 11,518,470	\$ 11,209,973	\$ 13,766,032	\$ 13,216,095
Operating grants, contributions and restricted interest	4,861,170	5,211,201	924,856	961,896	5,786,026	6,173,097
Capital grants and contributions	3,398,652	1,726,091	349,116	919,232	3,747,768	2,645,323
General revenues:						
Property taxes	12,478,438	12,114,066	-	-	12,478,438	12,114,066
Utility taxes	52,274	63,449	-	-	52,274	63,449
Local option sales tax	2,533,919	2,471,108	-	-	2,533,919	2,471,108
Hotel/motel tax	363,664	302,273	-	-	363,664	302,273
Cable franchise tax	236,253	236,192	-	-	236,253	236,192
Utility franchise fees	227,680	-	-	-	227,680	-
Intergovernmental, not restricted to specific programs	154,551	151,270	-	-	154,551	151,270
Unrestricted investment earnings	22,297	45,999	24,232	43,652	46,529	89,651
Other	7,850	5,550	11,216	-	19,066	5,550
<b>Total revenues</b>	<b>26,584,310</b>	<b>24,333,321</b>	<b>12,827,890</b>	<b>13,134,753</b>	<b>39,412,200</b>	<b>37,468,074</b>
Expenses:						
Public safety	7,231,247	6,038,292	-	-	7,231,247	6,038,292
Public works	6,104,574	4,392,189	-	-	6,104,574	4,392,189
Health and social service	17,800	17,100	-	-	17,800	17,100
Culture and recreation	3,991,705	4,393,742	-	-	3,991,705	4,393,742
Community and economic development	3,232,025	2,918,941	-	-	3,232,025	2,918,941
General government	2,088,819	2,877,107	-	-	2,088,819	2,877,107
Interest and fees on long-term debt	570,313	439,305	-	-	570,313	439,305
Water pollution control	-	-	5,083,681	5,413,555	5,083,681	5,413,555
Transfer station	-	-	2,174,384	2,240,614	2,174,384	2,240,614
Refuse collection	-	-	1,827,138	1,798,493	1,827,138	1,798,493
Airport	-	-	566,129	709,883	566,129	709,883
Parking	-	-	247,292	228,674	247,292	228,674
Transit	-	-	1,016,663	1,028,876	1,016,663	1,028,876
Golf course	-	-	818,018	798,587	818,018	798,587
Boat harbor	-	-	29,041	31,605	29,041	31,605
Marina	-	-	12,802	19,451	12,802	19,451
Ambulance	-	-	426,829	390,308	426,829	390,308
Public housing	-	-	1,120,421	994,013	1,120,421	994,013
<b>Total expenses</b>	<b>23,236,483</b>	<b>21,076,676</b>	<b>13,322,398</b>	<b>13,654,059</b>	<b>36,558,881</b>	<b>34,730,735</b>
Increase (decrease) in net assets before transfers	3,347,827	3,256,645	(494,508)	(519,306)	2,853,319	2,737,339
Transfers in (out)	(4,528,370)	(4,340,227)	4,528,370	4,340,227	-	-
Increase (decrease) in net assets	(1,180,543)	(1,083,582)	4,033,862	3,820,921	2,853,319	2,737,339
Net assets, beginning of year	59,540,104	60,623,686	68,402,124	64,581,203	127,942,228	125,204,889
Net assets, end of year	\$ 58,359,561	\$ 59,540,104	\$ 72,435,986	\$ 68,402,124	\$ 130,795,547	\$ 127,942,228

**Governmental activities.** Governmental activities decreased the City's net assets by \$1,180,543. This overall decrease was in part due to the transfer of \$4,240,907 of local option sales tax funds to the Water Pollution Control enterprise fund for sewer extension and improvement projects. Key elements of the overall decrease are as follows:

- Revenues for governmental activities increased by \$2,250,989 or 9.3% from the previous year due primarily to increases in capital grants and contributions, charges for services, and the new utility franchise fee.
- Charges for services for governmental activities increased in total by \$241,440. Charges for services in the public safety function increased by \$191,093 with \$163,533 of this increase due to revenue from automatic traffic enforcement (ATE) fines and the balance due to increased court fines. The ATE cameras became operational in the spring of 2011. There were also increases in charges for services in the public works, culture and recreation, and general government functions. These increases more than offset the decrease in the community and economic development function which was due to a decrease in building-related permit fees during the year.
- Operating grants and contributions for governmental activities decreased by \$350,031 due primarily to decreases in FEMA reimbursements and police grants.
- Capital grants and contributions increased by \$1,672,561 from the previous year. This overall increase was primarily due to an art collection donated to the Muscatine Art Center (\$2,153,000). This increase was partially offset by reductions in fire grants and FEMA reimbursements.
- Property taxes increased by \$364,372 during the year or 3.0%.
- Local option sales tax increased by \$62,811 or 2.5% during the year.
- Hotel/motel taxes increased by \$61,391 or 20.3%.
- The City adopted a 2% utility franchise fee for the provider of natural gas in the community. This fee was effective July 1, 2010 with revenue for the year totaling \$227,680.
- Unrestricted investment earnings decreased by \$23,702 during the year due to the significant decrease in interest rates.
- Expenses for governmental activities increased by \$2,159,807 or 10.2% from the previous year. Of this increase, \$988,915 is due to the increase in the City payment to the Army Corps of Engineers for the local share of the Mad Creek Levee improvement project.
- Governmental expenses increased in the public safety (\$1,192,955), public works (\$1,712,385), and community and economic development (\$313,084) functions. Interest and fee expenses also increased by \$131,008. There were decreases in governmental expenses in the general government (\$788,288) and culture and recreation (\$402,037) functions.

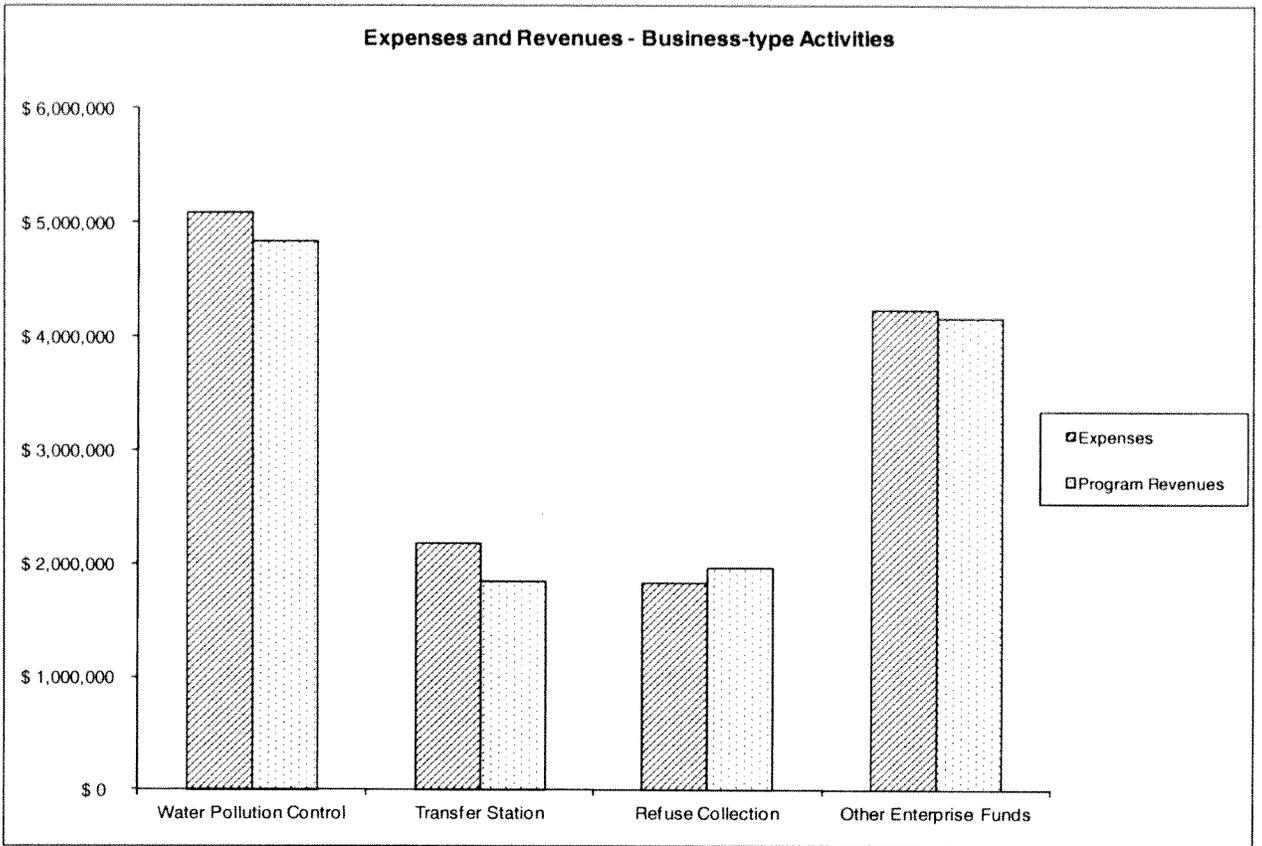


**Revenues By Source - Governmental Activities**

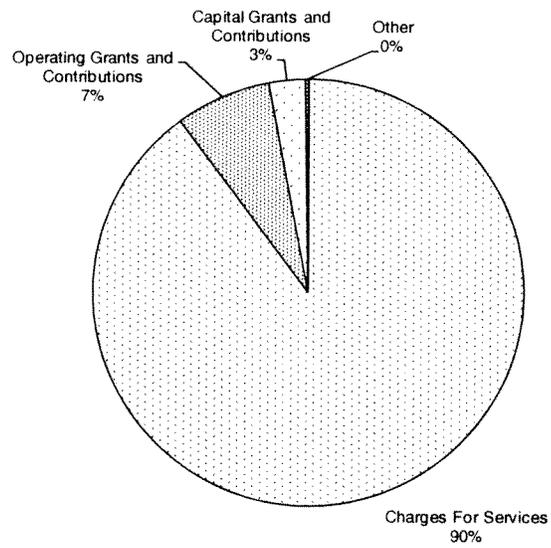


**Business-type activities.** Business-type activities increased the City's total net assets by \$4,033,862, accounting for 100% of the total increase in the City of Muscatine's net assets during the year. Increases in net assets were reported in the Water Pollution Control, Transfer Station, Marina, and Ambulance funds. Decreases in net assets were reported in the Refuse Collection, Airport, Parking, Transit, Golf Course, Boat Harbor, and Public Housing funds. Key elements of these changes are as follows:

- Net assets of the Water Pollution Control fund increased by \$3,988,790 during the year primarily due to capital asset additions. Transfers from the Local Option Sales Tax fund funded \$4,240,907 of sewer-related capital project costs.
- Net assets of the Transfer Station fund increased by \$596,684 during the year. This increase includes a \$200,000 transfer from the Refuse Collection fund to reduce the operating deficit in this fund. During the year there was also a \$738,266 transfer from the debt service fund to fund the Transfer Station debt requirements for the year.
- Net assets of the Refuse Collection fund decreased by \$67,783 primarily due to the \$200,000 one-time funding transfer to the Transfer Station fund.
- Revenues for the business-type activities decreased in total by \$306,863 (2.3%).
- Charges for services increased in total by \$308,497. Water Pollution Control Plant charges for services increased by \$121,257 and refuse collection charges increased by \$55,746 due to rate increases. Ambulance charges increased by \$322,344 due to increased ambulance runs. Transfer station charges decreased by \$15,660, golf fees and charges decreased by \$47,067 due to a rainy spring season, and public housing charges decreased by \$113,480 due to decreased rents and other tenant charges.
- Operating grants and contributions decreased by \$37,040. Public housing operating grants decreased by \$22,032 for the year. The prior year amount also included FEMA reimbursements for operating expenses related to the 2008 flood and windstorm.
- Capital grants and contributions decreased by \$570,116. The prior year capital grants included \$364,041 in FEMA funding compared to \$88,474 in the current year, a decrease of \$275,567. The prior year amount also included \$289,888 in transit capital grants with none received in the current year. Unrestricted interest earning decreased by \$19,420 due to the significant decrease in interest rates.
- Expenses for the business-type activities decreased \$331,661 (2.4%). Expenses decreased by \$329,874 in the Water Pollution Control fund, by \$66,230 in the Transfer Station fund, and by \$143,754 in the Airport fund. Expenses increased by \$126,408 in the public housing fund, by \$36,521 in the Ambulance fund, by \$18,618 in the Parking fund, and by \$19,431 in the golf course 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 \$7,500,771, a decrease of \$4,495,930 in comparison with the prior year. This decrease was primarily due to the \$2,461,928 decrease in fund balance in the capital projects funds and \$2,314,101 decrease in the local option sales tax fund. The capital projects fund balance decrease was due to the expenditure of prior year bond proceeds for project costs in the current year as well as preliminary project costs which will be funded from bond proceeds in the upcoming year. The decrease in the balance in the Local Option Sales Tax fund is due to funding transfers for sewer extension and improvement projects accounted for in the Water Pollution Control fund.

Of the combined \$7,500,771 governmental fund balances at year end 32.7% (\$2,453,145) is classified as nonspendable and includes prepaid items, advances to other funds, and permanent fund principal. A total of \$4,062,133 (54.2%) is classified as restricted by grantors, state or federal laws, or enabling legislation. Assigned fund balances total \$382,877 (5.1%) with these funds assigned for encumbrances, future equipment purchases, and risk management. The remaining \$602,616 is classified as unassigned (8.0%). By definition unassigned balances include all deficit balances. The capital projects funds had an unassigned fund balance deficit at year end of \$1,538,918. This deficit will be eliminated with the bond issue scheduled for the Spring of 2012.

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 \$2,141,534, while the total fund balance was \$2,540,048. The General Fund balance includes \$15,637 classified as nonspendable for prepayments. The assigned portion of the balance totals \$382,877 which includes \$174,079 for encumbrances, \$156,065 for future equipment purchases, and \$52,733 for risk management. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The unassigned and total general fund balances at the end of the fiscal year represent 14.3% and 17.0%, respectively, of total general fund expenditures. These percentages increased favorably from the prior year computation of unreserved and total fund balances of 11.7% and 12.7%, respectively. The City' of Muscatine's general fund balance increased by \$451,352 during the current fiscal year.

The Employee Benefits fund balance increased during the year by \$20,754. Taxes are levied in this fund for employee benefits for general fund employees. The increase in fund balance during the year is due to savings in employee benefits due to vacancies during the year.

The Local Option Sales Tax fund balance decreased during the fiscal year by \$2,314,101. Funds accumulated in prior years were used to fund sewer improvement costs accounted for in the Water Pollution Control fund.

The Debt Service Fund balance decreased \$117,603 due to the budgeted use of prior year excess bond proceeds since the general obligation bonds issued in 2010 were sold at a premium.

The fund balances in the Other Governmental Funds decreased in total by \$2,536,332. This was primarily due to capital project expenditures funded from the prior year general obligation bond issue as well as project costs that will be funded from the scheduled Spring 2012 bond issue.

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

Total net assets for the City's enterprise funds as of June 30, 2011 was \$72,359,324, an increase of \$3,957,200 from the previous fiscal year. Of the net assets of the enterprise funds, \$63,959,885 is invested in capital assets, net of related debt. Restricted net assets totaled \$135,331. Unrestricted net assets totaled \$8,264,108, an increase of \$763,631 compared to the previous year.

The City's internal service funds include Equipment Services, Central Supplies, Health Insurance, and Dental Insurance. Net assets for the internal service funds totaled \$1,731,527 as of June 30, 2011, an increase of \$151,438 from the previous year. This increase was primarily in the Health Insurance Fund.

### **General Fund Budgetary Highlights**

During the year there was a \$262,800 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 \$59,216 from the original to the amended budget. Following are the main components of the overall budget increases during the year:

- The \$109,900 increase in the public safety function budget included \$27,100 in the police department, \$65,700 in the fire department, and \$17,100 for emergency management. Budgeted grant funds in the Police department and the related appropriations increased by \$11,900 compared to the original budget. There were also increases in Police vehicle and equipment maintenance costs, training costs, and various other items which were partially offset by savings in personnel costs due to position vacancies during the year. The increase in the fire department budget was primarily due to increased equipment repair costs and increased overtime with the overtime increase directly related to the increase in the number of ambulance runs during the year. The emergency management increase was due to repair costs for the emergency sirens located throughout the community.
- The culture and recreation function decreased in total by \$25,800. This overall decrease includes a reduction of \$43,700 in the various Parks department budgets due primarily to personnel restructuring and transferring responsibility for the riverfront dredging to the Water Pollution Control fund. The Art Center budget was increased a total of \$24,400. Of this increase \$14,400 was funded from a State Cultural Affairs grant with the balance funded by the Art Center Support Foundation and Friends of the Art Center organizations.
- The community and economic development function appropriation was increased by \$34,900 for the year due to increases in the Community Development budget. Amendments included \$27,000 in increased funding for contracted nuisance abatement costs and costs related to personnel changes in the department.
- Public works department expenditures were amended in total by \$104,600. The Roadway Maintenance budget was increased by \$47,000 for increased equipment repair costs and increased costs for asphalt. The Snow and Ice Control budget was amended by \$57,500 for increased

equipment repair costs and increased contracted downtown snow removal costs. The budgeted increase in the public works activities was funded from increased transfers from the Road Use Tax fund.

- The amended budget included a \$34,000 increase in the general government function expenditures. The Legal Services budget increased by \$9,500 with a change in the contracted City Attorney. The Human Resources budget increased by \$32,300 due to legal services primarily for negotiating the City’s three bargaining unit contracts. Decreases in other activities partially offset these increases.

### 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, 2011, amounts to \$147,066,256 (net of accumulated depreciation). This investment in capital assets includes land, buildings and building improvements, machinery and equipment, park facilities, streets, and bridges. The City of Muscatine’s investment in capital assets for the current fiscal year increased by \$1,416,818 for governmental activities compared to the prior year and increased by \$5,092,236 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 \$12,624,196.
- Major asset additions included \$1,552,318 for street improvements; \$2,763,905 for the Water Pollution Control Plant Comprehensive Facilities Improvement project; \$4,381,103 in sewer system improvements; \$131,036 for the Children’s Education addition to the office building at the City’s Sunset Park public housing facility; \$372,137 for the new Southend Fire Station; \$193,058 for the bulkhead improvements for Pearl City Station; and a bequest to the Muscatine Art Center of artwork with a fair value of \$2,153,000.
- Depreciation expense totaled \$6,442,302 for the year with \$3,195,077 in the governmental activities and \$3,247,225 in the business-type activities.

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

	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
Land, art work and construction in progress, not being depreciated	\$ 17,642,829	\$ 14,980,720	\$ 26,227,553	\$ 21,738,787	\$ 43,870,382	\$ 36,719,507
Other capital assets net of accumulated depreciation	47,646,526	48,891,817	55,539,348	54,935,878	103,185,874	103,827,695
Total capital assets	\$ 65,289,355	\$ 63,872,537	\$ 81,766,901	\$ 76,674,665	\$ 147,056,256	\$ 140,547,202

Additional information on the City of Muscatine’s capital assets can be found in note 6 on pages 55-57 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$33,090,163. Of this amount, \$16,150,803 is debt backed by the full faith and credit of the City. Of this amount \$2,197,656 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 \$13,953,147 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	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$ 13,953,147	\$ 15,452,533	\$ 2,197,656	\$ 2,897,277	\$ 16,150,803	\$ 18,349,810
Revenue bonds	1,330,000	1,805,000	15,609,360	13,289,062	16,939,360	15,094,062
Total	\$ 15,283,147	\$ 17,257,533	\$ 17,807,016	\$ 16,186,339	\$ 33,090,163	\$ 33,443,872

The City's total bonded debt decreased by \$353,709 during the year. The City did not issue any new general obligation bonds in 2010/2011, but issued \$2,845,298 in new sewer revenue debt. Debt retired included \$2,245,000 in general obligation bonds, \$475,000 of tax increment revenue bonds, and \$525,000 in sewer revenue bonds.

State statutes limit the amount of general obligation debt to 5% of the total actual valuation of property in the City of Muscatine. The current debt limit of the City of Muscatine is \$58,170,994. The amount of debt applicable to the debt limit totals \$17,555,000. The City's debt is significantly less than the maximum debt limit allowed.

The City was assigned an Aa2 rating from Moody's for the City's last general obligation debt issue in June of 2010. This rating was assigned using Moody's new rating scale.

Additional information on the City's long-term debt can be found in note 7 on pages 58-62 of this report.

**Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate for Muscatine County was 7.6% for calendar year 2010 compared to 8.1% the previous year. Separate unemployment figures are not maintained for the City of Muscatine.
- The City's taxable value increased by 1.6% for the 2010/2011 year and increased by 2.6% for the upcoming 2011/2012 fiscal year.
- The upcoming budget provides funding for capital improvement projects to continue. Local option sales tax funds will continue to be used to fund sanitary and storm sewer projects in the City (80%) and also ongoing costs of the City's pavement management program (20%).
- In 2011/2012 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. Local option sales tax funds will fund a significant portion of the cost of these projects. Construction on the second and final phase of the Hershey Avenue sewer improvement project is underway and is scheduled to be completed in the fall of 2011. This was a major project mandated by the Consent Order. The remaining project in the Consent Order will be the separation of the combined sewer in the West Hill area. This will be a lengthy project with a significant cost. Design work is underway for this project and construction on the first phase of this project is scheduled to begin in the spring of 2012.
- Construction is nearly completed on the comprehensive facilities improvements project at the Water Pollution Control Plant. These improvements will total approximately \$18.5 million and are scheduled to be completed in the fall of 2011.
- The 2011/2012 budget provides for increases in sewer, refuse collection, and airport fees. No fee increases are budgeted for the transfer station, golf course, parking, boat harbor, 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.