CITY OF MUSCATINE, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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:

CITY OF MUSCATINE, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

Discretely Presented Component Units

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

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

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

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

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

Joint Venture

The City is a member organization along with Muscatine County and Muscatine Power and Water in a joint venture organized under Chapter 28E of the Iowa Code to develop and operate the Muscatine Area Geographic Information Consortium (MAGIC). The purpose of MAGIC is to improve the efficiency and effectiveness of its member organizations through the coordinated development of geographic and land information systems technology and data. A six-member board composed of two appointees from each member organization governs MAGIC. Each member organization has one vote on all matters. Each member organization is responsible for one-third of the operating expenses incurred by MAGIC. In the event MAGIC is terminated, the material benefits realized from the liquidation of any and all of its assets shall be divided among the participating organizations on a pro rata basis after any and all claims against MAGIC have been satisfied. The intent of the organization is not to accumulate excess funds and based upon the balance at year end the future contributions are adjusted accordingly. In accordance with the Governmental Accounting Standards Board's *Codification*, a claim to assets upon the joint venture's dissolution is not considered to be an equity interest. Therefore no investment in the joint venture is reported on the face of the financial statements of the City. There are no separately issued financial statements for this joint venture.

Jointly Governed Organizations

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

B. Government-wide and fund financial statements

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

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

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

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

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

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

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, other then agency funds. Agency funds use the full accrual basis of accounting but do not have a measurement focus and therefore report only assets and liabilities. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period and all other revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The City has determined that there are various revenues, except for property tax revenues, including reimbursement of expenditures that are received between 60 and 90 days and therefore have adopted a 90 day availability period in order to keep the revenues and expenditures in the same current period. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year-end. Sales taxes are considered measurable and available at the time the underlying transaction occurs provided they are collected within 90 days after year-end. Income and other taxes are considered measurable and available when they have been collected by the state or other levying authority. Special assessments receivable are recognized at the time of their levy. The related revenue is recognized at the time the assessment is due or collected. Licenses and permits, fines and forfeitures and miscellaneous revenue are recognized as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recognized as earned.

The government reports the following major governmental funds:

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

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

The *local option sales tax fund* accounts for revenue from the 1% local option tax. Effective July 1, 2009, voters approved using up to 20% of future local option tax for the City's pavement management program with the remaining funds to be used for storm and sanitary sewer improvements.

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

The government reports the following major proprietary funds:

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

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

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

Additionally, the government reports the following fund types:

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Equity

1. Deposits and Investments

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

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

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

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

2. **Receivables and Payables**

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance nonspendable account 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, 2011, were certified with the County during the preceding fiscal year and were due in two equal installments by September 30, 2010 and March 31, 2011. Any County collections on the 2010-2011 tax levy remitted to the City within sixty days subsequent to June 30, 2011, 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, 2011, are delinquent and have been recorded as receivables and deferred revenue in the governmental fund statements. By statute, the city is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax askings and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied in both the governmental fund statements and the government-wide statements.

3. **Inventories and Prepaid Items**

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

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

4. **Restricted Assets**

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

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

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

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

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets and in the proprietary funds statement of net assets. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of assets constructed. Capitalized interest was $442,746 in the Water Pollution Control fund.

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

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

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

6. Compensated Absences

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

7. Intangible Asset

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

8. Long-Term Obligations

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

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

9. Fund Equity

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

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

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

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

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

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

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

10. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent bond proceeds. As of June 30, 2011, there were unspent bond proceeds totaling

$528,498 in the non-major Capital Projects funds. Net assets are reported as restricted when there are limitations imposed on their use through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Net assets restricted through enabling legislation consists of $1,246,865 for public works, $148,204 for employee benefits, $7,174 for public safety, and $1,228,295 for tax increment financing projects.

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

NOTE 2. BUDGETS

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

After the initial annual budget is adopted, it may be amended for specified purposes. Budget amendments must be prepared and adopted in the same manner as the original budget. Management is not authorized to amend the budget or to make budgetary transfers between functions without the approval of the City Council. For the year ended June 30, 2011, the budget was amended twice which increased expenditures in total by $490,081. The overall increase includes changes in capital project construction schedules as well as increases and decreased in various operating budgets during the year.

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

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

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

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

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

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

Actual expenditures for the year did not exceed the budgeted amounts in any of the functional areas.

NOTE 3. DEPOSITS AND INVESTMENTS

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

As of June 30, 2011, the deposits and investments of the City consist of the following:

Petty cash and undeposited cash	$ 43,717
Cash in bank	234,433
Savings accounts	41,424
Money market accounts	13,644,517
Iowa Public Agency Investment Trust	1,364,132
Certificates of deposit	1,352,000
	$ 16,680,223

As of June 30, 2011 the carrying amount of the City's deposits with financial institutions totaled $15,272,374 and the bank balances were $15,315,459. These bank balances were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City invests in the Diversified portfolio of the Iowa Public Agency Investment Trust (IPAIT). IPAIT was created pursuant to Iowa Code Chapter 28E in 1987 to enable eligible Iowa public agencies to safely and effectively invest their available operating and reserve funds. The Diversified portfolio has followed established money market mutual fund investment parameters designed to maintain a $1 per unit net asset value since inception and was registered with the Securities and Exchange Commission (SEC) in accordance with 17 C.F.R. Section 270.2a-7 in May 1993. The Diversified Fund was among the first local government investment pools in the country to do so and has been formally regulated by the SEC since that time. The City has investments in IPAIT which were valued at an amortized cost of $1,364,132 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. The City's deposits are 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, 2010 MP&W's deposits and investments consist primarily of U.S. Treasury obligations, federal agency obligations, and certificates of deposit as follows:

	Fair Value
Cash	$ 22,860,756
U.S. government securities	21,309,650
	$ 44,170,406

As of December 31, 2010 the carrying amount of MP&W's deposits with financial institutions totaled $22,858,121, and the bank balances were $22,908,662. These bank balances were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

Credit Risk

As of December 31, 2010, Muscatine Power & Water's investments were rated as follows:

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

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

Concentration of Credit Risk

At December 31, 2010, Muscatine Power & Water investments held with issuers, each totaling more than 5 percent of the total portfolio, were concentrated as follows:

Issuer	*% of Portfolio*
Federal Home Loan Bank	53.1%
Federal Home Loan Mortgage Corp.	5.8%
U.S. Treasury Bills	37.3%

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

Interest Rate Risk

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. At December 31, 2010, Muscatine Power & Water's investments were as follows:

Investment Type	*Maturity In Years*			
	Fair Value	Less than 1 Year	1-5 Years	Greater than 5 Years
U.S. agencies	$ 8,399,050	$ 7,118,204	$ 41,396	$ 1,239,450
U.S. Treasuries	4,998,600	4,998,600	-	-
Totals	$ 13,397,650	$ 12,116,804	$ 41,396	$ 1,239,450

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

NOTE 4. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances at June 30, 2011 consist of the following:

Due to/Advance from	Due from/advance to: Nonmajor Governmental	Transfer Station	Refuse Collection	Nonmajor Enterprise	Internal Service	Fiduciary	Totals
Nonmajor governmental	$ 581,158	$ -	$ -	$ -	$ -	$ -	$ 581,158
Local option sales tax	896,750	-	-	-	-	-	896,750
Water pollution control	-	630,314	11,448	27,049	-	-	668,811
Nonmajor enterprise	-	-	-	7,247	-	-	7,247
Internal service	-	-	-	-	1,597	-	1,597
Fiduciary	-	-	-	-	-	56,319	56,319
Total	$ 1,477,908	$ 630,314	$ 11,448	$ 34,296	$ 1,597	$ 56,319	$ 2,211,882

The $630,314 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 $2,057,149 as of June 30, 2011. 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 238,000 tons of waste or 6.5 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	Refuse Collection	Nonmajor Enterprise	Internal Service	Totals
General	$ 59,282	$ 2,791,008	$ -	$ -	$ 2,001,093	$ -	$ 697,819	$ 50,516	$ 5,599,718
Debt service	-	-	-	-	91,225	-	-	-	91,225
Nonmajor governmental	50,019	-	512,383	-	331,742	-	-	-	894,144
Water pollution control	-	-	4,240,907	-	6,550	-	-	-	4,247,457
Transfer station	-	-	-	738,266	-	200,000	-	-	938,266
Nonmajor enterprise	240,466	-	-	-	-	-	-	-	240,466
Total	$ 349,767	$ 2,791,008	$ 4,753,290	$ 738,266	$ 2,430,610	$ 200,000	$ 697,819	$ 50,516	$ 12,011,276

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 5. RESTRICTED ASSETS

Transfer Station assets of $38,645 at June 30, 2011 are classified as restricted because their use is restricted to provide for Transfer Station closure costs.

Water Pollution Control assets of $96,686 at June 30, 2011 are classified as restricted because their use is restricted under the State Revolving Fund loan.

Solid Waste Agency assets of $1,157,143, at June 30, 2011 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, 2010 was as follows:

Current accounts:	
Bond sinking fund	$ 13,296,013
Debt service reserve	7,500,767
Extraordinary operation and maintenance account	17,211,405
Communications loan sinking fund	28,019
Total restricted assets	$ 38,036,204

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 is as follows:

Primary government

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	$ 8,966,900	$ 95,031	$ -	$ -	$ 9,061,931
Art work	5,309,776	2,153,000	-	-	7,462,776
Construction in progress	704,044	414,078	-	-	1,118,122
Total capital assets, not being depreciated	14,980,718	2,662,109	-	-	17,642,829
Capital assets, being depreciated:					
Land improvements	16,659,382	801,234	-	-	17,460,616
Buildings	7,739,520	-	-	-	7,739,520
Building improvements	2,069,707	-	-	-	2,069,707
Equipment	4,984,462	112,295	(138,239)	21,453	4,979,971
Vehicles	4,385,635	155,788	(76,000)	-	4,465,423
Other Assets	-	22,968	-	-	22,968
Infastructure	57,016,098	861,431	-	-	57,877,529
Total capital assets, being depreciated	92,854,804	1,953,716	(214,239)	21,453	94,615,734
Less accumulated depreciation for:					
Land improvements	(7,229,710)	(719,045)	-	-	(7,948,755)
Buildings	(4,684,926)	(177,663)	-	-	(4,862,589)
Building improvements	(635,245)	(117,810)	-	-	(753,055)
Equipment	(3,030,729)	(305,876)	134,307	(21,453)	(3,223,751)
Vehicles	(3,237,043)	(242,690)	76,000	-	(3,403,733)
Other Assets	-	(2,297)	-	-	(2,297)
Infastructure	(25,145,332)	(1,629,696)	-	-	(26,775,028)
Total accumulated depreciation	(43,962,985)	(3,195,077)	210,307	(21,453)	(46,969,208)
Total capital assets, being depreciated, net	48,891,819	(1,241,361)	(3,932)	-	47,646,526
Governmental activities capital assets, net	$ 63,872,537	$ 1,420,748	$ (3,932)	$ -	$ 65,289,355

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital assets, not being depreciated:				
Land	$ 2,823,145	$ 350	$ -	$ 2,823,495
Construction in progress	18,915,642	4,493,490	(5,074)	23,404,058
Total capital assets, not being depreciated	21,738,787	4,493,840	(5,074)	26,227,553
Capital assets, being depreciated:				
Land improvements	12,644,742	153,876	(7,000)	12,791,618
Buildings	46,194,045	136,110	-	46,330,155
Building improvements	3,384,433	109,190	(7,429)	3,486,194
Equipment	5,460,547	323,950	(97,577)	5,665,467
Vehicles	3,529,668	81,413	(12,397)	3,598,684
Sewer system	36,447,382	3,053,709	-	39,501,091
Total capital assets, being depreciated	107,660,817	3,858,248	(124,403)	111,373,209
Less accumulated depreciation for:				
Land improvements	(9,148,936)	(560,230)	7,000	(9,702,166)
Buildings	(26,154,798)	(1,100,455)	-	(27,255,253)
Building improvements	(1,843,020)	(175,113)	743	(2,017,390)
Equipment	(2,625,946)	(348,316)	96,710	(2,856,099)
Vehicles	(1,884,261)	(303,626)	12,397	(2,175,490)
Sewer system	(11,067,978)	(759,485)	-	(11,827,463)
Total accumulated depreciation	(52,724,939)	(3,247,225)	116,850	(55,833,861)
Total capital assets, being depreciated, net	54,935,878	611,023	(7,553)	55,539,348
Business type activities capital assets, net	$ 76,674,665	$ 5,104,863	$ (12,627)	$ 81,766,901

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

Governmental activities:	
Public safety	$ 347,295
Public works	1,771,082
Culture and recreation	1,032,274
Community and economic development	3,907
General government	38,831
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	1,688
Total depreciation expense – governmental activities	$ 3,195,077
Business-type activities:	
Water pollution control	$ 1,837,478
Refuse collection	94,019
Transfer station	264,012
Airport	452,012
Parking	72,207
Transit	86,668
Golf course	91,781
Boat harbor	6,819
Ambulance	49,360
Public housing	292,869
Total depreciation expense – business-type activities	$ 3,247,225

Discretely presented component units

Activity for the Solid Waste Agency for the year ended June 30, 2011 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	(158,564)	(257,852)	-	(416,416)
Buildings	(14,460)	(933)	-	(15,393)
Equipment	(12,917)	(1,472)	-	(14,389)
Leachate collection system	(232,704)	(19,866)	-	(252,570)
Total accumulated depreciation	(418,645)	(280,123)	-	(698,768)
Total capital assets, being depreciated, net	2,140,408	(280,123)	-	1,860,285
Solid Waste Agency capital assets, net	$ 3,221,016	$ (280,123)	$ -	$ 2,940,893

Activity for Muscatine Power & Water for the year ended December 31, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land and land rights	$ 2,926,921	$ -	$ -	$ -	$ 2,926,921
Construction work in progress	343,820	2,842,017	(237,546)	(2,588,084)	360,207
Total capital assets, not being depreciated	3,270,741	2,842,017	(237,546)	(2,588,084)	3,287,128
Capital assets, being depreciated:					
Generation plant	327,558,492	(38,150)	(72,548)	499,626	327,947,420
Transmission and distribution plant	55,256,794	440,596	(88,784)	374,599	55,983,205
General plant	21,479,686	56,168	(407,578)	323,443	21,451,719
Source of supply	1,874,664	-	(23,757)	-	1,850,907
Pumping equipment	1,620,083	(537)	(80,091)	554,775	2,094,230
Purification equipment	1,052,164	-	(875)	-	1,051,289
Distribution system	15,959,962	48,511	(27,545)	367,978	16,348,906
Network operations plant	27,293,548	1,165,313	(1,219,199)	467,663	27,707,325
Total capital assets being depreciated	452,095,393	1,671,901	(1,920,377)	2,588,084	454,435,001
Less accumulated depreciation for:					
Generation plant	(223,873,066)	(10,622,868)	52,467	-	(234,443,467)
Transmission and distribution plant	(39,040,947)	(2,124,624)	53,199	-	(41,112,372)
General plant	(16,640,704)	(1,616,973)	427,044	-	(17,830,633)
Source of supply	(1,107,811)	(62,484)	27,197	-	(1,143,098)
Pumping equipment	(476,404)	(52,272)	91,780	-	(436,896)
Purification system	(720,294)	(28,080)	1,003	-	(747,371)
Distribution system	(4,902,414)	(350,726)	26,617	-	(5,226,523)
Network operations plant and general plant	(15,385,008)	(2,188,056)	1,180,361	-	(16,392,703)
Total accumulated depreciation	(302,146,648)	(17,046,083)	1,859,668	-	(317,333,063)
Total capital assets, being depreciated, net	149,948,745	(15,374,182)	(60,709)	2,588,084	137,101,938
Muscatine Power & Water capital assets, net	$ 153,219,486	$ (12,532,165)	$ (298,255)	$ -	$ 140,389,066
Muscatine Power & Water intangible asset	$ 2,319,410	$ -	$ (773,137)	$ -	$ 1,546,273

NOTE 7. LONG-TERM DEBT

General Obligation Bonds. The general obligation bonds outstanding as of June 30, 2011 total $16,150,803. These bonds bear interest at rates ranging from 2.00% to 4.00%. Portions of the general obligation bond issues have been used to acquire or expand the enterprise fund facilities. In some instances, revenue generated by the enterprise funds is used to pay the general obligation debt principal and interest. The liability for those bonds, which are expected to be paid by the enterprise funds, is included in those funds.

General obligation bonds as of June 30, 2011 consist of the following individual issues:

	Issue Date	Amount Issued	Interest Rates	Balance 6/30/2011		Governmental Activities	Business-Type Activities
General obligation bonds							
General corporate	6/1/2003	$ 1,780,000	2.75-3.00	$ 422,944	(1)	$ 422,944	$ -
General corporate	6/1/2006	2,990,000	3.80-4.00	1,752,227	(2)	1,752,227	-
General corporate	6/1/2008	5,120,000	3.00-3.50	4,391,859	(3)	4,391,859	-
General refunding	6/1/2008	6,560,000	3.00-3.25	2,197,656	(4)	-	2,197,656
General refunding	6/1/2010	7,425,000	2.00-3.125	7,386,117	(5)	7,386,117	-
				$ 16,150,803		$ 13,953,147	$ 2,197,656

1. Net of unamoritized discount of $2,056
2. Net of unamoritized discount of $7,773
3. Net of unamoritized premium of $1,859
4. Net of unamoritized premium/deferred charges of $127,344
5. Net of unamoritized premium of $61,117

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

Year Ending	Governmental		Business-Type	
June 30	Principal	Interest	Principal	Interest
2012	$ 1,277,086	$ 438,918	$ 707,553	$ 75,563
2013	1,461,992	399,106	732,552	51,188
2014	1,277,800	353,294	757,551	26,000
2015	1,897,493	314,056	-	-
2016	1,986,456	255,513		
2017-2020	6,052,320	443,677	-	-
	$ 13,953,147	$ 2,204,564	$ 2,197,656	$ 152,751

Tax Increment Revenue Bonds. The City issued $1,795,000 of tax increment revenue bonds in June 1997. The proceeds of these bonds were used to pay a portion of the cost of carrying out projects in the Downtown Urban Renewal Area. This issue was retired in June 2011. Repayment of these bonds was from the incremental taxes from the Downtown Tax Increment Fund. In April 2004 the City issued an additional $420,000 of tax increment revenue bonds for property acquisition in the Downtown Urban Renewal Area and in June 2004 $1,885,000 of tax increment bonds were issued to fund public improvements in the Southend Urban Renewal Area.

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 $1,734,451 payable through 2021. For the current year, principal and interest paid and total incremental tax revenues were $569,172 and $606,008, respectively.

Tax increment revenue bonds as of June 30, 2011 consist of the following issues:

	Issue Date	Amount Issued	Interest Rates	Balance June 30, 2011
Tax Increment Revenue Bonds:				
Urban Renewal Tax Increment	06/26/1997	$ 1,795,000	5.70-5.75%	$ -
Urban Renewal Tax Increment	04/23/2004	420,000	4.00-4.25%	85,000
Urban Renewal Tax Increment	06/24/2004	1,885,000	4.30-5.80%	1,245,000
				$ 1,330,000

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

Year Ending	Governmental	
June 30	Principal	Interest
2012	$ 190,000	$ 69,698
2013	105,000	61,308
2014	110,000	56,320
2015	115,000	50,930
2016	120,000	45,065
2017-2021	690,000	121,130
	$ 1,330,000	$ 404,451

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, 2011, $15,562,739 of loan funds had been drawn down to fund construction costs incurred through that date. The Loan has an interest rate of 3% and a loan servicing fee of .25% per annum of the principal amount of the loan outstanding. Repayment of this loan is to come from future revenues of the Plant.

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

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

Year Ending	Business-Type		
June 30	Principal	Interest	Fees
2012	$ 542,000	$ 479,250	$ 39,938
2013	560,000	462,990	38,583
2014	578,000	446,190	37,183
2015	597,000	428,850	35,738
2016	616,000	410,940	34,245
2017-2021	3,394,000	1,765,170	147,099
2022-2026	3,985,000	1,221,750	101,813
2027-2032	5,290,739	614,760	51,231
	$ 15,562,739	$ 5,829,900	$ 485,830

On April 15, 2010, the City entered into a State Revolving Fund (SRF) Planning and Design Loan in the amount of $108,000 for engineering design services for a sewer extension project in the northeast section of the City. As of June 30, 2011 the City had drawn down $46,621 of the loan amount. The principal of the Planning and Design Loan is payable three years from the project note date or May 5, 2013. If the City enters into an SRF construction loan for this project, the Planning and Design Loan repayment will be incorporated into the payment schedule for the permanent SRF financing for this project.

Long-term liability activity for the year ended June 30, 2011 was as follows:

Primary government

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 15,402,932	$ -	$ (1,502,932)	$ 13,900,000	$ 1,270,000
Tax increment revenue bonds	1,805,000	-	(475,000)	1,330,000	190,000
Less issuance discounts	49,601	-	3,546	53,147	7,086
Total bonds payable	17,257,533	-	(1,974,386)	15,283,147	1,467,086
Compensated absences	1,227,616	707,847	(658,132)	1,277,331	647,509
Other post-employment benefits liability	69,321	45,686	-	115,007	-
Governmental activity long-term liabilities	$ 18,554,470	$ 753,533	$ (2,632,518)	$ 16,675,485	$ 2,114,595
Business-type activities:					
Bonds payable:					
General obligation bonds	$ 3,067,068	$ -	$ (742,068)	$ 2,325,000	$ 750,000
State revolving fund loan	13,289,062	2,798,677	(525,000)	15,562,739	542,000
State revolving fund planning and design loan	-	46,621	-	46,621	-
Less issuance discounts-general obligation bonds	(169,791)	-	42,447	(127,344)	(42,447)
Total bonds payable	16,186,339	2,845,298	(1,224,621)	17,807,016	1,249,553
Compensated absences	348,262	262,470	(260,743)	349,989	185,454
Other post-employment benefits liability	26,004	14,992	-	40,996	-
Closure/post-closure obligation	29,095	9,550	-	38,645	-
Business-type activity long-term liabilities	$ 16,589,700	$ 3,132,310	$ (1,485,364)	$ 18,236,646	$ 1,435,007

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 $40,447, of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, compensated absences are generally liquidated by the general fund.

Discretely presented component units

Activity for the Solid Waste Agency for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$ 758	$ 1,029	$ (952)	$ 835	$ 706
Closure/post-closure obligation	2,590,026	-	(193,382)	2,396,644	-
Total liabilities	$ 2,590,784	$ 1,029	$ (194,334)	$ 2,397,479	$ 706

Activity for Muscatine Power & Water for the year ended December 31, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Series 2001 revenue bonds	$ 37,785,000	$ -	$ (11,930,000.0)	$ 25,855,000
Unamortized portion of deferred loss on refundings	(213,378)	-	141,008	(72,370)
Unamortized portion of revenue bond premiums	230,225	-	(156,554)	73,671
State revolving fund loan	7,407	257,689	-	265,096
Note payable to bank	888,000	3,912,000	-	4,800,000
Post-employment health benefit provision	-	150,721	-	150,721
Total long-term debt	38,697,254	$ 4,320,410	$ (11,945,546)	31,072,118
Less current installments	11,930,000			12,617,000
Long-term debt, net of current portion	$ 26,767,254			$ 18,455,118

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

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

At December 31, 2010, the revenue bonds and bank loan mature and bear interest as follows:

Maturity Date	Series 2001 Principal Amount	Series 2001 Interest	Bank Loan Principal Amount	Bank Loan Interest
January 1,				
2011	$ 12,585,000	$ 1,075,938	$ -	$ 140,818
2012	13,270,000	364,925	885,000	204,803
2013	-	-	915,000	162,502
2014	-	-	960,000	118,440
2015	-	-	1,005,000	72,263
2016-2020	-	-	1,035,000	24,322
	$ 25,855,000	$ 1,440,863	$ 4,800,000	$ 723,148

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 $40,635,000 at December 31, 2010. The bonds and corresponding trust funds are not included on the balance sheet at December 31, 2010 as the outstanding bonds are considered defeased.

All electric utility revenues, net of specified operating expenses, are pledged as security of the electric debt until fully paid. Principal and interest paid in 2010 and electric utility net revenues are as follows:

Principal and interest paid	$13,680,100
Net revenues	17,098,235

Annual future principal and interest payments are expected to require 80% of electric utility net revenues.

The bond resolutions contain certain covenants which among others, require the collection, segregation and distribution of utility plant revenue into various segregated funds, place certain restrictions on future borrowing and leasing or disposition of assets, require the maintenance of a minimum debt service coverage ratio and require that minimum insurance coverage be maintained.

NOTE 8. 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 $2,396,644 reported as landfill closure and post closure care liability at June 30, 2011, represents the cumulative amount reported to date based on the use of 65.45% of the estimated capacity of the current landfill property. The Agency will recognize the remaining estimated cost of closure and post closure care of $1,264,896 as the remaining estimated capacity is filled over the 19 remaining years.

These amounts are based on what it would cost to perform all closure and post closure care in 2011. 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 9. 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 4.5% of their annual covered salary and the City was required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were $507,528, $470,940, and $424,711 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, 2011 was 19.90% of earnable compensation. Contribution requirements are established by State statute. The City's contributions to the Plan for the years ended June 30, 2011, 2010 and 2009 were $778,181, $654,034, and $689,566, respectively, which met the required minimum contribution for each year.

International City Management Association

According to specific provisions of the State Code of Iowa, a police chief or a fire chief of a local participating government may request from the Police Retirement Board or Fire Retirement Board exemption from the retirement system. This exemption allows that such contributions of the City for their retirement may be made to the International City Management Association's (ICMA) retirement program. The amount is not to exceed an amount which would have been made under the provisions of Section 411 of the State Code of Iowa. The former police chief of the City who retired in December of 2010 took this option. Therefore, during the year the City contributed a total of $4,773 to this retirement program for the former police chief. The City's contribution rate was comparable to the FICA and IPERS rates for other City employees.

NOTE 10. DEFICIT FUND EQUITY

Two of the City's funds had fund balance deficits as of June 30, 2011. These funds and the amount of the deficits are as follows:

Fund	Deficit Amount
Non-major capital projects:	
Other street improvements	$ 852,082
Riverfront improvement projects	507,927

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

NOTE 11. 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, 2011, the City contributed $96,556, which was net of retiree premiums received of $148,473.

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 on the City's net OPEB obligation to the postemployment health plan:

Annual Required Contribution	$	156,774
Interest on net OPEB obligation		4,862
Adjustment to annual required contribution		(6,326)
Annual OPEB cost (expense)		155,310
Contributions and payments made		96,556
Increase in net OPEB obligation		58,754
Net OPEB obligation – July 1, 2010		97,249
Net OPEB obligation – June 30, 2011	$	156,003

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, 2011 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, 2009	$ 160,595	85.7%	$ 22,914
June 30, 2010	161,741	54.04%	97,249
June 30, 2011	155,310	62.17%	156,003

Funded status and funding progress: As of July 1, 2010 the most recent valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $1,302,300 and the actuarial value of assets is zero resulting in an unfunded actuarial accrued liability (UAAL) of $1,302,300. The covered payroll (annual payroll of active employees covered by the plan) was $9,966,290 and the ratio of the UAAL to the covered payroll was 13 percent.

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

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

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

NOTE 12. 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 $3,625,000 as of June 30, 2011.

NOTE 13. RISK MANAGEMENT

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

The City has established a Health Insurance Fund for insuring benefits provided to City employees and covered dependents which is included in the Internal Service Funds. Health benefits were self-insured up to a specific stop loss amount of $75,000, and an aggregate stop loss of approximately $2,808,000 for 2011. 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 $257,858 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, 2011 and 2010 are summarized as follows:

Liabilities at July 1, 2009	$ 120,061
Claims and changes in estimates during fiscal year 2010	1,819,250
Claim payments	(1,791,700)
Liabilities at June 30, 2010	$ 147,611
Claims and changes in estimates during fiscal year 2011	2,055,789
Claim payments	(1,945,542)
Liabilities at June 30, 2011	$ 257,858

NOTE 14. COMMITMENTS AND CONTINGENCIES

The City Attorney has reported that as of June 30, 2011, 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, 2011, is $5,302,042.

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 2012 is set at $76,300.

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 in the Hershey Avenue combined sewer area by December 31, 2011, and separation of the remaining combined portions of the sewer system including the West Hill area by December 31, 2024. Preliminary cost estimates for the projects could reach or exceed $40 million. Estimates will be re-evaluated as planning progresses. It is anticipated that the majority of the cost of these projects will be funded by the proceeds from the 1% local option sales tax.

Muscatine Power & Water has a two year coal supply contract for a total contract annual minimum of 350,000 tons of coal through the year 2011 with a fixed annual price.

The utility has rail transportation agreements with two separate companies for the delivery of coal through December 31, 2014 and December 31, 2012. 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 2010 through 2014 where the rate is firm for the first three years and adjusted quarterly for years 2013 and 2014 plus monthly fuel surcharges. The utility's minimum requirement is 100% of the tons shipped, up to the annual tonnage nomination, from the PRB. In the event the utility does not meet their minimum requirement, the utility has agreed to pay a per ton penalty for the shortfall.

The other rail agreement covers the shipment of coal from the interchange to the utility's electric generating station by the local delivery carrier. The contract rate is determined by the interchange that the train travels through, and is adjusted quarterly. There is no annual minimum tonnage requirement.

The utility 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). As part of the contract, the utility made capital improvements of approximately $12 million, which are expected to be recovered in revenues from the customer under the terms of the agreement. If the customer elects to terminate the agreement before the end of the contract, the customer has agreed to reimburse the utility for any unrecovered capital improvements. The 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 S02, NOX and mercury emission allowance costs. If the contract is cancelled during the amendment period, the customer has agreed to reimburse the utility for any of the unrecovered environmental capital costs.

The utility has Board-approved open contracts for approximately $490,000. As of December 31, 2010, approximately $458,000 of this amount has been expended.

NOTE 15. ACCOUNTING CHANGE/RESTATEMENT

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was implemented during the year ended June 30, 2011. The effect of fund type reclassification is shown in the table below. The City's Equipment Replacement, Computer Replacement, Emergency Tax Levy, and Insurance fund were formerly accounted for as non-major special revenue funds. With the implementation of this statement, they are now included in the General fund.

	General	Other Governmental Funds
Fund balance June 30, 2010, as previously reported	$ 1,875,767	$ 6,034,783
Change in fund type classification per implementation of GASB Statement No. 54	212,929	(212,929)
Fund balance July 1, 2010, as restated	$ 2,088,696	$ 5,821,854

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

The City adopted the following statements during the year ended June 30, 2011:

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, issued March 2009. This Statement improves the usefulness of information provided to financial report users about fund balances by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. Fund balance information is among the most widely and frequently used information in state and local government financial reports. The GASB developed this standard to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting. To reduce confusion, the new standard establishes a hierarchy of fund balance classification based primarily on the extent to which a government is bound to observe spending constraints. The adoption of this statement had the effect as described in the Fund Equity section of Note 1 to the basic financial statements. The City also reclassified the fund balances for several governmental funds and restated the General Fund and Other Governmental fund balances by $212,929 as a result of the implementation of this Statement. These changes are described in Note 15.

GASB Statement No. 59, *Financial Instruments Omnibus*, issued June 2010. This Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. Specifically, this Statement provides financial reporting guidance by emphasizing the applicability of SEC requirements to certain external investment pools, addressing the applicability of GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, and applying the reporting provisions for interest-earning investment contracts of GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The adoption of this statement required additional disclosures for the City.

As of June 30, 2011, the GASB had issued several statements not yet implemented by the City. The statements which might impact the City are on the following page.

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

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

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

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

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

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

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

REQUIRED

SUPPLEMENTARY

INFORMATION