

Management's Discussion and Analysis

As management of the City of Muscatine, we present this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. This narrative is intended to supplement the letter of transmittal and the financial statements and should provide the reader with contextual information that will advance our goal of full disclosure.

Financial Highlights

- The assets of the City of Muscatine exceeded its liabilities at the close of the most recent fiscal year by \$133,517,114 (net assets). Of this amount, \$10,284,407 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$2,721,567 during the year. Most of this increase is in the governmental activities (\$2,596,655) with the balance (\$124,912) in the business-type activities.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$12,314,803, an increase of \$4,814,032 in comparison with the prior year. This overall increase is primarily in the general, local option sales tax and capital projects funds. The general fund balance increased by \$1,040,755 due to strong revenue collections as well as expenditures coming in under the budgeted amounts. The local option sales tax fund balance increased by \$1,201,161 with those funds to be used for the West Hill Sewer Separation project. Capital project fund balances increased by \$2,632,885 due to \$4,496,400 in proceeds from the June, 2012 bond issue which funded prior year, current year and future year street improvement projects, construction of a new southend fire station, and levee improvements. Of the ending balance, approximately 11% (\$1,319,935) was nonspendable, 62% (\$7,651,467) was restricted, 2% (\$256,263) was assigned, and 25% (\$3,087,138) was unassigned. Restricted, committed, assigned, and unassigned funds are available for spending within the statutory guidelines pertaining to each fund at the City's discretion.
- At the end of the current fiscal year, the City's unassigned fund balance for the general fund was \$3,319,319, or 21.2% of total general fund expenditures.
- The City's total debt increased by \$2,196,594 (6.6%) during the current fiscal year. During the year \$4,715,000 in new general obligation debt was issued and \$2,198,611 was retired. No new tax increment revenue bonds were issued and \$190,000 was retired. Sewer revenue loans outstanding decreased by \$129,795 during the year.

Overview of the Financial Statements

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

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

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

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

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

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

The government-wide financial statements can be found on pages 30-31 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. This information is useful in evaluating the City's near-term financing requirements and is typically the basis that is used for developing the next annual budget.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

The City has four major governmental funds: the General Fund, the Employee Benefits Fund, the Local Option Sales Tax Fund, and the Debt Service Fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and

changes in fund balances for these major funds. Data from all other non-major governmental funds are combined into a single aggregated presentation and are referenced under a single column as Other Governmental Funds. Individual fund data for each of the non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 32-35 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. They are the enterprise funds and the internal service funds. While both types of proprietary funds are run in a business-like manner, enterprise funds are included in business-type activities since they serve the entire community, while internal service funds are included in *governmental activities* since they predominantly benefit the City's governmental functions.

Enterprise funds are used to report the functions presented as business-type activities in the government-wide financial statements. The City has eleven (11) enterprise funds. Three of the enterprise funds, the Water Pollution Control Fund, Transfer Station Fund, and Refuse Collection Fund, are considered major funds and are reported individually throughout the report. The other eight (8) non-major enterprise funds are grouped together for reporting purposes and listed under a single heading, Other Enterprise Funds. Detail information for each of the eight (8) non-major enterprise funds is provided in combining statements elsewhere in this report.

Internal service funds are an accounting tool used to accumulate and allocate costs internally among the City's various functions. The City has four internal service funds: Equipment Services, Central Supplies, Health Insurance, and Dental Insurance. Individual fund data for the Internal Service Funds is provided in the form of combining statements in the latter section of this report.

The basic proprietary fund financial statements can be found on pages 36-40 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City has three fiduciary funds, all of which are maintained as agency funds, with no attempt to create ongoing fund balances.

The basic fiduciary funds financial statement can be found on page 41 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 42-70.

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

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

Government-wide Financial Analysis

As stated earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$133,517,114 at the close of the fiscal year ended June 30, 2012.

By far the largest portion of the City's net assets (85.7%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF MUSCATINE'S NET ASSETS

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

A portion of the City's net assets (6.6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$10,284,407) may be used to meet the City's ongoing obligation to citizens and creditors.

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

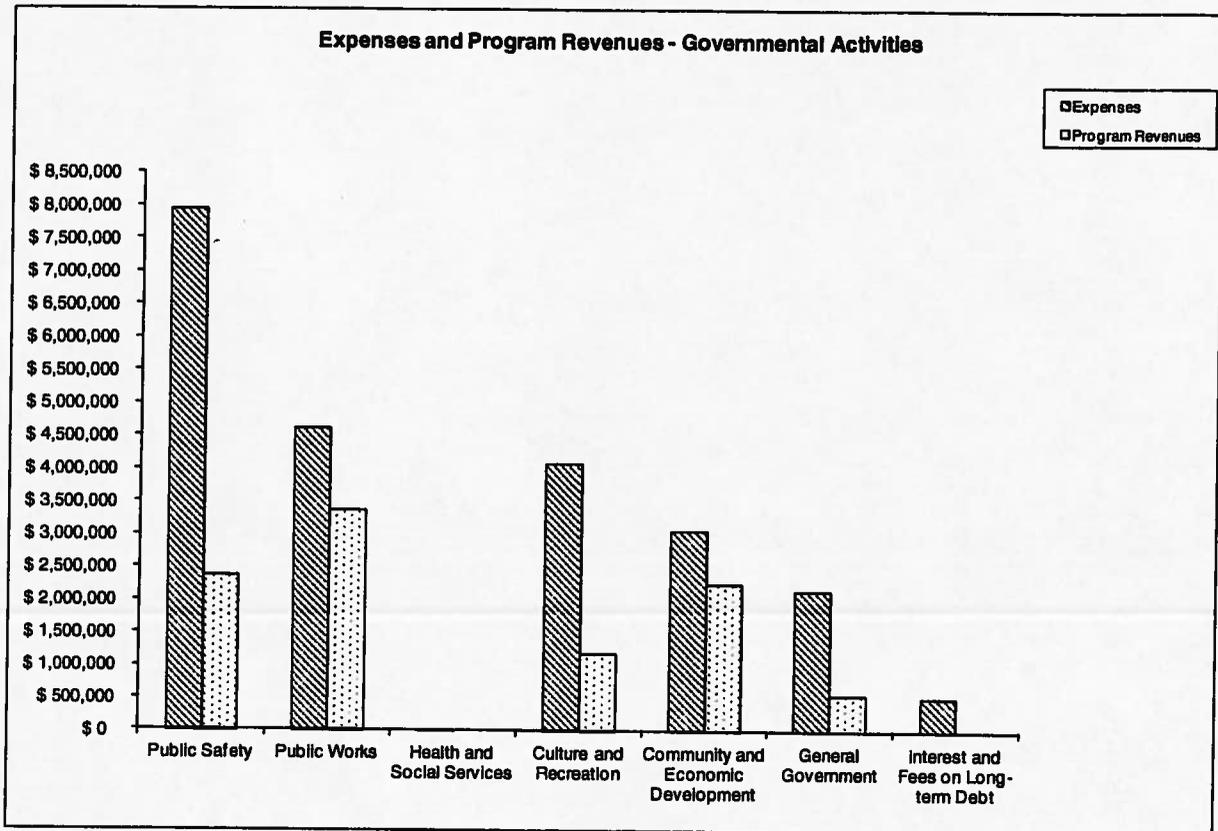
Net assets invested in capital assets net of related debt decreased by \$67,027 during the year. Restricted net assets increased by \$3,755,070. Unrestricted net assets decreased by \$966,476 during the year with \$424,529 of this reduction in the governmental activities and the remaining \$541,947 in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

CITY OF MUSCATINE CHANGES IN NET ASSETS

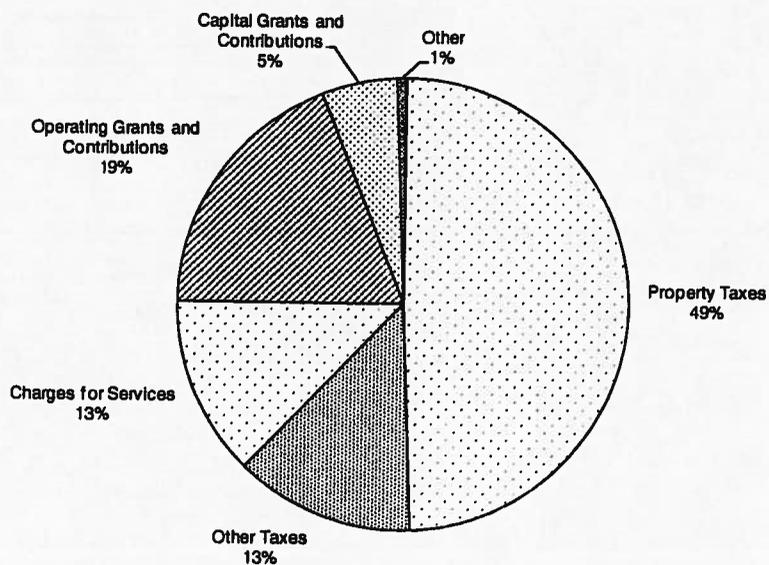
	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 3,366,985	\$ 2,247,562	\$ 12,060,724	\$ 11,518,470	\$ 15,427,709	\$ 13,766,032
Operating grants, contributions and restricted interest	4,915,000	4,861,170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

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

- Revenues for governmental activities decreased in total by \$518,652 or 2.0% from the previous year primarily due to the decrease of \$2,000,364 in capital grants and contributions. This decrease was partially offset by increases in charges for services, operating grants and contributions, and property taxes.
- Charges for services for governmental activities increased by \$1,119,423. Charges for services in the public safety function increased by \$699,551 with \$620,354 of this increase due to revenue from automatic traffic enforcement (ATE) fines and \$14,370 from increased court fines. The ATE cameras became operational in the spring of 2011 and 2011/2012 was the first full fiscal year of their operation. Charges for services in the public works function increased by \$372,477 and culture and recreation charges increased by \$66,903. These increases offset the decreases of \$3,657 in the community and economic development and \$15,851 in the general government functions.
- Operating grants and contributions for governmental activities increased by \$53,830 primarily due to an increase in police grants.
- Capital grants and contributions decreased by \$2,000,364 from the previous year. This overall decrease was primarily due to an art collection donated to the Muscatine Art Center (\$2,153,000) in the 2010/2011 year.
- Property taxes increased by \$382,568 during the year or 3.1%.
- Local option sales taxes increased by \$9,735 or .4% during the year.
- Hotel/motel taxes decreased by \$15,893 or 4.4%.
- Revenues from the 2% utility franchise fee on the provider of natural gas in the community decreased by \$57,455 or 25.2% due to the mild winter of 2011/2012.
- Unrestricted investment earnings decreased by \$6,120 or 27.5% during the year due to the continued low interest rates.
- Expenses for governmental activities decreased by \$911,783 or 3.9% from the previous year. Prior year expenses included a \$1,274,415 one-time payment to the Army Corps of Engineers for the City's share of the Mad Creek Levee improvement project.
- Governmental expenses increased in the public safety (\$702,425), culture and recreation (\$80,594), and general government (\$40,658) functions. There were decreases in the public works (\$1,501,105) and community and economic development (\$168,557) functions. Interest and fee expenses also decreased by \$65,798.

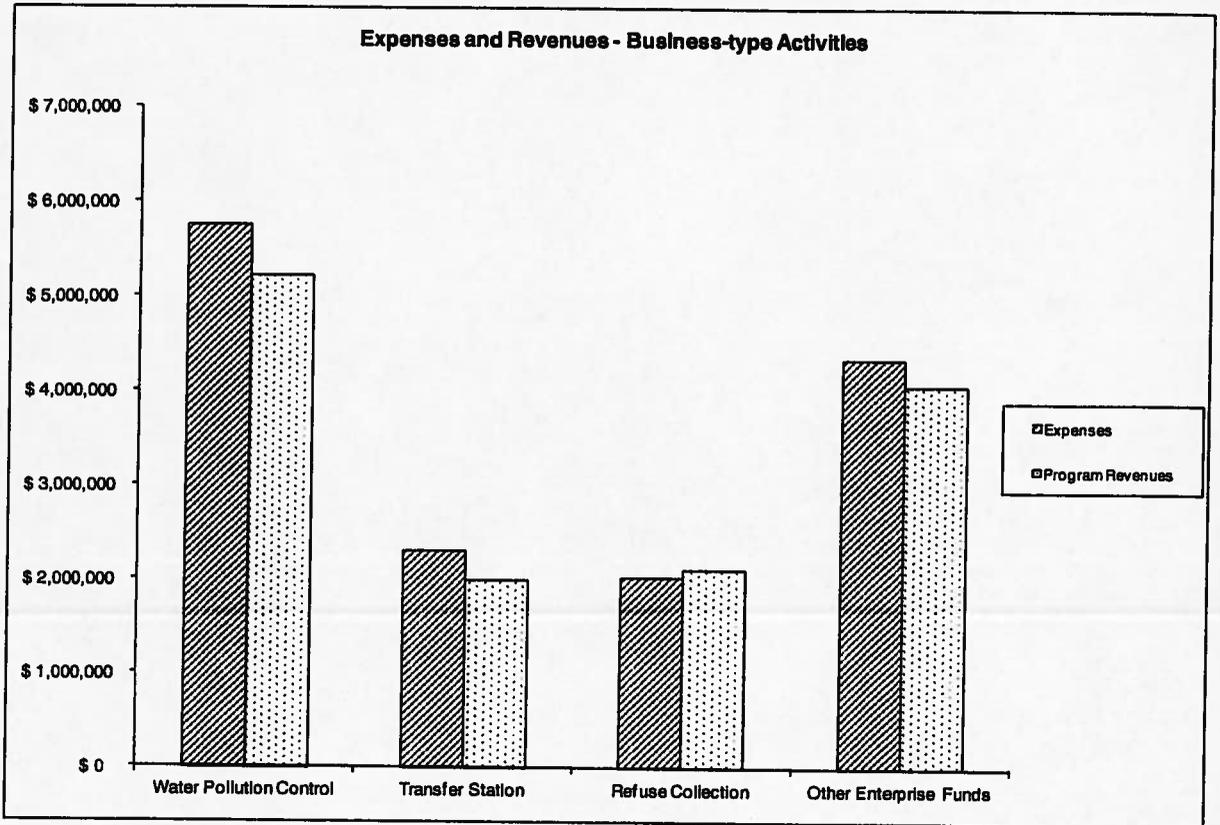


Revenues By Source - Governmental Activities

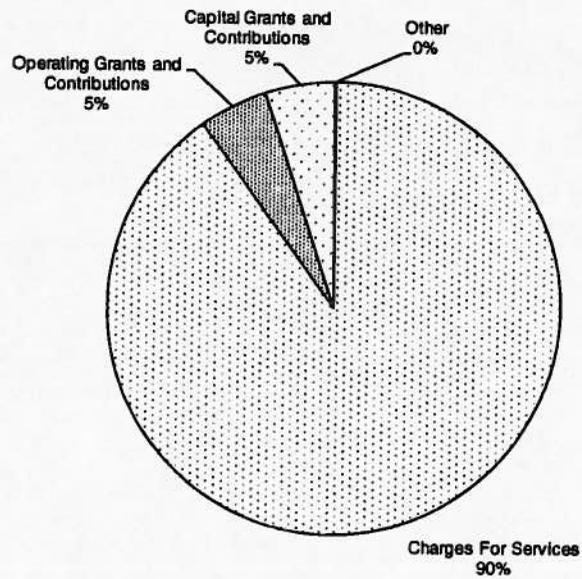


Business-type activities. Business-type activities increased the City's total net assets by \$124,912, accounting for 4.6% of the total increase in the City of Muscatine's net assets during the year. Increases in net assets were reported in the Water Pollution Control, Transfer Station, Refuse Collection,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

- Net assets of the Water Pollution Control fund increased by \$292,468 during the year primarily due to capital asset additions. Transfers from the Local Option Sales Tax fund funded \$884,159 of sewer-related capital project costs during the year.
- Net assets of the Transfer Station fund increased by \$470,612 during the year. This increase includes a \$50,000 transfer from the Refuse Collection fund to reduce the operating deficit in this fund. During the year there was also a \$725,670 transfer from the debt service fund to fund the Transfer Station debt requirements for the year.
- Net assets of the Refuse Collection fund increased by \$44,004 during the year.
- Revenues for the business-type activities increased in total by \$571,313 (4.5%).
- Charges for services increased in total by \$542,254. Water Pollution Control Plant charges for services increased by \$198,673 and refuse collection charges increased by \$149,053 due to rate increases. Transfer Station charges for services increased by \$152,372 due to increased waste volume at this facility. Golf fees and charges increased by \$100,563 and Boat Harbor fees and charges increased by \$12,476, both due to favorable weather conditions. Public housing charges increased by \$98,570 during the year due to increased rents and other tenant charges.
- Operating grants and contributions decreased by \$265,671. Public housing operating grants decreased by \$279,143 due to changes in the federal housing program operating subsidy calculation.
- Capital grants and contributions increased by \$312,303. Airport capital grants increased by \$131,799 and grant funding for sewer projects increased by \$181,257. Unrestricted interest earnings decreased by \$6,357 due to the continued low interest rates.
- Expenses for the business-type activities increased \$1,096,196 (8.2%). Expenses increased by \$673,447 in the Water Pollution Control fund, by \$128,001 in the Transfer Station fund, \$188,439 in the Refuse Collection fund, by \$60,676 in the Transit fund, by \$53,830 in the Golf Course fund, by \$1,995 in the Boat Harbor fund, by \$6,705 in the Marina fund, by \$46,521 in the Ambulance fund, and by \$43,794 in the Public Housing fund. Expenses decreased by \$104,035 in the Airport fund and \$3,177 in the Parking fund.



Revenues By Source - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

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

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

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

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

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

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

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

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

Total net assets for the City's enterprise funds as of June 30, 2012 was \$72,474,035, an increase of \$114,711 from the previous fiscal year. Of the net assets of the enterprise funds, \$64,583,715 is invested in capital assets, net of related debt. Restricted net assets totaled \$178,360. Unrestricted net assets totaled \$7,711,960, a decrease of \$552,148 compared to the previous year.

The City's internal service funds include Equipment Services, Central Supplies, Health Insurance, and Dental Insurance. Net assets for the internal service funds totaled \$1,715,360 as of June 30, 2012, a decrease of \$16,167 from the previous year. This overall decrease was due to decreases in the Equipment Services and Dental Insurance funds.

General Fund Budgetary Highlights

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

- The \$204,700 increase in the public safety function budget included \$46,000 in the police department, \$150,300 in the fire department, and \$8,400 for emergency management. The increase in the police budget was primarily due to the department being awarded a three-year U.S. Department of Justice COPS grant to fund 100% of the cost of two new police officers. This grant was effective midway through the fiscal year. The increase in the fire department budget included \$92,900 for major repairs to the aerial ladder truck and \$50,000 for increased overtime due to military leave, light duty, and other employee leaves of absences.
- The culture and recreation function increased in total by \$59,600. This overall increase includes increases totaling \$45,200 in the various Parks department budgets with the most significant increases for increased maintenance costs at the cemetery and increased maintenance and operating costs at the Aquatic Center. The Art Center budget was increased by \$14,400 due to a State Cultural Affairs grant in that amount awarded after the original budget was adopted.
- The community and economic development function appropriation was increased by \$22,500 for the year due to increases in the Community Development budget. Amendments included increased personnel costs to allow for training time for new inspectors that replaced individuals retiring during the year, increased fuel costs, and increased funding for contracted nuisance abatement costs.
- Public works department expenditures were amended downward in total by \$12,200 with this decrease primarily in the street cleaning activity.

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

Capital Asset and Debt Administration

Capital assets. The City of Muscatine's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to \$148,085,146 (net of accumulated depreciation). This investment in capital assets includes land, buildings and building improvements, machinery and equipment, park facilities, streets, and bridges. The City of Muscatine's investment in capital assets for the current fiscal year increased by \$1,242,408 for governmental activities compared to the prior year and decreased by \$213,518 for business-type activities.

Major capital asset events during the current fiscal year included the following:

- Additions to capital assets (net of asset retirements) totaled \$6,922,952.
- Major asset additions included \$2,157,836 for street improvements; \$481,156 for trail projects; \$749,408 for the Water Pollution Control Plant Comprehensive Facilities Improvement project; \$1,334,868 in sewer system improvements; \$1,070,373 for the new Southend Fire Station; and \$426,524 for Airport improvements.
- Depreciation expense totaled \$6,624,793 for the year with \$3,208,413 in the governmental activities and \$3,416,380 in the business-type activities.

City of Muscatine Capital Assets (Net of Depreciation)

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

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

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$35,286,757. Of this amount, \$18,667,192 is debt backed by the full faith and credit of the City. Of this amount \$1,490,103 is debt that serves enterprise funds and therefore is reflected as debt of the respective enterprise funds with the remainder of the general obligation bonds \$17,177,089 reflected as debt of the governmental activities. The remainder of the City of Muscatine's debt represents revenue bonds secured solely by specific revenue sources.

City of Muscatine Outstanding Debt
General Obligation and Revenue Bonds

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 17,177,089	\$ 13,953,147	\$ 1,490,103	\$ 2,197,656	\$ 18,667,192	\$ 16,150,803
Revenue bonds	1,140,000	1,330,000	15,479,565	15,609,360	16,619,565	16,939,360
Total	\$ 18,317,089	\$ 15,283,147	\$ 16,969,668	\$ 17,807,016	\$ 35,286,757	\$ 33,090,163

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

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

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

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

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Muscatine County was 6.4% for calendar year 2011 compared to 7.6% the previous year. Separate unemployment figures are not maintained for the City of Muscatine.
- The City's taxable value increased by 2.6% for the 2011/2012 year and increased by 2.8% for the upcoming 2012/2013 fiscal year.
- The upcoming budget provides funding for capital improvement projects to continue. Local option sales tax funds will continue to be used to fund sanitary and storm sewer projects in the City (80%) and also ongoing costs of the City's pavement management program (20%).
- In 2012/2013 the City will continue the ongoing maintenance portion of the Comprehensive Pavement Management Program. Prior year funding allocations totaling over \$5 million were used to complete the initial upgrade of the City's streets. Annual allocations to maintain streets at this higher level will be funded from the 20% allocation of local option sales tax.
- In 2007 the City signed a Consent Order with the Environmental Protection Agency (E.P.A.) which requires the City to complete specific major sewer separation projects by 2024. The West Hill Sewer Separation project is the remaining project mandated by this Consent Order. This is a multi-year, multi-phase project estimated to reach or exceed \$50 million in total costs. The City recently received notification that our request to extend the completion deadline to 2028 was approved by the E.P.A. Local option sales tax funds will fund a significant portion of the cost of

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

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

Requests for Information

This financial report is designed to provide a general overview of the City of Muscatine's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 215 Sycamore Street, Muscatine, Iowa, 52761.