



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
City of Muscatine, Iowa
Muscatine, Iowa

We have audited the financial statements of governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Muscatine, Iowa as of and for the year ended June 30, 2012, which collectively comprise the **City of Muscatine, Iowa's basic financial statements** and have issued our report thereon dated December 5, 2012. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Muscatine Power and Water, a discretely presented component unit, as described in our report on the **City of Muscatine, Iowa's financial statements**. This report does not include the results of the other auditors' testing of internal control over financial reporting on compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

Management of the City of Muscatine, Iowa is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the **City of Muscatine, Iowa's internal control over financial reporting** as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **City of Muscatine, Iowa's internal control over financial reporting**. Accordingly, we do not express an opinion on the effectiveness of the **City of Muscatine, Iowa's internal control over financial reporting**.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Muscatine, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted immaterial instances of noncompliance that are described in Part IV of the schedule of findings and questioned costs.

Comments involving statutory and other legal matters about the City of Muscatine, Iowa's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the basic financial statements of the City of Muscatine, Iowa. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretation of those statutes.

We noted certain matters that we reported to management of the City of Muscatine, Iowa in a separate letter dated December 5, 2012.

This report is intended solely for the information and use of the Mayor and City Council, management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey LLP

Davenport, Iowa
December 5, 2012