

City of Muscatine, Iowa



Comprehensive Annual Financial Report

For the Year Ended June 30, 2005

CITY OF MUSCATINE, IOWA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2005

SUBMITTED BY:

FINANCE DEPARTMENT
CITY OF MUSCATINE, IOWA

Nancy A. Lueck
Finance Director

Cover:

The American Heritage Trail, one of the Pearl of the Mississippi projects, was under construction in 2005.

Photo by:

Dan Beenen

CITY OF MUSCATINE, IOWA

**Comprehensive Annual Financial Report
For the Year Ended June 30, 2005**

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FINANCE & RECORDS

TO: Honorable Mayor and City Council

DATE: November 3, 2005

Iowa law requires that all cities publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Muscatine for the fiscal year ended June 30, 2005.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Eide Bailly, LLP, a firm of licensed certified public accountants, have issued an unqualified ("clean") opinion on the City of Muscatine's financial statements for the year ended June 30, 2005. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the City's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are included in the compliance section of this report.

Profile of the Government

The City of Muscatine was incorporated in 1851 by a special act of the Iowa State Legislature and is located on the Mississippi River, which is the eastern boundary of the state of Iowa. The City is located 160 miles east of Des Moines, 200 miles west of Chicago, and is the county seat of Muscatine County. The City occupies a land area of approximately 17 square miles and serves a population of 22,697 people. The City is empowered to levy a tax on all property located within its boundaries.

**"I remember Muscatine for its sunsets. I have never seen any
on either side of the ocean that equaled them" - Mark Twain**

The City operates under the mayor-council form of government and has a City Administrator. Policy-making and legislative authority are vested in a mayor and seven council members. The city council is responsible, among other things, for passing ordinances and resolutions, adopting the budget, appointing committees, and hiring both the City Administrator and the City Attorney. The City Administrator is responsible for carrying out the policies and ordinances of the city council, for overseeing the day-to-day operations of the government, and for appointing the heads of various departments. The council is elected on a non-partisan basis. Council members serve four-year staggered terms and the mayor is elected to serve a two-year term. Five of the council members are elected by district. The mayor and the two remaining council members are elected at large.

The City provides a full range of services including police and fire protection; roadway maintenance; water pollution control; solid waste management; recreational and cultural activities and facilities; and a general aviation airport.

The City Council is required to hold a public hearing on and adopt a budget for each fiscal year no later than March 15th of the preceding year. The annual budget serves as the foundation for the City's financial planning and control. The budget is prepared by function, fund and department. The legal level of control is at the function level. The budget may be amended by resolution of City Council following a required public hearing.

The City's government-wide financial statements include two discretely presented component units. These component units are those entities for which the City is considered to be financially accountable. These entities are the Muscatine County Solid Waste Management Agency (Agency) and Muscatine Power and Water (MP&W). The Agency is comprised of six governmental entities in Muscatine County and based on the City of Muscatine population, the City accounts for 56% of the board's voting authority. The City Council also approves the Agency's budget, sets its rate and approves any debt issuance. MP&W is a municipal utility which provides water, electric and communications services within the City of Muscatine and in other areas within Muscatine County. MP&W's governing board is appointed by the Mayor and approved by 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. These entities are reported in separate columns in the government-wide statements to emphasize that they are legally separate from the City.

Local Economy

The City of Muscatine has a history of business and industrial development equal to cities of much larger size. Muscatine is the corporate headquarters of Bandag Incorporated, makers of procured tire tread rubber, and HNI Corporation, makers of office furniture. Other major employers located in the Muscatine area include Heinz USA, food processing; Monsanto Company, herbicides and plastics; BT Prime-Mover Inc., front-end loaders, etc.; Grain Processing Corporation, corn distillates and feed; and Stanley Consultants Inc., consulting engineers and architects. The presence of many diverse companies has provided the Muscatine economy with economic stability and employment security for many years. Unemployment rates over the past ten years range from a low of 2.7% to the current 4.5%. Muscatine Power and Water, the City of Muscatine's municipal light, water and communications utility, operates the largest municipal power plant in the State of Iowa. This plant provides for abundant supplies of low cost electricity. The City's Water Pollution Control Plant has undergone renovation over the years and currently has the capacity to triple the volume of wastewater it treats with only

marginal increases in operating expenditures. The City operates a general aviation airport and has excellent railroad service provided by the Iowa, Chicago & Eastern (IC&E) Railroad.

All of these elements provide an excellent atmosphere for continued economic stability and growth.

Long-term Financial Planning

In 2004/2005 the City of Muscatine continued construction on projects included in the Pearl of the Mississippi Project. This project consists of eight components that provide new and upgraded facilities for community residents and visitors alike. Included in the overall estimated \$9.6 million project were a new aquatic center, marina improvements, boat launch relocation, a new skate park, Riverview Center renovation, bike and walking trail extension, community art and an environmental learning center. The City committed to approximately \$1 million of the total \$9.6 million in total project costs with the majority of funds coming from local corporations, foundations, businesses, and individuals. The City also was awarded a \$1 million State of Iowa Community Attractions and Tourism (CAT) grant to be used for the Pearl of the Mississippi Project. In 2003/2004 the aquatic center and skatepark were completed and in 2004/2005 the marina improvements, boat launch relocation and Riverview Center renovation were completed. The Environmental Learning Center, a Muscatine County project, was also completed in 2004/2005. The final components of the Pearl Project, the riverfront trail and the community art, began in 2004/2005 and are scheduled to be completed in 2005/2006.

Fund raising began in 2004/2005 for Phase II of the Pearl Project which will include additional improvements on the riverfront including an interactive water feature in conjunction with the Mississippi Harvest art sculpture, a pedestrian plaza and other landscaping improvements.

On May 10, 1994, the citizens of Muscatine first voted to implement a 1% local option sales tax for the purpose of funding storm and sanitary sewer renovation and extension projects. The tax was imposed effective July 1, 1994, for a five-year period. On August 4, 1998, Muscatine voters overwhelmingly approved the renewal of the 1% local option sales tax for another five years to continue funding sewer projects. In January 2003, voters approved using up to 10% of the local option tax for the Pearl of the Mississippi Project effective April 30, 2003.

On January 27, 2004, voters again overwhelmingly approved extending the local option sales tax for an additional five years. The proceeds will continue to be allocated 90% for sewer projects and the remaining 10% for the Pearl of the Mississippi Project. The 1% local option sales tax raises approximately \$2 million each year. This effort demonstrates the community's commitment to a sound municipal infrastructure to enhance the quality of life and to encourage economic development activities.

The City completed construction of a new 3,500 square foot airport terminal building in 2004/2005. This facility will serve the fixed base operator (FBO), pilots, and users of this facility into the foreseeable future. In 2004/2005 water service was extended to the southend of the City which will assist in further development of this area. Both of these projects were funded from southend tax increment funds.

The City of Muscatine has been required to address funding reductions to the City's General Fund as a result of reductions in funding from the State of Iowa which began in 2003/2004 and continued in 2004/2005. The state eliminated approximately \$360,000 in annual funding to the City of Muscatine beginning in 2003/2004 and an additional \$70,000 annually was eliminated in 2004/2005. Additionally, taxable property valuations declined in both 2003/2004 and 2004/2005 due to the reduction in the State-mandated rollback factor for residential property for those years.

In response to these factors, the City made a number of significant budget changes which included personnel reductions, funding transfers and consolidation of services. Full-time equivalent employees in the General Fund were reduced by sixteen (16) from the original 2003/2004 budget to the 2004/2005 amended budget. As directed by Council these reductions were done, when possible, by not filling a number of positions as they came vacant either by retirement or attrition. Nine (9) of these positions were eliminated when the City of Muscatine and Muscatine County combined their emergency dispatch services effective in September, 2004. City dispatcher positions were transferred to Muscatine County positions and the City pays 45% and the County pays 55% of the operating costs of the combined system. This change resulted in an annual savings of \$140,000 in General Fund expenditures of the City. Both entities have benefited both financially and operationally by combining dispatch services.

Relevant Financial Policies

The City's budget policies provide that the City's unreserved General Fund balance be at least 10% of budgeted General Fund expenditures. The unreserved General Fund balance at June 30, 2005 was \$1,697,668 which was 14.4% of General Fund expenditures. The unreserved balance in the General Fund, however, decreased by \$180,000 during the year. This decrease was significantly less than the \$337,000 decrease included in the amended budget for 2004/2005. As noted previously, this fund balance reduction was due to reductions in State funding and reduced property tax revenues to the General Fund due to the State-mandated rollback factor for residential property.

For the 2005/2006 budget taxable property values increased by 3.84% which will provide \$188,000 more in tax funding from the general fund tax levy which has been at the maximum rate of \$8.10 per \$1,000 of valuation in all recent years.

The full effect of the changes implemented by City Council in reducing the General Fund workforce and combining services with Muscatine County will be realized during the 2005/2006 year. These changes in combination with the increase in taxable property valuations has the City in a better position to address future funding requirements for the provision of General Fund services.

Major Initiatives

The City continues to strive to make significant capital improvements to the City's infrastructure and facilities. Major budget initiatives for 2005/2006 include (1) completion of the Pearl of the Mississippi Project; (2) completion of fund-raising and beginning of construction for Phase II of the Pearl Project; (3) construction of the new East 5th Street Bridge; and (4) construction on several major sewer projects included in the third 5-year plan for the sewer projects to be funded from local option sales tax revenues.

During 2005/2006 the City will be issuing approximately \$3,000,000 in general obligation bonds to finance capital projects of the City which were completed or underway in 2004/2005.

Awards and Acknowledgements

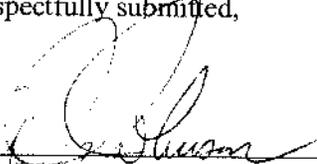
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Muscatine for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2004. This was the 11th consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

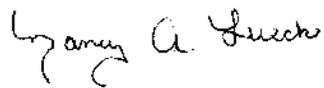
In addition, the City has also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for fiscal year 2005/2006. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device. The award for the 2005/2006 budget was the 21st consecutive year that the City of Muscatine has received the GFOA's Award for Distinguished Budget Presentation. The GFOA's Distinguished Budget Presentation Award is good for a period of one year. The City of Muscatine plans to submit its budget document for the 2006/2007 fiscal year to the GFOA to again be considered for this award.

In regard to the preparation of this report and the accounting activity throughout the year in the Department of Finance and Records, we would like to express our appreciation to all members of this department for their assistance and contributions for this endeavor. Also appreciated is the continued interest and support by the members of the City Council in planning and conducting the financial operations of the city in a responsible and prudent manner in these times of limited resources and ever-increasing demands. Lastly, we would extend our appreciation to Eide Bailly LLP for their assistance and suggestions in regard to the preparation of the Comprehensive Annual Financial Report.

Respectfully submitted,



A.J. Johnson
City of Administrator



Nancy A. Lueck
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Muscatine,
Iowa

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Zjella

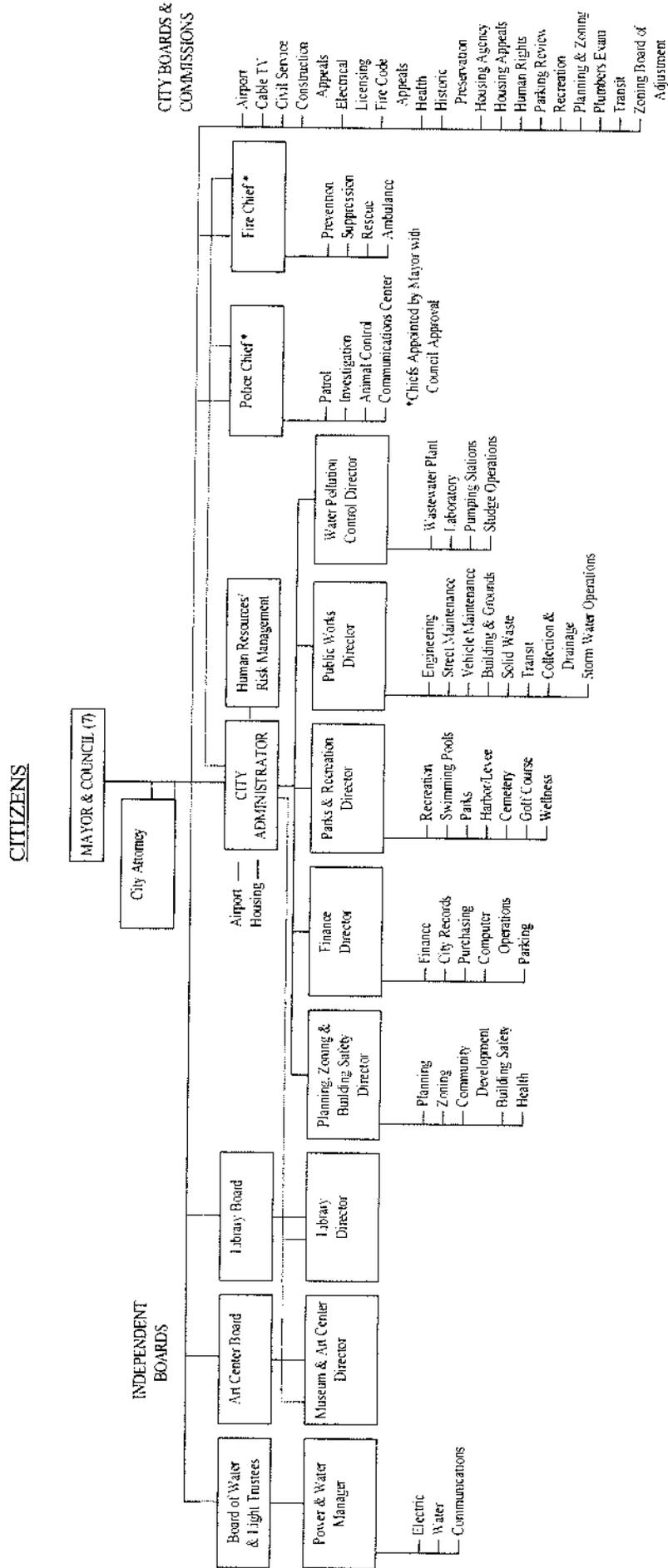
President

Jeffrey R. Enos

Executive Director

CITY OF MUSCATINE, IOWA

ORGANIZATIONAL STRUCTURE



CITY OF MUSCATINE, IOWA

**List of Principal Officials
June 30, 2005**

Richard W. O'Brien, Mayor

CITY COUNCIL

Jerry Lange
At Large

Osama Shihadeh
At Large

Philip Fitzgerald
First Ward

Anne Lesnet
Second Ward

Scott Day
Third Ward

Jerry Root
Fourth Ward

Bill Trent
Fifth Ward

COUNCIL APPOINTED OFFICIALS

City Administrator
Corporation Counsel

A.J. Johnson
Harvey G. Allbee, Jr.

DEPARTMENT DIRECTORS

Art Center Director
Administrative Services Director
Finance Director
Fire Chief
Library Director
Parks & Recreation Director
Police Chief
Public Works Director
Water Pollution Control Director

Barbara Longtin
David P. Casstevens
Nancy A. Lueck
Steve Dalbey
Peter Press
Richard Klimes
Gary Coderoni
Randy E. Hill
Don Freel



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the 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, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Muscatine. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Muscatine Power and Water, a discretely presented component unit, which represent 99% each of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Muscatine Power and Water, is based on the report of the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the 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 June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City of Muscatine. The introductory section, combining nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Muscatine. The combining nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Dubuque, Iowa
September 22, 2005

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, 2005. 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 \$113,500,799 (net assets). Of this amount, \$11,780,028 (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 \$613,586 during the year. This increase is primarily due to local option sales taxes collected during the year, which will be used for future year sewer-related capital projects and also receipt of grants and contributions for capital assets including those received for the Pearl of the Mississippi Project.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8,646,716, a decrease of \$2,499,009 in comparison with the prior year. Of the ending balance, approximately 59% (\$5,084,654) was unreserved and is 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 unreserved fund balance for the general fund was \$1,697,668, or 14.4% of total general fund expenditures.
- The City's total debt decreased by \$2,245,409 (12.1%) during the current fiscal year. No new debt was issued during the year.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include Public Safety, Public Works, Health and Social Service, Culture and Recreation, Community and Economic Development, General Government, and Interest and Fees on Long-term Debt. The business-type activities of the City include Water Pollution Control, Refuse Collection, Transfer Station, 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 26-27 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 five major governmental funds: the General Fund, the Employee Benefits Fund, the Local Option Sales Tax Fund, the Debt Service Fund, and the Pearl of the Mississippi Project 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 28-30 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. Two of the enterprise funds, the Water Pollution Control Fund and the Transfer Station Fund, are considered major funds and are reported individually throughout the report. The other nine (9) 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 nine (9) 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 31-33 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 four 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 34 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 35-58.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Required supplementary information includes a budgetary comparison schedule on the aggregate basis for the City's budgeted governmental and proprietary funds.

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 \$113,500,799 at the close of the fiscal year ended June 30, 2005.

By far the largest portion of the City's net assets (87%) 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	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 20,733,609	\$ 22,444,944	\$ 7,593,390	\$ 7,573,738	\$ 28,326,999	\$ 30,018,682
Capital assets	60,057,719	58,506,065	54,994,159	55,325,737	115,051,878	113,831,802
Total assets	<u>80,791,328</u>	<u>80,951,009</u>	<u>62,587,549</u>	<u>62,899,475</u>	<u>143,378,877</u>	<u>143,850,484</u>
Long-term liabilities outstanding	9,831,892	9,314,117	7,818,652	7,647,737	17,650,544	16,961,854
Other liabilities	11,538,799	12,308,286	688,735	1,693,131	12,227,534	14,001,417
Total liabilities	<u>21,370,691</u>	<u>21,622,403</u>	<u>8,507,387</u>	<u>9,340,868</u>	<u>29,878,078</u>	<u>30,963,271</u>
Net assets:						
Invested in capital assets, net of related debt	51,221,230	48,955,154	47,550,543	47,010,683	98,771,773	95,965,837
Restricted	2,948,998	3,044,136	-	-	2,948,998	3,044,136
Unrestricted	5,250,409	7,329,316	6,529,619	6,547,924	11,780,028	13,877,240
Total net assets	<u>\$ 59,420,637</u>	<u>\$ 59,328,606</u>	<u>\$ 54,080,162</u>	<u>\$ 53,558,607</u>	<u>\$ 113,500,799</u>	<u>\$ 112,887,213</u>

A portion of the City's net assets (2.6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$11,780,028) may be used to meet the City's ongoing obligation to citizens and creditors.

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

Net assets invested in capital assets net of related debt increased by \$2,805,936 during the year due to the Pearl of the Mississippi and other capital projects. Restricted net assets decreased by \$95,138 and unrestricted net assets decreased by \$2,097,212 during the year. Pledged contributions and debt financing for a portion of the current year's costs of the Pearl of the Mississippi and several other capital projects will be received in the upcoming fiscal year.

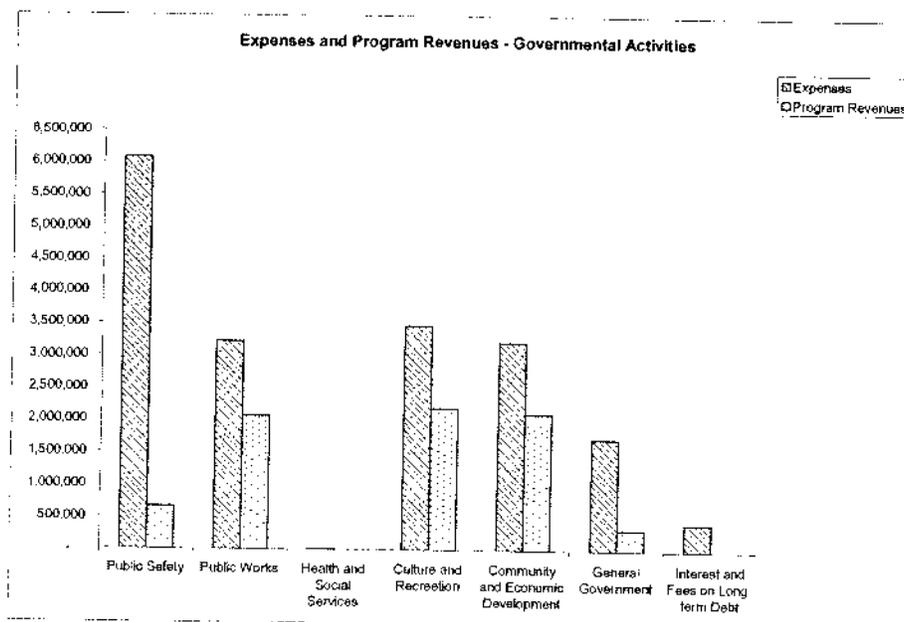
Governmental activities. Governmental activities increased the City's net assets by \$92,031, thereby accounting for 15% of the total growth in net assets of the City of Muscatine. Key elements of this increase are as follows:

CITY OF MUSCATINE CHANGES IN NET ASSETS

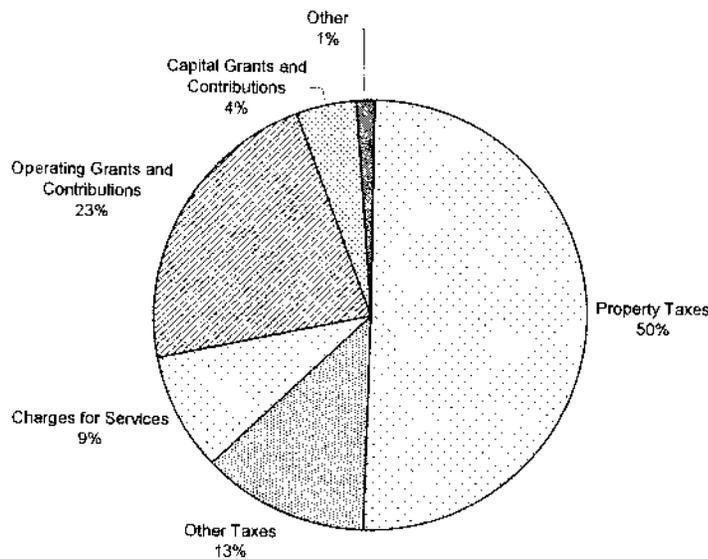
	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 1,833,004	\$ 1,647,881	\$ 8,708,478	\$ 8,688,464	\$ 10,541,482	\$ 10,336,345
Operating grants, contributions and restricted interest	4,617,475	4,271,667	551,160	594,674	5,168,635	4,866,341
Capital grants and contributions	894,158	2,544,051	296,941	364,601	1,191,099	2,908,652
General revenues:						
Property taxes	10,242,610	9,983,521	-	-	10,242,610	9,983,521
Utility taxes	63,638	67,339	-	-	63,638	67,339
Local option sales tax	1,938,370	2,210,111	-	-	1,938,370	2,210,111
Hotel/motel tax	327,575	310,798	-	-	327,575	310,798
Cable franchise tax	238,788	-	-	-	238,788	-
Intergovernmental, not restricted to specific programs	64,870	101,874	-	-	64,870	101,874
Unrestricted investment earnings	203,275	111,595	130,688	78,901	333,963	190,496
Other	4,500	40,387	2,253	3,108	6,753	43,495
Total revenues	20,428,263	21,289,224	9,689,520	9,729,748	30,117,783	31,018,972
Expenses:						
Public safety	6,081,788	5,561,580	-	-	6,081,788	5,561,580
Public works	3,220,525	2,970,927	-	-	3,220,525	2,970,927
Health and social service	15,700	16,560	-	-	15,700	16,560
Culture and recreation	3,466,568	2,957,891	-	-	3,466,568	2,957,891
Community and economic development	3,217,531	3,849,722	-	-	3,217,531	3,849,722
General government	1,725,955	1,659,438	-	-	1,725,955	1,659,438
Interest and fees on long-term debt	422,410	397,429	-	-	422,410	397,429
Water pollution control	-	-	4,134,898	4,094,791	4,134,898	4,094,791
Transfer station	-	-	2,181,508	2,002,761	2,181,508	2,002,761
Refuse collection	-	-	1,243,306	1,221,882	1,243,306	1,221,882
Airport	-	-	551,070	621,520	551,070	621,520
Parking	-	-	205,301	204,879	205,301	204,879
Transit	-	-	678,757	618,308	678,757	618,308
Golf course	-	-	468,149	451,551	468,149	451,551
Boat harbor	-	-	33,273	41,486	33,273	41,486
Marina	-	-	8,004	8,430	8,004	8,430
Cable television	-	-	-	31,137	-	31,137
Ambulance	-	-	914,100	749,644	914,100	749,644
Public housing	-	-	935,354	831,545	935,354	831,545
Total expenses	18,150,477	17,413,547	11,353,720	10,877,934	29,504,197	28,291,481
Increase (decrease) in net assets before transfers	2,277,786	3,875,677	(1,664,200)	(1,148,186)	613,586	2,727,491
Transfers in (out)	(2,185,755)	(993,773)	2,185,755	993,773	-	-
Increase (decrease) in net assets	92,031	2,881,904	521,555	(154,413)	613,586	2,727,491
Net assets, June 30, 2004	59,328,606	56,446,702	53,558,607	53,713,020	112,887,213	110,159,722
Net assets, June 30, 2005	\$ 59,420,637	\$ 59,328,606	\$ 54,080,162	\$ 53,558,607	\$ 113,500,799	\$ 112,887,213

- Revenues for governmental activities decreased by \$860,961 during the year. This overall decrease was due to the decrease in capital grants and contributions primarily related to capital contributions for the Pearl of the Mississippi Project.

- Charges for services increased by \$185,123. This was due in part to increased parks and recreation revenues of \$80,350 primarily related to revenues from the new aquatic center. Fiscal year 2004/2005 was the first full fiscal year of operation for the Muscatine Aquatic Center, one of the Pearl of the Mississippi capital projects. Building and Zoning charges for services increased by \$27,356, public safety service charges increased by \$45,941 and public works charges increased by \$36,015.
- Operating grants and contributions increased by \$345,808 primarily due to contributions and bequests to the Musser Public Library and Muscatine Art Center.
- Capital grants and contributions decreased by \$1,649,893. This decrease was primarily related to contributions and grants for the Pearl of the Mississippi Project which decreased by \$1,354,507 from the prior year.
- Property taxes increased by \$259,089 during the year or 2.6%.
- Local option taxes decreased by \$271,741 during the year.
- Cable franchise taxes of \$238,788 were received as governmental activity revenues. In prior years these funds were accounted for as business-type activity revenues.
- Unrestricted investment earnings increased by \$91,680 during the year.
- Expenses for governmental activities increased by \$736,930 or 4.2% from the previous year.
- The most significant increases in governmental expenses were in the public safety (\$520,208), public works (\$249,598) and culture and recreation (\$508,677) functions. The most significant decrease was in the community and economic development function which decreased \$632,191. This decrease was in part due to the reduction in federal funding to the Section 8 housing program (\$386,635) and reduced community development project costs (\$277,708).

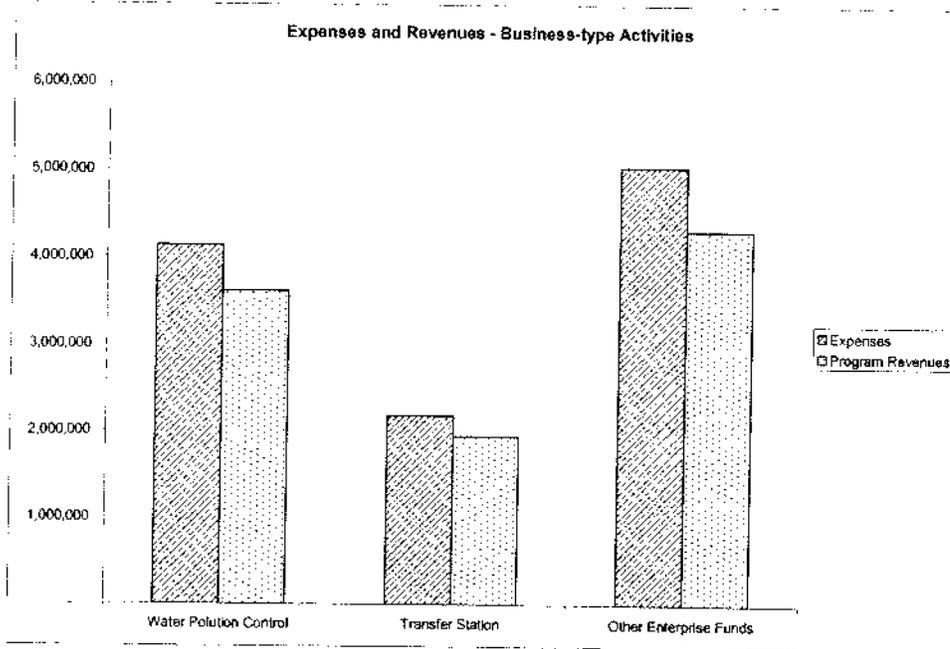


Revenues By Source - Governmental Activities

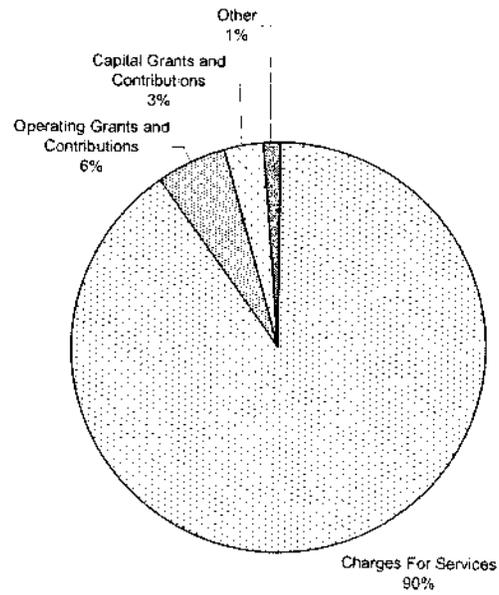


Business-type activities. Business-type activities increased the City's total net assets by \$521,555, accounting for 85% of the total increase in the City of Muscatine's net asset during the year. Increases in net assets were reported in the Water Pollution Control, Transfer Station, Refuse Collection, Transit and Marina funds. Decreases in net assets were reported in the Airport, Parking, Golf Course, Boat Harbor, Ambulance and Public Housing funds. Key elements of these changes are as follows:

- Net assets of the Water Pollution Control fund increased by \$1,005,408 during the year primarily due to capital asset additions. Transfers from the Local Option Sales Tax fund funded \$1,428,712 of sewer-related capital project costs.
- Net assets of the Transfer Station fund increased by \$233,429 during the year. This increase is the result of a funding transfer of \$470,000 from the debt service fund to fund a portion of the Transfer Station debt requirements for the year.
- Revenues for the business-type activities in total decreased by \$40,228 (.4%).
- Expenses for the business-type activities increased \$475,786 (4.4%).



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. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8,646,716, a decrease of \$2,499,009 in comparison with the prior year. This decrease was primarily due to the decrease in fund balance in the Pearl of the Mississippi capital project fund (\$2,278,205). Additional grant funds, contribution pledges, local option sales tax funds and bond proceeds will be received in subsequent years to complete the financing for this project.

Approximately 58.8% of the total combined ending fund balances (\$5,084,654) constitutes unreserved fund balance, which is available for spending within statutory guidelines pertaining to each fund at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

The general fund is the chief operating fund of the City of Muscatine. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$1,697,668, while total fund balance was \$1,725,257. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The unreserved and total general fund balances at the end of the fiscal year represent 14.4% and 14.6%, respectively, of total general fund expenditures.

The City of Muscatine's general fund balance decreased by \$189,086 during the current fiscal year. While the City's budget provided for a larger decrease in fund balance, this decrease was primarily due to the continued reduction in state funding and a reduction in general fund tax levy receipts as a result of a decrease in taxable property valuations for the year. The decrease in taxable values was due to the rollback factor for residential property mandated by the State of Iowa.

The Local Option Sales Tax fund balance increased during the fiscal year by \$378,418 and these funds will be used for future capital projects.

The Pearl of the Mississippi capital project fund had expenditures of \$3,255,315 and contribution and grant revenues totaling \$783,273 during the year. The skatepark and aquatic center portions of this project were completed in the previous fiscal year. The marina improvements, boat launch relocation and Riverview Center renovation were completed in the 2004/2005 fiscal year. Construction also began in 2004/2005 on the riverfront trail and work is in progress on the sculpture for the riverfront. These projects are scheduled to be completed in 2005/2006 which will complete the overall Pearl of the Mississippi Project.

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, 2005 was \$54,080,162, an increase of \$521,555 from the previous fiscal year. Of the net assets of the enterprise funds, \$47,550,543 is invested in capital assets, net of related debt. Unrestricted net assets totaled \$6,529,619, a decrease of \$18,305 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 \$534,787 as of June 30, 2005, a decrease of \$298,687 from the previous year. The decrease is the result of increased health insurance claim costs in the City's Health Insurance fund.

General Fund Budgetary Highlights

During the year there was a \$254,300 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 \$201,308 from the original to the amended budget. Following are the main components of the increases:

- Increases in the police department budget totaled \$114,200. This increase included \$59,900 for the City to participate with other area police departments in the Joint Terrorism Task Force effective January 1, 2005. These costs included a full-time police officer and a new vehicle for this officer. These costs were 100% funded through a federal grant program and budgeted revenues were amended by this same amount. The overall increase in the police budget also included \$27,500 for one additional police vehicle which was funded in part from an insurance reimbursement with the balance funded from the Police Forfeitures fund.
- Increases in the parks and recreation budget totaled \$98,600. Of this increase \$35,400 was for increased operating expenses of the new aquatic center, \$21,300 was for additional scoreboards for the soccer complex, and there was a \$23,300 increase in the park maintenance budget, a portion of which is related to the cost of operating the new dredge in the riverfront harbor. Aquatic Center revenues were amended upward during the year by \$40,700 which more than covered the Aquatic Center's additional operating expenses. A contribution of \$7,500 toward the new soccer scoreboards was included in the amended budget revenues.
- Public works department expenditures were amended by \$82,600 which included \$53,600 for a power line change on Leroy Street. This cost was 100% funded by a grant from the Iowa Department of Transportation. The balance of the public works expenditure increases were budgeted to be funded from increased transfers from the Road Use Tax fund.
- The amended budget included a \$78,500 decrease in the Community Development department due to a department reorganization at the time of the retirement of the former department director.
- Budgeted expenditures in the General Government function of the General Fund were amended upward by \$32,500 which included increases in the Building and Grounds and Risk Management budgets.

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, 2005, amounts to \$115,051,878 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, 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 \$1,551,654 for governmental activities compared to the prior year and decreased by \$331,578 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 \$6,439,669.
- Major asset additions included \$1,860,838 for marina improvements and boat launch relocation and \$903,936 for Riverview Center renovation (major components of the Pearl of the Mississippi Project); \$959,126 for the new airport terminal building; \$1,274,502 for the riverfront interceptor project; \$177,498 for the Kent Stein Park and Fuller Park trails; and \$477,169 for construction in progress on the American Heritage Trail.
- Depreciation expense totaled \$5,411,361 for the year with \$2,531,095 in the governmental activities and \$2,880,266 in the business-type activities.

City of Muscatine Capital Assets (Net of Depreciation)

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Land, art work and construction in progress, not being depreciated	\$ 13,726,325	\$ 13,112,393	\$ 2,977,168	\$ 3,310,711	\$ 16,703,493	\$ 16,423,104
Other capital assets net of accumulated depreciation	46,331,394	45,393,672	52,016,991	52,015,026	98,348,385	97,408,698
Total capital assets	<u>\$ 60,057,719</u>	<u>\$ 58,506,065</u>	<u>\$ 54,994,159</u>	<u>\$ 55,325,737</u>	<u>\$ 115,051,878</u>	<u>\$ 113,831,802</u>

Additional information on the City of Muscatine's capital assets can be found in note 6 on pages 47-49 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$16,310,386. Of this amount, \$13,065,386 comprises debt backed by the full faith and credit of the city. Of this amount \$7,443,616 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 (\$5,621,770) 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	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 5,621,770	\$ 6,735,741	\$ 7,443,616	\$ 8,315,054	\$ 13,065,386	\$ 15,050,795
Revenue bonds	3,245,000	3,505,000	-	-	3,245,000	3,505,000
Total	\$ 8,866,770	\$ 10,240,741	\$ 7,443,616	\$ 8,315,054	\$ 16,310,386	\$ 18,555,795

The City's total bonded debt decreased by \$2,245,409 during the year which represents the amount of debt retired during the year. No new debt was issued during the year.

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 \$48,497,447. The amount of debt applicable to the debt limit totals \$16,704,249 (including a lease-purchase obligation). The City's debt is significantly less than the maximum debt limit allowed.

The City maintained its A-1 rating from Moody's for general obligation debt.

Additional information on the City's long-term debt can be found in note 8 on pages 50-53 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Muscatine County was 4.5% for calendar year 2004 compared to 4.2% the previous year. Separate unemployment figures are not maintained for the City of Muscatine.
- The City's taxable value decreased by 1.5% for the 2004/2005 year and increased by 3.8% for the upcoming 2005/2006 fiscal year. The decrease for 2004/2005 was the result of a 5.7% decrease in residential property values caused by a decrease in the state rollback factor for residential property from 51.3874% to 48.4558%. For 2005/2006 the rollback factor decreased to 47.9642% (1.01%); however increases in property values during the year exceeded this amount resulting in the overall 3.8% increase in taxable values.
- The upcoming budget provides funding for capital improvement projects to continue in 2005/2006. Local option sales tax funds will be used to fund sanitary and storm sewer projects in the City (90%) and also be used for funding for the "Pearl of the Mississippi Project" (10%). The "Pearl of the Mississippi Project" included a new aquatic center, trail extension, skatepark, community art, marina improvements, boat launch relocation, Riverview Center renovation and the Environmental Learning Center. These projects total \$9.6 million. The aquatic center and skatepark were completed in the fiscal year ended June 30, 2004 and the marina improvements, boat launch relocation, Riverview Center renovation and the County's Environmental Learning Center were completed in fiscal year 2004/2005. The remaining projects are scheduled to be completed in the 2005/2006 fiscal year. Funding for these projects was secured from grants, private donations, bond proceeds and local option sales tax.

- Capital projects budgeted for 2005/2006 also include the East 5th Street Bridge replacement and Phase II of the Pearl of the Mississippi project, which includes a pedestrian plaza, landscaping and the addition of a water feature in the area of the art sculpture included in Phase I of the Pearl project.
- The 2005/2006 budget provides for increases in sewer, refuse collection and golf fees.

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.

City of Muscatine, Iowa

Statement of Net Assets
June 30, 2005

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Muscatine County Solid Waste Agency	Muscatine Power & Water
ASSETS					
Cash and pooled investments	\$ 7,663,076	\$ 4,671,927	\$ 12,335,003	\$ -	\$ 12,090
Investments	1,705,606	607,133	2,312,739	-	6,130,477
Receivables (net of allowance for uncollectibles):					
Interest	79,849	38,884	118,733	1,470	848,101
Taxes	9,950,217	-	9,950,217	-	-
Accounts	148,260	1,406,076	1,554,336	-	7,899,161
Special assessments	8,696	-	8,696	-	-
Intergovernmental	1,018,827	112,392	1,131,219	-	-
Loan receivable from component unit	-	710,739	710,739	-	-
Inventories	123,330	3,085	126,415	-	10,125,275
Prepays	11,785	1,152	12,937	-	635,050
Deferred charges	23,963	31,998	55,961	-	616,833
Restricted assets:					
Temporarily restricted:					
Cash and pooled investments	-	10,004	10,004	631,766	934
Investments	-	-	-	-	40,033,742
Capital assets:					
Land, art work and construction in progress, not being depreciated	13,726,325	2,977,168	16,703,493	1,041,087	4,108,288
Other capital assets net of accumulated depreciation	46,331,394	52,016,991	98,348,385	607,242	-
Utility plant in service	-	-	-	-	181,393,434
Intangible assets (net of accumulated depreciation)	-	-	-	-	6,184,736
Joint venture rights	-	-	-	-	231,305
Total assets	80,791,328	62,587,549	143,378,877	2,281,565	258,219,426
LIABILITIES					
Accounts payable and accruals	1,379,011	596,899	1,975,910	73,518	5,364,447
Due to federal government	264,154	-	264,154	-	-
Deposits	-	28,001	28,001	-	2,832,852
Matured bonds and interest payable	419	-	419	-	-
Accrued interest payable	30,871	30,128	60,999	-	618,222
Unearned revenue	9,864,344	33,707	9,898,051	-	15,253,895
Liabilities payable from restricted assets:					
Current installment of long-term debt	-	-	-	-	11,465,000
Accrued interest payable	-	-	-	-	2,165,623
Noncurrent liabilities:					
Due within one year	1,876,047	1,063,676	2,939,723	2,668	-
Due in more than one year	7,955,845	6,729,956	14,685,801	4,596	84,899,551
Loan due to primary government	-	-	-	710,739	-
Closure/post-closure obligation	-	25,020	25,020	1,145,555	-
Total liabilities	21,370,691	8,507,387	29,878,078	1,937,076	122,599,590
NET ASSETS					
Invested in capital assets, net of related debt	51,221,230	47,550,543	98,771,773	1,648,329	73,868,262
Restricted for:					
Debt service	67,783	-	67,783	-	-
Public works	707,269	-	707,269	-	-
Community and economic development	69,161	-	69,161	-	-
Public safety	9,070	-	9,070	-	-
Employee benefits	211,108	-	211,108	-	-
Capital projects	39,530	-	39,530	-	-
Perpetual care, nonexpendable	791,388	-	791,388	-	-
Endowments:					
Nonexpendable	132,000	-	132,000	-	-
Expendable	921,689	-	921,689	-	-
Other purposes	-	-	-	-	37,569,053
Unrestricted	5,250,409	6,529,619	11,780,028	(1,303,840)	23,882,521
Total net assets	\$ 59,420,637	\$ 54,080,162	\$ 113,500,799	\$ 344,489	\$ 135,319,836

The notes to the financial statements are an integral part of this statement.

City of Muscatine, Iowa
Statement of Activities
For the Year Ended June 30, 2005

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants and Contributions	Primary Government		Muscatine County Agency	Muscatine Power & Water	
					Governmental Activities	Business-Type Activities			Total
Fund Balances:									
Primary Government:									
Governmental activities:									
Public safety	\$ 6,081,788	\$ 356,703	\$ 279,128	\$ 24,700	\$ (5,421,257)	-	\$ (5,421,257)		
Public works	3,220,525	179,104	1,886,388	-	(1,155,033)	-	(1,155,033)		
Health and social services	15,700	-	-	-	(15,700)	-	(15,700)		
Culture and recreation	3,466,568	599,761	719,371	869,468	(1,277,978)	-	(1,277,978)		
Community and economic development	3,217,531	372,703	1,732,588	-	(1,112,240)	-	(1,112,240)		
General government	1,725,955	324,733	-	-	(1,401,222)	-	(1,401,222)		
Interest and fees on long-term debt	422,410	-	-	-	(422,410)	-	(422,410)		
Total governmental activities	18,150,477	1,833,004	4,617,475	804,138	(10,805,849)	-	(10,805,849)		
Business-type activities:									
Water pollution control	4,134,898	3,612,206	-	-	-	(522,692)	(522,692)		
Refuse collection	1,243,306	1,261,040	-	-	-	17,734	17,734		
Transfer station	2,181,508	1,898,293	46,644	-	-	(236,571)	(236,571)		
Airport	551,070	46,086	-	33,217	-	(471,767)	(471,767)		
Parking	205,301	161,344	-	-	-	(43,957)	(43,957)		
Transit	678,757	90,457	281,779	186,947	-	(119,574)	(119,574)		
Golf course	468,149	402,214	-	-	-	(65,935)	(65,935)		
Boat harbor	33,273	18,745	-	-	-	(14,528)	(14,528)		
Marina	8,004	5,200	-	-	-	(2,804)	(2,804)		
Cable television	-	-	-	-	-	-	-		
Ambulance	914,100	850,406	-	-	-	(63,694)	(63,694)		
Public housing	935,354	362,487	222,737	76,777	-	(273,353)	(273,353)		
Total business-type activities	11,353,720	8,708,478	551,160	296,941	-	(1,797,141)	(1,797,141)		
Total primary government	\$ 29,504,197	\$ 10,541,482	\$ 5,168,635	\$ 1,101,079	(10,805,849)	(1,797,141)	(12,602,991)		
Component Units:									
Muscatine County Solid Waste Agency	\$ 861,370	\$ 937,617	\$ -	\$ -	-	-	-	\$ 76,247	
Muscatine Power & Water	77,955,019	72,866,544	-	-	-	-	-	76,247	
Total component units	\$ 77,955,019	\$ 73,804,161	\$ -	\$ -	-	-	-	\$ (4,230,105)	
General revenues:									
Property taxes					10,242,610	-	10,242,610	-	
Utility taxes					63,638	-	63,638	-	
Local option sales tax					1,938,370	-	1,938,370	-	
Hotel/motel taxes					327,575	-	327,575	-	
Cable franchise fees					238,788	-	238,788	-	
Intergovernmental, unassigned					64,870	-	64,870	-	
Unrestricted investment income					203,275	-	203,275	-	
Gain on sale of capital assets					-	130,688	130,688	6,821	
Contributions to endowments					-	2,253	2,253	-	
Transfers					4,500	-	4,500	-	
Total general revenues, contributions to endowments and transfers					(2,185,755)	2,185,755	13,216,567	6,821	
Change in net assets					92,031	2,318,696	613,586	83,068	
Net assets, June 30, 2004					59,328,696	53,538,607	112,887,213	261,421	
Net assets, June 30, 2005					\$ 59,420,637	\$ 54,080,162	\$ 113,500,799	\$ 344,489	

The notes to the financial statements are an integral part of this statement.

City of Muscatine, Iowa

Balance Sheet
Governmental Funds
June 30, 2005

	General	Employee Benefits	Local Option Sales Tax	Debt Service	Pearl of the Mississippi Project	Other Governmental Funds	Total Governmental Funds
Assets:							
Cash and pooled investments	\$ 1,537,470	\$ 83,328	\$ 2,772,565	\$ 42,882	\$ -	\$ 2,411,048	\$ 6,847,293
Investments	-	-	-	-	-	1,705,606	1,705,606
Receivables (net of allowance for uncollectibles):							
Interest	6,346	-	32,151	5,103	-	31,698	75,298
Taxes	5,639,187	2,070,808	-	2,063,046	-	177,176	9,950,217
Accounts	139,133	-	-	-	-	1,677	140,810
Special assessments	-	-	-	-	-	8,696	8,696
Intergovernmental	207,463	-	274,083	-	203,523	333,758	1,018,827
Advances to other funds	-	105,227	2,299,056	-	-	47,990	2,452,273
Prepaid insurance	11,785	-	-	-	-	-	11,785
Total assets	7,541,384	2,259,363	5,377,855	2,111,031	203,523	4,717,649	22,210,805
Liabilities and fund balances							
Liabilities:							
Accounts payable and accruals	212,324	-	-	-	656,124	105,755	974,203
Due to federal government	-	-	-	-	-	264,154	264,154
Advances from other funds	-	-	-	-	2,028,667	423,606	2,452,273
Matured general obligation bond interest payable	-	-	-	419	-	-	419
Deferred revenue	5,603,803	2,048,255	-	2,042,829	-	178,153	9,873,040
Total liabilities	5,816,127	2,048,255	-	2,043,248	2,684,791	971,668	13,564,089
Fund balances:							
Reserved for:							
Encumbrances	27,589	-	-	-	-	-	27,589
Advances to other funds	-	105,227	2,299,056	-	-	47,990	2,452,273
Perpetual care	-	-	-	-	-	791,388	791,388
Endowments	-	-	-	-	-	183,499	183,499
Debt service	-	-	-	67,783	-	-	67,783
Capital projects	-	-	-	-	-	39,530	39,530
Unreserved, reported in:							
General fund	1,697,668	-	-	-	-	-	1,697,668
Special revenue funds	-	105,881	3,078,799	-	(2,481,268)	2,498,652	3,202,064
Capital projects funds	-	-	-	-	-	184,922	184,922
Total fund balances	1,725,257	211,108	5,377,855	67,783	(2,481,268)	3,745,981	8,646,716
Total liabilities and fund balances	\$ 7,541,384	\$ 2,259,363	\$ 5,377,855	\$ 2,111,031	\$ 203,523	\$ 4,717,649	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	60,042,496
Unamortized balance of deferred charge for bond issuance costs not reported in the funds	23,963
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	8,696
Internal service funds are used by management to charge the costs of equipment services, central supplies and health insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	534,787
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bonds payable	(8,866,770)
Capital lease payable	(9,249)
Accrued interest payable	(30,871)
Compensated absences	(929,131)
Net assets of governmental activities	<u>\$ 59,420,657</u>

The notes to the financial statements are an integral part of this statement.

City of Muscatine, Iowa

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

For the Year Ended June 30, 2005

	General	Employee Benefits	Local Option Sales Tax	Debt Service	Pearl of the Mississippi Project	Other Governmental Funds	Total Governmental Funds
Revenues:							
Taxes:							
Property	\$ 5,352,914	\$ 1,949,349	\$ -	\$ 1,786,742	\$ -	\$ 1,153,605	\$ 10,242,610
Utility	37,134	13,536	-	11,833	-	1,135	327,575
Hotel/motel	327,575	-	-	-	-	-	63,638
Cable franchise	238,788	-	-	-	-	-	327,575
Local option sales	-	-	1,938,370	-	-	-	238,788
Licenses and permits	301,322	-	-	-	-	-	1,938,370
Fines and forfeitures	149,785	-	-	-	-	-	301,322
Intergovernmental	464,572	-	-	36,242	403,523	3,709,438	149,785
Charges for services	478,454	-	-	-	-	-	4,613,775
Use of money and property	148,467	-	104,682	13,566	-	88,250	478,454
Special assessments	-	-	-	-	-	6,882	354,965
Other	619,060	-	-	-	379,750	696,348	6,882
Total revenues	8,118,071	1,962,885	2,043,052	1,848,383	783,273	5,655,658	20,411,322
Expenditures:							
Current:							
Public safety	5,393,865	-	-	-	-	3,817	5,397,682
Public works	1,487,544	-	-	-	-	-	1,487,544
Health and social services	15,700	-	-	-	-	-	15,700
Culture and recreation	2,311,652	-	-	-	-	-	2,366,457
Community and economic development	581,714	-	-	-	-	54,805	2,388,844
General government	1,594,378	-	-	-	-	1,807,130	1,594,378
Debt service:							
Principal	2,790	-	-	1,115,000	-	260,000	1,377,790
Interest	700	-	-	254,760	-	163,517	418,977
Paying agent	-	-	-	2,400	-	-	2,400
Capital outlay:							
Public safety	90,465	-	-	-	-	340,910	431,375
Public works	136,007	-	-	-	-	421,120	557,127
Culture and recreation	148,115	-	-	-	3,255,315	453,718	3,857,148
Community and economic development	-	-	-	-	-	782,542	782,542
General government	43,901	-	-	-	-	37,230	81,131
Total expenditures	11,806,831	-	-	1,372,160	3,255,315	4,324,789	20,759,095
Revenues over (under) expenditures	(3,688,760)	1,962,885	2,043,052	476,223	(2,472,042)	1,330,869	(347,773)
Other financing sources (uses):							
Transfers in	3,925,182	196,251	-	-	193,837	758,993	5,074,263
Transfers out	(425,508)	(2,067,748)	(1,664,634)	(470,000)	-	(2,597,609)	(7,225,499)
Total other financing sources (uses)	3,499,674	(1,871,497)	(1,664,634)	(470,000)	193,837	(1,838,616)	(2,151,236)
Net change in fund balances	(189,086)	91,388	378,418	6,223	(2,278,205)	(507,747)	(2,499,009)
Fund balances, June 30, 2004	1,914,343	119,720	4,999,437	61,560	(203,063)	4,253,728	11,145,725
Fund balances, June 30, 2005	\$ 1,725,257	\$ 211,108	\$ 5,377,855	\$ 67,783	\$ (2,481,268)	\$ 3,745,981	\$ 8,646,716

The notes to the financial statements are an integral part of this statement.

City of Muscatine, Iowa

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities

Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (2,499,009)
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets:	
Capital asset purchases capitalized	4,103,765
Depreciation expense	(2,528,716)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets.	(26,976)
Revenues in the governmental funds not reflected as revenue in the statement of activities since recognized in prior years	
Collection of prior year special assessments	(5,689)
The issuance of long-term debt (i.e. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
General obligation bond principal payments	1,115,000
Tax increment bond principal payments	260,000
Capital lease principal payments	2,790
Net effects of bond issuance costs, premiums and discounts	(4,015)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:	
Change in compensated absences	(26,428)
Change in accrued interest payable	(4)
Internal service funds are used by management to charge the costs of equipment services, central office supplies, health and dental insurance to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities.	(298,687)
Change in net assets of governmental activities	<u>\$ 92,031</u>

The notes to the financial statements are an integral part of this statement.

City of Muscatine, Iowa

Statement of Net Assets
Proprietary Funds
June 30, 2005

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water Pollution Control	Transfer Station	Other Enterprise Funds	Total	
Assets:					
Current assets:					
Cash and pooled investments	\$ 4,198,085	\$ -	\$ 473,842	\$ 4,671,927	\$ 815,783
Investments	-	-	607,133	607,133	-
Receivables (net of allowance for uncollectibles):					
Interest	32,147	-	6,737	38,884	4,551
Accounts	392,479	701,904	311,693	1,406,076	7,450
Intergovernmental:					
Federal	-	-	74,054	74,054	-
State	-	-	6,938	6,938	-
County	-	-	31,400	31,400	-
Advances to other funds	1,053,554	-	45,370	1,098,924	983
Advances to component unit	710,739	-	-	710,739	-
Inventories	-	-	3,085	3,085	123,330
Prepaid insurance	-	-	1,152	1,152	-
Total current assets	6,387,004	701,904	1,561,404	8,650,312	952,097
Noncurrent assets:					
Restricted cash and pooled investments	-	10,004	-	10,004	-
Deferred charges	5,208	24,422	2,368	31,998	-
Capital assets:					
Land	474,486	175,000	1,752,066	2,401,552	-
Land improvements	62,346	1,019,897	9,369,556	10,451,799	-
Buildings and building improvements	31,390,291	7,428,336	10,883,411	49,702,038	-
Equipment	1,316,008	246,988	556,928	2,119,924	122,889
Vehicles	620,118	392,938	1,481,890	2,494,946	44,570
Infrastructure	26,824,759	-	-	26,824,759	-
Construction in progress	532,908	-	42,708	575,616	-
Less accumulated depreciation	(24,780,574)	(2,840,765)	(11,955,136)	(39,576,475)	(152,236)
Total capital assets net of accumulated depreciation	36,440,342	6,422,394	12,131,423	54,994,159	15,223
Total noncurrent assets	36,445,550	6,456,820	12,133,791	55,036,161	15,223
Total assets	42,832,554	7,158,724	13,695,195	63,686,473	967,320
Liabilities:					
Current liabilities:					
Accounts payable and accruals	394,662	37,562	164,675	596,899	404,808
Compensated absences payable	82,706	6,984	77,547	167,237	11,458
Advances from other funds	-	1,053,554	45,370	1,098,924	983
Deposits	-	-	28,001	28,001	-
Accrued interest payable	5,840	21,349	2,939	30,128	-
Unearned revenue	-	-	33,707	33,707	-
General obligation bonds	371,866	460,303	64,270	896,439	-
Total current liabilities	855,074	1,579,752	416,509	2,851,335	417,249
Noncurrent liabilities:					
General obligation bonds	1,225,599	4,671,324	650,254	6,547,177	-
Compensated absences	102,033	14,443	66,303	182,779	15,284
Transfer station closure obligation	-	25,020	-	25,020	-
Total noncurrent liabilities	1,327,632	4,710,787	716,557	6,754,976	15,284
Total liabilities	2,182,706	6,290,539	1,133,066	9,606,311	432,533
Net assets:					
Invested in capital assets, net of related debt	34,842,877	1,290,767	11,416,899	47,550,543	15,223
Unrestricted	5,806,971	(422,582)	1,145,230	6,529,619	519,564
Total net assets	\$ 40,649,848	\$ 868,185	\$ 12,562,129	\$ 54,080,162	\$ 534,787

The notes to the financial statements are an integral part of this statement.

City of Muscatine, Iowa

Statement of Revenues, Expenses and Changes In Net Assets
 Proprietary Funds
 For the Year Ended June 30, 2005

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water Pollution Control	Transfer Station	Other Enterprise Funds	Total	
Operating revenues:					
Charges for sales and services	\$ 3,529,845	\$ 1,852,160	\$ 3,063,498	\$ 8,445,503	\$ 719,572
Employer contributions	-	-	-	-	1,413,138
Employee contributions	-	-	-	-	86,871
Other contributions	-	-	-	-	73,693
Other	82,361	46,133	134,481	262,975	-
Total operating revenues	3,612,206	1,898,293	3,197,979	8,708,478	2,293,274
Operating expenses:					
Cost of sales and services:					
Personal services	1,511,643	167,674	2,141,272	3,820,589	208,102
Commodities	193,350	23,439	332,349	549,138	355,134
Contractual services	672,538	1,365,826	1,150,055	3,188,419	1,988,392
Administration	113,300	-	245,850	359,150	11,900
Depreciation	1,554,183	310,497	1,015,586	2,880,266	2,379
Total operating expenses	4,045,014	1,867,436	4,885,112	10,797,562	2,565,907
Operating income (loss)	(432,808)	30,857	(1,687,133)	(2,089,084)	(272,633)
Non-operating revenues (expenses):					
Intergovernmental	-	46,644	504,516	551,160	-
Interest revenue	107,168	-	23,520	130,688	16,245
Interest expense	(87,651)	(311,358)	(41,990)	(440,999)	-
Bond issuance costs	(1,301)	(2,714)	(263)	(4,278)	-
Gain (loss) on sale of capital assets	(932)	-	(107,696)	(108,628)	-
Non-operating revenues (expenses), net	17,284	(267,428)	378,087	127,943	16,245
Income (loss) before capital contributions and transfers	(415,524)	(236,571)	(1,309,046)	(1,961,141)	(256,388)
Capital contributions - grants	-	-	296,941	296,941	-
Transfers in	1,428,712	470,000	344,823	2,243,535	-
Transfers out	(7,780)	-	(50,000)	(57,780)	(42,299)
Change in net assets	1,005,408	233,429	(717,282)	521,555	(298,687)
Net assets, June 30, 2004	39,644,440	634,756	13,279,411	53,558,607	833,474
Net assets, June 30, 2005	\$ 40,649,848	\$ 868,185	\$ 12,562,129	\$ 54,080,162	\$ 534,787

The notes to the financial statements are an integral part of this statement.

City of Muscatine, Iowa
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2005

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water Pollution Control	Transfer Station	Other Enterprise Funds	Total	
Cash flows from operating activities					
Receipts from customers and users	\$ 3,631,761	\$ 1,638,348	\$ 3,171,255	\$ 8,441,364	\$ -
Receipts from interfund services provided	-	-	-	-	2,289,326
Payments to suppliers	(1,213,869)	(1,330,312)	(1,187,711)	(3,731,892)	(2,191,403)
Payments to employees	(895,223)	(131,496)	(1,654,815)	(2,681,534)	(156,011)
Payments for employee benefits	(309,567)	(52,055)	(471,924)	(833,546)	(52,972)
Payments for interfund services used	(116,727)	(76,740)	(536,874)	(730,341)	(11,900)
Net cash provided (used) by operating activities	<u>1,096,375</u>	<u>47,745</u>	<u>(680,069)</u>	<u>464,051</u>	<u>(122,960)</u>
Cash flows from noncapital financing activities					
Transfers to other funds	-	-	(50,000)	(50,000)	(42,299)
Transfers from other funds	1,428,712	470,000	344,823	2,243,535	-
Advances from other funds	-	213,573	45,370	258,943	42
Advances to other funds	(213,573)	-	(45,370)	(258,943)	(42)
Advance to solid waste component unit	(538,059)	-	-	(538,059)	-
Repayment of advances from other funds	-	-	(14,477)	(14,477)	-
Repayment of advances to other funds	-	-	74,934	74,934	-
Subsidies from federal, state and local grants	-	46,644	522,152	568,796	-
Net cash provided (used) by noncapital financing activities	<u>677,080</u>	<u>730,217</u>	<u>877,432</u>	<u>2,284,729</u>	<u>(42,299)</u>
Cash flows from capital and related financing activities					
Capital contributions	-	-	540,643	540,643	-
Purchase of capital assets	(1,530,822)	(21,562)	(1,034,454)	(2,586,838)	(5,961)
Principal paid on capital debt	(375,000)	(474,627)	(65,373)	(915,000)	-
Interest paid on capital debt	(85,830)	(276,767)	(38,104)	(400,701)	-
Proceeds from sales of capital assets	-	-	27,353	27,353	-
Net cash provided (used) by capital and related financing activities	<u>(1,991,652)</u>	<u>(772,956)</u>	<u>(569,935)</u>	<u>(3,334,543)</u>	<u>(5,961)</u>
Cash flows from investing activities					
Proceeds from sales and maturities of investments	-	-	1,363,650	1,363,650	-
Purchase of investments	-	-	(1,391,565)	(1,391,565)	-
Interest received	92,719	-	23,995	116,714	14,741
Net cash provided (used) by investing activities	<u>92,719</u>	<u>-</u>	<u>(3,920)</u>	<u>88,799</u>	<u>14,741</u>
Net increase (decrease) in cash and pooled investments	(125,478)	5,006	(376,492)	(496,964)	(156,479)
Cash and pooled investments, June 30, 2004	<u>4,323,563</u>	<u>4,998</u>	<u>850,334</u>	<u>5,178,895</u>	<u>972,262</u>
Cash and pooled investments, June 30, 2005	<u>\$ 4,198,085</u>	<u>\$ 10,004</u>	<u>\$ 473,842</u>	<u>\$ 4,681,931</u>	<u>\$ 815,783</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Cash flows from operating activities:					
Operating income (loss)	\$ (432,808)	\$ 30,857	\$ (1,687,133)	\$ (2,089,084)	\$ (272,633)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	1,554,183	310,497	1,015,586	2,880,266	2,379
Changes in assets and liabilities:					
(Increase) decrease in:					
Accounts receivable	19,555	(259,945)	7,512	(232,878)	(3,948)
Intergovernmental receivable	-	-	(31,400)	(31,400)	-
Inventories	-	-	385	385	(22,208)
Prepaid insurance	-	-	1,152	1,152	-
Increase (decrease) in:					
Accounts payable and accruals	(48,145)	(17,817)	8,688	(57,274)	174,330
Compensated absences payable	3,590	(15,877)	7,977	(4,310)	(880)
Unearned revenue	-	-	(4,279)	(4,279)	-
Deposits	-	-	1,443	1,443	-
Transfer station closure obligation	-	30	-	30	-
Total adjustments	<u>1,529,183</u>	<u>16,888</u>	<u>1,007,064</u>	<u>2,553,135</u>	<u>149,673</u>
Net cash provided (used) by operating activities	<u>\$ 1,096,375</u>	<u>\$ 47,745</u>	<u>\$ (680,069)</u>	<u>\$ 464,051</u>	<u>\$ (122,960)</u>
Non-cash capital and related financing activities:					
Contribution of capital asset to government	<u>\$ (7,780)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (7,780)</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

City of Muscatine, Iowa

Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2005

	<u>Agency Funds</u>
Assets:	
Cash and pooled investments	\$ 627,467
Accounts receivable	50,400
Advances to other funds	<u>49,720</u>
Total assets	<u><u>727,587</u></u>
Liabilities:	
Accounts payable and accruals	677,867
Advances from other funds	<u>49,720</u>
Total liabilities	<u><u>\$ 727,587</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF MUSCATINE, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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:

1. Summary of Significant Accounting Policies
2. Budgets
3. Deposits and Investments
4. Interfund Receivables and Payables
5. Restricted Assets
6. Capital Assets
7. Capital Lease
8. Long-Term Debt
9. Landfill Closure and Postclosure Care Cost
10. Retirement Systems
11. Deficit Fund Equity
12. Post Employment Health and Dental Care Benefits
13. Industrial Revenue Bonds
14. Risk Management
15. Commitments and Contingencies
16. New Governmental Accounting Standards Board (GASB) Standards

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, 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, and Wilton, 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. 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/Municipal Disaster Services (Civil Defense) Board; Muscatine Community Nursing 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 changes in net assets) 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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 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 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 90 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 approved by the voters of the City and designated for storm and sanitary sewer improvements. Effective May 1, 2003, voters approved using up to 10% of future local option tax for the Pearl of the Mississippi Project.

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 *Pearl of the Mississippi project fund* accounts for all resources used in the acquisition and construction of capital facilities related to the Pearl of the Mississippi project.

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.

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 primarily as a clearing mechanism for cash resources which are collected by a governmental unit, held as such for a brief period and then disbursed to the authorized recipient.

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 reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

The County Treasurer bills and collects taxes for the City. Taxes for the year ended June 30, 2005, were certified with the County during the preceding fiscal year and were due in two equal installments by September 30, 2004 and March 31, 2005. Any County collections on the 2004-2005 tax levy remitted to the City within ninety days subsequent to June 30, 2005, are recorded as property tax revenues in the governmental fund statements. Taxes not collected and remitted to the City within ninety days subsequent to June 30, 2005, 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 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 two years. 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.

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:

<u>Assets</u>	<u>Years</u>
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. 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 straight-line 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.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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, Administrative Services 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, 2005, the budget was amended twice to increase expenditures \$153,177 primarily for public improvements.

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, which reserve a portion of the appropriation. For financial reporting purposes, encumbrances outstanding at year-end are recognized and reflected as a reserved 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 exceeded the budgeted amount in the debt service function by \$2,890. This was due to lease-purchase payments of \$3,490 for Finance department equipment which were budgeted in the general government function rather than the debt service area.

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, 2005, the deposits and investments of the City consist of the following:

Petty cash and undeposited cash	\$ 140,888
Cash in bank	252,224
Savings accounts	28,131
Money market accounts	488,787
Iowa Public Agency Investment Trust	1,053,949
Certificates of deposit	<u>13,953,000</u>
	<u>\$ 15,916,979</u>

As of June 30, 2005, the carrying amount of the City's deposits with financial institutions totaled \$14,864,590 and the bank balances were \$14,948,703. 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 fair value of the City's position in the IPAIT pool is the same as the value of the pool.

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 in the Iowa Public Agency Investment Trust 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, 2004 MP&W’s deposits and investments consist of the following:

	<u>Fair Value</u>
Cash in bank	\$ 13,024
U.S. government securities	<u>45,864,219</u>
	<u>\$ 45,877,243</u>

As of December 31, 2004, the carrying amount of MP&W’s deposits with financial institutions totaled \$10,732, and the bank balances were \$513,538. 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.

As of December 31, 2004, all of MP&W’s investments were considered to be in risk category 1.

NOTE 4. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances at June 30, 2005 consist of the following:

		Due from						
		Pearl of the Mississippi Project	Nonmajor Governmental	Transfer Station	Nonmajor Enterprise	Internal Service	Fiduciary	Totals
Due to	Employee benefits	\$ -	\$ 105,227	\$ -	\$ -	\$ -	\$ -	\$ 105,227
	Local option sales tax	2,028,667	270,389	-	-	-	-	2,299,056
	Nonmajor governmental	-	47,990	-	-	-	-	47,990
	Water pollution control	-	-	1,053,554	-	-	-	1,053,554
	Nonmajor enterprise	-	-	-	45,370	-	-	45,370
	Internal service	-	-	-	-	983	-	983
	Fiduciary	-	-	-	-	-	49,720	49,720
Total		\$ 2,028,667	\$ 423,606	\$ 1,053,554	\$ 45,370	\$ 983	\$ 49,720	\$ 3,601,900

The \$1,053,554 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 internal service funds, and (2) the time lag of receipts into the various funds.

Interfund transfers for the year are as follows:

		Transfers from							
		General	Employee Benefits	Local Option Sales Tax	Debt Service	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Totals
Transfers to	General	\$ -	\$ 2,067,748	\$ -	\$ -	\$ 1,765,135	\$ 50,000	\$ 42,299	\$ 3,925,182
	Employee benefits	-	-	-	-	196,251	-	-	196,251
	Pearl of the Mississippi project	-	-	193,837	-	-	-	-	193,837
	Nonmajor governmental	154,565	-	42,085	-	562,343	-	-	758,993
	Water pollution control	-	-	1,428,712	-	-	-	-	1,428,712
	Transfer station	-	-	-	470,000	-	-	-	470,000
	Nonmajor enterprise	270,943	-	-	-	73,880	-	-	344,823
Total		\$ 425,508	\$ 2,067,748	\$ 1,664,634	\$ 470,000	\$ 2,597,609	\$ 50,000	\$ 42,299	\$ 7,317,798

Transfers are used to move revenues from the fund that State statutes or the budget requires them to be collected in to the fund the State statutes or the budget requires them to be expended.

NOTE 5. RESTRICTED ASSETS

Transfer Station assets of \$10,004 at June 30, 2005 are classified as restricted because their use is restricted to provide for Transfer Station closure costs.

Solid Waste Agency assets of \$631,766 at June 30, 2005 are classified as restricted because their use is restricted to provide for the cost of future landfill closure and post-closure costs.

MP&W's restricted assets represent amounts set aside under the terms of the bond resolutions relating to the utility's revenue bonds or by the Board. In accordance with the covenants of the bond resolutions, the amounts have been segregated into various funds or accounts. The rate stabilization fund and the depreciation, extension and improvement fund may be used for capital or other funding requirements, and the extraordinary operation and maintenance account may be used for extraordinary operating expenses at the discretion of the board.

The composition of the restricted funds as of December 31, 2004, was as follows:

Current accounts:	
Bond sinking fund	\$ 13,630,659
Depreciation, extension and improvement fund	1,518,455
Rate stabilization fund	10,468,962
Extraordinary operation and maintenance account	<u>14,116,600</u>
Total restricted assets	<u>\$ 39,734,676</u>

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 is as follows:

Primary government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 8,242,610	\$ 7,686	\$ -	\$ -	\$ 8,250,296
Art work	4,705,551	4,950	-	-	4,710,501
Construction in progress	164,232	3,797,450	(3,196,154)	-	765,528
Total capital assets, not being depreciated	<u>13,112,393</u>	<u>3,810,086</u>	<u>(3,196,154)</u>	<u>-</u>	<u>13,726,325</u>
Capital assets, being depreciated:					
Land improvements	10,590,733	2,038,336	-	(12,835)	12,616,234
Buildings	6,742,710	903,936	-	-	7,646,646
Building improvements	782,524	167,217	-	-	949,741
Equipment	4,630,628	123,875	(108,472)	12,835	4,658,866
Vehicles	3,388,764	188,088	-	139,263	3,716,115
Infrastructure	47,868,694	86,258	-	-	47,954,952
Total capital assets, being depreciated	<u>74,004,053</u>	<u>3,507,710</u>	<u>(108,472)</u>	<u>139,263</u>	<u>77,542,554</u>
Less accumulated depreciation for:					
Land improvements	(3,508,610)	(518,381)	-	-	(4,026,991)
Buildings	(3,641,223)	(171,708)	-	320	(3,812,931)
Building improvements	(204,824)	(56,639)	-	-	(261,463)
Equipment	(1,821,203)	(313,395)	61,799	(320)	(2,073,119)
Vehicles	(2,171,623)	(267,225)	-	(131,483)	(2,570,331)
Infrastructure	(17,262,898)	(1,203,747)	-	-	(18,466,645)
Total accumulated depreciation	<u>(28,610,381)</u>	<u>(2,531,095)</u>	<u>61,799</u>	<u>(131,483)</u>	<u>(31,211,160)</u>
Total capital assets, being depreciated, net	<u>45,393,672</u>	<u>976,615</u>	<u>(46,673)</u>	<u>7,780</u>	<u>46,331,394</u>
Governmental activities capital assets, net	<u>\$ 58,506,065</u>	<u>\$ 4,786,701</u>	<u>\$ (3,242,827)</u>	<u>\$ 7,780</u>	<u>\$ 60,057,719</u>

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 2,536,601	\$ -	\$ (135,049)	\$ -	\$ 2,401,552
Construction in progress	774,110	2,205,064	(2,403,558)	-	575,616
Total capital assets, not being depreciated	3,310,711	2,205,064	(2,538,607)	-	2,977,168
Capital assets, being depreciated:					
Land improvements	10,432,092	19,707	-	-	10,451,799
Buildings	45,969,243	933,680	-	-	46,902,923
Building improvements	2,723,967	75,148	-	-	2,799,115
Equipment	2,091,329	81,958	(53,363)	-	2,119,924
Vehicles	2,337,143	341,374	(82,894)	(100,677)	2,494,946
Sewer system	25,380,327	1,444,432	-	-	26,824,759
Total capital assets, being depreciated	88,934,101	2,896,299	(136,257)	(100,677)	91,593,466
Less accumulated depreciation for:					
Land improvements	(5,611,258)	(589,197)	-	-	(6,200,455)
Buildings	(20,196,007)	(1,270,860)	-	-	(21,466,867)
Building improvements	(1,058,215)	(132,566)	-	-	(1,190,781)
Equipment	(1,194,439)	(168,483)	47,075	-	(1,315,847)
Vehicles	(1,517,380)	(197,109)	82,894	92,897	(1,538,698)
Sewer system	(7,341,776)	(522,051)	-	-	(7,863,827)
Total accumulated depreciation	(36,919,075)	(2,880,266)	129,969	92,897	(39,576,475)
Total capital assets, being depreciated, net	52,015,026	16,033	(6,288)	(7,780)	52,016,991
Business type activities capital assets, net	\$ 55,325,737	\$ 2,221,097	\$ (2,544,895)	\$ (7,780)	\$ 54,994,159

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

Governmental activities:	
Public safety	\$ 273,982
Public works	1,381,638
Culture and recreation	835,504
Community and economic development	13,462
General government	24,130
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	2,379
Total depreciation expense – governmental activities	\$ 2,531,095
Business-type activities:	
Water pollution control plant	\$ 1,554,183
Refuse collection	84,803
Transfer station	310,497
Airport	457,343
Parking	37,291
Transit	46,184
Golf course	83,544
Boat harbor	9,807
Ambulance	47,114
Public housing	249,500
Total depreciation expense – business-type activities	\$ 2,880,266

Discretely presented component units

Activity for the Solid Waste Agency for the year ended June 30, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 445,531	\$ 595,556	\$ -	\$ 1,041,087
Capital assets, being depreciated:				
Land improvements	41,975	-	-	41,975
Buildings	42,314	120,092	(5,000)	157,406
Equipment	9,237	-	-	9,237
Vehicles	18,095	-	(18,095)	-
Leachate collection system	564,686	-	-	564,686
Total capital assets, being depreciated	676,307	120,092	(23,095)	773,304
Less accumulated depreciation for:				
Land improvements	(11,622)	(3,124)	-	(14,746)
Buildings	(13,862)	(2,434)	5,000	(11,296)
Equipment	(4,157)	(924)	-	(5,081)
Vehicles	(18,095)	-	18,095	-
Leachate collection system	(116,116)	(18,823)	-	(134,939)
Total accumulated depreciation	(163,852)	(25,305)	23,095	(166,062)
Total capital assets, being depreciated, net	512,455	94,787	-	607,242
Solid Waste Agency capital assets, net	\$ 957,986	\$ 690,343	\$ -	\$ 1,648,329

Activity for Muscatine Power & Water for the year ended December 31, 2004 was as follows.

	Beginning Balance	Increases/ Reclassifications	Decreases	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land and land rights	\$ 3,074,504	\$ -	\$ (169,382)	\$ 28,675	\$ 2,933,797
Construction work in progress	1,798,811	6,944,500	-	(7,568,820)	1,174,491
Total capital assets, not being depreciated	4,873,315	6,944,500	(169,382)	(7,540,145)	4,108,288
Capital assets, being depreciated:					
Generation plant	305,581,352	51,943	(1,024,109)	4,005,828	308,615,014
Transmission and distribution plant	46,470,893	629,117	(314,276)	1,003,378	47,789,112
General plant	18,691,638	199,732	(357,454)	653,963	19,187,879
Source of supply	1,447,541	-	-	-	1,447,541
Pumping equipment	1,037,491	16,344	(26,130)	84,867	1,112,572
Purification equipment	976,036	7,743	-	17,094	1,000,873
Distribution system	10,474,233	284,466	(30,004)	1,729,443	12,458,138
Network operations plant	21,460,904	625,948	(481,665)	45,572	21,650,759
Total capital assets being depreciated	406,140,088	1,815,293	(2,233,638)	7,540,145	413,261,888
Less accumulated depreciation for:					
Generation plant	166,506,832	9,962,916	(746,192)	-	175,723,556
Transmission and distribution plant	27,972,732	1,775,868	(347,807)	-	29,400,793
General plant	9,887,743	1,341,762	(290,024)	-	10,939,481
Unallocated contribution in aid of construction	660,488	-	-	-	660,488
Source of supply	842,089	48,252	-	-	890,341
Pumping equipment	484,521	33,888	(26,131)	-	492,278
Purification system	556,340	26,052	-	-	582,392
Distribution system	4,186,430	232,140	(29,114)	-	4,389,456
Network operations plant and general plant	6,760,841	2,322,524	(293,696)	-	8,789,669
Total accumulated depreciation	217,858,016	15,743,402	(1,732,964)	-	231,868,454
Total capital assets, being depreciated, net	188,282,072	(13,928,109)	(500,674)	7,540,145	181,393,434
Muscatine Power & Water capital assets, net	\$ 193,155,387	\$ (6,983,609)	\$ (670,056)	\$ -	\$ 185,501,722

NOTE 7. CAPITAL LEASE

The government has entered into a lease agreement as lessee for financing the acquisition of finance department equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The asset acquired through capital lease is as follows:

Copier	\$ 14,863
Less accumulated depreciation	<u>(7,432)</u>
Book value June 30, 2005	<u>\$ 7,431</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2005 were as follows:

<u>Year Ending June 30</u>	
2006	\$ 3,490
2007	3,490
2008	<u>3,198</u>
Total minimum lease payments	10,178
Less: amount representing interest	<u>(929)</u>
Present value of minimum lease payments	<u>\$ 9,249</u>

NOTE 8. LONG-TERM DEBT

General Obligation Bonds. The general obligation bonds outstanding as of June 30, 2005 total \$13,065,386. These bonds bear interest at rates ranging from 1.15% to 5.20%. 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 long-term 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, 2005 consist of the following individual issues:

	<u>Issue Date</u>	<u>Amount Issued</u>	<u>Interest Rates</u>	<u>Balance 6/30/2005</u>		<u>Governmental Activities</u>	<u>Business-Type Activities</u>
General obligation bonds							
General corporate	12/1/1995	\$ 3,800,000	4.45-5.20%	\$ 1,736,972 (1)	\$	160,000	\$ 1,576,972
General corporate	6/1/1997	1,735,000	4.70-5.00	475,000		475,000	-
General corporate	6/1/1998	7,765,000	4.30-4.80	4,494,179 (2)		225,000	4,269,179
General corporate	6/1/1999	3,910,000	4.20-4.40	1,712,465 (3)		115,000	1,597,465
General corporate	6/1/2001	4,300,000	4.00-4.40	3,075,000		3,075,000	-
General corporate	6/1/2002	100,000	3.25	25,000		25,000	-
General corporate	6/1/2003	1,780,000	1.15-3.00	1,546,770 (4)		1,546,770	-
				<u>\$ 13,065,386</u>		<u>\$ 5,621,770</u>	<u>\$ 7,443,616</u>

1. Net of unamortized discount of \$8,028
2. Net of unamortized discount/charge of \$355,821
3. Net of unamortized discount of \$12,535
4. Net of unamortized discount of \$8,230

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

Year Ending June 30	Governmental		Business-Type	
	Principal	Interest	Principal	Interest
2006	\$ 1,128,971	\$ 212,736	\$ 896,438	\$ 361,536
2007	1,008,971	169,132	941,438	320,635
2008	793,971	129,928	996,438	276,980
2009	743,971	100,590	1,031,439	230,290
2010	743,971	72,684	644,572	181,595
2011-2014	1,201,915	62,889	2,933,291	384,881
	<u>\$ 5,621,770</u>	<u>\$ 747,959</u>	<u>\$ 7,443,616</u>	<u>\$ 1,755,917</u>

Tax Increment Revenue Bonds. The City issued \$1,795,000 of tax increment revenue bonds in June 1997. The proceeds of these bonds are to be used to pay a portion of the cost of carrying out projects in the Downtown Urban Renewal Area. Repayment of these bonds is to come 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.

Tax increment revenue bonds as of June 30, 2005 consist of the following issues:

	Issue Date	Amount Issued	Interest Rates	Balance June 30, 2005
Tax Increment Revenue Bonds:				
Urban Renewal Tax Increment Revenue Bonds	6/26/1997	\$ 1,795,000	5.25-5.75%	\$ 1,050,000
Urban Renewal Tax Increment Revenue Bonds	4/23/2004	420,000	1.80-4.25	395,000
Urban Renewal Tax Increment Revenue Bonds	6/24/2004	1,885,000	2.15-5.90	<u>1,800,000</u>
				<u>\$ 3,245,000</u>

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

Year Ending June 30	Governmental	
	Principal	Interest
2006	\$ 265,000	\$ 157,716
2007	280,000	146,978
2008	285,000	135,138
2009	300,000	122,666
2010	310,000	108,983
2011-2015	995,000	341,396
2016-2020	660,000	158,245
2021	150,000	8,850
	<u>\$ 3,245,000</u>	<u>\$ 1,179,972</u>

Changes in Long-Term Debt. Long-term liability activity for the year ended June 30, 2005 was as follows:

Primary government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 6,745,000	\$ -	\$ (1,115,000)	\$ 5,630,000	\$ 1,130,000
Tax increment revenue bonds	3,505,000	-	(260,000)	3,245,000	265,000
Less issuance discounts	(9,259)	-	1,029	(8,230)	(1,029)
Total bonds payable	10,240,741	-	(1,373,971)	8,866,770	1,393,971
Capital leases	12,039	-	(2,790)	9,249	2,976
Compensated absences	930,326	544,784	(519,237)	955,873	479,100
Governmental activity long-term liabilities	<u>\$ 11,183,106</u>	<u>\$ 544,784</u>	<u>\$ (1,895,998)</u>	<u>\$ 9,831,892</u>	<u>\$ 1,876,047</u>
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 8,735,001	\$ -	\$ (915,000)	\$ 7,820,001	\$ 940,000
Less issuance discounts	(419,947)	-	43,562	(376,385)	(43,562)
Total bonds payable	8,315,054	-	(871,438)	7,443,616	896,438
Compensated absences	354,328	254,238	(258,548)	350,018	167,238
Business-type activity long-term liabilities	<u>\$ 8,669,382</u>	<u>\$ 254,238</u>	<u>\$ (1,129,986)</u>	<u>\$ 7,793,634</u>	<u>\$ 1,063,676</u>

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 \$26,742 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, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 14,307	\$ 4,826	\$ (11,869)	\$ 7,264	\$ 2,668

Activity for Muscatine Power & Water Electric Utility for the year ended December 31, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Series 1998 revenue bonds	\$ 10,230,000	\$ -	\$ (10,230,000)	\$ -
Series 2001 revenue bonds	49,090,000	-	-	49,090,000
Series 2002 revenue bonds	48,000,000	-	-	48,000,000
	107,320,000	-	(10,230,000)	97,090,000
Unamortized portion of deferred loss on refundings	(3,498,457)	-	953,110	(2,545,347)
Unamortized portion of revenue bond premiums	2,156,330	-	(336,432)	1,819,898
Total long-term debt	105,977,873	\$ -	\$ (9,613,322)	96,364,551
Less current installments	10,230,000	-	-	11,465,000
Long-term debt, net of current portion	<u>\$ 95,747,873</u>			<u>\$ 84,899,551</u>

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. At December 31, 2004, they mature and bear interest as follows:

<u>Maturity Date</u>	Series 2002		Series 2001	
	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
January 1, 2005	\$ 11,465,000	2.7%	-	-
-	-	-	-	-
2006	11,780,000	3.2	-	-
2007	12,160,000	3.6	-	-
2008	12,595,000	4.0	-	-
2009	-	-	\$ 11,305,000	5.5%
2010	-	-	11,930,000	5.5
2011	-	-	12,585,000	5.5
2012	-	-	<u>13,270,000</u>	5.5
-	-	-	-	-
	<u>\$ 48,000,000</u>		<u>\$ 49,090,000</u>	

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 \$91,400,000 at December 31, 2004. The bonds and corresponding trust funds are not included on the balance sheet at December 31, 2004 as the outstanding bonds are considered defeased.

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.

Activity for Muscatine Power & Water Communications Utility for the year ended December 31, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Other long-term obligations	\$ 30,959	\$ -	\$ (30,959)	\$ -
Less current portion	<u>30,959</u>			<u>-</u>
Long-term liabilities, net of current portion	<u>\$ -</u>			<u>\$ -</u>

NOTE 9. 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 \$1,145,555 reported as landfill closure and post closure care liability at June 30, 2005, represents the cumulative amount reported to date based on the use of 55% of the estimated capacity of the current landfill property. The Agency will recognize the remaining estimated cost of closure and post closure care of \$445,245 as the remaining estimated capacity is filled over the 23 remaining years.

These amounts are based on what it would cost to perform all closure and post closure care in 2005. The Agency expects the currently-permitted landfill property to reach its capacity in 2028. 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 10. 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.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$341,440, \$352,453, and \$348,653, 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, 2836 104th Street, Urbandale, Iowa 50322.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 17% of earnable compensation. Contribution requirements are established by State statute. The City's contributions to the Plan for the years ended June 30, 2005, 2004 and 2003 were \$800,972, \$641,133 and \$515,548, 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 police chief of the City has taken this option. Therefore, during the year the City has contributed a total of \$8,632 to this retirement program for the police chief. The City's contribution rate was comparable to the FICA and IPERS rates for other City employees.

Also, the Iowa Public Employees Retirement System regulations exempt the City Administrator from participating in the state retirement system. Therefore, the City has made a retirement contribution to the ICMA retirement system for the City Administrator in lieu of IPERS. For the year ended June 30, 2005, this contribution totaled \$6,792, which represents a contribution level of 6% plus a lump sum contribution of \$500.

NOTE 11. DEFICIT FUND EQUITY

Several funds of the City have a fund balance deficit or have a deficit net assets as of June 30, 2005. These funds and the amount of the deficit are as follows:

<u>Fund</u>	<u>Deficit Amount</u>
Capital projects:	
Pearl of the Mississippi project	\$ 2,481,268
Community Development	36,650
Other Public Improvements	227,978

None of these deficits are considered a violation of any law, and they are all expected to be eliminated through future operations.

NOTE 12. POST EMPLOYMENT HEALTH AND DENTAL CARE BENEFITS

The City provides certain health care benefits for its retired employees. Upon normal retirement, employees have the option of continuing health and dental insurance coverage at their cost until the age of 65. For the year ended June 30, 2005, twenty-seven individuals participated in this continuation of health insurance coverage at a cost to these individuals of \$110,504.

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. For the year ended June 30, 2005, one individual was eligible for benefits under this program at a cost to the City of \$2,994.

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. For the year ended June 30, 2005, six individuals participated in the continuation of insurance coverage at a cost to the individuals of \$12,772.

NOTE 13. 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 \$17,373,644 as of June 30, 2005.

NOTE 14. 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 \$1,653,000 for 2005. 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 \$343,773 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, 2005 and 2004 are summarized as follows:

Liabilities at July 1, 2003	\$ 171,609
Claims and changes in estimates during fiscal year 2004	1,399,963
Claim payments	<u>(1,382,329)</u>
Liabilities at June 30, 2004	\$ 189,243
Claims and changes in estimates during fiscal year 2005	1,914,286
Claim payments	<u>(1,759,756)</u>
Liabilities at June 30, 2005	<u>\$ 343,773</u>

NOTE 15. COMMITMENTS AND CONTINGENCIES

The City Attorney has reported that as of June 30, 2005, 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.

Additionally, the employee benefit program for employees laid off as a result of budget reductions allows for the lump sum payment for unused sick leave in accordance with the standard policy currently in effect. The sick leave payoff provision is provided to all employees who are laid off as part of the budgetary process regardless of age or length of City employment. For the year ended June 30, 2005, there were no payments to employees under this program.

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, 2005, is \$5,375,106.

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 2006 is set at \$57,962.

The Solid Waste Agency had remaining contract commitments of \$9,550 as of June 30, 2005.

The Utility has a coal supply contract for a total contract minimum of 500,000 tons of coal for the years 2005 and 2006.

The Utility has an energy supply agreement to sell 10 megawatts of annual capacity with an 85% minimum load factor through May 31, 2007, and also contracted to sell 22 megawatts of annual capacity with an 85% minimum load factor through April 30, 2005, to two unaffiliated utilities. The contracts require the delivery of energy only if capacity is available or energy can otherwise be acquired by Muscatine Power & Water from other sources.

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 kilopounds). 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 Utility has a rail transportation agreement with two separate companies for the delivery of coal through December 31, 2006 and December 31, 2012. The utility's first agreement is for coal shipped from Campbell and Converse Counties, Wyoming to an interchange with the local delivery carrier. The price is subject to annual adjustment. The Utility's minimum requirement is that all tons shipped, up to 1,100,000 annually, from Campbell and Converse Counties, Wyoming shall be covered by this agreement. In the event that the utility does not meet their minimum requirement, the utility has agreed to pay a per ton penalty for up to 1,100,000 tons annually. The second 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.

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

The Governmental Accounting Standards Board (GASB) has issued six statements not yet implemented by the City of Muscatine. The statements, which might impact the City of Muscatine, are as follows:

Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* issued November 2003, will be effective for the City for the fiscal year ending June 30, 2006. This statement establishes accounting and financial reporting standards for impairment of capital assets and also clarifies and establishes accounting requirements for insurance recoveries.

Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* issued April 2004, will be effective for the City for the fiscal year ended June 30, 2008. This statement establishes uniform financial reporting standards for other post employment benefit (OPEB) plans and supersedes the interim guidance included in statement No. 26. This statement affects reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports.

Statement No. 44, *Economic Condition Reporting: The Statistical Section* issued May 2004, will be effective for the City for the fiscal year ended June 30, 2006. This statement amends previous guidance regarding preparation of the statistical section for governments that issue a comprehensive annual financial report.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* issued June 2004, will be effective for the city for the fiscal year ended June 30, 2009. This statement establishes standards for the measurement, recognition, and display of (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Statement No. 46, *Net Assets Restricted by Enabling Legislation* issued December 2004, will be effective for the City for the fiscal year ended June 30, 2006. This statement clarifies the definition of a legally enforceable enabling legislation restriction. It also specifies the accounting and financial reporting requirements for the restrictions and for any changes in them.

Statement No. 47, *Accounting for Termination Benefits* issued June 2005, establishes accounting standards for termination benefits. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45. For all other termination benefits, this Statement is effective for the fiscal year ended June 30, 2006.

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

**REQUIRED
SUPPLEMENTARY
INFORMATION**

City of Muscatine, Iowa

Budgetary Comparison Schedule of
Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - Budgetary Basis
Budgeted Governmental and Proprietary Funds

Required Supplementary Information

For the Year Ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final Budget to Actual Variance
				Original	Final	
Revenues:						
Taxes:						
Property	\$ 9,233,886	\$ -	\$ 9,233,886	\$ 9,239,618	\$ 9,239,618	\$ (5,732)
Tax increment financing	990,224	-	990,224	820,800	969,515	20,709
Other city tax	2,586,871	-	2,586,871	2,714,407	2,613,370	(26,499)
Licenses and permits	301,322	3,930	305,252	292,900	307,000	(1,748)
Use of money and property	354,964	780,842	1,135,806	920,070	975,800	160,006
Intergovernmental	4,577,533	832,857	5,410,390	7,184,812	6,366,935	(956,545)
Charges for services	478,454	8,810,027	9,288,481	8,973,700	9,051,200	237,281
Special assessments	6,882	1,209	8,091	6,800	7,400	691
Miscellaneous	1,844,944	1,748,385	3,593,329	2,612,700	3,831,150	(237,821)
Total revenues	20,375,080	12,177,250	32,552,330	32,765,807	33,361,988	(809,658)
Expenditures:						
Public safety	5,676,005	-	5,676,005	5,587,942	5,744,982	(68,977)
Public works	1,620,915	-	1,620,915	1,674,900	1,757,500	(136,585)
Health and social service	15,700	-	15,700	-	15,700	-
Culture and recreation	2,620,023	-	2,620,023	2,576,602	2,746,050	(126,027)
Community and economic development	2,388,844	-	2,388,844	2,509,725	2,434,626	(45,782)
General government	1,661,227	-	1,661,227	1,695,400	1,725,112	(63,885)
Debt service	3,114,868	-	3,114,868	3,113,014	3,111,978	2,890
Capital projects	4,968,573	-	4,968,573	5,791,862	6,204,094	(1,235,521)
Business type activities	-	13,757,590	13,757,590	15,645,080	15,007,660	(1,250,070)
Total expenditures	22,066,155	13,757,590	35,823,745	38,594,525	38,747,702	(2,923,957)
Revenues over (under) expenditures	(1,691,075)	(1,580,340)	(3,271,415)	(5,828,718)	(5,385,714)	(3,733,615)
Other financing sources (uses):						
Sale of property	-	25,100	25,100	-	-	25,100
Transfers in	5,956,206	2,775,034	8,731,240	10,606,457	9,534,971	(803,731)
Transfers out	(6,755,499)	(1,975,741)	(8,731,240)	(10,606,457)	(9,534,971)	803,731
Total other financing sources (uses)	(799,293)	824,393	25,100	-	-	25,100
Net change in fund balances	(2,490,368)	(755,947)	(3,246,315)	(5,828,718)	(5,385,714)	(3,708,515)
Fund balances, June 30, 2004	11,109,495	7,372,517	18,482,012	16,779,491	18,480,504	1,508
Fund balances, June 30, 2005	\$ 8,619,127	\$ 6,616,570	\$ 15,235,697	\$ 10,950,773	\$ 13,094,790	\$ (3,707,007)

City of Muscatine, Iowa
 Budget to GAAP Reconciliation
 Required Supplementary Information
 For the Year Ended June 30, 2005

	Governmental Funds			Proprietary Funds		
	Budget Basis	Adjustments	GAAP Basis	Enterprise and Budgeted Internal Service Funds Budget Basis	Adjustments	Business-Type Activities - Enterprise Funds GAAP Basis
Revenues	\$ 20,375,080	\$ 36,242	\$ 20,411,322	\$ 12,177,250	\$ (2,487,730)	\$ 9,689,520
Expenditures/expenses	22,066,155	(1,307,060)	20,759,095	13,757,590	(2,403,870)	11,353,720
Net	(1,691,075)	1,343,302	(347,773)	(1,580,340)	(83,860)	(1,664,200)
Other financing sources (uses), net	(799,293)	(1,351,943)	(2,151,236)	824,393	1,361,362	2,185,755
Beginning fund balances/net assets	11,109,495	36,230	11,145,725	7,372,517	46,186,090	53,558,607
Ending fund balances/net assets	<u>\$ 8,619,127</u>	<u>\$ 27,589</u>	<u>\$ 8,646,716</u>	<u>\$ 6,616,570</u>	<u>\$ 47,463,592</u>	<u>\$ 54,080,162</u>

CITY OF MUSCATINE, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2005

NOTE 1. Basis of Budgeting

Annual budgets are adopted following required public notice and hearings 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 (GAAP), 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. Encumbrances represent commitments related to unperformed contracts for goods or services and include purchase orders, contracts or other commitments for expenditures of resources, which reserve a portion of the appropriation. For budgetary purposes, encumbrances are recognized as a valid and proper charge against the budget appropriation in the year in which the commitment was issued. Encumbrances do not lapse at year-end and provide authorization for expenditure the following year. In the preceding budget schedules, expenditures include current fiscal year encumbrances and exclude the payment of prior year encumbrances. Additionally, all general obligation bond payments including those which for accounting purposes are accounted for through enterprise funds are budgeted in the debt service fund. The annual budget may be amended during the year following statutorily prescribed procedures.

NOTE 2. Budget Functions

Formal and legal budgetary control is based upon nine major classes of expenditures known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund, Enterprise Funds and certain Permanent and Internal Service Funds. Although the budget document presents expenditures by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$153,177. These budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005 expenditures in the health and social services function exceeded the originally budgeted amount prior to the budget amendment for this function. For the year ended June 30, 2005, disbursements in the debt service function exceeded the amount budgeted by \$2,890.

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are utilized to account for revenues derived from specific sources which are accounted for as separate funds. These funds are as follows:

COMMUNITY DEVELOPMENT BLOCK GRANT - Accounts for block grants received to rehabilitate and improve designated declining areas within the City.

ROAD USE TAX - Accounts for road use tax allocated to the City to be used to maintain and improve the City's street system.

EQUIPMENT REPLACEMENT - Accounts for appropriations for and replacement of capital equipment for general operations of the City.

COMPUTER REPLACEMENT - Accounts for appropriations for and replacement of computer hardware and software for the general operations of the City.

SECTION 8 HOUSING PROGRAM - Accounts for the operations of the City's Section 8 Housing Program which provides rental assistance to low income individuals and families in the City.

EMERGENCY TAX - Accounts for proceeds from the \$.27 per \$1,000 emergency tax levy.

POLICE AND FIRE PENSION - Accounts for the pension funds retained by the City when the former Police and Fire Pension Trusts were replaced by the statewide Municipal Fire and Police Retirement System of Iowa (MFPRSI) effective January 1, 1992. Funds are required to be used to make contributions to the MFPRSI.

CEBA GRANT - Accounts for State Community and Economic Betterment (CEBA) grants which provides funding for construction or expansion of local industries.

POLICE FORFEITURES - Accounts for funds received by the police department from seized and forfeited properties under guidelines established by the U.S. Department of Justice and the State of Iowa.

LAW ENFORCEMENT BLOCK GRANT - Accounts for funds received through this federal grant program which provides funding for crime prevention, law enforcement equipment and law enforcement overtime.

DOWNTOWN TAX INCREMENT - Accounts for the incremental taxes from the expanded Downtown Urban Renewal Area and the debt service requirements on the tax increment revenue bonds which financed improvements in the downtown area.

SOUTHEND TAX INCREMENT - Accounts for the incremental taxes from the Southend Urban Renewal Area which funded an economic development grant for an expanding business in this area, other improvements in the southend area, and the debt requirements on the tax increment revenue bonds which financed improvements in the southend area.

NORTHEAST TAX INCREMENT - Accounts for the incremental taxes from the Northeast Urban Renewal Area.

ART CENTER SPECIAL FUNDS - Accounts for the Alice Dodge Schaeffer Trust, the principal and interest of which is used for the conservation of furnishings, which accompanied this trust. Also accounts for the General Donations Trust which is used for cash donations to the Art Center either for specific purchases or general donations to be used to fund acquisitions designated by the Board of Trustees of the Art Center. Also accounts for funds received from the estate of Brad Burns.

LIBRARY SPECIAL FUNDS - Accounts for the Library Gift and Memorial Trust used for general donations to the Musser Public Library and the Homebound Delivery Trust used for donations to further the home delivery program.

PARKS DONATIONS - Accounts for funds from the estate of Frank C. Bishop to be used for park improvements.

INSURANCE FUND - Accounts for funds returned to the City for favorable claims experience under the City's general liability and automobile liability policies.

CAPITAL PROJECTS FUNDS

The Capital Projects Funds are utilized to account for financial resources to be used for the acquisition or construction of capital facilities and other major fixed assets, with the exception of those that are financed by Enterprise and Internal Service Funds. The project funds reflect the nature of the capital projects and are as follows:

COMMUNITY DEVELOPMENT IMPROVEMENTS FUND - Accounts for urban renewal improvements, housing rehabilitation, and building demolition projects in designated areas of the City.

STREET AND SIDEWALK IMPROVEMENTS FUND - Accounts for annual street resurfacing, curb replacement, and sidewalk construction programs.

OTHER STREET IMPROVEMENTS FUND - Accounts for other street projects throughout the City.

RIVERFRONT IMPROVEMENT PROJECTS FUND - Accounts for riverfront development and levee improvement projects.

OTHER PUBLIC IMPROVEMENTS FUND - Accounts for construction and improvements to City buildings, improvements of City park facilities and the geographical information system (GIS) project.

PERMANENT FUNDS

Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings and not principal may be used for purposes that benefit the City's programs and services.

McWhirter-Gilmore Trust - Accounts for funds received which accompanied the gift of the Musser Mansion museum facility. Interest earnings on this trust are used for the maintenance of the museum building.

Perpetual Care Trust - Accounts for the portion of cemetery lot sales designated for perpetual care.

Perpetual Care Interest Trust - Accounts for interest earned on cemetery perpetual care funds which is required to be used for the operation and maintenance of the cemetery facility.

Cemetery Special Trusts - Accounts for funds received, the interest earnings of which are designated to be used to maintain specific cemetery lots or to provide floral arrangements for these lots.

City of Muscatine, Iowa

Non-Major Governmental Funds
Combining Balance Sheet
June 30, 2005

	Special Revenue	Capital Projects	Permanent	Totals
Assets:				
Cash and pooled investments	\$ 1,867,596	\$ 538,975	\$ 4,477	\$ 2,411,048
Investments	737,606	-	968,000	1,705,606
Receivables (net of allowance for uncollectibles):				
Interest	19,095	2,698	9,905	31,698
Taxes	177,176	-	-	177,176
Special assessments	-	8,696	-	8,696
Intergovernmental	276,685	57,073	-	333,758
Accounts	277	1,400	-	1,677
Advances to other funds	-	40,495	7,495	47,990
Total assets	<u>3,078,435</u>	<u>649,337</u>	<u>989,877</u>	<u>4,717,649</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable and accruals	40,945	64,810	-	105,755
Due to federal government	264,154	-	-	264,154
Advances from other funds	105,227	310,884	7,495	423,606
Deferred revenue	169,457	8,696	-	178,153
Total liabilities	<u>579,783</u>	<u>384,390</u>	<u>7,495</u>	<u>971,668</u>
Fund balances:				
Reserved for:				
Advances to other funds	-	40,495	7,495	47,990
Perpetual care	-	-	791,388	791,388
Endowments	-	-	183,499	183,499
Capital projects	-	39,530	-	39,530
Unreserved	2,498,652	184,922	-	2,683,574
Total fund balances	<u>2,498,652</u>	<u>264,947</u>	<u>982,382</u>	<u>3,745,981</u>
Total liabilities and fund balances	<u>\$ 3,078,435</u>	<u>\$ 649,337</u>	<u>\$ 989,877</u>	<u>\$ 4,717,649</u>

City of Muscatine, Iowa

Non-Major Governmental Funds
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Year Ended June 30, 2005

	Special Revenue	Capital Projects	Permanent	Totals
Revenues:				
Taxes:				
Property	\$ 1,153,605	\$ -	\$ -	\$ 1,153,605
Utility	1,135	-	-	1,135
Intergovernmental	3,611,180	98,258	-	3,709,438
Use of money and property	52,491	10,163	25,596	88,250
Special assessments	-	6,882	-	6,882
Other	637,787	54,061	4,500	696,348
Total revenues	<u>5,456,198</u>	<u>169,364</u>	<u>30,096</u>	<u>5,655,658</u>
Expenditures:				
Current:				
Public safety	3,817	-	-	3,817
Culture and recreation	50,080	-	4,725	54,805
Community and economic development	1,807,130	-	-	1,807,130
Debt service:				
Principal	260,000	-	-	260,000
Interest	163,517	-	-	163,517
Capital outlay:				
Public safety	185,003	155,907	-	340,910
Public works	-	421,120	-	421,120
Culture and recreation	83,897	353,689	16,132	453,718
Community and economic development	-	782,542	-	782,542
General government	37,230	-	-	37,230
Total expenditures	<u>2,590,674</u>	<u>1,713,258</u>	<u>20,857</u>	<u>4,324,789</u>
Revenues over (under) expenditures	<u>2,865,524</u>	<u>(1,543,894)</u>	<u>9,239</u>	<u>1,330,869</u>
Other financing sources (uses):				
Transfers in	113,436	645,557	-	758,993
Transfers out	(2,522,518)	(38,603)	(36,488)	(2,597,609)
Total other financing sources (uses)	<u>(2,409,082)</u>	<u>606,954</u>	<u>(36,488)</u>	<u>(1,838,616)</u>
Net change in fund balances	456,442	(936,940)	(27,249)	(507,747)
Fund balances, June 30, 2004	<u>2,042,210</u>	<u>1,201,887</u>	<u>1,009,631</u>	<u>4,253,728</u>
Fund balances, June 30, 2005	<u>\$ 2,498,652</u>	<u>\$ 264,947</u>	<u>\$ 982,382</u>	<u>\$ 3,745,981</u>

City of Muscatine, Iowa

Non-Major Special Revenue Funds
 Combining Balance Sheet
 June 30, 2005

	<u>Community Development Block Grant</u>	<u>Road Use Tax</u>	<u>Equipment Replacement</u>	<u>Section 8 Housing Program</u>	<u>Emergency Tax</u>	<u>Police Forfeitures</u>	<u>Law Enforcement Block Grant</u>	<u>Downtown Tax Increment</u>
Assets:								
Cash and pooled investments	\$ -	\$ 554,579	\$ 47,644	\$ 9,013	\$ -	\$ 1,843	\$ 7,367	\$ 275,514
Investments	-	-	-	337,606	-	-	-	-
Receivables (net of allowance for uncollectibles):								
Interest	-	3,061	539	710	-	-	224	2,153
Taxes	-	-	-	-	171,347	-	-	-
Accounts	-	-	-	277	-	-	-	-
Intergovernmental	127,056	149,629	-	-	-	-	-	-
Total assets	<u>127,056</u>	<u>707,269</u>	<u>48,183</u>	<u>347,606</u>	<u>171,347</u>	<u>1,843</u>	<u>7,591</u>	<u>277,667</u>
Liabilities and fund balances								
Liabilities:								
Accounts payable and accruals	-	-	6,982	14,291	-	-	364	-
Due to federal government	-	-	-	264,154	-	-	-	-
Advances from other funds	103,337	-	-	-	1,890	-	-	-
Deferred revenue	-	-	-	-	169,457	-	-	-
Total liabilities	<u>103,337</u>	<u>-</u>	<u>6,982</u>	<u>278,445</u>	<u>171,347</u>	<u>-</u>	<u>364</u>	<u>-</u>
Fund balances:								
Unreserved, undesignated	23,719	707,269	41,201	69,161	-	1,843	7,227	277,667
Total liabilities and fund balances	<u>\$ 127,056</u>	<u>\$ 707,269</u>	<u>\$ 48,183</u>	<u>\$ 347,606</u>	<u>\$ 171,347</u>	<u>\$ 1,843</u>	<u>\$ 7,591</u>	<u>\$ 277,667</u>

<u>Southend Tax Increment</u>	<u>Northeast Tax Increment</u>	<u>Art Center Special Funds</u>	<u>Library Special Funds</u>	<u>Parks Donations</u>	<u>Insurance</u>	<u>Total</u>
\$ 235,919	\$ 129,581	\$ 130,495	\$ 342,276	\$ 45,846	\$ 87,519	\$ 1,867,596
-	-	400,000	-	-	-	737,606
1,673	628	7,874	1,358	241	634	19,095
5,829	-	-	-	-	-	177,176
-	-	-	-	-	-	277
-	-	-	-	-	-	276,685
<u>243,421</u>	<u>130,209</u>	<u>538,369</u>	<u>343,634</u>	<u>46,087</u>	<u>88,153</u>	<u>3,078,435</u>
-	-	12,821	6,487	-	-	40,945
-	-	-	-	-	-	264,154
-	-	-	-	-	-	105,227
-	-	-	-	-	-	169,457
-	-	12,821	6,487	-	-	579,783
<u>243,421</u>	<u>130,209</u>	<u>525,548</u>	<u>337,147</u>	<u>46,087</u>	<u>88,153</u>	<u>2,498,652</u>
<u>\$ 243,421</u>	<u>\$ 130,209</u>	<u>\$ 538,369</u>	<u>\$ 343,634</u>	<u>\$ 46,087</u>	<u>\$ 88,153</u>	<u>\$ 3,078,435</u>

City of Muscatine, Iowa

Non-Major Special Revenue Funds
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Year Ended June 30, 2005

	Community Development Block Grant	Road Use Tax	Equipment Replacement	Computer Replacement	Section 8 Housing Program	Emergency Tax	Police and Fire Pension	CEBA Grant
Revenues:								
Taxes:								
Property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 163,381	\$ -	\$ -
Utility	-	-	-	-	-	1,135	-	-
Intergovernmental:								
HUD grants	-	-	-	-	1,369,689	-	-	-
Road use tax	-	1,886,388	-	-	-	-	-	-
Federal grants	180,791	-	-	-	-	-	-	-
State grants	-	-	-	-	-	-	-	-
Interest	-	10,349	2,014	18	4,183	-	2,883	145,000
Other:								
Donations	-	-	-	-	-	-	-	-
Miscellaneous	2,731	-	-	-	3,857	-	-	-
Total revenues	183,522	1,896,737	2,014	18	1,377,729	164,516	2,883	145,000
Expenditures:								
Current:								
Public safety	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-
Community and economic development	-	-	-	-	1,427,829	-	-	145,000
Capital outlay:								
Public safety	-	-	114,454	-	-	-	-	-
Culture and recreation	-	-	37,820	-	-	-	-	-
General government	-	-	-	37,230	-	-	-	-
Debt service:								
Principal	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-
Total expenditures	-	-	152,274	37,230	1,427,829	-	-	145,000
Revenues over (under) expenditures	183,522	1,896,737	(150,260)	(37,212)	(50,100)	164,516	2,883	-
Other financing sources (uses):								
Transfers in	-	-	76,085	35,800	-	-	-	-
Transfers out	(180,791)	(1,810,056)	-	-	-	(164,516)	(196,251)	-
Total other financing sources (uses)	(180,791)	(1,810,056)	76,085	35,800	-	(164,516)	(196,251)	-
Net change in fund balances	2,731	86,681	(74,175)	(1,412)	(50,100)	-	(193,368)	-
Fund balances, June 30, 2004	20,988	620,588	115,376	1,412	119,261	-	193,368	-
Fund balances, June 30, 2005	\$ 23,719	\$ 707,269	\$ 41,201	\$ -	\$ 69,161	\$ -	\$ -	\$ -

<u>Police Forfeitures</u>	<u>Law Enforcement Block Grant</u>	<u>Downtown Tax Increment</u>	<u>Southend Tax Increment</u>	<u>Northeast Tax Increment</u>	<u>Art Center Special Funds</u>	<u>Library Special Funds</u>	<u>Parks Donations</u>	<u>Insurance</u>	<u>Total</u>
\$ -	\$ -	\$ 404,665	\$ 381,211	\$ 204,348	\$ -	\$ -	\$ -	\$ -	\$ 1,153,605
-	-	-	-	-	-	-	-	-	1,135
-	-	-	-	-	-	-	-	-	1,369,689
-	13,955	-	-	-	-	-	-	-	1,886,388
-	-	-	-	-	-	-	-	-	194,746
83	780	6,686	4,941	1,840	11,364	15,357	827	2,221	160,357
-	-	-	-	-	-	4,302	-	-	52,491
29,154	-	-	-	-	416,962	184,041	-	-	601,003
-	-	-	-	-	1,042	-	-	-	36,784
<u>29,237</u>	<u>14,735</u>	<u>411,351</u>	<u>386,152</u>	<u>206,188</u>	<u>429,368</u>	<u>203,700</u>	<u>827</u>	<u>2,221</u>	<u>5,456,198</u>
2,172	1,645	-	-	-	-	-	-	-	3,817
-	-	-	-	-	22,011	28,069	-	-	50,080
-	-	88,526	23,166	122,609	-	-	-	-	1,807,130
28,654	41,895	-	-	-	-	-	-	-	185,003
-	-	-	-	-	8,545	37,532	-	-	83,897
-	-	-	-	-	-	-	-	-	37,230
-	-	175,000	85,000	-	-	-	-	-	260,000
-	-	81,964	81,553	-	-	-	-	-	163,517
<u>30,826</u>	<u>43,540</u>	<u>345,490</u>	<u>189,719</u>	<u>122,609</u>	<u>30,556</u>	<u>65,601</u>	<u>-</u>	<u>-</u>	<u>2,590,674</u>
<u>(1,589)</u>	<u>(28,805)</u>	<u>65,861</u>	<u>196,433</u>	<u>83,579</u>	<u>398,812</u>	<u>138,099</u>	<u>827</u>	<u>2,221</u>	<u>2,865,524</u>
-	1,551	-	-	-	-	-	-	-	113,436
<u>(11,286)</u>	<u>-</u>	<u>(7,686)</u>	<u>(76,208)</u>	<u>-</u>	<u>(36,524)</u>	<u>-</u>	<u>-</u>	<u>(39,200)</u>	<u>(2,522,518)</u>
<u>(11,286)</u>	<u>1,551</u>	<u>(7,686)</u>	<u>(76,208)</u>	<u>-</u>	<u>(36,524)</u>	<u>-</u>	<u>-</u>	<u>(39,200)</u>	<u>(2,409,082)</u>
(12,875)	(27,254)	58,175	120,225	83,579	362,288	138,099	827	(36,979)	456,442
<u>14,718</u>	<u>34,481</u>	<u>219,492</u>	<u>123,196</u>	<u>46,630</u>	<u>163,260</u>	<u>199,048</u>	<u>45,260</u>	<u>125,132</u>	<u>2,042,210</u>
<u>\$ 1,843</u>	<u>\$ 7,227</u>	<u>\$ 277,667</u>	<u>\$ 243,421</u>	<u>\$ 130,209</u>	<u>\$ 525,548</u>	<u>\$ 337,147</u>	<u>\$ 46,087</u>	<u>\$ 88,153</u>	<u>\$ 2,498,652</u>

City of Muscatine, Iowa

**Non-Major Capital Projects Funds
Combining Balance Sheet
June 30, 2005**

	Community Development Improvements	Street and Sidewalk Improvements	Other Street Improvements	Riverfront Improvement Projects
Assets:				
Cash and pooled investments	\$ 25,816	\$ 32,386	\$ 209,914	\$ 257,092
Receivables:				
Interest	-	122	1,027	1,273
Special assessments	-	2,443	6,253	-
Intergovernmental	-	-	-	2,273
Accounts	1,400	-	-	-
Advances to other funds	-	-	40,495	-
	<u>27,216</u>	<u>34,951</u>	<u>257,689</u>	<u>260,638</u>
Total assets	27,216	34,951	257,689	260,638
Liabilities and fund balances				
Liabilities:				
Accounts payable	23,371	-	12,734	2,273
Advances from other funds	40,495	-	-	-
Deferred revenue	-	2,443	6,253	-
	<u>63,866</u>	<u>2,443</u>	<u>18,987</u>	<u>2,273</u>
Total liabilities	63,866	2,443	18,987	2,273
Fund balances:				
Reserved for advances to other funds	-	-	40,495	-
Reserved for capital projects	-	-	39,530	-
Unreserved, undesignated	(36,650)	32,508	158,677	258,365
	<u>(36,650)</u>	<u>32,508</u>	<u>238,702</u>	<u>258,365</u>
Total fund balances	(36,650)	32,508	238,702	258,365
Total liabilities and fund balances	\$ 27,216	\$ 34,951	\$ 257,689	\$ 260,638

Other Public Improvements	Total
\$ 13,767	\$ 538,975
276	2,698
-	8,696
54,800	57,073
-	1,400
-	40,495
68,843	649,337

26,432	64,810
270,389	310,884
-	8,696
296,821	384,390

-	40,495
-	39,530
(227,978)	184,922
(227,978)	264,947
\$ 68,843	\$ 649,337

City of Muscatine, Iowa

Non-Major Capital Projects Funds
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Year Ended June 30, 2005

	<u>Community Development Improvements</u>	<u>Street and Sidewalk Improvements</u>	<u>Other Street Improvements</u>	<u>Riverfront Improvement Projects</u>
Revenues:				
Intergovernmental:				
State grants	\$ -	\$ -	\$ -	\$ 43,458
Interest	-	606	3,897	4,256
Special assessments	-	1,820	5,062	-
Other:				
Contributions	-	-	-	4,350
Reimbursement of costs	24,711	-	-	-
	<u>24,711</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>24,711</u>	<u>2,426</u>	<u>8,959</u>	<u>52,064</u>
Expenditures:				
Capital outlay:				
Public safety	-	-	-	-
Public works	-	322,406	98,714	-
Culture and recreation	-	-	-	54,929
Community and economic development	782,542	-	-	-
	<u>782,542</u>	<u>322,406</u>	<u>98,714</u>	<u>54,929</u>
Total expenditures	<u>782,542</u>	<u>322,406</u>	<u>98,714</u>	<u>54,929</u>
Revenues over (under) expenditures	<u>(757,831)</u>	<u>(319,980)</u>	<u>(89,755)</u>	<u>(2,865)</u>
Other financing sources (uses):				
Transfers in	174,527	322,406	-	48,251
Transfers out	(9,372)	-	(6,215)	-
	<u>165,155</u>	<u>322,406</u>	<u>(6,215)</u>	<u>48,251</u>
Total other financing sources (uses)	<u>165,155</u>	<u>322,406</u>	<u>(6,215)</u>	<u>48,251</u>
Net change in fund balances	(592,676)	2,426	(95,970)	45,386
Fund balances, June 30, 2004	<u>556,026</u>	<u>30,082</u>	<u>334,672</u>	<u>212,979</u>
Fund balances (deficits), June 30, 2005	<u>\$ (36,650)</u>	<u>\$ 32,508</u>	<u>\$ 238,702</u>	<u>\$ 258,365</u>

<u>Other Public Improvements</u>	<u>Total</u>
\$ 54,800	\$ 98,258
1,404	10,163
-	6,882
25,000	29,350
-	24,711
<u>81,204</u>	<u>169,364</u>
155,907	155,907
-	421,120
298,760	353,689
-	782,542
<u>454,667</u>	<u>1,713,258</u>
<u>(373,463)</u>	<u>(1,543,894)</u>
100,373	645,557
<u>(23,016)</u>	<u>(38,603)</u>
<u>77,357</u>	<u>606,954</u>
(296,106)	(936,940)
<u>68,128</u>	<u>1,201,887</u>
<u>\$ (227,978)</u>	<u>\$ 264,947</u>

City of Muscatine, Iowa

Non-Major Permanent Funds
Combining Balance Sheet
June 30, 2005

	<u>McWhirter- Gilmore Trust</u>	<u>Perpetual Care Trust</u>	<u>Perpetual Care Interest Trust</u>	<u>Cemetery Special Trusts</u>	<u>Total</u>
Assets:					
Cash and pooled investments	\$ 172	\$ 3,388	\$ -	\$ 917	\$ 4,477
Investments	100,000	788,000	-	80,000	968,000
Receivables:					
Interest	1,774	-	7,495	636	9,905
Advances to other funds	-	-	-	7,495	7,495
Total assets	<u>101,946</u>	<u>791,388</u>	<u>7,495</u>	<u>89,048</u>	<u>989,877</u>
Liabilities and fund balances					
Liabilities:					
Advances from other funds	-	-	7,495	-	7,495
Fund balances:					
Reserved for advances to other funds	-	-	-	7,495	7,495
Reserved for perpetual care	-	791,388	-	-	791,388
Reserved for endowments	101,946	-	-	81,553	183,499
Total fund balances	<u>101,946</u>	<u>791,388</u>	<u>-</u>	<u>89,048</u>	<u>982,382</u>
Total liabilities and fund balances	<u>\$ 101,946</u>	<u>\$ 791,388</u>	<u>\$ 7,495</u>	<u>\$ 89,048</u>	<u>\$ 989,877</u>

City of Muscatine, Iowa

Non-Major Permanent Funds
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Year Ended June 30, 2005

	McWhirter- Gilmore Trust	Perpetual Care Trust	Perpetual Care Interest Trust	Cemetery Special Trusts	Total
Revenues:					
Cemetery perpetual care	\$ -	\$ 4,500	\$ -	\$ -	\$ 4,500
Interest	2,628	-	20,938	2,030	25,596
Total revenues	2,628	4,500	20,938	2,030	30,096
Expenditures:					
Current:					
Culture and recreation	3,121	-	-	1,604	4,725
Capital outlay:					
Culture and recreation	16,132	-	-	-	16,132
Total expenditures	19,253	-	-	1,604	20,857
Revenues over (under) expenditures	(16,625)	4,500	20,938	426	9,239
Other financing uses:					
Transfers out	(15,550)	-	(20,938)	-	(36,488)
Net change in fund balances	(32,175)	4,500	-	426	(27,249)
Fund balances, June 30, 2004	134,121	786,888	-	88,622	1,009,631
Fund balances, June 30, 2005	\$ 101,946	\$ 791,388	\$ -	\$ 89,048	\$ 982,382

NON-MAJOR ENTERPRISE FUNDS

The Enterprise Funds are utilized to account for operations and activities that are financed and operated in a manner similar to a private business enterprise, and where the cost of providing goods and services to the general public on a continuing basis is expected to be recovered primarily through user charges. The City has also established Enterprise Funds when the determination has been made that it is advantageous to segregate revenues earned, expenses incurred and/or net income for purposes of capital maintenance, public policy, management control or accountability.

REFUSE COLLECTION - Accounts for the operations involved in the collection of refuse from residential dwellings and certain commercial businesses in the City.

AIRPORT OPERATIONS - Accounts for the activities of the Municipal Airport. This activity is supported by user charges and a subsidy from the General Fund.

PARKING OPERATIONS - Accounts for the operations of "on" and "off-street" parking meters and parking in designated lots. All activities necessary to provide for such services are accounted for in this fund including, but not limited to, meter enforcement, maintenance and administration.

TRANSIT OPERATIONS - Accounts for the operations of the municipal transit system. The system is funded from user fees, grants, and property taxes from a special levy.

GOLF COURSE - Accounts for the operation and maintenance of the Municipal Golf Course. This includes activities necessary to provide for the operation of the course as well as capital improvements.

BOAT HARBOR - Accounts for the operation and maintenance of the municipal boat harbor in addition to capital improvements to the harbor.

MARINA OPERATIONS - Accounts for the operation of the City's gas barge which provides fuel sales to boaters on the Mississippi River.

AMBULANCE OPERATIONS - Accounts for the Fire Department Ambulance Service which began providing service July 1, 2000.

PUBLIC HOUSING - Accounts for the operations of the City's public housing program which includes a 100-unit elderly housing facility, a 50-unit family facility and two scattered site housing units.

City of Muscatine, Iowa

Non-Major Enterprise Funds
Combining Statement of Net Assets
June 30, 2005

	Refuse Collection	Airport Operations	Parking Operations	Transit Operations	Golf Course
Assets:					
Current assets:					
Cash and pooled investments	\$ 182,894	\$ -	\$ 55,288	\$ 147,691	\$ 35,347
Investments	-	-	-	-	-
Receivables (net of allowance for uncollectibles):					
Interest	1,251	-	466	1,073	-
Accounts	157,639	1,854	279	2,459	8,591
Intergovernmental:					
Federal	-	39,517	-	-	-
State	-	-	-	6,938	-
County	-	-	-	-	-
Advances to other funds	-	-	-	45,370	-
Inventories	-	-	-	-	-
Prepaid insurance	-	-	-	-	-
Total current assets	341,784	41,371	56,033	203,531	43,938
Noncurrent assets:					
Deferred charges	2,368	-	-	-	-
Capital assets:					
Land	-	987,380	579,686	-	80,000
Land improvements	-	7,516,510	464,008	-	1,102,678
Buildings and building improvements	1,312,083	1,606,025	-	14,231	618,132
Equipment	160,319	20,694	32,370	-	271,758
Vehicles	488,876	37,671	-	536,562	7,246
Construction in progress	-	42,708	-	-	-
Less accumulated depreciation	(761,643)	(5,123,062)	(277,733)	(305,397)	(935,882)
Total capital assets net of accumulated depreciation	1,199,635	5,087,926	798,331	245,396	1,143,932
Total noncurrent assets	1,202,003	5,087,926	798,331	245,396	1,143,932
Total assets	1,543,787	5,129,297	854,364	448,927	1,187,870
Liabilities:					
Current liabilities:					
Accounts payable and accruals	10,907	33,956	231	2,838	13,082
Compensated absences payable	21,460	-	4,238	10,736	12,367
Advances from other funds	-	45,370	-	-	-
Deposits	-	-	-	-	-
Accrued interest payable	2,939	-	-	-	-
Unearned revenue	611	2,707	18,620	364	1,349
General obligation bonds	64,270	-	-	-	-
Total current liabilities	100,187	82,033	23,089	13,938	26,798
Noncurrent liabilities:					
General obligation bonds	650,254	-	-	-	-
Compensated absences	22,596	-	5,654	5,384	7,666
Total noncurrent liabilities	672,850	-	5,654	5,384	7,666
Total liabilities	773,037	82,033	28,743	19,322	34,464
Net assets:					
Invested in capital assets, net of related debt	485,111	5,087,926	798,331	245,396	1,143,932
Unrestricted	285,639	(40,662)	27,290	184,209	9,474
Total net assets	\$ 770,750	\$ 5,047,264	\$ 825,621	\$ 429,605	\$ 1,153,406

<u>Boat Harbor</u>	<u>Marina Operations</u>	<u>Ambulance Operations</u>	<u>Public Housing</u>	<u>Total</u>
\$ 5,477	\$ 3,354	\$ 36,777	\$ 7,014	\$ 473,842
-	-	-	607,133	607,133
-	-	418	3,529	6,737
-	1,094	131,616	8,161	311,693
-	-	-	34,537	74,054
-	-	-	-	6,938
-	-	31,400	-	31,400
-	-	-	-	45,370
-	3,085	-	-	3,085
-	-	1,152	-	1,152
<u>5,477</u>	<u>7,533</u>	<u>201,363</u>	<u>660,374</u>	<u>1,561,404</u>
-	-	-	-	2,368
-	-	-	105,000	1,752,066
196,161	-	-	90,199	9,369,556
-	-	-	7,332,940	10,883,411
-	-	6,499	65,288	556,928
-	-	369,974	41,561	1,481,890
-	-	-	-	42,708
<u>(109,980)</u>	<u>-</u>	<u>(204,164)</u>	<u>(4,237,275)</u>	<u>(11,955,136)</u>
<u>86,181</u>	<u>-</u>	<u>172,309</u>	<u>3,397,713</u>	<u>12,131,423</u>
<u>86,181</u>	<u>-</u>	<u>172,309</u>	<u>3,397,713</u>	<u>12,133,791</u>
<u>91,658</u>	<u>7,533</u>	<u>373,672</u>	<u>4,058,087</u>	<u>13,695,195</u>
1,970	7,533	10,652	83,506	164,675
340	-	17,596	10,810	77,547
-	-	-	-	45,370
-	-	-	28,001	28,001
-	-	-	-	2,939
-	-	-	10,056	33,707
-	-	-	-	64,270
<u>2,310</u>	<u>7,533</u>	<u>28,248</u>	<u>132,373</u>	<u>416,509</u>
-	-	-	-	650,254
<u>1,012</u>	<u>-</u>	<u>6,734</u>	<u>17,257</u>	<u>66,303</u>
<u>1,012</u>	<u>-</u>	<u>6,734</u>	<u>17,257</u>	<u>716,557</u>
<u>3,322</u>	<u>7,533</u>	<u>34,982</u>	<u>149,630</u>	<u>1,133,066</u>
86,181	-	172,309	3,397,713	11,416,899
<u>2,155</u>	<u>-</u>	<u>166,381</u>	<u>510,744</u>	<u>1,145,230</u>
<u>\$ 88,336</u>	<u>\$ -</u>	<u>\$ 338,690</u>	<u>\$ 3,908,457</u>	<u>\$ 12,562,129</u>

City of Muscatine, Iowa

Non-Major Enterprise Funds
 Combining Statement of Revenues, Expenses and Changes in Net Assets
 Year Ended June 30, 2005

	Refuse Collection	Airport Operations	Parking Operations	Transit Operations	Golf Course
Operating revenues:					
Charges for sales and services:					
Charges for services	\$ 1,257,361	\$ -	\$ -	\$ -	\$ -
Parking fees	-	-	158,568	-	-
Transit fees	-	-	-	90,435	-
Golf course fees	-	-	-	-	332,269
Boat harbor fees	-	-	-	-	-
Management fees	-	8,700	-	-	-
Rents	-	26,140	-	-	-
Other	3,679	11,246	2,776	22	69,945
Total operating revenues	1,261,040	46,086	161,344	90,457	402,214
Operating expenses:					
Cost of sales and services:					
Personal services	470,496	-	139,457	455,259	184,138
Commodities	39,195	10,765	9,609	55,130	80,863
Contractual services	558,759	76,562	4,944	111,284	74,304
Administration	47,800	6,400	14,000	10,900	45,300
Depreciation	84,803	457,343	37,291	46,184	83,544
Total operating expenses	1,201,053	551,070	205,301	678,757	468,149
Operating income (loss)	59,987	(504,984)	(43,957)	(588,300)	(65,935)
Non-operating revenues (expenses):					
Federal, state and local grants	-	-	-	281,779	-
Interest revenue	3,939	1,092	1,749	3,468	564
Interest expense	(41,990)	-	-	-	-
Bond issuance costs	(263)	-	-	-	-
Gain (loss) on sale of capital assets	-	-	-	2,253	-
Non-operating revenues (expenses), net	(38,314)	1,092	1,749	287,500	564
Income (loss) before capital contributions and transfers	21,673	(503,892)	(42,208)	(300,800)	(65,371)
Capital contributions - grants	-	33,217	-	186,947	-
Transfers in	-	116,574	-	214,426	-
Transfers out	-	-	(50,000)	-	-
Change in net assets	21,673	(354,101)	(92,208)	100,573	(65,371)
Net assets, June 30, 2004	749,077	5,401,365	917,829	329,032	1,218,777
Net assets, June 30, 2005	\$ 770,750	\$ 5,047,264	\$ 825,621	\$ 429,605	\$ 1,153,406

<u>Boat Harbor</u>	<u>Marina Operations</u>	<u>Ambulance Operations</u>	<u>Public Housing</u>	<u>Total</u>
\$ -	\$ -	\$ 819,006	\$ -	\$ 2,076,367
-	-	-	-	158,568
-	-	-	-	90,435
-	-	-	-	332,269
18,606	-	-	-	18,606
-	-	-	-	8,700
-	-	-	352,413	378,553
139	5,200	31,400	10,074	134,481
<u>18,745</u>	<u>5,200</u>	<u>850,406</u>	<u>362,487</u>	<u>3,197,979</u>
12,654	-	587,759	291,509	2,141,272
275	6,437	54,035	76,040	332,349
3,087	1,567	111,192	208,356	1,150,055
7,450	-	114,000	-	245,850
9,807	-	47,114	249,500	1,015,586
<u>33,273</u>	<u>8,004</u>	<u>914,100</u>	<u>825,405</u>	<u>4,885,112</u>
<u>(14,528)</u>	<u>(2,804)</u>	<u>(63,694)</u>	<u>(462,918)</u>	<u>(1,687,133)</u>
-	-	-	222,737	504,516
-	-	1,910	10,798	23,520
-	-	-	-	(41,990)
-	-	-	-	(263)
-	-	-	(109,949)	(107,696)
<u>-</u>	<u>-</u>	<u>1,910</u>	<u>123,586</u>	<u>378,087</u>
(14,528)	(2,804)	(61,784)	(339,332)	(1,309,046)
-	-	-	76,777	296,941
-	13,823	-	-	344,823
-	-	-	-	(50,000)
(14,528)	11,019	(61,784)	(262,555)	(717,282)
<u>102,864</u>	<u>(11,019)</u>	<u>400,474</u>	<u>4,171,012</u>	<u>13,279,411</u>
<u>\$ 88,336</u>	<u>\$ -</u>	<u>\$ 338,690</u>	<u>\$ 3,908,457</u>	<u>\$ 12,562,129</u>

City of Muscatine, Iowa
Non-Major Enterprise Funds
Combining Statement of Cash Flows
Year Ended June 30, 2005

	Refuse Collection	Airport Operations	Parking Operations	Transit Operations	Golf Course
Cash flows from operating activities					
Receipts from customers and users	\$ 1,282,783	\$ 45,168	\$ 156,866	\$ 89,026	\$ 401,919
Payments to suppliers	(504,145)	(82,607)	(14,770)	(38,282)	(157,280)
Payments to employees	(349,844)	-	(110,814)	(377,879)	(143,606)
Payments for employee benefits	(126,233)	-	(28,309)	(72,286)	(40,732)
Payments for interfund services used	(140,749)	(10,095)	(14,000)	(137,376)	(46,103)
Net cash provided (used) by operating activities	<u>161,812</u>	<u>(47,534)</u>	<u>(11,027)</u>	<u>(536,797)</u>	<u>14,198</u>
Cash flows from noncapital financing activities					
Transfers to other funds	-	-	(50,000)	-	-
Transfers from other funds	-	116,574	-	214,426	-
Advances from other funds	-	45,370	-	-	-
Advances to other funds	-	-	-	(45,370)	-
Repayment of advances from other funds	-	-	-	-	-
Repayment of advances to other funds	-	-	74,934	-	-
Subsidies from federal, state and local grants	-	45,658	-	281,999	-
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>207,602</u>	<u>24,934</u>	<u>451,055</u>	<u>-</u>
Cash flows from capital and related financing activities					
Capital contributions	-	272,563	-	186,947	-
Purchase of capital assets	-	(611,415)	-	(221,272)	(26,450)
Principal paid on capital debt	(65,373)	-	-	-	-
Interest paid on capital debt	(38,104)	-	-	-	-
Proceeds from sales of capital assets	-	-	-	2,253	-
Net cash provided (used) by capital and related financing activities	<u>(103,477)</u>	<u>(338,852)</u>	<u>-</u>	<u>(32,072)</u>	<u>(26,450)</u>
Cash flows from investing activities					
Proceeds from sales and maturities of investments	-	-	-	-	-
Purchase of investments	-	-	-	-	-
Interest received	3,282	1,092	1,627	3,362	564
Net cash provided (used) by investing activities	<u>3,282</u>	<u>1,092</u>	<u>1,627</u>	<u>3,362</u>	<u>564</u>
Net increase (decrease) in cash and pooled investments	61,617	(177,692)	15,534	(114,452)	(11,688)
Cash and pooled investments, June 30, 2004	121,277	177,692	39,754	262,143	47,035
Cash and pooled investments, June 30, 2005	<u>\$ 182,894</u>	<u>\$ -</u>	<u>\$ 55,288</u>	<u>\$ 147,691</u>	<u>\$ 35,347</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Cash flows from operating activities:					
Operating income (loss)	<u>\$ 59,987</u>	<u>\$ (504,984)</u>	<u>\$ (43,957)</u>	<u>\$ (588,300)</u>	<u>\$ (65,935)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	84,803	457,343	37,291	46,184	83,544
Changes in assets and liabilities:					
(Increase) decrease in:					
Accounts receivable	21,643	(705)	360	(591)	(318)
Intergovernmental receivable	-	-	-	-	-
Inventories	-	-	-	-	-
Prepaid insurance	-	-	-	-	-
Increase (decrease) in:					
Accounts payable and accruals	860	1,025	(217)	1,655	(2,916)
Compensated absences payable	(5,581)	-	334	5,095	(200)
Unearned revenue	100	(213)	(4,838)	(840)	23
Deposits	-	-	-	-	-
Total adjustments	<u>101,825</u>	<u>457,450</u>	<u>32,930</u>	<u>51,503</u>	<u>80,133</u>
Net cash provided (used) by operating activities	<u>\$ 161,812</u>	<u>\$ (47,534)</u>	<u>\$ (11,027)</u>	<u>\$ (536,797)</u>	<u>\$ 14,198</u>

<u>Boat Harbor</u>	<u>Marina Operations</u>	<u>Ambulance Operations</u>	<u>Public Housing</u>	<u>Total</u>
\$ 19,709	\$ 4,106	\$ 804,458	\$ 367,220	\$ 3,171,255
(6,129)	(98)	(149,192)	(235,208)	(1,187,711)
(8,611)	-	(441,963)	(222,098)	(1,654,815)
(3,975)	-	(137,544)	(62,845)	(471,924)
(7,450)	-	(127,565)	(53,536)	(536,874)
<u>(6,456)</u>	<u>4,008</u>	<u>(51,806)</u>	<u>(206,467)</u>	<u>(680,069)</u>
-	-	-	-	(50,000)
-	13,823	-	-	344,823
-	-	-	-	45,370
-	-	-	-	(45,370)
-	(14,477)	-	-	(14,477)
-	-	-	-	74,934
-	-	-	194,495	522,152
-	(654)	-	194,495	877,432
4,356	-	-	76,777	540,643
-	-	(98,540)	(76,777)	(1,034,454)
-	-	-	-	(65,373)
-	-	-	-	(38,104)
-	-	-	25,100	27,353
<u>4,356</u>	<u>-</u>	<u>(98,540)</u>	<u>25,100</u>	<u>(569,935)</u>
-	-	-	1,363,650	1,363,650
-	-	-	(1,391,565)	(1,391,565)
-	-	2,090	11,978	23,995
-	-	2,090	(15,937)	(3,920)
(2,100)	3,354	(148,256)	(2,809)	(376,492)
7,577	-	185,033	9,823	850,334
<u>\$ 5,477</u>	<u>\$ 3,354</u>	<u>\$ 36,777</u>	<u>\$ 7,014</u>	<u>\$ 473,842</u>
<u>\$ (14,528)</u>	<u>\$ (2,804)</u>	<u>\$ (63,694)</u>	<u>\$ (462,918)</u>	<u>\$ (1,687,133)</u>
9,807	-	47,114	249,500	1,015,586
964	(1,094)	(14,548)	1,801	7,512
-	-	(31,400)	-	(31,400)
-	385	-	-	385
-	-	1,152	-	1,152
(2,766)	7,521	1,318	2,208	8,688
67	-	8,252	10	7,977
-	-	-	1,489	(4,279)
-	-	-	1,443	1,443
<u>8,072</u>	<u>6,812</u>	<u>11,888</u>	<u>256,451</u>	<u>1,007,064</u>
<u>\$ (6,456)</u>	<u>\$ 4,008</u>	<u>\$ (51,806)</u>	<u>\$ (206,467)</u>	<u>\$ (680,069)</u>

INTERNAL SERVICE FUNDS

Internal Service Funds are established to finance and account for services and commodities furnished by one department or agency of the City to other departments or agencies of the City. Internal Service Funds are as follows:

EQUIPMENT SERVICES FUND - Accounts for the operations and maintenance of the central garage. All costs incurred for the maintenance of City vehicles and operation of the facility are charged to departments on a cost reimbursement basis.

CENTRAL SUPPLIES FUND - Accounts for the central inventory of office supplies which are provided to City departments on a cost reimbursement basis.

HEALTH INSURANCE FUND - Accounts for the costs related to the City's self-insurance plan which provides health insurance benefits to employees.

DENTAL INSURANCE FUND - Accounts for the costs related to the City's self-insurance plan which provides dental insurance benefits to employees.

City of Muscatine, Iowa

Internal Service Funds
Combining Statement of Net Assets
June 30, 2005

	<u>Equipment Services</u>	<u>Central Supplies</u>	<u>Health Insurance</u>	<u>Dental Insurance</u>	<u>Total</u>
Assets:					
Current assets:					
Cash and pooled investments	\$ 50,529	\$ -	\$ 755,122	\$ 10,132	\$ 815,783
Receivables:					
Interest	-	-	4,551	-	4,551
Accounts	7,450	-	-	-	7,450
Advances to other funds	-	-	983	-	983
Inventories	121,701	1,629	-	-	123,330
Total current assets	<u>179,680</u>	<u>1,629</u>	<u>760,656</u>	<u>10,132</u>	<u>952,097</u>
Capital assets:					
Equipment	122,889	-	-	-	122,889
Vehicles	44,570	-	-	-	44,570
Less accumulated depreciation	(152,236)	-	-	-	(152,236)
Total capital assets net of accumulated depreciation	<u>15,223</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,223</u>
Total assets	<u>194,903</u>	<u>1,629</u>	<u>760,656</u>	<u>10,132</u>	<u>967,320</u>
Liabilities:					
Current liabilities:					
Accounts payable and accruals	53,128	82	343,773	7,825	404,808
Compensated absences payable	11,458	-	-	-	11,458
Advances from other funds	-	983	-	-	983
Total current liabilities	<u>64,586</u>	<u>1,065</u>	<u>343,773</u>	<u>7,825</u>	<u>417,249</u>
Noncurrent liabilities:					
Compensated absences payable	15,284	-	-	-	15,284
Total liabilities	<u>79,870</u>	<u>1,065</u>	<u>343,773</u>	<u>7,825</u>	<u>432,533</u>
Net assets:					
Invested in capital assets, net of related debt	15,223	-	-	-	15,223
Unrestricted	99,810	564	416,883	2,307	519,564
Total net assets	<u>\$ 115,033</u>	<u>\$ 564</u>	<u>\$ 416,883</u>	<u>\$ 2,307</u>	<u>\$ 534,787</u>

City of Muscatine, Iowa

Internal Service Funds
 Combining Statement of Revenues, Expenses and Changes in Net Assets
 Year Ended June 30, 2005

	<u>Equipment Services</u>	<u>Central Supplies</u>	<u>Health Insurance</u>	<u>Dental Insurance</u>	<u>Total</u>
Operating revenues:					
Charges for sales and services:					
Services	\$ 474,023	\$ -	\$ -	\$ -	\$ 474,023
Fuel	243,370	-	-	-	243,370
Supply charges	-	2,179	-	-	2,179
Employer contributions	-	-	1,364,983	48,155	1,413,138
Employee contributions	-	-	47,104	39,767	86,871
Other contributions	10	-	71,793	1,890	73,693
Total operating revenues	<u>717,403</u>	<u>2,179</u>	<u>1,483,880</u>	<u>89,812</u>	<u>2,293,274</u>
Operating expenses:					
Cost of sales and services:					
Personal services	208,102	-	-	-	208,102
Commodities	352,781	2,353	-	-	355,134
Contractual services	140,982	-	1,759,756	87,654	1,988,392
Administration	11,900	-	-	-	11,900
Depreciation	2,379	-	-	-	2,379
Total operating expenses	<u>716,144</u>	<u>2,353</u>	<u>1,759,756</u>	<u>87,654</u>	<u>2,565,907</u>
Operating income (loss)	1,259	(174)	(275,876)	2,158	(272,633)
Non-operating revenues:					
Interest revenue	-	-	16,063	182	16,245
Income (loss) before transfers	1,259	(174)	(259,813)	2,340	(256,388)
Transfers out	-	-	(42,299)	-	(42,299)
Change in net assets	1,259	(174)	(302,112)	2,340	(298,687)
Net assets, June 30, 2004	<u>113,774</u>	<u>738</u>	<u>718,995</u>	<u>(33)</u>	<u>833,474</u>
Net assets, June 30, 2005	<u>\$ 115,033</u>	<u>\$ 564</u>	<u>\$ 416,883</u>	<u>\$ 2,307</u>	<u>\$ 534,787</u>

City of Muscatine, Iowa

Internal Service Funds
 Combining Statement of Cash Flows
 Year Ended June 30, 2005

	Equipment Services	Central Supplies	Health Insurance	Dental Insurance	Total
Cash flows from operating activities					
Receipts from interfund services provided	\$ 713,455	\$ 2,179	\$ 1,483,880	\$ 89,812	\$ 2,289,326
Payments to suppliers	(493,525)	(2,221)	(1,605,226)	(90,431)	(2,191,403)
Payments to employees	(156,011)	-	-	-	(156,011)
Payments for employee benefits	(52,972)	-	-	-	(52,972)
Payments for interfund services used	(11,900)	-	-	-	(11,900)
Net cash provided (used) by operating activities	<u>(953)</u>	<u>(42)</u>	<u>(121,346)</u>	<u>(619)</u>	<u>(122,960)</u>
Cash flows from noncapital financing activities					
Transfers to other funds	-	-	(42,299)	-	(42,299)
Advances from other funds	-	42	-	-	42
Advances to other funds	-	-	(42)	-	(42)
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>42</u>	<u>(42,341)</u>	<u>-</u>	<u>(42,299)</u>
Cash flows from capital and related financing activities					
Purchase of capital assets	<u>(5,961)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,961)</u>
Cash flows from investing activities					
Interest received	<u>-</u>	<u>-</u>	<u>14,559</u>	<u>182</u>	<u>14,741</u>
Net increase in cash and pooled investments	(6,914)	-	(149,128)	(437)	(156,479)
Cash and pooled investments, June 30, 2004	57,443	-	904,250	10,569	972,262
Cash and pooled investments, June 30, 2005	<u>\$ 50,529</u>	<u>\$ -</u>	<u>\$ 755,122</u>	<u>\$ 10,132</u>	<u>\$ 815,783</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Cash flows from operating activities:					
Operating income (loss)	\$ 1,259	\$ (174)	\$ (275,876)	\$ 2,158	\$ (272,633)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	2,379	-	-	-	2,379
Changes in assets and liabilities:					
(Increase) decrease in:					
Accounts receivable	(3,948)	-	-	-	(3,948)
Inventories	(22,258)	50	-	-	(22,208)
Increase (decrease) in:					
Accounts payable and accruals	22,495	82	154,530	(2,777)	174,330
Compensated absences payable	(880)	-	-	-	(880)
Total adjustments	<u>(2,212)</u>	<u>132</u>	<u>154,530</u>	<u>(2,777)</u>	<u>149,673</u>
Net cash provided (used) by operating activities	<u>\$ (953)</u>	<u>\$ (42)</u>	<u>\$ (121,346)</u>	<u>\$ (619)</u>	<u>\$ (122,960)</u>

FIDUCIARY FUNDS

AGENCY FUNDS

Agency Funds are those used to account for assets held by a government as an agent for individuals, private organizations, or other governments or funds.

PAYROLL CLEARING FUND - Accounts for the collection and payment of employee payroll withholdings and City contributions for payroll taxes.

MISCELLANEOUS CLEARING FUND - Accounts for general City expenditures to be allocated to other funds and miscellaneous funds received by the City as an agent for individuals, organizations or other funds.

HOUSING REVOLVING FUND - Accounts for general City expenditures allocated to the City's Housing Programs, which are reimbursed by the Housing Programs.

VEHICLE IMPOUND FUND - Accounts for net proceeds from the sale of abandoned vehicles required to be remitted to the State of Iowa.

City of Muscatine, Iowa

**Combining Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2005**

	<u>Payroll Clearing</u>	<u>Miscellaneous Clearing</u>	<u>Housing Revolving</u>	<u>Totals</u>
Assets:				
Cash and pooled investments	\$ 627,467	\$ -	\$ -	\$ 627,467
Accounts receivable	-	518	49,882	50,400
Advances to other funds	<u>49,720</u>	<u>-</u>	<u>-</u>	<u>49,720</u>
Total assets	<u>677,187</u>	<u>518</u>	<u>49,882</u>	<u>727,587</u>
Liabilities:				
Accounts payable and accruals	677,187	478	202	677,867
Advances from other funds	<u>-</u>	<u>40</u>	<u>49,680</u>	<u>49,720</u>
Total liabilities	<u>\$ 677,187</u>	<u>\$ 518</u>	<u>\$ 49,882</u>	<u>\$ 727,587</u>

City of Muscatine, Iowa
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
Year Ended June 30, 2005

	Balance June 30, 2004	Increases	Decreases	Balance June 30, 2005
<u>Payroll Clearing Fund</u>				
Assets:				
Cash and pooled investments	\$ 599,576	\$ 12,537,017	\$ 12,509,126	\$ 627,467
Advances to other funds	44,083	5,637	-	49,720
Total assets	<u>\$ 643,659</u>	<u>\$ 12,542,654</u>	<u>\$ 12,509,126</u>	<u>\$ 677,187</u>
Liabilities:				
Accounts payable and accruals	<u>\$ 643,659</u>	<u>\$ 3,789,048</u>	<u>\$ 3,755,520</u>	<u>\$ 677,187</u>
<u>Miscellaneous Clearing Fund</u>				
Assets:				
Cash and pooled investments	\$ 4	\$ -	\$ 4	\$ -
Accounts receivable	2	516	-	518
Total assets	<u>\$ 6</u>	<u>\$ 516</u>	<u>\$ 4</u>	<u>\$ 518</u>
Liabilities:				
Accounts payable and accruals	\$ 6	\$ 472	\$ -	\$ 478
Advances from other funds	-	40	-	40
Total liabilities	<u>\$ 6</u>	<u>\$ 512</u>	<u>\$ -</u>	<u>\$ 518</u>
<u>Housing Revolving Fund</u>				
Assets:				
Accounts receivable	<u>\$ 44,257</u>	<u>\$ 5,625</u>	<u>\$ -</u>	<u>\$ 49,882</u>
Liabilities:				
Accounts payable and accruals	\$ 174	\$ 28	\$ -	\$ 202
Advances from other funds	44,083	5,597	-	49,680
Total liabilities	<u>\$ 44,257</u>	<u>\$ 5,625</u>	<u>\$ -</u>	<u>\$ 49,882</u>
<u>Vehicle Impound Fund</u>				
Assets:				
Cash and pooled investments	\$ 1,150	\$ 41,593	\$ 42,743	\$ -
Accounts receivable	5,856	-	5,856	-
Total assets	<u>\$ 7,006</u>	<u>\$ 41,593</u>	<u>\$ 48,599</u>	<u>\$ -</u>
Liabilities:				
Accounts payable and accruals	<u>\$ 7,006</u>	<u>\$ 64,157</u>	<u>\$ 71,163</u>	<u>\$ -</u>
<u>Total</u>				
Assets:				
Cash and pooled investments	\$ 600,730	\$ 12,578,610	\$ 12,551,873	\$ 627,467
Accounts receivable	50,115	6,141	5,856	50,400
Advances to other funds	44,083	5,637	-	49,720
Total assets	<u>\$ 694,928</u>	<u>\$ 12,590,388</u>	<u>\$ 12,557,729</u>	<u>\$ 727,587</u>
Liabilities:				
Accounts payable and accruals	\$ 650,845	\$ 3,853,705	\$ 3,826,683	\$ 677,867
Advances from other funds	44,083	5,637	-	49,720
Total liabilities	<u>\$ 694,928</u>	<u>\$ 3,859,342</u>	<u>\$ 3,826,683</u>	<u>\$ 727,587</u>

Table 1

City of Muscatine, Iowa

General Government Expenditures by Function (1)
Last Ten Fiscal Years
(Unaudited)

<u>Fiscal Year</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Health and Social Services</u>	<u>Culture and Recreation</u>	<u>Community and Economic Development</u>	<u>General Government</u>	<u>Debt Service</u>	<u>Total</u>
1995/96								\$ 12,561,098 (2)
1996/97								12,840,954 (2)
1997/98	\$ 4,131,473	\$ 1,512,449	\$ 159,500	\$ 1,955,338	\$ 2,548,228	\$ 1,282,017	\$ 1,554,335	13,143,340
1998/99	4,545,645	1,517,109	136,050	2,119,310	2,115,723	1,325,189	1,672,303	13,431,329
1999/2000	4,596,289	1,766,951	186,121	2,193,259	1,827,385 (3)	1,465,108	1,487,439	13,522,552
2000/2001	4,777,817	1,816,869	53,150	2,273,611	1,957,322	1,658,824	1,503,292	14,040,885
2001/2002	5,009,197	1,701,722	49,200	2,328,587	2,518,100	1,622,373	1,935,598	15,164,777
2002/2003	5,159,266	1,740,813	18,400	2,549,678	2,436,092	1,631,662	1,970,296	15,506,207
2003/2004	5,358,467	1,516,035	16,560	2,455,820	2,800,999	1,646,406	2,079,467	15,873,754
2004/2005	5,673,150	1,623,551	15,700	2,593,744	2,388,844	1,675,509	1,799,167	15,769,665

1. Includes general, special revenue and debt service funds.
2. General government expenditures by current function classifications not available prior to 1997/1998.
3. Effective in 1999/2000, the public housing program was changed from a special revenue fund to an enterprise fund.

Table 2

City of Muscatine, Iowa
General Government Revenues by Source (1)
Last Ten Fiscal Years
(Unaudited)

<u>Fiscal Year</u>	<u>Taxes</u>	<u>Licenses and Permits</u>	<u>Fines and Forfeitures</u>	<u>Intergovernmental</u>	<u>Charges for Services</u>	<u>Use of Money and Property</u>	<u>Miscellaneous</u>	<u>Total</u>
1995/96	\$ 9,312,525	\$ 221,546	\$ 103,718	\$ 3,751,551	\$ 350,699	\$ 566,370	\$ 640,751	\$ 14,947,160
1996/97	9,875,298	227,388	117,207	3,994,096	372,991	566,561	691,201	15,844,742
1997/98	10,092,310	300,294	131,100	4,067,420	344,692	613,654	549,681	16,099,151
1998/99	10,372,182	195,727	141,260	3,790,263	385,492	661,629	523,763	16,070,316
1999/2000	10,689,867	215,766	164,953	3,848,371	405,083	382,187	484,561	16,190,788
2000/2001	11,388,288	226,706	148,759	4,222,790	374,289	358,124	600,954	17,319,910
2001/2002	11,536,099	214,632	142,024	4,403,277	356,687	179,817	633,794	17,466,330
2002/2003	12,184,799	237,283	156,130	4,255,859	306,335	171,299	756,284	18,067,989
2003/2004	12,571,769	312,573	143,730	4,345,987	390,484	222,359	686,245	18,673,147
2004/2005	12,810,981	301,322	149,785	4,111,994	478,454	319,206	1,256,847	19,428,589

1. Includes general, special revenue and debt service funds.

City of Muscatine, Iowa

General Government Tax Revenue by Source
Last Ten Fiscal Years
(Unaudited)

<u>Fiscal Year</u>	<u>General Property Tax</u>	<u>Incremental Property Tax</u>	<u>Utility Excise Tax (1)</u>	<u>Mobile Home Tax</u>	<u>Hotel/Motel Tax</u>	<u>Bank Franchise Tax (2)</u>	<u>Cable Franchise Tax (3)</u>	<u>Local Option Sales Tax</u>	<u>Total</u>
1995/96	\$ 7,067,954	\$ 141,704	\$ -	\$ 16,178	\$ 257,174	\$ 60,678	\$ -	\$ 1,768,837	\$ 9,312,525
1996/97	7,204,490	145,349	-	18,523	267,781	76,207	-	2,162,948	9,875,298
1997/98	7,472,791	187,579	-	18,859	286,572	56,784	-	2,069,725	10,092,310
1998/99	7,467,075	322,425	-	17,107	298,822	-	-	2,266,753	10,372,182
1999/2000	7,701,160	469,764	-	17,118	294,318	-	-	2,207,507	10,689,867
2000/2001	7,974,925	544,471	68,144	18,010	330,850	-	-	2,451,888	11,388,288
2001/2002	8,544,437	637,922	72,767	19,366	276,207	-	-	1,985,400	11,536,099
2002/2003	8,959,144	749,270	79,468	18,420	274,654	-	-	2,103,843	12,184,799
2003/2004	9,176,000	789,101	67,339	18,420	310,798	-	-	2,210,111	12,571,769
2004/2005	9,233,886	990,224	63,638	18,500	327,575	-	238,788	1,938,370	12,810,981

1. Gas and electric utilities were assessed general property taxes based on assessed valuations through 1999/2000; beginning in 2000/2001 these utilities are subject to an excise tax based on the amount of energy delivered in a one year period.
2. Bank franchise tax revenue classified as intergovernmental revenue beginning in 1998/99.
3. Cable franchise tax revenue was accounted for in an enterprise fund through 2003/2004; beginning in 2004/2005 this revenue is accounted for in the General Fund.

Table 3

City of Muscatine, Iowa

**Property Tax Levies and Collections
Last Ten Fiscal Years
(Unaudited)**

<u>Fiscal Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections (1)</u>	<u>Percent of Current Taxes Collected</u>	<u>Delinquent Tax Collections (1)</u>	<u>Total Tax Collections (1)</u>	<u>Ratio of Total Tax Collections to Total Tax Levy</u>
1995/96	\$ 7,138,245	\$ 7,062,798	98.9%	\$ 5,252	\$ 7,068,050	99.02%
1996/97	7,282,264	7,237,981	99.4%	3,101	7,241,082	99.43%
1997/98	7,533,340	7,471,347	99.2%	1,444	7,472,791	99.20%
1998/99	7,560,049	7,465,048	98.7%	2,027	7,467,075	98.77%
1999/2000	7,752,936	7,699,537	99.3%	1,623	7,701,160	99.33%
2000/2001	8,026,525	7,974,736	99.4%	189	7,974,925	99.36%
2001/2002	8,631,013	8,543,226	99.0%	1,211	8,544,437	99.00%
2002/2003	8,997,159	8,957,497	99.6%	1,647	8,959,144	99.58%
2003/2004	9,180,577	9,170,392	99.9%	5,608	9,176,000	99.95%
2004/2005	9,239,618	9,229,567	99.9%	4,319	9,233,886	99.94%

1. Tax collections reflect payments received by the Muscatine County Treasurer's office from July 1 through June 30 of each year. Taxes levied for the current year are classified as delinquent if not paid by June 30 each year.

City of Muscatine, Iowa

**Assessed and Estimated Actual Value of Property
Last Ten Fiscal Years
(Unaudited)**

Collection Year	Real Property		Utilities		Military Exemption
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Real Property
1995/96	\$ 547,897,830	\$ 671,237,727	\$ 11,142,799	\$ 11,462,723	\$ 3,325,627
1996/97	539,550,635	721,343,141	10,400,773	10,406,517	3,254,326
1997/98	549,560,139	732,630,353	10,214,909	10,214,909	3,220,628
1998/99	561,663,114	782,644,353	10,710,915	10,717,885	3,149,442
1999/2000	584,809,493	796,494,570	11,680,094	11,680,094	3,069,850
2000/2001	590,368,783	815,381,924	6,143,188 (1)	6,146,267 (1)	2,949,646
2001/2002	613,400,400	833,832,752	6,095,471	6,095,471	2,857,078
2002/2003	619,377,611	916,590,756	6,739,905	6,741,897	2,772,444
2003/2004	610,168,821	908,712,628	7,163,614	7,163,614	2,679,844
2004/2005	601,497,287	930,131,789	6,486,449	6,487,357	2,547,347

1. Beginning in 2000/2001 gas and electric utilities have been excluded from the values shown as the taxation of these utilities is no longer based on assessed values. These utilities will pay an excise tax based on the amount of energy delivered in a one year period.

Table 4

Total		
Assessed Value	Estimated Actual Value	Ratio of Total Assessed Value to Total Estimated Actual Value
\$ 555,715,002	\$ 682,700,450	81.4%
546,697,082	731,749,658	74.7%
556,554,420	742,845,262	74.9%
569,224,587	793,362,238	71.7%
593,419,737	808,174,664	73.4%
593,562,325	821,528,191	72.3%
616,638,793	839,928,223	73.4%
623,345,072	923,332,653	67.5%
614,652,591	915,876,242	67.1%
605,436,389	936,619,146	64.6%

City of Muscatine, Iowa

**Property Tax Rates for Direct and Overlapping Governments
(Per \$1,000 of Valuation)
Last Ten Fiscal Years
(Unaudited)**

<u>Fiscal Year</u>	<u>City</u>	<u>County Consolidated</u>	<u>School Districts</u>		<u>Totals by School District</u>	
			<u>Muscatine Community</u>	<u>Louisa-Muscatine Community</u>	<u>Muscatine Community</u>	<u>Louisa-Muscatine Community</u>
1995/96	\$ 12.85667	\$ 7.76513	\$ 17.21905	\$ 13.33267	\$ 37.84085	\$ 33.95447
1996/97	13.32421	7.77573	15.84077	12.55649	36.94071	33.65643
1997/98	13.52104	7.72170	15.59428	12.54750	36.83702	33.79024
1998/99	13.24425	7.80018	16.00286	12.62077	37.04729	33.66520
1999/2000	13.03131	7.73462	15.06575	12.99862	35.83168	33.76455
2000/2001	13.46552	7.74389	14.34646	13.87696	35.55587	35.08637
2001/2002	13.93626	7.61234	14.41514	14.40012	35.96374	35.94872
2002/2003	14.35640	7.66580	14.56445	15.75821	36.58665	37.78041
2003/2004	14.84914	7.58716	15.51555	13.86347	37.95185	36.29977
2004/2005	15.14549	7.41669	16.28523	15.76815	38.84741	38.33033

Source: Muscatine County Auditor's Office

Table 6

City of Muscatine, Iowa

Principal Taxpayers
(Unaudited)

<u>Taxpayer</u>	<u>Type of Business</u>	<u>January 1, 2003 Assessed Valuation</u>	<u>Percent of Total Assessed Value</u>
HNI Corporation (HON Industries/HON Financial)	Office furniture manufacturer	\$ 43,595,740	7.2%
Grain Processing/Kent Feeds	Corn distillates, livestock feed, soybeans and forage seeds	38,412,755	6.3%
Bandag, Inc.	Pre-cured tread rubber and related equipment and supplies	16,820,840	2.8%
Heinz, U.S.A.	Food processing	10,259,450	1.7%
Wal-Mart Stores, Inc.	Discount store	8,956,790	1.5%
Davenport Farm & Fleet, Inc. (Blain's Farm & Fleet)	Retail store	6,785,350	1.1%
BT Prime Mover	Industrial trucks and endloaders	6,037,150	1.0%
Hy-Vee Inc.	Grocery store	5,985,620	1.0%
SECO Investment Co. (Stanley Engineering Co.)	Engineers and architects	5,845,690	1.0%
Central State Bank	Bank	5,257,410	0.9%
First National Bank of Muscatine	Bank	4,552,980	0.8%
TJD, LLC (CAM II)	Warehousing	4,491,240	0.7%
Muscatine Mall Associates LLP	Shopping mall	3,805,650	0.6%
Pretium Packaging	Packaging products	3,367,240	0.6%
		<u>\$ 164,173,905</u>	<u>27.2%</u>

Source: Muscatine County Auditor's Office

City of Muscatine, Iowa
Computation of Legal Debt Margin
June 30, 2005
(Unaudited)

Total assessed valuation as of January 1, 2004		<u>\$ 969,948,931</u>
Debt limit - 5% of assessed valuation		\$ 48,497,447
Amount of debt applicable to debt limit:		
General obligation bonds	\$ 13,450,000	
Lease-purchase obligation	9,249	
Tax increment revenue bonds	<u>3,245,000</u>	
		<u>16,704,249</u>
Legal debt margin		<u>\$ 31,793,198</u>

City of Muscatine, Iowa
Ratio of Net General Obligation Bonded Debt
to Assessed Value and Net General Obligation Bonded Debt Per Capita
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Popula- tion (1)	Assessed Value (2)	Gross General Obligation Bonded Debt (3)	Less Debt Service Fund	Debt Payable From Enterprise Funds (4)	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
1995/96	22,881	\$ 555,715,002	\$ 18,661,369	\$ 105,212	\$ 11,107,826	\$ 7,448,331	1.3403%	\$ 325.52
1996/97	22,881	546,697,082	18,261,455	104,688	9,973,798	8,182,969	1.4968%	357.63
1997/98	22,881	556,554,420	17,107,743	168,044	9,277,195	7,662,504	1.3768%	334.89
1998/99	22,881	569,224,587	19,211,724	91,279	12,297,321	6,823,124	1.1987%	298.20
1999/2000	22,881	593,419,737	17,450,181	103,468	11,541,643	5,805,070	0.9782%	253.71
2000/2001	22,697	593,562,325	19,928,951	121,610	10,773,739	9,033,602	1.5219%	398.01
2001/2002	22,697	616,638,793	17,907,721	64,261	9,990,914	7,852,546	1.2734%	345.97
2002/2003	22,697	623,345,072	17,436,203	63,388	9,163,088	8,209,727	1.3170%	361.71
2003/2004	22,697	614,652,591	15,050,795	61,560	8,315,054	6,674,181	1.0858%	294.06
2004/2005	22,697	605,436,389	13,065,386	67,783	7,443,616	5,553,987	0.9174%	244.70

1. Source: U.S. Census Bureau.
2. See Table 4.
3. Amount does not include special assessment bonds and revenue bonds.
4. These amounts reflect general obligation bonds that are being repaid from enterprise fund revenues.

City of Muscatine, Iowa

Ratio of Annual Debt Service Expenditures
for General Obligation Bonded Debt (1)
to Total General Government Expenditures
Last Ten Fiscal Years
(Unaudited)

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest (2)</u>	<u>Total Debt Service</u>	<u>Total General Government Expenditures (3)</u>	<u>Ratio of Debt Service to General Government Expenditures</u>
1995/96	\$ 1,283,430	\$ 324,704	\$ 1,608,134	\$ 12,561,097	12.8%
1996/97	1,000,886	318,431	1,319,317	12,840,954	10.3%
1997/98	1,097,109	365,888	1,462,997	13,143,340	11.1%
1998/99	1,176,145	348,178	1,524,323	13,431,329	11.3%
1999/2000	1,005,865	310,895	1,316,760	13,522,552	9.7%
2000/2001	1,053,326	267,711	1,321,037	14,040,885	9.4%
2001/2002	1,338,404	399,359	1,737,763	15,164,777	11.5%
2002/2003	1,457,174	300,606	1,757,780	15,506,207	11.3%
2003/2004	1,538,404	321,561	1,859,965	15,873,754	11.7%
2004/2005	1,115,000	254,760	1,369,760	15,769,665	8.7%

1. General obligation bonds reported in the enterprise funds have been excluded.
2. Excludes paying agent costs.
3. Includes general, special revenue and debt service funds.

City of Muscatine, Iowa
Computation of Direct and Overlapping Bonded Debt
General Obligation Bonds
June 30, 2005
(Unaudited)

	<u>Net General Bonded Debt June 30, 2005</u>	<u>Percent Applicable to City</u>	<u>Direct and Overlapping Debt</u>
Direct:			
City of Muscatine	\$ 5,621,770 (1)	100.00%	\$ 5,621,770
Overlapping:			
Muscatine Community School District	\$ 760,000	70.59%	\$ 536,484
Louisa-Muscatine School District	2,200,000	14.17%	311,740
Muscatine County	4,190,000	47.06%	1,971,814
Eastern Iowa Community College	<u>39,070,000</u>	6.84%	<u>2,672,388</u>
Total overlapping	<u>\$ 46,220,000</u>		<u>\$ 5,492,426</u>
Total direct and overlapping debt	<u>\$ 51,841,770</u>		<u>\$ 11,114,196</u>

1. Excludes general obligation bonds reported in enterprise funds.

Sources:

Muscatine Community School District
Louisa-Muscatine School District
Muscatine County Auditor's Office
Eastern Iowa Community College

City of Muscatine, Iowa

Construction, Property Value and Bank Deposits
Last Ten Calendar Years
(Unaudited)

Building Permits (1)

<u>Year</u>	<u>Commercial Construction</u>		<u>Industrial Construction</u>		<u>Residential Construction</u>	
	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>
1995	16	\$ 10,276,670	4	\$ 923,363	41	\$ 3,874,978
1996	10	10,850,176	5	9,644,900	35	6,693,873
1997	14	6,158,120	10	10,527,677	27	2,608,105
1998	8	3,115,564	11	13,584,203	39	4,645,476
1999	8	4,131,582	7	4,004,736	18	4,456,855
2000	6	1,794,096	7	1,703,593	23	4,390,422
2001	3	1,939,868	3	501,585	26	3,871,100
2002	4	3,125,531	3	410,000	37	7,970,109
2003	8	4,090,210	4	678,998	28	7,896,740
2004	17	7,877,406	7	4,840,780	39	6,709,379

1. Source: City Building and Zoning Department. Includes new construction and remodeling.
2. Estimated actual valuation - see Table 4
3. Sources: First National Bank of Muscatine, Central State Bank and Community Bank

Table 11

Property Values (2)

<u>Commercial</u>	<u>Industrial</u>	<u>Residential</u>	<u>Other</u>	<u>Total</u>	<u>Bank Deposits (3)</u>
\$ 118,024,639	\$ 81,507,136	\$ 379,506,613	\$ 103,662,062	\$ 682,700,450	\$ 395,803,000
111,808,616	80,689,366	438,941,270	100,310,406	731,749,658	401,694,000
113,883,134	83,799,717	444,335,277	100,827,134	742,845,262	444,850,000
130,194,081	85,061,816	481,751,490	96,354,851	793,362,238	466,809,000
141,001,356	86,900,503	485,952,668	94,320,137	808,174,664	475,846,000
163,720,819	98,244,262	493,053,312	66,509,798	821,528,191	488,392,000
183,724,111	109,053,872	503,316,711	43,833,526	839,928,220	487,228,000
183,636,430	111,824,334	604,952,105	22,919,784	923,332,653	489,921,000
179,354,859	114,983,487	613,054,817	8,483,079	915,876,242	496,266,000
183,004,038	114,149,216	631,943,120	7,522,772	936,619,146	503,603,000

City of Muscatine, Iowa

Demographic Statistics
Last Ten Fiscal Years
(Unaudited)

<u>Fiscal Year</u>	<u>Popula- tion (1)</u>	<u>Personal Per Capita Income (2)</u>	<u>Median Age (1)</u>	<u>Percent High School Graduates or Higher (1)</u>	<u>School Enrollment (3)</u>	<u>Unemploy- ment Rate (4)</u>
1995/96	22,881	\$ 22,090	35.3	74.2%	5,402	3.4%
1996/97	22,881	23,692	35.3	74.2%	5,419	4.9%
1997/98	22,881	24,659	35.3	74.2%	5,311	4.2%
1998/99	22,881	25,531	35.3	74.2%	5,277	2.7%
1999/2000	22,881	26,192	35.3	74.2%	5,259	2.8%
2000/2001	22,697	26,877	35.8	80.3%	5,393	2.7%
2001/2002	22,697	27,633	35.8	80.3%	5,457	3.7%
2002/2003	22,697	27,953	35.8	80.3%	5,385	4.1%
2003/2004	22,697	28,776	35.8	80.3%	5,375	4.2%
2004/2005	22,697	N/A	35.8	80.3%	5,280	4.5%

Sources:

1. United States Census Bureau
2. Iowa Workforce Development. Per capita income for the City of Muscatine is not available. The amounts shown are for Muscatine County and reflect average per capita income for the calendar years which end midway through the fiscal years shown.
3. Muscatine Community School District
4. Iowa Workforce Development. Unemployment rates for the City of Muscatine are not available. The rates shown are rates for Muscatine County and reflect average annual unemployment for the calendar years which end midway through the fiscal years shown.

City of Muscatine, Iowa

Miscellaneous Statistics
June 30, 2005
(Unaudited)**General information:**

Date chartered	February 1, 1851
Form of government	Mayor/Council/City Administrator
Number of employees (excluding seasonal)	
Full-time equivalent	222
Area in square miles	17.2
Miles of streets	117

City facilities and services:

Parks and recreation:	
Parks	14
Park acreage	246
Golf course	1
Swimming pools	2
Softball and baseball diamonds	19
Soccer fields	8
Tennis courts	8
Cemetery:	
Number of acres	150
Library:	
Number of registered borrowers	20,756
Number of items in collection	134,853
Art center and museum	1
Police protection:	
Number of stations	1
Number of sworn officers	38
Fire protection and ambulance service:	
Number of stations	2
Number of fire/ambulance personnel	36
Sewer system:	
Number of treatment plants	1
Daily average treatment in gallons	3.0 million
Maximum daily capacity in gallons	15.0 million
Public transportation system:	
Buses	10
Fixed routes served	3
Shuttle vehicles operated	2
Municipal airport:	
Primary runway length (in feet)	5,500
Crosswind runway length (in feet)	4,000

Source: City of Muscatine department records

City of Muscatine, Iowa

Principal Officials
Salaries and Length of Service
June 30, 2005
(Unaudited)

	<u>Annual Salary</u>	<u>Years of Service</u>
Elected officials:		
Richard O'Brien, Mayor	\$ 5,500	10
Osama Shihadeh, Council Member at Large	4,000	2
Jerry Lange, Council Member at Large	4,000	4
Philip Fitzgerald, Council Member - First Ward	4,000	13
Anne Lesnet, Council Member - Second Ward	4,000	8
Scott Day, Council Member - Third Ward	4,000	7
Jerry Root, Council Member - Fourth Ward	4,000	8
Bill Trent, Council Member - Fifth Ward	4,000	6
Council appointed officials:		
A.J. Johnson, City Administrator	\$ 96,164	16
Harvey G. Allbee Jr., City Attorney	\$ 90.00/hour	25
Department directors:		
Barbara Longtin, Art Center Director	\$ 60,412	16
David P. Casstevens, Administrative Services Director	86,009	15
Steve Dalbey, Fire Chief	71,267	14
Peter Press, Library Director	65,727	4
Richard Klimes, Parks and Recreation Director	63,577	1
Steve Boka, Planning, Zoning and Building Safety Director	68,765	1
Gary Coderoni, Police Chief	71,984	15
Randy E. Hill, Public Works Director	76,086	15
Don Freel, Water Pollution Control Director	71,151	15

Source: City of Muscatine records

**INFORMATION PROVIDED TO COMPLY WITH
GOVERNMENT AUDITING STANDARDS
AND
OMB CIRCULAR A-133**



**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

We have audited the financial statements of the 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, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 22, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 III of the accompanying Schedule of Findings and Questioned Costs.

However, we noted certain matters that we reported to management of the City of Muscatine, Iowa, in a separate letter dated September 22, 2005.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005, are based exclusively on knowledge obtained from procedures performed during our audit of the 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 interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Muscatine, Iowa, and other parties to whom the City of Muscatine, Iowa, may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Muscatine, Iowa, during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Dubuque, Iowa
September 22, 2005



CPAs & BUSINESS ADVISORS

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the City of Muscatine, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The City's major federal programs are identified in the summary of independent auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Muscatine, Iowa, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item II-A-05.

Internal Control Over Compliance

The management of the City of Muscatine, Iowa, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Muscatine, Iowa, and other parties to whom the City of Muscatine, Iowa, may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Dubuque, Iowa
September 22, 2005

CITY OF MUSCATINE, IOWA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2005

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Program Expenditures</u>
Direct:			
Department of Housing and Urban Development:			
Public and Indian Housing	14.850	IA04900105J	\$ 170,025
Section 8 Housing Choice Vouchers	14.871	IA05-V049-001/044	1,427,829
Public Housing Capital Fund	14.872	IA05-P049-50103	50,834
Public Housing Capital Fund	14.872	IA05-P049-50104	70,797
Public Housing Capital Fund	14.872	IA05-P049-50203	7,859
			<u>129,490</u>
Department of Justice:			
Local Law Enforcement Block Grants Program	16.592	2002-LB-BX-0984	325
Local Law Enforcement Block Grants Program	16.592	2003-LB-BX-0789	31,224
Local Law Enforcement Block Grants Program	16.592	2004-LB-BX-0846	7,637
			<u>39,186</u>
Bulletproof Vest Partnership Program	16.607	N/A	2,819
Public Safety Partnership and Community Policing Grants	16.710	2003-OM-WX-0149	5,276
Department of Transportation:			
Airport Improvement Program	20.106	3-19-0063-11	33,217
Office of National Drug Control Policy:			
High Intensity Drug Trafficking Area Grant	N/A	13PMWP562	12,599
High Intensity Drug Trafficking Area Grant	N/A	14PMWP556	50,631
High Intensity Drug Trafficking Area Grant	N/A	15PMWP556	25,039
			<u>88,269</u>
Total Direct			<u>1,896,111</u>
Indirect:			
Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/ State's Program	14.228	03-HSG-082	180,791
Department of the Interior:			
State Historical Society of Iowa:			
National Register of Historic Places	15.914	2004-05	7,895
National Register of Historic Places	15.914	2005-05	2,025
			<u>9,920</u>

(continued)

CITY OF MUSCATINE, IOWA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2005

(continued)

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Program Expenditures</u>
Indirect: (continued)			
Department of Justice:			
Governor's Office of Drug Control Policy:			
Violence Against Women Formula Grants	16.588	VW-05-59	\$ <u>9,525</u>
Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-E-5330(608)-8V-70	<u>203,523</u>
Federal Transit Capital Investment Grants	20.500	03-0098-533-03	<u>43,736</u>
Formula Grants for Other Than Urbanized Areas	20.509	TF2005096	143
Formula Grants for Other Than Urbanized Areas	20.509	TF2005097	129
Formula Grants for Other Than Urbanized Areas	20.509	TF2005209	63
Formula Grants for Other Than Urbanized Areas	20.509	TF2005205	255
Formula Grants for Other Than Urbanized Areas	20.509	18-4025-533-05	105,356
Formula Grants for Other Than Urbanized Areas	20.509	18-4025-533-05	<u>140,211</u>
			<u>246,157</u>
Job Access – Reverse Commute	20.516	37-X008-533-03	7,875
Job Access – Reverse Commute	20.516	37-X009-533-04	<u>19,187</u>
			<u>27,062</u>
Iowa Department of Public Safety:			
State and Community Highway Safety	20.600	PAP 04-04, Task 27	2,168
State and Community Highway Safety	20.600	PAP 05-02, Task 20	<u>12,528</u>
			<u>14,696</u>
Environmental Protection Agency:			
Iowa Department of Public Health and Linn County, Iowa:			
State Indoor Radon Grants	66.032	K100-7400-16	<u>2,477</u>
Department of Homeland Security:			
Scott County:			
Law Enforcement Terrorism Prevention Program	97.074	FY2004-LETPP-LEIN-06	<u>61,424</u>
Total Indirect			<u>799,311</u>
Total			\$ <u>2,695,422</u>

N/A = Not Available

See Notes to the Schedule of Expenditures of Federal Awards

CITY OF MUSCATINE, IOWA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Muscatine, Iowa, and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF MUSCATINE, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were noted.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were:
 - CFDA Number 14.871 – Section 8 Housing Choice Vouchers
 - CFDA Number 20.205 – Highway Planning and Construction
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Muscatine, Iowa, qualified as a low-risk auditee.

Part II: Findings and Questioned Costs for Federal Awards:

INSTANCE OF NONCOMPLIANCE:

CFDA Number 14.871: Section 8 Housing Choice Vouchers
Agency Number: IA05-V049-001/044
Department of Housing and Urban Development

II-A-05 Reasonable Rent – In performing our tenant file review, we noted an instance when there was an increase in rent to the owner, but there was no documentation of an updated determination that the increased rent was reasonable.

Recommendation – To ensure compliance with appropriate federal regulations, we recommend that City staff perform and document a reasonable rent determination before any increase in rent to the owner.

Response – Housing staff is in the process of updating the rent survey information and should be in full compliance with this requirement in the near future.

Conclusion – Response accepted.

Part III: Other Findings Related to Required Statutory Reporting:

III-A-05 Official Depositories – A resolution naming official depositories has been approved by the City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

III-B-05 Certified Budget – Disbursements during the year ended June 30, 2005, exceeded the amount budgeted in the health and social services and debt service functions prior to the budget being amended and at year end, respectively. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The original budget for the year ended June 30, 2005, did not include a subsidy allocation for Senior Resources. City Council took action by motion to reinstate this funding, and subsidy payments began in July, 2004. The budget, however, was not officially amended for this change until a later date. As this allocation is the only appropriation in the health and social services function, the budget for that function was exceeded. The debt service function expenditures exceed the budgeted amount due to lease-purchase payments on a copier which were included in the general government function budget. In the future, staff will monitor the effects of funding changes on individual functions within the officially adopted budget.

Conclusion – Response accepted.

III-C-05 Questionable Expenditures – We noted no expenditures that we believe might fail to meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

III-D-05 Travel Expense – No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

III-E-05 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Vonda Ludke, part-time Housing Office Coordinator, husband owns Spectrum Personnel, Ltd.	Temporary employment services	\$ 87,996
Gerald Ewers, Assistant Fire Chief, owner of Ewers Safety Consulting	Training services	\$ 259
Eric Hutmacher, mechanic, owner of Hutmacher’s Nuisance Service	Animal removal services	\$ 418

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Ewers Safety Consulting and Hutmacher's Nuisance Service do not appear to represent conflicts of interest since total transactions were less than \$1,500 during the fiscal year. In accordance with Chapter 362.5(4) of the Code of Iowa, the transactions with Spectrum Personnel, Ltd. may represent a conflict of interest since they were not entered into through competitive bidding.

Response – The City had publicly bid the temporary employment services agreement in 2003, however the contract term had expired. The City will again publicly advertise and solicit bids for this service in the upcoming year.

Conclusion – Response accepted.

III-F-05 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

III-G-05 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-H-05 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

III-I-05 Revenue Bonds – We noted no instances of noncompliance with the provisions of the City's revenue bond resolutions.

III-J-05 Compilation of Ordinances – The City has not compiled a code of ordinances in the last five years as required by Chapter 380.8(2) of the Code of Iowa.

Recommendation – The City should comply with Chapter 380.8(2) of the Code of Iowa and compile a code of ordinances at least once every five years.

Response – The City Attorney is responsible for preparing the compilation of ordinances for the City Code and expects to have this completed early in 2006.

Conclusion – Response accepted.