

COPY

Financial Statements

City of Maquoketa

June 30, 2005

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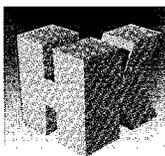
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City of Maquoketa

List of Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Tom Messerli	Mayor	January 1, 2006
Matt Winegar	Council Member	January 1, 2006
Neil Morehead	Council Member	January 1, 2008
Marsha Myers	Council Member	January 1, 2008
Paul Hahle	Council Member	January 1, 2008
John Cressey	Council Member	January 1, 2006
Tim Clark	Council Member	January 1, 2006
Galen Saunders	Council Member	January 1, 2006
Brian Wagner	City Manager	Indefinite
Judy Carr	Deputy City Clerk	Indefinite
Diane Frandsen	City Treasurer	Indefinite
Mark Lawson	City Attorney	Indefinite



Honkamp Krueger & Co., PC.
*Certified Public Accountants
& Business Consultants*

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Maquoketa, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the management of the City of Maquoketa, Iowa. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Maquoketa Municipal Electric Utility, a discretely presented component unit of the City of Maquoketa. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Maquoketa Municipal Electric Utility, is based solely on the report of 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 and provisions 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 opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Maquoketa as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended, in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2005 on our consideration of the City of Maquoketa'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 internal control over financial reporting or compliance. This 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.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Maquoketa's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dubuque, Iowa
August 11, 2005

City of Maquoketa

Management's Discussion and Analysis

The City of Maquoketa provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

This discussion and analysis is intended to be an easily readable analysis of the City's financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the audited financial statements.

2005 FINANCIAL HIGHLIGHTS

- Receipts and transfers of the City's governmental activities decreased 9.8%, or approximately \$473,000, from fiscal year 2004 to fiscal year 2005. Property tax decreased approximately \$10,000.
- Disbursements decreased 2.6%, or approximately \$114,000 from fiscal 2004 to fiscal year 2005. Public safety disbursements decreased approximately \$321,000, while general government disbursements increased approximately \$203,000.
- The City's total cash basis net assets increased 11.5%, or approximately \$999,000 from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities increased approximately \$63,000 and the assets of the business type activities increased approximately \$936,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water department, stormwater and wastewater treatment utilities. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment (TIF), 3) the Debt Service Fund, and 4) the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary Funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and wastewater treatment funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate cost internally among the City's various functions.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

The City as Trustee

The City is the trustee, or *fiduciary*, for its police employees' pension plans. All of the City's fiduciary activities are reported in a separate Statement of Cash Receipts, Disbursements and Changes in Cash Balances on page 19. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in this fund are used for its intended purpose.

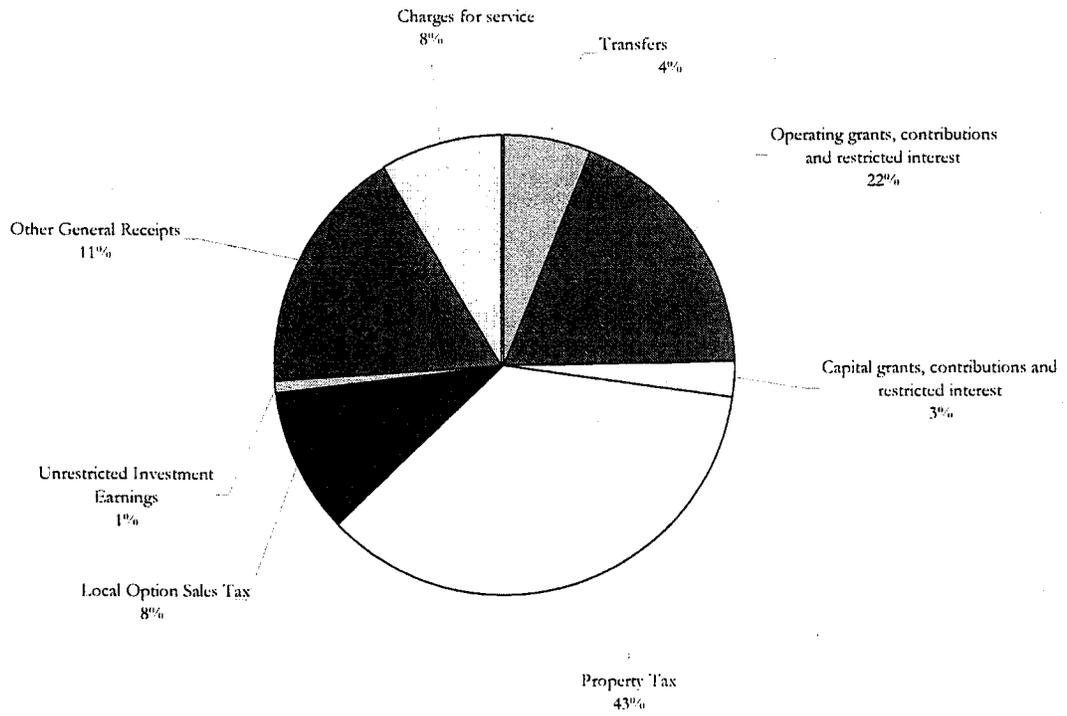
GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$5,654,547 to \$5,717,124. The analysis that follows focuses on the changes in cash balances for governmental activities.

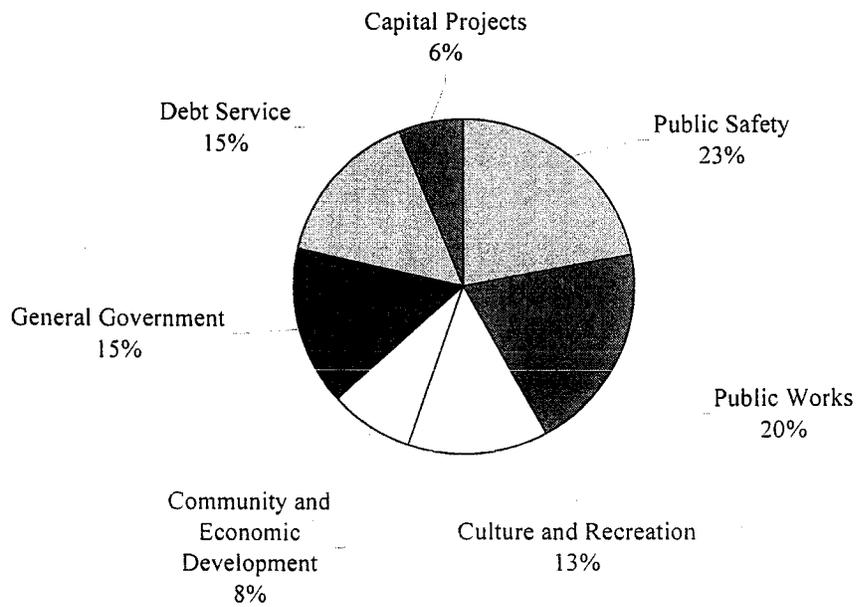
City of Maquoketa		
Changes in Cash Basis Net Assets of Governmental Activities		
	Years Ended June 30	
	2005	2004
Receipts and Transfers:		
Program Receipts:		
Charges for services	\$ 330,271	\$ 457,358
Operating grants, contributions and restricted interest	981,421	1,379,863
Capital grants, contributions and restricted interest	137,208	229,332
General Receipts:		
Property Tax	1,875,783	1,885,846
Local Option Sales Tax	368,180	402,177
Franchise Tax	143,054	166,006
Hotel/Motel Tax	42,900	41,264
Unrestricted Investment Earnings	45,101	120,187
Other General Receipts	601,819	73,632
Sale of Assets	314,925	12,772
Transfers, Net	163,062	156,564
Interfund Loans, Net	(623,952)	(71,856)
Total Receipts and Transfers	<u>\$ 4,379,772</u>	<u>\$ 4,853,145</u>

City of Maquoketa		
Changes in Cash Basis Net Assets of Governmental Activities		
	Years Ended June 30	
	2005	2004
Disbursements:		
Public Safety	\$ 946,937	\$ 1,267,851
Public Works	868,511	756,254
Culture and Recreation	572,127	528,330
Community and Economic Development	346,115	491,895
General Government	663,484	460,507
Debt Service	661,767	609,193
Capital Projects	258,254	317,252
Total Disbursements	<u>4,317,195</u>	<u>4,431,282</u>
Increase in Cash Basis Net Assets	62,577	421,863
Cash Basis Net Assets, Beginning of Year	<u>5,654,547</u>	<u>5,232,684</u>
Cash Basis Net Assets, End of Year	<u>\$ 5,717,124</u>	<u>\$ 5,654,547</u>

Receipts by Source



Disbursements by Function



The City's receipts and transfers for governmental activities totaled \$4,379,772 for fiscal year 2005, a decrease of 9.8% from fiscal year 2004. The total cost of all programs and services was \$4,317,195, a decrease of 2.6%. The net excess increased cash balances on hand by \$62,577 for fiscal year 2005 to \$5,717,124.

The cost of all governmental activities this year was \$4,317,195 compared to \$4,431,282 last year. As shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$1,875,783 because some of the cost was paid by those directly benefiting from the programs (\$330,271) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$1,118,629). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$992,512 in tax (some of which could only be used for certain programs), and with other receipts, such as interest and general entitlements.

City of Maquoketa		
Changes in Cash Basis Net Assets of Business Type Activities		
	Years Ended June 30	
	2005	2004
Receipts and Transfers:		
Program Receipts:		
Charges for Service:		
Water	\$ 515,877	\$ 512,214
Wastewater Treatment	920,953	901,817
Stormwater	100,763	-----
Capital grants, contributions and restricted interest	123,336	-----
General Receipts:		
Unrestricted Interest on Investments	19,321	13,197
Bond Proceeds	715,851	144,093
Interfund Loans	600,000	-----
Other General Receipts	3,511	79,749
Total Receipts	<u>2,999,612</u>	<u>1,651,070</u>
Disbursements and Transfers:		
Water	1,172,493	449,640
Wastewater Treatment	726,280	964,724
Stormwater	1,490	-----
Transfers	163,062	118,244
Total Disbursements and Transfers	<u>2,063,325</u>	<u>1,532,608</u>
 Increase in Cash Balance	 936,287	 118,462
Cash Basis in Net Assets, Beginning of Year	<u>3,042,248</u>	<u>2,923,786</u>
Cash Basis in Net Assets, End of Year	<u>\$ 3,978,535</u>	<u>\$ 3,042,248</u>

Total business type activities receipts for the fiscal year were \$2,999,612 compared to \$1,651,070 last year. This significant increase was due primarily to the receipt of \$715,851 in sewer revenue note proceeds and an interfund transfer of \$600,000 in fiscal 2005. The cash balance increased by approximately \$999,000 from the prior year. Total disbursements and transfers for the fiscal year increased by 34.6% to a total of \$2,063,325 because significant expenses were incurred in the prior year for the water treatment project

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Maquoketa completed the year, its governmental funds reported a combined fund balance of \$5,717,124, an increase of approximately \$63,000 above last year's total of \$5,654,547. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$257,918 from the prior year to \$2,763,431.
- The Road Use Tax Fund cash balance increased by \$15,955 to \$470,640 during the fiscal year.
- The Urban Renewal Tax Increment Fund was established in the prior fiscal years to account for a major urban renewal project within the City's business district. At the end of the fiscal year, the cash balance was a deficit of \$(533,901), a decrease of \$183,323 from the previous year.
- The General CIP Fund was established to account for major capital projects incurred and used in conjunction with the City's general operation. At the end of the fiscal year, the cash balance was \$1,853,808, an increase of \$335,285 from the prior year.
- The Industrial Park Fund was established to account for major capital projects and expansion efforts in the City's Industrial Park. The cash balance at the end of the fiscal year decreased to \$1,071,782, primarily due to an interfund loan of \$600,000 to the Stormwater Fund.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Utility cash balance increased by \$43,518 to \$1,314,772, due primarily to grant funding of \$123,336 and debt proceeds of \$576,848.
- The Wastewater Treatment cash balance increased by \$193,469 to \$1,964,490.
- The Stormwater Fund was established in fiscal year 2005 and ended the year with a cash balance of \$699,273. The fund received an interfund loan from the Industrial Park Fund in the amount of \$600,000.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. The amendments were approved on March 21, 2005 and May 31, 2005. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately \$10,564,067 in bonds and other long-term debt, compared to approximately \$10,324,723 last year, as shown below:

City of Maquoketa Outstanding Debt at Year-End		
	June 30,	
	2005	2004
General Obligation Bonds	\$ 6,275,000	\$ 6,565,000
Revenue Notes	4,173,535	3,609,684
Real Estate Contracts	115,532	150,039
Total	<u>\$ 10,564,067</u>	<u>\$ 10,324,723</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$6,275,000 is approximately 58.3% its constitutional debt limit of \$10,740,296.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Maquoketa's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for various City activities.

The fiscal year 2005 budget was based on a City tax rate of \$11.61/\$1,000. Similarly, the fiscal year 2006 budget uses the same tax rate.

From January 1, 2002 to January 1, 2004, the total taxable property value for Maquoketa actually decreased by \$1,955,086. At the \$11.61 rate, this amount represented a loss of \$22,698 in tax revenue from fiscal year 2005 to fiscal year 2006. Further, the State's rollback on residential property has also had a negative impact on our tax base. For example, in fiscal year 2003, the rollback was 51.7%. It has steadily changed and now stands at 47.96% in fiscal year 2006. Therefore, though the City is using the same tax rate as before, the City is bringing in less revenue.

While the City was able to balance our fiscal year 2006 budget without an increase in our tax rate, it should be noted that this was possible due to these assumptions:

- As with the fiscal year 2005 budget, the fiscal year 2006 budget assumes the City using money from the Police Pension Fund to make the City's annual contribution to the police officers' retirement system. For fiscal year 2006, this amount is \$121,570. A few years from now, the Police Pension Fund will be completely exhausted. The only other means for paying for this expense will be to raise property taxes or cut future expenses.
- The fiscal year 2006 budget included an anticipated \$90,000 from a new 3% natural gas franchise fee due to a renewed franchise for Aquila. However, after the current fiscal year began, the City Council decided to postpone the use of a franchise fee until no sooner than fiscal year 2007.
- The franchise fee payment that the City receives from its municipal electric utility in fiscal year 2006 was expected to increase by about \$20,000 for the year.
- The Police Department's budget was based on 11 officers, rather than 12. This was due to the City elimination of the Cop in the School Program.
- As with past budgets, this budget continues our use of Road Use Tax revenue to pay for some of the cost of public works labor and equipment, approximately \$120,000 for the fiscal year.
- The proposed budget assumes wage increases of 3%, health insurance increases of 15%, and property insurance increases of 7%.
- A grant in support of the City's role in the regional Bear Creek Task Force was renewed for another fiscal year. This is expected to be worth about \$43,000.

Since the fiscal year 2006 budget was adopted, these activities have occurred:

- The Council approved a roof replacement project at the Police Department. This \$17,487 expense was not anticipated in our budget.
- The Council approved a roof replacement project at the Community Center. This \$54,354 expense was not anticipated in our budget.
- The fiscal year 2006 budget did not anticipate the significant increases that the nation has endured in the cost of fuel and energy.

LEVY LIMITS

During the preparation of the fiscal year 2006 budget and CIP, we assumed that we would have about \$90,000 from natural gas franchise fees. If not for that, the revenue needed to cover our budgeted expenses would have fallen short if the City had to rely solely on its ability to levy for the revenues necessary to cover these expenses. In other words, if we had not assumed the \$90,000 from the gas franchise, our ability to meet the resulting \$90,000 deficit could not have been addressed by raising our levy because of levy limits that would have been in place after the \$8.10 levy was used.

The fiscal year 2005 saw the resolution of these projects:

- The completion of the street paving project (plus utility extension) on a section of 43rd Street at a cost of \$154,733.
- The improvement of the City's composting site including the expansion of its surface area and the hiring of a composting contractor for \$15,000 per year.

Fiscal year 2006 will include the completion of two major projects that started in fiscal year 2005.

- Street overlay projects on Kathey Drive, Susan Drive and portions of Summit Street which cost approximately \$171,800.
- The construction of new restrooms at the Girls' Softball Fields. The project's final cost is approximately \$90,000.

Another major project involves the nearly \$4 million dollar water treatment/storm sewer project which should be completed by early fiscal year 2006. The primary project is to reduce the amount of radium that is currently present in the City's drinking water. The storm water component of this project will cost approximately \$502,000 and is meant to relieve excess storm water during moderate to heavy rains on Niagara Street, North 2nd Street, Apple Street and West Grove Street. These streets, along with previous water treatment project segments involving Summit Street, South 2nd Street, West Pleasant Street and South Niagara Street will also be overlaid.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brian Wagner, City Manager, 201 East Pleasant, Maquoketa, Iowa.

City of Maquoketa
Statement of Activities and Net Assets - Cash Basis
As of and for the Year Ended June 30, 2005

	Disbursements	Program Receipts		Program Receipts
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
Functions / Programs:				
Primary Government:				
Governmental Activities:				
Public Safety	\$ 946,937	\$ 6,030	\$ 206,530	\$ -
Public Works	868,511	101,948	552,611	-
Culture and Recreation	572,127	72,258	35,627	-
Community and Economic Development	346,115	62	81,283	-
General Government	663,484	149,973	90,370	-
Debt Service	661,767	-	-	-
Capital Projects	258,254	-	15,000	137,208
Total Governmental Activities	4,317,195	330,271	981,421	137,208
Business Type Activities:				
Water Utility	1,172,493	515,877	-	-
Wastewater Treatment	726,280	920,953	-	123,336
Stormwater	1,490	100,763	-	-
Total Business Type Activities	1,900,263	1,537,593	-	123,336
Total Primary Government	\$ 6,217,458	\$ 1,867,864	\$ 981,421	\$ 260,544
Component Unit:				
Maquoketa Municipal Electric Utility	\$ 7,072,179	\$ 6,402,508	\$ -	\$ -
General Receipts:				
Property Tax Levied for:				
General Purposes				
Insurance				
Employee Benefits				
Tax Increment Financing				
Local Option Sales Tax				
Hotel/Motel Tax				
Licenses, Permits and Franchise Fees				
Franchise Tax				
Unrestricted Interest on Investments				
Bond Proceeds				
Miscellaneous				
Sale of Assets				
Interfund Loans				
Transfers In (Out)				
Total General Receipts and Transfers				
Change in Cash Basis Net Assets				
Cash Basis Net Assets, Beginning of Year				
Cash Basis Net Assets, End of Year				
Cash Basis Net Assets				
Restricted:				
Streets				
Urban Renewal Purposes				
Debt Service				
Other Purposes				
Unrestricted				
Total Cash Basis Net Assets				

Exhibit A

Net (Disbursements) Receipts and
Change in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total	Component Unit
\$ (734,377)	\$ -	\$ (734,377)	\$ -
(213,952)	-	(213,952)	-
(464,242)	-	(464,242)	-
(264,770)	-	(264,770)	-
(423,141)	-	(423,141)	-
(661,767)	-	(661,767)	-
(106,046)	-	(106,046)	-
<u>(2,868,295)</u>	<u>-</u>	<u>(2,868,295)</u>	<u>-</u>
-	(656,616)	(656,616)	-
-	318,009	318,009	-
-	99,273	99,273	-
-	<u>(239,334)</u>	<u>(239,334)</u>	<u>-</u>
<u>(2,868,295)</u>	<u>(239,334)</u>	<u>(3,107,629)</u>	<u>-</u>
-	-	-	(669,671)
1,033,883	-	1,033,883	-
117,777	-	117,777	-
329,458	-	329,458	-
394,665	-	394,665	-
368,180	-	368,180	-
42,900	-	42,900	-
11,440	-	11,440	-
143,054	-	143,054	-
45,101	19,321	64,422	34,506
-	715,851	715,851	-
590,379	3,511	593,890	148,679
314,925	-	314,925	-
(623,952)	600,000	(23,952)	-
163,062	(163,062)	-	-
<u>2,930,872</u>	<u>1,175,621</u>	<u>4,106,493</u>	<u>183,185</u>
62,577	936,287	998,864	(486,486)
5,654,547	3,042,248	8,696,795	3,818,278
<u>\$ 5,717,124</u>	<u>\$ 3,978,535</u>	<u>\$ 9,695,659</u>	<u>\$ 3,331,792</u>
\$ 470,640	\$ -	\$ 470,640	\$ -
(533,901)	-	(533,901)	-
(64,442)	279,691	215,249	-
2,903,865	-	2,903,865	-
2,940,962	3,698,844	6,639,806	3,331,792
<u>\$ 5,717,124</u>	<u>\$ 3,978,535</u>	<u>\$ 9,695,659</u>	<u>\$ 3,331,792</u>

See Notes to Financial Statements

City of Maquoketa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and For the Year Ended June 30, 2005

	General	Special Road Use Tax	Revenue Urban Renewal Tax Increment
Receipts:			
Property Tax	\$ 1,033,883	\$ -	\$ -
Tax Increment Financing Collections	-	-	394,665
Other City Tax	37,651	-	-
Licenses and Permits	11,440	-	-
Use of Money and Property	72,866	-	-
Intergovernmental	351,018	509,224	-
Charges for Service	180,297	-	-
Miscellaneous	439,912	-	113,188
Total Receipts	<u>2,127,067</u>	<u>509,224</u>	<u>507,853</u>
Disbursements:			
Operating:			
Public Safety	794,218	-	-
Public Works	762,916	27,947	-
Culture and Recreation	522,399	-	-
Community and Economic Development	84,738	-	113,379
General Government	374,521	-	-
Debt Service	-	-	-
Capital Projects	-	-	-
Total Disbursements	<u>2,538,792</u>	<u>27,947</u>	<u>113,379</u>
Excess (Deficiency) of Receipts over (under) Disbursements	<u>(411,725)</u>	<u>481,277</u>	<u>394,474</u>
Other Financing Sources (Uses)			
Sale of Capital Assets	314,925	-	-
Interfund Loans	-	-	(23,952)
Operating Transfers In	610,988	-	-
Operating Transfers Out	(256,270)	(465,282)	(187,199)
Total Other Financing Sources (Uses)	<u>669,643</u>	<u>(465,282)</u>	<u>(211,151)</u>
Net Change in Cash Balances	257,918	15,995	183,323
Cash Balances, Beginning of Year	2,505,513	454,645	(717,224)
Cash Balances, End of Year	<u>\$ 2,763,431</u>	<u>\$ 470,640</u>	<u>\$ (533,901)</u>
Cash Basis Fund Balances			
Reserved:			
Debt Service	\$ -	\$ -	\$ -
Unreserved:			
General Fund	2,763,431	-	-
Special Revenue Funds	-	470,640	(533,901)
Capital Project Funds	-	-	-
Total Cash Basis Fund Balances	<u>\$ 2,763,431</u>	<u>\$ 470,640</u>	<u>\$ (533,901)</u>

Exhibit B

Capital Projects		Other Nonmajor Governmental Funds			Total
General	Industrial Park	Debt Service			
\$ -	\$ -	\$ -	\$ 329,458	\$ -	\$ 1,363,341
-	-	-	-	-	394,665
42,900	-	-	368,180	-	448,731
-	-	-	-	-	11,440
-	25,140	-	-	-	98,006
25,016	152,208	-	90,370	-	1,127,836
-	-	-	-	-	180,297
2,464	210,000	-	85,960	-	851,524
<u>70,380</u>	<u>387,348</u>	<u>-</u>	<u>873,968</u>	<u>-</u>	<u>4,475,840</u>
-	-	-	86,103	-	880,321
-	-	-	36,742	-	827,605
-	-	-	12,349	-	534,748
-	-	-	125,903	-	324,020
-	212,248	-	21,878	-	608,647
-	-	661,767	-	-	661,767
211,879	-	-	46,375	-	258,254
<u>211,879</u>	<u>212,248</u>	<u>661,767</u>	<u>329,350</u>	<u>-</u>	<u>4,095,362</u>
<u>(141,499)</u>	<u>175,100</u>	<u>(661,767)</u>	<u>544,618</u>	<u>-</u>	<u>380,478</u>
-	-	-	-	-	314,925
-	(600,000)	-	-	-	(623,952)
476,784	-	617,082	59,715	-	1,764,569
-	(355,314)	-	(532,171)	-	(1,796,236)
<u>476,784</u>	<u>(955,314)</u>	<u>617,082</u>	<u>(472,456)</u>	<u>-</u>	<u>(340,694)</u>
335,285	(780,214)	(44,685)	72,162	-	39,784
1,518,523	1,851,996	(19,757)	(93,887)	-	5,499,809
<u>\$ 1,853,808</u>	<u>\$ 1,071,782</u>	<u>\$ (64,442)</u>	<u>\$ (21,725)</u>	<u>\$ -</u>	<u>\$ 5,539,593</u>
\$ -	\$ -	\$ (64,442)	\$ -	\$ -	\$ (64,442)
-	-	-	-	-	2,763,431
-	-	-	(50,608)	-	(113,869)
1,853,808	1,071,782	-	28,883	-	2,954,473
<u>\$ 1,853,808</u>	<u>\$ 1,071,782</u>	<u>\$ (64,442)</u>	<u>\$ (21,725)</u>	<u>\$ -</u>	<u>\$ 5,539,593</u>

See Notes to Financial Statements

City of Maquoketa
Reconciliation of the Statement of Cash Receipts, Disbursements
and Changes in Cash Balances to the Statement of Activities
and Net Assets - Governmental Funds
As of and for the Year Ended June 30, 2005

Total Governmental Funds Cash Balance (page 15)	\$ 5,539,593
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*Amounts Reported for Governmental Activities in the
Statement of Activities and Net Assets are different because:*

The Internal Service Funds are used by management to charge the costs of partial self funding of the City's health insurance benefit plan and payroll costs to individual funds. The assets of the Internal Service Funds are included in the governmental activities in the Statement of Net Assets.

	<u>177,531</u>
Cash Basis Net Assets of Governmental Activities (page 14)	\$ <u><u>5,717,124</u></u>

Net Change in Cash Balances (page 15)	\$ 39,784
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*Amounts Reported for Governmental Activities in the
Statement of Activities and Net Assets are different because:*

The Internal Service Funds are used by management to charge the costs of employee health benefits to individual funds. The change in net assets of the Internal Service Funds is reported with governmental activities.

	<u>22,793</u>
Change in Cash Balance of Governmental Activities (page 14)	\$ <u><u>62,577</u></u>

City of Maquoketa
Statement of Cash Receipts, Disbursements and Changes in
Cash Balances - Proprietary Funds
As of and for the Year Ended June 30, 2005

	Enterprise Funds	
	Water Utility	Wastewater Treatment
Operating Receipts:		
Use of Money and Property	\$ 9,648	\$ 9,673
Charges for Service	542,522	894,309
Miscellaneous	-	-
Total Operating Receipts	<u>552,170</u>	<u>903,982</u>
Operating Disbursements:		
Governmental Activities:		
Public Safety	-	-
Public Works	-	-
Culture and Recreation	-	-
Community and Economic Development	-	-
General Government	-	-
Business Type Activities	1,172,493	449,112
Total Operating Disbursements	<u>1,172,493</u>	<u>449,112</u>
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	<u>(620,323)</u>	<u>454,870</u>
Non-Operating Receipts (Disbursements):		
Intergovernmental	123,336	-
Miscellaneous	3,510	-
General Obligation Bond Proceeds	576,848	139,003
Debt Service	-	(277,168)
Total Non-Operating Receipts (Disbursements)	<u>703,694</u>	<u>(138,165)</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>83,371</u>	<u>316,705</u>
Other Financing Sources (Uses)		
Interfund Loans	-	-
Operating Transfers In	-	81,376
Operating Transfers Out	(39,853)	(204,585)
Total Other Financing Sources (Uses)	<u>(39,853)</u>	<u>(123,209)</u>
Net Change in Cash Balances	43,518	193,496
Cash Balances Beginning of Year	1,271,254	1,770,994
Cash Balances End of Year	<u>\$ 1,314,772</u>	<u>\$ 1,964,490</u>
Cash Basis Fund Balances		
Reserved for Debt Service	\$ -	\$ 279,691
Unreserved	1,314,772	1,684,799
Total Cash Basis Fund Balance	<u>\$ 1,314,772</u>	<u>\$ 1,964,490</u>

Storm Water	Total	Internal Service Fund Employee Health
\$ -	\$ 19,321	\$ -
100,763	1,537,594	39,838
-	-	10,059
<u>100,763</u>	<u>1,556,915</u>	<u>49,897</u>
-	-	66,616
-	-	40,906
-	-	37,379
-	-	22,095
-	-	54,837
1,490	1,623,095	-
<u>1,490</u>	<u>1,623,095</u>	<u>221,833</u>
<u>99,273</u>	<u>(66,180)</u>	<u>(171,936)</u>
-	123,336	-
-	3,510	-
-	715,851	-
-	(277,168)	-
<u>-</u>	<u>565,529</u>	<u>-</u>
<u>99,273</u>	<u>499,349</u>	<u>(171,936)</u>
600,000	600,000	-
-	81,376	194,729
-	(244,438)	-
<u>600,000</u>	<u>436,938</u>	<u>194,729</u>
699,273	936,287	22,793
-	3,042,248	154,738
<u>\$ 699,273</u>	<u>\$ 3,978,535</u>	<u>\$ 177,531</u>
\$ -	\$ 279,691	\$ -
<u>699,273</u>	<u>3,698,844</u>	<u>177,531</u>
<u>\$ 699,273</u>	<u>\$ 3,978,535</u>	<u>\$ 177,531</u>

See Notes to Financial Statements

City of Maquoketa
Reconciliation of the Statement of Cash Receipts, Disbursements
and Changes in Cash Balances to the Statement of Activities
and Net Assets - Proprietary Funds
As of and for the Year Ended June 30, 2005

Total Enterprise Funds Cash Balance (page 17)	\$	3,978,535
 <i>Amounts Reported for Business Type Activities in the Statement of Activities and Net Assets are different because:</i>		
None		-
Cash Basis Net Assets of Business Type Activities (page 14)	\$	<u>3,978,535</u>
 Net Change in Cash Balances (page 17)	 \$	 936,287
 <i>Amounts Reported for Business Type Activities in the Statement of Activities and Net Assets are different because:</i>		
None		-
Change in Cash Balance of Business Type Activities (page 14)	\$	<u>936,287</u>

City of Maquoketa
Statement of Cash Receipts, Disbursements and Changes
in Cash Balances
Fiduciary Funds
As of and for the Year Ended June 30, 2005

	<u>Police Retirement System</u>
Additions:	
Contributions:	
Plan Members	\$ 39,286
Total Contributions	<u>39,286</u>
Investment Earnings:	
Net Increase in Fair Value of Investments	57,154
Interest	<u>8,558</u>
Total Investment Earnings	<u>65,712</u>
Total Additions	<u>104,998</u>
Deductions:	
Benefits	<u>132,367</u>
Total Deductions	<u>132,367</u>
Other Financing Sources (Uses):	
Interfund Loan	<u>23,952</u>
Total Other Financing Sources (Uses)	<u>23,952</u>
Net Change in Cash Balances	(3,417)
Cash Balances - Beginning of the Year	<u>749,647</u>
Cash Balances- End of the Year	<u><u>\$ 746,230</u></u>

City of Maquoketa

Notes to Financial Statements

NOTE 1. Nature of Organization and Significant Accounting Policies

The City of Maquoketa is a political subdivision of the State of Iowa located in Jackson County. It was first incorporated in 1837 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements, and general administrative services.

The significant accounting policies of the City of Maquoketa are as follows:

Reporting Entity

For financial reporting purposes, the City of Maquoketa has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization, or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Maquoketa (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately, and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discretely Presented Component Unit

The Maquoketa Municipal Electric Utility is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utility is governed by a five-member board appointed by the City Council, and the Utility's operating budget is subject to the approval of the City Council. The utility has a December 31 year-end.

City of Maquoketa

Notes to Financial Statements

NOTE 1. Significant Accounting Policies (Continued)

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:

Civil Service Commission
Jackson County Landfill Board
Jackson County E911 Board

Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

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

Unrestricted Net Assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function, and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

City of Maquoketa

Notes to Financial Statements

NOTE 1. Significant Accounting Policies (Continued)

Basis of Presentation (continued)

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

Capital Projects:

The Industrial Park Fund is used to account for resources used in the acquisition or construction of major capital facilities and capital assets in the City's industrial park area.

The General (CIP) Fund is used to account for resources used in the acquisition or construction of major capital facilities and capital assets used in the city's general operations.

The Debt Service Fund accounts for the payment of interest and principal on the City's general long-term debt except when authorized or required to be paid from other funds.

The City reports the following major proprietary funds:

The Water Utility Fund accounts for the operation and maintenance of the City's water system.

The Waste Water Treatment Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

City of Maquoketa

Notes to Financial Statements

NOTE 1. Significant Accounting Policies (Continued)

Basis of Presentation (continued)

The Stormwater Fund accounts for the operation and maintenance of the City's stormwater system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

The City also reports fiduciary funds which focus on net assets and changes in net assets. The City's fiduciary funds include the following:

The Police Retirement System Fund is used to account for assets of the police pension plan held by the City in a trustee capacity.

Measurement Focus and Basis of Accounting

The City of Maquoketa maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the debt service function.

City of Maquoketa

Notes to Financial Statements

NOTE 2. Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 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 is authorized by statute to invest public funds in obligations of the United States government, 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.

At June 30, 2005, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Mutual Funds	\$ 771,957	\$ 748,951	-----
Stocks	300,214	313,456	-----
Corporate Bonds:			
General Electric Cap. Corp.	25,000	24,434	5/9/2018
General Motors Accept Corp Medium Term Notes	75,000	67,709	11/15/2008
Westernbank PR Mayaguez	60,000	59,011	1/20/2010
Principal Life Corenotes	40,000	39,560	11/17/2014
JP Morgan Chase Cap XI	37,589	39,280	6/15/2033
PNC Capital Trust D	37,500	37,920	12/15/2033
Goldman Sachs Group, Inc. Note	25,000	25,000	8/1/2022
John Hancock Life Insurance Co. Signature Notes	49,375	49,375	1/15/2009
U.S. Government Bonds:			
Federal Home Ln Bks Deb 5.62%	25,000	25,008	8/6/2018
Federal Home Ln Bks Deb 5.70%	20,000	20,006	3/15/2019
Federal Home Ln Bks Deb 5.55%	50,000	50,141	6/22/2020
FHLM Corp. 4.00%	24,500	24,466	7/16/2018
Federal Home Ln Mtg Corp Mtnf 5.00%	14,848	14,987	8/15/2015
Federal Home Ln Mtg Corp Step Bd 3.25%	6,860	6,898	10/22/2015
Federal Natl Mtg Assn Mtn Deb 5.00%	40,000	40,025	1/21/2020
Federal Natl Mtg Assn Mtn Deb 5.00%	40,000	39,962	4/8/2019
Federal Home Ln Mtg Corp	19,856	19,868	2/27/2009
Federal Natl Mtg Assn Investment Notes B/E	44,827	45,014	9/12/2013
FHLMC Remic 2857-XB	10,550	10,423	4/15/2033
FHLMC Remic 2854-EE	25,000	24,849	9/15/2034
GNMA Pool #493023 6.00%	9,839	10,875	11/15/2013

City of Maquoketa

Notes to Financial Statements

NOTE 2. Cash and Pooled Investments (Continued)

Certain investments included above that are held by the Police Retirement System Fund (Fiduciary fund) in the amount of \$636,000 are reported at fair value in the financial statements because the original cost of these investments is unknown.

NOTE 3. Bond and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds, revenue bonds and notes payable are as follows:

Year Ending June 30	General Obligation Bond		Revenue Bonds	
	Principal	Interest	Principal	Interest
2006	\$ 50,000	\$ 6,500	\$ 97,000	\$ 45,759
2007	50,000	3,250	99,000	42,131
2008	----	----	103,000	38,354
2009	----	----	107,000	34,428
2010	----	----	111,000	30,350
2011	----	----	115,000	26,124
2012	----	----	119,000	21,748
2013	----	----	123,000	17,223
2014	----	----	128,000	12,529
2015	----	----	133,000	7,648
2016	----	----	138,000	2,581
TOTALS	<u>\$ 100,000</u>	<u>\$ 9,750</u>	<u>\$ 1,273,000</u>	<u>\$ 278,875</u>

City of Maquoketa

Notes to Financial Statements

NOTE 3. Bond and Notes Payable (Continued)

Year Ending June 30	General Obligation Notes		Revenue Notes		Real Estate Contracts		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 260,000	\$ 326,729	\$ 156,000	\$ 144,120	\$ 32,992	\$ 5,927	\$ 595,992	\$ 529,035
2007	280,000	315,078	161,000	139,365	18,380	4,538	608,380	504,362
2008	290,000	302,016	166,000	134,460	18,380	3,545	577,380	478,375
2009	305,000	288,162	171,000	129,405	18,380	2,536	601,380	454,531
2010	320,000	273,103	176,000	124,200	13,700	1,534	620,700	429,187
2011	495,000	256,925	154,848	104,669	13,700	767	778,548	388,485
2012	485,000	230,510	76,000	58,080	----	----	680,000	310,338
2013	505,000	204,215	78,000	55,770	----	----	706,000	277,208
2014	515,000	176,395	80,000	53,400	----	----	723,000	242,324
2015	950,000	147,705	83,000	50,955	----	----	1,166,000	206,308
2016	760,000	96,690	85,000	48,435	----	----	983,000	147,706
2017	810,000	55,650	205,000	44,085	----	----	1,015,000	99,735
2018	200,000	11,100	211,000	37,845	----	----	411,000	48,945
2019	----	----	218,000	31,410	----	----	218,000	31,410
2020	----	----	224,000	24,780	----	----	224,000	24,780
2021	----	----	231,000	17,955	----	----	231,000	17,955
2022	----	----	238,000	10,920	----	----	238,000	10,920
2023	----	----	186,687	3,675	----	----	186,687	3,675
TOTALS	\$ 6,175,000	\$ 2,684,278	\$ 2,900,535	\$ 1,213,529	\$ 115,532	\$ 18,847	\$ 10,564,067	\$ 4,205,279

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City; however, the debt is subject to the constitutional debt limit of the City.

The resolutions providing for the issuance of the sewer revenue note and the sewer revenue bonds – DNR revolving loan include the following provisions:

- (a) The bonds and notes will only be redeemed from the future earnings of the enterprise activity and the bond and note holders hold a lien on the future earnings of the funds.
- (b) Gross revenues of the sewer utility shall be set aside into a sewer revenue account. This account shall be used in maintaining and operating the sewer utility and, after payment of operating expenses, shall be used to pay the principal and interest on the bonds. This account is also used to maintain the several separate accounts required to be set up by the bond resolutions.

City of Maquoketa

Notes to Financial Statements

NOTE 3. Bond and Notes Payable (Continued)

- (c) Sufficient monthly transfers shall be made to a sewer revenue bonds sinking account for the purpose of making the bond principal and interest payments when the sewer revenue account does not have the funds available. The monthly amount required for the sewer revenue bonds sinking account shall not be less than one-sixth of the upcoming interest payment plus one-twelfth of the upcoming principal payment.
- (d) Monthly transfers shall be made to a sewer revenue bond reserve account of an amount equal to that deposited into the sewer revenue bond sinking account until a specific minimum balance has been accumulated. Any additional amounts over the required sewer revenue bond reserve minimum balance should be deposited into the sewer revenue account. The sewer revenue bond reserve account is restricted for the purpose of paying the principal and interest on the notes and bonds when insufficient money is available in the respective sinking accounts.
- (e) All net revenues remaining from the sewer utility after first making the required payments into the sewer sinking account and the sewer reserve account, and after the sewer reserve account contains the required reserve fund balance, shall be transferred to the sewer surplus account. All monies credited to the surplus account shall be transferred and credited to the sinking account or reserve account whenever a deficiency may exist. If both the sinking account and the reserve account have the full amounts required to be deposited, any balance in the surplus account may be available to the City for operation of the sewer utility.

NOTE 4. Pension and Retirement Benefits

The City contributes to the Iowa Public Employees' Retirement Systems (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.

City of Maquoketa

Notes to Financial Statements

NOTE 4. Pension and Retirement Benefits (Continued)

Plan members are required to contribute 3.7% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the city were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the city were 6.04% and 9.07%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$42,294, \$42,133 and \$38,467, respectively, equal to the required contributions for each year.

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), 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 their 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 contribution to the Plan for the years ended June 30, 2005, 2004 and 2003 were \$106,369, \$92,891 and \$74,246, respectively, which met the required minimum contribution for each year.

NOTE 5. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, sick leave and holiday hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 67,956
Sick Leave	51,305
Total	<u>\$ 119,261</u>

City of Maquoketa

Notes to Financial Statements

NOTE 5. Compensated Absences (Continued)

Sick leave is accumulated and paid out upon separation from the City's employment only to employees hired before July 1, 1990. If sick leave is paid upon termination, retirement or death, the total accumulated hours are paid at one-half of the then effective hourly rate for that employee. This liability has been computed based on rates of pay as of June 30, 2005.

NOTE 6. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer To:	Transfer From:	Amount
General:	Special Revenue:	
	Jackson County Task Force	\$ 37,330
	Road Use Tax	120,000
	Local Option Tax	244,127
	Capital Projects:	
	Industrial Park	143,711
	Enterprise:	
	Water Utility	39,853
	Wastewater Utility	25,967
		\$ 610,988
Capital Projects:		
Airport (CIP)	General	\$ 13,722
Library (CIP)	General	45,993
General (CIP)	General	165,689
	Special Revenue:	
	Road Use Tax	311,095
		\$ 476,784

City of Maquoketa

Notes to Financial Statements

NOTE 6. Interfund Transfers (Continued)

Transfer To:	Transfer From:	Amount
Debt Service	General	\$ 5,475
	Special Revenue:	
	Road Use Tax	34,187
	Urban Renewal Tax Increment	187,199
	Capital Projects:	
	Industrial Park	211,603
	Enterprise:	
	Sewer Utility	<u>178,618</u>
		<u>\$ 617,082</u>
Enterprise:		
Wastewater Utility	Special Revenue:	
	Local Option Tax	<u>\$ 81,376</u>
Internal Service Fund:		
Employee Health	General	\$ 25,391
	Special Revenue:	
	Employee Benefits	<u>169,338</u>
		<u>\$ 194,729</u>
	TOTAL	<u>\$ 2,040,674</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

NOTE 7. Related Party Transactions

The City had business transactions between the City and City officials, totaling \$2,915 during the year ended June 30, 2005.

City of Maquoketa

Notes to Financial Statements

NOTE 8. Risk Management

The City of Maquoketa, Iowa is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Health benefits were fully insured through Blue Cross/Blue Shield with the exception that the City pays a percent of each participant's deductible and co-insurance which is set forth in the plan documents.

NOTE 9. Deficit Fund Balance

The Urban Renewal Tax Revenue, Housing Assistance Program, Employee Benefits and Debt Service funds had deficit fund balance amounts of \$533,901, \$91,112, \$142,205 and \$64,442, respectively, at June 30, 2005. The City will be receiving grant money, donations, and transfer funds to eliminate these deficit fund balances.

NOTE 10. Construction in Progress

The City has entered into various construction contracts totaling approximately \$4,991,695. The unpaid contract balances as of June 30, 2005 totaled approximately \$3,683,709 which will be paid as work on the projects progress.

NOTE 11. Interfund Loans

During the year ended June 30, 2005, the Capital Projects, Industrial Park Fund loaned \$600,000 to the Enterprises, Stormwater Fund to finance project costs. The loan bears no interest and will be repaid at a date not later than the later of eighteen months after the capital expenditures are paid or eighteen months after the property is placed in service. At June 30, 2005, the outstanding balance was \$600,000.

City of Maquoketa

Notes to Financial Statements

NOTE 12. Economic Development Loan

The City has granted a corporation a ten-year \$200,000 forgivable loan to promote and assist economic growth through the development and expansion of qualified businesses, the creation of jobs, and expansion of the municipal tax base. The loan will be considered fully forgiven provided that the job performance target (500) and the project investment target (\$50,000,000) are met by the contract end date, which shall be ten years from the disbursement of the loan funds. The loan funds were disbursed on December 1, 2000. Any shortfalls to the agreement will become immediately due and payable, and shall bear an interest rate of 6% per annum. The loan is secured by a guaranty from Family Dollar Stores, Inc.

NOTE 13. Notes Receivable

In order to assist property owners of Maquoketa with the cost of replacing their Orangeburg tile, a material not considered suitable in a current water/sewer project, the City is offering to pay the initial cost of the replacement to a qualified contractor/plumber. The City will then allow property owners to repay the City, on a monthly basis, over the course of two years at a zero percent interest rate. As of June 30, 2005, the City had signed agreements with property owners for an estimated cost of \$16,376. Final note receivable balances will be based on the actual charges for the work when it is done.

NOTE 14. Development Agreements

The City has entered into various development agreements for urban renewal projects. The agreements require the City to rebate portions of the incremental tax paid by the developer in exchange for the construction of buildings and certain infrastructure improvements by the developers. Certain agreements also require the developer to certify specific employment requirements are met. Obligations under the agreement are subject to annual appropriation by the City Council. The total paid by the City under the agreements during the year ended June 30, 2005 was \$89,908.

The City's obligation under these agreements for the fiscal year 2006 will not exceed \$178,451.

These agreements are not a general obligation of the City. However, the amount payable in the succeeding year is subject to the constitution debt limitation of the City.

City of Maquoketa

Notes to Financial Statements

NOTE 15. Litigation

The City is subject to a pending litigation claim seeking monetary damages. The matter has been referred to the City's insurance carrier for review of potential liability. The city intends to vigorously defend this action and no provisions have been made in the financial statements related to this claim.

NOTE 16. Lease Agreements

1. The City of Maquoketa is a party to several operating leases. The leases are with various local companies and individuals for hangars at the municipal airport. The leases are on a month-to-month basis. The City charges \$80 per month, per hangar, and requires a minimum of \$25 in fuel purchases per month. If sufficient fuel purchases are not made, the tenants are still required to pay \$25.
2. The City of Maquoketa is a party to an operating lease for the corporate hangar at the municipal airport. The lease runs from July 1, 2003 through June 30, 2006 and requires rental payments of \$258 per month. The rent is subject to increases on July 1, 2004 and July 1, 2005. The tenant is to pay all separately metered utilities, as well as \$20 per month to the City for heating and maintenance for the lobby and public restrooms.

NOTE 17. Subsequent Events

Subsequent to year-end, the City has entered into construction contracts totaling \$24,995 for various projects.

Subsequent to year-end, the City refinanced the principal portion of four outstanding general obligation bonds and notes. The portion refinanced was the principal portion due after the bonds/notes would have originally been callable. The \$2,095,000 General Obligation Refunding Capital Loan Notes, Series 2005A issued on August 1, 2005, bears interest at a variable rate ranging from 2.90% to 3.85%, and has ranging principal amounts due annually, with maturity on June 1, 2015.

City of Maquoketa

Notes to Financial Statements

NOTE 18. General Fund Cash Balance

The June 30, 2005 cash balance for the General Fund was \$2,763,431, as reflected on Exhibit B. Several funds comprise this balance, some of which may not be used for operations, and are as follows:

<u>Fund Name</u>		<u>Balance</u>
General	001	\$ 1,134,320
Rehab	014	11,474
Insurance Reserve	019	166,022
Library	031	15,168
Library Corporation	032	1,592,349
Historic Preservation	067	3,771
Historic Preservation	069	7,763
Airport	660	<u>(167,436)</u>
	TOTAL	<u>\$ 2,763,431</u>

Required Supplementary Information

City of Maquoketa
Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year Ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property Tax	\$ 1,363,341	\$ -	\$ -
Tax Increment Financing Collections	394,665	-	-
Other City Tax	448,731	-	-
Licenses and Permits	11,440	-	-
Use of Money and Property	98,006	19,321	-
Intergovernmental	1,127,836	123,336	-
Charges for Service	180,297	1,577,432	39,838
Miscellaneous	851,524	13,569	10,059
Total Receipts	<u>4,475,840</u>	<u>1,733,658</u>	<u>49,897</u>
Disbursements:			
Public Safety	880,321	66,616	66,616
Public Works	827,605	40,906	40,906
Culture and Recreation	534,748	37,379	37,379
Community and Economic Development	324,020	22,095	22,095
General Government	608,647	54,837	54,837
Debt Service	661,767	277,168	-
Capital Projects	258,254	-	-
Business Type Activities	-	1,623,095	-
Total Disbursements	<u>4,095,362</u>	<u>2,122,096</u>	<u>221,833</u>
Excess of Receipts over Disbursements	380,478	(388,438)	(171,936)
Other Financing Sources, Net	(340,694)	1,347,518	194,729
Excess of Receipts and Other Financing Sources over Disbursements and Other Financing Uses	39,784	959,080	22,793
Balances, Beginning of Year	5,499,809	3,196,986	154,738
Balances, End of Year	<u>\$ 5,539,593</u>	<u>\$ 4,156,066</u>	<u>\$ 177,531</u>

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 1,363,341	\$ 1,470,764	\$ 1,470,764	\$ (107,423)
394,665	485,045	485,045	(90,380)
448,731	440,551	440,551	8,180
11,440	18,925	18,925	(7,485)
117,327	188,792	192,792	(75,465)
1,251,172	1,788,465	2,226,166	(974,994)
1,717,891	1,616,661	1,624,661	93,230
855,034	170,491	407,745	447,289
<u>6,159,601</u>	<u>6,179,694</u>	<u>6,866,649</u>	<u>(707,048)</u>
880,321	1,077,325	1,127,675	247,354
827,605	633,858	1,075,908	248,303
534,748	482,541	645,434	110,686
324,020	296,052	500,002	175,982
608,647	351,228	680,328	71,681
938,935	660,974	661,312	(277,623)
258,254	92,255	439,855	181,601
1,623,095	4,318,235	4,958,555	3,335,460
<u>5,995,625</u>	<u>7,912,468</u>	<u>10,089,069</u>	<u>4,093,444</u>
163,976	(1,732,774)	(3,222,420)	3,386,396
812,095	2,335,000	2,734,429	(1,922,334)
976,071	602,226	(487,991)	1,464,062
8,542,057	9,099,352	8,696,795	(154,738)
<u>\$ 9,518,128</u>	<u>\$ 9,701,578</u>	<u>\$ 8,208,804</u>	<u>\$ 1,309,324</u>

See Accompanying Independent Auditor's Report

City of Maquoketa

Notes to Required Supplementary Information – Budgetary Reporting

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: 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. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted revenues by \$1,086,384 and increased budgeted disbursements by \$2,176,601. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the debt service function.

Other Supplementary Information

City of Maquoketa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the Year Ended June 30, 2005

	Special Revenue		
	DARE	Bi-Centennial	Economic Development Revolving
Receipts:			
Property Tax	\$ -	\$ -	\$ -
Other City Tax	-	-	-
Intergovernmental	-	-	-
Miscellaneous	412	60	-
Total Receipts	<u>412</u>	<u>60</u>	<u>-</u>
Disbursements:			
Operating:			
Public Safety	374	-	-
Public Works	-	-	-
Culture and Recreation	-	-	-
Community and Economic Development	-	-	-
General Government	-	-	-
Debt Service	-	-	-
Capital Projects	-	-	-
Total Disbursements	<u>374</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>38</u>	<u>60</u>	<u>-</u>
Other Financing Sources (Uses):			
Operating Transfers In	-	-	-
Operating Transfers Out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Cash Balances	38	60	-
Cash Balances, Beginning of Year	<u>300</u>	<u>1,257</u>	<u>176,614</u>
Cash Balances, End of Year	<u>\$ 338</u>	<u>\$ 1,317</u>	<u>\$ 176,614</u>
Cash Basis Fund Balances			
Unreserved:			
Special Revenue Funds	\$ 338	\$ 1,317	\$ 176,614
Capital Project Fund	-	-	-
Total Cash Basis Fund Balance	<u>\$ 338</u>	<u>\$ 1,317</u>	<u>\$ 176,614</u>

Schedule 1

<u>Housing Assistance Program</u>	<u>Employee Benefits</u>	<u>Police Forfeiture</u>	<u>Local Option Sales Tax</u>	<u>Jackson County Task Force</u>
\$ -	\$ 329,458	\$ -	\$ -	\$ -
-	-	-	368,180	-
-	-	-	-	90,370
81,283	656	3,549	-	-
<u>81,283</u>	<u>330,114</u>	<u>3,549</u>	<u>368,180</u>	<u>90,370</u>
-	46,071	764	-	38,894
-	36,742	-	-	-
-	12,349	-	-	-
125,903	-	-	-	-
-	21,878	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>125,903</u>	<u>117,040</u>	<u>764</u>	<u>-</u>	<u>38,894</u>
<u>(44,620)</u>	<u>213,074</u>	<u>2,785</u>	<u>368,180</u>	<u>51,476</u>
-	-	-	-	-
-	(169,338)	-	(325,503)	(37,330)
-	(169,338)	-	(325,503)	(37,330)
(44,620)	43,736	2,785	42,677	14,146
(46,492)	(185,941)	1,298	(42,677)	(13,789)
<u>\$ (91,112)</u>	<u>\$ (142,205)</u>	<u>\$ 4,083</u>	<u>\$ -</u>	<u>\$ 357</u>
\$ (91,112)	\$ (142,205)	\$ 4,083	\$ -	\$ 357
-	-	-	-	-
<u>\$ (91,112)</u>	<u>\$ (142,205)</u>	<u>\$ 4,083</u>	<u>\$ -</u>	<u>\$ 357</u>

(continued)

City of Maquoketa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds (Continued)
As of and for the Year Ended June 30, 2005

	<u>Capital Projects</u>		<u>Total</u>
	<u>Library</u>	<u>Airport</u>	
Receipts:			
Property Tax	\$ -	\$ -	\$ 329,458
Other City Tax	-	-	368,180
Intergovernmental	-	-	90,370
Miscellaneous	-	-	85,960
Total Receipts	<u>-</u>	<u>-</u>	<u>873,968</u>
Disbursements:			
Operating:			
Public Safety	-	-	86,103
Public Works	-	-	36,742
Culture and Recreation	-	-	12,349
Community and Economic Development	-	-	125,903
General Government	-	-	21,878
Debt Service	-	-	-
Capital Projects	45,993	382	46,375
Total Disbursements	<u>45,993</u>	<u>382</u>	<u>329,350</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>(45,993)</u>	<u>(382)</u>	<u>544,618</u>
Other Financing Sources (Uses):			
Operating Transfers In	45,993	13,722	59,715
Operating Transfers Out	-	-	(532,171)
Total Other Financing Sources (Uses)	<u>45,993</u>	<u>13,722</u>	<u>(472,456)</u>
Net Change in Cash Balances	-	13,340	72,162
Cash Balances, Beginning of Year	<u>31</u>	<u>15,512</u>	<u>(93,887)</u>
Cash Balances, End of Year	<u>\$ 31</u>	<u>\$ 28,852</u>	<u>\$ (21,725)</u>
Cash Basis Fund Balances			
Reserved:			
Debt Service	\$ -	\$ -	\$ -
Unreserved:			
Special Revenue Funds	-	-	(50,608)
Capital Project Fund	<u>31</u>	<u>28,852</u>	<u>28,883</u>
Total Cash Basis Fund Balance	<u>\$ 31</u>	<u>\$ 28,852</u>	<u>\$ (21,725)</u>

See Accompanying Independent Auditor's Report

**City of Maquoketa
Schedule of Indebtedness
Year Ended June 30, 2005**

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Bonds:			
Urban Renewal	June 1, 1991	5.90% - 6.90%	\$ <u>385,000</u>
Revenue Bonds:			
Parking Lot	December 1, 1967	3.50%	\$ 221,000
Department of Natural Resources (DNR) revolving loan - sewer	August 8, 1995	3.74%	<u>2,046,000</u>
Total			\$ <u>2,267,000</u>
General Obligation Notes:			
Corporate Purpose	February 1, 1996	4.30% - 5.60%	\$ 2,200,000
Corporate Purpose	August 1, 1999	4.40% - 5.20%	360,000
Corporate Purpose	March 1, 2000	5.00% - 5.90%	135,000
Corporate Purpose	June 1, 2001	5.35% - 5.55%	2,500,000
Corporate Purpose	October 1, 2002	3.00% - 4.80%	890,000
Corporate Purpose	July 1, 2000	5.10% - 5.90%	<u>1,290,000</u>
Total			\$ <u>7,375,000</u>
Revenue Notes:			
Sewer	May 3, 2002	3.00%	\$ 2,500,000
Water	June 13, 2005	3.00%	<u>2,500,000</u>
Total			\$ <u>5,000,000</u>
Real Estate Contracts	April 3, 1990	7.00%	<u>162,189</u>
Real Estate Contract	March 1, 2002	5.60%	<u>137,000</u>
Real Estate Contract	December 22, 2003	5.00%	<u>28,400</u>

Schedule 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 140,000	\$ -	\$ 40,000	\$ 100,000	\$ 9,260	\$ -
\$ 2,000	\$ -	\$ -	\$ 2,000	\$ -	\$ -
1,363,000	-	92,000	1,271,000	49,256	-
<u>\$ 1,365,000</u>	<u>\$ -</u>	<u>\$ 92,000</u>	<u>\$ 1,273,000</u>	<u>\$ 49,256</u>	<u>\$ -</u>
\$ 1,500,000	\$ -	\$ 105,000	\$ 1,395,000	\$ 78,855	\$ -
245,000	-	30,000	215,000	12,148	-
125,000	-	10,000	115,000	6,968	-
2,500,000	-	-	2,500,000	135,745	-
890,000	-	70,000	820,000	36,585	-
1,165,000	-	35,000	1,130,000	67,315	-
<u>\$ 6,425,000</u>	<u>\$ -</u>	<u>\$ 250,000</u>	<u>\$ 6,175,000</u>	<u>\$ 337,616</u>	<u>\$ -</u>
\$ 2,244,684	\$ 139,003	\$ 60,000	\$ 2,323,687	\$ 69,126	\$ -
-	576,848	-	576,848	-	-
<u>\$ 2,244,684</u>	<u>\$ 715,851</u>	<u>\$ 60,000</u>	<u>\$ 2,900,535</u>	<u>\$ 69,126</u>	<u>\$ -</u>
<u>\$ 35,419</u>	<u>\$ -</u>	<u>\$ 20,807</u>	<u>\$ 14,612</u>	<u>\$ 1,791</u>	<u>\$ -</u>
<u>\$ 95,900</u>	<u>\$ -</u>	<u>\$ 13,700</u>	<u>\$ 82,200</u>	<u>\$ 5,370</u>	<u>\$ -</u>
<u>\$ 23,400</u>	<u>\$ -</u>	<u>\$ 4,680</u>	<u>\$ 18,720</u>	<u>\$ 1,170</u>	<u>\$ -</u>

See Accompanying Independent Auditor's Report

City of Maquoketa
Schedule of Bond and Note Maturities
Year Ended June 30, 2005

General Obligation Bond		
Urban Renewal		
Issued June 1, 1991		
Year Ending June 30,	Interest Rates	Amount
2006	6.50%	\$ 50,000
2007	6.50%	50,000
Total		<u>\$ 100,000</u>

Year Ending June 30,	Real Estate Contract		Real Estate Contract		Real Estate Contract	
	Issued April 3, 1990		Issued December 22, 2003		Issued March 1, 2002	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2006	7.00%	\$ 14,612	5.00%	\$ 4,680	5.60%	\$ 13,700
2007	-	-	5.00%	4,680	5.60%	13,700
2008	-	-	5.00%	4,680	5.60%	13,700
2009	-	-	-	4,680	5.60%	13,700
2010	-	-	-	-	5.60%	13,700
2011	-	-	-	-	5.60%	13,700
2012	-	-	-	-	-	-
2013	-	-	-	-	-	-
2014	-	-	-	-	-	-
2015	-	-	-	-	-	-
2016	-	-	-	-	-	-
2017	-	-	-	-	-	-
2018	-	-	-	-	-	-
2019	-	-	-	-	-	-
2020	-	-	-	-	-	-
2021	-	-	-	-	-	-
2022	-	-	-	-	-	-
2023	-	-	-	-	-	-
Total		<u>\$ 14,612</u>		<u>\$ 18,720</u>		<u>\$ 82,200</u>

Revenue Bonds

Year Ending June 30,	Sewer (DNR Revolving Loan) Originally Issued August 10, 1994 Exchanged and Issued August 8, 1995		Parking Lot Issued December 1, 1967		Total
	Interest Rates	Amount	Interest Rates	Amount	
2006	3.74%	\$ 95,000	3.50%	\$ 2,000	\$ 97,000
2007	3.74%	99,000	-	-	99,000
2008	3.74%	103,000	-	-	103,000
2009	3.74%	107,000	-	-	107,000
2010	3.74%	111,000	-	-	111,000
2011	3.74%	115,000	-	-	115,000
2012	3.74%	119,000	-	-	119,000
2013	3.74%	123,000	-	-	123,000
2014	3.74%	128,000	-	-	128,000
2015	3.74%	133,000	-	-	133,000
2016	3.74%	138,000	-	-	138,000
Total		\$ 1,271,000		\$ 2,000	\$ 1,273,000

Revenue Notes

Year Ending June 30,	Sewer Issued May 3, 2002		Water Issued June 13, 2005		Total
	Interest Rates	Amount	Interest Rates	Amount	
2006	3.00%	\$ 63,000	3.00%	\$ 93,000	\$ 156,000
2007	3.00%	65,000	3.00%	96,000	161,000
2008	3.00%	67,000	3.00%	99,000	166,000
2009	3.00%	69,000	3.00%	102,000	171,000
2010	3.00%	71,000	3.00%	105,000	176,000
2011	3.00%	73,000	3.00%	81,848	154,848
2012	3.00%	76,000	-	-	76,000
2013	3.00%	78,000	-	-	78,000
2014	3.00%	80,000	-	-	80,000
2015	3.00%	83,000	-	-	83,000
2016	3.00%	85,000	-	-	85,000
2017	3.00%	205,000	-	-	205,000
2018	3.00%	211,000	-	-	211,000
2019	3.00%	218,000	-	-	218,000
2020	3.00%	224,000	-	-	224,000
2021	3.00%	231,000	-	-	231,000
2022	3.00%	238,000	-	-	238,000
2023	3.00%	186,687	-	-	186,687
Total		\$ 2,323,687		\$ 576,848	\$ 2,900,535

(continued)

City of Maquoketa
Schedule of Bond and Note Maturities (continued)
Year Ended June 30, 2005

Year Ending June 30,	General Obligation Notes					
	Corporate Purpose Issued October 1, 2002		Corporate Purpose Issued February 1, 1996		Corporate Purpose Issued June 1, 2001	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2006	3.30%	\$ 75,000	4.80%	\$ 110,000	-	\$ -
2007	3.60%	75,000	4.90%	115,000	-	-
2008	3.85%	80,000	5.00%	120,000	-	-
2009	4.05%	80,000	5.15%	130,000	-	-
2010	4.20%	85,000	5.30%	135,000	-	-
2011	4.35%	90,000	5.35%	140,000	-	-
2012	4.50%	95,000	5.40%	150,000	-	-
2013	4.60%	95,000	5.50%	155,000	-	-
2014	4.70%	100,000	5.60%	165,000	-	-
2015	4.80%	45,000	5.60%	175,000	5.35%	730,000
2016	-	-	-	-	5.40%	760,000
2017	-	-	-	-	5.50%	810,000
2018	-	-	-	-	5.55%	200,000
Total		<u>\$ 820,000</u>		<u>\$ 1,395,000</u>		<u>\$ 2,500,000</u>

Year Ending June 30,	General Obligation Notes			
	Corporate Purpose Issued August 1, 1999		Corporate Purpose Issued March 1, 2000	
	Interest Rates	Amount	Interest Rates	Amount
2006	4.80%	\$ 30,000	5.30%	\$ 10,000
2007	4.85%	35,000	5.40%	15,000
2008	4.90%	35,000	5.45%	15,000
2009	5.00%	35,000	5.55%	15,000
2010	5.10%	40,000	5.65%	15,000
2011	5.20%	40,000	5.70%	15,000
2012	-	-	5.80%	15,000
2013	-	-	5.90%	15,000
2014	-	-	-	-
2015	-	-	-	-
2016	-	-	-	-
2017	-	-	-	-
2018	-	-	-	-
2019	-	-	-	-
2020	-	-	-	-
2021	-	-	-	-
2022	-	-	-	-
2023	-	-	-	-
Total		<u>\$ 215,000</u>		<u>\$ 115,000</u>

Year Ending June 30,	Corporate Purpose Issued July 1, 2000		General Obligation Notes
	Interest Rates	Amount	Total
2006	5.50%	\$ 35,000	\$ 260,000
2007	5.55%	40,000	280,000
2008	5.60%	40,000	290,000
2009	5.65%	45,000	305,000
2010	5.70%	45,000	320,000
2011	5.75%	210,000	495,000
2012	5.80%	225,000	485,000
2013	5.85%	240,000	505,000
2014	5.90%	250,000	515,000
2015	-	-	950,000
2016	-	-	760,000
2017	-	-	810,000
2018	-	-	200,000
Total		\$ 1,130,000	\$ 6,175,000

Total Maturities
\$ 595,992
608,380
577,380
601,380
620,700
778,548
680,000
706,000
723,000
1,166,000
983,000
1,015,000
411,000
218,000
224,000
231,000
238,000
186,687
\$ 10,564,067

City of Maquoketa
Schedule of Receipts by Source and Disbursements by Function -
All Governmental Funds
For the Last Four Years

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Receipts:				
Property Tax	\$ 1,363,341	\$ 1,387,111	\$ 1,523,876	\$ 1,422,310
Tax Increment Financing Collections	394,665	397,422	297,274	303,776
Other City Tax	448,731	493,801	481,059	425,435
Licenses and Permits	11,440	12,392	26,465	21,452
Use of Money and Property	98,006	188,252	68,678	126,573
Intergovernmental	1,127,836	1,541,942	988,589	3,660,414
Charges for Services	180,297	173,511	242,028	231,248
Miscellaneous	851,524	489,140	1,466,240	282,278
Total	<u>\$ 4,475,840</u>	<u>\$ 4,683,571</u>	<u>\$ 5,094,209</u>	<u>\$ 6,473,486</u>
Disbursements:				
Operating:				
Public Safety	\$ 880,321	\$ 1,127,686	\$ 1,096,237	\$ 1,136,555
Public Works	827,605	704,339	942,530	1,189,653
Culture and Recreation	534,748	518,365	495,077	473,439
Community and Economic Development	324,020	487,139	350,060	61,103
General Government	608,647	420,332	423,993	333,840
Debt Service	661,767	609,193	613,160	645,144
Capital Projects	258,254	317,252	1,854,959	3,140,426
Total	<u>\$ 4,095,362</u>	<u>\$ 4,184,306</u>	<u>\$ 5,776,016</u>	<u>\$ 6,980,160</u>

See Accompanying Independent Auditor's Report

City of Maquoketa
Additional Information Required by the
Sewer Revenue Bond Resolution
June 30, 2005
(Unaudited)

Insurance - the City has the following insurance coverage.

<u>Insurance Company Address and Policy Number</u>	<u>Insurance Coverage</u>	<u>Amount of Coverage</u>	<u>Expiration Date of Policy</u>
Employers Mutual Companies Des Moines, Iowa Package Policy #8X5-19-34-06	Property Inland Marine General Liability Business Auto Umbrella Excess Employee Dishonesty Linebacker Crime	\$ 18,503,339 764,646 1,000,000 1,000,000 4,000,000 310,000 1,000,000 30,000	4/1/2006 4/1/2006 4/1/2006 4/1/2006 4/1/2006 4/1/2006 4/1/2006 4/1/2006
Travelers Group Hartford, Connecticut Policy # BAJ-BM21-702X7309-TIL-05	Sewage & Water Treatment & Distribution	\$ 2,000,000	1/1/2006
Old Republic Insurance Company Greensburg, Pennsylvania Policy # PR 227802	Airport Owners and Operators General Liability	\$ 2,000,000	1/1/2006

Rate and Number of Users of the System:

User Charges - The minimum sewer charge per month shall be \$21.43 per 100 cubic feet up to 300.

Over 300 cubic feet the charge is \$1.40 per 100 cubic feet as determined in ordinance 867.

Number of Users - The City has approximately 2,500 users.

City of Maquoketa
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

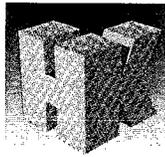
<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency Pass- Through Number</u>	<u>Program Expenditures</u>
Direct:			
Federal Aviation Administration:			
Airport Improvement Program	20.106	AIP #3-19-0055-01	\$ <u>190,680</u>
Total Direct			<u>190,680</u>
Indirect:			
Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grant/ State's Program	14.228	00-ED-019	1,463
Community Development Block Grant/ State's Program	14.228	01-CDTA-COM	1,754
Community Development Block Grant/ State's Program	14.228	04-WS-059-99	168,666
HOME Investment Partnership Programs	14.239	03-HM-174	<u>125,903</u>
			<u>297,786</u>
Department of Justice:			
Office of Drug Control Policy:			
Byrne Formula Grant Program	16.579	04A-0212	83,610
Byrne Formula Grant Program	16.579	03A-0216	7,135
			<u>90,745</u>
U.S. Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Clean Water State Revolving Fund	66.458	C5192208-01	<u>698</u>
			<u>698</u>
Total Indirect			<u>389,229</u>
Total			<u>\$ 579,909</u>

See Accompanying Independent Auditor's Report

City of Maquoketa
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

NOTE 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Maquoketa, Iowa, and is presented in conformity with an other comprehensive 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.



Honkamp Krueger & Co., PC.
*Certified Public Accountants
& Business Consultants*

**Independent Auditor's Report on Compliance
and 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 Maquoketa
Maquoketa, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Maquoketa, Iowa, as of and for the year ended June 30, 2005, which collectively comprises the City's basic financial statements listed in the table of contents, and have issued our report thereon dated August 11, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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 of Maquoketa'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 assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Maquoketa's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe Item II-A-05 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Maquoketa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

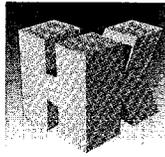
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions 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 Maquoketa and other parties to whom the City of Maquoketa 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 Maquoketa 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.

Handwritten signature of Hankamp Krueger in cursive script.

Dubuque, Iowa
August 11, 2005



Honkamp Krueger & Co., PC.
Certified Public Accountants
& Business Consultants

Independent Auditor's 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 Maquoketa
Maquoketa, Iowa

Compliance

We have audited the compliance of the City of Maquoketa, 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 its major federal programs for the year ended June 30, 2005. The City of Maquoketa's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the City of Maquoketa's management. Our responsibility is to express an opinion on the City of Maquoketa'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 the 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 non-compliance 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 of Maquoketa'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 of the City of Maquoketa's compliance with those requirements.

In our opinion, the City of Maquoketa complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2005.

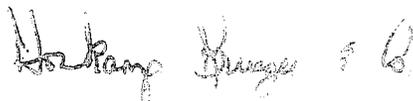
Internal Control Over Compliance

The management of the City of Maquoketa 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 of Maquoketa'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.

We noted certain matters involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Maquoketa's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable conditions are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a 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 non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation of 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness. (Item III-A-05)

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 Maquoketa and other parties to whom the City of Maquoketa 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.



Dubuque, Iowa
August 11, 2005

City of Maquoketa
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Part I. Summary of the Independent Auditors' Results

- a. An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b. Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. Reportable conditions in internal control over the major programs were disclosed by the audit of the financial statements, including material weaknesses.
- e. An unqualified opinion was issued on compliance with requirements applicable to the major program.
- 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 14.228 – Community Development Block Grants/State's Program, CFDA Number 66.458 – Clean Water State Revolving Fund Program and CFDA Number 20.106 – Airport Improvement Program.
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. The City of Maquoketa did not qualify as a low-risk auditee.

Part II. Findings Related to the Financial Statements

Instances of Non-Compliance:

No matters were noted.

City of Maquoketa
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2005

Reportable Conditions:

II-A-05 **Segregation of Duties**: One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one employee has the ability to enter cash receipts, collect cash, make deposits, make entries to the general ledger, and sign checks.

Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response: We will evaluate our procedures and segregate duties.

Conclusion: Response acknowledged.

II-B-05 **Records of Accounts**: The Library and Police Department maintain the accounting records pertaining to the operation of the Library and Police Department. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

Recommendation: For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the Clerk's records.

Response: We will adjust our financial statements to include this information. The financial activity and balances of the Library and Police Department will be included in the City Clerk's records in the future.

Conclusion: Response acknowledged.

II-C-05 **Accounting Procedures Manual**: The City began developing an accounting procedures manual but has not completed this task. An accounting procedures manual is an important part of any effective system of internal controls. A procedures manual, provides the City with guidance to allow all similar transactions to be treated consistently. Also, by having a procedures manual, job performance should be enhanced by providing the accounting employees with a better understanding of their job duties.

City of Maquoketa
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2005

Recommendation: The City should finalize the development of an accounting procedures manual for the key accounting functions performed by City employees.

Response: We are continuing to update the accounting procedures. It is our intent to have it completed next year.

Conclusion: Response acknowledged.

Part III. Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

CFDA Number 14.228: Community Development Block Grants/State's Program
Pass-through Agency Number: 04-WS-059-99

Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development

III-A-05 **Segregation of Duties over Federal Receipts**: A lack of segregation of duties over receipts and disbursements, including those related to federal programs, exist in the City's finance department. See audit finding II-A-05.

CFDA Number 66.458: Clean Water State Revolving Fund Program
Pass-through Agency Number: C5192208-01

U.S. Environmental Protection Agency
Passed through the Iowa Department of Natural Resources

III-A-05 **Segregation of Duties over Federal Receipts**: A lack of segregation of duties over receipts and disbursements, including those related to federal programs, exist in the City's finance department. See audit finding II-A-05.

CFDA Number 20.106 Airport Improvement Program
Pass-through Agency Number: AIP #3-19-0055-01

U.S. Department of Transportation Federal Aviation Administration

City of Maquoketa
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2005

- III-A-05 **Segregation of Duties over Federal Receipts**: A lack of segregation of duties over receipts and disbursements, including those related to federal programs, exist in the City's finance department. See audit finding II-A-05.

Part IV: Other Findings Related to Statutory Reporting

- IV-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 exceeded during the year ended June 30, 2005.

Recommendation: The City should monitor and update maximum deposit amounts when changes to City finances occur.

Response: The maximum deposit amounts will be increased to accommodate the change in City finances.

Conclusion: Response accepted.

- IV-B-05 **Certified Budget**: Disbursements during the year ended June 30, 2005 exceeded the amount budgeted in the debt service function. 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 sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response: The budget will be amended in the future, if applicable.

Conclusion: Response accepted.

- IV-C-05 **Questionable Disbursements**: We noted no disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- IV-D-05 **Travel Expense**: No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Maquoketa
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2005

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Paul Hahle, Council Member Owner of Pro Services	Consulting	\$ 500
Tom Messerli, Mayor Owner of A-1 Electronics	Repairs	65
Tim Clark, Council Member Part Owner of Clark Saw Center	Repairs & Supplies	2,350

In accordance with Chapter 362.5(10) of the Code of Iowa, transactions with the City officials and employees less than \$1,500 during the fiscal year do not represent conflicts of interest.

The transactions with the Council Member in excess of \$1,500 were entered into through the bid process or council approval, and do not represent a conflict of interest.

IV-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 insure that the coverage is adequate for current operations.

IV-G-05 **Council Minutes:** No transactions were found that we believe should have been approved in the Council minutes, but were not.

IV-H-05 **Deposits and Investments:** No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

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

IV-J-05 **Payment of General Obligation Bonds:** All general obligation bond and note payments were paid from the Debt Service Fund in accordance with Chapter 384.4 of the Code of Iowa.

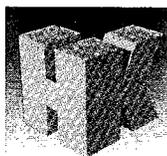
City of Maquoketa
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2005

IV-K-05 **Financial Condition:** The Urban Renewal Tax Revenue, Housing Assistance Program, Employee Benefits and Debt Service had deficit balances at June 30, 2005 totaling \$831,660.

Recommendation: The City should investigate alternatives to eliminate these deficits in order to return these funds to sound financial position.

Response: The City will receive grant money, donations, and transfer funds to eliminate these fund balances.

Conclusion: Response accepted.



Honkamp Krueger & Co., PC.
Certified Public Accountants
& Business Consultants

August 11, 2005

To the City Council
City of Maquoketa
Maquoketa, Iowa

We have audited the financial statements of City of Maquoketa for the year ended June 30, 2005, and have issued our report thereon dated August 11, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated June 15, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the City of Maquoketa's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered 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.

As part of obtaining reasonable assurance about whether the City of Maquoketa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City of Maquoketa's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City of Maquoketa's compliance with

those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Maquoketa's compliance with those requirements. *Significant Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Maquoketa are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2005. We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Maquoketa's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City of Maquoketa, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Maquoketa's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

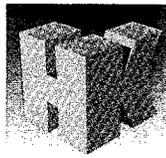
We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the City Council and management of the City of Maquoketa and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely Yours,

A handwritten signature in cursive script that reads "Honkamp Krueger & Co." The signature is written in dark ink and is positioned below the "Sincerely Yours," text.

HONKAMP KRUEGER & CO., P.C.



Honkamp Krueger & Co., P.C.
*Certified Public Accountants
& Business Consultants*

City Council
City of Maquoketa
Maquoketa, Iowa

In planning and performing our audit of the financial statements of the City of Maquoketa for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operations that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Segregation of Duties

A limited number of City personnel perform many of the accounting and financial functions. Therefore, many of the aspects of an ideal internal accounting control structure are missing in the City due to an inadequate segregation of duties. We recognize that the hiring of additional personnel may not be the most cost effective method to maximize the segregation of accounting duties. However, the City should be aware of this condition and realize that the concentration of duties and responsibilities given to a limited number of City personnel is not ideal with respect to the internal control structure.

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 errors 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.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable condition described above is believed to be a material weakness.

Additional items that came to our attention during the course of our audit, which are not believed to be material weaknesses and additional information we would like to share with you, include the following:

How do your internal controls measure up to those required with SOX 404?

Sarbanes-Oxley and SOX 404 are phrases now being discussed among all municipalities, whether small or large. Although the requirements of the aforementioned are currently a requirement of companies mandated by the SEC, many companies that are not required to adhere to the Sarbanes-Oxley requirements are still demanding to have similar controls. This is an excellent strategy because strong controls mean more accurate and reliable financial reports which benefit management, investors and financial institutions.

Do you have strong internal controls? Most small- to mid-size municipalities would simply respond, "No" to this question. This is usually due to insufficient staff. However, you can still strengthen your current controls with the staff you have. Some simple areas to help improve your internal control are:

1. Network Security – Do you know which areas your employees have access to and is that much access necessary? Have you tested the level of access given to verify its integrity?
2. Policies and procedures for automatic log-off – does your system require a password to regain access if the user has left their desk for five minutes or longer?
3. Maintain a Policy and Procedure Manual – this is a critical part of ensuring that proper controls have been established and gives criteria for personnel to follow and adhere to. As an example, you want to make sure the person doing accounts payable data entry doesn't have access to change the general ledger.
4. Disaster recovery plans and data back-up procedures to restore loss of data – do you have such a plan in place and have you tested it annually to verify it works?

This report is intended solely for the information and use of the City Council and management of the City of Maquoketa, is not intended to be, and should not be used by anyone other than these specified parties.



Dubuque, Iowa
August 11, 2005

City of Maquoketa
Corrective Action Plan for Federal Audit Findings
For the Year Ended June 30, 2005

Finding III-A-05. Lack of Segregation of Duties

Contact person responsible for corrective action: Diane Frandsen (563) 652-2484

Corrective Action

Response: The City concurs with the recommendations, however, believes the supervision by management and City Council members are considered mitigating factors in the lack of segregation of duties. The City recognizes that it would not be cost effective to hire additional personnel to maximize the segregation of accounting duties due to the size of the City. The City is aware of the condition and will continue to monitor and implement compensating controls.

Date of Completion

Ongoing.

January 26, 2006

City of Maquoketa
Maquoketa, Iowa

PREPARATION OF AUDIT FOR THE YEAR ENDED JUNE 30, 2005

<u>STAFF</u>	<u>HOURS</u>	<u>TOTAL</u>
Douglas D. Funke	1.00	
Sue M. Lawler	160.77	
Adam R. Reisch	38.27	
Kristin L. Kluesner	32.95	
Heather N. Deininger	12.26	
Shannon B. Hunter	7.25	
Others	5.16	
Chris Splinter – (Typing, Copying, Binding reports)	20.25	
	<hr/>	
Total Hours	<u>277.91</u>	
Total Audit Fee		<u>\$ 15,475</u>

For Release: _____

Honkamp Krueger & Co., P.C. released an audit report on the City of Maquoketa, Iowa.

The financial statements include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$7,216,322 for the year ended June 30, 2005, a 13.00% percent increase from 2004. The receipts included \$1,481,118 in property tax, \$394,665 from tax increment financing collections, \$1,867,864 from charges for service, \$981,421 from operating grants, contributions and restricted interest, \$260,544 from capital grants, contributions and restricted interest, \$368,180 from local option sales tax, \$64,422 from unrestricted investment earnings, \$1,006,824 from other financing sources and \$791,284 from other general receipts.

Disbursements for the year totaled \$6,217,458, a 6.36% increase from the prior year, and included \$868,511 for public works, \$946,937 for public safety, and \$663,484 for general government. Also, disbursements for business type activities totaled \$1,900,263

A copy of the audit report is available for review in the office of Auditor of State and the City Clerk's Office.