CITY OF MARQUETTE

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2005

Table of Contents

		Page
Officials		3
Independent Auditor's Report		4-5
Management's Discussion and Analysis		6-12
Basic Financial Statements:	Exhibit	
Government-wide Financial Statement:		
Statement of Activities and Net Assets-Cash Basis	A	14
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	15
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	16
Notes to Financial Statements		17-22
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances-Budget and Actual (Cash Basis)-All Governmental Funds and Proprietary Funds		24
Notes to Required Supplementary Information - Budgetary Reporting		25
Other Supplementary Information:	Schedule	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances-Nonmajor Governmental Funds	1	27
Statement of Cash Receipts, Disbursements and Changes in Cash Balances-Nonmajor Proprietary Funds	2	28
Statement of Indebtedness	3	29
Note Maturities	4	30
Schedule of Receipts by Source and Disbursements by Function-All Governmental Funds	5	31
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		32-33
Schedule of Findings		34

CITY OF MARQUETTE

Officials

	Title	Term Expires
John Ries	Mayor	January, 2006
Norma Mason	Mayor Pro tem	January, 2008
Melanie Prew	Council Member	Resigned Aug. 17, 2004
Galen McShane	Council Member	January, 2006
Terry Dickens	Council Member	January, 2006
Amy Diehl	Council Member (Appointed August 31, 2004 Elected December 7, 2004)	January, 2006
Norb Hammes	Council Member	January, 2008
Denise Schneider	Clerk/Treasurer	Indefinite
James Garrett	City Attorney	Indefinite

Dietz, Donald & Company
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council

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 Marquette, 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 City of Marquette's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 provides 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 U.S. 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 Marquette 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 31, 2005 on our consideration of the City of Marquette's internal control over financial reporting and our tests of

its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report when considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 12 and 24 through 25 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 Marquette'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. The supplemental information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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.

Elkader, Iowa 52043

August 31, 2005

Dietz, Donald & Company

Dietz, Donald and Company, CPAs
FEIN 42-1172392

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MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Marquette 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.

2005 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities increased 6.7%, or approximately $ 131,000 from fiscal 2004 to fiscal 2005. Property tax increased approximately $ 137,000, grants increased $ 27,000 and the gaming wager tax decreased $ 11,000.

Disbursements decreased 35.2%, or approximately $ 727,000, in fiscal 2005 from fiscal 2004. Capital projects disbursements decreased approximately $ 1,068,000. Debt service disbursements increased approximately $ 302,000.

The City's total cash basis net assets increased 28.2%, or approximately $ 754,000, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities increased approximately $ 759,000 and the assets of the business type activities decreased by approximately $ 5,000.

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 statements 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.

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 use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases and 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, state and federal grants, and gaming revenues finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. 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, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. 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. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds.

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

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 $ 2.659 million to $ 3.418 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	Year ended June 30,	
	2005	2004
Receipts and transfers:		
Program receipts:		
Charges for service	$ 241	273
Operating grants, contributions, and restricted interest	88	44
Capital grants, contributions, and restricted interest	26	43
General receipts:		
Property tax	441	304
Local option sales tax	24	25
Gaming wager tax	1,209	1,220
Grants not restricted to specific purpose	2	-
Unrestricted investment earnings	66	56
Other general receipts	3	4
Total receipts	2,100	1,969
Disbursements:		
Public safety	140	138
Public works	163	115
Health and social services	1	1
Culture and recreation	66	64
Community and economic development	1	11
General government	163	171
Debt service	302	-
Capital projects	485	1,553
Transfers, net	20	15
Total disbursements and transfers	1,341	2,068
Increase (decrease) in cash basis net assets	759	(99)
Cash basis net assets beginning of year	2,659	2,758
Cash basis net assets end of year	$ 3,418	2,659

The City's total receipts for governmental activities increased 6.7% or $ 131,000. The total cost of all programs and services decreased by approximately $ 727,000, or 35.2%, with no new programs added this year. The significant decrease in disbursements was primarily the result of completing the downtown revitalization project in 2004. Approximately $ 1,328,000 was disbursed for that project in the previous year.

The cost of all governmental activities this year was $ 1.321 million compared to $ 2.053 million last year. However, as shown in the Statement of Activities and Net Assets on page 14, the amount taxpayers ultimately financed for these activities was only $ 965,000 because some of the cost was paid by those directly benefited from the programs ($ 241,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest ($ 114,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2005 from approximately $ 360,000 to approximately $ 355,000. The City paid the remaining "public benefit" portion of governmental activities with approximately $ 1,743,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest, general entitlements, and gaming revenues.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	Year ended June 30,	
	2005	2004
Receipts and transfers:		
Program receipts:		
Charges for service:		
Water	$ 73	74
Sewer	67	67
Sale of equipment	6	-
Transfers	20	15
Total receipts and transfers	166	156
Disbursements:		
Water	82	67
Sewer	89	81
Total disbursements	171	148
Increase (decrease) in cash balance	(5)	8
Cash basis net assets beginning of year	17	9
Cash basis net assets end of year	$ 12	17

Total business type activities receipts and transfers for the fiscal year were $ 166,000 compared to $ 156,000 last year. The cash balance decreased by approximately $ 5,000 from the prior year. Total disbursements for the fiscal year increased by 15.5% to a total of $ 171,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Marquette completed the year, its governmental funds reported a combined fund balance of $ 3,417,505 an increase of more than $ 758,000 above last year's total of $ 2,659,002. 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 $ 763,024 from the prior year to $ 3,412,379. This increase was due to there being no major capital projects this year that were not financed by TIF revenues.

TIF revenues were used as follows: $ 301,538 for debt service and $ 128,839 for the flood control project. The remaining portion of the flood control project was financed with a $ 126,487 transfer from the general fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 18, 2004 and resulted in an increase of $ 138,000 in budgeted disbursements. However, only capital projects disbursements exceeded the original budgeted amount and only by $ 15,750.

DEBT ADMINISTRATION

At June 30, 2005, the City had $ 595,000 in long-term debt, $ 255,000 less than last year, as shown below.

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2005	2004
General obligation notes	$ 595	850

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 $ 595,000 is below its constitutional debt limit of $ 890,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Marquette'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. One of those factors is revenue from the gaming boat. Total gaming boat revenues for the years ended June 30, 2005, 2004, and 2003 were $ 1.389 million, $ 1.400 million, and $ 1.284 million respectively. New gaming facilities in Iowa could put downward pressure on these receipts.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. Inflation has been modest here due in part to the slowing of the residential housing market and modest increases in energy prices in 2004-2005. Sharp increases in fuel prices this spring will put strong upward pressure on the state and national CPI.

These indicators were taken into account when adopting the budget for fiscal year 2006. Amounts available for appropriation in the operating budget are $ 2.5 million, an increase of 19% over the final 2005 budget. Budgeted disbursements are expected to increase by approximately $ 500,000. The City has added no major new programs or initiatives to the 2006 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately $ 700,000 by the close of 2006.

CONTRACTING 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 Denise Schneider, City Clerk, 88 North Street, Marquette, Iowa.

Basic Financial Statements

Exhibit A

CITY OF MARQUETTE
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the Year Ended June 30, 2005

		Program Services			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-type Activities	Total
FUNCTIONS/PROGRAMS:							
Governmental activities:							
Public safety	$ 140,173	79,544	0	0	(60,629)	0	(60,629)
Public works	162,829	26,534	82,208	0	(54,087)	0	(54,087)
Health and social services	1,053	0	0	0	(1,053)	0	(1,053)
Culture and recreation	65,722	114,596	0	0	48,874	0	48,874
Community and economic development	831	0	0	0	(831)	0	(831)
General government	163,021	4,748	2,468	0	(155,805)	0	(155,805)
Debt service	301,538	0	0	0	(301,538)	0	(301,538)
Capital projects	484,750	15,943	2,921	26,045	(439,837)	0	(439,837)
Total governmental activities	1,319,917	241,369	87,597	26,045	(964,906)	0	(964,906)
Business-type activities:							
Water	81,808	72,501	0	0	0	(9,307)	(9,307)
Sewer	88,967	67,490	0	0	0	(21,477)	(21,477)
Total business-type activities	170,775	139,991	0	0	0	(30,784)	(30,784)
Total	$ 1,490,692	381,360	87,597	26,045	(964,906)	(30,784)	(995,690)
GENERAL RECEIPTS							
Property tax levied for:							
General purposes					10,102	0	10,102
Tax increment financing					430,377	0	430,377
Local option sales tax					23,511	0	23,511
Gaming wager tax					1,208,865	0	1,208,865
Grants and contributions not restricted to specific purpose					1,909	0	1,909
Unrestricted interest on investments					65,541	0	65,541
Sale of equipment					3,104	6,201	9,305
Transfers					(20,000)	20,000	0
Total general receipts and transfers					1,723,409	26,201	1,749,610
Change in cash basis net assets					758,503	(4,583)	753,920
Cash basis net assets beginning of year					2,659,002	17,033	2,676,035
Cash basis net assets end of year					$ 3,417,505	12,450	3,429,955
CASH BASIS NET ASSETS:							
Restricted:							
Streets					$ 5,126	0	5,126
Other					388	0	388
Unrestricted					3,411,991	12,450	3,424,441
TOTAL CASH BASIS NET ASSETS					$ 3,417,505	12,450	3,429,955

See notes to financial statements.

Exhibit B

CITY OF MARQUETTE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2005

	General	Special Revenue Urban Renewal Tax Increment	Capital Projects Flood Control	Other Nonmajor Governmental Funds	Total
Receipts:					
Property tax	$ 10,102	0	0	0	10,102
Tax increment financing collections	0	430,377	0	0	430,377
Other city tax	1,232,376	0	0	0	1,232,376
Licenses and permits	2,180	0	0	0	2,180
Use of money and property	255,990	0	0	0	255,990
Intergovernmental	47,290	0	0	67,408	114,698
Charges for service	25,108	0	0	0	25,108
Miscellaneous	20,585	0	0	3,900	24,485
Total receipts	1,593,631	430,377	0	71,308	2,095,316
Disbursements:					
Operating:					
Public safety	140,173	0	0	0	140,173
Public works	120,677	0	0	42,152	162,829
Health and social services	1,053	0	0	0	1,053
Culture and recreation	65,722	0	0	0	65,722
Community and economic development	831	0	0	0	831
General government	163,021	0	0	0	163,021
Debt service	0	301,538	0	0	301,538
Capital projects	0	0	255,326	229,424	484,750
Total disbursements	491,477	301,538	255,326	271,576	1,319,917
Excess (deficiency) of receipts over (under) disbursements	1,102,154	128,839	(255,326)	(200,268)	775,399
Other financing sources (uses)					
Sale of equipment	3,104	0	0	0	3,104
Operating transfers in	0	0	255,326	195,747	451,073
Operating transfers out	(342,234)	(128,839)	0	0	(471,073)
Total other financing sources (uses)	(339,130)	(128,839)	255,326	195,747	(16,896)
Net changes in cash balances	763,024	0	0	(4,521)	758,503
Cash balances beginning of year	2,649,355	0	0	9,647	2,659,002
Cash balances end of year	$ 3,412,379	0	0	5,126	3,417,505
Unreserved:					
General Fund	$ 3,412,379	0	0	0	3,412,379
Special revenue funds	0	0	0	5,126	5,126
	$ 3,412,379	0	0	5,126	3,417,505

See notes to financial statements.

Exhibit C

CITY OF MARQUETTE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
As of and for the Year Ended June 30, 2005

	Nonmajor Proprietary Funds
Operating receipts:	
Charges for service	$ 139,991
Operating disbursements:	
Business-type activities	170,775
Deficiency of operating receipts under operating disbursements	(30,784)
Other financing sources:	
Sale of equipment	6,201
Operating transfers in	20,000
Total other financing sources	26,201
Net change in cash balances	(4,583)
Cash balances beginning of year	17,033
Cash balances end of year	$ 12,450

See notes to financial statements.

(1) Summary of Significant Accounting Policies

The City of Marquette is a political subdivision of the State of Iowa located in Clayton County. It was first incorporated in 1860 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 works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Marquette 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. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City. City officials are members of the following boards and commissions and organizations: Clayton County Assessor's Conference Board, Clayton County Emergency Management Commission, Clayton County Joint E911 Service Board and the Mar-Mac Unified Law Enforcement District. As described in note 8, the City's participation in the Mar-Mac Unified Law Enforcement District meets the criteria of a joint venture since there is an ongoing financial responsibility for the City.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduci-

ary 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 result when constraints placed on net assets 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.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds. All enterprise funds are aggregated and reported as nonmajor proprietary 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 Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

Capital Projects

The flood control fund is used to account for disbursements

on the flood control project.

The City has no major proprietary funds.

C. Measurement Focus and Basis of Accounting
The City of Marquette 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.

D. Budgets and Budgetary Accounting
The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(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.

(3) Notes Payable

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

Year Ending	General Obligation Notes	
June 30	Principal	Interest
2006	$ 300,000	15,095
2007	295,000	8,112
	$ 595,000	23,207

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to: IPERS; P.O. Box 9117; Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were $ 8,379, $ 8,171 and $ 7,806, respectively, equal to the required contribution for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave 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:

Type of Benefit	Amount
Vacation	$ 6,000
Sick pay	4,000
Total	$ 10,000

This liability has been computed based on rates of pay as of July 1, 2005.

(6) Risk Management

The City of Marquette is exposed to various risks of loss related to torts, thefts, 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 for these risks exceeded commercial insurance coverage by $ 32,000 in 2004. The City received approximately $ 26,000 in public assistance grants to defray the cost of the Mississippi River and Bloody Run floods.

(7) Excursion Gambling Boat Dock Site Lease Agreement

On June 10, 1994, the City entered into a dock site lease agreement with a Company to operate and manage casino gambling on excursion gambling boats and related activities in and about the City of Marquette. The dock site lease agreement provided docking facilities for a twenty five year term beginning June 10, 1994. The agreement provides that the Company pay the City (a) $ 105,000 per year payable in equal monthly installments; (b) twenty five cents per ticketed passenger payable monthly; (c) two and one-half percent of the net gambling receipts in excess of $ 20,000,000 per year; and (d) fifty cents per passenger admission pursuant to Chapter 99F.10 of the Code of Iowa and the City ordinance for dock site rental. Additionally, the City provides 24 hour public safety protection for $ 75,000 per year payable monthly.

(8) Joint Venture

The City participates in a joint law enforcement district known as Mar-Mac Unified Law Enforcement District, which provides police protection and law enforcement services to its participants. The District was created and operates under Chapter 28E of the Code of Iowa. The District is governed by a five member board, two of whom are appointed by the Mayor of Marquette subject to approval by a majority vote of the City Council. In accordance with the 28E Agreement creating the District, the City shall appropriate and pay to the District each fiscal year a sum equal to 65% of the District's budget for the year. The City shall pay to the District one-fourth of the City's share of the budget amount on or before July 10, October 10, January 10, and April 10 each year. The City's share of the District's budget for the fiscal year ended June 30, 2005, was $ 122,715. The City's share of the District's budget for the fiscal year ended June 30, 2006 shall be approximately $ 132,000. The Mar-Mac Unified Law Enforcement District issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to: Mar-Mac Police District; P.O. Box 340; McGregor, Iowa 52157-0340.

(9) Interfund Transfers

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

Transfer to	Transfers from	Amount
Capital Projects:	Special Revenue	
Flood Control	Urban Renewal Tax Increment	$ 128,839
	General	126,487
		255,326
Capital Projects:	General	67,575
Streets		
Downtown Project	General	71,988
Roundhouse Project	General	11,561
Depot/Museum	General	15,044
Pleasant Ridge	General	4,423
Ballpark Improvement	General	4,300
Miscellaneous	General	20,856
Enterprise:	General	20,000
Sewer		
Total		$ 471,073

Required Supplementary Information

CITY OF MARQUETTE
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	Total	Budgeted Amounts Original	Budgeted Amounts Final	Final to Total Variance
Receipts:						
Property tax	$ 10,102	0	10,102	7,825	7,825	2,277
Tax increment financing collections	430,377	0	430,377	398,567	398,567	31,810
Other city tax	1,232,376	0	1,232,376	1,174,161	1,229,161	3,215
Licenses and permits	2,180	0	2,180	1,190	1,190	990
Use of money and property	255,990	6,201	262,191	253,900	253,900	8,291
Intergovernmental	114,698	0	114,698	54,000	54,000	60,698
Charges for service	25,108	139,991	165,099	181,150	181,150	(16,051)
Miscellaneous	24,485	0	24,485	4,500	62,500	(38,015)
Total receipts	2,095,316	146,192	2,241,508	2,075,293	2,188,293	53,215
Disbursements:						
Public safety	140,173	0	140,173	150,624	150,624	10,451
Public works	162,829	0	162,829	168,900	168,900	6,071
Health and social services	1,053	0	1,053	2,070	2,070	1,017
Culture and recreation	65,722	0	65,722	87,375	87,375	21,653
Community and economic development	831	0	831	10,632	10,632	9,801
General government	163,021	0	163,021	217,800	217,800	54,779
Debt service	301,538	0	301,538	316,688	401,688	100,150
Capital projects	484,750	0	484,750	469,000	522,000	37,250
Business-type activities	0	170,775	170,775	225,450	225,450	54,675
Total disbursements	1,319,917	170,775	1,490,692	1,648,539	1,786,539	295,847
Excess (deficiency) of receipts over (under) disbursements	775,399	(24,583)	750,816	426,754	401,754	349,062
Other financing sources, net	(16,896)	20,000	3,104	0	0	3,104
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	758,503	(4,583)	753,920	426,754	401,754	352,166
Balances beginning of year	2,659,002	17,033	2,676,035	2,638,110	2,638,110	37,925
Balances end of year	$ 3,417,505	12,450	3,429,955	3,064,864	3,039,864	390,091

See accompanying independent auditor's report.

CITY OF MARQUETTE
Notes to Required Supplementary Information-Budgetary Reporting
June 30, 2005

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 Fund, 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, one budget amendment increased budgeted disbursements by $ 138,000. The budget amendment is reflected in the final budgeted amounts.

Other Supplementary Information

Schedule 1

CITY OF MARQUETTE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS

	Special Revenue	Capital Projects								
	Road Use Tax	Streets	Housing Renovation	Downtown Project	Roundhouse Project	Depot/ Museum	Pleasant Ridge	Ballpark Improvement	Miscellaneous	Total
Receipts:										
Intergovernmental	$ 38,442	0	26,045	0	0	0	0	0	2,921	67,408
Miscellaneous	0	1,250	0	2,650	0	0	0	0	0	3,900
Total receipts	38,442	1,250	26,045	2,650	0	0	0	0	2,921	71,308
Disbursements:										
Operating:										
Public works	42,152	0	0	0	0	0	0	0	0	42,152
Capital projects	0	68,825	27,406	74,638	11,561	15,044	4,423	4,300	23,227	229,424
Total disbursements	42,152	68,825	27,406	74,638	11,561	15,044	4,423	4,300	23,227	271,576
Deficiency of receipts under disbursements	(3,710)	(67,575)	(1,361)	(71,988)	(11,561)	(15,044)	(4,423)	(4,300)	(20,306)	(200,268)
Other financing sources Operating transfers in	0	67,575	0	71,988	11,561	15,044	4,423	4,300	20,856	195,747
Net change in cash balances	(3,710)	0	(1,361)	0	0	0	0	0	550	(4,521)
Cash balances beginning of year	8,836	0	1,749	0	0	0	0	0	(938)	9,647
Cash balances at end of year	$ 5,126	0	388	0	0	0	0	0	(388)	5,126
Cash Basis Fund Balances										
Unreserved:										
Special revenue funds	$ 5,126	0	0	0	0	0	0	0	0	5,126
Capital project funds	0	0	388	0	0	0	0	0	(388)	0
Total cash basis fund balances	$ 5,126	0	388	0	0	0	0	0	(388)	5,126

See accompanying independent auditor's report.

Schedule 2

CITY OF MARQUETTE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
As of and for the Year Ended June 30, 2005

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	$ 72,501	67,490	139,991
Operating disbursements:			
Business-type activities	81,808	88,967	170,775
Deficiency of operating receipts under operating disbursements	(9,307)	(21,477)	(30,784)
Other financing sources:			
Sale of equipment	3,100	3,101	6,201
Operating transfers in	0	20,000	20,000
Total other financing sources	3,100	23,101	26,201
Net change in cash balances	(6,207)	1,624	(4,583)
Cash balances beginning of year	12,735	4,298	17,033
Cash balances end of year	$ 6,528	5,922	12,450

See accompanying independent auditor's report.

Schedule 3

CITY OF MARQUETTE
STATEMENT OF INDEBTEDNESS
Year Ended June 30, 2005

Description	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Notes Due And Unpaid
General obligation notes:									
Water improvements	Jul. 1, 1989	Called	$ 155,000	15,000	0	0	15,000	0	15,000
Downtown revitalization	Mar. 1, 2003	2.10%-2.75%	835,000	835,000	0	255,000	580,000	46,013	0
				$ 850,000	0	255,000	595,000	46,013	15,000

See accompanying independent auditor's report.

Schedule 4

CITY OF MARQUETTE
NOTE MATURITIES
June 30, 2005

Year Ending June 30,	General Obligation Notes				
	Water Improvements Issued Jul. 1, 1989		Downtown Revitalization Issued Mar. 1, 2003		
	Interest Rates	Amount	Interest Rates	Amount	Total
2006	Called	$ 15,000	2.45%	$ 285,000	300,000
2007		0	2.75	295,000	295,000
		$ 15,000		$ 580,000	595,000

See accompanying independent auditor's report.

Schedule 5

CITY OF MARQUETTE
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
For the Last Four Years

	2005	2004	2003	2002
Receipts:				
Property tax	$ 10,102	39,417	4,168	16,658
Tax increment financing collections	430,377	264,392	402,056	282,159
Other city tax	1,232,376	1,245,022	1,129,457	1,049,612
Licenses and permits	2,180	2,198	2,466	2,413
Use of money and property	255,990	251,337	260,915	240,479
Intergovernmental	114,698	82,907	287,860	275,112
Charges for service	25,108	25,176	23,085	21,518
Miscellaneous	24,485	58,858	3,161	13,213
Total	$ 2,095,316	1,969,307	2,113,168	1,901,164
Disbursements:				
Operating:				
Public safety	$ 140,173	137,888	144,914	148,388
Public works	162,829	115,346	152,890	120,573
Health and social services	1,053	1,053	1,839	1,839
Culture and recreation	65,722	63,928	64,037	59,990
Community and economic development	831	10,526	7,726	6,050
General government	163,021	171,283	145,222	141,509
Debt service	301,538	0	0	163,202
Capital projects	484,750	1,553,156	1,983,431	326,775
Total	$ 1,319,917	2,053,180	2,500,059	968,326

See accompanying independent auditor's report.

Dietz, Donald & Company
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Marquette, Iowa as of and for the year ended June 30, 2005, and have issued our report thereon dated August 31, 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 U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Marquette's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

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. Prior statutory comments have been resolved.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Marquette'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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters that might be material weaknesses. 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Marquette and other parties to whom the City of Marquette may report. 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 Marquette 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.

Elkader, Iowa

August 31, 2005

Dietz, Donald & Company

Dietz, Donald & Company, CPAs
FEIN 42-1172392

CITY OF MARQUETTE
SCHEDULE OF FINDINGS
Year Ended June 30, 2005

Findings Related to Required Statutory Reporting

1. **Official Depositories** - A resolution naming official depositories has been approved by the City Council. The maximum deposit amount stated in the resolution was not exceeded during the year ended June 30, 2005.

2. **Certified Budget** - Disbursements for the year ended June 30, 2005 did not exceed the amounts budgeted.

3. **Questionable Disbursements** - We noted no disbursements for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

4. **Travel Expense** - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

5. **Business Transactions** - No business transactions between City and City officials or employees were noted.

6. **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.

7. **Council Minutes** - No transactions were found that we believe should have been approved in the Council minutes but were not.

8. **Deposits and Investments** - No instances on 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.