



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

March 2, 2017

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the City of Marquette, Iowa.

The City's receipts totaled \$1,861,683 for the year ended June 30, 2016. The receipts included \$65,714 from property and other city tax, \$410,974 from tax increment financing, \$43,097 from local option sales tax, \$415,663 from charges for service, \$54,811 from operating grants, contributions and restricted interest, \$248,438 from capital grants, contributions and restricted interest, \$77,055 from hotel/motel tax, \$476,230 from gaming wager tax, \$33,383 from unrestricted interest on investments and \$36,318 from other general receipts.

Disbursements for the year ended June 30, 2016 totaled \$2,043,891, and included \$1,155,502 for capital projects, \$229,372 for general government, and \$167,298 for public safety. Also, disbursements for business type activities totaled \$227,291.

Disbursements increased significantly in fiscal year 2016 primarily due to the costs associated with the Marquette Overlook Renovation project.

A copy of the audit report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1622-0193-B00F>.

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

JUNE 30, 2016

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City of Marquette

Officials

(Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Norma Mason	Mayor	Jan 2016
Jason Winter	Mayor Pro tem	Jan 2016
Gaylen McShane	Council Member	Jan 2016
Cindy Halvorson	Council Member	Jan 2018
John Ries	Council Member	Jan 2018
Rinda Ferguson	Council Member	Jan 2018
Dean Hilgerson	City Manager	Indefinite
Susan Weipert	City Clerk/Treasurer	Indefinite
James Garrett	Attorney	Indefinite

(After January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David Schneider	Mayor	(Resigned Jan 2016)
Larry Breuer (Elected Apr 2016)	Mayor	Jan 2018
Cindy Halvorson	Mayor Pro tem	Jan 2018
John Ries	Council Member	Jan 2018
Rinda Ferguson	Council Member	(Resigned Jan 2016)
Steve Eagle (Elected Apr 2016)	Council Member	Jan 2018
Pam Brodie-Fitzgerald	Council Member	Jan 2020
Eleanor Soulli	Council Member	Jan 2020
Dean Hilgerson	City Manager	(Resigned Apr 2016)
Susan Weipert	City Clerk/Treasurer	(Resigned Apr 2016)
Denise Schneider (Appointed Jun 2016)	City Manager/Clerk/Treasurer	Indefinite
James Garrett	Attorney	(Resigned Jan 2016)
Daniel Key (Appointed Mar 2016)	Attorney	Indefinite

City of Marquette



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Marquette, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Marquette as of June 30, 2016, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Marquette's basic financial statements. The financial statements for the nine years ended June 30, 2015 (which are not presented herein) were audited by other auditors who expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedule 1 is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 9 through 14 and 32 through 38, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 16, 2017 on our consideration of the City of Marquette's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Marquette's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

February 16, 2017

City of Marquette

MANAGEMENT'S DISCUSSION AND ANALYSIS

The 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, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 13%, or approximately \$195,000, over fiscal year 2015 to fiscal year 2016. Capital grants, contributions and restricted interest increased approximately \$180,000.
- Disbursements of the City's governmental activities increased 104%, or approximately \$924,000, in fiscal year 2016 from fiscal year 2015. Capital projects disbursements increased approximately \$975,000.
- The City's total cash basis net position decreased 5%, or \$182,208, from June 30, 2015 to June 30, 2016. Of this amount, the cash basis net position of the governmental activities decreased approximately \$122,351 and the cash basis net position of the business type activities decreased approximately \$59,857.

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 Cash Basis Statement of Activities and Net Position. 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 financial 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.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides comparative information about the governmental funds for the last ten years.

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, readers 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 Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

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

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government and capital projects. Property tax, gaming tax and state and federal grants 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 Urban Renewal Tax Increment and Road Use Tax, and 3) the Capital Projects 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 statement for governmental funds is 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, considered to be major funds of the City.

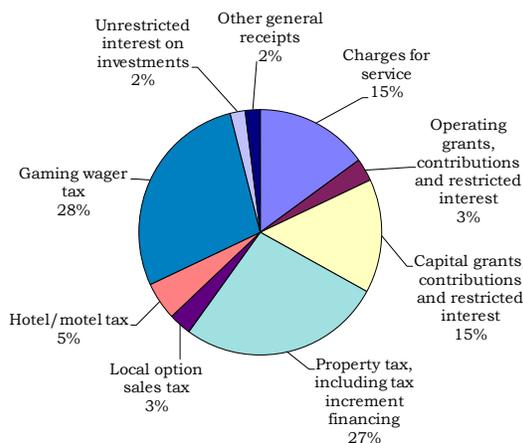
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

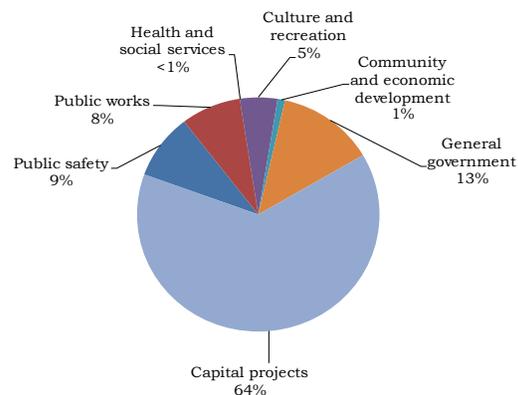
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$3.76 million to approximately \$3.64 million. The following analysis focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service	\$ 250	247
Operating grants, contributions and restricted interest	53	69
Capital grants, contributions and restricted interest	248	68
General receipts:		
Property tax, including tax increment financing	477	497
Local option sales tax	43	39
Hotel/motel tax	77	63
Gaming wager tax	476	468
Unrestricted interest on investments	33	32
Other general receipts	36	15
Total receipts	1,693	1,498
Disbursements:		
Public safety	167	162
Public works	142	171
Health and social services	1	1
Culture and recreation	97	112
Community and economic development	24	23
General government	229	242
Capital projects	1,156	181
Total disbursements	1,816	892
Change in cash basis net position before transfers	(123)	606
Transfers, net	-	(100)
Change in cash basis net position	(123)	506
Cash basis net position beginning of year	3,760	3,254
Cash basis net position end of year	\$ 3,637	3,760

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 13%, or approximately \$195,000, over the prior year. The total cost of all programs and services increased approximately \$924,000, or 104%, with no new programs added this year. The significant increase in disbursements is primarily due to the costs associated with the Marquette Overlook Renovation project which began during fiscal year 2016.

The cost of all governmental activities this year was approximately \$1.816 million compared to approximately \$892,000 last year. However, as shown in the Statement of Activities and Net Position on pages 16-17, the amount taxpayers ultimately financed for these activities was approximately \$1,265,122 because some of the cost was paid by those directly benefited from the programs or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest. The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as gaming wager tax, hotel/motel tax, interest, local option sales tax and miscellaneous receipts. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2016 from approximately \$384,000 to approximately \$551,000, principally due to receiving grant proceeds to complete the Marquette Overlook Renovation project.

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 81	79
Sewer	86	86
Other	-	6
Total receipts	167	171
Disbursements:		
Water	122	109
Sewer	105	118
Total disbursements	227	227
Change in cash basis net position before transfers	(60)	(56)
Transfers, net	-	100
Change in cash basis net position	(60)	44
Cash basis net position beginning of year	96	52
Cash basis net position end of year	\$ 36	96

Total business type activities receipts for the fiscal year were approximately \$167,000 compared to approximately \$171,000 last year. The cash balance decreased approximately \$60,000 from the prior year because a transfer from the General Fund to cover the deficit of disbursements over revenues was not made in 2016 as was done in 2015. Total disbursements for the fiscal year remained relatively stable at approximately \$227,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Marquette completed the year, its governmental funds reported a combined fund balance of approximately \$3,637,000, a decrease of \$122,351 below last year's total of approximately \$3,760,000. 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 decreased \$700,242 from the prior year to \$2,691,320. The significant portion of this decrease was due to a transfer to the Capital Projects Fund as an internal TIF loan.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased from \$82,880 to \$493,854. This increase is due to the City not transferring tax increment funds to repay a portion of the internal loans. The City will make this transfer in fiscal year 2017.
- The Capital Projects Fund cash balance increased \$160,456 to \$435,629. This increase was due to a transfer of \$1,067,520 from the General Fund, of which a portion remained unspent as of the end of the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased \$40,347 to \$12,793, due to operating disbursements exceeding operating receipts.
- The Enterprise, Sewer Fund cash balance decreased \$19,510 to \$23,000, due to operating disbursements exceeding operating receipts.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on March 15, 2016 and resulted in an increase in operating disbursements of \$70,000 primarily related to the Marquette Overlook Renovation project. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$53,983 more than budgeted. This was primarily due to the City receiving more gaming wager tax receipts from the casino than anticipated.

Total disbursements were \$390,938 less than the final amended budget, a 16.1% variance, primarily due to less construction costs occurring during the year than initially anticipated.

DEBT ADMINISTRATION

At June 30, 2016, the City had no long term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Marquette's elected and appointed officials and citizens considered many factors when setting the fiscal 2017 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 receipts for the years ended June 30, 2014, 2015, and 2016 were \$682,916, \$651,285 and \$656,230, respectively. New gaming facilities in Iowa and a depressed economy has put downward pressure on these receipts.

These indicators were taken into account when adopting the budget for fiscal year 2017. Amounts available for appropriation in the operating budget are \$2.744 million. Budgeted disbursements are expected to decrease to \$1.738 million with capital projects disbursements budgeted to decrease to \$735,000.

If these estimates are realized, the City's cash balance is expected to decrease approximately \$181,000 by the close of fiscal year 2017.

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 Denise Schneider, City Clerk/Manager, 102 North Street, Marquette, Iowa 52158.

Basic Financial Statements

City of Marquette

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2016

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 167,298	78,581	-	-
Public works	142,271	39,076	49,778	-
Health and social services	1,032	-	-	-
Culture and recreation	96,699	126,335	3,000	-
Community and economic development	24,426	150	-	-
General government	229,372	6,120	-	-
Capital projects	1,155,502	-	-	248,438
Total governmental activities	1,816,600	250,262	52,778	248,438
Business type activities:				
Water	121,682	79,377	1,958	-
Sewer	105,609	86,024	75	-
Total business type activities	227,291	165,401	2,033	-
Total Primary Government	\$ 2,043,891	415,663	54,811	248,438
Component Unit:				
Marquette Action Club	\$ 6,546	8,953	-	-
General Receipts:				
Property and other city tax levied for general purposes				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Gaming wager tax				
Unrestricted interest on investments				
Miscellaneous				
Total general receipts				
Change in cash basis net position				
Cash basis net position beginning of year, as restated				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted for:				
Streets				
Urban renewal				
Overpass demolition				
Capital projects				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			Component Unit
Governmental Activities	Business Type Activities	Total	Marquette Action Club
(88,717)	-	(88,717)	
(53,417)	-	(53,417)	
(1,032)	-	(1,032)	
32,636	-	32,636	
(24,276)	-	(24,276)	
(223,252)	-	(223,252)	
(907,064)	-	(907,064)	
<u>(1,265,122)</u>	<u>-</u>	<u>(1,265,122)</u>	
-	(40,347)	(40,347)	
-	(19,510)	(19,510)	
-	(59,857)	(59,857)	
<u>(1,265,122)</u>	<u>(59,857)</u>	<u>(1,324,979)</u>	
			<u>2,407</u>
\$ 65,714	-	65,714	-
410,974	-	410,974	-
43,097	-	43,097	-
77,055	-	77,055	-
476,230	-	476,230	-
33,383	-	33,383	74
36,318	-	36,318	-
<u>1,142,771</u>	<u>-</u>	<u>1,142,771</u>	<u>74</u>
(122,351)	(59,857)	(182,208)	74
<u>3,759,646</u>	<u>95,650</u>	<u>3,855,296</u>	<u>47,469</u>
<u>\$ 3,637,295</u>	<u>35,793</u>	<u>3,673,088</u>	<u>49,950</u>
\$ 16,492	-	16,492	-
493,854	-	493,854	-
100,000	-	100,000	-
435,629	-	435,629	-
2,591,320	35,793	2,627,113	49,950
<u>\$ 3,637,295</u>	<u>35,793</u>	<u>3,673,088</u>	<u>49,950</u>

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, 2016

	Special Revenue			Nonmajor	
	General	Urban Renewal Tax Increment	Capital Projects	Road Use Tax	Total
Receipts:					
Property tax	\$ 64,796	-	-	-	64,796
Tax increment financing	-	410,974	-	-	410,974
Other city tax	597,301	-	-	-	597,301
Licenses and permits	1,990	-	-	-	1,990
Use of money and property	224,104	-	-	-	224,104
Intergovernmental	-	-	248,438	49,778	298,216
Charges for service	40,181	-	-	-	40,181
Miscellaneous	56,687	-	-	-	56,687
Total receipts	985,059	410,974	248,438	49,778	1,694,249
Disbursements:					
Operating:					
Public safety	167,298	-	-	-	167,298
Public works	98,954	-	-	43,317	142,271
Health and social services	1,032	-	-	-	1,032
Culture and recreation	96,699	-	-	-	96,699
Community and economic development	24,426	-	-	-	24,426
General government	229,372	-	-	-	229,372
Capital projects	-	-	1,155,502	-	1,155,502
Total disbursements	617,781	-	1,155,502	43,317	1,816,600
Excess (deficiency) of receipts over (under) disbursements	367,278	410,974	(907,064)	6,461	(122,351)
Other financing sources (uses):					
Transfers in	-	-	1,067,520	-	1,067,520
Transfers out	(1,067,520)	-	-	-	(1,067,520)
Total other financing sources (uses)	(1,067,520)	-	1,067,520	-	-
Change in cash balances	(700,242)	410,974	160,456	6,461	(122,351)
Cash balances beginning of year	3,391,562	82,880	275,173	10,031	3,759,646
Cash balances end of year	\$ 2,691,320	493,854	435,629	16,492	3,637,295
Cash Basis Fund Balances					
Restricted for:					
Streets	\$ -	-	-	16,492	16,492
Urban renewal purposes	-	493,854	-	-	493,854
Overpass demolition	100,000	-	-	-	100,000
Capital projects	-	-	435,629	-	435,629
Unassigned	2,591,320	-	-	-	2,591,320
Total cash basis fund balances	\$ 2,691,320	493,854	435,629	16,492	3,637,295

See notes to financial statements.

City of Marquette

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2016

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 79,377	86,024	165,401
Miscellaneous	1,958	75	2,033
Total operating receipts	81,335	86,099	167,434
Operating disbursements			
Business type activities	121,682	105,609	227,291
Excess of operating disbursements over operating receipts	(40,347)	(19,510)	(59,857)
Change in cash balances	(40,347)	(19,510)	(59,857)
Cash balances beginning of year	53,140	42,510	95,650
Cash balances end of year	\$ 12,793	23,000	35,793
Cash Basis Fund Balances			
Unrestricted	\$ 12,793	23,000	35,793

See notes to financial statements.

City of Marquette

City of Marquette

Notes to Financial Statements

June 30, 2016

(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 1874 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, 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, the 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.

These financial statements present the City of Marquette (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Discretely Presented Component Unit

Marquette Action Club, Inc. was created March 13, 2009, under Chapter 504 of the Code of Iowa, for the purpose of improving and beautifying the City of Marquette. The initial directors of the organization are its incorporators, which includes one former council member of the City of Marquette. In accordance with criteria set forth by the Governmental Accounting Standards Board, Marquette Action Club meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or held by Marquette Action Club are substantially for the direct benefit of the City of Marquette.

Jointly Governed Organizations

The City 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: Clayton County Assessor's Conference Board, Clayton County Emergency Management Commission and the Clayton County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position 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 service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following

Restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position 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 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 from general and emergency levies 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 not paid from other funds.

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Capital Projects Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items.

The City reports the following major proprietary funds:

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

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and 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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2016 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 ensure 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.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

(3) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55.

The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%.

The City's contributions to IPERS for the year ended June 30, 2016 totaled \$18,199.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$151,154 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.003060%, which was an increase of 0.000064% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$12,747, \$29,062 and \$35,196, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 264,643	151,154	55,361

IPERS' Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(4) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 4 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$559 for single coverage and \$1,418 for family coverage. For the year ended June 30, 2016, the City contributed \$51,545 and plan members eligible for benefits contributed \$6,200 to the plan.

(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 vacation and sick leave payable to employees at June 30, 2016, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 2,000
Sick leave	4,000
Total	<u>\$ 6,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2016.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

Transfer to	Transfer from	Amount
Capital Projects	General	<u>\$ 1,067,520</u>

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

(7) Excursion Gambling Boat Dock Site Agreement

On July 10, 1994, the City entered into a dock site agreement with Gamblers Supply Management Company (Company), for the development and management of the City of Marquette’s docking facilities and adjacent land to the casino excursion gambling boat operated and managed by the Company. The term of the agreement is 25 years.

Under the agreement, as rental for the dock site premises, the Company is to pay the City of Marquette the following amounts: 1) rent of \$105,000 per year payable in equal monthly installments, 2) a passenger admission fee of \$.50 per ticketed passenger payable monthly, 3) a wagering fee payable annually of 2.5% of net gambling receipts in excess of \$20,000,000 but not exceeding \$40,000,000, 5% of net gambling receipts in excess of \$40,000,000 but not exceeding \$60,000,000, and 7.5% of net gambling receipts in excess of \$60,000,000. In addition, the Company is to pay the City \$6,250 per month for additional public safety expenses to be incurred by the City as a result of the operation of the excursion gambling boat. During fiscal year 2016, the Company paid the City of Marquette a total of \$656,230 under this agreement.

(8) MarMac Driftless Area Wetlands Centre Agreement

On August 28, 2013 the City entered into an agreement under 28E of the Code of Iowa with the MFL MarMac Community School District for the purpose of continuing the use and operation of the MarMac Driftless Area Wetlands Centre. The agreement required the City of Marquette to establish, by ordinance, a municipal administrative agency to administer the Wetlands Centre and all associated facilities. In the event the agreement is terminated prior to July 1, 2032, Marquette will pay the School partial reimbursements for the Centre’s construction costs originally contributed by the School according to the following schedule:

Termination Date	Reimbursement Amount
After July 1, 2016 and before July 1, 2017	\$ 121,263
After July 1, 2017 and before July 1, 2018	113,684
After July 1, 2018 and before July 1, 2019	106,105
After July 1, 2019 and before July 1, 2020	98,526
After July 1, 2020 and before July 1, 2021	90,947
After July 1, 2021 and before July 1, 2022	83,368
After July 1, 2022 and before July 1, 2023	75,789
After July 1, 2023 and before July 1, 2024	68,210
After July 1, 2024 and before July 1, 2025	60,631
After July 1, 2025 and before July 1, 2026	53,052
After July 1, 2026 and before July 1, 2027	45,473
After July 1, 2027 and before July 1, 2028	37,894
After July 1, 2028 and before July 1, 2029	30,315
After July 1, 2029 and before July 1, 2030	22,736
After July 1, 2030 and before July 1, 2031	15,157
After July 1, 2031 and before July 1, 2032	7,578

(9) Risk Management

The City 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.

(10) Participation in Joint Venture

The City is a participant in the Mar-Mac Unified Law Enforcement District, a joint venture, to provide and administer law enforcement and police protection services for the cities of Marquette and McGregor. The District is governed by a five member commission, two of which are appointed by each respective city and one of which is appointed by the Board of Directors of McGregor Hook and Ladder Company No. 1.

Per the agreement, the city councils of both cities are to annually appropriate funds equal to a defined percentage of the District's budget. During fiscal year 2016, the City of Marquette appropriated and paid to the District 56% of the District's budget, or \$130,522. Upon dissolution of the District, any funds remaining after satisfying District obligations are to be divided equally between the cities.

The Mar-Mac Unified Law Enforcement District issues a publicly available stand-alone financial report which is available to the public by mail at PO Box 69, Marquette, Iowa 52158-0069.

(11) Commitments

The City entered into contracts for the Marquette Overlook Renovation and Edgar Street Infrastructure Improvement projects with a combined remaining balance of \$344,330 at June 30, 2016.

(12) Interfund Loan

The General Fund has made loans to the Special Revenue, Urban Renewal Tax Increment Fund of which \$3,633,669 is outstanding at June 30, 2016. These loans will be repaid with future tax increment financing collections.

(13) Restatement

The Governmental Accounting Standards Board has set forth criteria to be considered in determining potential component units for which the City is financially accountable or which the nature and significance of their relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. Based on this criteria, the Unified Law Enforcement District is not considered a component unit of the City of Marquette. As a result, the beginning cash basis net position for the aggregate discretely presented component units was restated to eliminate the Unified Law Enforcement District's cash balance, as follows:

	<u>Cash Basis Statement of Activities and Net Position - Aggregate Discretely Presented Component Units</u>
Cash basis net position June 30, 2015, as previously reported	\$ 119,477
Unified Law Enforcement District cash balance	<u>(72,008)</u>
Cash basis net position July 1, 2015, as restated	<u>\$ 47,469</u>

City of Marquette

Other 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

Other Information

Year ended June 30, 2016

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 64,796	-
Tax increment financing	410,974	-
Other city tax	597,301	-
Licenses and permits	1,990	-
Use of money and property	224,104	-
Intergovernmental	298,216	-
Charges for service	40,181	165,401
Special assessments	-	-
Miscellaneous	56,687	2,033
Total receipts	1,694,249	167,434
Disbursements:		
Public safety	167,298	-
Public works	142,271	-
Health and social services	1,032	-
Culture and recreation	96,699	-
Community and economic development	24,426	-
General government	229,372	-
Capital projects	1,155,502	-
Business type activities	-	227,291
Total disbursements	1,816,600	227,291
Excess (deficiency) of receipts over (under) disbursements	(122,351)	(59,857)
Other financing sources, net	-	-
Excess of receipts and other financing sources over disbursements and other financing uses	(122,351)	(59,857)
Balances beginning of year	3,759,646	95,650
Balances end of year	\$ 3,637,295	35,793

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to
	Original	Final	Total Variance
64,796	54,769	54,769	10,027
410,974	424,800	424,800	(13,826)
597,301	544,010	544,010	53,291
1,990	3,070	3,070	(1,080)
224,104	214,292	214,292	9,812
298,216	335,559	335,559	(37,343)
205,582	220,700	220,700	(15,118)
-	-	-	-
58,720	10,500	10,500	48,220
1,861,683	1,807,700	1,807,700	53,983
167,298	171,873	181,873	14,575
142,271	192,975	192,975	50,704
1,032	1,125	1,125	93
96,699	144,151	144,151	47,452
24,426	77,100	27,100	2,674
229,372	263,475	263,475	34,103
1,155,502	1,295,000	1,395,000	239,498
227,291	219,130	229,130	1,839
2,043,891	2,364,829	2,434,829	390,938
(182,208)	(557,129)	(627,129)	444,921
-	13,500	13,500	(13,500)
(182,208)	(543,629)	(613,629)	431,421
3,855,296	3,156,088	3,156,088	699,208
3,673,088	2,612,459	2,542,459	1,130,629

City of Marquette

Notes to Other Information – Budgetary Reporting

June 30, 2016

The budgetary comparison is presented 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 the discretely presented component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Capital Projects Fund and the Enterprise 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 \$70,000. The budget amendments are reflected in the final budgeted amounts.

Disbursements during the year ended June 30, 2016 did not exceed the amounts budgeted.

City of Marquette

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Two Years*
(In Thousands)

Other Information

	2016	2015
City's proportion of the net pension liability	0.003060%	0.002996%
City's proportionate share of the net pension liability	\$ 151	119
City's covered-employee payroll	\$ 210	196
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	71.90%	60.71%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Marquette

Schedule of City Contributions

Iowa Public Employees' Retirement System
For the Last Seven Years
(In Thousands)

Other Information

	2016	2015	2014	2013
Statutorily required contribution	\$ 18	19	18	17
Contributions in relation to the statutorily required contribution	(18)	(19)	(18)	(17)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered-employee payroll	\$ 249	210	196	191
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.67%

See accompanying independent auditor's report.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

2012	2011	2010
14	13	13
(14)	(13)	(13)
-	-	-
176	182	201
8.07%	6.95%	6.65%

City of Marquette

Notes to Other Information – Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

Supplementary Information

City of Marquette

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Ten Years

	2016	2015	2014	2013
Receipts:				
Property tax	64,796	62,048	9,794	9,174
Tax increment financing	410,974	434,618	559,407	573,392
Other city tax	597,301	571,533	603,823	639,768
Licenses and permits	1,990	1,764	5,050	2,087
Use of money and property	224,104	234,015	244,903	218,868
Intergovernmental	298,216	109,607	89,313	109,620
Charges for service	40,181	39,981	42,094	41,112
Miscellaneous	56,687	45,801	61,259	111,283
Total	<u>1,694,249</u>	<u>1,499,367</u>	<u>1,615,643</u>	<u>1,705,304</u>
Disbursements:				
Operating:				
Public safety	167,298	162,492	178,304	196,791
Public works	142,271	171,009	150,495	157,072
Health and social services	1,032	1,031	1,066	816
Culture and recreation	96,699	112,549	132,407	109,500
Community and economic development	24,426	23,623	1,599	577,819
General government	229,372	241,811	246,296	225,490
Debt service	-	-	-	-
Capital projects	1,155,502	181,227	591,340	1,513,278
Total	<u>1,816,600</u>	<u>893,742</u>	<u>1,301,507</u>	<u>2,780,766</u>

See accompanying independent auditor's report.

2012	2011	2010	2009	2008	2007
57,316	98,889	6,931	26,889	23,265	22,550
339,015	338,577	339,432	409,550	410,743	405,772
640,962	617,769	670,494	739,630	868,175	1,062,131
1,538	3,581	3,920	1,695	2,170	715
271,466	275,233	297,680	356,740	242,257	333,943
280,465	253,925	565,036	55,536	248,659	39,624
40,348	39,523	42,967	42,022	26,821	25,887
26,583	4,771	9,465	15,603	4,340	27,876
1,657,693	1,632,268	1,935,925	1,647,665	1,826,430	1,918,498
179,068	219,252	143,493	182,553	250,875	149,857
157,541	146,962	132,156	147,810	146,006	159,772
816	816	316	316	1,158	300
93,616	80,721	79,799	60,454	58,216	57,013
7,707	6,523	632	10,632	60,632	10,000
212,723	232,213	219,968	220,080	144,417	192,818
-	-	-	-	-	303,413
1,339,348	1,095,829	1,263,359	325,301	462,357	2,137,519
1,990,819	1,782,316	1,839,723	947,146	1,123,661	3,010,692

City of Marquette



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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

To the Honorable Mayor and Members of the City Council:

We have audited 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, the financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Marquette, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 16, 2017. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Marquette's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The City of Marquette's internal control. Accordingly, we do not express an opinion on the effectiveness of The City of Marquette's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Marquette's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A) through (C) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (D) and (E) to be significant deficiencies.

Compliance and Other Matters

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, contracts and grant agreements, non-compliance 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 which are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 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.

The City of Marquette's Responses to the Findings

The City of Marquette's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Marquette's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.



MARY MOSIMAN, CPA
Auditor of State

February 16, 2017

City of Marquette

Schedule of Findings

Year ended June 30, 2016

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements.

Condition – Generally, one individual in the City has control over cash receipts listings, bank deposits and posting cash receipts to the cash receipts journal.

Cause – The City has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the City’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports.

Response – The Mayor now gets the mail and the Deputy Clerk opens and distributes the mail. The Deputy Clerk does the bank deposits and records receipts. The deposit slips and supporting revenue documents are reviewed by the City Manager. Revenue entries are completed in the fund accounting system by the City Manager.

In addition, a Council Member now reviews and approves all bank statements, receipt and disbursement reports and invoices each month.

Conclusion – Response accepted.

(B) Reconciliation of Utility Billings, Collections and Delinquent Accounts

Criteria - An effective internal control system provides for internal controls related to maintaining delinquent account listings, reconciling utility billings, collections and delinquent accounts and comparing utility collections to deposits to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances.

Condition – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. Also, utility collections were not reconciled to deposits.

City of Marquette

Schedule of Findings

Year ended June 30, 2016

Cause - Policies have not been established and procedures have not been implemented to maintain delinquent account listings, reconcile utility billings, collections and delinquent accounts and to reconcile utility collections to deposits.

Effect - This condition could result in unrecorded or misstated utility receipts, improper or unauthorized adjustments and write-offs and/or misstated delinquent account balances.

Recommendation - A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. The City Council or a Council-designated independent person should review the reconciliations and monitor delinquencies. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of review.

Response - Delinquent utility accounts are now monitored via delinquency reports. Delinquent accounts/customers are sent delinquent notices. The Council has done the first reading of an ordinance to change the delinquency allowance period from 60 days past due for delinquent notices to sending notices when accounts are not paid by the due date. Reconciliation reports are now printed, reviewed and filed each month.

Conclusion - Response accepted.

(C) Financial Reporting

Criteria - A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City's financial statements.

Condition - A material amount of receipts were not coded to the proper receipt code in the City's financial records according to the Uniform Chart of Accounts. Adjustments were subsequently made by the City to properly include these amounts in the financial statements.

Cause - City policies do not require and procedures have not been established to require independent review of financial records to ensure the City's financial records are coded accurately.

Effect - Lack of policies and procedures resulted in City employees not detecting the errors in the normal course of performing their assigned functions. As a result, material adjustments to the City financial records were necessary.

Recommendation - The City should ensure all receipts are coded to the proper receipt code in the financial records according to the Uniformed Chart of Accounts.

Response - The City will code all receipts in accordance with the Uniformed Chart of Accounts.

Conclusion - Response accepted.

City of Marquette

Schedule of Findings

Year ended June 30, 2016

(D) Accounting Policies and Procedures Manual

Criteria – Accounting policies and procedures manuals provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

Condition – The City does not have an accounting policies and procedures manual.

Cause – Officials have been unaware of the need for an accounting policies and procedures manual.

Effect – Lack of an accounting policies and procedures manual could result in a City's lack of ability to continue operating effectively and efficiently in the event there is accounting staff turnover.

Recommendation – An accounting policies and procedures manual should be developed for the City.

Response – The City will adopt an accounting policies and procedure manual.

Conclusion – Response accepted.

(E) Bank Reconciliations

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by maintaining appropriate accounting records and reconciling bank and book balances. Supervisory review of bank reconciliations can help ensure the accuracy of recorded amounts.

Condition – Monthly bank statements are reconciled to the City's monthly financial report. However, the monthly bank reconciliations are not reviewed and approved by an independent person and did not include petty cash amounts and certificate of deposit amounts.

Cause – Procedures have not been designed and implemented to ensure bank reconciliations are independently reviewed for completeness and accuracy.

Effect – The lack of independent review of bank reconciliations and incomplete bank reconciliations can result in unrecorded transactions, undetected errors and opportunity for misappropriation.

Recommendation – An independent person should review the reconciliations and document their review by signing or initialing and dating the monthly reconciliations. Reconciliations should include all cash accounts.

City of Marquette

Schedule of Findings

Year ended June 30, 2016

Response – Bank statements come in the mail and are reviewed by the Deputy Clerk, Mayor and a council member. Petty cash funds are now recorded on the cash balances report and balances to the bank statements monthly. In addition, bank reconciliation reports are reviewed and approved by a Council Member each month.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Marquette

Schedule of Findings

Year ended June 30, 2016

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2016 did not exceed the amounts budgeted.
- (2) Questionable Disbursements – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s Opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials were noted.
- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – Certain disbursements were not approved by the City Council prior to disbursement. The City does not have a written disbursement approval policy allowing certain items to be paid prior to City Council approval. In additions, a list of claims allowed showing the person or firm making the claim, the reason for the claim, and the amount of the claim were not included in the published minutes as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – All City disbursements should be approved by the City Council prior to disbursement with the exception of those specifically allowed by a written policy. For those disbursements paid prior to City Council approval, a listing should be provided to the City Council at the next City Council meeting for review and approval. The City should also publish the total disbursements from each fund, a listing of all claims allowed, including the purpose of the claim as required by Chapter 372 of the Code of Iowa.

Response – The accounts payable list now includes the vendor, dollar amounts and what funds were spent on. A receipts and disbursements by fund summary is also now included with the published minutes. All financial reports are now listed under the consent agenda on the meeting agendas.

Conclusion – Response accepted.

- (7) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Response – A written investment policy was adopted by the City Council on December 13, 2016.

Conclusion – Response accepted.

City of Marquette

Schedule of Findings

Year ended June 30, 2016

- (8) Annual Urban Renewal Report – The Annual Urban Renewal Report was properly approved and certified to the Iowa Department of Management on or before December 1. However, the amount reported as TIF debt outstanding for the Marquette City urban renewal area and the Pleasant Ridge urban renewal area was understated by approximately \$379,000 due to the City not reporting the total interest due over the remaining term of the tax increment indebtedness.

Recommendation – The City should ensure the amounts reported on the Levy Authority Summary agree with the City’s records.

Response – We will take action to ensure amounts reported on the Levy Authority Summary include the total interest outstanding over the remainder of the tax increment loans.

Conclusion – Response accepted.

- (9) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Except for assistance for low and moderate income family housing discussed in Chapter 403.22 of the Code of Iowa, indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(5)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

In past years, the City certified large internal loans to the County Auditor which included estimated or projected costs plus interest to be paid from the Special Revenue, Tax Increment Financing Fund. The certified interest amount ranged from 2.5% to 4.75%. The City does not have a system for tracking actual costs for comparison to certified costs for subsequent certification of costs in excess of the amount certified or for decertification of amounts for which the certified amount exceeded the actual costs incurred. As a result, the amount of TIF indebtedness remaining at June 30, 2016 of \$3,633,669 may be excessive.

Recommendation – The City should consult TIF legal counsel to determine the disposition of the City’s TIF certifications, including the amount of TIF debt to be decertified, if any.

Response – We will work with the county auditor to reconcile our TIF certifications so we can de-certify some of the TIF debt. We have already spoken to our TIF/bond attorney about our TIF debt.

Conclusion – Response accepted.

City of Marquette

Schedule of Findings

Year ended June 30, 2016

- (10) Financial Condition – For the year ended June 30, 2016, operating disbursements exceeded operating receipts in both the Enterprise, Water Fund and the Enterprise, Sewer Fund. According to Chapter 384.84 of the Code of Iowa, “the governing body of the a city utility may establish, impose, adjust and provide for the collection of rates and charges to produce gross revenues at least sufficient to pay the expenses of operation and maintenance of the city utility.”

Recommendation – The City has not raised utility rates since fiscal year 2008. To avoid taxpayers subsidizing the water and sewer utilities, the City Council should consider increasing rates sufficient to meet operating and maintenance costs.

Response – We have recently completed a utility rate study and the City Council discussed this at their meeting on February 14, 2017. The Water/Sewer Committee is going to meet and make a recommendation to the City Council at its March 14, 2017 council meeting to increase the utility rates and possibly add base rates for both water and sewer.

Conclusion – Response accepted.

City of Marquette

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Kyle C. Smith, CPA, Senior Auditor
Melinda D. Lawrence, Assistant Auditor
Preston R. Grygiel, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, looped initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State