

CITY OF MADRID
Independent Auditors' Reports
Basic Financial Statements and Supplemental Information
Schedule of Findings

June 30, 2004

CITY OF MADRID

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CITY OF MADRID

Officials

(Before January 2004)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Pat Regan	Mayor	Jan 2004
Amy Yoakum	Mayor Pro Tem	Jan 2004
Ken Williams	Council Member	Jan 2004
Steve Burich	Council Member	Jan 2006
Rick Grant	Council Member	Jan 2006
Gunnar Young	Council Member	Jan 2006
Todd Kilzer	City Administrator	Jan 2004
Joni Drake	City Clerk	Jan 2004
Michael Mahoney	City Attorney	Jan 2004
John Jordan	City Attorney	Jan 2004
Donald Fatka	City Treasurer	Jan 2004

(After January 2004)

Rick Grant	Mayor	Jan 2008
Amy Yoakum	Mayor Pro Tem	Jan 2008
Steve Burich	Council Member	Jan 2006
Donald Lincoln	Council Member	Jan 2006
Gunnar Young	Council Member	Jan 2008
Ken Williams	Council Member	Jan 2008
Todd Kilzer	City Administrator / Clerk	Jan 2005
Joni Drake (resigned March 24, 2004)	City Clerk	
Michael Mahoney	City Attorney	Jan 2005
John Jordan	City Attorney	Jan 2005
Donald Fatka	City Treasurer	Jan 2005



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

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Independent Auditors' 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 Madrid, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Madrid's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, 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 opinions.

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 accounting principles generally accepted in the United States of America.

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 Madrid, as of June 30, 2004, 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.

As described in Note 12, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statements No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2004 on our consideration of the City of Madrid'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 in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 21 through 23 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 an opinion on the financial statements that collectively comprise the City of Madrid's basic financial statements. The financial statements for the three years ended June 30, 2003 (none of which are presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 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.

Bowman and Miller, P.C.

Marshalltown, Iowa
September 15, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Madrid 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, 2004. We encourage readers to consider this information in conjunction with the City's financial statements which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 23%, or approximately \$515,000, from fiscal 2003 to fiscal 2004. Proceeds from debt decreased approximately \$310,000, transfers from business type activities decreased approximately \$95,000, donations decreased \$60,000 and miscellaneous and other revenues decreased \$50,000.
- Disbursements decreased 13%, or approximately \$226,000 in fiscal 2004 from fiscal 2003 in the governmental activities. The decreases in capital projects disbursements of \$493,000 and general government disbursements of \$50,000 were offset by increases in public safety, public works, health and social services, culture and recreation and transfers to business type activities
- The City's total cash basis net assets decreased 16%, or approximately \$293,500 from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$108,200 and the assets of the business type activities decreased by approximately \$401,700.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

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 accounting principles generally accepted in the United States of America. 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 Statements

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 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 Road Use Tax, 3) the Debt Service Fund, and 4) 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 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. These funds are considered to be major funds of the City.

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 from \$1,034,500 to \$1,142,700. The analysis that follows focuses on the changes in cash balances for governmental activities.

	Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30,	
	2004	2003
Receipts:		
Program receipts:		
Charges for service	\$ 128,726	118,802
Operating grants, contributions and restricted interest	231,545	256,812
Capital grants, contributions and restricted interest	-	-
General receipts:		
Property tax	442,715	411,177
Other city tax	188,857	162,798
TIF revenues	-	45,959
Special assessments	19,400	41,524
Use of money and property	16,595	18,473
Debt proceeds	402,807	710,500
Other general receipts	<u>69,656</u>	<u>165,330</u>
Total receipts	<u>1,500,301</u>	<u>1,931,375</u>
Disbursements:		
Public safety	292,206	255,196
Public works	355,629	335,883
Health and social services	3,530	2,900
Culture and recreation	167,677	151,537
Community and economic development	8,902	9,568
General government	121,865	101,409
Debt service	224,577	172,815
Capital projects	<u>227,732</u>	<u>778,715</u>
Total disbursements	<u>1,402,118</u>	<u>1,808,023</u>
Increase in cash basis net assets before transfers	98,183	123,352
Net transfers from business type activities	<u>10,000</u>	<u>48,722</u>
Increase in cash basis net assets	108,183	172,074
Cash basis net assets beginning of year	<u>1,034,489</u>	<u>862,415</u>
Cash basis net assets end of year	\$ <u>1,142,672</u>	<u>1,034,489</u>

The City's total receipts for governmental activities decreased by 22% or \$431,000. The significant decreases in receipts were less debt proceeds of approximately \$308,000; decreases in TIF receipts of approximately \$46,000; and other general receipts decreasing approximately \$76,000. The total cost of all programs and services decreased by approximately \$406,000. Debt service payments increased by approximately \$50,000 and capital project disbursements decreased by approximately \$551,000.

Changes in Cash Basis Net Assets of Business Type Activities			
		Year ended June 30,	
		2004	2003
Receipts:			
Program receipts:			
Changes for service:			
Water	\$	318,591	315,755
Sewer		198,500	197,925
General receipts:			
Unrestricted interest on investments		6,807	13,484
Bond proceeds		-	333,200
Other general receipts		<u>8,176</u>	<u>8,350</u>
Total receipts		<u>532,074</u>	<u>868,714</u>
Disbursements::			
Water		721,666	363,744
Sewer		<u>202,077</u>	<u>228,225</u>
Total disbursements		<u>923,743</u>	<u>591,969</u>
Increase (decrease) in cash basis net assets before transfers		(391,669)	276,745
Net transfers to governmental activities		<u>(10,000)</u>	<u>(48,722)</u>
Increase (decrease) in cash basis net assets		(401,669)	228,023
Cash basis net assets beginning of year		<u>742,032</u>	<u>514,009</u>
Cash basis net assets end of year	\$	<u>340,363</u>	<u>742,032</u>

Total business type activities receipts for the fiscal year were \$532,074 compared to \$868,714 in the prior year. The decrease was due primarily to the decrease in bond proceeds of \$333,200. The disbursements and transfers for the year increased by 46%, or approximately \$350,000 due to an increase in debt service of approximately \$330,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Madrid completed the year, its governmental funds reported a combined fund balance of \$1,142,672, an increase of \$108,813 from last year's total of \$1,034,489. 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 \$76,408 from the prior year to \$466,437. Approximately \$32,000 of this decrease was due to not receiving personal property tax credit from the State of Iowa in 2004, the decrease in TIF revenues of \$45,959 accounted for the balance of the decrease.
- The Road Use Tax Fund cash balance increased by \$28,265. This increase was due to a reduction in transfers to other funds.
- The Debt Service Fund cash balance decreased by \$15,540. In 2004, the City transferred less funds from the General Fund to pay the debt.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$389,477 to \$127,589, due primarily to redemption of called revenue bonds.
- The Sewer Fund cash balance decreased \$12,192 to \$212,774, due in part to increased debt service costs.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 10, 2004 and resulted in a decrease in disbursements relating to capital projects.

DEBT ADMINISTRATION

At June 30, 2004, the City had \$2,599,133 in bonds and other long-term debt, compared to approximately \$2,752,119 last year as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2004	2003
General obligation bonds	\$ 1,870,000	1,625,000
Revenue notes	645,000	1,075,000
Other long-term debt	<u>84,133</u>	<u>52,119</u>
Total	\$ <u>2,599,133</u>	<u>2,752,119</u>

General obligation debt increased as a result of issuing general purpose corporate notes for the Storm Sewer Improvement project.

Revenue bonds and notes decreased due to payment of the called water revenue bonds.

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 \$1,870,000 is below its constitutional debt limit of \$3,079,498.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Madrid City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities.

Amounts available for appropriation in the operating budget are \$2,249,525, an increase of .00125% over the final 2004 budget.

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 Todd Kilzer, City Administrator, at 304 S Water Street Madrid, Iowa 50156.

CITY OF MADRID
Statement of Activities and Net Assets-Cash Basis
As of and for the year ended June 30, 2004

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants and Contributions
Functions/Programs:				
Governmental activities:				
Public safety	\$ 292,206	-	13,516	-
Public works	355,629	119,305	201,389	-
Health and social services	3,530	2,918	-	-
Culture and recreation	167,677	6,503	13,272	-
Community and economic development	8,902	-	-	-
General government	121,865	-	3,368	-
Debt service	224,577	-	-	-
Capital projects	227,732	-	-	-
Total governmental activities	<u>1,402,118</u>	<u>128,726</u>	<u>231,545</u>	<u>-</u>
Business type activities:				
Water	721,666	318,591	-	-
Sewer	202,077	198,500	-	-
Total business type activities	<u>923,743</u>	<u>517,091</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,325,861</u>	<u>645,817</u>	<u>231,545</u>	<u>-</u>

General receipts:

Property tax levied for:
General purposes
Other city tax
Licenses and permits
Use of money and property
Special assessments
Debt proceeds
Miscellaneous
Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Debt service
Parks
Library
Capital projects

Unrestricted

Total cash basis net assets

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(278,690)	-	(278,690)
(34,935)	-	(34,935)
(612)	-	(612)
(147,902)	-	(147,902)
(8,902)	-	(8,902)
(118,497)	-	(118,497)
(224,577)	-	(224,577)
(227,732)	-	(227,732)
(1,041,847)	-	(1,041,847)
-	(403,075)	(403,075)
-	(3,577)	(3,577)
-	(406,652)	(406,652)
(1,041,847)	(406,652)	(1,448,499)
442,715	-	442,715
188,857	-	188,857
1,912	-	1,912
16,595	6,807	23,402
19,400	-	19,400
402,807	-	402,807
67,744	8,176	75,920
10,000	(10,000)	-
1,150,030	4,983	1,155,013
108,183	(401,669)	(293,486)
1,034,489	742,032	1,776,521
1,142,672	340,363	1,483,035
141,048	385,219	526,267
21,939	-	21,939
48,304	-	48,304
282,919	-	282,919
648,462	(44,856)	603,606
1,142,672	340,363	1,483,035

CITY OF MADRID
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2004

	General	Special Revenue		
		Road Use Tax	Employee Benefits	Emergency
Receipts:				
Property tax	\$ 293,999	-	76,116	8,977
Other city tax	181,933	-	3,541	418
Licenses and permits	1,912	-	-	-
Use of money and property	15,192	-	-	-
Intergovernmental	30,156	201,389	-	-
Charges for service	128,726	-	-	-
Special assessments	-	-	-	-
Miscellaneous	54,088	-	1,051	-
Total revenues	706,006	201,389	80,708	9,395
Disbursements:				
Operating:				
Public safety	238,134	-	54,072	-
Public works	148,668	173,125	33,836	-
Health and social services	3,530	-	-	-
Culture and recreation	140,543	-	11,813	-
Community and economic development	8,902	-	-	-
General government	107,874	-	13,991	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	647,651	173,125	113,712	-
Excess (deficiency) of receipts over (under) disbursements	58,355	28,264	(33,004)	9,395
Other financing sources (uses):				
Debt proceeds	16,220	-	-	-
Operating transfers in	9,428	-	41,911	-
Operating transfers out	(160,411)	-	-	(9,428)
Total other financing sources (uses)	(134,763)	-	41,911	(9,428)
Net change in cash balances	(76,408)	28,264	8,907	(33)
Cash balances beginning of year	542,845	172,357	(28,097)	627
Cash balances end of year	\$ 466,437	200,621	(19,190)	594
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	-	-	-
Unreserved:				
General fund	466,437	-	-	-
Special revenue funds	-	200,621	(19,190)	594
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 466,437	200,621	(19,190)	594

See notes to financial statements.

Debt Service	Other Nonmajor Governmental Funds	Total
63,623	-	442,715
2,965	-	188,857
-	-	1,912
550	853	16,595
-	-	231,545
-	-	128,726
19,400	-	19,400
-	12,605	67,744
<u>86,538</u>	<u>13,458</u>	<u>1,097,494</u>
-	-	292,206
-	-	355,629
-	-	3,530
-	15,321	167,677
-	-	8,902
-	-	121,865
224,577	-	224,577
-	227,732	227,732
<u>224,577</u>	<u>243,053</u>	<u>1,402,118</u>
<u>(138,039)</u>	<u>(229,595)</u>	<u>(304,624)</u>
-	386,587	402,807
122,500	6,000	179,839
-	-	(169,839)
<u>122,500</u>	<u>392,587</u>	<u>412,807</u>
(15,539)	162,992	108,183
156,587	190,170	1,034,489
<u>141,048</u>	<u>353,162</u>	<u>1,142,672</u>
141,048	-	141,048
-	-	466,437
-	-	182,025
-	282,919	282,919
-	70,243	70,243
<u>141,048</u>	<u>353,162</u>	<u>1,142,672</u>

CITY OF MADRID
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2004

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 318,591	198,500	517,091
Miscellaneous	7,866	310	8,176
Total operating receipts	<u>326,457</u>	<u>198,810</u>	<u>525,267</u>
Operating disbursements:			
Business type activities	310,091	132,808	442,899
Total operating disbursements	<u>310,091</u>	<u>132,808</u>	<u>442,899</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	16,366	66,002	82,368
Non-operating receipts (disbursements):			
Interest on investments	5,732	1,075	6,807
Contributions	(411,575)	(69,269)	(480,844)
Total non-operating receipts (disbursements)	<u>(405,843)</u>	<u>(68,194)</u>	<u>(474,037)</u>
Excess (deficiency) of receipts over (under) disbursements	(389,477)	(2,192)	(391,669)
Operating transfers out	-	(10,000)	(10,000)
Net change in cash balances	(389,477)	(12,192)	(401,669)
Cash balances beginning of year	517,066	224,966	742,032
Cash balances end of year	<u>\$ 127,589</u>	<u>212,774</u>	<u>340,363</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ 155,700	229,519	385,219
Unreserved	(28,111)	(16,745)	(44,856)
	<u>\$ 127,589</u>	<u>212,774</u>	<u>340,363</u>

CITY OF MADRID
Notes to Financial Statements
June 30, 2004

Note 1 – Summary of Significant Accounting Policies

The City of Madrid is a political subdivision of the State of Iowa located in Boone County. It was first incorporated in 1883 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 Madrid 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 of Madrid has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also participates in a jointly governed organization that provides 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. A City official is a member of the Boone County Landfill Commission.

B. Basis of Presentation

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

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

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

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2004

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

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 and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

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

Special Revenue:

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

The Emergency Fund is used to account for the emergency taxes levied.

Employee Benefits Fund is used to account for employee benefits.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

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

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2004

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The City of Madrid 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 accounting principles generally accepted in the United States of America.

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. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the culture and recreation and general government functions.

Note 2 – Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 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.

The City's investment policy is to invest public funds in financial institutions located in Madrid.

The City's investment is categorized to give an indication of the level of risk assumed by the City at year end. The City's investment is category 1 which means that the investment is insured or registered, or the securities are held by the City or its agent in the City's name.

The City's investment at June 30, 2004 is as follows:

	<u>Cost</u>	<u>Market Value</u>
19 Shares IBM Stock	<u>\$757</u>	<u>\$1,675</u>

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2004

Note 3 – 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, PO 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, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003 the contribution rates for police employees and the City were 6.04% and 9.70%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$27,576, \$24,747 and \$23,465 respectively, equal to the required contributions for each year.

Note 4 – Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes, water and sewer revenue bonds and notes are as follows:

Year Ending June 30,	General Obligation		Revenue Bonds and Notes				Total	
	Bonds and Notes		Water		Sewer			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 180,000	84,385	50,000	11,610	55,000	11,793	285,000	107,788
2006	185,000	74,485	55,000	10,005	60,000	9,542	300,000	94,032
2007	195,000	66,870	55,000	8,163	60,000	6,977	310,000	82,010
2008	205,000	58,710	60,000	6,060	65,000	4,274	330,000	69,044
2009	210,000	49,800	60,000	3,720	65,000	1,430	335,000	54,950
2010	220,000	40,335	60,000	1,260	-	-	280,000	41,595
2011	225,000	30,132	-	-	-	-	225,000	30,132
2012	235,000	19,575	-	-	-	-	235,000	19,575
2013	50,000	8,450	-	-	-	-	50,000	8,450
2014	55,000	6,600	-	-	-	-	55,000	6,600
2015	55,000	4,483	-	-	-	-	55,000	4,483
2016	55,000	2,282	-	-	-	-	55,000	2,282
Total	\$ 1,870,000	446,107	340,000	40,818	305,000	34,016	2,515,000	520,941

The water and sewer revenue bonds note were issued for construction of water and wastewater projects of the City. The resolution providing for the issuance of the revenue bonds include the following provisions: (a) the bonds will only be redeemed from the future earnings of the enterprise activity funds and the bond holders hold a lien on the future earnings of the funds. (b) sufficient monthly transfers shall be made to the separate water and sewer bond sinking accounts for the purpose of making the bond principal and interest payments when due.

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2004

Note 5 – Lease Purchase Obligation

The City has entered into a capital lease with John Deere Leasing Company for the purchase of equipment which had a trade differential of \$25,175. Annual payments totaling \$15,212 are required for the lease payment. The following is the information relating to the lease:

Leased From	Interest Rate	Date		Principal Balance June 30, 2004	Item Leased
		Issued	Due		
John Deere Leasing Co.	3.9%	December, 2003	January, 2009	<u>\$67,613</u>	Backhoe and Loader

The following is a schedule by years of future minimum lease payments under this lease:

<u>Year Ending June 30</u>	
2005	\$15,212
2006	15,212
2007	15,212
2008	15,212
2009	<u>15,213</u>
Total minimum lease payments	76,061
Less: Amount representing interest	<u>8,148</u>
Present value of net minimum payments	<u>\$67,913</u>

Note 6 – Note Payable

The following is the information regarding the note payable to City State Bank:

Date Issued	Date Due	Interest Rate	Principal Balance
			June 30, 2004
May 19, 2004	June 1, 2006	3.99%	<u>\$16,220</u>

Payable in monthly installments of \$705.
 Secured by 2004 Crown Victoria police car.

Note 7 – Risk Management

The City of Madrid 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.

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2004

Note 8 – 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 termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 7,954
Sick leave	<u>26,008</u>
Total	<u>\$33,962</u>

Note 9 – Deficit Fund Balance

Special Revenue-Employee Benefits Fund had a deficit balance at June 30, 2004. The deficit balance was due to excess disbursements over receipts during fiscal years ended June 30, 2003 and 2002.

Both Water and Sewer Revenue Funds had deficit balances at June 30, 2004 of \$44,070 and \$16,746, respectively. The deficit balances resulted from excess disbursements over receipts during fiscal years ended June 30, 2004 and 2003.

Note 10 – Litigation

A former City employee has filed three separate actions against the City. The City is vigorously defending its' positions regarding these three cases.

Another former City employee has filed an action claiming wrongful termination. The City is also vigorously defending its' position in this case.

Note 11 – Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt service	General fund	\$112,500
	Enterprise:	
	Sewer Revenue	<u>10,000</u>
		122,500
General fund	Special Revenue:	
	Emergency	9,428
Special Revenue:		
Employee Benefits	General	41,911
Capital Projects:		
Park	General Fund	<u>6,000</u>
Total		<u>\$178,839</u>

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2004

Note 12 – Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement report the City’s governmental and business type activities.

CITY OF MADRID
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, 2004

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 442,715	-
Other city tax	188,857	-
Licenses and permits	1,912	-
Use of money and property	16,595	6,807
Intergovernmental	231,545	-
Charges for service	128,726	517,091
Special assessments	19,400	-
Miscellaneous	67,744	8,176
Total receipts	1,097,494	532,074
Disbursements:		
Public safety	292,206	-
Public works	355,629	-
Health and social services	3,530	-
Culture and recreation	167,677	-
Community and economic development	8,902	-
General government	121,865	-
Debt service	224,577	-
Capital projects	227,732	-
Business type activities	-	923,743
Total disbursements	1,402,118	923,743
Excess (deficiency) of receipts over (under) disbursements	(304,624)	(391,669)
Other financing sources (uses), net	412,807	(10,000)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	108,183	(401,669)
Balance beginning of year	1,034,489	742,032
Balance end of year	\$ 1,142,672	340,363

Total	Budgeted Amounts		Final to Net Variance
	Original	Final	
442,715	446,576	446,576	(3,861)
188,857	152,250	162,250	26,607
1,912	2,425	2,975	(1,063)
23,402	24,400	21,300	2,102
231,545	274,808	298,243	(66,698)
645,817	686,550	672,100	(26,283)
19,400	10,000	15,000	4,400
75,920	64,800	90,679	(14,759)
<u>1,629,568</u>	<u>1,661,809</u>	<u>1,709,123</u>	<u>(79,555)</u>
292,206	278,912	267,711	24,495
355,629	361,758	365,210	(9,581)
3,530	3,000	3,530	-
167,677	137,867	174,669	(6,992)
8,902	11,800	12,300	(3,398)
121,865	113,572	121,781	84
224,577	224,578	224,578	(1)
227,732	552,605	442,605	(214,873)
923,743	623,558	634,338	289,405
<u>2,325,861</u>	<u>2,307,650</u>	<u>2,246,722</u>	<u>79,139</u>
(696,293)	(645,841)	(537,599)	(158,694)
<u>402,807</u>	<u>521,105</u>	<u>387,137</u>	<u>15,670</u>
(293,486)	(124,736)	(150,462)	(143,024)
<u>1,776,521</u>	<u>1,288,550</u>	<u>3,065,071</u>	<u>(1,288,550)</u>
<u>1,483,035</u>	<u>1,163,814</u>	<u>2,914,609</u>	<u>(1,431,574)</u>

CITY OF MADRID

Notes to Required Supplementary Information – Budgetary Reporting June 30, 2004

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 decreased budgeted disbursements by \$60,928. The budget amendment is reflected in the final budget amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety, general government functions and business type activities.

CITY OF MADRID
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2004

	Permanent			Capital Projects	Total
	Jensen Park	Boyd Library	Total		
Receipts:					
Use of money and property	\$ -	853	853	-	853
Donations	12,605	-	12,605	-	12,605
Total receipts	<u>12,605</u>	<u>853</u>	<u>13,458</u>	<u>-</u>	<u>13,458</u>
Disbursements:					
Operating:					
Culture and recreation	5,456	9,865	15,321	-	15,321
Capital Projects	-	-	-	227,732	227,732
Total disbursements	<u>5,456</u>	<u>9,865</u>	<u>15,321</u>	<u>227,732</u>	<u>243,053</u>
Excess (deficiency) of receipts over (under) disbursements	<u>7,149</u>	<u>(9,012)</u>	<u>(1,863)</u>	<u>(227,732)</u>	<u>(229,595)</u>
Other financing sources:					
Bond proceeds	-	-	-	386,587	386,587
Operating transfers in	-	-	-	6,000	6,000
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>392,587</u>	<u>392,587</u>
Net change in cash balances	7,149	(9,012)	(1,863)	164,855	162,992
Cash balances at beginning of year	<u>14,790</u>	<u>57,316</u>	<u>72,106</u>	<u>118,064</u>	<u>190,170</u>
Cash balances at end of year	<u>\$ 21,939</u>	<u>48,304</u>	<u>70,243</u>	<u>282,919</u>	<u>353,162</u>
Cash Basis Fund Balances					
Unreserved:					
Permanent funds	\$ 21,939	48,304	70,243	-	70,243
Capital projects fund	-	-	-	282,919	282,919
Total cash basis fund balances	<u>\$ 21,939</u>	<u>48,304</u>	<u>70,243</u>	<u>282,919</u>	<u>353,162</u>

CITY OF MADRID
Schedule of Indebtedness
Year Ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Street improvement	Oct 1, 1993	3.25-5.10 %	\$ 150,000
Fire truck	Jul 1, 1995	4.70-5.80	190,000
Library, storm sewer, bridge and street	Jul 1, 1999	4.45-5.30	755,000
Street improvement	May 1, 2000	4.90-5.55	210,000
Street improvement	Nov 1, 2002	2.25-4.50	725,000
	Mar 15, 2004	1.45-4.15	395,000
Total			
Revenue bonds and notes:			
Water	Dec 1, 1994	5.50-7.00 %	\$ 650,000
Water	Oct 1, 2002	2.90-4.20	340,000
Sewer	Oct 1, 1998	3.95-4.40	550,000
Total			
Lease:			
John Deere backhoe	Jan 1, 2004	3.90 %	\$ 67,193
Bank loan:			
Police car	May 19, 2004	3.99 %	\$ 16,220

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
15,000	-	15,000	-	765	-
70,000	-	20,000	50,000	3,985	-
675,000	-	35,000	640,000	34,215	-
160,000	-	20,000	140,000	8,587	-
705,000	-	60,000	645,000	27,025	-
-	395,000	-	395,000	-	-
<u>\$ 1,625,000</u>	<u>395,000</u>	<u>150,000</u>	<u>1,870,000</u>	<u>74,577</u>	<u>-</u>
375,000	-	375,000	-	24,240	-
340,000	-	-	340,000	12,335	-
360,000	-	55,000	305,000	14,269	-
<u>\$ 1,075,000</u>	<u>-</u>	<u>430,000</u>	<u>645,000</u>	<u>50,844</u>	<u>-</u>
<u>\$ 52,119</u>	<u>25,175</u>	<u>9,381</u>	<u>67,913</u>	<u>2,748</u>	<u>-</u>
<u>\$ -</u>	<u>16,220</u>	<u>-</u>	<u>16,220</u>	<u>-</u>	<u>-</u>

CITY OF MADRID
Bond and Note Maturities
June 30, 2004

Year Ending June 30,	General Obligation Bonds					
	Fire truck		Library, storm sewer, bridge and street		Street improvement	
	Issued Jul 1, 1995		Issued Jul 1, 1999		Issued May 1, 2000	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rate	Amount
2005	5.70 %	\$ 25,000	4.80 %	\$ 50,000	5.25 %	\$ 20,000
2006	5.80	25,000	4.85	50,000	5.30	20,000
2007	-	-	4.90	80,000	5.35	25,000
2008	-	-	5.00	85,000	5.40	25,000
2009	-	-	5.10	90,000	5.45	25,000
2010	-	-	5.20	90,000	5.55	25,000
2011	-	-	5.25	95,000	-	-
2012	-	-	2.30	100,000	-	-
2013	-	-	-	-	-	-
2014	-	-	-	-	-	-
2016	-	-	-	-	-	-
2016	-	-	-	-	-	-
Total		\$ 50,000		\$ 640,000		\$ 140,000

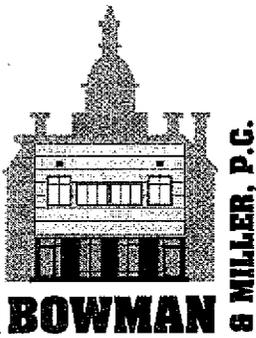
Year Ending June 30,	Revenue Bonds				
	Water		Sewer		Total
	Issued Oct 1, 2002		Issued Oct 1, 1998		
	Interest Rates	Amount	Interest Rates	Amount	
2005	2.90 %	\$ 50,000	4.20 %	\$ 55,000	\$ 105,000
2006	3.20	55,000	4.25	60,000	115,000
2007	3.50	55,000	4.30	60,000	115,000
2008	3.80	60,000	4.35	65,000	125,000
2009	4.00	60,000	4.40	65,000	125,000
2010	4.20	60,000	-	-	60,000
Total		\$ 340,000		\$ 305,000	\$ 645,000

Street improvement				
Issued Nov 1, 2002		Issued Mar 15, 2004		Total
Interest Rate	Amount	Interest Rate	Amount	
3.00 %	\$ 65,000	1.45 %	\$ 20,000	\$ 180,000
3.30	70,000	1.85	20,000	185,000
3.60	65,000	2.25	25,000	195,000
3.80	70,000	2.60	25,000	205,000
4.00	70,000	2.85	25,000	210,000
4.20	80,000	3.10	25,000	220,000
4.40	110,000	3.35	20,000	225,000
4.50	115,000	3.55	20,000	235,000
-	-	3.70	50,000	50,000
-	-	3.85	55,000	55,000
-	-	4.00	55,000	55,000
-	-	4.15	55,000	55,000
	<u>\$ 645,000</u>		<u>\$ 395,000</u>	<u>\$ 1,870,000</u>

CITY OF MADRID
Schedule of Receipts By Source and Disbursements by Function-
All Governmental Funds
For the Last Two Years

	<u>Years ended June 30,</u>	
	2004	2003
Receipts:		
Property tax	\$ 442,715	411,177
Tax increment financing collections	-	45,959
Other city tax	188,857	162,798
Intergovernmental	231,545	256,812
Licenses and permits	1,912	4,014
Use of money and property	16,595	18,473
Charges for services	128,726	118,802
Special assessments	19,400	41,524
Miscellaneous	67,744	151,594
	<hr/>	<hr/>
Total	\$ 1,097,494	1,211,153
	<hr/> <hr/>	<hr/> <hr/>
Disbursements:		
Operating:		
Public safety	\$ 292,206	255,197
Public works	355,629	326,311
Health and social services	3,530	2,900
Culture and recreation	167,677	151,537
Community and economic development	8,902	9,568
General government	121,865	101,409
Debt service	224,577	172,815
Capital projects	227,732	778,715
	<hr/>	<hr/>
Total	\$ 1,402,118	1,798,452
	<hr/> <hr/>	<hr/> <hr/>

Information for years 2001 and 2002 is not available.



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

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Independent Auditors' 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 Madrid, Iowa as of and for the year ended June 30, 2004, and have issued our report thereon dated September 15, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As a part of obtaining reasonable assurance about whether the City of Madrid's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the City's operation for the year ended June 30, 2004 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 year statutory comments have been resolved except for items III-G-04 and III-H-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Madrid'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. However, we noted certain matters involving the internal control over financial reporting and its operations that we consider to be reportable conditions. Reportable conditions involve matters

coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Madrid's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

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 the employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe Item II-A-04 is a material weakness. Prior year reportable conditions have been resolved except for Item II-A-04.

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 Madrid and other parties to whom the City of Madrid 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 Madrid 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.

Bowman and Miller, P.C.

Marshalltown, Iowa
September 15, 2004

CITY OF MADRID
Schedule of Findings
Year Ended June 30, 2004

Part I: Summary of the Independent Auditors' Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF MADRID
Schedule of Findings (Continued)
Year Ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one person has control over each of the following areas:

- (1) Cash receipts - collecting, depositing, journalizing, and posting
- (2) Payroll preparation and distribution.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances. In instances where it is not possible to segregate duties the City should utilize administrative personnel to provide additional internal control through review of financial transactions and report.

Response – The noted areas will be reviewed to identify duties that could be handled by other personnel or council members

Conclusion – Response accepted.

Part III: Other Findings Related to Statutory Reporting:

III-A-04 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year.

III-B-04 Certified Budget – Disbursements during the year ended June 30, 2004, exceeded the amounts budgeted in the public safety, general government functions and business type activities. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response – Improvements to fund balance reports are being made to help the City monitor balances in a more timely and accurate manner.

Conclusion – Response accepted.

III-C-04 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 24, 1979.

CITY OF MADRID
Schedule of Findings (Continued)
Year Ended June 30, 2004

III-D-04 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-E-04 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.

III-F-04 Council Minutes – No transactions were found that we believe should have been approved in the council minutes but were not.

III-G-04 Deposits and Investments – The City has adopted an appropriate investment policy in accordance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa. However, the City has received and continues to hold shares of common stock as a donation for the new library. The holding of common stock is contrary to the City's investment policy.

Recommendation – The City should modify its investment policy to allow for the holding of common stock when it is received as a gift.

Response – We will be disposing of the stock.

Conclusion – Response accepted.

III-H-04 Financial Condition – The City had deficit balance in the following accounts and / or funds:
Special Revenue Fund - Employee Benefits Account; Sewer and Water Revenue Accounts.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial position.

Response – We will seek solutions to these deficits.

Conclusion – Response accepted.

III-I-04 Revenue Bonds – The City was in compliance with all applicable revenue bond provisions.

CITY OF MADRID

Staff

This audit was performed by:

Bowman & Miller, P.C.
Certified Public Accountants
Marshalltown, IA 50158

Personnel:

James R. Bowman, CPA, Manager
Elizabeth A. Miller, CPA, Senior Auditor
Debra J. Osborn, CPA, Assistant Auditor

Lowen K. Poock, PC

NEWS RELEASE

FOR RELEASE _____

Bowman and Miller, P.C. today released an audit report on the City of Madrid, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$2,032,375 for the year ended June 30, 2004, an 26.9 percent decrease from 2003. The receipts included \$442,715 in property tax, \$645,817 from charges for service, \$231,545 from operating grants, contributions, and restricted interest, \$154,191 from local option sales tax, \$18,349 in unrestricted investment earnings, and \$539,758 from other general receipts.

Disbursements for the year totaled \$2,325,862, a 2.35 percent increase from the prior year, and included \$292,207 for public safety, \$352,470 for public works and \$227,732 for capital projects. Also, disbursements for business type activities totaled \$926,902.

The significant decrease in receipts is due primarily to less proceeds from issuance of debt.

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