

NEWS RELEASE

FOR RELEASE October 14, 2005

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

The City's receipts totaled \$1,725,575 for the year ended June 30, 2005, a 15.1 percent decrease from 2004. The receipts included \$452,153 in property tax, \$710,038 from charges for service, \$14,421 in unrestricted investment earnings, and \$85,925 from other general receipts.

The significant decrease in receipts is due primarily to proceeds from issuance of bonds of \$386,588 during 2004.

Disbursements for the year totaled \$2,280,827, a 1.94 percent decrease from the prior year, and included \$301,401 for public safety, \$379,831 for public works, \$154,092 for general government, \$264,385 for debt service and \$465,860 for capital projects. Also, disbursements for business type activities totaled \$510,405.

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

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

June 30, 2005

CITY OF MADRID

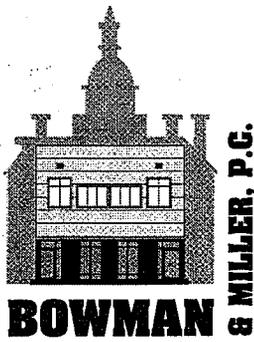
Contents

	<u>Page</u>
Officials	1
Independent Auditors' Report	2-3
Management's Discussion and Analysis	4-8
Basic Financial Statements:	<u>Exhibit</u>
Government – wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A 9-10
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 11-12
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 13
Notes to Financial Statements	14-20
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	21-22
Notes to Required Supplementary Information – Budgetary Reporting	23
Other Supplementary Information:	<u>Schedule</u>
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1 24
Schedule of Indebtedness	2 25-26
Bond and Note Maturities	3 27-28
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4 29
Independent Auditors' 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	30-31
Schedule of Findings	32-34
Staff	35

CITY OF MADRID

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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 2006
Michael Mahoney	City Attorney	Jan 2006
John Jordan	City Attorney	Jan 2006
Donald Fatka	City Treasurer	Jan 2006



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

24 EAST MAIN STREET • MARSHALLTOWN, IOWA 50158 • 641-753-9337 • FAX 641-753-6366
418 2ND STREET • GLADBROOK, IOWA 50635 • 641-473-2717 • FAX 641-753-6366
4949 PLEASANT STREET • SUITE 206 • WEST DES MOINES, IOWA 50266 • 515-309-5461 • FAX 515-278-0287

James R. Bowman, CPA • jim@syscompia.com
Elizabeth A. Miller, CPA • beth@syscompia.com
Debra J. Osborn, CPA • deb@syscompia.com
Suzanne M. Mead, CPA • suzanne@syscompia.com

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, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Madrid's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards 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 U.S generally accepted accounting principles.

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

In accordance with Government Auditing Standards, we have also issued our report dated August 24, 2005 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, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 20 through 22 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Madrid's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (which is not presented herein) and expressed an unqualified opinion on those financial statements. The financial statements for the two 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
August 24, 2005

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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements which follow.

2005 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 21%, or approximately \$316,000, from fiscal 2004 and 2005. The decrease in proceeds from debt of \$403,000 was offset by increases in charges for services of \$45,000, intergovernmental \$17,000, property taxes \$9,000 and miscellaneous of \$5,000.
- Disbursements increased 26%, or approximately \$368,000 in fiscal 2005 from fiscal 2004 in the governmental activities. The increases are as follows: capital projects \$238,000, debt service \$40,000, general governments \$32,000, public works \$25,000, culture and recreation \$18,000, public safety \$10,000 and health and social services \$5,000.
- The City's total cash basis net assets decreased by 37%, or approximately \$555,000 from June 30, 2004, to June 30, 2005. Of this amount, the assets of the governmental activities decreased approximately \$576,000 and the assets of the business type activities increased by approximately \$21,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

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 decreased from a year ago from \$1,142,700 to \$566,400. 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,	
	2005	2004
Receipts:		
Program receipts:		
Charges for service	\$ 173,812	128,726
Operating grants, contributions and restricted interest	248,810	231,545
General receipts:		
Property tax	452,153	442,715
Other city tax	183,946	188,857
Special assessments	18,499	19,400
Use of money and property	12,134	16,595
Debt proceeds	-	402,807
Other general receipts	83,759	69,656
Total receipts	<u>1,173,113</u>	<u>1,500,301</u>
Disbursements:		
Public safety	301,401	292,206
Public works	379,831	355,629
Health and social services	3,606	3,530
Culture and recreation	185,677	167,677
Community and economic development	15,570	8,902
General government	154,092	121,865
Debt service	264,385	224,577
Capital projects	465,860	227,732
Total disbursements	<u>1,770,422</u>	<u>1,402,118</u>
Increase (decrease) in cash basis net assets before transfers	(597,309)	98,183
Net transfers from business type activities	<u>21,000</u>	<u>10,000</u>
Increase (decrease) in cash basis net assets	(576,309)	108,183
Cash basis net assets beginning of year	<u>1,142,672</u>	<u>1,034,489</u>
Cash basis net assets end of year	\$ <u>566,363</u>	<u>1,142,672</u>

The City's total receipts for governmental activities decreased by 22% or \$327,000. The significant decrease in receipts were less debt proceeds of approximately \$403,000. Charges for services increased approximately \$45,000 and all other receipts increased approximately \$42,000. The total cost of all programs and services increased by approximately \$368,000. Capital project disbursements increased by approximately \$238,000, debt service payments increased by approximately \$40,000, general government disbursements increased by approximately \$32,000, public works disbursements increased by approximately \$25,000 and all other programs and services increased by approximately \$33,000.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2005	2004
Receipts:		
Program receipts:		
Changes for service:		
Water	\$ 335,208	318,591
Sewer	201,018	198,500
General receipts:		
Unrestricted interest on investments	2,869	6,807
Other general receipts	<u>13,367</u>	<u>8,176</u>
Total receipts	<u>552,462</u>	<u>532,074</u>
Disbursements:		
Water	322,934	721,666
Sewer	<u>187,471</u>	<u>202,077</u>
Total disbursements	<u>510,405</u>	<u>923,743</u>
Increase (decrease) in cash basis net assets before transfers	42,057	(391,669)
Net transfers to governmental activities	<u>(21,000)</u>	<u>(10,000)</u>
Increase (decrease) in cash basis net assets	21,057	(401,669)
Cash basis net assets beginning of year	<u>340,363</u>	<u>742,032</u>
Cash basis net assets end of year	\$ <u>361,420</u>	<u>340,363</u>

Total business type activities receipts for the fiscal year were \$552,462 compared to \$532,074 in the prior year. The increase was due to the increase in charges for services of \$20,000. The disbursements and transfers for the year decreased by 43%, or approximately \$402,000 due to a decrease in debt service of \$352,000 and a decrease in operating disbursements and transfers of \$50,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Madrid completed the year, its governmental funds reported a combined fund balance of \$566,363, a decrease of \$576,309 from last year's total of \$1,142,672. 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 \$159,521 from the prior year to \$306,916. Approximately \$200,000 of this decrease was due to the net operating transfers out and was offset by approximately \$40,000 excess of receipts over disbursements.
- The Road Use Tax Fund cash balance decreased by \$13,121. This decrease was due to transfers to other funds.
- The Debt Service Fund cash balance decreased by \$91,503. Payment of principal and interest totaling \$35,975, which was not included in the debt service levy, plus a transfer to capital projects were the primary reasons for the decrease.
- The Capital Projects Fund cash balance decreased by \$325,603. Disbursements for the storm sewer project of \$289,706 plus expenditures for flood damage not currently reimbursed by FEMA were the primary reasons for the decrease.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$26,975 to \$154,564, due in part to increase in water rates.
- The Sewer Fund cash balance decreased \$5,918 to \$206,856, due primarily to operating transfers out.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 9, 2005 and resulted in an increase in disbursements relating to capital projects and a decrease in disbursements relating to business type activities.

DEBT ADMINISTRATION

At June 30, 2005, the City had \$2,292,952 in bonds and other long-term debt, compared to \$2,599,133 last year as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2005	2004
General obligation bonds	\$ 1,690,000	1,870,000
Revenue notes	540,000	645,000
Other long-term debt	<u>62,952</u>	<u>84,133</u>
Total	\$ <u>2,292,952</u>	<u>2,599,133</u>

General obligation debt and revenue bonds and notes decreased due to payment of current year obligations.

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 \$1,690,000 is below its constitutional debt limit of \$3,156,437.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

Amounts available for appropriation in the operating budget are \$2,367,005, an increase of .02608% over the final 2005 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, 2005

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 301,401	-	16,273	-
Public works	379,831	121,422	201,047	-
Health and social services	3,606	3,433	-	-
Culture and recreation	185,677	48,957	12,000	-
Community and economic development	15,570	-	-	-
General government	154,092	-	658	-
Debt service	264,385	-	-	-
Capital projects	465,860	-	18,832	-
Total governmental activities	<u>1,770,422</u>	<u>173,812</u>	<u>248,810</u>	<u>-</u>
Business type activities:				
Water	322,934	335,208	-	-
Sewer	187,471	201,018	-	-
Total business type activities	<u>510,405</u>	<u>536,226</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,280,827</u>	<u>710,038</u>	<u>248,810</u>	<u>-</u>

General receipts:

Property tax levied for:	
General purposes	
Debt Service	
Other city tax	
Licenses and permits	
Use of money and property	
Special assessments	
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	
Fire equipment	
Capital projects	
Unrestricted	
Total cash basis net assets	

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(285,128)	-	(285,128)
(57,362)	-	(57,362)
(173)	-	(173)
(124,720)	-	(124,720)
(15,570)	-	(15,570)
(153,434)	-	(153,434)
(264,385)	-	(264,385)
(447,028)	-	(447,028)
<u>(1,347,800)</u>	<u>-</u>	<u>(1,347,800)</u>
-	12,274	12,274
-	13,547	13,547
<u>-</u>	<u>25,821</u>	<u>25,821</u>
<u>(1,347,800)</u>	<u>25,821</u>	<u>(1,321,979)</u>
373,155	-	373,155
78,998	-	78,998
183,946	-	183,946
11,201	-	11,201
12,134	2,869	15,003
18,499	-	18,499
72,558	13,367	85,925
21,000	(21,000)	-
<u>771,491</u>	<u>(4,764)</u>	<u>766,727</u>
(576,309)	21,057	(555,252)
<u>1,142,672</u>	<u>340,363</u>	<u>1,483,035</u>
<u>566,363</u>	<u>361,420</u>	<u>927,783</u>
49,545	389,935	439,480
12,188	-	12,188
44,173	-	44,173
20,000	-	20,000
(42,684)	-	(42,684)
483,141	(28,515)	454,626
<u>566,363</u>	<u>361,420</u>	<u>927,783</u>

CITY OF MADRID
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2005

	General	Special Revenue		
		Road Use Tax	Employee Benefits	Emergency
Receipts:				
Property tax	\$ 287,305	-	77,005	8,845
Other city tax	176,458	-	3,501	402
Licenses and permits	11,201	-	-	-
Use of money and property	11,300	-	-	-
Intergovernmental	28,931	201,047	-	-
Charges for service	173,812	-	-	-
Special assessments	-	-	-	-
Miscellaneous	40,420	-	6,803	-
Total revenues	729,427	201,047	87,309	9,247
Disbursements:				
Operating:				
Public safety	226,985	-	74,416	-
Public works	154,970	191,168	33,693	-
Health and social services	3,606	-	-	-
Culture and recreation	151,584	-	14,042	-
Community and economic development	15,570	-	-	-
General government	136,186	-	17,906	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	688,901	191,168	140,057	-
Excess (deficiency) of receipts over (under) disbursements	40,526	9,879	(52,748)	9,247
Other financing sources (uses):				
Operating transfers in	9,178	-	60,000	-
Operating transfers out	(209,225)	(23,000)	-	(9,178)
Total other financing sources (uses)	(200,047)	(23,000)	60,000	(9,178)
Net change in cash balances	(159,521)	(13,121)	7,252	69
Cash balances beginning of year	466,437	200,621	(19,190)	594
Cash balances end of year	\$ 306,916	187,500	(11,938)	663
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	-	-	-
Unreserved:				
General fund	306,916	-	-	-
Special revenue funds	-	187,500	(11,938)	663
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 306,916	187,500	(11,938)	663

Debt Service	Capital Project	Other Nonmajor Governmental Funds	Total
78,998	-	-	452,153
3,585	-	-	183,946
-	-	-	11,201
-	-	834	12,134
-	18,832	-	248,810
-	-	-	173,812
18,499	-	-	18,499
-	-	25,335	72,558
101,082	18,832	26,169	1,173,113
-	-	-	301,401
-	-	-	379,831
-	-	-	3,606
-	-	20,051	185,677
-	-	-	15,570
-	-	-	154,092
264,385	-	-	264,385
-	465,860	-	465,860
264,385	465,860	20,051	1,770,422
(163,303)	(447,028)	6,118	(597,309)
139,800	121,425	-	330,403
(68,000)	-	-	(309,403)
71,800	121,425	-	21,000
(91,503)	(325,603)	6,118	(576,309)
141,048	282,919	70,243	1,142,672
49,545	(42,684)	76,361	566,363
49,545	-	-	49,545
-	-	-	306,916
-	-	-	176,225
-	(42,684)	-	(42,684)
-	-	76,361	76,361
49,545	(42,684)	76,361	566,363

CITY OF MADRID

Exhibit C

**Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2005**

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 335,208	201,018	536,226
Miscellaneous	12,720	647	13,367
Total operating receipts	<u>347,928</u>	<u>201,665</u>	<u>549,593</u>
Operating disbursements:			
Business type activities	261,324	120,498	381,822
Total operating disbursements	<u>261,324</u>	<u>120,498</u>	<u>381,822</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	86,604	81,167	167,771
Non-operating receipts (disbursements):			
Interest on investments	1,981	888	2,869
Debt service	(61,610)	(66,973)	(128,583)
Total non-operating receipts (disbursements)	<u>(59,629)</u>	<u>(66,085)</u>	<u>(125,714)</u>
Excess (deficiency) of receipts over (under) disbursements	26,975	15,082	42,057
Operating transfers out	-	(21,000)	(21,000)
Net change in cash balances	26,975	(5,918)	21,057
Cash balances beginning of year	127,589	212,774	340,363
Cash balances end of year	<u>\$ 154,564</u>	<u>206,856</u>	<u>361,420</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ 158,120	231,815	389,935
Unreserved	(3,556)	(24,959)	(28,515)
	<u>\$ 154,564</u>	<u>206,856</u>	<u>361,420</u>

CITY OF MADRID
Notes to Financial Statements
June 30, 2005

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, 2005

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, 2005

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, 2005, disbursements exceeded the amounts budgeted in the culture and recreation, community and economic development, general government and debt service functions.

Note 2 – Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investment at June 30, 2005 is as follows:

	<u>Cost</u>	<u>Market Value</u>
19 Shares IBM Stock	<u>\$757</u>	<u>\$1,410</u>

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2005

Note 2 – Cash and Pooled Investments (Continued)

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

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, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004 the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$30,135, \$27,576 and \$24,747 respectively, equal to the required contributions for each year.

Note 4 – Bonds and 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 Bonds and Notes		Revenue Bonds and Notes				Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
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	\$1,690,000	361,722	290,000	29,208	250,000	22,223	2,230,000	413,153

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2005

Note 4 – Notes Payable (Continued)

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.

Note 5 – Lease Purchase Obligation

The City has entered into a capital lease with John Deere Leasing Company for the purchase of a backhoe and loader. Annual payments totaling \$15,474 are required for the lease payment. The following is the information relating to the lease:

Leased From	Interest Rate	Date		Principal Balance June 30, 2005	Item Leased
		Issued	Due		
John Deere Leasing Co.	3.9%	December, 2003	January, 2009	<u>\$55,349</u>	Backhoe and Loader

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

Year Ending June 30	
2006	\$15,474
2007	15,474
2008	15,474
2009	<u>15,474</u>
Total minimum lease payments	61,896
Less: Amount representing interest	<u>6,547</u>
Present value of net minimum payments	<u>\$55,349</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, 2005
May 19, 2004	June 1, 2006	3.99%	<u>\$7,603</u>

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

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2005

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.

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, 2005, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 10,670
Sick leave	<u>37,818</u>
Total	<u>\$48,488</u>

Note 9 – Deficit Fund Balance

Special Revenue-Employee Benefits Fund had a deficit balance at June 30, 2005. The deficit balance was due to excess disbursements over receipts during the past three fiscal years.

Both Water and Sewer Revenue Funds had deficit balances at June 30, 2005 of \$3,556 and \$24,959, respectively. The deficit balances resulted from excess disbursements over receipts during fiscal years ended June 30, 2005 and 2004.

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.

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2005

Note 11 – Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt service	General fund	\$119,800
	Special Revenue:	
	Road Use Tax	10,000
	Enterprise:	
	Sewer Revenue	<u>10,000</u>
		139,800
Special Revenue:		
Employee Benefits	General	60,000
General fund	Special Revenue:	
	Emergency	9,178
Capital Projects	General	29,425
	Special Revenue:	
	Road Use Tax	13,000
	Debt Service	68,000
	Enterprise:	
	Sewer Revenue	<u>11,000</u>
		<u>190,603</u>
Total		<u>\$330,403</u>

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

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, 2005

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 452,153	-
Other city tax	183,946	-
Licenses and permits	11,201	-
Use of money and property	12,134	2,869
Intergovernmental	248,810	-
Charges for service	173,812	536,226
Special assessments	18,499	-
Miscellaneous	72,558	13,367
	1,173,113	552,462
Total receipts		
Disbursements:		
Public safety	301,401	-
Public works	379,831	-
Health and social services	3,606	-
Culture and recreation	185,677	-
Community and economic development	15,570	-
General government	154,092	-
Debt service	264,385	-
Capital projects	465,860	-
Business type activities	-	510,405
	1,770,422	510,405
Total disbursements		
Excess (deficiency) of receipts over (under) disbursements	(597,309)	42,057
Other financing sources (uses), net	21,000	(21,000)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses		
	(576,309)	21,057
Balance beginning of year	1,142,672	340,363
Balance end of year	\$ 566,363	361,420

Total	Budgeted Amounts		Final to Net Variance
	Original	Final	
452,153	452,952	452,952	(799)
183,946	150,747	177,340	6,606
11,201	2,425	7,190	4,011
15,003	18,800	13,375	1,628
248,810	252,673	344,061	(95,251)
710,038	695,325	720,291	(10,253)
18,499	15,000	15,000	3,499
85,925	72,150	72,150	13,775
<u>1,725,575</u>	<u>1,660,072</u>	<u>1,802,359</u>	<u>(76,784)</u>
301,401	301,636	305,778	(4,377)
379,831	364,703	396,576	(16,745)
3,606	3,500	3,606	-
185,677	166,146	179,403	6,274
15,570	11,700	11,700	3,870
154,092	115,408	134,157	19,935
264,385	228,411	238,374	26,011
465,860	36,000	478,832	(12,972)
510,405	1,022,021	558,418	(48,013)
<u>2,280,827</u>	<u>2,249,525</u>	<u>2,306,844</u>	<u>(26,017)</u>
(555,252)	(589,453)	(504,485)	(50,767)
-	450,000	326,802	(326,802)
(555,252)	(139,453)	(177,683)	(377,569)
<u>1,483,035</u>	<u>1,627,317</u>	<u>1,627,317</u>	<u>(144,282)</u>
<u>927,783</u>	<u>1,487,864</u>	<u>1,449,634</u>	<u>(521,851)</u>

CITY OF MADRID

Notes to Required Supplementary Information – Budgetary Reporting June 30, 2005

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$57,319. The budget amendment is reflected in the final budget amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the culture and recreation, community and economic development, general government and debt service functions.

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, 2005

	Permanent			Total
	Jensen Park	Boyd Library	Fire Equipment	
Receipts:				
Use of money and property	\$ -	834	-	834
Donations	5,335	-	20,000	25,335
Total receipts	5,335	834	20,000	26,169
Disbursements:				
Operating:				
Culture and recreation	15,086	4,965	-	20,051
Total disbursements	15,086	4,965	-	20,051
Excess (deficiency) of receipts over (under) disbursements	(9,751)	(4,131)	20,000	6,118
Cash balances at beginning of year	21,939	48,304	-	70,243
Cash balances at end of year	\$ 12,188	44,173	20,000	76,361
Cash Basis Fund Balances				
Unreserved:				
Permanent funds	\$ 12,188	44,173	20,000	76,361
Total cash basis fund balances	\$ 12,188	44,173	20,000	76,361

CITY OF MADRID
Schedule of Indebtedness
Year Ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
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	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

	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$	50,000	-	25,000	25,000	2,875	-
	640,000	-	50,000	590,000	32,553	-
	140,000	-	20,000	120,000	7,547	-
	645,000	-	65,000	580,000	25,435	-
	395,000	-	20,000	375,000	15,975	-
\$	1,870,000	-	180,000	1,690,000	84,385	-
	340,000	-	50,000	290,000	11,610	-
	305,000	-	55,000	250,000	11,973	-
\$	645,000	-	105,000	540,000	23,583	-
\$	67,913	-	12,564	55,349	2,911	-
\$	16,220	-	8,617	7,603	551	-

CITY OF MADRID
Bond and Note Maturities
June 30, 2005

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
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	-	-	-	-	-	-
2015	-	-	-	-	-	-
2016	-	-	-	-	-	-
Total		\$ <u>25,000</u>		\$ <u>590,000</u>		\$ <u>120,000</u>

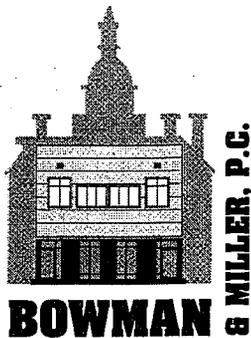
Year Ending June 30,	Revenue Bonds				
	Water		Sewer		Total
	Issued Oct 1, 2002		Issued Oct 1, 1998		
	Interest Rates	Amount	Interest Rates	Amount	
2006	3.20 %	\$ 55,000	4.25 %	\$ 60,000	\$ 115,000
2007	3.50	55,000	4.30	60,000	115,000
2008	3.80	60,000	4.35	65,000	125,000
2009	4.00	60,000	4.40	65,000	125,000
2010	4.20	60,000	-	-	60,000
Total		\$ <u>290,000</u>		\$ <u>250,000</u>	\$ <u>540,000</u>

Street improvement		Street improvement		
Issued Nov 1, 2002		Issued Mar 15, 2004		
Interest Rate	Amount	Interest Rate	Amount	Total
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>\$ 580,000</u>		<u>\$ 375,000</u>	<u>\$ 1,690,000</u>

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

	<u>Years ended June 30,</u>		
	2005	2004	2003
Receipts:			
Property tax	\$ 452,153	442,715	411,177
Tax increment financing collections	-	-	45,959
Other city tax	183,946	188,857	162,798
Intergovernmental	248,810	231,545	256,812
Licenses and permits	11,201	1,912	4,014
Use of money and property	12,134	16,595	18,473
Charges for services	173,812	128,726	118,802
Special assessments	18,499	19,400	41,524
Miscellaneous	72,558	67,744	151,594
Total	\$ 1,173,113	1,097,494	1,211,153
Disbursements:			
Operating:			
Public safety	\$ 301,401	292,206	255,197
Public works	379,831	355,629	326,311
Health and social services	3,606	3,530	2,900
Culture and recreation	185,677	167,677	151,537
Community and economic development	15,570	8,902	9,568
General government	154,092	121,865	101,409
Debt service	264,385	224,577	172,815
Capital projects	465,860	227,732	778,715
Total	\$ 1,770,422	1,402,118	1,798,452

Information for 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

24 EAST MAIN STREET • MARSHALLTOWN, IOWA 50158 • 641-753-9337 • FAX 641-753-6366
418 2ND STREET • GLADBROOK, IOWA 50635 • 641-473-2717 • FAX 641-753-6366
4949 PLEASANT STREET • SUITE 206 • WEST DES MOINES, IOWA 50266 • 515-309-5461 • FAX 515-278-0287

James R. Bowman, CPA • jim@syscompia.com
Elizabeth A. Miller, CPA • beth@syscompia.com
Debra J. Osborn, CPA • deb@syscompia.com
Suzanne M. Mead, CPA • suzanne@syscompia.com

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards

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, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 24, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Madrid's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-05 is a material weakness.

Compliance and Other Matters

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 or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of 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
August 24, 2005

CITY OF MADRID
Schedule of Findings
Year Ended June 30, 2005

Part I: Summary of the Independent Auditors' Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than 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, 2005

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-05 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-05 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-05 Certified Budget – Disbursements during the year ended June 30, 2005, exceeded the amounts budgeted in the culture and recreation, community and economic development, general government and debt service functions. 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-05 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, 2005

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

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

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

III-G-05 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-05 Financial Condition – The City had deficit balance in the following accounts and / or funds:
Special Revenue Fund - Employee Benefits Account; Capital Projects 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-05 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