

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

June 30, 2006

CITY OF MADRID

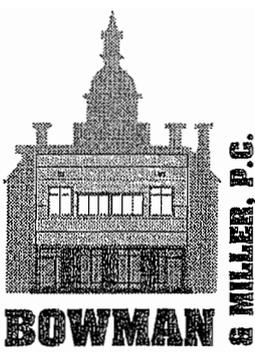
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CITY OF MADRID

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Amy Yoakum	Mayor	Jan 2008
Ken Williams	Mayor Pro Tem	Jan 2008
Joyce Carlson	Council Member	Jan 2008
Steve Burich	Council Member	Jan 2010
Donald Lincoln	Council Member	Jan 2010
Val Chapman	Council Member	Jan 2010
Todd Kilzer	City Administrator / Clerk	Jan 2007
Kirk Quinn	City Attorney	Jan 2007
John Jordan	City Attorney	Jan 2007
Donald Fatka	City Treasurer	Jan 2007



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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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, 2006, 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, 2006, 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 30, 2006 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 21 through 23 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 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, 2005 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The financial statements for the two years ended June 30, 2004 and 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 30 2006

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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 51%, or approximately \$597,000, from fiscal 2005 to fiscal 2006. The increases in debt proceeds of \$303,000, property tax of \$20,000, \$267,000 in CDBG funds, local option taxes \$15,000, use of money and property \$10,000 was offset by decreases in contributions of \$8,000 and other general receipts of \$10,000.
- Disbursements decreased 0.7%, or approximately \$13,000 in fiscal 2006 from fiscal 2005. The decreases in general government of \$10,000 and capital projects of \$95,000 were offset by increases in the following: public safety \$4,000, public works \$26,000, culture and recreation \$12,000, community and economic development \$47,000, and debt service \$3,000.
- The City's total cash basis net assets increased by 10%, or approximately \$92,500 from June 30, 2005, to June 30, 2006. Of this amount, the assets of the governmental activities increased approximately \$59,000 and the assets of the business type activities increased by approximately \$33,500.

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 \$566,400 to \$625,400. 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,	
	2006	2005
Receipts:		
Program receipts:		
Charges for service	\$ 175,502	173,812
Operating grants, contributions and restricted interest	502,833	248,810
General receipts:		
Property tax	472,709	452,153
Other city tax	202,013	183,946
Special assessments	18,275	18,499
Use of money and property	23,586	12,134
Debt proceeds	302,670	-
Other general receipts	72,529	83,759
Total receipts	<u>1,770,117</u>	<u>1,173,113</u>
Disbursements:		
Public safety	305,736	301,401
Public works	405,484	379,831
Health and social services	3,600	3,606
Culture and recreation	197,725	185,677
Community and economic development	62,403	15,570
General government	145,762	154,092
Debt service	267,243	264,385
Capital projects	369,431	465,860
Total disbursements	<u>1,757,384</u>	<u>1,770,422</u>
Increase (decrease) in cash basis net assets before transfers	12,733	(597,309)
Net transfers from business type activities	<u>46,350</u>	<u>21,000</u>
Increase (decrease) in cash basis net assets	59,083	(576,309)
Cash basis net assets beginning of year	<u>566,363</u>	<u>1,142,672</u>
Cash basis net assets end of year	\$ <u>625,446</u>	<u>566,363</u>

The City's total receipts for governmental activities increased by 51% or \$597,000. The significant increase in receipts were debt proceeds of approximately \$303,000 and CDBG proceeds of \$267,000. All other receipts increased approximately \$27,000. The total cost of all programs and services decreased by approximately \$13,000. Capital project disbursements decreased by approximately \$95,000. Public works disbursements increased \$26,000, community and economic development disbursements increased by approximately \$47,000 and all other programs and services increased by approximately \$9,000.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2006	2005
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 355,471	335,208
Sewer	213,212	201,018
General receipts:		
Unrestricted interest on investments	4,882	2,869
Other general receipts	<u>10,438</u>	<u>13,367</u>
Total receipts	<u>584,003</u>	<u>552,462</u>
Disbursements:		
Water	309,187	322,934
Sewer	<u>194,955</u>	<u>187,471</u>
Total disbursements	<u>504,142</u>	<u>510,405</u>
Increase in cash basis net assets before transfers	79,861	42,057
Net transfers to governmental activities	<u>(46,350)</u>	<u>(21,000)</u>
Increase in cash basis net assets	33,511	21,057
Cash basis net assets beginning of year	<u>361,420</u>	<u>340,363</u>
Cash basis net assets end of year	\$ <u>394,931</u>	<u>361,420</u>

Total business type activities receipts for the fiscal year were \$584,003 compared to \$552,462 in the prior year. The increase was due to the increase in charges for services of \$19,000. The disbursements and transfers for the year increased by 4%, or approximately \$19,000 due to an increase in debt service of \$6,000 and an increase in transfers to other funds of \$25,000 and a decrease in operating disbursements of \$12,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Madrid completed the year, its governmental funds reported a combined fund balance of \$625,446, an increase of \$59,083 from last year's total of \$566,363. 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 \$159,422 from the prior year to \$147,494. Transfers to other funds was the primary reason for the decrease.
- The Road Use Tax Fund cash balance decreased by \$16,754. This decrease was due to transfers to other funds.
- The Employee Benefits Fund cash balance increased by \$1,647. The increase in disbursements for employee benefits was offset by an increase in transfers from the General Fund.
- The Emergency Fund cash balance increased by \$125 due to a decrease in transfers to other funds.

- The Debt Service Fund cash balance decreased by \$8,717. Payment of principal and interest totaling \$7,759, which was not included in the debt service levy was the primary reason for the decrease.
- The Capital Projects Fund cash balance increased by \$243,615. The excess of receipts over disbursements on the sanitary sewer project was the primary reason for the increase.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$35,319 to \$189,383, due in part to increase in water rates.
- The Sewer Fund cash balance decreased \$1,808 to \$205,048, 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 1, 2006 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, 2006, the City had \$2,282,296 in bonds and other long-term debt, compared to \$2,292,952 last year as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2006	2005
General obligation bonds	\$ 1,815,000	1,690,000
Revenue notes	425,000	540,000
Other long-term debt	<u>42,296</u>	<u>62,952</u>
Total	\$ <u>2,282,296</u>	<u>2,292,952</u>

General obligation debt and revenue bonds and notes increased due to issuance of general obligation bonds in the amount of \$303,000.

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 \$1,815,000 is below its constitutional debt limit of \$3,234,004.

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 2007 budget, tax rates, and fees that will be charged for various City activities.

Amounts available for appropriation in the operating budget are \$2,021,613, a decrease of 28.3% over the final 2006 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, 2006

Functions/Programs:	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 305,736	-	20,629	-
Public works	405,484	125,720	202,448	-
Health and social services	3,600	4,251	-	-
Culture and recreation	197,725	45,531	12,200	-
Community and economic development	62,403	-	-	-
General government	145,762	-	-	-
Debt service	267,243	-	-	-
Capital projects	369,431	-	267,556	-
Total governmental activities	1,757,384	175,502	502,833	-
Business type activities:				
Water	309,187	355,471	-	-
Sewer	194,955	213,212	-	-
Total business type activities	504,142	568,683	-	-
Total	\$ 2,261,526	744,185	502,833	-

General receipts:

Property tax levied for:	
General purposes	
Debt Service	
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
- Fire equipment
- Capital projects

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(285,107)	-	(285,107)
(77,316)	-	(77,316)
651	-	651
(139,994)	-	(139,994)
(62,403)	-	(62,403)
(145,762)	-	(145,762)
(267,243)	-	(267,243)
(101,875)	-	(101,875)
(1,079,049)	-	(1,079,049)
-	46,284	46,284
-	18,257	18,257
-	64,541	64,541
(1,079,049)	64,541	(1,014,508)
377,311	-	377,311
95,398	-	95,398
202,013	-	202,013
16,629	-	16,629
23,586	4,882	28,468
18,275	-	18,275
55,900	10,438	66,338
302,670	-	302,670
46,350	(46,350)	-
1,138,132	(31,030)	1,107,102
59,083	33,511	92,594
566,363	361,420	927,783
\$ 625,446	394,931	1,020,377
\$ 40,828	390,062	430,890
15,065	-	15,065
39,280	-	39,280
20,605	-	20,605
200,931	-	200,931
308,737	4,869	313,606
\$ 625,446	394,931	1,020,377

CITY OF MADRID
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2006

	General	Special Revenue		
		Road Use Tax	Employee Benefits	Emergency
Receipts:				
Property tax	\$ 286,084	-	82,469	8,758
Other city tax	193,768	-	3,642	387
Licenses and permits	16,629	-	-	-
Use of money and property	22,062	-	-	-
Intergovernmental	32,829	202,448	-	-
Charges for service	175,502	-	-	-
Special assessments	-	-	-	-
Miscellaneous	42,781	-	683	-
Total receipts	<u>769,655</u>	<u>202,448</u>	<u>86,794</u>	<u>9,145</u>
Disbursements:				
Operating:				
Public safety	235,053	-	70,683	-
Public works	172,099	187,002	46,383	-
Health and social services	3,600	-	-	-
Culture and recreation	165,411	-	17,080	-
Community and economic development	62,403	-	-	-
General government	127,261	-	18,501	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	<u>765,827</u>	<u>187,002</u>	<u>152,647</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>3,828</u>	<u>15,446</u>	<u>(65,853)</u>	<u>9,145</u>
Other financing sources (uses):				
Bond proceeds	-	-	-	-
Operating transfers in	24,020	-	67,500	-
Operating transfers out	(187,270)	(32,200)	-	(9,020)
Total other financing sources (uses)	<u>(163,250)</u>	<u>(32,200)</u>	<u>67,500</u>	<u>(9,020)</u>
Net change in cash balances	(159,422)	(16,754)	1,647	125
Cash balances beginning of year	306,916	187,500	(11,938)	663
Cash balances end of year	<u>\$ 147,494</u>	<u>170,746</u>	<u>(10,291)</u>	<u>788</u>
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	-	-	-
Unreserved:				
General fund	147,494	-	-	-
Special revenue funds	-	170,746	(10,291)	788
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	<u>\$ 147,494</u>	<u>170,746</u>	<u>(10,291)</u>	<u>788</u>

See notes to financial statements.

Debt Service	Capital Project	Other Nonmajor Governmental Funds	Total
95,398	-	-	472,709
4,216	-	-	202,013
-	-	-	16,629
137	-	1,387	23,586
-	267,556	-	502,833
-	-	-	175,502
18,275	-	-	18,275
-	-	12,436	55,900
<u>118,026</u>	<u>267,556</u>	<u>13,823</u>	<u>1,467,447</u>
-	-	-	305,736
-	-	-	405,484
-	-	-	3,600
-	-	15,234	197,725
-	-	-	62,403
-	-	-	145,762
267,243	-	-	267,243
-	369,431	-	369,431
<u>267,243</u>	<u>369,431</u>	<u>15,234</u>	<u>1,757,384</u>
(149,217)	(101,875)	(1,411)	(289,937)
-	302,670	-	302,670
140,500	42,820	-	274,840
-	-	-	(228,490)
<u>140,500</u>	<u>345,490</u>	<u>-</u>	<u>349,020</u>
(8,717)	243,615	(1,411)	59,083
49,545	(42,684)	76,361	566,363
<u>40,828</u>	<u>200,931</u>	<u>74,950</u>	<u>625,446</u>
40,828	-	-	40,828
-	-	-	147,494
-	-	-	161,243
-	200,931	-	200,931
-	-	74,950	74,950
<u>40,828</u>	<u>200,931</u>	<u>74,950</u>	<u>625,446</u>

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, 2006

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 355,471	213,212	568,683
Miscellaneous	10,438	-	10,438
Total operating receipts	<u>365,909</u>	<u>213,212</u>	<u>579,121</u>
Operating disbursements:			
Business type activities	244,182	125,412	369,594
Total operating disbursements	<u>244,182</u>	<u>125,412</u>	<u>369,594</u>
Excess of operating receipts over operating disbursements	121,727	87,800	209,527
Non-operating receipts (disbursements):			
Interest on investments	2,997	1,885	4,882
Debt service	(65,005)	(69,543)	(134,548)
Total non-operating receipts (disbursements)	<u>(62,008)</u>	<u>(67,658)</u>	<u>(129,666)</u>
Excess of receipts over disbursements	59,719	20,142	79,861
Operating transfers out	(24,400)	(21,950)	(46,350)
Net change in cash balances	35,319	(1,808)	33,511
Cash balances beginning of year	154,564	206,856	361,420
Cash balances end of year	<u>\$ 189,883</u>	<u>205,048</u>	<u>394,931</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ 158,520	231,542	390,062
Unreserved	31,363	(26,494)	4,869
Total cash basis fund balances	<u>\$ 189,883</u>	<u>205,048</u>	<u>394,931</u>

CITY OF MADRID
Notes to Financial Statements
June 30, 2006

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 does 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, 2006

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, 2006

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, 2006, disbursements exceeded the amounts budgeted in the public safety, public works, and community and economic development functions.

Note 2 – Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 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, 2006 is as follows:

	<u>Cost</u>	<u>Market Value</u>
19 Shares IBM Stock	<u>\$757</u>	<u>\$1,460</u>

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.

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2006

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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$30,754, \$30,135 and \$27,576 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	Water		Sewer		Principal	Interest
			Principal	Interest	Principal	Interest		
2007	\$ 205,000	84,398	55,000	8,163	60,000	6,977	320,000	99,538
2008	220,000	70,723	60,000	6,060	65,000	4,274	345,000	81,057
2009	225,000	61,265	60,000	3,720	65,000	1,430	350,000	66,415
2010	240,000	51,238	60,000	1,260	-	-	300,000	52,498
2011	280,000	40,275	-	-	-	-	280,000	40,275
2012	295,000	27,600	-	-	-	-	295,000	27,600
2013	110,000	14,105	-	-	-	-	110,000	14,105
2014	80,000	9,825	-	-	-	-	80,000	9,825
2015	80,000	6,658	-	-	-	-	80,000	6,658
2016	80,000	2,832	-	-	-	-	80,000	2,832
Total	\$1,815,000	368,919	235,000	19,203	190,000	12,681	2,240,000	400,803

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, 2006

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, 2006	Item Leased
		Issued	Due		
John Deere Leasing Co.	3.9%	December, 2003	January, 2009	<u>\$42,296</u>	Backhoe and Loader

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

Year Ending June 30	
2007	\$ 15,474
2008	15,474
2009	<u>15,474</u>
Total minimum lease payments	46,422
Less: Amount representing interest	<u>4,126</u>
Present value of net minimum payments	<u>\$ 42,296</u>

Note 6 – 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 7 – 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, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 12,528
Sick leave	<u>46,181</u>
Total	<u>\$ 58,709</u>

The liability has been computed based on rates of pay in effect at June 30, 2006.

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2006

Note 8 – Deficit Fund Balance

Special Revenue-Employee Benefits Fund had a deficit balance at June 30, 2006. The deficit balance was due to excess disbursements over receipts during the past three fiscal years.

The Sewer Revenue Fund had a deficit balance at June 30, 2006 of \$26,494. The deficit balance resulted from excess disbursements over receipts during fiscal years ended June 30, 2006 and 2005.

Note 9 – Litigation

The City is named as a party in two lawsuits, which are pending in the Iowa District Court for Boone County. The City is vigorously defending its' positions regarding these two cases.

Note 10 – Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt service	General fund	\$110,500
	Special Revenue:	
	Road Use Tax	20,000
	Enterprise:	
	Sewer Revenue	<u>10,000</u>
		<u>140,500</u>
General fund	Special Revenue:	
	Emergency	9,020
	Enterprise:	
	Water Revenue	10,000
	Sewer Revenue	<u>5,000</u>
		<u>24,020</u>
Special Revenue:	General	<u>67,500</u>
Employee Benefits		
Capital Projects	General	9,270
	Special Revenue:	
	Road Use Tax	12,200
	Enterprise:	
	Water Revenue	14,400
	Sewer Revenue	<u>6,950</u>
		<u>42,820</u>
Total		<u>\$274,840</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
Notes to Financial Statements (Continued)
June 30, 2006

Note 11 - Commitments

At June 30, 2006 the City owes \$150,873 to contractors for construction on the sanitary sewer project.

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, 2006

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 472,709	-
Other city tax	202,013	-
Licenses and permits	16,629	-
Use of money and property	23,586	4,882
Intergovernmental	502,833	-
Charges for service	175,502	568,683
Special assessments	18,275	-
Miscellaneous	55,900	10,438
	1,467,447	584,003
Disbursements:		
Public safety	305,736	-
Public works	405,484	-
Health and social services	3,600	-
Culture and recreation	197,725	-
Community and economic development	62,403	-
General government	145,762	-
Debt service	267,243	-
Capital projects	369,431	-
Business type activities	-	504,142
	1,757,384	504,142
Excess (deficiency) of receipts over (under) disbursements	(289,937)	79,861
Other financing sources (uses), net	349,020	(46,350)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	59,083	33,511
Balances beginning of year	566,363	361,420
Balances end of year	\$ 625,446	394,931

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
472,709	471,227	482,873	(10,164)
202,013	171,827	167,075	34,938
16,629	2,175	12,000	4,629
28,468	23,200	24,900	3,568
502,833	652,103	1,020,260	(517,427)
744,185	721,850	744,800	(615)
18,275	13,000	17,575	700
66,338	69,150	73,632	(7,294)
<u>2,051,450</u>	<u>2,124,532</u>	<u>2,543,115</u>	<u>(491,665)</u>
305,736	302,579	303,901	1,835
405,484	374,829	398,394	7,090
3,600	3,800	3,600	-
197,725	176,179	199,267	(1,542)
62,403	17,100	61,600	803
145,762	122,404	153,334	(7,572)
267,243	274,912	278,338	(11,095)
369,431	447,000	832,157	(462,726)
504,142	648,202	589,751	(85,609)
<u>2,261,526</u>	<u>2,367,005</u>	<u>2,820,342</u>	<u>(558,816)</u>
(210,076)	(242,473)	(277,227)	67,151
<u>302,670</u>	<u>246,170</u>	<u>258,596</u>	<u>44,074</u>
92,594	3,697	(18,631)	111,225
<u>927,783</u>	<u>1,489,679</u>	<u>1,489,679</u>	<u>(561,896)</u>
<u>1,020,377</u>	<u>1,493,376</u>	<u>1,471,048</u>	<u>(450,671)</u>

CITY OF MADRID

Notes to Required Supplementary Information – Budgetary Reporting June 30, 2006

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, the Permanent 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 \$453,337. The budget amendment is reflected in the final budget amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in public safety, public works, and community and economic development 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, 2006

	Permanent				Total
	Edgewood Park	Jensen Park	Boyd Library	Fire Equipment	
Receipts:					
Use of money and property	\$ -	-	1,387	-	1,387
Donations	10,000	1,831	-	605	12,436
Total receipts	<u>10,000</u>	<u>1,831</u>	<u>1,387</u>	<u>605</u>	<u>13,823</u>
Disbursements:					
Operating:					
Culture and recreation	-	8,954	6,280	-	15,234
Total disbursements	<u>-</u>	<u>8,954</u>	<u>6,280</u>	<u>-</u>	<u>15,234</u>
Net change in cash balances	10,000	(7,123)	(4,893)	605	(1,411)
Cash balances at beginning of year	-	12,188	44,173	20,000	76,361
Cash balances at end of year	<u>\$ 10,000</u>	<u>5,065</u>	<u>39,280</u>	<u>20,605</u>	<u>74,950</u>
Cash Basis Fund Balances					
Unreserved:					
Permanent funds	<u>\$ 10,000</u>	<u>5,065</u>	<u>39,280</u>	<u>20,605</u>	<u>74,950</u>
Total cash basis fund balances	<u>\$ 10,000</u>	<u>5,065</u>	<u>39,280</u>	<u>20,605</u>	<u>74,950</u>

CITY OF MADRID
Schedule of Indebtedness
Year Ended June 30, 2006

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
Street improvement	Mar 15, 2004	1.45-4.15	395,000
Water/sewer	Jan 1, 2006	3.6-4.40	310,000
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
\$	25,000	-	25,000	-	1,450	-
	590,000	-	50,000	540,000	30,153	-
	120,000	-	20,000	100,000	6,497	-
	580,000	-	70,000	510,000	23,485	-
	375,000	-	20,000	355,000	12,900	-
	-	310,000	-	310,000	-	-
\$	1,690,000	310,000	185,000	1,815,000	74,485	-
\$	290,000	-	55,000	235,000	10,005	-
	250,000	-	60,000	190,000	9,543	-
\$	540,000	-	115,000	425,000	19,548	-
\$	55,349	-	13,053	42,296	2,421	-
\$	7,603	-	7,603	-	156	-

CITY OF MADRID
Bond and Note Maturities
June 30, 2006

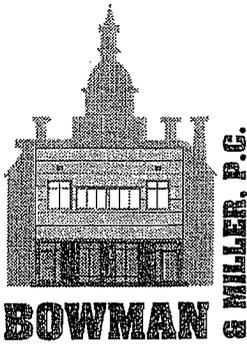
Year Ending June 30,	General Obligation Bonds					
	Library, storm sewer, bridge and street		Street improvement		Street improvement	
	Issued Jul 1, 1999		Issued May 1, 2000		Issued Nov 1, 2002	
	Interest Rates	Amount	Interest Rate	Amount	Interest Rate	Amount
2007	4.90 %	\$ 80,000	5.35 %	\$ 25,000	3.60 %	\$ 65,000
2008	5.00	85,000	5.40	25,000	3.80	70,000
2009	5.10	90,000	5.45	25,000	4.00	70,000
2010	5.20	90,000	5.55	25,000	4.20	80,000
2011	5.25	95,000	-	-	4.40	110,000
2012	2.30	100,000	-	-	4.50	115,000
2013	-	-	-	-	-	-
2014	-	-	-	-	-	-
2015	-	-	-	-	-	-
2016	-	-	-	-	-	-
Total		\$ 540,000		\$ 100,000		\$ 510,000

Year Ending June 30,	Revenue Bonds and Notes				
	Water		Sewer		Total
	Issued Oct 1, 2002		Issued Oct 1, 1998		
	Interest Rates	Amount	Interest Rates	Amount	
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		\$ 235,000		\$ 190,000	\$ 425,000

Street improvement			Water/Sewer improvement			
Issued Mar 15, 2004			Issued Jan 1, 2006			
Interest			Interest			
Rate		Amount	Rate		Amount	Total
2.25 %	\$	25,000	3.60 %	\$	10,000	\$ 205,000
2.60		25,000	3.65		15,000	220,000
2.85		25,000	3.75		15,000	225,000
3.10		25,000	3.80		20,000	240,000
3.35		20,000	3.85		55,000	280,000
3.55		20,000	3.95		60,000	295,000
3.70		50,000	4.05		60,000	110,000
3.85		55,000	4.20		25,000	80,000
4.00		55,000	4.30		25,000	80,000
4.15		55,000	4.40		25,000	80,000
	\$	<u>355,000</u>		\$	<u>310,000</u>	<u>\$ 1,815,000</u>

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

	<u>Years ended June 30.</u>			
	2006	2005	2004	2003
Receipts:				
Property tax	\$ 472,709	452,153	442,715	411,177
Tax increment financing collections	-	-	-	45,959
Other city tax	202,013	183,946	188,857	162,798
Intergovernmental	502,833	248,810	231,545	256,812
Licenses and permits	16,629	11,201	1,912	4,014
Use of money and property	23,586	12,134	16,595	18,473
Charges for services	175,502	173,812	128,726	118,802
Special assessments	18,275	18,499	19,400	41,524
Miscellaneous	55,900	72,558	67,744	151,594
Total	\$ 1,467,447	1,173,113	1,097,494	1,211,153
Disbursements:				
Operating:				
Public safety	\$ 305,736	301,401	292,206	255,197
Public works	405,484	379,831	355,629	326,311
Health and social services	3,600	3,606	3,530	2,900
Culture and recreation	197,725	185,677	167,677	151,537
Community and economic development	62,403	15,570	8,902	9,568
General government	145,762	154,092	121,865	101,409
Debt service	267,243	264,385	224,577	172,815
Capital projects	369,431	465,860	227,732	778,715
Total	\$ 1,757,384	1,770,422	1,402,118	1,798,452



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 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, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 30, 2006. 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-06 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, 2006 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 30, 2006

CITY OF MADRID
Schedule of Findings
Year Ended June 30, 2006

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were 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 a material weakness.
- (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, 2006

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-06 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-06 Certified Budget – Disbursements during the year ended June 30, 2006, exceeded the amounts budgeted in the public safety, public works, and , community and economic development 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-B-06 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.

III-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF MADRID
Schedule of Findings (Continued)
Year Ended June 30, 2006

III-D-06 Business Transactions – No business transactions between the City and City officials or employees were noted.

III-E-06 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-06 Council Minutes – No transactions were found that we believe should have been approved in the council minutes but were not.

III-G-06 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-06 Financial Condition – The City had deficit balance in the following accounts and / or funds:
Special Revenue Fund - Employee Benefits Account and Sewer Revenue Account.

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-06 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.
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Marshalltown, IA 50158

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