

City of Fort Madison

**Independent Auditor's Report
Financial Statements and Supplementary Information
Auditor's Report on Compliance
Comments and Recommendations**

June 30, 2006

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City of Fort Madison

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Ireland	Mayor	January, 2008
Brad Randolph	Council Member	January, 2010
Greg Smith	Council Member	January, 2008
Chris Greenwald	Council Member	January, 2010
Jim Helling	Council Member	January, 2008
David Sallen	Council Member	January, 2008
Neal Boeding	Council Member	January, 2010
Bob Chesnut	Council Member	January, 2008
Larry Dinwiddie	Interim City Manager	Indefinite
Suellen Mead	City Clerk	Indefinite
Peggy Steffensmeier	City Treasurer	Indefinite
Robert N. Johnson, III	Attorney	Indefinite
Randy Vanwye	Chief of Police	Indefinite
Joey Herren	Interim Fire Chief	Indefinite



C P A A S S O C I A T E S P C
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 Auditor's Report

To the Honorable Mayor and City Council of
the City of Fort Madison, Iowa

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 Fort Madison, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fort Madison's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 financial position - cash basis of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Fort Madison as of and for the year ended June 30, 2006, and the respective changes in financial position - cash basis thereof 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 reports dated August 3, 2006 on our consideration of the City of Fort Madison's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 4 through 9 and budgetary comparison information on pages 21 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, consisting 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 Fort Madison'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 four years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting.

The supplementary information, as in the table of contents, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

The other data included in this report, designated as the "Statistical Section" in the table of contents, was not audited by us and, accordingly, we express no opinion on it.

CPA Associates PC

August 3, 2006

City of Fort Madison Management's Discussion and Analysis

The City of Fort Madison 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.

FINANCIAL HIGHLIGHTS

- The City's governmental funds' receipts increased .8%, or approximately \$71,600, from fiscal year 2005 (FY05). Property tax decreased approximately \$95,100 due to the state mandated residential rollbacks.
- City program disbursements decreased 1.8%, or approximately \$159,300, from FY05.
- The City's governmental funds' cash balance at June 30, 2006 increased more than 33%, or approximately \$1,620,800, from June 30, 2005.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements as well as other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the government's financial activities.
- The Government-wide Financial Statements consist of a statement of activities and changes in cash balances. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Supplementary Information provides detailed information about the annual budget, nonmajor governmental funds and debt obligations.

REPORTING THE CITY AS A WHOLE

The statement of activities and changes in cash balance presents information showing how the City's cash balance changed during the most recent fiscal year.

The City's governmental activities are displayed in the statement of activities and changes in cash balance. Governmental activities include public safety, public works, health and social services, 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.

The business-type activities of the City include the waterworks, wastewater, storm water utility and solid waste departments. These activities are financed primarily by user charges.

Fund Financial Statements

The fund financial statements begin on page 10 and provide detailed information about individual, significant funds; not the City as a whole. Some funds are required to be established by State law and by bond covenants. The City can establish other funds to help it control and manage money for particular purposes.

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. Governmental funds include: 1) the General Fund, 2) the Special Revenue Funds such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. Governmental funds are reported on the basis of cash receipts and disbursements. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Financial records and reports are prepared on the basis of when cash is received and disbursed. The government fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide statement of activities and changes in cash balance. The City maintains the Enterprise Funds to provide information for the water, sewer, and solid waste funds, considered to be major funds of the City.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, the City reports the activities of the funds using the cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles (GAAP). The City does not report capital assets or depreciation on those assets as would be required by GAAP.

Governmental Activities

The City's cash balance for governmental activities increased from a year ago, increasing from \$3.25 million to \$4.87 million. Our analysis below focuses on this change in cash balance and changes in receipts and disbursements from the prior year.

Changes in Cash Balance of Governmental Activities (in thousands)		
	2006	2005
Receipts and transfers:		
Property tax	\$ 3,433	\$ 3,550
Local option sales tax	966	900
Road use funds	961	954
Grants and reimbursements	1,335	1,155
Use of money and property	139	105
Charges for services	193	192
Other receipts	1,994	2,093
Bond proceeds	1,551	-
Transfers, net	<u>70</u>	<u>(262)</u>
Total receipts and transfers	<u>10,642</u>	<u>8,687</u>
Disbursements:		
Public safety	3,518	3,476
Public works	948	1,017
Health and social services	37	36
Culture and recreation	918	989
Community and economic development	389	422
General government	2,022	1,907
Debt service	520	636
Capital projects	<u>669</u>	<u>697</u>
Total disbursements	<u>9,021</u>	<u>9,180</u>
Increase (decrease) in cash balance	1,621	(493)
Cash balance beginning of year	<u>3,246</u>	<u>3,739</u>
Cash balance end of year	<u>\$ 4,867</u>	<u>\$ 3,246</u>

The City's total receipts for governmental activities increased by 14.0 percent (\$1,479,000). The increase includes bond proceeds of \$1,550,600. The total cost of all programs and services decreased by approximately \$159,300 or 1.8 percent with no new programs added this year. To offset declining revenues and rising costs the City has used its General Fund cash balances to balance the General Fund for the last three years.

This fund balance was built up slowly over the decade of the 1990's. It is rapidly being depleted. At some point in the near future this fund will be exhausted and the City will be forced to make many difficult financial decisions.

The city decreased property tax rates in 2006 by 9.3 percent. The decrease was due to the retirement of debt and the use of the fund balances in the insurance and pension funds.

The cost of all governmental activities this year was \$9.02 million compared to \$9.18 million last year. However, as shown in the statement of activities and changes in cash balance on page 11, the amount that our taxpayers ultimately financed for these activities through City taxes was \$7.37 million because some of the cost was paid by those directly benefited from the programs (\$278,200) or by other governments and organizations that subsidized certain programs with grants and contributions (\$1,335,300). Overall, the City's governmental program receipts, including intergovernmental aid and fees for service, increased in 2006 from approximately \$1,501,400 to approximately \$1,613,400, principally due to an increase in operating and capital grants, contributions, local option sales tax revenues and unrestricted interest. The City paid for the remaining public benefit portion of governmental activities with approximately \$7,407,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Business-Type Activities

Change in cash balances of business-type activities (in thousands)	2006	2005
Program receipts:		
Water charges	\$ 2,465	\$ 1,969
Sewer charges	1,218	1,093
Solid waste charges	703	705
Bond proceeds	2,260	645
Other miscellaneous receipts	289	226
Transfers, net	<u>(70)</u>	<u>262</u>
Total receipts	<u>6,865</u>	<u>4,900</u>
Disbursements:		
Water	2,781	2,361
Sewer	2,498	2,114
Solid waste	<u>667</u>	<u>631</u>
Total disbursements	<u>5,946</u>	<u>5,106</u>
Increase (decrease) in cash balance	919	(206)
Cash balance beginning of year	<u>3,660</u>	<u>3,866</u>
Cash balance end of year	<u>\$ 4,579</u>	<u>\$ 3,660</u>

Total business-type activities receipts for the fiscal year were \$6.86 million compared to \$4.90 million last year. This increase was due primarily to the receipt of bond proceeds. The cash balance increased by approximately \$918,800 from the prior year largely due to increased borrowing. Total disbursements for the fiscal year increased by approximately 16.4% to a total of \$5.94 million.

THE CITY'S INDIVIDUAL MAJOR FUNDS

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's funds is to provide information on near-term inflows, outflows and cash balances of spendable resources. The following are the major reasons for the changes in cash balances from the prior year for the City's major funds.

Governmental Funds

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the cash balance of the General Fund was \$408,600, a decrease of \$219,000 from the prior year. Nearly all of this decrease was due to increased employee health benefit cost increases and municipal Fire and Police Retirement system increases in employer contributions and concessions from its various collective bargaining units.

The Road Use Tax Fund cash balance increased by \$29,600 to \$145,400 during the fiscal year. This increase was attributable to decreased costs. The rising costs of fuel and other petroleum based products are expected to put continued pressure on the cash balance of the Road Use Tax Fund.

The Local Option Sales Tax was established in previous years to provide additional general fund revenues to reduce the City's reliance on property tax revenues and provide a reliable funding source for capital projects. 60% of these Option Sales Tax revenues go to the general fund, while the other 40% goes to pay for capital improvement projects. At the end of the fiscal year, the cash balance was \$638,300, an increase of \$288,000 from the previous year. The decrease was primarily the result of proceeds of \$966,200 received from sales tax and only \$680,100 transferred to other funds.

Proprietary Funds

The cash balance of the Enterprise Funds increased by approximately \$918,800 to \$4,578,800, due primarily to bond proceeds received during the current year.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearings for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Over the course of the year, the City amended its operating budget. The amendment was approved on May 16, 2006 and resulted in an increase in operating disbursements carried forward into FY06 for ongoing or uncompleted capital projects. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At year-end, the City had approximately \$8,528,600 in bonds and other long-term debt compared to approximately \$5,380,600 last year as shown below.

Outstanding debt at year-end (in thousands)

	2006	2005
General obligation bonds	\$ 4,710	\$ 1,165
Revenue bonds	3,310	3,642
Capital loan notes	197	183
Urban renewal TIF's	<u>312</u>	<u>391</u>
Total	<u>\$ 8,529</u>	<u>\$ 5,381</u>

The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to 5 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$4,906,900 is well below the City's \$15.9 million legal debt limit.

More detailed information about the City's long-term liabilities is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the 2007 fiscal year budget, tax rates, and fees that will be charged for various City activities. The City has experienced several plant closures over the last three years, but a recent commitment by a multi-national company to establish a manufacturing plant has reversed that trend. The local unemployment rate continues to be higher than both the State and National rates, but the local rate has dropped considerably in the past twelve months. The local unemployment rate in August of 2005 was 7.5%, compared to July 2006 at 6.4%. The current rate should continue to improve with the opening of the new manufacturing plant in the first quarter of 2007.

The city water department is completing its preliminary steps before a new water treatment plant is built. The new water treatment plant is scheduled to be in operation during the first quarter of 2009. A new library is under construction and should be completed by June of 2007. The Highway 61 bypass of Fort Madison is scheduled to start in 2009. With the City Council approval of the Port Authority, and Enterprise Zone status, the stage is set for additional infrastructure, jobs, and tax revenues for the City.

With the decline in population in the City and County of 1,326 people or 3.5% from the year 2000 and the State's residential rollback rate, the City's taxable valuation has been reduced resulting in reduced revenues. It will be later in the 2007-2008 calendar years before any of the above mentioned items affect revenue for the City. This will result in difficulty in balancing the 2007-2008 fiscal year budget.

These indicators were taken into account when adopting the budget for 2007.

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. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the City Clerk, City of Fort Madison, P.O. Box 240, Fort Madison, Iowa 52627.

Respectfully submitted,

Larry Dinwiddie
Interim City Manager

City of Fort Madison
Statement of Activities and Net Assets - Cash Basis
Year Ended June 30, 2006

	Program Receipts				Net (Disbursements) Receipts		
	Disbursements	Charges for Service and Sales	Operating Grants Contributions, and Restricted Interest	Capital Grants Contributions	Governmental Activities	Business-Type Activities	Total
Functions / Programs:							
Governmental activities:							
Public safety	\$ 3,518,543	\$ 24,366	\$ 469,769	\$ -	\$ (3,024,408)	\$ -	\$ (3,024,408)
Public works	947,730	-	-	-	(947,730)	-	(947,730)
Health and social services	36,669	-	29,173	-	(7,496)	-	(7,496)
Culture and recreation	917,842	190,636	560,614	-	(166,592)	-	(166,592)
Community and economic development	389,318	-	105,606	-	(283,712)	-	(283,712)
General government	2,021,789	63,184	50,792	-	(1,907,813)	-	(1,907,813)
Debt service	520,053	-	-	-	(520,053)	-	(520,053)
Capital projects	<u>668,547</u>	<u>-</u>	<u>119,308</u>	<u>-</u>	<u>(549,239)</u>	<u>-</u>	<u>(549,239)</u>
Total government activities	9,020,491	278,186	1,335,262	-	(7,407,043)	-	(7,407,043)
Business-type activities:							
Water	2,780,658	2,464,797	13,571	-	-	(302,290)	(302,290)
Sewer	2,498,078	1,217,961	-	-	-	(1,280,117)	(1,280,117)
Solid waste	<u>666,630</u>	<u>702,978</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,348</u>	<u>36,348</u>
Total business-type activities	<u>5,945,366</u>	<u>4,385,736</u>	<u>13,571</u>	<u>-</u>	<u>-</u>	<u>(1,546,059)</u>	<u>(1,546,059)</u>
Total	<u>\$ 14,965,857</u>	<u>\$ 4,663,922</u>	<u>\$ 1,348,833</u>	<u>\$ -</u>	<u>(7,407,043)</u>	<u>(1,546,059)</u>	<u>(8,953,102)</u>
General receipts:							
Property tax levied for:							
General purposes					2,852,382	11,067	2,863,449
Tax increment financing					311,332	-	311,332
Debt service					269,606	-	269,606
Local option sales tax					966,211	-	966,211
Road use tax					960,833	-	960,833
Unrestricted investment earnings					139,397	128,285	267,682
Bond proceeds					1,550,562	2,260,260	3,810,822
Transfers					70,400	(70,400)	-
Miscellaneous					<u>1,907,104</u>	<u>135,696</u>	<u>2,042,800</u>
Total general receipts and transfers					<u>9,027,827</u>	<u>2,464,908</u>	<u>11,492,735</u>
Change in cash balance					1,620,784	918,849	2,539,633
Cash balance beginning of year					<u>3,245,909</u>	<u>3,659,952</u>	<u>6,905,861</u>
Cash balance end of year					<u>\$ 4,866,693</u>	<u>\$ 4,578,801</u>	<u>\$ 9,445,494</u>
Cash Basis Net Assets							
Restricted:							
Streets					\$ 145,392	\$ -	\$ 145,392
Sales Tax					636,372	-	636,372
Other purposes					3,674,380	2,492,620	6,167,000
Unrestricted					<u>410,549</u>	<u>2,086,181</u>	<u>2,496,730</u>
Total cash basis net assets					<u>\$ 4,866,693</u>	<u>\$ 4,578,801</u>	<u>\$ 9,445,494</u>

See notes to financial statements.

City of Fort Madison
Statement of Cash Transactions and Changes in Cash Balances
Governmental Funds
Year Ended June 30, 2006

	<u>Special Revenue</u>			<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Nonmajor Govern- mental</u>	<u>Total</u>
	<u>General</u>	<u>Road Use</u>	<u>Sales Tax</u>				
Receipts:							
Property tax	\$ 1,782,040	\$ -	\$ -	\$ 269,606	\$ -	\$ 1,070,342	\$ 3,121,988
Tax increment financing collections	-	-	-	105,688	-	205,644	311,332
Other taxes	-	-	966,211	-	-	161,061	1,127,272
Use of money and property	89,482	-	-	564	8,689	40,662	139,397
Licenses and permits	50,615	-	-	-	-	-	50,615
Intergovernmental	45,286	960,833	-	-	118,178	757,744	1,882,041
Charges for services	122,281	-	-	-	-	69,449	191,730
Special assessments	-	-	-	-	1,130	-	1,130
Miscellaneous	169,034	13,450	-	-	284,706	1,727,618	2,194,808
Total receipts	<u>2,258,738</u>	<u>974,283</u>	<u>966,211</u>	<u>375,858</u>	<u>412,703</u>	<u>4,032,520</u>	<u>9,020,313</u>
Disbursements:							
Governmental activities:							
Public safety	2,945,368	-	-	-	-	573,175	3,518,543
Public works	26,398	921,332	-	-	-	-	947,730
Health and social services	419	-	-	-	-	36,250	36,669
Culture and recreation	752,671	-	-	-	642	164,529	917,842
Community and economic development	41,006	-	-	-	-	348,312	389,318
General government	579,606	-	-	-	-	1,442,183	2,021,789
Debt service	-	-	-	402,570	-	117,483	520,053
Capital projects	-	-	-	-	668,547	-	668,547
Total disbursements	<u>4,345,468</u>	<u>921,332</u>	<u>-</u>	<u>402,570</u>	<u>669,189</u>	<u>2,681,932</u>	<u>9,020,491</u>
Excess (deficiency) of receipts over disbursements	(2,086,730)	52,951	966,211	(26,712)	(256,486)	1,350,588	(178)
Other financing sources (uses):							
Bond proceeds	-	-	-	-	1,550,562	-	1,550,562
Operating transfers in (out)	1,869,602	(23,400)	(680,106)	33,408	110,197	(1,239,301)	70,400
Net change in cash balances	(217,128)	29,551	286,105	6,696	1,404,273	111,287	1,620,784
Balance beginning of year	627,677	115,841	350,267	187,420	432,919	1,531,785	3,245,909
Balance end of year	<u>\$ 410,549</u>	<u>\$ 145,392</u>	<u>\$ 636,372</u>	<u>\$ 194,116</u>	<u>\$ 1,837,192</u>	<u>\$ 1,643,072</u>	<u>\$ 4,866,693</u>
Cash Basis Fund Balances							
Reserved:							
Debt service	\$ -	\$ -	\$ -	\$ 194,116	\$ -	\$ -	\$ 194,116
Unreserved:							
General fund	410,549	-	-	-	-	-	410,549
Special revenue fund	-	145,392	636,372	-	-	1,462,195	2,243,959
Capital projects fund	-	-	-	-	1,837,192	-	1,837,192
Permanent fund	-	-	-	-	-	180,877	180,877
Total cash basis fund balances	<u>\$ 410,549</u>	<u>\$ 145,392</u>	<u>\$ 636,372</u>	<u>\$ 194,116</u>	<u>\$ 1,837,192</u>	<u>\$ 1,643,072</u>	<u>\$ 4,866,693</u>

See notes to financial statements.

City of Fort Madison
Statement of Cash Transactions and Changes in Cash Balances
Proprietary Funds
Year Ended June 30, 2006

	Enterprise Funds			Total
	Water	Sewer	Solid Waste	
Receipts:				
Charges for service	\$ 2,464,797	\$ 1,217,961	\$ 702,978	\$ 4,385,736
Use of money and property	37,962	86,236	4,087	128,285
Customer deposits	24,415	-	-	24,415
Special assessments	2,281	3,275	5,511	11,067
Miscellaneous	111,591	12,268	993	124,852
Total receipts	<u>2,641,046</u>	<u>1,319,740</u>	<u>713,569</u>	<u>4,674,355</u>
Disbursements:				
Business-type activities:				
Operations	1,846,797	1,160,649	666,630	3,674,076
Capital outlay	500,004	1,187,167	-	1,687,171
Debt service	433,857	150,262	-	584,119
Total business-type activities	<u>2,780,658</u>	<u>2,498,078</u>	<u>666,630</u>	<u>5,945,366</u>
Excess (deficiency) of receipts over disbursements	(139,612)	(1,178,338)	46,939	(1,271,011)
Other financing sources (uses):				
Bond proceeds	321,028	1,939,232	-	2,260,260
Operating transfers in (out)	<u>(11,900)</u>	<u>(35,100)</u>	<u>(23,400)</u>	<u>(70,400)</u>
Net change in cash balances	169,516	725,794	23,539	918,849
Balance beginning of year	<u>1,032,233</u>	<u>2,443,440</u>	<u>184,279</u>	<u>3,659,952</u>
Balance end of year	<u>\$ 1,201,749</u>	<u>\$ 3,169,234</u>	<u>\$ 207,818</u>	<u>\$ 4,578,801</u>
Cash Basis Fund Balances				
Reserved for equipment replacement	\$ 364,785	\$ 2,127,835	\$ -	\$ 2,492,620
Unreserved	<u>836,964</u>	<u>1,041,399</u>	<u>207,818</u>	<u>2,086,181</u>
Total cash basis fund balances	<u>\$ 1,201,749</u>	<u>\$ 3,169,234</u>	<u>\$ 207,818</u>	<u>\$ 4,578,801</u>

See notes to financial statements.

City of Fort Madison
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The City of Fort Madison is a political subdivision of the State of Iowa located in Lee County. It was first incorporated in 1838 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, culture, recreation, community and economic development, and general government services. The City also provides water and sewer utilities and solid waste removal for its citizens.

Reporting Entity

For financial reporting purposes, the City of Fort Madison has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Planning and Zoning Commission, Board of Adjustments, Airport Commission, and Great River Regional Waste Authority.

Other organizations which City officials are members of are 28E purchasing arrangements, regional planning commission, E911 joint service boards, Southeast Iowa area safety support organizations, ambulance associations, and drug task force.

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.

City of Fort Madison
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

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.

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 Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for capital improvements, equipment and community programs and services.

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.

City of Fort Madison
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

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.

The Solid Waste Fund accounts for the operation and maintenance of the City's garbage pick-up system.

Measurement Focus and Basis of Accounting

The City of Fort Madison maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, no disbursements exceeded the amounts budgeted in the general government and business type activities functions.

Note 2. Deposits and Investments

The City's deposits 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 and the Treasurer of the State of Iowa; 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 investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all category 1 which means that the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

The City received \$231,000 interest income during the year.

City of Fort Madison
Notes to Financial Statements

Note 3. Bonds Payable and Lease Commitments

A summary of the City's June 30, 2006 general obligation, revenue and special assessment bonded indebtedness is as follows:

Year Ended June 30,	<u>General Obligation</u>		<u>Revenue Bonds</u>		<u>Urban Renewal</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 425,151	\$ 203,738	\$ 387,000	\$ 139,634	\$ 85,711	\$ 25,370	\$ 897,862	\$ 368,742
2008	409,242	182,988	400,000	123,942	87,000	18,384	896,242	325,314
2009	380,000	165,918	417,000	107,331	67,000	11,158	864,000	284,407
2010	325,000	149,705	305,000	89,906	35,000	5,239	665,000	244,850
2011	342,500	136,138	266,000	77,276	37,000	2,310	645,500	215,724
2012-2016	1,160,000	508,642	1,205,000	189,757	-	-	2,365,000	698,399
2017-2021	980,000	293,400	197,000	38,070	-	-	1,177,000	331,470
2022-2026	<u>885,000</u>	<u>90,200</u>	<u>133,000</u>	<u>8,070</u>	<u>-</u>	<u>-</u>	<u>1,018,000</u>	<u>98,270</u>
	<u>\$ 4,906,893</u>	<u>\$ 1,730,729</u>	<u>\$ 3,310,000</u>	<u>\$ 773,986</u>	<u>\$ 311,711</u>	<u>\$ 62,461</u>	<u>\$ 8,528,604</u>	<u>\$ 2,567,176</u>

The resolutions 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 and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.
- (c) Monthly transfers equal to a sum of one-twelfth of the principal of all the 1998, 2001 and 2002 Water Revenue Bonds maturing on the next maturity date plus one-sixth of the interest coming due on the next interest payment date shall be made to the Water Revenue Bond Sinking Fund for the purpose of making bond interest and principal payments when due.
- (d) A Water Revenue Bond Reserve Fund of \$619,000 shall be maintained and used solely for payment of principal and interest on the 1998, 2001 and 2002 Water Revenue Bonds and any Parity Bonds when insufficient funds are available in the Water Revenue Bond Sinking Fund.
- (e) A minimum of \$1,500 per month shall be transferred to the Water Revenue Bond Depreciation Fund until a minimum fund balance of \$100,000 is attained. These funds are to be used solely to pay the cost of extraordinary maintenance expense or repairs and capital improvements to the system. At June 30, 2006, this restricted fund had a balance of \$188,725 and is included as part of the Water Revenue Fund balance.

City of Fort Madison
Notes to Financial Statements

Note 4. Pension and Retirement Benefits

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

Most plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. 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, was \$130,500, \$128,500, and \$130,900, respectively, equal to the required contributions for each year.

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by State statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 104th Street, Urbandale, Iowa 50322.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 17% of earnable compensation (28.21% as of July 1, 2005). Contribution requirements are established by State statute. The City's contribution to the Plan for the years ended June 30, 2006, 2005, and 2004 was \$417,600, \$361,600, and \$278,900, respectively, equal to the required contributions for each year.

International City Management Association

The Iowa Public Employees Retirement System regulations exempt the City Manager from participating in the state retirement system. Therefore, the City has made a retirement contribution to the ICMA retirement system for the City Manager which allows up to 25% of salary with a maximum of \$8,000. For the years ended June 30, 2006, 2005, and 2004, these contributions totaled \$4,502, \$3,895, and \$3,790, respectively.

**City of Fort Madison
Notes to Financial Statements**

Note 5. Compensated Absences

City employees, with the exceptions of fire department and water department personnel, accumulate sick leave hours at a rate of 14 days per year up to a maximum of 1,160 hours. Fire and water department employees accumulate 12 hours per month up to a maximum of 1,160 hours. Accumulated sick leave is not payable on termination, retirement or death, with the exception of water department employees who can receive 400 hours of sick leave upon retirement.

Accumulated sick leave and vacation are not recognized as expenditures by the City until used or paid. The City's maximum liability for unrecognized accrued employee benefits as of June 30, 2006, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 344,300
Sick leave	<u>82,200</u>
	<u>\$ 426,500</u>

This liability has been computed based on rates of pay as of June 30, 2006.

Note 6. Related Party Transactions

The City had business transactions between the City and City officials totaling \$10,073 during the year ended June 30, 2006.

Note 7. Conduit Debt Obligations

The City has, in the past, assisted in several issues of industrial revenue bonds, issued for the purposes of constructing privately owned manufacturing and other related facilities within the City. The bonds are not direct or contingent liabilities of the City, as the revenue from lease agreements and properly purchased with the bond proceeds are pledged for the total payment of principal and interest on the bonds and the bondholders can only look to these sources for repayment. The following are the outstanding issues in which the City assisted:

<u>Company</u>	<u>Type</u>	<u>Year Issued</u>	<u>Amount Issued</u>
Amax, Inc.	Revenue	1977	\$ 12,000,000
Fort Madison Community Hospital	Revenue	1996	3,500,000
WOW, LLC	Revenue	1999	1,450,000

City of Fort Madison
Notes to Financial Statements

Note 8. Joint Venture

The City is a participant in the Great River Regional Waste Authority, a political subdivision pursuant to the Code of Iowa Chapter 28E. The purpose of the agreement is to provide area governments with solid waste disposal sources. The City currently provides one member of the five-member Board. Financial statements of the Waste Authority are available at the landfill office, 2092 303rd Avenue, Fort Madison, Iowa.

Note 9. Deficit Fund Balance

The following Special Revenue Funds had deficit balances at year end:

Drug Task Force	\$ 6,707
Traffic Safety Grants	<u>436</u>
	<u>\$ 13,414</u>

The deficit balances were a result of costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of grant monies.

Note 10. Risk Management

The City of Fort Madison 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. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 11. Post-Closure Care Costs

The City was previously a member of the Lee County Solid Waste Commission, a political subdivision pursuant to the Code of Iowa Chapter 28E. The landfill was closed in 1990 and is required to perform certain maintenance and monitoring functions at the site for thirty years after closure. The City has been contributing approximately \$50,000 per year for these costs.

City of Fort Madison
Notes to Financial Statements

Note 12. 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>
General	Special revenue	\$ 1,869,602
Special revenue	Enterprise funds	70,400
Capital projects	Special revenue	<u>39,797</u>
		<u>\$ 1,979,799</u>

Note 13. Revolving Loan Fund

The City has entered into an agreement with Southeast Iowa Regional Planning Commission (SEIRPC) to establish a revolving loan fund for commercial business growth and to assist in new business development. The City transfers funds to SEIRPC who will administer and manage the revolving loan fund. The amounts to be transferred shall not exceed \$200,000. At June 30, 2006, \$162,603 was outstanding on these loans to businesses.

Note 14. Commitments

The City has committed to the following significant purchases as of June 30, 2006:

Water treatment plant	\$ 13,000,000
Amtrak depot - City share	150,000
Library project	<u>2,299,200</u>
Total	<u>\$ 15,449,200</u>

City of Fort Madison
Required Supplementary Information
Comparison of Receipts, Disbursements and Changes in Balances - Actual to Budget
Year Ended June 30, 2006

	Governmental Fund Types <u>Actual</u>	Proprietary Fund Type <u>Actual</u>	Less Funds Not Required to be <u>Budgeted</u>	<u>Net</u>	<u>Budget Original</u>	
Receipts:						
Property tax	\$ 3,121,988	\$ -	\$ -	\$ 3,121,988	\$ 3,019,465	\$
Tax increment financing collections	311,332	-	-	311,332	109,310	
Other taxes	1,127,272	-	-	1,127,272	1,471,324	
Use of money and property	139,397	128,285	2,777	264,905	276,370	
Licenses and permits	50,615	-	-	50,615	97,560	
Intergovernmental	1,882,041	-	-	1,882,041	3,295,232	
Charges for services	191,730	4,385,736	-	4,577,466	4,540,420	
Special assessments	1,130	11,067	-	12,197	8,000	
Miscellaneous	<u>2,194,808</u>	<u>149,267</u>	<u>1,348,787</u>	<u>995,288</u>	<u>1,791,210</u>	
Total receipts	<u>9,020,313</u>	<u>4,674,355</u>	<u>1,351,564</u>	<u>12,343,104</u>	<u>14,608,891</u>	<u>1</u>
Disbursements:						
Public safety	3,518,543	-	-	3,518,543	3,236,230	
Public works	947,730	-	-	947,730	1,045,060	
Health and social services	36,669	-	-	36,669	38,600	
Culture and recreation	917,842	-	-	917,842	998,180	
Community and economic development	389,318	-	-	389,318	633,560	
General government	2,021,789	-	1,345,406	676,383	1,872,230	
Debt service	520,053	-	-	520,053	439,810	
Capital projects	668,547	-	-	668,547	3,285,000	
Business-type	<u>-</u>	<u>5,945,366</u>	<u>-</u>	<u>5,945,366</u>	<u>6,305,600</u>	
Total disbursements	<u>9,020,491</u>	<u>5,945,366</u>	<u>1,345,406</u>	<u>13,620,451</u>	<u>17,854,270</u>	<u>1</u>
Excess (deficiency) of receipts over disbursements	(178)	(1,271,011)	6,158	(1,277,347)	(3,245,379)	(
Other financing sources	<u>1,620,962</u>	<u>2,189,860</u>	<u>-</u>	<u>(3,810,822)</u>	<u>3,660,000</u>	
Net changes	1,620,784	918,849	6,158	(5,088,169)	414,621	
Balance beginning of year	<u>3,245,909</u>	<u>3,659,952</u>	<u>790,424</u>	<u>6,738,626</u>	<u>7,141,167</u>	
Balance end of year	<u>\$ 4,866,693</u>	<u>\$ 4,578,801</u>	<u>\$ 796,582</u>	<u>\$ 1,650,457</u>	<u>\$ 7,555,788</u>	<u>\$</u>

City of Fort Madison
Required Supplementary Information
Notes to Required Supplementary Information - Budgetary Reporting
Year Ended 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 blended component units, internal service, non-expendable trust, and agency funds (when they exist). 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 disbursement 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 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 permanent 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, budget amendments increased budgeted disbursements by \$439,390. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the debt service activities functions.

City of Fort Madison
Combining Schedule of Cash Transactions and Changes in Cash Balances
Nonmajor Governmental Funds
Year Ended June 30, 2006

	Special Revenue												Permanent	Total
	Unrestricted Gifts and Misc	Hotel/Motel Tax	Traffic/Safety Misc Grants	LHAP Grants	Emergency Tax Levy	Drug Task Force	Cyprus and EDSA Grants	Grant Opportunity	Urban Renewal TIF	Police/Fire Retirement	Insurance Reserve	Equipment Grants	Cemetery PC	
Receipts:														
Property tax	\$ -	\$ -	\$ -	\$ -	\$ 55,544	\$ -	\$ -	\$ -	\$ -	\$ 343,610	\$ 671,188	\$ -	\$ -	\$ 1,070,342
TIF collections	-	-	-	-	-	-	-	205,644	-	-	-	-	-	205,644
Other taxes	-	161,061	-	-	-	-	-	-	-	-	-	-	-	161,061
Interest on investments	11,403	729	-	-	-	-	14,397	4,078	4,528	2,750	-	-	2,777	40,662
Intergovernmental	36,469	-	63,970	183,807	-	73,392	107,606	-	-	-	-	292,500	-	757,744
Charges for service	69,449	-	-	-	-	-	-	-	-	-	-	-	-	69,449
Miscellaneous	90,956	-	-	-	-	-	287,875	-	-	1,348,787	-	-	-	1,727,618
Total receipts	208,277	161,790	63,970	183,807	55,544	73,392	107,606	302,272	209,722	348,138	2,022,725	292,500	2,777	4,032,520
Disbursements:														
Public safety	9,569	-	62,819	-	80,053	88,787	37	-	-	6,810	-	325,100	-	573,175
Health and social services	36,250	-	-	-	-	-	-	-	-	-	-	-	-	36,250
Culture and recreation	157,114	-	-	7,415	-	-	-	-	-	-	-	-	-	164,529
Comm & econ development	1,814	-	-	148,752	-	-	100,504	97,242	-	-	-	-	-	348,312
General government	6,219	90,558	-	-	-	-	-	-	-	1,345,406	-	-	-	1,442,183
Debt service	-	-	-	-	-	-	-	-	117,483	-	-	-	-	117,483
Total disbursements	210,966	90,558	62,819	156,167	80,053	88,787	100,541	97,242	117,483	6,810	1,345,406	325,100	-	2,681,932
Excess (deficiency) of receipts over disbursements	(2,689)	71,232	1,151	27,640	(24,509)	(15,395)	7,065	205,030	92,239	341,328	677,319	(32,600)	2,777	1,350,588
Other financing sources (uses)														
Operating transfer in	29,606	-	814	18,988	-	15,000	10,098	-	-	-	-	32,600	-	107,106
Operating transfer out	111,261	(141,907)	(1,097)	-	-	-	-	(129,197)	-	(407,003)	(778,464)	-	-	(1,346,407)
Total other	140,867	(141,907)	(283)	18,988	-	15,000	10,098	(129,197)	-	(407,003)	(778,464)	32,600	-	(1,239,301)
Net changes	138,178	(70,675)	868	46,628	(24,509)	(395)	17,163	75,833	92,239	(65,675)	(101,145)	-	2,777	111,287
Balance beginning	170,978	70,675	(1,304)	(43,087)	111,845	(6,312)	35,250	391,572	161,856	175,796	286,416	-	178,100	1,531,785
Balance ending	\$ 309,156	\$ -	\$ (436)	\$ 3,541	\$ 87,336	\$ (6,707)	\$ 52,413	\$ 467,405	\$ 254,095	\$ 110,121	\$ 185,271	\$ -	\$ 180,877	\$ 1,643,072
Cash Basis Fund Balances														
Unreserved:														
Special revenue fund	\$ 309,156	\$ -	\$ (436)	\$ 3,541	\$ 87,336	\$ (6,707)	\$ 52,413	\$ 467,405	\$ 254,095	\$ 110,121	\$ 185,271	\$ -	\$ -	\$ 1,462,195
Permanent fund	-	-	-	-	-	-	-	-	-	-	-	-	180,877	180,877
Total cash basis fund balances	\$ 309,156	\$ -	\$ (436)	\$ 3,541	\$ 87,336	\$ (6,707)	\$ 52,413	\$ 467,405	\$ 254,095	\$ 110,121	\$ 185,271	\$ -	\$ 180,877	\$ 1,643,072

**City of Fort Madison
Statement of Indebtedness
Year Ended June 30, 2006**

<u>Obligation</u>	<u>Date of Issuance</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
General obligation bonds:									
GO Bonds 2005 issue	10/05/05	3.75-4.00%	\$ 3,750,000	\$ -	\$ 3,750,000	\$ -	\$ 3,750,000	\$ 98,258	\$ -
Refunding bonds	10/29/02	1.45-2.80%	1,065,000	130,000	-	50,000	80,000	3,330	-
Park, library, city hall	08/21/01	3.00-4.50%	540,000	350,000	-	55,000	295,000	15,112	-
Street improvement	05/01/98	4.20-4.90%	750,000	460,000	-	50,000	410,000	21,708	-
Drainage/flood protection	10/01/99	5.00%	500,000	<u>225,000</u>	<u>-</u>	<u>50,000</u>	<u>175,000</u>	<u>11,250</u>	<u>-</u>
Total				<u>\$ 1,165,000</u>	<u>\$ 3,750,000</u>	<u>\$ 205,000</u>	<u>\$ 4,710,000</u>	<u>\$ 149,658</u>	<u>\$ -</u>
Revenue bonds:									
Water	10/01/02	2.25-4.10%	\$ 750,000	\$ 605,000	\$ -	\$ 50,000	\$ 555,000	\$ 21,578	\$ -
Water	08/21/01	3.30-5.00%	1,660,000	1,510,000	-	100,000	1,410,000	72,372	-
Sewer revenue capital loan note	09/27/00	3.92%	420,000	231,000	-	43,000	188,000	9,055	-
Sewer revenue capital loan note	04/19/04	3.00%	700,000	626,305	47,695	27,000	647,000	21,599	-
Water	05/01/98	4.25-4.50%	2,005,000	<u>670,000</u>	<u>-</u>	<u>160,000</u>	<u>510,000</u>	<u>29,907</u>	<u>-</u>
Total				<u>\$ 3,642,305</u>	<u>\$ 47,695</u>	<u>\$ 380,000</u>	<u>\$ 3,310,000</u>	<u>\$ 154,511</u>	<u>\$ -</u>
Capital loan notes:									
Backhoe/Loader - FMBT	08/03/05	6.00%	\$ 51,126	\$ -	\$ 51,126	\$ 6,733	\$ 44,393	\$ 2,201	\$ -
Capital loan note - fire truck	02/02/01	4.75%	287,500	<u>182,500</u>	<u>-</u>	<u>30,000</u>	<u>152,500</u>	<u>8,789</u>	<u>-</u>
Total				<u>\$ 182,500</u>	<u>\$ 51,126</u>	<u>\$ 36,733</u>	<u>\$ 196,893</u>	<u>\$ 10,990</u>	<u>\$ -</u>
Urban renewal TIF's:									
Hall Towing	08/11/93	7.00%	\$ 180,000	\$ 65,000	\$ -	\$ 20,000	\$ 45,000	\$ 4,550	\$ -
Gregory Manufacturing	07/25/96	6.50%	59,000	14,946	-	7,235	7,711	1,009	-
Cyprus Climax	09/23/97	Variable	265,000	125,000	-	28,000	97,000	8,437	-
Wolfe Packaging	11/03/99	8.25%	268,000	<u>186,000</u>	<u>-</u>	<u>24,000</u>	<u>162,000</u>	<u>14,849</u>	<u>-</u>
Total				<u>\$ 390,946</u>	<u>\$ -</u>	<u>\$ 79,235</u>	<u>\$ 311,711</u>	<u>\$ 28,845</u>	<u>\$ -</u>
Total of all debt				<u>\$ 5,380,751</u>	<u>\$ 3,848,821</u>	<u>\$ 700,968</u>	<u>\$ 8,528,604</u>	<u>\$ 344,004</u>	<u>\$ -</u>

**City of Fort Madison
Bond and Note Maturities
June 30, 2006**

General Obligation Bonds

Year Ending June 30,	<u>Issued October 5, 2005</u>		<u>Refunding Bond Issued August 21, 2001</u>		<u>Refunding Bond Issued May 1, 2000</u>		<u>Drainage/Flood Protection Issued May 1, 2000</u>		<u>Street Improvement Issued May 1, 2000</u>		Total
	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	
2007	3.75%	\$ 150,000	4.15%	\$ 55,000	2.60%	\$ 55,000	5.00%	\$ 55,000	4.55%	\$ 50,000	\$ 365,000
2008	3.75%	170,000	4.30%	55,000	2.80%	25,000	5.00%	60,000	4.60%	55,000	365,000
2009	3.75%	175,000	4.40%	60,000	-	-	5.00%	60,000	4.70%	55,000	350,000
2010	3.75%	175,000	4.50%	60,000	-	-	-	-	4.75%	60,000	295,000
2011	3.75%	185,000	4.50%	65,000	-	-	-	-	4.80%	60,000	310,000
2012	3.75%	190,000	-	-	-	-	-	-	4.85%	65,000	255,000
2013	4.00%	200,000	-	-	-	-	-	-	4.90%	65,000	265,000
2014	4.00%	210,000	-	-	-	-	-	-	-	-	210,000
2015	4.00%	210,000	-	-	-	-	-	-	-	-	210,000
2016	4.00%	220,000	-	-	-	-	-	-	-	-	220,000
2017	4.00%	200,000	-	-	-	-	-	-	-	-	200,000
2018	4.00%	210,000	-	-	-	-	-	-	-	-	210,000
2019	4.00%	185,000	-	-	-	-	-	-	-	-	185,000
2020	4.00%	190,000	-	-	-	-	-	-	-	-	190,000
2021	4.00%	195,000	-	-	-	-	-	-	-	-	195,000
2022	4.00%	210,000	-	-	-	-	-	-	-	-	210,000
2023	4.00%	215,000	-	-	-	-	-	-	-	-	215,000
2024	4.00%	225,000	-	-	-	-	-	-	-	-	225,000
2025	4.00%	<u>235,000</u>	-	-	-	-	-	-	-	-	<u>235,000</u>
		<u>\$ 3,750,000</u>		<u>\$ 295,000</u>		<u>\$ 80,000</u>		<u>\$ 175,000</u>		<u>\$ 410,000</u>	<u>\$ 4,710,000</u>

**City of Fort Madison
Bond and Note Maturities
June 30, 2006**

Revenue Bonds

Year Ending June 30,	<u>Issued October 29, 2002</u>		<u>Issued April 19, 2004</u>		<u>Issued August 21, 2001</u>		<u>Issued May 1, 1998</u>		<u>Issued September 27, 2000</u>		<u>Total</u>
	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	
2007	3.25%	\$ 50,000	3.00%	\$ 28,000	4.15%	\$ 100,000	4.50%	\$ 165,000	3.92%	\$ 44,000	\$ 387,000
2008	3.30%	55,000	3.00%	29,000	4.30%	100,000	4.50%	170,000	3.92%	46,000	400,000
2009	3.30%	55,000	3.00%	29,000	4.45%	110,000	4.50%	175,000	3.92%	48,000	417,000
2010	3.35%	60,000	3.00%	30,000	4.60%	165,000	-	-	3.92%	50,000	305,000
2011	3.55%	60,000	3.00%	31,000	4.75%	175,000	-	-	-	-	266,000
2012	3.65%	65,000	3.00%	32,000	4.90%	180,000	-	-	-	-	277,000
2013	3.80%	65,000	3.00%	33,000	5.00%	185,000	-	-	-	-	283,000
2014	3.90%	70,000	3.00%	34,000	5.00%	195,000	-	-	-	-	299,000
2015	4.10%	75,000	3.00%	35,000	5.00%	200,000	-	-	-	-	310,000
2016	-	-	3.00%	36,000	-	-	-	-	-	-	36,000
2017	-	-	3.00%	37,000	-	-	-	-	-	-	37,000
2018	-	-	3.00%	38,000	-	-	-	-	-	-	38,000
2019	-	-	3.00%	39,000	-	-	-	-	-	-	39,000
2020	-	-	3.00%	41,000	-	-	-	-	-	-	41,000
2021	-	-	3.00%	42,000	-	-	-	-	-	-	42,000
2022	-	-	3.00%	43,000	-	-	-	-	-	-	43,000
2023	-	-	3.00%	44,000	-	-	-	-	-	-	44,000
2024	-	-	3.00%	46,000	-	-	-	-	-	-	46,000
		<u>\$ 555,000</u>		<u>\$ 647,000</u>		<u>\$ 1,410,000</u>		<u>\$ 510,000</u>		<u>\$ 188,000</u>	<u>\$ 3,310,000</u>

**City of Fort Madison
Bond and Note Maturities
June 30, 2006**

Capital Loan Notes

Year Ending June 30,	<u>Fire Truck</u> <u>Issued 02/02/01</u>		<u>Backhoe/Loader</u> <u>Issued 08/03/05</u>		<u>Total</u>
	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	
2007	4.75%	\$ 30,000	6.00%	\$ 30,151	\$ 60,151
2008	4.75%	30,000	6.00%	14,242	44,242
2009	4.75%	30,000	-	-	30,000
2010	4.75%	30,000	-	-	30,000
2011	4.75%	<u>32,500</u>	-	<u>-</u>	<u>32,500</u>
		<u>\$ 152,500</u>		<u>\$ 44,393</u>	<u>\$ 196,893</u>

Urban Renewal TIF's

Year Ending June 30,	<u>Hall Towing</u> <u>Issued 08/11/93</u>		<u>Gregory Mfg</u> <u>Issued 07/25/96</u>		<u>Cyprus Climax</u> <u>Issued 09/23/97</u>		<u>Wolfe Packaging</u> <u>Issued 11/03/99</u>		<u>Total</u>
	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	
2007	7.00%	\$ 20,000	6.50%	\$ 7,711	9.25%	\$ 30,000	8.25%	\$ 28,000	\$ 85,711
2008	7.00%	25,000	-	-	9.25%	32,000	8.25%	30,000	87,000
2009	-	-	-	-	9.25%	35,000	8.25%	32,000	67,000
2010	-	-	-	-	-	-	8.25%	35,000	35,000
2011	-	<u>-</u>	-	<u>-</u>	-	<u>-</u>	8.25%	<u>37,000</u>	<u>37,000</u>
		<u>\$ 45,000</u>		<u>\$ 7,711</u>		<u>\$ 97,000</u>		<u>\$ 162,000</u>	<u>\$ 311,711</u>

City of Fort Madison
Schedule of Receipts By Source and Disbursements By Function
- All Governmental Fund Types

	Year Ended June 30,				
	2006	2005	2004	2003	2002
Property tax	<u>\$ 3,121,988</u>	<u>\$ 3,436,330</u>	<u>\$ 3,531,397</u>	<u>\$ 3,253,011</u>	<u>\$ 3,207,877</u>
Tax increment financing	<u>311,332</u>	<u>113,805</u>	<u>139,318</u>	<u>210,536</u>	<u>207,367</u>
Intergovernmental:					
Road use tax	960,833	954,182	955,808	934,297	863,752
Liquor license	17,286	18,206	20,047	18,249	17,339
Grants	866,733	766,540	775,163	860,286	1,012,097
Bank franchise tax	-	8,941	26,054	51,379	17,470
Tax replacement	-	-	-	226,407	231,383
Other	<u>74,677</u>	<u>35,435</u>	<u>41,029</u>	<u>50,016</u>	<u>56,251</u>
	<u>1,919,529</u>	<u>1,783,304</u>	<u>1,818,101</u>	<u>2,140,634</u>	<u>2,198,292</u>
Other taxes:					
Local option	966,211	900,315	954,829	857,370	921,814
Hotel/motel	<u>161,061</u>	<u>151,042</u>	<u>128,407</u>	<u>93,728</u>	<u>81,951</u>
	<u>1,127,272</u>	<u>1,051,357</u>	<u>1,083,236</u>	<u>951,098</u>	<u>1,003,765</u>
Miscellaneous	<u>2,540,192</u>	<u>2,563,904</u>	<u>2,278,272</u>	<u>1,069,710</u>	<u>1,128,896</u>
Total	<u>\$ 9,020,313</u>	<u>\$ 8,948,700</u>	<u>\$ 8,850,324</u>	<u>\$ 7,624,989</u>	<u>\$ 7,746,197</u>
Disbursements:					
Public safety	\$ 3,518,543	\$ 3,472,101	\$ 2,829,448	\$ 2,917,643	\$ 2,863,765
Public works	947,730	1,016,709	1,076,688	980,075	830,947
Health and social services	36,669	36,498	37,616	39,599	39,589
Culture and recreation	917,842	992,903	938,339	1,245,505	1,293,043
Comm & econ development	389,318	421,993	402,983	639,942	913,105
General government	2,021,789	1,906,586	1,821,715	622,754	628,539
Debt service	520,053	635,772	677,883	2,015,079	1,880,074
Capital projects	<u>668,547</u>	<u>697,147</u>	<u>302,088</u>	<u>1,258,502</u>	<u>991,449</u>
	<u>\$ 9,020,491</u>	<u>\$ 9,179,709</u>	<u>\$ 8,086,760</u>	<u>\$ 9,719,099</u>	<u>\$ 9,440,511</u>

City of Fort Madison
Schedule of Expenditures of Federal Awards
June 30, 2006

<u>Federal Agency/Pass Through Agency Program - Grant Title</u>	<u>CFDA Number</u>	<u>Grantor Program Number</u>	<u>Program Disbursements</u>
Indirect:			
Environmental Protection Agency State of Iowa, Department of Natural Resources State Revolving Loan Fund	66.458	CS19226001	\$ 1,667
U.S. Department of Transportation Iowa Dept. of Public Safety/Governor's Traffic Safety Bureau Alcohol incentive grant Alcohol incentive grant	20.601 20.601	PAP 05-410 Task 14 PAP 04-410 Task 20	5,326 8,185
U.S. Department of Housing and Urban Development Iowa Department of Economic Development Community Development Block Grant Rental Rehabilitation	14.228 92.254	03-HSG-095 05-HM-198-22	107,605 148,752
Department of Homeland Security Buffer Zone Protection Plan Program	97.078	VGP-IA-0003	48,112
Direct:			
Corporation for National and Community Service Retired Senior Volunteer Program	94.002	03SRNIA005	20,429
U.S. Department of Transportation Surface Transportation Program Airport Improvement Program Airport Improvement Program	20.205 20.106 20.106	STP-E-2697(610)--SV-56 3-19-0036-01-2004 3-19-0036-02-2005	84 3,312 94,411
Department of Homeland Security Emergency Preparedness and Response Directorate (FEMA) Emergency Preparedness and Response Directorate (FEMA)	97.044 83.554	EMW-2004-FG-01721 EMW-2003-FG-02998	325,000 <u>100</u>
			<u>\$ 762,983</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Fort Madison and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**City of Fort Madison
Miscellaneous Statistical Data**

Major Area Employers

<u>Name</u>	<u>Product</u>	<u>Approximate Number of Employees</u>
Pinnacle Foods Inc.	Canned meats and shelf stable microwavables	510
Iowa State Penitentiary	Corrections facility	501
Fort Madison Community School District	Education	356
Fort Madison Community Hospital	Healthcare	348
Industrial Tooling	Fabrication and tooling equipment	347
E.I. Dupont de Nemours	Industrial and automotive sealants and finishes, resins & thinners	155
Bag Craft Papercon	Paper products for the restaurant industry	98
The Scotts Co.	Consumer products for home, lawn and garden	140
Silgan Containers Corp.	Soft drawn aluminum containers	135
Catfish Bend Casino	Entertainment and gambling	327
Climax Molybdenum Company, Division of AMAX	Molybdenum chemicals and sulfuric acid	120

**City of Fort Madison
Miscellaneous Statistical Data**

Date of Incorporation	January 18, 1838
Form of Government	Mayor-Council with Full-Time City Manager
Area	16.58 square miles
Fire Protection:	
Number of stations	1
Number of employees	18
Police Protection:	
Number of stations	1
Number of employees	22
Recreation:	
Number of parks	9
Number of acres	238.2
Cemeteries	4
Airports	1
Employees:	
Permanent	111
Permanent part time	12
Schools:	
Public	5
Parochial	3
2005-06 Tax Rates:	
City	16.458100
County	7.229844
School	13.313900
Merged Area College	.98127
State	.00386
Other	<u>.61520</u>
Total	<u>38.60240</u>
Populations:	
2000	11,476
1990	11,618
1980	13,520
1970	13,966
1960	15,247
1950	14,954
1940	14,063
1930	13,779



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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of City of Fort Madison, 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 3, 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 Government 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 Fort Madison'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 Fort Madison'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 and Questioned Costs.

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. None of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fort Madison's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters 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 IV of the accompanying Schedule of Findings and Questioned Costs.

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 Fort Madison and other parties to whom the City of Fort Madison 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 Fort Madison 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.

CPA Associates PC

August 3, 2006



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Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Fort Madison with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2006. The City of Fort Madison's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City of Fort Madison's management. Our responsibility is to express an opinion on their compliance based on our audit.

We conducted our audit of compliance 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 and OMB Circular A-133, Audits of States, Local Government and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Fort Madison's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Fort Madison's compliance with those requirements.

In our opinion the City of Fort Madison complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

The management of the City of Fort Madison is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Fort Madison's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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 non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program 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 compliance 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

CPA Associates PC

August 3, 2006

**City of Fort Madison
Schedule of Findings
Year Ended June 30, 2006**

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No reportable conditions in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed an audit finding which was required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 66.458 - Environmental Protection Agency - State Revolving Loan Fund
 - CFDA Number 97.044 - Department of Homeland Security - Emergency Preparedness and Response Directorate
 - CFDA Number 14.228 - Iowa Department of Economic Development - Community Development Block Grant
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) City of Fort Madison did not qualify as a low-risk auditee.

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 the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Part III: Findings and Questioned Costs for Federal Awards

Instance of Non-Compliance:

CFDA Number 97.044: Emergency Preparedness and Response Directorate (FEMA)
Department of Homeland Security

III-A-06 Undocumented Procurement Procedures - Supporting documentation was not available to substantiate the procurement procedures of the aerial fire truck (\$650,000).

Recommendation - The City should implement procedures to ensure supporting documentation, including the bids of the suppliers rejected, is retained.

Response - We will take steps to ensure all bids are retained in the future.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-06 Official Depositories - A resolution naming official depositories has been adopted by the Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2006.

IV-B-06 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

IV-C-06 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction</u>	<u>Amount</u>
Chris Greenwald, Council Member Owner of River City Motors	Vehicle repairs	\$10,073

This transaction may be a conflict of interest since the transactions were not entered into through competitive bidding and the total transactions were over \$2,500.

Recommendation - The City should consult legal counsel to determine the disposition of this matter.

Response - The City will contact its legal counsel.

Conclusion - Response accepted.

IV-D-06 Revenue Notes - The City has established sinking, reserve and surplus accounts required by the water revenue note resolutions.

IV-E-06 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

IV-F-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.

IV-G-06 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

Part IV: Other Findings Related to Required Statutory Reporting (continued)

IV-H-06 Certified Budget - Disbursements during the year ended June 30, 2006, exceeded the amounts budgeted in the debt service activities. Chapter 384.20 of the Code of Iowa states in part that 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 - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

IV-I-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 25, 1979.

IV-J-06 Financial Condition - Traffic Safety Grant and Drug Task Force, both within the Special Revenue Funds, had deficit balances of \$436 and \$6,707, respectively at June 30, 2006.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return these accounts to a sound financial position.

Response - The deficits were due to project costs or program costs incurred prior to receipt of revenues or transfers. These deficits will be eliminated.

Conclusion - Response accepted.

FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

OTHER SUPPLEMENTARY INFORMATION