

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

June 30, 2008

# CITY OF MADRID

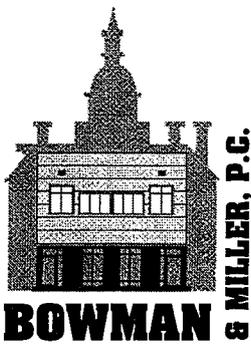
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# CITY OF MADRID

## Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2008)</b>		
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 2008
John Jordan	City Attorney	Jan 2008
Donald Fatka	City Treasurer	Jan 2008
<b>(After January 2008)</b>		
Jeff Gibbons	Mayor	Jan 2012
Donald Lincoln	Mayor Pro Tem	Jan 2010
Steve Burich	Council Member	Jan 2010
Val Chapman	Council Member	Jan 2010
Mike Heeren	Council Member	Jan 2012
Lane Shaver	Council Member	Jan 2012
Todd Kilzer	City Administrator / Clerk	Jan 2009
John Jordan	City Attorney	Jan 2009
Donald Fatka	City Treasurer	Jan 2009



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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James R. Bowman, CPA • jim@syscompia.com  
Elizabeth A. Miller, CPA • beth@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, 2008, 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 auditing standards generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Madrid, as of June 30, 2008, 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 March 30, 2009 on our consideration of the City of Madrid's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 20 through 22 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We 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 three years ended June 30, 2007, (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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  
March 30, 2009

## 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, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2008 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities, net of debt proceeds, decreased 0.5%, or approximately \$77,600, from fiscal 2007 to 2008. The increases in property tax of \$42,500, other city taxes \$10,200, interest on investments \$11,900, charges for services \$15,000 and other miscellaneous receipts \$36,300 was offset by decreases in the following: special assessments \$7,700, and operating grants, contributions and restricted interest \$18,000.
- Disbursements, net of debt service, increased 89.0%, or approximately \$1,186,000 in fiscal 2008 from fiscal 2007. The increases in public safety of \$230,000, public works \$5,000, community and economic development \$7,600, general government \$11,500 and capital projects \$957,000 were offset by a decrease in culture and recreation of \$25,000.
- The City's total cash basis net assets decreased by .43%, or approximately \$4,100 from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities increased approximately \$21,000 and the assets of the business type activities decreased by approximately \$25,000.

### USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

## BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The 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 or 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 statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net 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 approximately \$509,800 to approximately \$531,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service	\$ 184,450	169,381
Operating grants, contributions and restricted interest	239,585	425,411
General receipts:		
Property tax	630,677	588,149
Other city tax	190,788	180,565
Special assessments	5,449	13,172
Unrestricted interest on investments	45,888	34,033
Note proceeds	3,472,925	21,000
Other general receipts	<u>88,295</u>	<u>52,002</u>
Total receipts	<u>4,858,057</u>	<u>1,483,713</u>
Disbursements:		
Public safety	559,301	328,991
Public works	378,406	373,658
Health and social services	4,049	3,802
Culture and recreation	215,486	240,583
Community and economic development	29,854	22,210
General government	158,746	147,211
Debt service	2,410,641	289,398
Capital projects	<u>1,173,743</u>	<u>217,010</u>
Total disbursements	<u>4,930,226</u>	<u>1,622,863</u>
Change in cash basis net assets before transfers	(72,169)	(139,150)
Transfers, net	<u>93,400</u>	<u>23,480</u>
Change in cash basis net assets	21,231	(115,670)
Cash basis net assets beginning of year	<u>509,776</u>	<u>625,446</u>
Cash basis net assets end of year	\$ <u>531,007</u>	<u>509,776</u>

The City's total receipts for governmental activities, net of debt proceeds, decreased by .5% or approximately \$77,600. The decrease in receipts for operating grants, contributions, and restricted interest of \$186,000 and special assessments of \$7,700 were offset by increases in the following: property and other city taxes \$53,000, charges for services, interest on investments and other miscellaneous receipts \$63,500. Proceeds from debt increased \$3,451,925. The total cost of all programs and services, net of debt service, increased by approximately \$1,185,000. Capital project disbursements increased approximately \$957,000 and public works and economic development increased \$5,000 and \$7,000 respectfully. Public safety disbursements increased approximately \$230,000 and general government increased approximately \$11,500. Culture and recreation decreased approximately \$25,000. Disbursements for debt service increased approximately \$2,100,000.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 364,845	352,835
Sewer	221,537	214,071
General receipts:		
Unrestricted interest on investments	8,102	8,534
Other general receipts	<u>15,558</u>	<u>14,252</u>
Total receipts	<u>610,042</u>	<u>589,692</u>
Disbursements:		
Water	345,129	327,638
Sewer	<u>196,860</u>	<u>193,824</u>
Total disbursements	<u>541,989</u>	<u>521,462</u>
Change in cash basis net assets before transfers	68,053	68,230
Transfers, net	<u>(93,400)</u>	<u>(23,480)</u>
Change in cash basis net assets	(25,347)	44,750
Cash basis net assets beginning of year	<u>439,681</u>	<u>394,931</u>
Cash basis net assets end of year	\$ <u>414,334</u>	<u>439,681</u>

Total business type activities receipts for the fiscal year were \$610,642 compared to \$539,692. The increase was due to increases in charges for services for water and sewer. The disbursements for the year increased by 39%, or approximately \$20,500.

#### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Madrid completed the year, its governmental funds reported a combined fund balance of \$531,007, an increase of \$21,231 from last year's total of \$509,776. 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 increased \$36,969 from the prior year to \$52,833. Transfers from other funds was the primary reason for the increase.
- The Road Use Tax Fund cash balance increased by \$5,159. This increase was due to an increase in road use tax payments from the state.
- The Employee Benefits Fund cash balance increased by \$41,809. The increase was due to transfers from the General Fund.
- The Emergency Fund cash balance remained virtually unchanged.
- The Debt Service Fund cash balance decreased by \$79,156. The decrease resulted from payments on general obligation bonds.
- The Capital Projects Fund cash balance increased by \$41,906. The excess of receipts over disbursements on the urban renewal project was the primary reason for the increase.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$20,943 to \$251,414, due in part to an increase in charges for services.
- The Sewer Fund cash balance decreased \$46,290 to \$162,920, due primarily to an increase in transfers to other funds.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on June 16, 2008 and resulted in an increase in disbursements relating to capital projects and an increase in disbursements relating to business type activities.

The City exceeded the amount budgeted in the community and economic development function.

## DEBT ADMINISTRATION

At June 30, 2008, the City had \$3,094,246 in bonds and other long-term debt, compared to \$2,003,781 last year as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2008	2007
General obligation notes	\$ 2,845,000	1,610,000
Revenue notes	185,000	310,000
Other long-term debt	64,246	83,781
Total	\$ <u>3,094,246</u>	<u>2,003,781</u>

General obligation notes increased due to current year issuance of \$2,275,000 of general obligation debt.

There is no rating requested for the City at this time. 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 \$2,845,000 is below its constitutional debt limit of \$4,037,611.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Madrid's elected and appointed officials and citizens considered many factors when setting the fiscal year 2009 budget, tax rates, and fees that will be charged for various City activities.

Amounts available for appropriation in the operating budget are \$2,158,822, a decrease of 35.6% over the final 2008 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, 2008

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>			
Governmental activities:			
Public safety	\$ 559,301	360	18,650
Public works	378,406	130,914	207,157
Health and social services	4,049	5,247	-
Culture and recreation	215,486	47,929	13,778
Community and economic development	29,854	-	-
General government	158,746	-	-
Debt service	2,410,641	-	-
Capital projects	1,173,743	-	-
Total governmental activities	4,930,226	184,450	239,585
Business type activities:			
Water	345,129	364,845	-
Sewer	196,860	221,537	-
Total business type activities	541,989	586,382	-
<b>Total</b>	\$ 5,472,215	770,832	239,585

**General receipts:**

- Property tax levied for:
  - General purposes
  - Debt Service
- Other city tax
- Licenses and permits
- Unrestricted interest on investments
- Special assessments
- Note 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**

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(540,291)	-	(540,291)
(40,335)	-	(40,335)
1,198	-	1,198
(153,779)	-	(153,779)
(29,854)	-	(29,854)
(158,746)	-	(158,746)
(2,410,641)	-	(2,410,641)
(1,173,743)	-	(1,173,743)
(4,506,191)	-	(4,506,191)
-	19,716	19,716
-	24,677	24,677
-	44,393	44,393
(4,506,191)	44,393	(4,461,798)
460,598	-	460,598
170,079	-	170,079
190,788	-	190,788
9,941	-	9,941
45,888	8,102	53,990
5,449	-	5,449
3,472,925	-	3,472,925
78,354	15,558	93,912
93,400	(93,400)	-
4,527,422	(69,740)	4,457,682
21,231	(25,347)	(4,116)
509,776	439,681	949,457
\$ 531,007	414,334	945,341
\$ 27,549	304,367	331,916
554	-	554
34,898	-	34,898
12,089	-	12,089
180,712	-	180,712
275,205	109,967	385,172
\$ 531,007	414,334	945,341

**CITY OF MADRID**  
**Statement of Cash Receipts, Disbursements and**  
**Changes in Cash Balances**  
**Governmental Funds**  
**As of and for the year ended June 30, 2008**

	General	Special Revenue		
		Road Use Tax	Employee Benefits	Emergency
<b>Receipts:</b>				
Property tax	\$ 353,121	-	96,853	10,624
Other city tax	180,360	-	3,639	399
Licenses and permits	9,941	-	-	-
Use of money and property	41,903	-	-	-
Intergovernmental	32,428	207,157	-	-
Charges for service	184,450	-	-	-
Special assessments	-	-	-	-
Miscellaneous	55,126	-	-	-
<b>Total receipts</b>	<b>857,329</b>	<b>207,157</b>	<b>100,492</b>	<b>11,023</b>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	314,302	-	73,328	-
Public works	165,603	176,998	35,805	-
Health and social services	4,049	-	-	-
Culture and recreation	187,876	-	16,343	-
Community and economic development	29,854	-	-	-
General government	140,539	-	18,207	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
<b>Total disbursements</b>	<b>842,223</b>	<b>176,998</b>	<b>143,683</b>	<b>-</b>
<b>Excess (deficiency) of receipts over (under) disbursements</b>	<b>15,106</b>	<b>30,159</b>	<b>(43,191)</b>	<b>11,023</b>
<b>Other financing sources (uses):</b>				
Loan proceeds	-	-	-	-
Operating transfers in	229,543	-	85,000	-
Operating transfers out	(207,680)	(25,000)	-	(10,943)
<b>Total other financing sources (uses)</b>	<b>21,863</b>	<b>(25,000)</b>	<b>85,000</b>	<b>(10,943)</b>
<b>Net change in cash balances</b>	<b>36,969</b>	<b>5,159</b>	<b>41,809</b>	<b>80</b>
<b>Cash balances beginning of year</b>	<b>15,864</b>	<b>166,473</b>	<b>8,045</b>	<b>806</b>
<b>Cash balances end of year</b>	<b>\$ 52,833</b>	<b>171,632</b>	<b>49,854</b>	<b>886</b>
<b>Cash Basis Fund Balances</b>				
<b>Reserved:</b>				
Debt service	\$ -	-	-	-
<b>Unreserved:</b>				
General fund	52,833	-	-	-
Special revenue funds	-	171,632	49,854	886
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
<b>Total cash basis fund balances</b>	<b>\$ 52,833</b>	<b>171,632</b>	<b>49,854</b>	<b>886</b>

See notes to financial statements.

Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Total
170,079	-	-	630,677
6,390	-	-	190,788
-	-	-	9,941
3,311	-	674	45,888
-	-	-	239,585
-	-	-	184,450
5,449	-	-	5,449
-	-	23,228	78,354
185,229	-	23,902	1,385,132
-	-	171,671	559,301
-	-	-	378,406
-	-	-	4,049
-	-	11,267	215,486
-	-	-	29,854
-	-	-	158,746
1,123,002	1,287,639	-	2,410,641
-	1,173,743	-	1,173,743
1,123,002	2,461,382	182,938	4,930,226
(937,773)	(2,461,382)	(159,036)	(3,545,094)
750,000	2,589,425	133,500	3,472,925
163,580	82,463	-	560,586
(54,963)	(168,600)	-	(467,186)
858,617	2,503,288	133,500	3,566,325
(79,156)	41,906	(25,536)	21,231
106,705	138,806	73,077	509,776
27,549	180,712	47,541	531,007
27,549	-	-	27,549
-	-	-	52,833
-	-	-	222,372
-	180,712	-	180,712
-	-	47,541	47,541
27,549	180,712	47,541	531,007

**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, 2008

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 364,845	221,537	586,382
Miscellaneous	15,546	12	15,558
Total operating receipts	380,391	221,549	601,940
Operating disbursements:			
Business type activities	279,069	127,586	406,655
Excess of operating receipts over operating disbursements	101,322	93,963	195,285
Non-operating receipts (disbursements):			
Interest on investments	5,681	2,421	8,102
Debt service	(66,060)	(69,274)	(135,334)
Net non-operating receipts (disbursements)	(60,379)	(66,853)	(127,232)
Excess of receipts over disbursements	40,943	27,110	68,053
Operating transfers out	(20,000)	(73,400)	(93,400)
Net change in cash balances	20,943	(46,290)	(25,347)
Cash balances beginning of year	230,471	209,210	439,681
Cash balances end of year	\$ 251,414	162,920	414,334
 <b>Cash Basis Fund Balances</b>			
Reserved for debt service	\$ 159,320	145,047	304,367
Unreserved	92,094	17,873	109,967
Total cash basis fund balances	\$ 251,414	162,920	414,334

# CITY OF MADRID

## Notes to Financial Statements

### June 30, 2008

#### 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 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.

*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.

**CITY OF MADRID**  
**Notes to Financial Statements (Continued)**  
**June 30, 2008**

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

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.

The 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, 2008**

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.

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

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, 2008, disbursements exceeded the amount budgeted in community and economic development.

Note 2 – Cash and Pooled Investments

The City's deposits in banks at June 30, 2008 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, 2008 is as follows:

	<u>Cost</u>	<u>Market Value</u>
19 Shares IBM Stock	<u>\$ 757</u>	<u>\$2,252</u>

**CITY OF MADRID**  
**Notes to Financial Statements (Continued)**  
**June 30, 2008**

**Note 2 – Cash and Pooled Investments (Continued)**

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

**Note 3 – Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% 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, 2008, 2007 and 2006 were \$33,130, \$32,744 and \$30,754 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 Notes		Revenue Notes				Total	
	Principal	Interest	Water		Sewer		Principal	Interest
			Principal	Interest	Principal	Interest		
2009	\$ 175,000	112,500	60,000	3,720	65,000	1,430	300,000	117,650
2010	190,000	96,413	60,000	1,260	-	-	250,000	97,673
2011	160,000	88,882	-	-	-	-	160,000	88,882
2012	165,000	80,225	-	-	-	-	165,000	80,225
2013	140,000	70,860	-	-	-	-	140,000	70,860
2014	170,000	60,830	-	-	-	-	170,000	60,830
2015	175,000	51,883	-	-	-	-	175,000	51,883
2016	180,000	41,757	-	-	-	-	180,000	41,757
2017	185,000	32,085	-	-	-	-	185,000	32,085
2018	110,000	24,870	-	-	-	-	110,000	24,870
2019	115,000	20,470	-	-	-	-	115,000	20,470
2020	120,000	15,755	-	-	-	-	120,000	15,755
2021	125,000	10,775	-	-	-	-	125,000	10,775
2022	130,000	5,525	-	-	-	-	130,000	5,525
<b>Total</b>	<b>\$2,140,000</b>	<b>712,830</b>	<b>120,000</b>	<b>4,980</b>	<b>65,000</b>	<b>1,430</b>	<b>2,325,000</b>	<b>717,810</b>

**CITY OF MADRID**  
**Notes to Financial Statements (Continued)**  
**June 30, 2008**

Note 4 – Bonds and Notes Payable (Continued)

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

Note 5 – Lease Purchase Obligation

The City has entered into a capital lease with John Deere Leasing Company for the purchase of a backhoe and loader. Annual payments totaling \$15,013 are required for the lease payment. The following is the information relating to the lease:

Leased From	Interest Rate	Date		Principal Balance June 30, 2008	Item Leased
		Issued	Due		
John Deere Leasing Co.	5.75%	March 15, 2007	March 15, 2012	<u>\$52,135</u>	Backhoe and Loader

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

Year Ending June 30	
2009	\$ 15,013
2010	15,013
2011	15,013
2012	<u>15,013</u>
Total minimum lease payments	60,052
Less: Amount representing interest	<u>7,917</u>
Present value of net minimum payments	<u>\$ 52,135</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.

**CITY OF MADRID**  
**Notes to Financial Statements (Continued)**  
**June 30, 2008**

**Note 7 – Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation 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 termination payments payable to employees at June 30, 2008, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	<u>\$ 12,226</u>

The liability has been computed based on rates of pay in effect at June 30, 2008.

**Note 8 – Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
General Fund	Special Revenue:	
	Emergency	\$ 10,943
	Capital Projects	168,600
	Enterprise:	
	Sewer Revenue	
	Bond Sinking	<u>50,000</u>
		<u>229,543</u>
Special Revenue: Employee Benefits	General Fund	<u>85,000</u>
Debt Service	General Fund	122,680
	Special Revenue:	
	Road Use Tax	20,000
	Enterprise:	
	Sewer Revenue	<u>20,900</u>
		<u>163,580</u>
Capital Projects	Special Revenue:	
	Road Use Tax	5,000
	Debt Service	54,963
	Enterprise:	
	Water Revenue	20,000
Sewer Revenue	<u>2,500</u>	
		<u>82,463</u>
<b>Total</b>		<u><b>\$ 560,586</b></u>

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

# CITY OF MADRID

## Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances-Budget and Actual (Cash Basis) All Governmental Funds and Proprietary Funds Required Supplementary Information Year Ended June 30, 2008

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 630,677	-
Other city tax	190,788	-
Licenses and permits	9,941	-
Use of money and property	45,888	8,102
Intergovernmental	239,585	-
Charges for service	184,450	586,382
Special assessments	5,449	-
Miscellaneous	78,354	15,558
	1,385,132	610,042
Total receipts		
Disbursements:		
Public safety	559,301	-
Public works	378,406	-
Health and social services	4,049	-
Culture and recreation	215,486	-
Community and economic development	29,854	-
General government	158,746	-
Debt service	2,410,641	-
Capital projects	1,173,743	-
Business type activities	-	541,989
	4,930,226	541,989
Total disbursements		
Excess (deficiency) of receipts over (under) disbursements	(3,545,094)	68,053
Other financing sources (uses), net	3,566,325	(93,400)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses		
	21,231	(25,347)
Balances beginning of year	509,776	439,681
Balances end of year	\$ 531,007	414,334

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
630,677	631,917	631,917	(1,240)
190,788	188,677	189,120	1,668
9,941	18,125	12,800	(2,859)
53,990	35,500	52,500	1,490
239,585	311,930	230,005	9,580
770,832	809,350	774,480	(3,648)
5,449	22,000	12,000	(6,551)
93,912	51,120	67,162	26,750
1,995,174	2,068,619	1,969,984	25,190
559,301	363,763	572,280	12,979
378,406	420,192	407,035	28,629
4,049	3,800	4,050	1
215,486	273,080	236,311	20,825
29,854	35,500	20,000	(9,854)
158,746	162,886	161,676	2,930
2,410,641	326,813	2,489,452	78,811
1,173,743	1,137,500	1,186,000	12,257
541,989	627,135	601,819	59,830
5,472,215	3,350,669	5,678,623	206,408
(3,477,041)	(1,282,050)	(3,708,639)	231,598
3,472,925	1,215,000	3,701,047	(228,122)
(4,116)	(67,050)	(7,592)	3,476
949,457	858,215	858,215	91,242
945,341	791,165	850,623	94,718

## CITY OF MADRID

### Notes to Required Supplementary Information – Budgetary Reporting June 30, 2008

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 Fund, 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 \$2,327,954. The budget amendment is reflected in the final budget amounts.

During the year ended June 30, 2008, disbursements exceeded the amount budgeted in the community and economic function.

**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, 2008**

	Permanent				Total
	Edgewood Park	Jensen Park	Boyd Library	Fire Equipment	
Receipts:					
Use of money and property	\$ -	-	674	-	674
Donations	200	500	-	22,528	23,228
Total receipts	<u>200</u>	<u>500</u>	<u>674</u>	<u>22,528</u>	<u>23,902</u>
Disbursements:					
Operating:					
Public Safety	-	-	-	171,671	171,671
Culture and recreation	10,200	656	411	-	11,267
Total disbursements	<u>10,200</u>	<u>656</u>	<u>411</u>	<u>171,671</u>	<u>182,938</u>
Excess (deficiency) of receipts over (under) disbursements	(10,000)	(156)	263	(149,143)	(159,036)
Other financing sources:					
Loan proceeds	-	-	-	133,500	133,500
Net change in cash balances	<u>(10,000)</u>	<u>(156)</u>	<u>263</u>	<u>(15,643)</u>	<u>(25,536)</u>
Cash balances at beginning of year	<u>10,000</u>	<u>710</u>	<u>34,635</u>	<u>27,732</u>	<u>73,077</u>
Cash balances at end of year	<u>\$ -</u>	<u>554</u>	<u>34,898</u>	<u>12,089</u>	<u>47,541</u>
<b>Cash Basis Fund Balances</b>					
Unreserved:					
Permanent funds	\$ -	554	34,898	12,089	47,541
Total cash basis fund balances	<u>\$ -</u>	<u>554</u>	<u>34,898</u>	<u>12,089</u>	<u>47,541</u>

**CITY OF MADRID**  
**Schedule of Indebtedness**  
**Year Ended June 30, 2008**

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
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
Interim financing	Jul 31, 2007	4.00	1,250,000
FD Rescue	Sep 15, 2007	4.80	135,000
Corporate purpose and refunding	Apr 15, 2008	2.50 - 4.25	2,140,000
Total			
Revenue 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	Mar 15, 2007	5.75 %	\$ 64,938
Bank loan:			
Police car	Feb 22, 2007	5.95 %	\$ 21,000

	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$	460,000	-	460,000	-	23,808	-
	75,000	-	75,000	-	4,100	-
	445,000	-	445,000	-	18,835	-
	330,000	-	25,000	305,000	11,967	-
	300,000	-	15,000	285,000	12,012	-
	-	1,250,000	1,250,000	-	49,014	-
	-	135,000	20,000	115,000	4,608	-
	-	2,140,000	-	2,140,000	-	-
\$	1,610,000	3,525,000	2,290,000	2,845,000	124,344	-
\$	180,000	-	60,000	120,000	6,060	-
	130,000	-	65,000	65,000	4,274	-
\$	310,000	-	125,000	185,000	10,334	-
\$	64,938	-	12,803	52,135	2,210	-
\$	18,843	-	6,732	12,111	940	-

**CITY OF MADRID**  
**Bond and Note Maturities**  
**June 30, 2008**

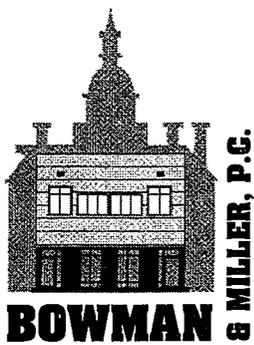
Year Ending June 30,	General Obligation Notes					
	Street Improvement		Water/Sewer Improvement		Fire Department Rescue	
	Issued Mar 15, 2004		Issued Jan 1, 2006		Issued Sep 15, 2007	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2009	2.85 %	\$ 25,000	3.75 %	\$ 15,000	4.80 %	\$ 20,000
2010	3.10	25,000	3.80	20,000	4.80	20,000
2011	3.35	20,000	3.85	55,000	4.80	25,000
2012	3.55	20,000	3.95	60,000	4.80	25,000
2013	3.70	50,000	4.05	60,000	4.80	25,000
2014	3.85	55,000	4.20	25,000	-	-
2015	4.00	55,000	4.30	25,000	-	-
2016	4.15	55,000	4.40	25,000	-	-
2017	-	-	-	-	-	-
2018	-	-	-	-	-	-
2019	-	-	-	-	-	-
2020	-	-	-	-	-	-
2021	-	-	-	-	-	-
2022	-	-	-	-	-	-
<b>Total</b>		<b>\$ 305,000</b>		<b>\$ 285,000</b>		<b>\$ 115,000</b>

Year Ending June 30,	Revenue Notes				
	Water		Sewer		Total
	Issued Oct 1, 2002		Issued Oct 1, 1998		
Interest Rates	Amount	Interest Rates	Amount		
2009	4.00 %	\$ 60,000	4.40 %	65,000	125,000
2010	4.20	60,000	-	-	60,000
<b>Total</b>		<b>\$ 120,000</b>		<b>\$ 65,000</b>	<b>\$ 185,000</b>

<u>Corporate Purpose and Refunding</u>			
<u>Issued Apr 15, 2008</u>			
Interest			
<u>Rate</u>		<u>Amount</u>	<u>Total</u>
-	%	\$ 175,000	\$ 235,000
-		190,000	255,000
-		160,000	260,000
-		165,000	270,000
-		140,000	275,000
-		170,000	250,000
-		175,000	255,000
-		180,000	260,000
-		185,000	185,000
-		110,000	110,000
-		115,000	115,000
-		120,000	120,000
-		125,000	125,000
-		130,000	130,000
		<u>\$ 2,140,000</u>	<u>\$ 2,845,000</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>			
	2008	2007	2006	2005
<b>Receipts:</b>				
Property tax	\$ 630,677	588,149	472,709	452,153
Other city tax	190,788	180,565	202,013	183,946
Intergovernmental	239,585	425,411	502,833	248,810
Licenses and permits	9,941	12,364	16,629	11,201
Use of money and property	45,888	34,033	23,586	12,134
Charges for services	184,450	169,381	175,502	173,812
Special assessments	5,449	13,172	18,275	18,499
Miscellaneous	78,354	39,638	55,900	72,558
<b>Total</b>	<b>\$ 1,385,132</b>	<b>1,462,713</b>	<b>1,467,447</b>	<b>1,173,113</b>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	\$ 559,301	328,991	305,736	301,401
Public works	378,406	373,658	405,484	379,831
Health and social services	4,049	3,802	3,600	3,606
Culture and recreation	215,486	240,583	197,725	185,677
Community and economic development	29,854	22,210	62,403	15,570
General government	158,746	147,211	145,762	154,092
Debt service	2,410,641	289,398	267,243	264,385
Capital projects	1,173,743	217,010	369,431	465,860
<b>Total</b>	<b>\$ 4,930,226</b>	<b>1,622,863</b>	<b>1,757,384</b>	<b>1,770,422</b>



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 Government 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, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated March 30, 2009. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 as a basis for designing auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Madrid's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Madrid's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies, that adversely affects the City of Madrid's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Madrid's financial statements that is more than inconsequential will not be prevented or detected by the City of Madrid's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of financial statements will not be prevented or detected by the City of Madrid's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-08 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 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.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Madrid's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Madrid's responses and, accordingly, we express no opinion on them.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Madrid during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

***Bowman and Miller, P.C.***

Marshalltown, Iowa  
March 30, 2009

**CITY OF MADRID**  
**Schedule of Findings**  
**Year Ended June 30, 2008**

**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) Significant deficiencies 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, 2008**

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

II-A-08 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-08 Certified Budget – Disbursements during the year ended June 30, 2008, exceeded the amount budgeted in the community and economic development function. 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-08 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 24, 1979.

**CITY OF MADRID**  
**Schedule of Findings (Continued)**  
**Year Ended June 30, 2008**

III-C-08 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-08 Business Transactions – No business transactions between the City and City officials or employees were noted.

III-E-08 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-08 Council Minutes – No transactions were found that we believe should have been approved in the council minutes but were not.

III-G-08 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-I-08 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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