# CITY OF MADRID

Independent Auditors' Reports
Basic Financial Statements and Supplementary Information
Schedule of Findings

June 30, 2009

# CITY OF MADRID

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# CITY OF MADRID

**Officials**

| Name | Title | Term Expires |
|---|---|---|
| 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 2010 |
| Donald Fatka | City Treasurer | Jan 2010 |
| John Jordan | City Attorney | Jan 2010 |

BOWMAN & MILLER, P.C.

CERTIFIED ◆ PUBLIC ◆ ACCOUNTANTS

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# Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Madrid, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Madrid's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Madrid, as of June 30, 2009, 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 November 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 four years ended June 30, 2008 (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.*

West Des Moines, Iowa
November 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, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

## 2009 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities, net of debt proceeds, increased 14.7%, or approximately $203,300, from fiscal 2008 to 2009. The increases in property tax of $50,800, charges for services of $19,500, and operating grants, contributions and restricted interest of $160,400 was offset by a decrease in unrestricted interest on investments of $31,500.

- Disbursements, net of debt service, decreased 51.3% or approximately $1,300,000 in fiscal 2009 from fiscal 2008. The decreases in public safety of $279,300 and capital projects $1,125,000 were offset by the following increases: $37,900 public works, $69,900 culture and recreation and $27,900 in community and economic development.

- The City's total cash basis net assets increased by 2.5%, or approximately $24,000 from June 30, 2008, to June 30, 2009. Of this amount, the assets of the governmental activities increased approximately $33,800 and the assets of the business type activities decreased by approximately $9,700.

## USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

## BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers 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, 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.

- 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, 4) the Capital Projects Fund and 5) the Permanent 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 $531,000 to $565,000. 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, | |
| | 2009 | 2008 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service | $ 203,925 | 184,450 |
| Operating grants, contributions and restricted interest | 399,947 | 239,585 |
| General receipts: | | |
| Property tax | 681,460 | 630,677 |
| Other city tax | 196,485 | 190,788 |
| Special assessments | 7,717 | 5,449 |
| Unrestricted interest on investments | 14,379 | 45,888 |
| Loan proceeds | - | 3,472,925 |
| Other general receipts | 84,528 | 88,295 |
| Total receipts | 1,588,441 | 4,858,057 |
| Disbursements: | | |
| Public safety | 279,988 | 559,301 |
| Public works | 416,309 | 378,406 |
| Health and social services | 4,000 | 4,049 |
| Culture and recreation | 285,361 | 215,486 |
| Community and economic development | 57,774 | 29,854 |
| General government | 134,075 | 158,746 |
| Debt service | 356,042 | 2,410,641 |
| Capital projects | 48,617 | 1,173,743 |
| Total disbursements | 1,582,166 | 4,930,226 |
| Change in cash basis net assets before transfers | 6,275 | (72,169) |
| Transfers, net | 27,500 | 93,400 |
| Change in cash basis net assets | 33,775 | 21,231 |
| Cash basis net assets beginning of year | 531,007 | 509,776 |
| Cash basis net assets end of year | $ 564,782 | 531,007 |

The City's total receipts for governmental activities, net of debt proceeds, increased by 14.7% or $203,300. The increases in property tax of $50,800, charges for services of $19,500 and operating grants, contributions and restricted interest of $160,400 was offset by a decrease in unrestricted interest on investments of $31,500. Proceeds from debt decreased $3,472,925. The total cost of all programs and services net of debt service, decreased by approximately $1,300,000. Capital project disbursements decreased approximately $1,125,000 and public safety and general government disbursements decreased $279,300 and $24,700, respectively. Public works disbursements increased approximately $37,900, culture and recreation increased approximately $69,900, and community and economic development increased approximately $27,900. Disbursements for debt service decreased $2,055,000.

| Changes in Cash Basis Net Assets of Business Type Activities | | |
|---|---|---|
| | Year ended June 30, | |
| | 2009 | 2008 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service: | | |
| Water | $ 364,236 | 364,845 |
| Sewer | 229,383 | 221,537 |
| General receipts: | | |
| Unrestricted interest on investments | 6,299 | 8,102 |
| Other general receipts | 15,169 | 15,558 |
| Total receipts | 615,087 | 610,042 |
| Disbursements: | | |
| Water | 386,666 | 345,129 |
| Sewer | 210,667 | 196,860 |
| Total disbursements | 597,333 | 541,989 |
| Change in cash basis net assets before transfers | 17,754 | 68,053 |
| Transfers, net | (27,500) | (93,400) |
| Change in cash basis net assets | (9,746) | (25,347) |
| Cash basis net assets beginning of year | 414,334 | 439,681 |
| Cash basis net assets end of year | $ 404,588 | 414,334 |

Total business type activities receipts for the fiscal year were $615,087 compared to $610,042. The increase was due to increases in charges for services for sewer. The disbursements and transfers for the year decreased by 1.7%, or approximately $10,550.

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Madrid completed the year, its governmental funds reported a combined fund balance of $564,782, an increase of $33,775 from last year's total of $531,007. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased $21,254 from the prior year to $31,579. A decrease in transfers from other funds was the primary reason for the decrease.
- The Road Use Tax Fund cash balance decreased by $36,713. This decrease was due to an increase in public works disbursements.
- The Employee Benefits Fund cash balance increased by $32,428. The increase was due to transfers from the General Fund and Road Use Tax Fund.
- The Emergency Fund cash balance remained virtually unchanged from the prior year.
- The Debt Service Fund cash balance decreased by $5,962. The decrease resulted in part from a decrease in transfers from other funds and a decrease in loan proceeds.
- The Capital Projects Fund cash balance decreased by $33,117. The decrease is due in part to a decrease in loan proceeds as well as a decrease in disbursements.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balanced decreased by $9,786 to $241,628, due in part to an increase in operating disbursements.
- The Sewer Fund cash balance remained virtually unchanged from the prior year.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on June 15, 2009 and resulted in an increase in disbursements relating to culture and recreation and community and economic development.

The City exceeded amounts budgeted in the community and economic development and debt service functions for the year ended June 30, 2009.

## DEBT ADMINISTRATION

At June 30, 2009, the City had $2,715,168 in bonds and other long-term debt, compared to $3,094,246 last year as shown below.

| Outstanding Debt at Year-End | | June 30, | |
|---|---|---|---|
| | | 2009 | 2008 |
| General obligation bonds | $ | 2,610,000 | 2,845,000 |
| Revenue notes | | 60,000 | 185,000 |
| Other long-term debt | | 45,168 | 64,246 |
| Total | $ | 2,715,168 | 3,094,246 |

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 $2,610,000 is below its constitutional debt limit of $4,300,595.

## 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 2010 budget, tax rates, and fees charged for various City activities.

Amounts available for appropriation in the operating budget are $2,544,504, an increase of 17.9% over the final 2009 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, 2009

| | | Program Receipts | |
|---|---|---|---|
| | Disbursements | Charges for Service | Operating Grants, Contributions and Restricted Interest |
| **Functions/Programs:** | | | |
| Governmental activities: | | | |
| Public safety | $ 279,988 | - | 50,587 |
| Public works | 416,309 | 135,845 | 200,621 |
| Health and social services | 4,000 | 6,015 | - |
| Culture and recreation | 285,361 | 62,065 | 148,739 |
| Community and economic development | 57,774 | - | - |
| General government | 134,075 | - | - |
| Debt service | 356,042 | - | - |
| Capital projects | 48,617 | - | - |
| Total governmental activities | 1,582,166 | 203,925 | 399,947 |
| Business type activities: | | | |
| Water | 386,666 | 364,236 | - |
| Sewer | 210,667 | 229,383 | - |
| Total business type activities | 597,333 | 593,619 | - |
| Total | $ 2,179,499 | 797,544 | 399,947 |

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

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:
Debt service
Parks
Library
Fire equipment
Estate
Capital projects
Unrestricted
**Total cash basis net assets**

See notes to financial statements.

| Net (Disbursements) Receipts and Changes in Cash Basis Net Assets | | |
|---|---|---|
| Governmental Activities | Business Type Activities | Total |
| (229,401) | - | (229,401) |
| (79,843) | - | (79,843) |
| 2,015 | - | 2,015 |
| (74,557) | - | (74,557) |
| (57,774) | - | (57,774) |
| (134,075) | - | (134,075) |
| (356,042) | - | (356,042) |
| (48,617) | - | (48,617) |
| (978,294) | - | (978,294) |
| - | (22,430) | (22,430) |
| - | 18,716 | 18,716 |
| - | (3,714) | (3,714) |
| (978,294) | (3,714) | (982,008) |
| 495,106 | - | 495,106 |
| 186,354 | - | 186,354 |
| 196,485 | - | 196,485 |
| 13,975 | - | 13,975 |
| 14,379 | 6,299 | 20,678 |
| 7,717 | - | 7,717 |
| 70,553 | 15,169 | 85,722 |
| 27,500 | (27,500) | - |
| 1,012,069 | (6,032) | 1,006,037 |
| 33,775 | (9,746) | 24,029 |
| 531,007 | 414,334 | 945,341 |
| $ 564,782 | 404,588 | 969,370 |
| $ 21,587 | 61,260 | 82,847 |
| 74,220 | - | 74,220 |
| 28,454 | - | 28,454 |
| 18,554 | - | 18,554 |
| 24,623 | - | - |
| 147,595 | - | 147,595 |
| 249,749 | 343,328 | 593,077 |
| $ 564,782 | 404,588 | 969,370 |

# CITY OF MADRID

## Statement of Cash Receipts, Disbursements and Changes in Cash Balances
## Governmental Funds
## As of and for the year ended June 30, 2009

| | | Special Revenue | | |
|---|---|---|---|---|
| | General | Road Use Tax | Employee Benefits | Emergency |
| Receipts: | | | | |
| Property tax | $ 373,965 | - | 110,031 | 11,110 |
| Other city tax | 184,826 | - | 3,842 | 388 |
| Licenses and permits | 13,975 | - | - | - |
| Use of money and property | 15,083 | - | - | - |
| Intergovernmental | 56,433 | 200,620 | - | - |
| Charges for service | 203,925 | - | - | - |
| Special assessments | - | - | - | - |
| Miscellaneous | 102,184 | - | - | - |
| Total receipts | 950,391 | 200,620 | 113,873 | 11,498 |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | 205,511 | - | 70,727 | - |
| Public works | 171,526 | 200,753 | 44,030 | - |
| Health and social services | 4,000 | - | - | - |
| Culture and recreation | 255,309 | - | 21,552 | - |
| Community and economic development | 57,774 | - | - | - |
| General government | 118,940 | - | 15,135 | - |
| Debt service | - | - | - | - |
| Capital projects | - | - | - | - |
| Total disbursements | 813,060 | 200,753 | 151,444 | - |
| Excess of receipts over disbursements | 137,331 | (133) | (37,571) | 11,498 |
| Other financing sources (uses): | | | | |
| Operating transfers in | 11,415 | - | 70,000 | - |
| Operating transfers out | (170,000) | (36,580) | - | (11,415) |
| Total other financing sources (uses) | (158,585) | (36,580) | 70,000 | (11,415) |
| Net change in cash balances | (21,254) | (36,713) | 32,429 | 83 |
| Cash balances beginning of year | 52,833 | 171,632 | 49,854 | 886 |
| Cash balances end of year | $ 31,579 | 134,919 | 82,283 | 969 |
| **Cash Basis Fund Balances** | | | | |
| Reserved for debt service | $ - | - | - | - |
| Unreserved: | | | | |
| General fund | 31,579 | - | - | - |
| Special revenue funds | - | 134,919 | 82,283 | 969 |
| Capital projects fund | - | - | - | - |
| Permanent fund | - | - | - | - |
| Total cash basis fund balances | $ 31,579 | 134,919 | 82,283 | 969 |

See notes to financial statements.

| Debt Service | Capital Projects | Other Nonmajor Governmental Funds | Total |
|---|---|---|---|
| 186,354 | - | - | 681,460 |
| 7,429 | - | - | 196,485 |
| - | - | - | 13,975 |
| - | - | 221 | 15,304 |
| - | - | 75,000 | 332,053 |
| - | - | - | 203,925 |
| 7,717 | - | - | 7,717 |
| - | - | 35,338 | 137,522 |
| 201,500 | - | 110,559 | 1,588,441 |
| | | | |
| - | - | 3,750 | 279,988 |
| - | - | - | 416,309 |
| - | - | - | 4,000 |
| - | - | 8,500 | 285,361 |
| - | - | - | 57,774 |
| - | - | - | 134,075 |
| 356,042 | - | - | 356,042 |
| - | 48,617 | - | 48,617 |
| 356,042 | 48,617 | 12,250 | 1,582,166 |
| (154,542) | (48,617) | 98,309 | 6,275 |
| | | | |
| 148,580 | 15,500 | - | 245,495 |
| - | - | - | (217,995) |
| 148,580 | 15,500 | - | 27,500 |
| (5,962) | (33,117) | 98,309 | 33,775 |
| 27,549 | 180,712 | 47,541 | 531,007 |
| 21,587 | 147,595 | 145,850 | 564,782 |
| | | | |
| 21,587 | - | - | 21,587 |
| | | | |
| - | - | - | 31,579 |
| - | - | - | 218,171 |
| - | 147,595 | - | 147,595 |
| - | - | 145,850 | 145,850 |
| 21,587 | 147,595 | 145,850 | 564,782 |

# 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, 2009

| | Enterprise Funds | | |
|---|---|---|---|
| | Water | Sewer | Total |
| Operating receipts: | | | |
| Charges for service | $ 364,236 | 229,383 | 593,619 |
| Miscellaneous | 13,369 | 1,800 | 15,169 |
| Total operating receipts | 377,605 | 231,183 | 608,788 |
| Operating disbursements: | | | |
| Business type activities | 322,946 | 144,237 | 467,183 |
| Excess of operating receipts over operating disbursements | 54,659 | 86,946 | 141,605 |
| Non-operating receipts (disbursements): | | | |
| Interest on investments | 4,275 | 2,024 | 6,299 |
| Debt service | (63,720) | (66,430) | (130,150) |
| Total non-operating receipts (disbursements) | (59,445) | (64,406) | (123,851) |
| Excess (deficiency) of receipts over (under) disbursements | (4,786) | 22,540 | 17,754 |
| Other financing sources (uses): | | | |
| Operating transfers in | 64,120 | 68,260 | 132,380 |
| Operating transfers out | (69,120) | (90,760) | (159,880) |
| Total other financing sources (uses) | (5,000) | (22,500) | (27,500) |
| Net change in cash balances | (9,786) | 40 | (9,746) |
| Cash balances beginning of year | 251,414 | 162,920 | 414,334 |
| Cash balances end of year | $ 241,628 | 162,960 | 404,588 |
| **Cash Basis Fund Balances** | | | |
| Reserved for debt service | $ 61,260 | - | 61,260 |
| Unreserved | 180,368 | 162,960 | 343,328 |
| Total cash basis fund balances | $ 241,628 | 162,960 | 404,588 |

See notes to financial statements.

# CITY OF MADRID
## Notes to Financial Statements
## June 30, 2009

### (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 do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. A City official is a member of the Boone County Landfill Commission.

B. Basis of Presentation

Government-wide Financial Statement – 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.

## (1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

*Unrestricted net assets* consist of net assets not meeting 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 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.

## (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 U.S. generally accepted accounting principles.

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, 2009, disbursements exceeded the amount budgeted in community and economic development and debt service functions.

## (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 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.

## (2) Cash and Pooled Investments (Continued)

At June 30, 2009, the City had the following investment:

| | Cost | Market Value |
|---|---|---|
| 19 Shares IBM Stock | $757 | $1,984 |

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) to 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.

## (3) Bonds and Notes Payable

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

| Year Ending | General Obligation Note | | Water Revenue Note | | Total | |
|---|---|---|---|---|---|---|
| June 30, | Principal | Interest | Principal | Interest | Principal | Interest |
| 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 | 80,255 | - | - | 165,000 | 80,255 |
| 2013 | 140,000 | 70,860 | - | - | 140,000 | 70,860 |
| 2014 | 170,000 | 60,830 | - | - | 170,000 | 60,830 |
| 2015-2019 | 765,000 | 171,065 | - | - | 765,000 | 171,065 |
| 2020-2022 | 375,000 | 32,055 | - | - | 185,000 | 32,085 |
| Total | $1,965,000 | 600,360 | 60,000 | 1,260 | 2,025,000 | 601,620 |

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

## (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 regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% 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, 2009, 2008 and 2007 were $33,839, 33,130, and $32,744 respectively, equal to the required contributions for each year.

## (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 Issued | Date Due | Principal Balance June 30, 2009 | Item Leased |
|---|---|---|---|---|---|
| John Deere Leasing Co. | 5.75% | March 15, 2007 | March 15, 2012 | $41,769 | Backhoe and Loader |

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

| Year Ending June 30 | |
|---|---|
| 2010 | $ 15,013 |
| 2011 | 15,013 |
| 2012 | 15,013 |
| Total minimum lease payments | 45,039 |
| Less: Amount representing interest | 3,270 |
| Present value of net minimum payments | $ 41,769 |

## (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.

## (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, 2009, primarily relating to the General Fund, is as follows:

| Type of Benefit | Amount |
|---|---|
| Vacation | $ 15,346 |

The liability has been computed based on rates of pay in effect at June 30, 2009.

## (8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

| Transfer to | Transfer from | Amount |
|---|---|---|
| General Fund | Special Revenue: | |
| | Emergency | $ 11,415 |
| Special Revenue: | | |
| Employee Benefit | General Fund | 60,000 |
| | Special Revenue: | |
| | Road Use Tax | 10,000 |
| | | 70,000 |
| Debt Service | General Fund | 107,000 |
| | Special Revenue: | |
| | Road Use Tax | 21,580 |
| | Enterprise: | |
| | Sewer Revenue | 20,000 |
| | | 148,580 |
| Capital Projects | General Fund | 3,000 |
| | Special Revenue: | |
| | Road Use Tax | 5,000 |
| | Enterprise: | |
| | Sewer Revenue | 2,500 |
| | Water Revenue | 5,000 |
| | | 15,500 |
| Total | | $ 245,495 |

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, 2009

| | Governmental Funds Actual | Proprietary Funds Actual |
|---|---|---|
| Receipts: | | |
| Property tax | $ 681,460 | - |
| Other city tax | 196,485 | - |
| Licenses and permits | 13,975 | - |
| Use of money and property | 15,304 | 6,299 |
| Intergovernmental | 332,053 | - |
| Charges for service | 203,925 | 593,619 |
| Special assessments | 7,717 | - |
| Miscellaneous | 137,522 | 15,169 |
| Total receipts | 1,588,441 | 615,087 |
| Disbursements: | | |
| Public safety | 279,988 | - |
| Public works | 416,309 | - |
| Health and social services | 4,000 | - |
| Culture and recreation | 285,361 | - |
| Community and economic development | 57,774 | - |
| General government | 134,075 | - |
| Debt service | 356,042 | - |
| Capital projects | 48,617 | - |
| Business type activities | - | 597,333 |
| Total disbursements | 1,582,166 | 597,333 |
| Excess (deficiency) of receipts over (under) disbursements | 6,275 | 17,754 |
| Other financing sources (uses), net | 27,500 | (27,500) |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | 33,775 | (9,746) |
| Balances beginning of year | 531,007 | 414,334 |
| Balances end of year | $ 564,782 | 404,588 |

See accompanying independent auditors' report.

| Total | Budgeted Amounts Original | Budgeted Amounts Final | Final to Total Variance |
|---|---|---|---|
| 681,460 | 680,384 | 680,384 | 1,076 |
| 196,485 | 184,494 | 194,298 | 2,187 |
| 13,975 | 12,800 | 15,300 | (1,325) |
| 21,603 | 38,400 | 34,600 | (12,997) |
| 332,053 | 271,195 | 451,650 | (119,597) |
| 797,544 | 826,500 | 810,015 | (12,471) |
| 7,717 | 12,000 | 9,000 | (1,283) |
| 152,691 | 65,035 | 61,121 | 91,570 |
| 2,203,528 | 2,090,808 | 2,256,368 | (52,840) |
| 279,988 | 350,530 | 282,810 | 2,822 |
| 416,309 | 426,175 | 423,280 | 6,971 |
| 4,000 | 4,100 | 4,000 | - |
| 285,361 | 216,192 | 332,840 | 47,479 |
| 57,774 | 8,000 | 32,000 | (25,774) |
| 134,075 | 151,230 | 141,735 | 7,660 |
| 356,042 | 357,692 | 355,041 | (1,001) |
| 48,617 | 26,000 | 62,000 | 13,383 |
| 597,333 | 618,903 | 623,965 | 26,632 |
| 2,179,499 | 2,158,822 | 2,257,671 | 78,172 |
| 24,029 | (68,014) | (1,303) | 25,332 |
| - | - | - | - |
| 24,029 | (68,014) | (1,303) | 25,332 |
| 945,341 | 865,542 | 865,542 | 79,799 |
| 969,370 | 797,528 | 864,239 | 105,131 |

# CITY OF MADRID

## Notes to Required Supplementary Information – Budgetary Reporting
## June 30, 2009

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. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise 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 $98,849. The budget amendment is reflected in the final budget amounts.

During the year ended June 30, 2009, disbursements exceeded the amount budgeted in the community and economic development function and debt service function.

# CITY OF MADRID

## Schedule of Cash Receipts, Disbursements and Changes in Cash Balances
## Nonmajor Governmental Funds
## As of and for the year ended June 30, 2009

| | | Permanent | | | | |
|---|---|---|---|---|---|---|
| | | Edgewood Park | Jensen Park | Boyd Library | Fire Equipment | Helms Estate | Total |
| Receipts: | | | | | | | |
| Use of money and property | $ | - | - | 221 | - | - | 221 |
| Intergovernmental | | 75,000 | - | - | - | - | 75,000 |
| Donations | | - | 500 | - | 10,215 | 24,623 | 35,338 |
| Total receipts | | 75,000 | 500 | 221 | 10,215 | 24,623 | 110,559 |
| Disbursements: | | | | | | | |
| Operating: | | | | | | | |
| Public safety | | - | - | - | 3,750 | - | 3,750 |
| Culture and recreation | | 836 | 998 | 6,665 | - | - | 8,499 |
| Total disbursements | | 836 | 998 | 6,665 | 3,750 | - | 12,249 |
| Net change in cash balances | | 74,164 | (498) | (6,444) | 6,465 | 24,623 | 98,310 |
| Cash balances at beginning of year | | - | 554 | 34,898 | 12,089 | - | 47,541 |
| Cash balances at end of year | $ | 74,164 | 56 | 28,454 | 18,554 | 24,623 | 145,851 |
| **Cash Basis Fund Balances** | | | | | | | |
| Unreserved: | | | | | | | |
| Permanent funds | $ | 74,164 | 56 | 28,454 | 18,554 | 24,623 | 145,851 |
| Total cash basis fund balances | $ | 74,164 | 56 | 28,454 | 18,554 | 24,623 | 145,851 |

See accompanying independent auditors' report.

# CITY OF MADRID
## Schedule of Indebtedness
## Year ended June 30, 2009

| Obligation | Date of Issue | Interest Rates | | Amount Originally Issued |
|---|---|---|---|---|
| General obligation notes: | | | | |
| Street improvement | Mar 15, 2004 | 1.45-4.15 % | $ | 395,000 |
| Water/sewer | Jan 1, 2006 | 3.6-4.40 | | 310,000 |
| 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 bonds and notes: | | | | |
| Water | Oct 1, 2002 | 2.90-4.20 % | $ | 340,000 |
| Sewer | Oct 1, 1998 | 3.95-4.40 | | 550,000 |
| Total | | | | |
| Lease: | | | | |
| John Deere backhoe | 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 |
|---|---|---|---|---|---|---|
| $ | 305,000 | - | 25,000 | 280,000 | 11,318 | - |
| | 285,000 | - | 15,000 | 270,000 | 11,465 | - |
| | 115,000 | - | 20,000 | 95,000 | 5,520 | - |
| | 2,140,000 | - | 175,000 | 1,965,000 | 84,268 | - |
| $ | 2,845,000 | - | 235,000 | 2,610,000 | 112,571 | - |
| $ | 120,000 | - | 60,000 | 60,000 | 3,720 | - |
| | 65,000 | - | 65,000 | - | 1,430 | - |
| $ | 185,000 | - | 125,000 | 60,000 | 5,150 | - |
| $ | 52,135 | - | 11,935 | 40,200 | 3,078 | - |
| $ | 12,111 | - | 7,143 | 4,968 | 528 | - |

# CITY OF MADRID

## Bond and Note Maturities

## June 30, 2009

| Year Ending June 30, | General Obligation Bonds: Street Improvement, Issued Mar 15, 2004 — Interest Rate | Amount | Water/Sewer Improvement, Issued Jan 1, 2006 — Interest Rate | Amount | Fire Department Rescue, Issued Sep 15, 2007 — Interest Rate | Amount |
|---|---|---|---|---|---|---|
| 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 | - | - | - | - | - | - |
| Total | | $ 280,000 | | $ 270,000 | | $ 95,000 |

| Year Ending June 30, | Water Revenue Note, Issued Oct 1, 2002 — Interest Rates | Amount |
|---|---|---|
| 2010 | 4.20 % | $ 60,000 |
| Total | | $ 60,000 |

| Corporate Purpose and Refunding Issued Apr 15, 2008 | | | | | |
|---|---|---|---|---|---|
| Interest Rate | | | Amount | | Total |
| 2.65 | % | $ | 190,000 | $ | 255,000 |
| 2.90 | | | 160,000 | | 260,000 |
| 3.10 | | | 165,000 | | 270,000 |
| 3.25 | | | 140,000 | | 275,000 |
| 3.40 | | | 170,000 | | 250,000 |
| 3.60 | | | 175,000 | | 255,000 |
| 3.80 | | | 180,000 | | 260,000 |
| 3.90 | | | 185,000 | | 185,000 |
| 4.00 | | | 110,000 | | 110,000 |
| 4.10 | | | 115,000 | | 115,000 |
| 4.15 | | | 120,000 | | 120,000 |
| 4.20 | | | 125,000 | | 125,000 |
| 4.25 | | | 130,000 | | 130,000 |
| | | $ | 1,965,000 | $ | 2,610,000 |

# CITY OF MADRID

## Schedule of Receipts By Source and Disbursements by Function-
## All Governmental Funds
## For the Last Five Years

| | | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|---|
| Receipts: | | | | | | |
| Property tax | $ | 681,460 | 630,677 | 588,149 | 472,709 | 452,153 |
| Other city tax | | 196,485 | 190,788 | 180,565 | 202,013 | 183,946 |
| Intergovernmental | | 13,975 | 239,585 | 425,411 | 502,833 | 248,810 |
| Licenses and permits | | 15,304 | 9,941 | 12,364 | 16,629 | 11,201 |
| Use of money and property | | 332,053 | 45,888 | 34,033 | 23,586 | 12,134 |
| Charges for services | | 203,925 | 184,450 | 169,381 | 175,502 | 173,812 |
| Special assessments | | 7,717 | 5,449 | 13,172 | 18,275 | 18,499 |
| Miscellaneous | | 137,522 | 78,354 | 39,638 | 55,900 | 72,558 |
| Total | $ | 1,588,441 | 1,385,132 | 1,462,713 | 1,467,447 | 1,173,113 |
| Disbursements: | | | | | | |
| Operating: | | | | | | |
| Public safety | $ | 279,988 | 559,301 | 328,991 | 305,736 | 301,401 |
| Public works | | 416,309 | 378,406 | 373,658 | 405,484 | 379,831 |
| Health and social services | | 4,000 | 4,049 | 3,802 | 3,600 | 3,606 |
| Culture and recreation | | 285,361 | 215,486 | 240,583 | 197,725 | 185,677 |
| Community and economic development | | 57,774 | 29,854 | 22,210 | 62,403 | 15,570 |
| General government | | 134,075 | 158,746 | 147,211 | 145,762 | 154,092 |
| Debt service | | 356,042 | 2,410,641 | 289,398 | 267,243 | 264,385 |
| Capital projects | | 48,617 | 1,173,743 | 217,010 | 369,431 | 465,860 |
| Total | $ | 1,582,166 | 4,930,226 | 1,622,863 | 1,757,384 | 1,770,422 |

BOWMAN & MILLER, P.C.

CERTIFIED ♦ PUBLIC ♦ ACCOUNTANTS

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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, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 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 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 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 a significant deficiency, including a deficiency we consider to be a material weakness.

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 deficiency in internal control described in Part

II of the accompanying Schedule of Findings to be a significant deficiency 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, we believe the significant deficiency described above as reported as item II-A-09 is a material weakness.

Compliance and Other Matters

As 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, 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, 2009 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.*

West Des Moines, Iowa
November 30, 2009

# CITY OF MADRID
## Schedule of Findings
## Year ended June 30, 2009

**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 U.S. generally accepted accounting principles.

(b) A significant deficiency in internal control over financial reporting was 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, 2009

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**SIGNIFICANT DEFICIENCY:**

II-A-09 Segregation of Duties – One important aspect of internal 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 segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

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 Required Statutory Reporting:**

III-A-09 Certified Budget – Disbursements during the year ended June 30, 2009, exceeded the amounts budgeted in the community and economic development and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, "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-09 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.

III-C-09 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-09 Business Transactions – No business transactions between the City and City officials or employees were noted.

# CITY OF MADRID
## Schedule of Findings (Continued)
## Year ended June 30, 2009

III-E-09 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 ensure the coverage is adequate for current operations.

III-F-09 Council Minutes – No transactions were found that we believe should have been approved in the council minutes but were not.

III-G-09 Deposits and Investments – The City has adopted an appropriate investment policy in accordance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa. However, the City has received and continues to hold shares of common stock as a donation for the new library. The holding of common stock is contrary to the City's investment policy.

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

Response – We will be disposing of the stock.

Conclusion – Response accepted.

III-H-09 Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.

# CITY OF MADRID

Staff

This audit was performed by:

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