

**City of Madrid**

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

June 30, 2010

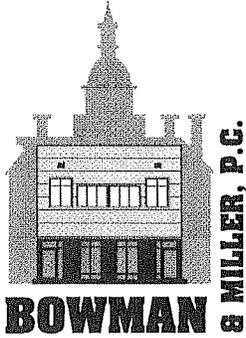
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# City of Madrid

## Officials

<u>Name</u>	<u>Title</u> (Before January 2010)	<u>Term Expires</u>
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	Jan 2010
Donald Fatka	City Treasurer	Jan 2010
John Jordan	City Attorney	Jan 2010
(After January 2010)		
Jeff Gibbons	Mayor	Jan 2012
Donald Lincoln	Mayor Pro Tem	Jan 2014
Steve Burich	Council Member	Jan 2014
Val Chapman	Council Member	Jan 2014
Mike Heeren	Council Member	Jan 2012
Lane Shaver	Council Member	Jan 2012
Todd Kilzer	City Administrator	Jan 2012
Donald Fatka	City Treasurer	Jan 2012
John Jordan	City Attorney	Jan 2012



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

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, 2010, 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, 2010, 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 October 29, 2010 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 21 through 23 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Madrid's basic financial statements. The financial statements for the year ended June 30, 2003 (which are not presented herein) were audited by other auditors who expressed an unqualified opinion on those financial statements which were prepared on an other comprehensive basis of accounting. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (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.*

## 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, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2010 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 13.3%, or approximately \$211,400, from fiscal year 2009 to fiscal year 2010. Property tax increased approximately \$58,500, capital grants, contributions and restricted interest increased approximately \$170,600 and the City received tax increment financing of approximately \$42,600.
- Disbursements of the City's governmental activities increased 13.2%, or approximately \$208,000, in fiscal year 2010 from fiscal year 2009. Culture and recreation, capital projects, public safety and community and economic development disbursements increased approximately \$86,800, \$47,100, \$33,100 and \$23,300, respectively.
- The City's total cash basis net assets increased by 14.0%, or approximately \$135,300, from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities increased approximately \$72,100 and the assets of the business type activities increased approximately \$63,100.

### 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 and the City's indebtedness.

## 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 and Employee Benefits, 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, increasing from approximately \$565,000 to approximately \$637,000. 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,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service	\$ 197,657	203,925
Operating grants, contributions and restricted interest	315,256	399,947
Capital grants, contributions and restricted interest	170,555	-
General receipts:		
Property tax	740,006	681,460
Tax increment financing	42,580	-
Other city tax	184,018	196,485
Special assessments	11,048	7,717
Unrestricted interest on investments	11,508	14,379
Loan proceeds	15,000	-
Other general receipts	112,189	84,528
Total receipts	<u>1,799,817</u>	<u>1,588,441</u>
Disbursements:		
Public safety	313,050	279,988
Public works	426,480	416,309
Health and social services	4,000	4,000
Culture and recreation	372,128	285,361
Community and economic development	81,105	57,774
General government	135,435	134,075
Debt service	362,222	356,042
Capital projects	95,757	48,617
Total disbursements	<u>1,790,177</u>	<u>1,582,166</u>
Change in cash basis net assets before transfers	9,640	6,275
Transfers, net	<u>62,500</u>	<u>27,500</u>
Change in cash basis net assets	72,140	33,775
Cash basis net assets beginning of year	<u>564,782</u>	<u>531,007</u>
Cash basis net assets end of year	\$ <u>636,922</u>	<u>564,782</u>

The City's total receipts for governmental activities increased 13.3%, or approximately \$211,400. The total cost of all programs and services increased approximately \$208,000, or 13.2%, with no new programs added this year. The increase in receipts was primarily the result of an increase in property taxes, tax increment financing and the receipt of two Iowa Department of Natural Resources REAP grants for \$30,150 and \$67,150. The grants from the Iowa Department of Natural Resources are reflected in capital grants, contributions and restricted interest.

The City increased property tax rates for fiscal year 2010 approximately 1%. This increase raised the City's property tax receipts approximately \$58,500 in fiscal year 2010. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase an additional \$19,000 next year.

The cost of all governmental activities this year was approximately \$1,790,000 compared to approximately \$1,582,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 9 – 10, the amount taxpayers ultimately financed for these activities was only \$1,107,000 because some of the cost was paid by those directly benefited from the programs (\$198,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$486,000). Overall, the City’s governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2010 from approximately \$604,000 to \$683,000. The City paid for the remaining “public benefit” portion of governmental activities (\$1,107,000) with taxes (some of which could only be used for certain programs) and other receipts, such as interest and other general receipts.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 363,518	364,236
Sewer	234,824	229,383
General receipts:		
Unrestricted interest on investments	3,414	6,299
Other general receipts	<u>12,157</u>	<u>15,169</u>
Total receipts	<u>613,913</u>	<u>615,087</u>
Disbursements:		
Water	351,435	386,666
Sewer	<u>136,847</u>	<u>210,667</u>
Total disbursements	<u>488,282</u>	<u>597,333</u>
Change in cash basis net assets before transfers	125,631	17,754
Transfers, net	<u>(62,500)</u>	<u>(27,500)</u>
Change in cash basis net assets	63,131	(9,746)
Cash basis net assets beginning of year	<u>404,588</u>	<u>414,334</u>
Cash basis net assets end of year	\$ <u>467,719</u>	<u>404,588</u>

Total business type activities receipts for the fiscal year were approximately \$613,900 compared to approximately \$615,100 last year. The cash balance increased approximately \$63,100 from the prior year because of a decrease in disbursements. Total disbursements for the fiscal year decreased 18.3% to approximately \$488,300.

#### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Madrid completed the year, its governmental funds reported a combined fund balance of \$636,922, an increase of \$72,140 from last year’s total of \$564,782. 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 \$193,530 from the prior year to \$225,109. An increase in net transfers was the primary reason for the increase.
- The Road Use Tax Fund cash balance decreased \$11,706 to \$124,063 during the fiscal year. The decrease is primarily related to an increase in the cost of fuel.

- The Employee Benefits Fund cash balance increased \$2,836 from the prior year to \$84,269. The increase resulted in part from volatility in health insurance costs.
- The Emergency Fund cash balance remained virtually unchanged from the prior year.
- The Debt Service Fund cash balance increased \$15,008 to \$36,595. The increase resulted in part from an increase in property taxes and a decrease in disbursements.
- The Capital Projects Fund cash balance decreased \$69,040 to \$78,555 during the fiscal year. The decrease is primarily a result of an increase in disbursements.

#### INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$21,714 to \$263,342, due primarily to a decrease in operating disbursements.
- The Enterprise, Sewer Fund cash balance increased \$41,417 to \$204,377. This is a result of the final payment on the sewer revenue bonds being made in fiscal year 2009.

#### BUDGETARY HIGHLIGHTS

Over the course of the year, the City had no budget amendments.

As a result, the City exceeded amounts budgeted in the culture and recreation and community and economic development functions for the year ended June 30, 2010.

#### DEBT ADMINISTRATION

At June 30, 2010, the City had \$2,393,187 in bonds and other long-term debt outstanding, compared to \$2,715,168 last year, as shown below.

	Outstanding Debt at Year-End	
	2010	2009
General obligation bonds	\$ 2,355,000	2,610,000
Revenue notes	-	60,000
Other long-term debt	<u>38,187</u>	<u>45,168</u>
Total	\$ <u>2,393,187</u>	<u>2,715,168</u>

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 \$2,355,000 is below its constitutional debt limit of \$4,405,710.

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

The City of Madrid's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates and fees charged for various City activities.

#### 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, 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, 2010

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 313,050	-	19,124	-
Public works	426,480	138,332	224,298	-
Health and social services	4,000	5,310	-	-
Culture and recreation	372,128	54,015	71,834	170,555
Community and economic development	81,105	-	-	-
General government	135,435	-	-	-
Debt service	362,222	-	-	-
Capital projects	95,757	-	-	-
Total governmental activities	1,790,177	197,657	315,256	170,555
Business type activities:				
Water	351,435	363,518	-	-
Sewer	136,847	234,824	-	-
Total business type activities	488,282	598,342	-	-
Total	\$ 2,278,459	795,999	315,256	170,555
<b>General receipts and Transfers:</b>				
Property tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Other city tax				
Licenses and permits				
Unrestricted interest on investments				
Special assessments				
Loan 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				
<b>Cash Basis Net Assets</b>				
Restricted:				
Expendable:				
Debt service				
Parks				
Library				
Fire equipment				
Estate				
Capital projects				
Unrestricted				
Total cash basis net assets				

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(293,926)	-	(293,926)
(63,850)	-	(63,850)
1,310	-	1,310
(75,724)	-	(75,724)
(81,105)	-	(81,105)
(135,435)	-	(135,435)
(362,222)	-	(362,222)
(95,757)	-	(95,757)
(1,106,709)	-	(1,106,709)
-	12,083	12,083
-	97,977	97,977
-	110,060	110,060
(1,106,709)	110,060	(996,649)
522,093	-	522,093
217,913	-	217,913
42,580	-	42,580
184,018	-	184,018
14,429	-	14,429
11,508	3,414	14,922
11,048	-	11,048
15,000	-	15,000
97,760	12,157	109,917
62,500	(62,500)	-
1,178,849	(46,929)	1,131,920
72,140	63,131	135,271
564,782	404,588	969,370
\$ 636,922	467,719	1,104,641
\$ 36,595	61,260	97,855
219	-	219
31,580	-	31,580
33,845	-	33,845
24,752	-	24,752
78,555	-	78,555
431,376	406,459	837,835
\$ 636,922	467,719	1,104,641

**CITY OF MADRID**  
Statement of Cash Receipts, Disbursements and  
Changes in Cash Balances  
Governmental Funds  
As of and for the year ended June 30, 2010

	General	Special Revenue		
		Road Use Tax	Employee Benefits	Emergency
<b>Receipts:</b>				
Property tax	\$ 402,178	-	108,536	11,379
Tax increment financing	-	-	-	-
Other city tax	172,750	-	3,686	387
Licenses and permits	14,429	-	-	-
Use of money and property	12,284	-	-	-
Intergovernmental	135,544	224,298	-	-
Charges for service	197,658	-	-	-
Special assessments	-	-	-	-
Miscellaneous	137,423	-	-	-
<b>Total receipts</b>	<b>1,072,266</b>	<b>224,298</b>	<b>112,222</b>	<b>11,766</b>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	232,775	-	72,375	-
Public works	176,062	206,004	44,414	-
Health and social services	4,000	-	-	-
Culture and recreation	356,280	-	14,622	-
Community and economic development	81,105	-	-	-
General government	122,460	-	12,975	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
<b>Total disbursements</b>	<b>972,682</b>	<b>206,004</b>	<b>144,386</b>	<b>-</b>
Excess (deficiency) of receipts over (under) disbursements	99,584	18,294	(32,164)	11,766
<b>Other financing sources (uses):</b>				
Loan proceeds	15,000	-	-	-
Operating transfers in	163,946	-	35,000	-
Operating transfers out	(85,000)	(30,000)	-	(11,766)
<b>Total other financing sources (uses)</b>	<b>93,946</b>	<b>(30,000)</b>	<b>35,000</b>	<b>(11,766)</b>
Net change in cash balances	193,530	(11,706)	2,836	-
Cash balances beginning of year	31,579	135,769	81,433	969
Cash balances end of year	\$ 225,109	124,063	84,269	969
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ -	-	-	-
<b>Unreserved:</b>				
General fund	225,109	-	-	-
Special revenue funds	-	124,063	84,269	969
Capital projects fund	-	-	-	-
<b>Total cash basis fund balances</b>	<b>\$ 225,109</b>	<b>124,063</b>	<b>84,269</b>	<b>969</b>

Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Total
217,913	-	-	740,006
-	-	42,580	42,580
7,195	-	-	184,018
-	-	-	14,429
-	-	204	12,488
-	-	47,905	407,747
-	-	-	197,658
6,508	4,540	-	11,048
-	9,677	27,743	174,843
231,616	14,217	118,432	1,784,817
-	-	7,900	313,050
-	-	-	426,480
-	-	-	4,000
-	-	1,226	372,128
-	-	-	81,105
-	-	-	135,435
362,222	-	-	362,222
-	95,757	-	95,757
362,222	95,757	9,126	1,790,177
(130,606)	(81,540)	109,306	(5,360)
-	-	-	15,000
145,614	12,500	-	357,060
-	-	(167,794)	(294,560)
145,614	12,500	(167,794)	77,500
15,008	(69,040)	(58,488)	72,140
21,587	147,595	145,850	564,782
36,595	78,555	87,362	636,922
36,595	-	-	36,595
-	-	-	225,109
-	-	87,362	296,663
-	78,555	-	78,555
36,595	78,555	87,362	636,922

# 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, 2010

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 363,518	234,824	598,342
Miscellaneous	12,157	-	12,157
Total operating receipts	375,675	234,824	610,499
Operating disbursements:			
Business type activities	290,175	136,847	427,022
Excess of operating receipts over operating disbursements	85,500	97,977	183,477
Non-operating receipts (disbursements):			
Interest on investments	2,474	940	3,414
Debt service	(61,260)	-	(61,260)
Net non-operating receipts (disbursements)	(58,786)	940	(57,846)
Excess of receipts over disbursements	26,714	98,917	125,631
Other financing sources (uses):			
Operating transfers in	61,660	-	61,660
Operating transfers out	(66,660)	(57,500)	(124,160)
Total other financing sources (uses)	(5,000)	(57,500)	(62,500)
Net change in cash balances	21,714	41,417	63,131
Cash balances beginning of year	241,628	162,960	404,588
Cash balances end of year	\$ 263,342	204,377	467,719
 <b>Cash Basis Fund Balances</b>			
Unreserved	\$ 263,342	204,377	467,719
Total cash basis fund balances	\$ 263,342	204,377	467,719

**CITY OF MADRID**  
Notes to Financial Statements  
June 30, 2010

(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 several jointly governed organizations 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. City officials are members of the following boards: Boone County Landfill Commission, Emergency Management Board, Madrid Historical Society Board, Lowery Trust Board, Central Iowa Regional Housing Authority, and the Boone County 911 Board. The City also has a cost-sharing agreement with the Boone County Sheriff Department for communication costs.

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 the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City.

**CITY OF MADRID**  
Notes to Financial Statements (Continued)  
June 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Expendable 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 not meeting the definition of the preceding categories. 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.

**CITY OF MADRID**  
Notes to Financial Statements (Continued)  
June 30, 2010

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

B. Basis of Presentation (Continued)

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

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, 2010, disbursements exceeded the amounts budgeted in culture and recreation and community and economic development functions.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2010 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.

**CITY OF MADRID**  
Notes to Financial Statements (Continued)  
June 30, 2010

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

At June 30, 2010, the City had the following investment:

	<u>Cost</u>	<u>Market Value</u>
19 Shares IBM Stock	<u>\$757</u>	<u>\$2,346</u>

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) 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 note are as follows:

Year Ending June 30,	General Obligation Bonds		General Obligation Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 240,000	79,053	20,000	9,830	260,000	88,883
2012	250,000	71,095	20,000	9,160	270,000	80,255
2013	225,000	62,410	50,000	8,450	275,000	70,860
2014	195,000	54,230	55,000	6,600	250,000	60,830
2015	200,000	47,400	55,000	4,483	255,000	51,883
2016-2020	735,000	132,655	55,000	2,283	790,000	134,938
2021-2022	255,000	16,300	-	-	255,000	16,300
Total	<u>\$2,100,000</u>	<u>463,143</u>	<u>255,000</u>	<u>40,806</u>	<u>2,355,000</u>	<u>503,949</u>

**(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 4.30% of their annual covered salary and the City is required to contribute 6.65% 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, 2010, 2009 and 2008 were \$36,149, \$33,839, and \$33,130 respectively, equal to the required contributions for each year.

**CITY OF MADRID**  
**Notes to Financial Statements (Continued)**  
**June 30, 2010**

**(5) Other Postemployment Benefits (OPEB)**

Plan Description – The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 10 active and -0- retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$431 for single coverage and \$1,322 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed 100% of the plan membership at a cost of \$95,063.

**(6) 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 payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	<u>\$ 18,419</u>

This liability has been computed based on rates of pay in effect at June 30, 2010.

**(7) 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, 2010	Item Leased
		Issued	Due		
John Deere Leasing Co.	5.75%	March 15, 2007	March 15, 2012	<u>\$27,562</u>	Backhoe and Loader

**CITY OF MADRID**  
Notes to Financial Statements (Continued)  
June 30, 2010

**(7) Lease Purchase Obligation (Continued)**

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

Year Ending June 30	
2011	15,013
2012	<u>15,013</u>
Total minimum lease payments	30,026
Less: Amount representing interest	<u>2,464</u>
Present value of net minimum payments	<u>\$ 27,562</u>

**(8) Note Payable**

The City's obligation under the note payable at June 30, 2010 is as follows:

<u>Due to</u>	<u>Rate</u>	<u>Due</u>	<u>Balance</u>
City State Bank secured by police car payable \$446 monthly	4.50%	August 1, 2012	\$ <u>10,625</u>

Maturities of the note payable are as follows:

Year Ending June 30,	
2011	4,976
2012	5,204
2013	<u>445</u>
	\$ <u>10,625</u>

**(9) 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, 2010

**(10) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
General Fund	Special Revenue:	
	A to W Trail	\$ 122,180
	Special Revenue:	
	Emergency	11,766
	Sewer	<u>30,000</u>
		163,946
Debt Service	General	50,000
	Special Revenue:	
	Road Use Tax	25,000
	Sewer	25,000
	Tax Increment Financing	<u>45,614</u>
		145,614
Special Revenue:		
Employee Benefit	General	35,000
Capital Projects	Special Revenue:	
	Road Use Tax	5,000
	Water	5,000
	Sewer	<u>2,500</u>
		<u>12,500</u>
Total		\$ <u>357,060</u>

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

**(11) Deficit Balance**

The Tax Increment Financing Fund had a deficit balance of \$3,034 at June 30, 2010. The deficit balance was a result of less financing received than anticipated. The deficit will be eliminated upon receipt of the following year's tax increment financing.

**(12) Subsequent Events**

The City was awarded a Community Development Block Grant for \$2,068,000 in November 2009. The grant will be used for sanitary sewer relining and the creation of a concrete drainage canal to control flooding. The City anticipates receiving the grant funds in fiscal year 2011.

**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, 2010

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 740,006	-
Tax increment financing	42,580	-
Other city tax	184,018	-
Licenses and permits	14,429	-
Use of money and property	12,488	3,414
Intergovernmental	407,747	-
Charges for service	197,658	598,342
Special assessments	11,048	-
Miscellaneous	174,843	12,157
Total receipts	1,784,817	613,913
Disbursements:		
Public safety	313,050	-
Public works	426,480	-
Health and social services	4,000	-
Culture and recreation	372,128	-
Community and economic development	81,105	-
General government	135,435	-
Debt service	362,222	-
Capital projects	95,757	-
Business type activities	-	488,282
Total disbursements	1,790,177	488,282
Excess (deficiency) of receipts over (under) disbursements	(5,360)	125,631
Other financing sources (uses), net	77,500	(62,500)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	72,140	63,131
Balances beginning of year	564,782	404,588
Balances end of year	\$ 636,922	467,719

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
740,006	730,776	730,776	9,230
42,580	45,614	45,614	(3,034)
184,018	195,859	195,859	(11,841)
14,429	13,500	13,500	929
15,902	38,900	38,900	(22,998)
407,747	390,500	390,500	17,247
796,000	834,500	834,500	(38,500)
11,048	6,000	6,000	5,048
187,000	29,400	29,400	157,600
<u>2,398,730</u>	<u>2,285,049</u>	<u>2,285,049</u>	<u>113,681</u>
313,050	353,090	353,090	40,040
426,480	434,940	434,940	8,460
4,000	4,100	4,100	100
372,128	320,539	320,539	(51,589)
81,105	26,500	26,500	(54,605)
135,435	157,829	157,829	22,394
362,222	363,661	363,661	1,439
95,757	335,000	335,000	239,243
488,282	548,845	548,845	60,563
<u>2,278,459</u>	<u>2,544,504</u>	<u>2,544,504</u>	<u>266,045</u>
120,271	(259,455)	(259,455)	379,726
15,000	254,386	254,386	(239,386)
135,271	(5,069)	(5,069)	140,340
969,370	850,583	850,583	118,787
<u>1,104,641</u>	<u>845,514</u>	<u>845,514</u>	<u>259,127</u>

**CITY OF MADRID**  
Notes to Required Supplementary Information – Budgetary Reporting  
June 30, 2010

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, the City of Madrid had no budget amendments.

During the year ended June 30, 2010, disbursements exceeded the amount budgeted in the culture and recreation and community and economic development functions.

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, 2010

	Special Revenue		
	A to W Trail	Jensen Park	Boyd Library
Receipts:			
Tax increment financing	\$ -	-	-
Use of money and property	-	-	127
Intergovernmental	47,905	-	-
Donations	-	1,500	-
Miscellaneous	-	-	3,000
Total receipts	<u>47,905</u>	<u>1,500</u>	<u>3,127</u>
Disbursements:			
Operating:			
Public safety	-	-	-
Culture and recreation	(111)	1,337	-
Total disbursements	<u>(111)</u>	<u>1,337</u>	<u>-</u>
Excess of receipts over disbursements	48,016	163	3,127
Other financing uses:			
Operating transfers out	<u>(122,180)</u>	-	-
Net change in cash balances	(74,164)	163	3,127
Cash balances beginning of year	<u>74,164</u>	<u>56</u>	<u>28,453</u>
Cash balances end of year	<u>\$ -</u>	<u>219</u>	<u>31,580</u>
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Special revenue fund	<u>\$ -</u>	<u>219</u>	<u>31,580</u>
Total cash basis fund balances	<u>\$ -</u>	<u>219</u>	<u>31,580</u>

Fire Equipment	Helms Estate	Tax Increment Financing	Total
-	-	42,580	42,580
-	77	-	204
-	-	-	47,905
23,191	52	-	24,743
-	-	-	3,000
23,191	129	42,580	118,432
7,900	-	-	7,900
-	-	-	1,226
7,900	-	-	9,126
15,291	129	42,580	109,306
-	-	(45,614)	(167,794)
15,291	129	(3,034)	(58,488)
18,554	24,623	-	145,850
33,845	24,752	(3,034)	87,362
33,845	24,752	(3,034)	87,362
33,845	24,752	(3,034)	87,362

**City of Madrid**  
 Schedule of Indebtedness  
 Year ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and note:			
Street improvement	Mar 15, 2004	1.45 - 4.15 %	\$ 395,000
Water/sewer improvement	Jan 1, 2006	3.60 - 4.40	310,000
Fire department rescue	Sep 15, 2007	4.80	135,000
Corporate purpose and refunding	Apr 15, 2008	2.50 - 4.25	2,140,000
Total			
Revenue bond:			
Water	Oct 1, 2002	2.90 - 4.20 %	\$ 340,000
Lease:			
John Deere backhoe	Mar 15, 2007	5.75 %	\$ 64,938
Bank loans:			
Police car	Feb 22, 2007	5.95 %	\$ 21,000
Police car	Aug 9, 2009	4.50	15,010

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 280,000	-	25,000	255,000	10,605	-
270,000	-	20,000	250,000	10,903	-
95,000	-	20,000	75,000	4,560	-
1,965,000	-	190,000	1,775,000	70,345	-
<u>\$ 2,610,000</u>	<u>-</u>	<u>255,000</u>	<u>2,355,000</u>	<u>96,413</u>	<u>-</u>
\$ 60,000	-	60,000	-	1,260	-
\$ 40,200	-	12,638	27,562	2,373	-
\$ 4,968	-	4,968	-	135	-
-	15,010	4,385	10,625	522	-
<u>\$ 4,968</u>	<u>15,010</u>	<u>9,353</u>	<u>10,625</u>	<u>657</u>	<u>-</u>

**CITY OF MADRID**  
**Bond and Note Maturities**  
**June 30, 2010**

Year Ending June 30,	General Obligation Bonds					
	Corporate Purpose and Refunding		Water/Sewer Improvement		Fire Department Rescue	
	Issued Apr 15, 2008		Issued Jan 1, 2006		Issued Sep 15, 2007	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2011	2.90 %	\$ 160,000	3.85 %	\$ 55,000	4.80 %	\$ 25,000
2012	3.10	165,000	3.95	60,000	4.80	25,000
2013	3.25	140,000	4.05	60,000	4.80	25,000
2014	3.40	170,000	4.20	25,000	-	-
2015	3.60	175,000	4.30	25,000	-	-
2016	3.80	180,000	4.40	25,000	-	-
2017	3.90	185,000	-	-	-	-
2018	4.00	110,000	-	-	-	-
2019	4.10	115,000	-	-	-	-
2020	4.15	120,000	-	-	-	-
2021	4.20	125,000	-	-	-	-
2022	4.25	130,000	-	-	-	-
Total		<u>\$ 1,775,000</u>		<u>\$ 250,000</u>		<u>\$ 75,000</u>

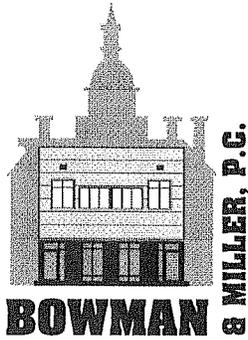
General Obligation Note		
Street		
Improvement		
Issued Mar 15, 2004		
Interest		
Rates	Amount	Total
3.35 % \$	20,000	\$ 260,000
3.55	20,000	270,000
3.70	50,000	275,000
3.85	55,000	250,000
4.00	55,000	255,000
4.15	55,000	260,000
-	-	185,000
-	-	110,000
-	-	115,000
-	-	120,000
-	-	125,000
-	-	130,000
	<u>\$ 255,000</u>	<u>\$ 2,355,000</u>

City of Madrid  
 Schedule of Receipts By Source and Disbursements by Function-  
 All Governmental Funds  
 For the Last Eight Years

	2010	2009	2008	2007
Receipts:				
Property tax	\$ 740,006	681,460	630,677	588,149
Tax increment financing	42,580	-	-	-
Other city tax	184,018	196,485	190,788	180,565
Licenses and permits	14,429	13,975	9,941	12,364
Use of money and property	12,488	15,304	45,888	34,033
Intergovernmental	407,747	332,053	239,585	425,411
Charges for services	197,658	203,925	184,450	169,381
Special assessments	11,048	7,717	5,449	13,172
Miscellaneous	174,843	137,522	78,354	39,638
Total	\$ 1,784,817	1,588,441	1,385,132	1,462,713
Disbursements:				
Operating:				
Public safety	\$ 313,050	279,988	559,301	328,991
Public works	426,480	416,309	378,406	373,658
Health and social services	4,000	4,000	4,049	3,802
Culture and recreation	372,128	285,361	215,486	240,583
Community and economic development	81,105	57,774	29,854	22,210
General government	135,435	134,075	158,746	147,211
Debt service	362,222	356,042	2,410,641	289,398
Capital projects	95,757	48,617	1,173,743	217,010
Total	\$ 1,790,177	1,582,166	4,930,226	1,622,863

2006	2005	2004	2003
472,709	452,153	442,715	411,177
-	-	-	45,959
202,013	183,946	188,857	162,798
16,629	11,201	1,912	4,014
23,586	12,134	16,595	18,473
502,833	248,810	231,545	256,812
175,502	173,812	128,726	118,802
18,275	18,499	19,400	41,524
55,900	72,558	67,744	151,594
<u>1,467,447</u>	<u>1,173,113</u>	<u>1,097,494</u>	<u>1,211,153</u>

305,736	301,401	292,206	255,197
405,484	379,831	355,629	326,311
3,600	3,606	3,530	2,900
197,725	185,677	167,677	151,537
62,403	15,570	8,902	9,568
145,762	154,092	121,865	101,409
267,243	264,385	224,577	172,815
369,431	465,860	227,732	778,715
<u>1,757,384</u>	<u>1,770,422</u>	<u>1,402,118</u>	<u>1,798,452</u>



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, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 29, 2010. 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 an 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting we consider to be a material weakness.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Madrid's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings as item II-A-10 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies, as defined above.

#### 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. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 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, and 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.*

**CITY OF MADRID**  
Schedule of Findings  
Year ended June 30, 2010

**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 material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (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, 2010

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

**INTERNAL CONTROL DEFICIENCY:**

II-A-10 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.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**Part III: Other Findings Related to Required Statutory Reporting:**

III-A-10 Certified Budget – Disbursements during the year ended June 30, 2010, exceeded the amounts budgeted in the culture and recreation and community and economic development 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 – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

III-B-10 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-10 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-10 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, 2010

III-E-10 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-10 Council Minutes – No transactions were found that we believe should have been approved in the council minutes but were not.

III-G-10 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 or comply with the current policy.

Response – We will be disposing of the stock.

Conclusion – Response accepted.

III-H-10 Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.

III-I-10 Financial Condition – The Tax Increment Financing Fund had a deficit balance of \$3,034 at June 30, 2010.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – The deficit was due to less financing received than anticipated. The deficit will be eliminated upon receipt of the following year's tax increment financing.

Conclusion – Response accepted.

City of Madrid

Staff

This audit was performed by:

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