

City of Fort Madison

**Independent Auditor's Report
Management's Discussion and Analysis
Financial Statements and Supplementary Information
Independent Auditor's Reports on Internal Control and Compliance
Schedule of Findings**

June 30, 2011

C o n t e n t s

	Page
Officials	1
Independent Auditor's Report	2 - 3
Management's Discussion and Analysis	4 - 10
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Activities and Net Assets - Cash Basis	11
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Governmental Funds	12
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Proprietary Funds	13
Notes to Financial Statements	14 - 24
Required Supplementary Information	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual	25
Notes to Required Supplementary Information - Budgetary Reporting	26
Other Supplementary Information	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	27
Statement of Indebtedness	28
Bond and Note Maturities	29 - 31
Schedule of Receipts by Source and Disbursements by Function - All Governmental Fund Types	32
Schedule of Expenditures of Federal Awards	33 - 34
Miscellaneous Statistical Section	35 - 36
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37 - 38
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	39 - 40
Schedule of Findings	41 - 45
Summary Schedule of Prior Audit Findings	46 - 47

City of Fort Madison

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Ireland	Mayor	January, 2012
Bob Chesnut	Council Member	January, 2012
Kevin Rink	Council Member	January, 2012
Mark Lair	Council Member	January, 2012
Tim Waggoner	Council Member	January, 2012
Chris Greenwald	Council Member	January, 2014
Jason Huppert	Council Member	January, 2014
Brad Randolph	Council Member	January, 2014
Byron D. Smith	City Manager	Indefinite
Melinda Blind	City Clerk	Indefinite
Peggy Steffensmeier	City Treasurer	Indefinite
Robert N. Johnson, III	Attorney	Indefinite
Bruce Niggemeyer	Police Chief	Indefinite
Joey Herren	Fire Chief	Indefinite



401 South Roosevelt Avenue - Suite 2A, PO Box 547, Burlington, IA 52601 / 319 752 6348 / 800 757 6348 / fax: 319 752 8644 / info@cpaapc.com

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fort Madison, Iowa (City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

The financial statements referred to above include only the primary government of the City, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City as of June 30, 2011, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

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 for the primary government of the City as of June 30, 2011, 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 4, 2011 on our consideration of the City'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 read in conjunction with this report and considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 through 10 and budgetary comparison information on pages 25 and 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We 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'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 eight years ended June 30, 2010 (none of which are presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting.

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

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

CPA Associates PC

November 4, 2011

City of Fort Madison Management's Discussion and Analysis

The City of Fort Madison (City) 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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 14%, or \$1,200,830, from fiscal 2010 to fiscal 2011. Capital grants, contributions and restricted interest, tax increment financing, and other general receipts increased \$781,027, \$368,318, and \$227,282, respectively.
- Disbursements of the City's governmental activities increased 19%, or \$1,595,926, from fiscal 2010 to fiscal 2011. Capital projects, community and economic development, and public safety increased \$1,197,047, \$138,749, and \$128,136, respectively.
- The City's total cash basis net assets decreased 4%, or \$343,138, from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities decreased \$41,284 and the assets of business type activities decreased \$301,854.

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 Statements consist 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 statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- 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. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

City of Fort Madison Management's Discussion and Analysis

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases 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 water, sewer and solid waste departments. 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. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. Governmental funds include: 1) the General Fund, 2) the Special Revenue Funds such as Road Use Tax, Sales Tax and Urban Renewal Tax Increment Financing (TIF), 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 statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

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

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

**City of Fort Madison
Management's Discussion and Analysis**

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 decreased from \$5,369,413 to \$5,328,129. 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
(Expressed in thousands)

	Year Ended June 30,	
	<u>2011</u>	<u>2010</u>
Receipts:		
Program receipts:		
Charges for services	\$ 392,600	\$ 336,774
Operating grants, contributions and restricted interest	1,443,104	1,697,598
Capital grants, contributions and restricted interest	1,445,125	664,098
General receipts:		
Property tax	3,157,005	3,063,557
Local option sales tax	1,104,068	1,173,346
Tax increment financing	941,649	573,331
Debt service	266,617	265,803
Unrestricted interest on investments	145,855	147,968
Other general receipts	<u>1,063,825</u>	<u>836,543</u>
Total receipts	<u>9,959,848</u>	<u>8,759,018</u>
Disbursements:		
Public safety	3,247,480	3,119,344
Public works	1,192,716	1,114,132
Health and social services	40,644	38,434
Culture and recreation	1,090,228	1,034,028
Community and economic development	1,232,442	1,093,693
General government	812,807	819,443
Debt service	266,929	265,293
Capital projects	<u>2,033,886</u>	<u>836,839</u>
Total disbursements	<u>9,917,132</u>	<u>8,321,206</u>
Change in cash basis net assets before transfers	42,716	437,812
Transfers, net	<u>(84,000)</u>	<u>(29,500)</u>
Change in cash basis net assets	(41,284)	408,312
Cash basis net assets beginning of year	<u>5,369,413</u>	<u>4,961,101</u>
Cash basis net assets end of year	<u>\$ 5,328,129</u>	<u>\$ 5,369,413</u>

**City of Fort Madison
Management's Discussion and Analysis**

The City's total receipts for governmental activities increased by 14% or \$1,200,830. The total cost of all programs and services increased by \$1,595,926 or 19% with no new programs added this year.

The cost of all governmental activities this year was \$9,917,132 compared to \$8,321,206 last year. However, as shown in the statement of activities and net assets on page 11, the amount that our taxpayers ultimately financed for these activities through City taxes was \$6,636,303 because some of the cost was paid by those directly benefited from the programs by (\$392,600) or by other governments and organizations that subsidized certain programs with grants and contributions by (\$2,888,229). Overall, the City's governmental program receipts, including intergovernmental aid and fees for service, increased in 2011 from \$2,698,470 to \$3,280,829, principally due to a increase in capital grant contributions.

Change in Cash Basis of Net Assets Business Type Activities
(Expressed in thousands)

	<u>Year Ended June 30,</u>	<u>2011</u>	<u>2010</u>
Receipts:			
Program receipts:			
Water charges	\$ 2,653,170	\$ 2,594,825	
Sewer charges	1,537,172	1,642,074	
Solid waste charges	717,937	622,463	
General receipts:			
Bond proceeds	3,793,667	12,002,607	
Miscellaneous receipts	<u>680,450</u>	<u>1,976,791</u>	
Total receipts	<u>9,382,396</u>	<u>18,838,760</u>	
Disbursements:			
Water	7,117,320	17,009,210	
Sewer	2,055,126	2,823,402	
Solid waste	<u>595,804</u>	<u>624,472</u>	
Total disbursements	<u>9,768,250</u>	<u>20,457,084</u>	
Change in cash basis net assets before transfers	(385,854)	(1,618,324)	
Transfers, net	<u>84,000</u>	<u>29,500</u>	
Change in cash basis net assets	(301,854)	(1,588,824)	
Cash basis net assets beginning of year	<u>3,104,495</u>	<u>4,693,319</u>	
Cash basis net assets end of year	<u>\$ 2,802,641</u>	<u>\$ 3,104,495</u>	

Total business type activities receipts for the fiscal year were \$9,382,396 compared to \$18,838,760 last year. This decrease was due primarily to the receipt of \$12,002,607 in bond proceeds in 2010 compared to \$3,793,667 in 2011. The cash balance decreased by \$301,854 from the prior year largely due to the cost of capital projects. Total disbursements for the fiscal year decreased by 52% to a total of \$9,768,250.

**City of Fort Madison
Management's Discussion and Analysis**

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fort Madison completed the year, its governmental funds reported a combined fund balance of \$5,328,129, a decrease of \$41,284 from last year's total of \$5,369,413. 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 \$60,441 from the prior year to \$1,802,366. The increase was due to an increase in property tax receipts.
- The Special Revenue, Road Use Tax Fund cash balance decreased by \$99,022 to \$6,457 during the fiscal year. The rising costs of fuel and other petroleum based products are expected to put continued pressure on the cash balance of the Road Use Tax Fund.
- The Special Revenue, Local Option Sales Tax was established in previous years to provide additional general fund revenues to reduce the City's reliance on property tax revenues and provide a reliable funding source for capital projects. Eighty percent of these Local Option Sales Tax revenues goes to the general fund, while the other twenty percent goes to pay for capital improvement projects. At the end of the fiscal year, the cash balance was \$873,711, a decrease of \$62,360 from the previous year.
- The Special Revenue, Urban Renewal TIF was established in previous years to account for a major urban renewal project within the City's business district. At the end of the fiscal year, the cash balance was \$852,888, an increase of \$161,501 from the previous year. The increase is due to an increase in TIF receipts of approximately \$368,318 and a decrease of transfers in of approximately \$203,000.
- The Debt Service Fund cash balance decreased \$312 to \$66,975 during the fiscal year.
- The Capital Projects Fund cash balance decreased \$260,067 to \$(80,623) during the fiscal year due to increased capital project spending.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$130,775 to \$(281,711), due primarily to an increase in capital projects.
- The Sewer Fund cash balance decreased \$296,609 to \$2,940,795, due primarily to a decrease in sewer charges and bond proceeds.
- The Solid Waste Fund cash balance increased \$125,530 to \$143,557, due primarily to an increase in solid waste charges.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its operating budget. The amendment was approved on May 17, 2011 and resulted in an increase in revenues of \$1,959,020 and an increase in operating disbursements of \$2,488,900. Increases in revenues included other taxes, intergovernmental, miscellaneous, licenses and permits, use of money and property and other financing sources. Increases in expenditures included public works, culture and recreation, community and economic development, general government and capital projects.

**City of Fort Madison
Management's Discussion and Analysis**

The City exceeded the amounts budgeted in the public works and culture and recreation functions for the year ended June 30, 2011, due to unexpected expenditures that had to be paid in the last weeks of June 2011.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$24,444,457 in bonds and other long-term debt compared to \$21,589,651 last year as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30, 2011	2010
General obligation bonds	\$ 7,295,000	\$ 7,885,000
Revenue bonds	17,086,162	13,542,496
Capital loan notes	63,295	125,155
Urban renewal TIFs	<u>-</u>	<u>37,000</u>
Total	<u>\$ 24,444,457</u>	<u>\$ 21,589,651</u>

Debt increased as a result of borrowing \$3,793,666 for water projects from the State Revolving Loan Fund.

The Constitution of the State of Iowa limits the amount of general obligation debt that 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 and TIF debt of \$7,358,000 is well below the City's \$19.8 million legal debt limit.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the 2012 fiscal year budget, tax rates, and fees that will be charged for various City activities. Recently Siemens Wind Generator Plant has opened and other plants have added capacity reversing a prior trend of job loss and a depressed economy. Despite that addition, the Lee County unemployment rate was 8.8% in June 2011 and 9.0% in June 2010. The City anticipates improvements in that rate as the economy of Fort Madison and Lee County grows.

The City's water treatment plant is now completed and the U.S. 61 bypass is under construction with an estimated opening date in 2011. The City's new library is continuing to increase its circulation and patronage. Construction on the State's new prison complex in Fort Madison started early in 2010 and is another positive sign of economic activity. The Fort Madison Community School District is also building a new middle school building. The City again had a successful season of union negotiations that netted more cost sharing in the area of health insurance.

All the signs of increased economic activity are showing but the city budget continues to be a challenge as costs also increase to provide quality services. The City is very optimistic about the future with improved infrastructure and an improving economy.

**City of Fort Madison
Management's Discussion and Analysis**

EXCLUDED COMPONENT UNITS

Fort Madison Public Library Foundation (Foundation) and Friends of the Fort Madison Public Library (Friends) are component units of the City of Fort Madison. The Foundation and Friends, separate legal entities, exist for the purpose of attracting funds to benefit the Public Library which serves the Fort Madison area, and to disburse those funds in a manner that will benefit the Library. The Foundation and Friends meet the definition of component units since they raise funds on behalf of the Library. The financial statements of Fort Madison Public Library Foundation and Friends of the Fort Madison Public Library have not been audited and, accordingly, these component units have not been presented in the accompanying primary government audited financial statements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to Byron D. Smith, City Manager, City of Fort Madison, P.O. Box 240, Fort Madison, Iowa 52627.

BASIC FINANCIAL STATEMENTS

City of Fort Madison
Statement of Activities and Net Assets - Cash Basis
As of and for the Year Ended June 30, 2011

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
	Disbursements	Charges for Service and Sales	Operating Grants, Contributions and Restricted Interest	Capital Grants Contributions	Governmental Activities	Business-Type Activities	Total
Functions / Programs:							
Governmental activities:							
Public safety	\$ 3,247,480	\$ 40,017	\$ 138,373	\$ -	\$ (3,069,090)	\$ -	\$ (3,069,090)
Public works	1,192,716	21,734	1,020,151	-	(150,831)	-	(150,831)
Health and social services	40,644	-	28,968	-	(11,676)	-	(11,676)
Culture and recreation	1,090,228	173,276	50,887	-	(866,065)	-	(866,065)
Community and economic development	1,232,442	-	8,917	-	(1,223,525)	-	(1,223,525)
General government	812,807	157,573	195,808	-	(459,426)	-	(459,426)
Debt service	266,929	-	-	-	(266,929)	-	(266,929)
Capital projects	<u>2,033,886</u>	<u>-</u>	<u>-</u>	<u>1,445,125</u>	<u>(588,761)</u>	<u>-</u>	<u>(588,761)</u>
Total governmental activities	<u>9,917,132</u>	<u>392,600</u>	<u>1,443,104</u>	<u>1,445,125</u>	<u>(6,636,303)</u>	<u>-</u>	<u>(6,636,303)</u>
Business type activities:							
Water	7,117,320	2,653,170	383,674	-	-	(4,080,476)	(4,080,476)
Sewer	2,055,126	1,537,172	-	-	-	(517,954)	(517,954)
Solid waste	<u>595,804</u>	<u>717,937</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>122,133</u>	<u>122,133</u>
Total business type activities	<u>9,768,250</u>	<u>4,908,279</u>	<u>383,674</u>	<u>-</u>	<u>-</u>	<u>(4,476,297)</u>	<u>(4,476,297)</u>
Total	<u>\$ 19,685,382</u>	<u>\$ 5,300,879</u>	<u>\$ 1,826,778</u>	<u>\$ 1,445,125</u>	<u>(6,636,303)</u>	<u>(4,476,297)</u>	<u>(11,112,600)</u>
General Receipts:							
Property tax levied for:							
General purposes					3,157,005	17,464	3,174,469
Debt service					266,617	-	266,617
Tax increment financing					941,649	-	941,649
Local option sales tax					1,104,068	-	1,104,068
Unrestricted investment earnings					145,855	105,536	251,391
Bond proceeds					-	3,793,667	3,793,667
Transfers					(84,000)	84,000	-
Miscellaneous					<u>1,063,825</u>	<u>173,776</u>	<u>1,237,601</u>
Total general receipts and transfers					<u>6,595,019</u>	<u>4,174,443</u>	<u>10,769,462</u>
Change in cash basis net assets					(41,284)	(301,854)	(343,138)
Cash basis net assets beginning of year					<u>5,369,413</u>	<u>3,104,495</u>	<u>8,473,908</u>
Cash basis net assets end of year					<u>\$ 5,328,129</u>	<u>\$ 2,802,641</u>	<u>\$ 8,130,770</u>
Cash Basis Net Assets:							
Restricted:							
Nonexpendable					\$ 196,770	\$ -	\$ 196,770
Expendable					2,413,180	3,292,077	5,705,257
Unrestricted					<u>2,718,179</u>	<u>(489,436)</u>	<u>2,228,743</u>
Total cash basis net assets					<u>\$ 5,328,129</u>	<u>\$ 2,802,641</u>	<u>\$ 8,130,770</u>

See notes to financial statements.

City of Fort Madison
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the Year Ended June 30, 2011

	Special Revenue						Capital Projects	Other Nonmajor Govern- mental	Total
	General	Road Use	Sales Tax	Urban Renewal TIF	Grant Opportunity	Debt Service			
Receipts:									
Property tax	\$ 1,906,484	\$ -	\$ -	\$ -	\$ -	\$ 266,617	\$ -	\$ 1,250,521	\$ 3,423,622
Tax increment financing collections	-	-	-	941,649	-	-	-	-	941,649
Other taxes	-	-	1,104,068	-	-	-	-	165,452	1,269,520
Use of money and property	120,488	-	-	27,493	15,699	-	-	14,433	178,113
Licenses and permits	132,976	-	-	-	-	-	-	-	132,976
Intergovernmental	37,089	1,020,151	-	-	-	-	1,419,942	259,619	2,736,801
Charges for services	101,487	-	-	-	-	-	-	76,306	177,793
Miscellaneous	270,332	16,169	-	-	300,000	-	38,722	474,151	1,099,374
Total receipts	2,568,856	1,036,320	1,104,068	969,142	315,699	266,617	1,458,664	2,240,482	9,959,848
Disbursements:									
Governmental activities:									
Public safety	3,011,511	-	-	-	-	-	-	235,969	3,247,480
Public works	62,374	1,130,342	-	-	-	-	-	-	1,192,716
Health and social services	763	-	-	-	-	-	-	39,881	40,644
Culture and recreation	882,270	-	-	-	-	-	-	207,958	1,090,228
Community and economic development	88,161	-	-	703,641	82,273	-	-	358,367	1,232,442
General government	615,437	-	-	-	-	-	-	197,370	812,807
Debt service	-	-	-	-	-	266,929	-	-	266,929
Capital projects	-	-	-	-	-	-	2,033,886	-	2,033,886
Total disbursements	4,660,516	1,130,342	-	703,641	82,273	266,929	2,033,886	1,039,545	9,917,132
Excess (deficiency) of receipts over disbursements	(2,091,660)	(94,022)	1,104,068	265,501	233,426	(312)	(575,222)	1,200,937	42,716
Other financing sources (uses):									
Operating transfers in (out)	2,152,101	(5,000)	(1,166,428)	(104,000)	(248,061)	-	315,155	(1,027,767)	(84,000)
Net change in cash balances	60,441	(99,022)	(62,360)	161,501	(14,635)	(312)	(260,067)	173,170	(41,284)
Cash balances beginning of year	1,741,925	105,479	936,071	691,387	609,821	67,287	179,444	1,037,999	5,369,413
Cash balances end of year	\$ 1,802,366	\$ 6,457	\$ 873,711	\$ 852,888	\$ 595,186	\$ 66,975	\$ (80,623)	\$ 1,211,169	\$ 5,328,129
Cash Basis Fund Balances									
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 196,770	\$ 196,770
Restricted	-	6,457	873,711	852,888	-	66,975	-	582,482	2,382,513
Committed	-	-	-	-	-	-	-	30,667	30,667
Assigned	-	-	-	-	595,186	-	-	401,350	996,536
Unassigned	1,802,366	-	-	-	-	-	(80,623)	(100)	1,721,643
Total cash basis fund balances	\$ 1,802,366	\$ 6,457	\$ 873,711	\$ 852,888	\$ 595,186	\$ 66,975	\$ (80,623)	\$ 1,211,169	\$ 5,328,129

See notes to financial statements.

City of Fort Madison
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the Year Ended June 30, 2011

	Enterprise Funds			Total
	Water	Sewer	Solid Waste	
Operating Receipts:				
Charges for service	\$ 2,653,170	\$ 1,537,172	\$ 717,937	\$ 4,908,279
Total operating receipts	<u>2,653,170</u>	<u>1,537,172</u>	<u>717,937</u>	<u>4,908,279</u>
Operating Disbursements:				
Business type activities	<u>2,020,711</u>	<u>1,321,557</u>	<u>551,804</u>	<u>3,894,072</u>
Total operating disbursements	<u>2,020,711</u>	<u>1,321,557</u>	<u>551,804</u>	<u>3,894,072</u>
Excess of operating receipts over operating disbursements	<u>632,459</u>	<u>215,615</u>	<u>166,133</u>	<u>1,014,207</u>
Non-operating receipts (disbursements):				
Special assessments	5,101	12,363	-	17,464
Intergovernmental	448,484	-	-	448,484
Interest on investments	18,119	85,081	2,336	105,536
Customer deposits	23,125	-	-	23,125
Miscellaneous	59,879	24,901	1,061	85,841
Bond proceeds	3,793,667	-	-	3,793,667
Capital projects	(4,454,469)	(285,031)	(44,000)	(4,783,500)
Debt service	<u>(642,140)</u>	<u>(448,538)</u>	<u>-</u>	<u>(1,090,678)</u>
Net non-operating receipts (disbursements)	<u>(748,234)</u>	<u>(611,224)</u>	<u>(40,603)</u>	<u>(1,400,061)</u>
Excess (deficiency) of receipts over disbursements	<u>(115,775)</u>	<u>(395,609)</u>	<u>125,530</u>	<u>(385,854)</u>
Operating transfers in (out)	<u>(15,000)</u>	<u>99,000</u>	<u>-</u>	<u>84,000</u>
Net change in cash balances	(130,775)	(296,609)	125,530	(301,854)
Cash balances beginning of year	<u>(150,936)</u>	<u>3,237,404</u>	<u>18,027</u>	<u>3,104,495</u>
Cash balances end of year	<u>\$ (281,711)</u>	<u>\$ 2,940,795</u>	<u>\$ 143,557</u>	<u>\$ 2,802,641</u>
Cash Basis Fund Balances				
Restricted for equipment replacement	\$ 703,500	\$ 2,588,577	\$ -	\$ 3,292,077
Unrestricted	<u>(985,211)</u>	<u>352,218</u>	<u>143,557</u>	<u>(489,436)</u>
Total cash basis fund balances	<u>\$ (281,711)</u>	<u>\$ 2,940,795</u>	<u>\$ 143,557</u>	<u>\$ 2,802,641</u>

See notes to financial statements.

City of Fort Madison
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The City of Fort Madison (City) is a political subdivision of the State of Iowa located in Lee County. It was incorporated in 1838 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture, recreation, community and economic development, and general government services. The City also provides water and sewer utilities and solid waste removal for its citizens.

Reporting Entity

For financial reporting purposes, the City 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 (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and 1) the ability of the City to impose its will on that organization or 2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the GASB criteria.

Excluded Component Units

Fort Madison Public Library Foundation (Foundation) and Friends of the Fort Madison Public Library (Friends) are component units of the City of Fort Madison. The Foundation and Friends, separate legal entities, exist for the purpose of attracting funds to benefit the Public Library, which serve the Fort Madison area, and disburse those funds in a manner that will benefit the Library. The Foundation and Friends meet the definition of a component units since the entities raise funds on behalf of the Library. The financial statements of Fort Madison Public Library Foundation and Friends of the Fort Madison Public Library have not been audited and, accordingly, these component units have not been presented in the accompanying primary government audited financial statements.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Planning and Zoning Commission, Board of Adjustments, Airport Commission, Great River Regional Waste Authority, 28E purchasing arrangements, regional planning commission, E911 joint service boards, Southeast Iowa area safety support organizations, ambulance associations, and drug task force.

Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

City of Fort Madison
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

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 that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund (TIF) is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

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

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

City of Fort Madison
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

The City reports the following major proprietary funds:

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

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

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

Measurement Focus and Basis of Accounting

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

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

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

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.

Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Council.

Assigned - Amounts the Council intends to use for specific purpose.

City of Fort Madison
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Unassigned - All amounts not included in other spendable classifications.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Recently Adopted Accounting Pronouncements

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which provides clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The City adopted this statement on July 1, 2010.

Note 2. Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of GASB Statement No. 40.

The City received \$251,392 in interest income during the year.

City of Fort Madison
Notes to Financial Statements

Note 3. Bonds and Notes Payable

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

Year Ended June 30.	General Obligation and Capital Loan Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 585,859	\$ 276,581	\$ 391,000	\$ 602,160	\$ 976,859	\$ 878,741
2013	607,436	256,476	480,000	620,370	1,087,436	876,846
2014	535,000	234,546	495,000	605,880	1,030,000	840,426
2015	545,000	216,141	511,000	590,970	1,056,000	807,111
2016	565,000	196,915	609,000	575,550	1,174,000	772,465
2017-2021	2,720,000	672,694	3,347,000	2,590,590	6,067,000	3,263,284
2022-2026	1,700,000	218,986	3,477,970	1,829,010	5,177,970	2,047,996
2027-2031	100,000	6,650	3,215,420	1,220,340	3,315,420	1,226,990
2032-2036	-	-	2,441,580	595,980	2,441,580	595,980
2037-2040	-	-	2,118,192	167,820	2,118,192	167,820
	<u>\$ 7,358,295</u>	<u>\$ 2,078,989</u>	<u>\$ 17,086,162</u>	<u>\$ 9,398,670</u>	<u>\$ 24,444,457</u>	<u>\$ 11,477,659</u>

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

Urban Renewal Tax Increment Financing Revenue Bonds

The City issued urban renewal tax increment financing (TIF) revenue bonds for the purpose of defraying a portion of the costs of various construction and refurbishing projects within the urban renewal district. The bonds are payable solely from the TIF receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100% of the debt service requirements over the life of the bonds. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. The debt was paid off by June 30, 2011. For the current year, interest paid and total TIF receipts were \$2,310 and \$941,649, respectively.

Revenue Bonds/Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay five revenue bond issues. The bonds were issued between October 2009 and May 2011. Proceeds from the notes provided financing for the construction of several water system projects and construction of a new water treatment plant. The notes are payable solely from water customer net receipts and are payable through 2040. The total principal and interest remaining to be paid on the notes is \$24,155,022. For the current year, principal and interest paid and total customer net receipts were \$523,801 and \$632,459, respectively.

City of Fort Madison
Notes to Financial Statements

Note 3. Bonds and Notes Payable (continued)

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay two revenue bond issues. The bonds were issued between April 2004 and October 2008. Proceeds from the notes provided financing for the construction of several sewer system projects. The notes are payable solely from sewer customer net receipts and are payable through 2028. The total principal and interest remaining to be paid on the notes is \$2,329,810. For the current year, principal and interest paid and total customer net receipts were \$147,630 and \$215,615, respectively.

The resolutions providing for the issuance of the water and sewer revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Water user charges must be established at a level which produces and maintains net revenues at a level not less than 110% of principal and interest requirements due in the same year.
- (c) Sewer user charges must be established at a level which produces and maintains net revenues at a level not less than 110% of principal and interest requirements due in the same year.

On November 18, 2009, the City entered into a Forgivable Loan and Disbursement Agreement for \$2,000,000 Water Revenue Capital Loan Note, Series 2009C through Iowa Finance Authority. The loan will be forgiven and no payments of interest, principal, servicing fee or initiation fee shall be due under the loan during the construction of the Project and following completion of the Project and receipt by the Issuer of a certificate of completion from the City.

The City had an outstanding contract between the Iowa Department of Economic Development (IDED) and a city business for a Community Economic Betterment Account (CEBA) loan at June 30, 2011. Although the note bears the name of the City, the City has no obligation for such debt beyond the resources provided by the business entity upon whose behalf it is issued. Accordingly, the loan is not reported as a liability in the accompanying financial statements.

Note 4. Risk Management

The City 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 Fort Madison
Notes to Financial Statements

Note 5. Compensated Absences

City employees, with the exceptions of fire, library and water departments personnel, accumulate sick leave hours at a rate of 14 hours per month up to a maximum of 1,000 hours; public works and police departments have a maximum of 1,160 hours. Fire and water department employees accumulate 12 hours per month up to a maximum of 1,000 hours. Accumulated sick leave is not payable upon termination, retirement or death, with the exception of the following departments: the water department employees hired before June 30, 2008 can receive 600 hours of sick leave upon retirement with 20 or more years of service to purchase health insurance from the City. The public works and police departments can receive 200 hours of sick leave upon retirement with 20 or more years of service. The library department can receive 600 hours of sick leave upon retirement with 20 or more years of service to purchase health insurance from the City. Non-bargaining individuals hired before July 1, 2005 can receive all of their sick leave upon retirement to purchase health insurance from the City.

Accumulated sick leave and vacation are not recognized as expenditures by the City until used or paid. The City's maximum liability for unrecognized accrued employee benefits as of June 30, 2011, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 423,837
Sick leave	<u>217,927</u>
	<u>\$ 641,764</u>

This liability has been computed based on rates of pay as of June 30, 2011.

Note 6. Pension and Retirement Benefits

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

Most plan members are required to contribute 4.50% of their annual salary and the City is required to contribute 6.95% of annual covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2011, 2010, and 2009, was \$177,750, \$175,104, and \$162,008, respectively, equal to the required contributions for each year.

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability, and death benefits established by state statute to Plan members and beneficiaries. The Plan issues a publicly available financial report which includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, Suite 201, West Des Moines, IA 50266.

City of Fort Madison
Notes to Financial Statements

Note 6. Pension and Retirement Benefits (continued)

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, cannot be less than 19.90% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2011, 2010, and 2009 was \$319,863, \$271,004, and \$281,454, respectively, which met the required contribution for each year.

International City Management Association (ICMA)

The Iowa Public Employees Retirement System regulations exempt the City Manager from participating in the state retirement system. Therefore, the City has made a retirement contribution to the ICMA retirement system for the City Manager, which allows contributions up to 25% of salary with a maximum of \$8,000. Contributions were \$5,893, \$5,286, and \$2,342 for the years ended June 30, 2011, 2010 and 2009.

Note 7. Related Party Transactions

Business transactions between the City and City officials totaled \$26,262 during the year ended June 30, 2011.

Note 8. 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 91 active and 12 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

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 \$446 for single coverage and \$1,318 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$1,176,354 and plan members eligible for benefits contributed \$159,705 to the plan.

Note 9. Deficit Balance

At year end, the Water Fund, Capital Projects Fund, and the Law Enforcement Fund had deficit balances of \$281,711, \$80,623, and \$100, respectively. The deficit balances were the result of costs incurred prior to availability of funds. These deficits will be eliminated upon receipt of loan and grant monies.

City of Fort Madison
Notes to Financial Statements

Note 10. Conduit Debt Obligations

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

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

Note 11. Post-Closure Care Costs

The City was previously a member of the Lee County Solid Waste Commission, a political subdivision pursuant to the Code of Iowa Chapter 28E. The landfill was closed in 1990 and is required to perform certain maintenance and monitoring functions at the site for thirty years after closure. The City paid \$22,886 for the year ended June 30, 2011 for these costs.

Note 12. Revolving Loan Fund

The City has entered into an agreement with Southeast Iowa Regional Planning Commission (SEIRPC) to establish a revolving loan fund for commercial business growth and to assist in new business development. The City transfers funds to SEIRPC who will administer and manage the revolving loan fund. The amounts to be transferred shall not exceed \$200,000. At June 30, 2011, \$48,337 was outstanding on these loans to businesses. At June 30, 2011, SEIRPC holds cash of \$155,898 for the City which represents loan repayments received from participating businesses and is available to fund future commercial business growth loans.

Note 13. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special revenue	\$ 2,152,101
Enterprise funds	Special revenue	84,000
Capital projects	Special revenue	<u>292,956</u>
		<u>\$ 2,529,057</u>

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

City of Fort Madison
Notes to Financial Statements

Note 14. Commitments and Contingency

The City has committed to the following significant projects as of June 30, 2011:

Transmission mains	\$ 1,730,000
Avenue D bridge	1,000,000
Main Street facade	600,000
Amtrak depot restoration	400,000
Street repair	389,000
Sanitary sewer replacement	200,000
Dump truck and snow plow	110,000
Asbestos removal	94,000
Safe routes to school	77,360
Miscellaneous street seal coating	75,000
Water main replacement	<u>42,000</u>
Total	<u>\$ 4,717,360</u>

The City is currently involved with an appeal of a Civil Service Commission ruling and an unemployment claim involving a former employee. There is only a slight chance of an unfavorable outcome in the Civil Service Commission appeal and there is a 50-50 proposition of prevailing in the unemployment appeal, due to the rather permissive standards in these types of cases.

Note 15. Self-Insured Health Benefits

The City of Fort Madison has agreed to provide certain health benefits to its employees. The City pays 96% of the premium for health insurance for all full-time employees selecting single coverage. For full-time employees selecting family coverage, the City pays 92% of the premium. The City reimburses employees for their deductible after the employees have reached their out-of-pocket maximum of \$1,000 per individual and \$2,000 per family. The total maximum reimbursement liability to be paid by the City is \$534,000. The City's cost related to this reimbursement for the year ended June 30, 2011 was \$32,926.

Note 16. Subsequent Events

The City performed an evaluation of subsequent events through November 4, 2011, which is the date the financial statements were issued. There are no subsequent events that require disclosure or recognition in the financial statements as of June 30, 2011.

City of Fort Madison
Notes to Financial Statements

Note 17. Cash Basis Fund Balances

The detail of the governmental fund cash basis fund balances for the year ended June 30, 2011 are as follows:

	<u>General</u>	<u>Road Use</u>	<u>Sales Tax</u>	<u>Urban Renewal TIF</u>	<u>Grant Opportunity</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Nonmajor Governmental</u>	<u>Total</u>
Nonspendable for cemetery perpetual care	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 196,770	\$ 196,770
Restricted for:									
Road use purposes	-	6,457	-	-	-	-	-	-	6,457
Tax referendum purposes	-	-	873,711	-	-	-	-	-	873,711
Urban renewal projects	-	-	-	852,888	-	-	-	-	852,888
Debt service	-	-	-	-	-	66,975	-	-	66,975
Employee benefits	-	-	-	-	-	-	-	278,623	278,623
Police/fire retirement	-	-	-	-	-	-	-	144,858	144,858
FEMA grant	-	-	-	-	-	-	-	63,688	63,688
Library building maintenance	-	-	-	-	-	-	-	46,230	46,230
Other purposes	-	-	-	-	-	-	-	49,083	49,083
Committed to library endowment	-	-	-	-	-	-	-	30,667	30,667
Assigned to:									
Emergency tax levy	-	-	-	-	-	-	-	28,352	28,352
Hotel/motel tax	-	-	-	-	-	-	-	41,388	41,388
Grant opportunities	-	-	-	-	-	-	-	-	-
Other purposes	-	-	-	-	595,186	-	-	331,610	926,796
Unassigned	<u>1,802,366</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(80,623)</u>	<u>(100)</u>	<u>1,721,643</u>
Total	<u>\$ 1,802,366</u>	<u>\$ 6,457</u>	<u>\$ 873,711</u>	<u>\$ 852,888</u>	<u>\$ 595,186</u>	<u>\$ 66,975</u>	<u>\$ (80,623)</u>	<u>\$ 1,211,169</u>	<u>\$ 5,328,129</u>

The City has designated four months of operational costs, or \$1,200,000, for future stabilization efforts. This balance is included within the General fund as required by GASB 54.

REQUIRED SUPPLEMENTARY INFORMATION

**City of Fort Madison
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, 2011**

	Governmental Fund Types <u>Actual</u>	Proprietary Fund Type <u>Actual</u>	Less Funds Not Required to be <u>Budgeted</u>	<u>Net</u>	<u>Budget Original</u>	<u>Budget Final</u>	Final to Actual Variance Favorable <u>(Unfavorable)</u>
Receipts:							
Property tax	\$ 3,423,622	\$ -	\$ -	\$ 3,423,622	\$ 3,294,666	\$ 3,294,666	\$ 128,956
Tax increment financing collections	941,649	-	-	941,649	1,407,060	1,407,060	(465,411)
Other taxes	1,269,520	-	-	1,269,520	1,463,394	1,492,394	(222,874)
Use of money and property	178,113	105,536	-	283,649	568,420	570,220	(286,571)
Licenses and permits	132,976	-	-	132,976	83,220	113,220	19,756
Intergovernmental	2,736,801	448,484	-	3,185,285	4,269,510	5,791,400	(2,606,115)
Charges for services	177,793	4,908,279	-	5,086,072	6,048,355	6,048,355	(962,283)
Special assessments	-	17,464	-	17,464	15,597	15,597	1,867
Miscellaneous	<u>1,099,374</u>	<u>108,966</u>	<u>4,324</u>	<u>1,204,016</u>	<u>1,584,760</u>	<u>1,961,090</u>	<u>(757,074)</u>
Total receipts	<u>9,959,848</u>	<u>5,588,729</u>	<u>4,324</u>	<u>15,544,253</u>	<u>18,734,982</u>	<u>20,694,002</u>	<u>(5,149,749)</u>
Disbursements:							
Public safety	3,247,480	-	-	3,247,480	3,334,540	3,334,540	87,060
Public works	1,192,716	-	-	1,192,716	1,132,670	1,191,730	(986)
Health and social services	40,644	-	-	40,644	45,570	45,570	4,926
Culture and recreation	1,090,228	-	-	1,090,228	1,026,800	1,079,550	(10,678)
Community and economic development	1,232,442	-	-	1,232,442	850,730	1,395,730	163,288
General government	812,807	-	-	812,807	2,125,220	2,402,350	1,589,543
Debt service	266,929	-	-	266,929	618,841	618,841	351,912
Capital projects	2,033,886	-	-	2,033,886	521,370	2,076,330	42,444
Business type	-	<u>9,768,250</u>	-	<u>9,768,250</u>	<u>11,247,050</u>	<u>11,247,050</u>	<u>1,478,800</u>
Total disbursements	<u>9,917,132</u>	<u>9,768,250</u>	<u>-</u>	<u>19,685,382</u>	<u>20,902,791</u>	<u>23,391,691</u>	<u>3,706,309</u>
Excess (deficiency) of receipts over disbursements	42,716	(4,179,521)	4,324	(4,141,129)	(2,167,809)	(2,697,689)	1,443,440
Other financing sources, net	<u>(84,000)</u>	<u>3,877,667</u>	<u>-</u>	<u>3,793,667</u>	<u>2,370,000</u>	<u>2,606,920</u>	<u>(1,186,747)</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(41,284)	(301,854)	4,324	(347,462)	202,191	(90,769)	256,693
Cash balances beginning of year	<u>5,369,413</u>	<u>3,104,495</u>	<u>192,446</u>	<u>8,281,462</u>	<u>9,412,912</u>	<u>9,412,912</u>	<u>1,131,450</u>
Cash balances end of year	<u>\$ 5,328,129</u>	<u>\$ 2,802,641</u>	<u>\$ 196,770</u>	<u>\$ 7,934,000</u>	<u>\$ 9,615,103</u>	<u>\$ 9,322,143</u>	<u>\$ 1,388,143</u>

See accompanying independent auditor's report.

City of Fort Madison
Notes to Required Supplementary Information - Budgetary Reporting
June 30, 2011

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. 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 disbursement known as functions, not by fund or fund type. 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, Special Revenue Funds, Debt Service Fund, Capital Projects Fund, and 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, budget amendments increased budgeted disbursements by \$2,488,900. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amount budgeted in the public works and the culture and recreation functions.

OTHER SUPPLEMENTARY INFORMATION

City of Fort Madison
Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the Year Ended June 30, 2011

	Special Revenue										Permanent		Total
	Unrestricted Gifts and Misc	Hotel/Motel Tax	Library Donations	LHAP Grants	Emergency Tax Levy	Law Enforcement	Tobacco and EDSA Grants	Flood Damage	Police/Fire Retirement	Employee Benefits	Cemetery	PC	
Receipts:													
Property tax	\$ -	\$ -	\$ -	\$ -	\$ 60,778	\$ -	\$ -	\$ -	\$ 337,293	\$ 852,450	\$ -	\$ -	\$ 1,250,521
Other taxes	-	165,452	-	-	-	-	-	-	-	-	-	-	165,452
Use of money and property	5,573	-	1,999	-	-	-	-	5,119	1,742	-	-	-	14,433
Intergovernmental	48,037	-	-	-	-	85,393	1,882	124,307	-	-	-	-	259,619
Charges for service	76,306	-	-	-	-	-	-	-	-	-	-	-	76,306
Miscellaneous	443,079	-	-	-	-	-	-	-	26,748	-	4,324	-	474,151
Total receipts	<u>572,995</u>	<u>165,452</u>	<u>1,999</u>	<u>-</u>	<u>60,778</u>	<u>85,393</u>	<u>1,882</u>	<u>124,307</u>	<u>342,412</u>	<u>880,940</u>	<u>4,324</u>	<u>-</u>	<u>2,240,482</u>
Disbursements:													
Public safety	55,113	-	-	-	70,424	101,573	909	-	7,950	-	-	-	235,969
Health and social services	39,881	-	-	-	-	-	-	-	-	-	-	-	39,881
Culture and recreation	200,519	-	3,436	4,003	-	-	-	-	-	-	-	-	207,958
Community and economic development	358,367	-	-	-	-	-	-	-	-	-	-	-	358,367
General government	-	63,919	-	-	-	-	-	133,451	-	-	-	-	197,370
Total disbursements	<u>653,880</u>	<u>63,919</u>	<u>3,436</u>	<u>4,003</u>	<u>70,424</u>	<u>101,573</u>	<u>909</u>	<u>133,451</u>	<u>7,950</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,039,545</u>
Excess (deficiency) of receipts over disbursements	<u>(80,885)</u>	<u>101,533</u>	<u>(1,437)</u>	<u>(4,003)</u>	<u>(9,646)</u>	<u>(16,180)</u>	<u>973</u>	<u>(9,144)</u>	<u>334,462</u>	<u>880,940</u>	<u>4,324</u>	<u>-</u>	<u>1,200,937</u>
Other financing sources (uses):													
Operating transfer in (out)	97,707	(60,145)	-	6,092	-	16,249	-	-	(311,508)	(776,162)	-	-	(1,027,767)
Total other	<u>97,707</u>	<u>(60,145)</u>	<u>-</u>	<u>6,092</u>	<u>-</u>	<u>16,249</u>	<u>-</u>	<u>-</u>	<u>(311,508)</u>	<u>(776,162)</u>	<u>-</u>	<u>-</u>	<u>(1,027,767)</u>
Net change in cash balances	16,822	41,388	(1,437)	2,089	(9,646)	69	973	(9,144)	22,954	104,778	4,324	-	173,170
Cash balances beginning of year	<u>299,044</u>	<u>-</u>	<u>78,334</u>	<u>9,768</u>	<u>37,998</u>	<u>(169)</u>	<u>51,997</u>	<u>72,832</u>	<u>121,904</u>	<u>173,845</u>	<u>192,446</u>	<u>-</u>	<u>1,037,999</u>
Cash balances end of year	<u>\$ 315,866</u>	<u>\$ 41,388</u>	<u>\$ 76,897</u>	<u>\$ 11,857</u>	<u>\$ 28,352</u>	<u>\$ (100)</u>	<u>\$ 52,970</u>	<u>\$ 63,688</u>	<u>\$ 144,858</u>	<u>\$ 278,623</u>	<u>\$ 196,770</u>	<u>\$ -</u>	<u>\$ 1,211,169</u>
Cash Basis Fund Balances													
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 196,770	\$ -	\$ 196,770
Restricted	-	-	46,230	-	-	-	49,083	63,688	144,858	278,623	-	-	582,482
Committed	-	-	30,667	-	-	-	-	-	-	-	-	-	30,667
Assigned	315,866	41,388	-	11,857	28,352	-	3,887	-	-	-	-	-	401,350
Unassigned	-	-	-	-	-	(100)	-	-	-	-	-	-	(100)
Total cash basis fund balances	<u>\$ 315,866</u>	<u>\$ 41,388</u>	<u>\$ 76,897</u>	<u>\$ 11,857</u>	<u>\$ 28,352</u>	<u>\$ (100)</u>	<u>\$ 52,970</u>	<u>\$ 63,688</u>	<u>\$ 144,858</u>	<u>\$ 278,623</u>	<u>\$ 196,770</u>	<u>\$ -</u>	<u>\$ 1,211,169</u>

See accompanying independent auditor's report.

**City of Fort Madison
Statement of Indebtedness
Year Ended June 30, 2011**

<u>Obligation</u>	<u>Date of Issuance</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
General obligation bonds:									
GO Bonds 2005 issue	10/05/05	3.75-4.00%	\$ 3,750,000	\$ 3,080,000	\$ -	\$ 185,000	\$ 2,895,000	\$ 122,263	\$ -
Park, library, city hall	08/21/01	3.00-4.50%	540,000	65,000	-	65,000	-	2,925	-
GO Bonds 2006 issue	12/01/06	3.75-4.30%	1,740,000	1,570,000	-	70,000	1,500,000	62,668	-
Street improvement	05/01/98	4.20-4.90%	750,000	190,000	-	60,000	130,000	15,624	-
GO Bonds 2008 issue	06/01/08	3.65-4.00%	1,690,000	1,630,000	-	100,000	1,530,000	65,095	-
GO Bonds 2010A issue	02/01/10	1.00-3.40%	1,350,000	<u>1,350,000</u>	<u>-</u>	<u>110,000</u>	<u>1,240,000</u>	<u>42,027</u>	<u>-</u>
Total				<u>7,885,000</u>	<u>-</u>	<u>590,000</u>	<u>7,295,000</u>	<u>310,602</u>	<u>-</u>
Revenue bonds/notes:									
Sewer revenue	10/01/08	3.00%	2,000,000	1,390,000	-	59,000	1,331,000	41,700	-
Sewer revenue	04/19/04	3.00%	700,000	531,000	-	31,000	500,000	15,930	-
Water revenue	05/11/11	3.00%	2,700,000	-	681,970	-	681,970	-	-
Water revenue	10/14/09	3.00%	9,672,000	6,651,864	2,935,328	113,000	9,474,192	271,549	-
Water revenue	11/18/09	3.00%	1,306,000	821,259	155,161	47,000	929,420	27,644	-
Water revenue	11/18/09	3.00%	2,000,000	2,000,000	-	-	2,000,000	-	-
Water revenue	12/23/09	3.00%	3,800,000	<u>2,148,373</u>	<u>21,207</u>	<u>-</u>	<u>2,169,580</u>	<u>64,608</u>	<u>-</u>
Total				<u>13,542,496</u>	<u>3,793,666</u>	<u>250,000</u>	<u>17,086,162</u>	<u>421,431</u>	<u>-</u>
Capital loan notes:									
Capital loan note - fire truck	02/02/01	4.75%	287,500	32,500	-	32,500	-	1,565	-
Capital loan note - street sweeper	05/05/09	4.99%	154,680	<u>92,655</u>	<u>-</u>	<u>29,360</u>	<u>63,295</u>	<u>4,731</u>	<u>-</u>
Total				<u>125,155</u>	<u>-</u>	<u>61,860</u>	<u>63,295</u>	<u>6,296</u>	<u>-</u>
Urban renewal TIF's:									
Wolfe Packaging	11/03/99	8.25%	268,000	<u>37,000</u>	<u>-</u>	<u>37,000</u>	<u>-</u>	<u>2,310</u>	<u>-</u>
Total				<u>37,000</u>	<u>-</u>	<u>37,000</u>	<u>-</u>	<u>2,310</u>	<u>-</u>
Total of all debt				<u>\$ 21,589,651</u>	<u>\$ 3,793,666</u>	<u>\$ 938,860</u>	<u>\$ 24,444,457</u>	<u>\$ 740,639</u>	<u>\$ -</u>

See accompanying independent auditor's report.

**City of Fort Madison
Bond and Note Maturities
June 30, 2011**

General Obligation Bonds											
Year Ending June 30,	General Obligation Bonds Issued October 5, 2005		General Obligation Bonds Issued June 1, 2008		Sewer Utility Project Issued February 2, 2010		Street Improvement Issued May 1, 1998		General Obligation Bonds Issued December 1, 2006		Total
	Interest		Interest		Interest		Interest		Interest		
	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	
2012	3.75%	\$ 190,000	4.00%	\$ 100,000	1.10%	\$ 125,000	4.85%	\$ 65,000	3.75%	\$ 75,000	\$ 555,000
2013	4.00%	200,000	4.00%	110,000	1.45%	125,000	4.90%	65,000	3.75%	75,000	575,000
2014	4.00%	210,000	4.00%	115,000	1.85%	130,000	-	-	3.75%	80,000	535,000
2015	4.00%	210,000	4.00%	115,000	2.25%	135,000	-	-	3.75%	85,000	545,000
2016	4.00%	220,000	3.65%	125,000	2.50%	135,000	-	-	3.80%	85,000	565,000
2017	4.00%	200,000	3.75%	125,000	2.80%	140,000	-	-	3.85%	90,000	555,000
2018	4.00%	210,000	3.80%	140,000	3.00%	145,000	-	-	3.90%	95,000	590,000
2019	4.00%	185,000	3.90%	140,000	3.25%	150,000	-	-	3.95%	100,000	575,000
2020	4.00%	190,000	4.00%	150,000	3.40%	155,000	-	-	4.00%	105,000	600,000
2021	4.00%	195,000	4.10%	95,000	-	-	-	-	4.05%	110,000	400,000
2022	4.00%	210,000	4.15%	40,000	-	-	-	-	4.10%	110,000	360,000
2023	4.00%	215,000	4.20%	40,000	-	-	-	-	4.15%	115,000	370,000
2024	4.00%	225,000	4.25%	45,000	-	-	-	-	4.20%	120,000	390,000
2025	4.00%	235,000	4.30%	45,000	-	-	-	-	4.25%	125,000	405,000
2026	-	-	4.35%	45,000	-	-	-	-	4.30%	130,000	175,000
2027	-	-	4.40%	50,000	-	-	-	-	-	-	50,000
2028	-	-	4.45%	50,000	-	-	-	-	-	-	50,000
2029	-	-	-	-	-	-	-	-	-	-	-
		<u>\$ 2,895,000</u>		<u>\$ 1,530,000</u>		<u>\$ 1,240,000</u>		<u>\$ 130,000</u>		<u>\$ 1,500,000</u>	<u>\$ 7,295,000</u>

See accompanying independent auditor's report.

**City of Fort Madison
Bond and Note Maturities
June 30, 2011**

Revenue Bonds															
Year	Water		Sewer		Water		Water		Water		Sewer		Forgivable Loan - Water		
	Issued May 11, 2011		Issued April 19, 2004		Issued November 18, 2009		Issued October 14, 2009		Issued December 23, 2009		Issued October 1, 2008		Issued November 18, 2009		
Ending June 30,	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Total
2012	3.00%	\$ 55,000	3.00%	\$ 32,000	3.00%	\$ 49,000	3.00%	\$ 116,000	3.00%	\$ 77,000	3.00%	\$ 61,000	3.00%	\$ 1,000	\$ 391,000
2013	3.00%	56,000	3.00%	33,000	3.00%	51,000	3.00%	120,000	3.00%	79,000	3.00%	63,000	3.00%	78,000	480,000
2014	3.00%	58,000	3.00%	34,000	3.00%	52,000	3.00%	124,000	3.00%	82,000	3.00%	65,000	3.00%	80,000	495,000
2015	3.00%	60,000	3.00%	35,000	3.00%	54,000	3.00%	128,000	3.00%	84,000	3.00%	67,000	3.00%	83,000	511,000
2016	3.00%	62,000	3.00%	36,000	3.00%	56,000	3.00%	214,000	3.00%	87,000	3.00%	69,000	3.00%	85,000	609,000
2017	3.00%	64,000	3.00%	37,000	3.00%	57,000	3.00%	221,000	3.00%	90,000	3.00%	71,000	3.00%	88,000	628,000
2018	3.00%	66,000	3.00%	38,000	3.00%	59,000	3.00%	228,000	3.00%	93,000	3.00%	73,000	3.00%	91,000	648,000
2019	3.00%	68,000	3.00%	39,000	3.00%	61,000	3.00%	235,000	3.00%	96,000	3.00%	75,000	3.00%	94,000	668,000
2020	3.00%	70,000	3.00%	41,000	3.00%	63,000	3.00%	243,000	3.00%	99,000	3.00%	77,000	3.00%	97,000	690,000
2021	3.00%	73,000	3.00%	42,000	3.00%	65,000	3.00%	251,000	3.00%	102,000	3.00%	80,000	3.00%	100,000	713,000
2022	3.00%	49,970	3.00%	43,000	3.00%	67,000	3.00%	259,000	3.00%	106,000	3.00%	82,000	3.00%	104,000	710,970
2023	-	-	3.00%	44,000	3.00%	70,000	3.00%	267,000	3.00%	109,000	3.00%	85,000	3.00%	107,000	682,000
2024	-	-	3.00%	46,000	3.00%	72,000	3.00%	276,000	3.00%	113,000	3.00%	87,000	3.00%	110,000	704,000
2025	-	-	-	-	3.00%	74,000	3.00%	285,000	3.00%	116,000	3.00%	90,000	3.00%	114,000	679,000
2026	-	-	-	-	3.00%	77,000	3.00%	294,000	3.00%	120,000	3.00%	93,000	3.00%	118,000	702,000
2027	-	-	-	-	3.00%	2,420	3.00%	304,000	3.00%	124,000	3.00%	95,000	3.00%	122,000	647,420
2028	-	-	-	-	3.00%	-	3.00%	314,000	3.00%	128,000	3.00%	98,000	3.00%	126,000	666,000
2029	-	-	-	-	-	-	3.00%	324,000	3.00%	132,000	-	-	3.00%	130,000	586,000
2030	-	-	-	-	-	-	3.00%	334,000	3.00%	136,000	-	-	3.00%	134,000	604,000
2031	-	-	-	-	-	-	3.00%	433,000	3.00%	141,000	-	-	3.00%	138,000	712,000
2032	-	-	-	-	-	-	3.00%	447,000	3.00%	55,580	-	-	-	-	502,580
2033	-	-	-	-	-	-	3.00%	462,000	-	-	-	-	-	-	462,000
2034	-	-	-	-	-	-	3.00%	477,000	-	-	-	-	-	-	477,000
2035	-	-	-	-	-	-	3.00%	492,000	-	-	-	-	-	-	492,000
2036	-	-	-	-	-	-	3.00%	508,000	-	-	-	-	-	-	508,000
2037	-	-	-	-	-	-	3.00%	525,000	-	-	-	-	-	-	525,000
2038	-	-	-	-	-	-	3.00%	542,000	-	-	-	-	-	-	542,000
2039	-	-	-	-	-	-	3.00%	559,000	-	-	-	-	-	-	559,000
2040	-	-	-	-	-	-	3.00%	492,192	-	-	-	-	-	-	492,192
		<u>\$ 681,970</u>		<u>\$ 500,000</u>		<u>\$ 929,420</u>		<u>\$ 9,474,192</u>		<u>\$ 2,169,580</u>		<u>\$ 1,331,000</u>		<u>\$ 2,000,000</u>	<u>\$ 17,086,162</u>

See accompanying independent auditor's report.

**City of Fort Madison
Bond and Note Maturities
June 30, 2011**

Year Ending June 30,	Street Sweeper Issued May 5, 2009		Total
	Interest Rate	Amount	
2012	4.99%	\$ 30,859	\$ 30,859
2013	4.99%	32,436	32,436
		\$ 63,295	\$ 63,295

See accompanying independent auditor's report.

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

	Year Ended June 30,									
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	
Receipts:										
Property tax	\$ 3,423,622	\$ 3,329,360	\$ 3,423,873	\$ 3,401,751	\$ 3,296,898	\$ 3,121,988	\$ 3,436,330	\$ 3,531,397	\$ 3,253,011	
Tax increment financing	941,649	573,331	438,351	409,393	345,868	311,332	113,805	139,318	210,536	
Other city tax	1,269,520	1,307,743	1,336,713	1,158,414	1,246,721	1,127,272	1,051,357	1,083,236	951,098	
Use of money and property	178,113	172,748	216,485	215,412	266,201	139,397	103,055	119,138	189,267	
Licenses and permits	132,976	104,821	163,030	110,357	133,055	50,615	81,942	62,527	46,462	
Intergovernmental	2,736,801	2,236,864	2,430,503	2,573,650	1,850,646	1,882,041	1,783,304	1,818,101	2,140,634	
Charges for services	177,793	177,517	170,632	177,767	221,502	191,730	192,153	209,909	235,452	
Special assessments	-	-	-	-	-	1,130	917	596	1,115	
Miscellaneous	<u>1,099,374</u>	<u>856,632</u>	<u>728,673</u>	<u>2,085,617</u>	<u>813,407</u>	<u>2,194,808</u>	<u>2,185,837</u>	<u>1,886,102</u>	<u>597,234</u>	
Total	<u>\$ 9,959,848</u>	<u>\$ 8,759,016</u>	<u>\$ 8,908,260</u>	<u>\$ 10,132,361</u>	<u>\$ 8,174,298</u>	<u>\$ 9,020,313</u>	<u>\$ 8,948,700</u>	<u>\$ 8,850,324</u>	<u>\$ 7,624,809</u>	
Disbursements:										
Public safety	\$ 3,247,480	\$ 3,119,344	\$ 3,051,021	\$ 3,183,137	\$ 3,139,372	\$ 3,472,101	\$ 2,829,448	\$ 2,917,643	\$ 2,863,765	
Public works	1,192,716	1,114,132	1,032,424	1,021,522	924,372	1,016,709	1,076,688	980,075	830,947	
Health and social services	40,644	38,434	38,786	39,359	41,334	36,498	37,616	39,599	39,589	
Culture and recreation	1,090,228	1,034,028	1,020,231	967,006	908,384	992,903	938,339	1,245,505	1,293,043	
Community and economic development	1,232,442	1,093,693	1,180,420	1,282,920	2,456,375	421,993	402,983	639,942	913,105	
General government	812,807	819,443	813,101	524,451	667,301	1,906,586	1,821,715	622,754	628,539	
Debt service	266,929	265,293	609,529	625,889	559,670	635,772	677,883	2,015,079	1,880,074	
Capital projects	<u>2,033,886</u>	<u>836,839</u>	<u>830,197</u>	<u>3,380,235</u>	<u>2,085,065</u>	<u>697,147</u>	<u>302,088</u>	<u>1,258,502</u>	<u>991,449</u>	
Total	<u>\$ 9,917,132</u>	<u>\$ 8,321,206</u>	<u>\$ 8,575,709</u>	<u>\$ 11,024,519</u>	<u>\$ 10,781,873</u>	<u>\$ 9,179,709</u>	<u>\$ 8,086,760</u>	<u>\$ 9,719,099</u>	<u>\$ 9,440,511</u>	

See accompanying independent auditor's report.

City of Fort Madison
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

<u>Federal Agency/Pass-Through Agency Program - Grant Title</u>	<u>CFDA Number</u>	<u>Grantor Program Number</u>	<u>Program Expenditures</u>
U.S. Environmental Protection Agency programs:			
Congressionally Mandated Projects	66.202	XP-987832101	\$ 62,705
Pass-through programs from Iowa Finance Authority			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	D0201R	<u>408,655</u>
Total U.S. Environmental Protection Agency			<u>471,360</u>
U.S. Department of Transportation programs:			
Federal Aviation Administration Airport Improvement Program	20.106	3-19-0036-05	69,499
Federal Aviation Administration Airport Improvement Program	20.106	3-19-0036-07	<u>7,313</u>
Subtotal U.S. Department of Transportation programs			<u>76,812</u>
Pass-through Iowa Department of Transportation:			
Amtrak Station Restoration	20.205	STP-ES-2697(615)-8I-56	18,587
Amtrak Station Elevation	20.205	STP-ES-2697(619)-8I-56	406,384
Fort Madison Safe Routes to School Plan	20.205	STRS-U-2697(620)-8U-56	9,408
ARRA - Federal Highway Stimulus Program Project	20.205	ESL-2697(618)--7S-56	450,758
Avenue D Bridge Replacement	20.205	BROS-2697(621)--8J-56	2,500
Pass-through Iowa Department of Public Safety/Governor's Traffic Safety Bureau:			
Alcohol Incentive Grant	20.601	PAP 10-410 Task 28	8,052
Alcohol Incentive Grant	20.601	PAP 11-410 Task 30	<u>10,054</u>
Subtotal U.S. Department of Transportation pass-through programs			<u>905,743</u>
Total U.S. Department of Transportation			<u>982,555</u>
U.S. Department of Housing and Urban Development programs:			
Pass-through Iowa Department of Economic Development:			
ARRA - Community Development Block Grant Recovery (CDBG-R) Program	14.255	09-CDR-009	<u>180,582</u>
U.S. Department of Homeland Security program:			
Pass-through Iowa Homeland Security and Emergency Management Division			
Federal Emergency Management Agency	97.036	DR-1763-IA	161,181
Federal Emergency Management Agency	97.036	DR-1930-IA	17,464
Federal Emergency Management Agency	97.036	DR-1928-IA	<u>48,952</u>
Total U.S. Department of Homeland Security			<u>227,597</u>
U.S. Department of Education:			
Pass-through Iowa Department of Transportation			
ARRA - State Fiscal Stabilization Fund (SFSF) Government Services, Recovery Act	84.397		<u>13,704</u>
U.S. Department of the Interior program:			
Preserve America	15.929	19-07-PA-3057	<u>9,308</u>

(Continued)

See accompanying independent auditor's report.

City of Fort Madison
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

<u>Federal Agency/Pass-Through Agency Program - Grant Title</u>	<u>CFDA Number</u>	<u>Grantor Program Number</u>	<u>Program Expenditures</u>
U.S. Department of Justice programs:			
Bureau of Justice Assistance - Bulletproof Vest Partnership Program	16.607	08041327	\$ 801
Pass-through Iowa Governor's Office of Drug Control Policy and City of Keokuk, Iowa			
Methamphetamine Drug Hot Spots Grant Program	16.710	Grant#09- Hotspots/Interdiction-11	826
ARRA - Byrne/Iowa-Justice Assistance Grant (JAG)	16.803	09-JAG/ARRA-4464B	<u>50,082</u>
Total U.S. Department of Justice			<u>51,709</u>
Corporation for National and Community Service program:			
Retired Senior Volunteer Program	94.002	09SRNIA004	<u>20,953</u>
U.S. Department of Labor program:			
Pass-through Generations Area Agency on Aging			
Senior Community Service Employment Program	17.235		<u>6,942</u>
Total expenditures of federal awards			<u>\$ 1,964,710</u>

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

See accompanying independent auditor's report.

**City of Fort Madison
Miscellaneous Statistical Section**

Major Area Employers

<u>Name</u>	<u>Product</u>	<u>Approximate Number of Employees</u>
Pinnacle Foods Inc.	Canned meats and shelf stable microwavables	468
Iowa State Penitentiary	Corrections facility	506
Fort Madison Community School District	Education	356
Fort Madison Community Hospital	Healthcare	348
Inhance Corporation	Healthcare - nursing homes	357
Siemens	Blades for wind turbines	810
E.I. Dupont de Nemours	Industrial and automotive sealants, finishes, resins and thinners	126
The Scotts Co.	Consumer products for home, lawn and garden	385
Silgan Containers Corp.	Soft drawn aluminum containers	120
Climax Molybdenum Company, Division of AMAX	Molybdenum chemicals and sulfuric acid	115

See accompanying independent auditor's report.

**City of Fort Madison
Miscellaneous Statistical Section**

Date of Incorporation January 18, 1838
 Form of Government Mayor-Council with Full-Time City Manager
 Area 16.58 square miles

Fire Protection:

Number of stations 1
 Number of employees 16

Police Protection:

Number of stations 1
 Number of employees 20

Recreation:

Number of parks 9
 Number of acres 238.2

Cemeteries

4

Airports

1

Employees:

Permanent 93
 Permanent part time 15

Schools:

Public 4
 Parochial 2

2009-10 Tax Rates:

City 15.1045
 County 9.2230
 School 14.8032
 Merged Area College9987
 Other6580
 Total 40.7874

Population:

2000 11,476
 1990 11,618
 1980 13,520
 1970 13,966
 1960 15,247
 1950 14,954
 1940 14,063
 1930 13,779

See accompanying independent auditor's report.



CPA ASSOCIATES PC
CERTIFIED PUBLIC ACCOUNTANTS

401 South Roosevelt Avenue - Suite 2A, PO Box 547, Burlington, IA 52601 / 319 752 6348 / 800 757 6348 / fax: 319 752 8644 / info@cpaapc.com

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

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Fort Madison, Iowa (City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a 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's financial statements will not be prevented or detected and corrected on a timely basis.

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 consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings.

We noted certain other matters we reported to management of the City in a separate letter dated November 4, 2011.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 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'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'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 and other parties to whom the City may report, including federal awarding agencies and pass-through entities, 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 the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

CPA Associates PC

November 4, 2011



CPA ASSOCIATES PC
CERTIFIED PUBLIC ACCOUNTANTS

401 South Roosevelt Avenue - Suite 2A, PO Box 547, Burlington, IA 52601 / 319 752 6348 / 800 757 6348 / fax: 319 752 8644 / info@cpaapc.com

**Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control Over Compliance in Accordance
with OMB Circular A-133**

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

Compliance

We have audited the City of Fort Madison, Iowa's (City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the City's major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in Part I of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses over compliance and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified deficiencies in internal control over compliance we considered to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings as items III-A-11 and III-B-11 to be a significant deficiencies.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the City'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 and other parties to whom the City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

CPA Associates PC

November 4, 2011

**City of Fort Madison
Schedule of Findings
Year Ended June 30, 2011**

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 66.468 - U.S. Environmental Protection Agency - Capitalization Grants for Drinking Water State Revolving Funds
 - CFDA Number 20.205 - U.S. Department of Transportation - ARRA Federal Highway Administration
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Fort Madison did not qualify as a low-risk auditee.

**City of Fort Madison
Schedule of Findings
Year Ended June 30, 2011**

Part II: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES

II-A-11 Preparation of Financial Statements - The City does not have an internal control system designed to provide for the preparation of the financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Therefore, as auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in population to the City of Fort Madison. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition.

Recommendation - We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the City's management and those charged with governance should decide whether to accept the degree of risk associated with this condition.

Response - The City will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

II-B-11 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent one individual employee from handling a transaction from its inception to its completion. Management has not separated incompatible activities of personnel, thereby creating risks related to the safeguarding of cash and the accuracy of the financial statements.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City Council and management should continue to provide oversight and direction based upon their direct knowledge of the City's operations and day-to-day contact with employees to control and safeguard assets.

Response - The City will continue to review operating procedures and segregate employee duties to the extent financially feasible to maximize internal control.

Conclusion - Response accepted.

**City of Fort Madison
Schedule of Findings
Year Ended June 30, 2011**

II-C-11 Preparation of Schedule of Federal Awards - Through review of the City's grant activity and the process of gathering information for required reporting, we determined that there is a need for improvement in the procedures related to the preparation of the Schedule of Expenditures of Federal Awards (SEFA), including the accuracy of the CFDA numbers and the accuracy and completeness of expenditure amounts reported on the SEFA. The City does not have a centralized process to gather the information required to be reported under OMB Circular A-133. As a result, the schedule contains errors and omissions.

Recommendation - We recommend that the City create a process and designate an individual to track and accurately report all information required to be included on the SEFA.

Response - The City has assigned a staff member to track all the grants (Federal and State) that the City has obtained and his ongoing assignment will be to regularly communicate with all departments and Southeast Iowa Regional Planning Commission to stay on top of any Federal grant monies that the City receives. This information can then be easily passed on to the auditors each year.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Findings - Major Federal Award Programs Audit

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL SIGNIFICANT DEFICIENCIES

III-A-11 Segregation of Duties over Federal Receipts - The City did not properly segregate collection, deposit and recordkeeping for receipts, including those related to federal programs. See item II-B-11.

III-B-11 Preparation of Schedule of Federal Awards - The City does not have a centralized process to gather the information required to be reported under OMB Circular A-133. See item II-C-11.

**City of Fort Madison
Schedule of Findings
Year Ended June 30, 2011**

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-11 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

IV-B-11 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transactions</u>	<u>Amount</u>
Chris Greenwald, Council Member Owner of River City Motors	Vehicle repairs, per bid	\$ 26,262

The vehicle repair transactions do not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa.

IV-C-11 Revenue Bonds and Notes - No instances of non-compliance with the revenue bond and note resolutions were noted.

IV-D-11 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

IV-E-11 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-11 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-11 Certified Budget - Disbursements during the year ended June 30, 2011 exceeded the amount budgeted in the public works and culture and recreation functions. Chapter 384.20 of the Code of Iowa states in part that monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

IV-H-11 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.

**City of Fort Madison
Schedule of Findings
Year Ended June 30, 2011**

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

IV-I-11 Financial Condition - At June 30, 2011, the following funds had deficit balances:

Fund	Amount
Special Revenue:	
Law Enforcement	\$ 100
Capital Projects	80,623
Water	281,711

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

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

Conclusion - Response accepted.

City of Fort Madison
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2011

Prior Audit Findings for Federal Awards

INSTANCES OF NON-COMPLIANCE:

CFDA Number 66.468: Capitalization Grants for Drinking Water State Revolving Funds
Pass-through Agency Numbers: D0112R, DF0100R, and DS0095R
Federal Award Year: 2010
U.S. Environmental Protection Agency
Passed through Iowa Finance Authority

CFDA Number 66.202: Congressionally Mandated Projects
Federal Award Year: 2010
U.S. Environmental Protection Agency
Passed through Iowa Finance Authority

III-A-10 Condition and Criteria - The City did not comply with procurement requirements as they did not advertise for sealed bids for the construction project by publishing a notice to bidders in a newspaper having general circulation in the geographic area served by the governmental entity as provided in Chapter 26.3 of the Code of Iowa.

Effect - The payments made to the company awarded the contract in question are subject to disallowance and are, therefore, considered a questioned cost.

Cause - The City did not verify that the required publication occurred.

Context - Questioned costs related to the non-compliance consist of program reimbursements for payments made to the company awarded the contract as follows:

CFDA Number 66.468 - \$6,719,272
CFDA Number 66.202 - 626,579

Auditor's Recommendation - Procedures should be established to insure that all Iowa Code requirements are complied when procuring contracts.

Current Status - The newly appointed City Clerk has reviewed the procedures on bidding and publication requirements. She has put in place a system to track all new projects to ensure that all bidding and publication requirements are met.

City of Fort Madison
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2011

Prior Audit Findings for Federal Awards

SIGNIFICANT DEFICIENCIES

III-B-10 Segregation of Duties over Federal Receipts - City of Fort Madison did not properly segregate collection, deposit and recordkeeping for receipts, including those related to federal programs.

Recommendation - It was recommended that the City review its control procedures to obtain the maximum internal control possible under the circumstances, and should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Current Status - Due to the limited number of office employees, segregation of duties over federal receipts continues to be a significant deficiency. See III-A-11 in the current year findings.

III-C-10 Preparation of Schedule of Federal Awards - Through review of the City's grant activity and the process of gathering information for required reporting, we determined that there is a need for improvement in the procedures related to the preparation of the Schedule of Expenditures of Federal Awards (SEFA), including the accuracy of the CFDA numbers and the accuracy and completeness of expenditure amounts reported on the SEFA. The City does not have a centralized process to gather the information required to be reported under OMB Circular A-133. As a result, the schedule contains errors and omissions.

Recommendation - We recommend that the City create a process and designate an individual to track and accurately report all information required to be included on the SEFA.

Current Status - The City has designated a staff member to track this information and is working to refine and improve that information gathering process.



401 South Roosevelt Avenue - Suite 2A, PO Box 547, Burlington, IA 52601 / 319 752 6348 / 800 757 6348 / fax: 319 752 8644 / info@cpaapc.com

November 4, 2011

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

We have audited the financial statements of the the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Fort Madison, Iowa (City), for the year ended June 30, 2011 and have issued our report thereon dated November 4, 2011. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 27, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the City changed accounting policies related to fund balance reporting for governmental funds by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2011. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. We noted no significant transactions that have not been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not identify any such misstatements for the City.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 4, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Delinquent Water Bills

Through review of the past due delinquent register at June 30, 2011, we noted delinquent payments not only from the general public but from City employees. Consideration should be given to establishing policies that encourage employees to provide positive examples of financial responsibility.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Non-attest Services

We provide the City with non-attest services pertaining to drafting the City's financial statements and related notes, preparing the Schedule of Expenditures of Federal Awards, and preparing the OMB Circular A-133 Data Collection Form (SF-SAC). In connection with these services, management has made all management-level decisions and performed all management functions, designated a management-level individual with suitable skill, knowledge or experience to oversee the services, evaluated the adequacy and results of the services performed, accepted responsibility for the results of the services, and established and maintained controls, including monitoring ongoing activities.

This information is intended solely for the use of the Mayor and City Council of the City of Fort Madison and is not intended to be and should not be used by anyone other than these specified parties.

CPA Associates PC