CITY OF MADRID

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

June 30, 2012

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CITY OF MADRID

Officials

Name	Title	Term Expires
	(Before January 2012)	
Jeff Gibbons	Mayor	Jan 2012
Donald Lincoln	Mayor Pro Tem	Jan 2014
Steve Burich	Council Member	Jan 2014
Val Chapman	Council Member	Jan 2014
Mike Heeren	Council Member	Jan 2012
Lane Shaver	Council Member	Jan 2012
Todd Kilzer	City Administrator	Indefinite
Donald Fatka	City Treasurer	Indefinite
John Jordan	City Attorney	Indefinite
	(After January 2012)	
Jeff Gibbons	Mayor	Jan 2016
Donald Lincoln	Mayor Pro Tem	Jan 2014
Steve Burich	Council Member	Jan 2014
Val Chapman	Council Member	Jan 2014
Dave Cook	Council Member	Jan 2016
Lane Shaver	Council Member	Jan 2016
Todd Kilzer	City Administrator	Indefinite
Donald Fatka	City Treasurer	Indefinite
John Jordan	City Attorney	Indefinite

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Madrid, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Madrid's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Madrid as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 19, 2012 on our consideration of the City of Madrid's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Madrid's basic financial statements. The financial statements for the year ended June 30, 2003 (which are not presented herein) were audited by other auditors who expressed an unqualified opinion on those financial statements which were prepared on an other comprehensive basis of accounting. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Madrid's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 8 and 23 through 25 are presented for purposed of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Bowman and Miller, P.C.

Marshalltown, Iowa
October 19, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Madrid provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 58.1%, or approximately $1,157,000, from fiscal year 2011 to fiscal year 2012. Property tax increased approximately $29,000 and bond proceeds increased approximately $1,043,000.

- Disbursements of the City's governmental activities increased 24.4%, or approximately $436,500, in fiscal year 2012 from fiscal year 2011. Debt service and capital projects disbursements increased approximately $42,000 and $455,000, respectively, while public safety disbursements decreased approximately $149,000.

- The City's total cash basis net assets increased by 73.4%, or approximately $1,086,000, from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased approximately $992,000 and the assets of the business type activities increased approximately $94,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Employee Benefits and Emergency, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

   The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

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

   The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased significantly from a year ago, increasing from approximately $848,000 to approximately $1,840,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service	$ 212,731	199,009
Operating grants, contributions and restricted interest	353,468	328,997
Capital grants, contributions and restricted interest	238,162	185,952
General receipts:		
Property tax	788,247	759,077
Tax increment financing	104,930	86,754
Other city tax	210,326	189,546
Special assessments	3,317	4,865
Unrestricted interest on investments	5,663	10,634
Bond proceeds	1,223,892	180,750
Other general receipts	7,888	45,553
Total receipts	3,148,624	1,991,137
Disbursements:		
Public safety	319,403	468,790
Public works	472,242	409,121
Health and social services	4,000	4,000
Culture and recreation	229,810	221,489
Community and economic development	25,247	35,404
General government	167,207	139,870
Debt service	397,472	355,335
Capital projects	607,254	152,112
Total disbursements	2,222,635	1,786,121
Change in cash basis net assets before transfers	925,989	205,016
Transfers, net	66,450	6,000
Change in cash basis net assets	992,439	211,016
Cash basis net assets beginning of year	847,938	636,922
Cash basis net assets end of year	$ 1,840,377	847,938

The City's total receipts for governmental activities increased 58.1%, or approximately $1,157,000. The total cost of all programs and services increased approximately $436,500, or 24.4%, with no new programs added this year. The increase in receipts was primarily the result of an increase in property taxes and bond proceeds in the amount of $1,223,892 received for the construction of a storm drainage and sanitary sewer system.

The City increased property tax rates slightly for fiscal year 2012 and combined with the City's total assessed valuation increase raised the City's property tax receipts approximately $29,000 in fiscal year 2012. Based on a slight increase in property tax rates and increases in the total assessed valuation, property tax receipts are budgeted to increase an additional $63,420 next year.

The cost of all governmental activities this year was approximately $2,223,000 compared to approximately $1,786,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 9 – 10, the amount taxpayers ultimately financed for these activities was only $1,418,274 because some of the cost was paid by those directly benefited from the programs ($212,731) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest ($591,630). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2012 from approximately $714,000 to approximately $804,000. The City paid for the remaining "public benefit" portion of governmental activities ($1,418,274) with taxes (some of which could only be used for certain programs) and other receipts, such as interest and other general receipts.

Changes in Cash Basis Net Assets of Business Type Activities			
		Year ended June 30,	
		2012	2011
Receipts:			
Program receipts:			
Charges for service:			
Water	$	388,055	371,927
Sewer		245,608	243,678
General receipts:			
Unrestricted interest on investments		2,397	2,907
Other general receipts		11,386	15,843
Total receipts		647,446	634,355
Disbursements:			
Water		338,353	308,761
Sewer		148,748	154,811
Total disbursements		487,101	463,572
Change in cash basis net assets before transfers		160,345	170,783
Transfers, net		(66,450)	(6,000)
Change in cash basis net assets		93,895	164,783
Cash basis net assets beginning of year		632,502	467,719
Cash basis net assets end of year	$	726,397	632,502

Total business type activities receipts for the fiscal year were approximately $647,000 compared to approximately $634,000 last year. The slight increase was primarily due to an increase in water and sewer usage during the year. Total disbursements for the fiscal year increased 5.1% to approximately $487,000. The increase was primarily the result of increased transfers to the general and capital projects funds. The cash balance increased approximately $94,000 from the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Madrid completed the year, its governmental funds reported a combined fund balance of $1,840,377, an increase of $992,439 from last year's total of $847,938. 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 $150,350 from the prior year to $615,010. This is due mainly to an increase in property tax revenue and transfers in from the water and sewer funds.

- The Road Use Tax Fund cash balance remained virtually unchanged from the prior year.

- The Employee Benefits Fund cash balance decreased $20,009 to $63,598 due to a decrease in transfers in from the general fund.

- The Emergency Fund cash balance remained virtually unchanged from the prior year.

- The Debt Service Fund cash balance remained virtually unchanged from the prior year.

- The Capital Projects Fund cash balance increased $874,650 to $916,285 during the fiscal year. The increase is primarily a result of an increase in bond proceeds.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased $26,484 to $368,897. This is a result of an increase in water usage during the year.

- The Enterprise, Sewer Fund cash balance increased $67,411 to $357,500 due primarily to a decrease in disbursements during the year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The budget amendment was approved on May 4, 2012, and included a decrease of $937,215 to revenues and a decrease of $973,540 to disbursements. The amendment was mainly the result of less capital project work being done than planned, and thus, fewer grant reimbursements were received than anticipated.

Even with the budget amendment, the City exceeded amounts budgeted in the public works, general government, and debt service functions for the year ended June 30, 2012.

DEBT ADMINISTRATION

At June 30, 2012, the City had $2,745,087 in bonds and other long-term debt outstanding, compared to $2,295,575 last year, as shown below.

Outstanding Debt at Year-End		June 30,	
		2012	2011
General obligation bonds	$	2,744,642	2,275,750
Other long-term debt		445	19,825
Total	$	2,745,087	2,295,575

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of $2,744,642 is below its constitutional debt limit of $8,164,180.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Madrid's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates and fees charged for various City activities.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Todd Kilzer, City Administrator, 304 S. Water Street, Madrid, Iowa 50156.

CITY OF MADRID

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2012

		Program Receipts		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	$ 319,403	83	44,597	-
Public works	472,242	148,738	241,630	-
Health and social services	4,000	6,451	-	-
Culture and recreation	229,810	46,556	67,241	-
Community and economic development	25,247	-	-	-
General government	167,207	10,903	-	-
Debt service	397,472	-	-	-
Capital projects	607,254	-	-	238,162
Total governmental activities	2,222,635	212,731	353,468	238,162
Business type activities:				
Water	338,353	388,055	-	-
Sewer	148,748	245,608	-	-
Total business type activities	487,101	633,663	-	-
Total	$ 2,709,736	846,394	353,468	238,162

General receipts and Transfers:

Property tax levied for:
- General purposes
- Debt service
- Employee benefits

Tax increment financing
Other city tax
Unrestricted interest on investments
Special assessments
Bond proceeds
Miscellaneous
Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
- Expendable:
  - Streets
  - Employee benefits
  - Debt service
  - Capital projects
  - Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(274,723)	-	(274,723)
(81,874)	-	(81,874)
2,451	-	2,451
(116,013)	-	(116,013)
(25,247)	-	(25,247)
(156,304)	-	(156,304)
(397,472)	-	(397,472)
(369,092)	-	(369,092)
(1,418,274)	-	(1,418,274)
-	49,702	49,702
-	96,860	96,860
-	146,562	146,562
(1,418,274)	146,562	(1,271,712)
432,269	-	432,269
236,272	-	236,272
119,706	-	119,706
104,930	-	104,930
210,326	-	210,326
5,663	2,397	8,060
3,317	-	3,317
1,223,892	-	1,223,892
7,888	11,386	19,274
66,450	(66,450)	-
2,410,713	(52,667)	2,358,046
992,439	93,895	1,086,334
847,938	632,502	1,480,440
$ 1,840,377	726,397	2,566,774
$ 173,926	-	173,926
63,598	-	63,598
23,031	-	23,031
916,285	-	916,285
48,527	-	48,527
615,010	726,397	1,341,407
$ 1,840,377	726,397	2,566,774

CITY OF MADRID

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2012

		Special Revenue		
	General	Road Use Tax	Employee Benefits	Emergency
Receipts:				
Property tax	$ 420,360	-	119,706	11,909
Tax increment financing	-	-	-	-
Other city tax	194,784	-	5,578	348
Licenses and permits	9,143	-	-	-
Use of money and property	7,393	-	-	-
Intergovernmental	53,578	241,630	-	-
Charges for service	200,046	-	-	-
Special assessments	-	-	-	-
Miscellaneous	67,821	-	100	-
Total receipts	953,125	241,630	125,384	12,257
Disbursements:				
Operating:				
Public safety	246,960	-	72,443	-
Public works	181,194	238,868	52,180	-
Health and social services	4,000	-	-	-
Culture and recreation	215,742	-	14,068	-
Community and economic development	25,247	-	-	-
General government	144,514	-	21,702	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	817,657	238,868	160,393	-
Excess (deficiency) of receipts over (under) disbursements	135,468	2,762	(35,009)	12,257
Other financing sources (uses):				
Bond proceeds	-	-	-	-
Operating transfers in	53,282	-	15,000	-
Operating transfers out	(38,400)	-	-	(13,282)
Total other financing sources (uses)	14,882	-	15,000	(13,282)
Net change in cash balances	150,350	2,762	(20,009)	(1,025)
Cash balances beginning of year	464,660	171,164	83,607	1,025
Cash balances end of year	$ 615,010	173,926	63,598	-

See notes to financial statements.

Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Total
236,272	-	-	788,247
-	-	104,930	104,930
9,616	-	-	210,326
-	-	-	9,143
-	-	39	7,432
-	238,162	-	533,370
-	-	-	200,046
3,317	-	-	3,317
-	-	-	67,921
249,205	238,162	104,969	1,924,732
-	-	-	319,403
-	-	-	472,242
-	-	-	4,000
-	-	-	229,810
-	-	-	25,247
-	-	991	167,207
397,472	-	-	397,472
-	607,254	-	607,254
397,472	607,254	991	2,222,635
(148,267)	(369,092)	103,978	(297,903)
-	1,223,892	-	1,223,892
134,930	19,850	-	223,062
-	-	(104,930)	(156,612)
134,930	1,243,742	(104,930)	1,290,342
(13,337)	874,650	(952)	992,439
36,368	41,635	49,479	847,938
23,031	916,285	48,527	1,840,377

CITY OF MADRID

Statement of Cash Receipts, Disbursements and Changes in Cash Balances Governmental Funds (Continued) As of and for the year ended June 30, 2012

		Special Revenue		
	General	Road Use Tax	Employee Benefits	Emergency
Cash Basis Fund Balances				
Restricted for:				
Streets	$ -	173,926	-	-
Employee benefits	-	-	63,598	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Other purposes	-	-	-	-
Assigned for:				
Fire equipment	59,067	-	-	-
Park	1,530	-	-	-
Unassigned	554,413	-	-	-
Total cash basis fund balances	$ 615,010	173,926	63,598	-

See notes to financial statements.

Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Total
-	-	-	173,926
-	-	-	63,598
23,031	-	-	23,031
-	916,285	-	916,285
-	-	48,527	48,527
-	-	-	59,067
-	-	-	1,530
-	-	-	554,413
23,031	916,285	48,527	1,840,377

CITY OF MADRID

Exhibit C

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2012

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	$ 388,055	245,608	633,663
Miscellaneous	11,386	-	11,386
Total operating receipts	399,441	245,608	645,049
Operating disbursements:			
Business type activities	338,353	148,748	487,101
Excess of operating receipts over operating disbursements	61,088	96,860	157,948
Non-operating receipts:			
Interest on investments	1,596	801	2,397
Excess of receipts over disbursements	62,684	97,661	160,345
Other financing uses:			
Operating transfers out	(36,200)	(30,250)	(66,450)
Net change in cash balances	26,484	67,411	93,895
Cash balances beginning of year	342,413	290,089	632,502
Cash balances end of year	$ 368,897	357,500	726,397
Cash Basis Fund Balances			
Unreserved	$ 368,897	357,500	726,397
Total cash basis fund balances	$ 368,897	357,500	726,397

See notes to financial statements.

CITY OF MADRID
Notes to Financial Statements
June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Madrid is a political subdivision of the State of Iowa located in Boone County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provides goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards: Boone County Landfill Commission, Emergency Management Board, Madrid Historical Society Board, Lowery Trust Board, Central Iowa Regional Housing Authority, and the Boone County 911 Board. The City also has a cost-sharing agreement with the Boone County Sheriff Department for communication costs.

B. Basis of Presentation

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

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

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

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The Road Use Tax Fund is used to account for road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Emergency Fund is used to account for property taxes levied to pay for emergency purposes.

The Employee Benefits Fund is used to account for property taxes levied to pay employee taxes and benefits.

The Debt Service Fund is utilized to account for property tax and other receipts to be used 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.

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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.

D. 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.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2012

(1) Summary of Significant Accounting Policies (Continued)

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public works, general government, and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2012, the City had the following investment:

	Cost	Market Value
19 Shares IBM Stock	$757	$3,716

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

(3) Bonds and Notes Payable

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

Year Ending	General Obligation Bonds		General Obligation Note		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 275,000	96,955	-	5,965	275,000	102,920
2014	270,000	91,730	22,594	5,965	292,594	97,695
2015	470,000	85,400	22,594	5,219	492,594	90,619
2016	475,000	77,183	22,594	4,486	497,594	81,669
2017	460,000	67,983	22,594	3,728	482,594	71,711
2018-2022	613,892	77,562	90,374	7,460	704,266	85,022
Total	$2,563,892	496,813	180,750	32,823	2,744,642	529,636

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2012, 2011 and 2010 were $47,912, 41,280, and $36,149 respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

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

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

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are $454 for single coverage and $1,392 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed 100% of the plan membership at a cost of $111,883.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2012, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	$ 17,993

This liability has been computed based on rates of pay in effect at June 30, 2012.

(7) Note Payable

The City's obligation under the note payable at June 30, 2012 is as follows:

Due to	Rate	Due	Balance
City State Bank secured by police car payable $446 monthly	4.50%	August 1, 2012	$ 445

Maturities of the note payable are as follows:

Year Ending June 30,	
2013	$ 445

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
General Fund	Special Revenue:	
	Emergency	$ 13,282
	Enterprise:	
	Water	20,000
	Sewer	20,000
		53,282
Debt Service	General	20,000
	Enterprise:	
	Sewer	5,000
	Water	5,000
	Special Revenue:	
	Tax Increment Financing	104,930
		134,930
Special Revenue: Employee Benefit	General	15,000
Capital Projects	General	3,400
	Enterprise:	
	Water	11,200
	Sewer	5,250
		19,850
Total		$ 223,062

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

(9) Risk Management

The City of Madrid is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Commitment

The City had entered into a construction contract totaling $2,000,046 for a drainage canal project to be financed by a Community Development Block Grant and bond proceeds.

(11) Subsequent Events

The City has evaluated all subsequent events through October 19, 2012, the date the financial statements were available to be issued.

CITY OF MADRID

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances-Budget and Actual (Cash Basis)
All Governmental Funds and Proprietary Funds
Other Information
Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	$ 788,247	-
Tax increment financing	104,930	-
Other city tax	210,326	-
Licenses and permits	9,143	-
Use of money and property	7,432	2,397
Intergovernmental	533,370	-
Charges for service	200,046	633,663
Special assessments	3,317	-
Miscellaneous	67,921	11,386
Total receipts	1,924,732	647,446
Disbursements:		
Public safety	319,403	-
Public works	472,242	-
Health and social services	4,000	-
Culture and recreation	229,810	-
Community and economic development	25,247	-
General government	167,207	-
Debt service	397,472	-
Capital projects	607,254	-
Business type activities	-	487,101
Total disbursements	2,222,635	487,101
Excess (deficiency) of receipts over (under) disbursements	(297,903)	160,345
Other financing sources (uses), net	1,290,342	(66,450)
Excess of receipts and other financing sources over disbursements and other financing uses	992,439	93,895
Balances beginning of year	847,938	632,502
Balances end of year	$ 1,840,377	726,397

See accompanying independent auditors' report.

Total	Budgeted Amounts Original	Budgeted Amounts Final	Final to Total Variance
788,247	796,257	796,257	(8,010)
104,930	105,775	105,775	(845)
210,326	197,525	197,075	13,251
9,143	13,250	14,400	(5,257)
9,829	12,000	114,975	(105,146)
533,370	4,157,720	3,062,330	(2,528,960)
833,709	791,300	797,200	36,509
3,317	6,000	6,000	(2,683)
79,307	80,700	129,300	(49,993)
2,572,178	6,160,527	5,223,312	(2,651,134)
319,403	474,875	474,875	155,472
472,242	445,425	450,360	(21,882)
4,000	4,000	4,000	-
229,810	254,840	300,045	70,235
25,247	32,650	31,500	6,253
167,207	145,545	153,595	(13,612)
397,472	473,095	364,105	(33,367)
607,254	3,802,200	2,839,305	2,232,051
487,101	486,305	527,610	40,509
2,709,736	6,118,935	5,145,395	2,435,659
(137,558)	41,592	77,917	(215,475)
1,223,892	-	-	1,223,892
1,086,334	41,592	77,917	1,008,417
1,480,440	1,367,819	1,367,819	112,621
2,566,774	1,409,411	1,445,736	1,121,038

CITY OF MADRID
Notes to Other Information – Budgetary Reporting
June 30, 2012

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted disbursements by $973,540. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the public works, general government, and debt service functions.

CITY OF MADRID

Schedule of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2012

		Special Revenue			
		Boyd Library	Helms Estate	Tax Increment Financing	Total
Receipts:					
Tax increment financing	$	-	-	104,930	104,930
Use of money and property		27	12	-	39
Total receipts		27	12	104,930	104,969
Disbursements:					
Operating:					
General government		-	991	-	991
Total disbursements		-	991	-	991
Excess (deficiency) of receipts over (under) disbursements		27	(979)	104,930	103,978
Other financing uses:					
Operating transfers out		-	-	(104,930)	(104,930)
Net change in cash balances		27	(979)	-	(952)
Cash balances beginning of year		28,675	20,499	305	49,479
Cash balances end of year	$	28,702	19,520	305	48,527
Cash Basis Fund Balances					
Restricted for other purposes	$	28,702	19,520	305	48,527
Total cash basis fund balances	$	28,702	19,520	305	48,527

See accompanying independent auditors' report.

CITY OF MADRID

Schedule of Indebtedness

Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and notes:			
Street improvement	Mar 15, 2004	1.45 - 4.15 %	$ 395,000
Water/sewer improvement	Jan 1, 2006	3.60 - 4.40	310,000
Fire department rescue	Sep 15, 2007	4.80	135,000
Corporate purpose and refinancing	Apr 15, 2008	2.50 - 4.25	2,140,000
Fire truck acquisition	Jan 26, 2011	3.30	180,750
Corporate purpose and refinancing	Mar 27, 2012	.35-2.55	1,223,892
Total			
Lease:			
John Deere backhoe	Mar 15, 2007	5.75 %	$ 64,938
Bank loan:			
Police car	Aug 9, 2009	4.50 %	$ 15,010

	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
$	235,000	-	235,000	-	7,532	-
	195,000	-	195,000	-	6,598	-
	50,000	-	50,000	-	1,973	-
	1,615,000	-	165,000	1,450,000	60,670	-
	180,750	-	-	180,750	8,040	
	-	1,223,892	110,000	1,113,892	7,380	-
$	2,275,750	1,223,892	755,000	2,744,642	92,193	-
$	14,176	-	14,176	-	837	-
$	5,649	-	5,204	445	149	-

CITY OF MADRID

Bond and Note Maturities

June 30, 2012

Year Ending June 30,	General Obligation Bonds: Corporate Purpose and Refinancing, Issued Apr 15, 2008 — Interest Rates	Amount	General Obligation Bonds: Corporate Purpose and Refinancing, Issued Mar 27, 2012 — Interest Rates	Amount
2013	3.25 %	$ 140,000	0.50 %	$ 135,000
2014	3.40	170,000	0.55	100,000
2015	3.60	175,000	0.65	295,000
2016	3.80	180,000	0.80	295,000
2017	3.90	185,000	1.10	275,000
2018	4.00	110,000	1.20	13,892
2019	4.10	115,000	-	-
2020	4.15	120,000	-	-
2021	4.20	125,000	-	-
2022	4.25	130,000	-	-
Total		$ 1,450,000		$ 1,113,892

General Obligation Note			
Fire Truck Acquisition			
Issued Jan 26, 2011			
Interest Rates		Amount	Total
3.30	% $	-	275,000
3.30		22,594	292,594
3.30		22,594	492,594
3.30		22,594	497,594
3.30		22,594	482,594
3.30		22,594	146,486
3.30		22,594	137,594
3.30		22,593	142,593
3.30		22,593	147,593
-		-	130,000
	$	180,750	2,744,642

CITY OF MADRID

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

		2012	2011	2010	2009
Receipts:					
Property tax	$	788,247	759,077	740,006	681,460
Tax increment financing		104,930	86,754	42,580	-
Other city tax		210,326	189,546	184,018	196,485
Licenses and permits		9,143	17,358	14,429	13,975
Use of money and property		7,432	11,959	12,488	15,304
Intergovernmental		533,370	462,546	407,747	332,053
Charges for services		200,046	199,009	197,658	203,925
Special assessments		3,317	4,865	11,048	7,717
Miscellaneous		67,921	79,273	174,843	137,522
Total	$	1,924,732	1,810,387	1,784,817	1,588,441
Disbursements:					
Operating:					
Public safety	$	319,403	468,790	313,050	279,988
Public works		472,242	409,121	426,480	416,309
Health and social services		4,000	4,000	4,000	4,000
Culture and recreation		229,810	221,489	372,128	285,361
Community and economic development		25,247	35,404	81,105	57,774
General government		167,207	139,870	135,435	134,075
Debt service		397,472	355,335	362,222	356,042
Capital projects		607,254	152,112	95,757	48,617
Total	$	2,222,635	1,786,121	1,790,177	1,582,166

See accompanying independent auditors' report.

2008	2007	2006	2005	2004	2003
630,677	588,149	472,709	452,153	442,715	411,177
-	-	-	-	-	49,959
190,788	180,565	202,013	183,946	188,857	162,798
9,941	12,364	16,629	11,201	1,912	4,014
45,888	34,033	23,586	12,134	16,595	18,473
239,585	425,411	502,833	248,810	231,545	256,812
184,450	169,381	175,502	173,812	128,726	118,802
5,449	13,172	18,275	18,499	19,400	41,524
78,354	39,638	55,900	72,558	67,744	151,594
1,385,132	1,462,713	1,467,447	1,173,113	1,097,494	1,215,153
559,301	328,991	305,736	301,401	292,206	255,197
378,406	373,658	405,484	379,831	355,629	326,311
4,049	3,802	3,600	3,606	3,530	2,900
215,486	240,583	197,725	185,677	167,677	151,537
29,854	22,210	62,403	15,570	8,902	9,568
158,746	147,211	145,762	154,092	121,865	101,409
2,410,641	289,398	267,243	264,385	224,577	172,815
1,173,743	217,010	369,431	465,860	227,732	778,715
4,930,226	1,622,863	1,757,384	1,770,422	1,402,118	1,798,452

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Madrid, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 19, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Madrid is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Madrid's internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Madrid's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Madrid's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Madrid's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings as item II-A-12 to be a material weakness.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Madrid's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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

Bowman and Miller, P.C.

Marshalltown, Iowa
October 19, 2012

CITY OF MADRID
Schedule of Findings
Year ended June 30, 2012

Part I: Summary of the Independent Auditors' Results:

(a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

(b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.

(c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF MADRID
Schedule of Findings (Continued)
Year ended June 30, 2012

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCY:

II-A-12 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one person has control over each of the following areas:

(1) Cash receipts - collecting, depositing, journalizing, and posting
(2) Payroll preparation and distribution.

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

Response – We segregate as much as possible with the limited number of staff that we have.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Other Findings Related to Required Statutory Reporting:

III-A-12 Certified Budget – The Council amended the budget in May 2012, however, disbursements exceeded the amounts budgeted in the public works, general government, and debt service functions during the year ended June 30, 2012. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

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

Response – The City is always doing capital improvement projects and it is difficult to predict their expenses and even more difficult to predict when state and federal reimbursements will arrive. In terms of general operational budgets, overages sometimes occur when unexpected or unbudgeted expenditures are required.

Conclusion – Response accepted.

III-B-12 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-12 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF MADRID
Schedule of Findings (Continued)
Year ended June 30, 2012

III-D-12 Business Transactions – No business transactions between the City and City officials or employees were noted.

III-E-12 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

III-F-12 Council Minutes – No transactions were found that we believe should have been approved in the council minutes but were not.

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

Recommendation – The City should dispose of the stock in order to comply with Chapter 12B of the Code of Iowa.

Response – The City has been waiting for the stock value to improve and realize that it may not happen. The City will look into selling the stock as soon as possible.

Conclusion – Response accepted.

CITY OF MADRID

Staff

This audit was performed by:

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