

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, 2012

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:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets - Cash Basis	A	11
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	12
Reconciliation of the Statement of Cash Receipts, Disbursements and		
Changes in Cash Balances to the Statement of Activities and Net Assets	C	13
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D	14
Notes to Financial Statements		15 - 26
Other Information		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in		
Balances - Budget and Actual (Cash Basis) - All Governmental Funds and		
Proprietary Funds		27
Notes to Other Information - Budgetary Reporting		28
Supplementary Information	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances -		
Nonmajor Governmental Funds	1	29
Statement of Indebtedness	2	30
Bond and Note Maturities	3	31 - 33
Schedule of Receipts by Source and Disbursements by Function - All		
Governmental Funds	4	34
Schedule of Expenditures of Federal Awards	5	35 - 36
Miscellaneous Statistical Section	6	37 - 38
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>		39 - 40
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		41 - 42
Schedule of Findings		43 - 48
Summary Schedule of Prior Audit Findings		49

City of Fort Madison

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brad Randolph	Mayor	November, 2012
Neal Boeding	Council Member	November, 2012
Brian Wright	Council Member	January, 2014
Jason Huppert	Council Member	January, 2014
Travis Seidel	Council Member	January, 2016
Chris Greenwald	Council Member	January, 2016
Mark Lair	Council Member	January, 2016
Kevin Rink	Council Member	January, 2016
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 / 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, 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'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.

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, 2012, 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, 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 16, 2012 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.

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 nine 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 6, 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 is the responsibility of management and was derived from and relate 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 auditing standards generally accepted in the United States of America. 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's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 10 and 27 and 28 are presented for purposes 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.

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

October 16, 2012

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, 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 10%, or \$971,226, from fiscal 2011 to fiscal 2012. Operating grants, contributions and restricted interest; property tax; local option sales tax; bond proceeds; and other general receipts increased \$63,841, \$76,282, \$177,597, \$291,208 and \$572,492, respectively.
- Disbursements of the City's governmental activities increased 11%, or \$1,056,096, from fiscal 2011 to fiscal 2012. Capital projects, community and economic development, and public safety increased \$101,479, \$935,815, and \$258,010, respectively.
- The City's total cash basis net assets increased 13%, or \$1,085,387, from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities decreased \$22,154 and the assets of business type activities increased \$1,107,541.

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.
- 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. 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, Urban Renewal Tax Increment Financing (TIF), and Grant Opportunity, 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 is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.
- 2) Proprietary funds account for the City's Enterprise Funds and Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide information for the Water, Sewer, and Solid Waste Funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The required financial statements for proprietary funds is 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 \$5,328,129 to \$5,305,975. 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 services	\$ 404,247	\$ 392,600
Operating grants, contributions and restricted interest	1,506,945	1,443,104
Capital grants and contributions	1,258,662	1,445,125
General receipts:		
Property tax	3,499,904	3,423,622
Local option sales tax	1,281,665	1,104,068
Tax increment financing	907,127	941,649
Unrestricted interest on investments	144,999	145,855
Bond proceeds	291,208	-
Other general receipts	<u>1,636,317</u>	<u>1,063,825</u>
Total receipts	<u>10,931,074</u>	<u>9,959,848</u>
Disbursements:		
Public safety	3,505,490	3,247,480
Public works	1,143,332	1,192,716
Health and social services	39,668	40,644
Culture and recreation	1,068,703	1,090,228
Community and economic development	2,168,257	1,232,442
General government	709,288	812,807
Debt service	203,125	266,929
Capital projects	<u>2,135,365</u>	<u>2,033,886</u>
Total disbursements	<u>10,973,228</u>	<u>9,917,132</u>
Change in cash basis net assets before transfers	(42,154)	42,716
Transfers, net	<u>20,000</u>	<u>(84,000)</u>
Change in cash basis net assets	(22,154)	(41,284)
Cash basis net assets beginning of year	<u>5,328,129</u>	<u>5,369,413</u>
Cash basis net assets end of year	<u>\$ 5,305,975</u>	<u>\$ 5,328,129</u>

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

The City's total receipts for governmental activities increased by 10% or \$971,226. The total cost of all programs and services increased by \$1,056,096 or 11% with no new programs added this year.

The cost of all governmental activities this year was \$10,973,228 compared to \$9,917,132 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 \$7,803,374 because some of the cost was paid by those directly benefited from the programs (\$404,247) or by other governments and organizations that subsidized certain programs with grants and contributions (\$2,765,607). Overall, the City's governmental program receipts, including intergovernmental aid and fees for service, decreased in 2012 from \$3,280,829 to \$3,169,854, principally due to a decrease in capital grant contributions.

	Change in Cash Basis of Net Assets Business Type Activities	
	Year Ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Water charges	\$ 2,634,336	\$ 2,653,170
Sewer charges	1,665,853	1,537,172
Solid waste charges	732,968	717,937
Operating grants, contributions, and restricted interest	1,799,044	-
General receipts:		
Unrestricted investment earnings	97,352	-
Bond proceeds	1,744,232	3,793,667
Miscellaneous receipts	181,031	680,450
Total receipts	8,854,816	9,382,396
Disbursements:		
Water	5,053,388	7,117,320
Sewer	1,976,213	2,055,126
Solid waste	697,674	595,804
Total disbursements	7,727,275	9,768,250
Change in cash basis net assets before transfers	1,127,541	(385,854)
Transfers, net	(20,000)	84,000
Change in cash basis net assets	1,107,541	(301,854)
Cash basis net assets beginning of year	2,802,641	3,104,495
Cash basis net assets end of year	\$ 3,910,182	\$ 2,802,641

Total business type activities receipts for the fiscal year were \$8,854,816 compared to \$9,382,396 last year. This decrease was due primarily to decrease in bond proceeds in fiscal 2012. The cash balance increased by \$1,107,541 from the prior year largely due to the cost of capital projects. Total disbursements for the fiscal year decreased by 21% to a total of \$7,727,275.

**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 \$5,305,975, a decrease of \$22,154 from last year's total of \$5,328,129. 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 \$52,693 from the prior year to \$1,855,059. The increase was due to an increase in property tax receipts.
- The Special Revenue, Road Use Tax Fund cash balance decreased by \$3,971 to \$2,486 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 \$818,683, a decrease of \$55,028 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 \$1,153,976, an increase of \$301,088 from the previous year. The increase is due to bond proceeds received for the Bluff Subdivision.
- The Grant Opportunity Fund cash balance increased \$34,080 to \$629,266 during the fiscal year.
- The Debt Service Fund cash balance increased \$3,205 to \$70,180 during the fiscal year.
- The Capital Projects Fund cash balance decreased \$359,077 to \$(439,700) during the fiscal year due to increased capital project spending.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$1,273,612 to \$991,901, due primarily to receiving I-JOBS grants for capital projects.
- The Sewer Fund cash balance decreased \$213,601 to \$2,727,194, due primarily to a decrease in transfers.
- The Solid Waste Fund cash balance increased \$47,530 to \$191,087, 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 15, 2012 and resulted in an increase in revenues of \$1,691,400 and an increase in operating disbursements of \$2,300,110. Increases in revenues included other taxes, intergovernmental, miscellaneous, and other financing sources. Increases in expenditures included public safety, public works, health and social services, community and economic development, general government, capital projects, and business type.

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

The City exceeded the amounts budgeted in the community and economic development function for the year ended June 30, 2012, due to unexpected expenditures that had to be paid in the last weeks of June 2012.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$23,550,379 in bonds and other long-term debt compared to \$24,444,457 last year as shown below.

	Outstanding Debt at Year-End	
	June 30, 2012	2011
General obligation bonds	\$ 6,740,000	\$ 7,295,000
Revenue bonds	16,482,235	17,086,162
Capital loan notes	36,936	63,295
Urban renewal TIFs	<u>291,208</u>	<u>-</u>
Total	<u>\$ 23,550,379</u>	<u>\$ 24,444,457</u>

Debt decreased as a result of a \$2,000,000 forgivable water revenue note.

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 \$7,068,144 is well below the City's \$20.2 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 2013 fiscal year budget, tax rates, and fees that will be charged for various City activities. Some local manufacturing plants have added capacity but unfortunately Siemens has announced a large reduction in force. This announcement will likely cause the Lee County unemployment rate which was 7.5% in June 2012 and 8.7% in June 2011 to begin to increase again. Hopefully, the addition of a new fertilizer manufacturing plant to be built just a few miles north of the City in Lee County will compensate for the Siemens announcement and help with the creation of construction and permanent jobs in the area.

All phases of the City's water treatment plant and the U.S. 61 bypass are now completed. 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 will be completed in early 2013. This is another positive sign of economic activity. The Fort Madison Community School District has completed a new middle school building.

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 cautiously 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, 2012

	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	\$ 3,505,490	\$ 38,780	\$ 230,469	\$ -	\$ (3,236,241)	\$ -	\$ (3,236,241)
Public works	1,143,332	40,797	1,048,200	-	(54,335)	-	(54,335)
Health and social services	39,668	-	24,087	-	(15,581)	-	(15,581)
Culture and recreation	1,068,703	213,032	29,114	-	(826,557)	-	(826,557)
Community and economic development	2,168,257	5,233	50,000	-	(2,113,024)	-	(2,113,024)
General government	709,288	106,405	125,075	-	(477,808)	-	(477,808)
Debt service	203,125	-	-	-	(203,125)	-	(203,125)
Capital projects	<u>2,135,365</u>	<u>-</u>	<u>-</u>	<u>1,258,662</u>	<u>(876,703)</u>	<u>-</u>	<u>(876,703)</u>
Total governmental activities	<u>10,973,228</u>	<u>404,247</u>	<u>1,506,945</u>	<u>1,258,662</u>	<u>(7,803,374)</u>	<u>-</u>	<u>(7,803,374)</u>
Business type activities:							
Water	5,053,388	2,634,336	1,799,044	-	-	(620,008)	(620,008)
Sewer	1,976,213	1,665,853	-	-	-	(310,360)	(310,360)
Solid waste	<u>697,674</u>	<u>732,968</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,294</u>	<u>35,294</u>
Total business type activities	<u>7,727,275</u>	<u>5,033,157</u>	<u>1,799,044</u>	<u>-</u>	<u>-</u>	<u>(895,074)</u>	<u>(895,074)</u>
Total	<u>\$ 18,700,503</u>	<u>\$ 5,437,404</u>	<u>\$ 3,305,989</u>	<u>\$ 1,258,662</u>	<u>(7,803,374)</u>	<u>(895,074)</u>	<u>(8,698,448)</u>
General Receipts:							
Property tax levied for:							
General purposes					3,293,574	-	3,293,574
Debt service					206,330	-	206,330
Tax increment financing					907,127	-	907,127
Local option sales tax					1,281,665	-	1,281,665
Unrestricted investment earnings					144,999	97,352	242,351
Bond proceeds					291,208	1,744,232	2,035,440
Transfers					20,000	(20,000)	-
Miscellaneous					<u>1,636,317</u>	<u>181,031</u>	<u>1,817,348</u>
Total general receipts and transfers					<u>7,781,220</u>	<u>2,002,615</u>	<u>9,783,835</u>
Change in cash basis net assets					(22,154)	1,107,541	1,085,387
Cash basis net assets beginning of year					<u>5,328,129</u>	<u>2,802,641</u>	<u>8,130,770</u>
Cash basis net assets end of year					<u>\$ 5,305,975</u>	<u>\$ 3,910,182</u>	<u>\$ 9,216,157</u>
Cash Basis Net Assets:							
Restricted:							
Nonexpendable					\$ 200,282	\$ -	\$ 200,282
Expendable					2,601,902	3,378,775	5,980,677
Unrestricted					<u>2,503,791</u>	<u>531,407</u>	<u>3,035,198</u>
Total cash basis net assets					<u>\$ 5,305,975</u>	<u>\$ 3,910,182</u>	<u>\$ 9,216,157</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, 2012

	Special Revenue					Debt Service	Capital Projects	Other Nonmajor Governmental	Total
	General	Road Use	Local Option Sales Tax	Urban Renewal TIF	Grant Opportunity				
Receipts:									
Property tax	\$ 1,969,069	\$ -	\$ -	\$ -	\$ -	\$ 206,330	\$ -	\$ 1,324,505	\$ 3,499,904
Tax increment financing collections	-	-	-	907,127	-	-	-	-	907,127
Other taxes	663	-	1,280,629	-	-	-	-	132,953	1,414,245
Use of money and property	120,847	-	-	32,026	16,897	-	-	16,052	185,822
Licenses and permits	95,787	-	-	-	-	-	-	-	95,787
Intergovernmental	33,772	1,048,200	-	-	-	-	1,227,945	1,293,579	3,603,496
Charges for services	123,281	-	-	-	-	-	-	82,453	205,734
Special assessments	5,233	-	-	-	-	-	-	-	5,233
Miscellaneous	272,487	26,460	-	-	300,329	-	35,027	88,800	723,103
	<u>2,621,139</u>	<u>1,074,660</u>	<u>1,280,629</u>	<u>939,153</u>	<u>317,226</u>	<u>206,330</u>	<u>1,262,972</u>	<u>2,938,342</u>	<u>10,640,451</u>
Total receipts									
Disbursements:									
Governmental activities:									
Public safety	3,198,501	-	-	-	-	-	-	306,989	3,505,490
Public works	68,868	1,074,464	-	-	-	-	-	-	1,143,332
Health and social services	98	-	-	-	-	-	-	39,570	39,668
Culture and recreation	896,665	-	-	-	-	-	-	172,038	1,068,703
Community and economic development	129,232	-	-	929,273	44,378	-	-	1,065,374	2,168,257
General government	600,668	-	-	-	-	-	-	108,620	709,288
Debt service	-	-	-	-	-	203,125	-	-	203,125
Capital projects	-	-	-	-	-	-	2,135,365	-	2,135,365
Total disbursements	<u>4,894,032</u>	<u>1,074,464</u>	<u>-</u>	<u>929,273</u>	<u>44,378</u>	<u>203,125</u>	<u>2,135,365</u>	<u>1,692,591</u>	<u>10,973,228</u>
Excess (deficiency) of receipts over disbursements	(2,272,893)	196	1,280,629	9,880	272,848	3,205	(872,393)	1,245,751	(332,777)
Other financing sources (uses):									
Bond proceeds	-	-	-	291,208	-	-	-	-	291,208
Operating transfers in (out)	<u>2,325,586</u>	<u>(4,167)</u>	<u>(1,335,657)</u>	<u>-</u>	<u>(238,768)</u>	<u>-</u>	<u>513,316</u>	<u>(1,240,310)</u>	<u>20,000</u>
Net change in cash balances	52,693	(3,971)	(55,028)	301,088	34,080	3,205	(359,077)	5,441	(21,569)
Cash balances beginning of year, restated	<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>1,191,375</u>	<u>5,308,335</u>
Cash balances end of year	<u>\$ 1,855,059</u>	<u>\$ 2,486</u>	<u>\$ 818,683</u>	<u>\$ 1,153,976</u>	<u>\$ 629,266</u>	<u>\$ 70,180</u>	<u>\$ (439,700)</u>	<u>\$ 1,196,816</u>	<u>\$ 5,286,766</u>
Cash Basis Fund Balances									
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200,282	\$ 200,282
Restricted	-	2,486	818,683	1,153,976	-	70,180	-	556,577	2,601,902
Assigned	-	-	-	-	629,266	-	-	441,441	1,070,707
Unassigned	<u>1,855,059</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(439,700)</u>	<u>(1,484)</u>	<u>1,413,875</u>
Total cash basis fund balances	<u>\$ 1,855,059</u>	<u>\$ 2,486</u>	<u>\$ 818,683</u>	<u>\$ 1,153,976</u>	<u>\$ 629,266</u>	<u>\$ 70,180</u>	<u>\$ (439,700)</u>	<u>\$ 1,196,816</u>	<u>\$ 5,286,766</u>

See notes to financial statements.

City of Fort Madison
Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets
Governmental Funds
As of and for the Year Ended June 30, 2012

Total governmental funds cash balances (page 12) \$ 5,286,766

Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Activities and Net Assets.

19,209

Cash basis net assets of governmental activities (page 11) \$ 5,305,975

Net change in cash balances (page 12) \$ (21,569)

Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.

(585)

Change in cash basis net assets of governmental activities (page 11) \$ (22,154)

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, 2012

	<u>Enterprise Funds</u>			<u>Total</u>	<u>Internal</u>
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>		<u>Service</u>
					<u>Employee</u>
					<u>Health</u>
Operating Receipts:					
Charges for service	\$ <u>2,624,835</u>	\$ <u>1,658,148</u>	\$ <u>727,893</u>	\$ <u>5,010,876</u>	\$ <u>159,975</u>
Total operating receipts	<u>2,624,835</u>	<u>1,658,148</u>	<u>727,893</u>	<u>5,010,876</u>	<u>159,975</u>
Operating Disbursements:					
Public safety	-	-	-	-	66,407
Public works	-	-	-	-	22,673
Culture and recreation	-	-	-	-	13,530
Community and economic development	-	-	-	-	4,368
General government	-	-	-	-	13,520
Business type activities	<u>1,843,150</u>	<u>1,410,063</u>	<u>624,209</u>	<u>3,877,422</u>	<u>40,062</u>
Total operating disbursements	<u>1,843,150</u>	<u>1,410,063</u>	<u>624,209</u>	<u>3,877,422</u>	<u>160,560</u>
Excess of operating receipts over operating disbursements	<u>781,685</u>	<u>248,085</u>	<u>103,684</u>	<u>1,133,454</u>	<u>(585)</u>
Non-operating receipts (disbursements):					
Special assessments	9,501	7,705	5,075	22,281	-
Intergovernmental	1,894,234	-	-	1,894,234	-
Interest on investments	15,449	77,963	3,940	97,352	-
Customer deposits	23,010	-	-	23,010	-
Miscellaneous	30,739	23,796	8,296	62,831	-
Bond proceeds	1,744,232	-	-	1,744,232	-
Capital projects	(2,434,233)	(117,063)	(73,465)	(2,624,761)	-
Debt service	<u>(776,005)</u>	<u>(449,087)</u>	<u>-</u>	<u>(1,225,092)</u>	<u>-</u>
Net non-operating receipts (disbursements)	<u>506,927</u>	<u>(456,686)</u>	<u>(56,154)</u>	<u>(5,913)</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	1,288,612	(208,601)	47,530	1,127,541	(585)
Operating transfers in (out)	<u>(15,000)</u>	<u>(5,000)</u>	<u>-</u>	<u>(20,000)</u>	<u>-</u>
Net change in cash balances	1,273,612	(213,601)	47,530	1,107,541	(585)
Cash balances beginning of year, restated	<u>(281,711)</u>	<u>2,940,795</u>	<u>143,557</u>	<u>2,802,641</u>	<u>19,794</u>
Cash balances end of year	\$ <u>991,901</u>	\$ <u>2,727,194</u>	\$ <u>191,087</u>	\$ <u>3,910,182</u>	\$ <u>19,209</u>
Cash Basis Fund Balances					
Restricted for equipment replacement	\$ 723,174	\$ 2,655,601	\$ -	\$ 3,378,775	-
Unrestricted	<u>268,727</u>	<u>71,593</u>	<u>191,087</u>	<u>531,407</u>	<u>19,209</u>
Total cash basis fund balances	\$ <u>991,901</u>	\$ <u>2,727,194</u>	\$ <u>191,087</u>	\$ <u>3,910,182</u>	\$ <u>19,209</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 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 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.

City of Fort Madison
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Basis of Presentation

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

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in 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.

City of Fort Madison
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

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.

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.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

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.

City of Fort Madison
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

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.

Unassigned - All amounts not included in other spendable classifications.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

Note 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 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 \$242,352 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		Urban Renewal Tax Increment Financing Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2013	\$ 611,936	\$ 258,132	\$ 413,000	\$ 571,680	\$ 4,000	\$ 14,500	\$ 1,028,936
2014	535,000	234,546	426,000	559,290	10,000	14,300	971,000	808,136
2015	545,000	216,141	440,000	546,510	11,000	13,800	996,000	776,451
2016	565,000	196,915	536,000	533,310	11,000	13,250	1,112,000	743,475
2017	555,000	176,948	553,000	517,230	12,000	12,700	1,120,000	706,878
2018-2022	2,525,000	569,942	3,038,000	2,326,710	68,000	54,050	5,631,000	2,950,702
2023-2027	1,390,000	149,215	3,352,000	1,842,420	88,000	35,050	4,830,000	2,026,685
2028-2032	50,000	2,225	3,099,000	1,312,290	87,208	11,000	3,236,208	1,325,515
2033-2037	-	-	2,902,235	606,330	-	-	2,902,235	606,330
2038-2040	-	-	1,723,000	105,240	-	-	1,723,000	105,240
	<u>\$ 6,776,936</u>	<u>\$ 1,804,064</u>	<u>\$ 16,482,235</u>	<u>\$ 8,921,010</u>	<u>\$ 291,208</u>	<u>\$ 168,650</u>	<u>\$ 23,550,379</u>	<u>\$ 10,893,724</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. For the current year, interest paid and total TIF receipts were \$14,500 and \$907,127, respectively.

Revenue Bonds/Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay six revenue bond issues. The bonds were issued between October 2009 and October 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 \$23,221,365. For the current year, principal and interest paid and total customer net receipts were \$683,102 and \$781,685, 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 \$2,181,880. For the current year, principal and interest paid and total customer net receipts were \$147,930 and \$248,085, 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. During the year ended June 30, 2012, the City received the certificate of completion and the loan was forgiven.

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, 2012. 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. 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

City of Fort Madison
Notes to Financial Statements

Note 5. Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administration expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if sufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contribution to the Pool for the year ended June 30, 2012 was \$90,527.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability for risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

City of Fort Madison
Notes to Financial Statements

Note 5. Risk Management (continued)

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. After the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workmen's compensation and various types of liability insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 6. Compensated Absences

City employees, with the exceptions of fire, library and water department 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 department 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 department 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, 2012, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 409,754
Sick leave	<u>217,927</u>
	<u>\$ 627,681</u>

This liability has been computed based on rates of pay as of June 30, 2012.

City of Fort Madison
Notes to Financial Statements

Note 7. 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 5.38% of their annual salary and the City is required to contribute 8.07% 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, 2012, 2011, and 2010, was \$212,680, \$177,750, and \$175,104, 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.

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 24.76% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2012, 2011, and 2010 was \$421,778, \$319,863, and \$271,004, 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 \$5,733, \$5,893, and \$5,286 for the years ended June 30, 2012, 2011 and 2010.

Note 8. Related Party Transactions

Business transactions between the City and City officials totaled \$3,266 during the year ended June 30, 2012.

Note 9. Deficit Balance

At June 30, 2012, Capital Projects Fund and the Law Enforcement Fund had deficit balances of \$439,700 and \$1,484, 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. 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 98 active and 14 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 \$455 for single coverage and \$1,345 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$1,185,189 and plan members eligible for benefits contributed \$123,511 to the plan.

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 \$20,136 for the year ended June 30, 2012 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, 2012, \$19,138 was outstanding on these loans to businesses. At June 30, 2012, SEIRPC holds cash of \$184,346 for the City which represents loan repayments received from participating businesses and is available to fund future commercial business growth loans.

Note 13. 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 City's total reimbursement liability for the period January 1, 2012 to December 31, 2012 is \$712,000. The City's cost related to this reimbursement for the year ended June 30, 2012 was \$160,559.

City of Fort Madison
Notes to Financial Statements

Note 14. Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special revenue	\$ 2,325,586
Special revenue	Enterprise funds	20,000
Capital projects	Special revenue	<u>513,316</u>
		<u>\$ 2,858,902</u>

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

Note 15. Commitments and Contingency

The City has committed to the following significant projects as of June 30, 2012:

Southwest sewer extension	\$ 1,500,000
Avenue D bridge	1,000,000
Rehab existing reservoirs	900,000
Reconstruction of Ave E from 15th to 18th streets	725,000
Replace R/O membranes at water plant	130,000
Install water main on Ave E from 17th to 19th streets	117,000
Demolition of old water office building	90,000
City-wide sealcoating	75,000
Sidewalk program	50,000
Water main replacement	42,000
Flatbed truck	40,000
One-ton truck	<u>40,000</u>
Total	<u>\$ 4,709,000</u>

The City is currently involved with an appeal of a Civil Service Commission ruling. There is only a slight chance of an unfavorable outcome in the Civil Service Commission appeal, due to the rather permissive standards in this type of case.

Note 16. Subsequent Events

The City performed an evaluation of subsequent events through October 16, 2012, 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, 2012.

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, 2012 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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200,282	\$ 200,282
Restricted for:									
Road use purposes	-	2,486	-	-	-	-	-	-	2,486
Tax referendum purposes	-	-	818,683	-	-	-	-	-	818,683
Urban renewal projects	-	-	-	1,153,976	-	-	-	-	1,153,976
Debt service	-	-	-	-	-	70,180	-	-	70,180
Employee benefits	-	-	-	-	-	-	-	266,345	266,345
Police/fire retirement	-	-	-	-	-	-	-	152,710	152,710
FEMA grant	-	-	-	-	-	-	-	42,209	42,209
Library building maintenance	-	-	-	-	-	-	-	46,230	46,230
Other purposes	-	-	-	-	-	-	-	49,083	49,083
Assigned to:									
Emergency tax levy	-	-	-	-	-	-	-	27,525	27,525
Hotel/motel tax	-	-	-	-	-	-	-	118,548	118,548
Grant opportunities	-	-	-	-	629,266	-	-	-	629,266
Other purposes	-	-	-	-	-	-	-	295,368	295,368
Unassigned	<u>1,855,059</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(439,700)</u>	<u>(1,484)</u>	<u>1,413,875</u>
Total	<u>\$1,855,059</u>	<u>\$ 2,486</u>	<u>\$ 818,683</u>	<u>\$1,153,976</u>	<u>\$ 629,266</u>	<u>\$ 70,180</u>	<u>\$(439,700)</u>	<u>\$1,196,816</u>	<u>\$ 5,286,766</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.

OTHER 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
Other Information
Year Ended June 30, 2012**

	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	\$ 3,499,904	\$ -	\$ -	\$ 3,499,904	\$ 3,331,015	\$ 3,331,015	\$ 168,889
Tax increment financing collections	907,127	-	-	907,127	904,400	904,400	2,727
Other taxes	1,414,245	-	-	1,414,245	1,381,209	1,581,209	(166,964)
Use of money and property	185,822	97,352	-	283,174	228,650	228,650	54,524
Licenses and permits	95,787	-	-	95,787	145,100	145,100	(49,313)
Intergovernmental	3,603,496	1,894,234	-	5,497,730	5,740,310	7,154,260	(1,656,530)
Charges for services	205,734	5,170,851	159,975	5,216,610	6,162,410	6,162,410	(945,800)
Special assessments	5,233	22,281	-	27,514	9,570	9,570	17,944
Miscellaneous	<u>723,103</u>	<u>85,841</u>	<u>-</u>	<u>808,944</u>	<u>1,879,810</u>	<u>1,957,260</u>	<u>(1,148,316)</u>
Total receipts	<u>10,640,451</u>	<u>7,270,559</u>	<u>159,975</u>	<u>17,751,035</u>	<u>19,782,474</u>	<u>21,473,874</u>	<u>(3,722,839)</u>
Disbursements:							
Public safety	3,505,490	66,407	66,407	3,505,490	3,534,690	3,726,440	220,950
Public works	1,143,332	22,673	22,673	1,143,332	1,150,080	1,170,080	26,748
Health and social services	39,668	-	-	39,668	40,500	42,000	2,332
Culture and recreation	1,068,703	13,530	13,530	1,068,703	1,176,880	1,176,880	108,177
Community and economic development	2,168,257	4,368	4,368	2,168,257	873,220	1,816,440	(351,817)
General government	709,288	13,520	13,520	709,288	1,949,620	2,069,260	1,359,972
Debt service	203,125	-	-	203,125	481,610	481,610	278,485
Capital projects	2,135,365	-	-	2,135,365	1,985,000	2,830,210	694,845
Business type	<u>-</u>	<u>7,767,337</u>	<u>40,062</u>	<u>7,727,275</u>	<u>8,401,400</u>	<u>8,580,190</u>	<u>852,915</u>
Total disbursements	<u>10,973,228</u>	<u>7,887,835</u>	<u>160,560</u>	<u>18,700,503</u>	<u>19,593,000</u>	<u>21,893,110</u>	<u>3,192,607</u>
Excess (deficiency) of receipts over disbursements	(332,777)	(617,276)	(585)	(949,468)	189,474	(419,236)	530,232
Other financing sources, net	<u>311,208</u>	<u>1,724,232</u>	<u>-</u>	<u>2,035,440</u>	<u>-</u>	<u>311,470</u>	<u>(1,723,970)</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(21,569)	1,106,956	(585)	1,085,972	189,474	(107,766)	(1,193,738)
Cash balances beginning of year	<u>5,308,335</u>	<u>2,822,435</u>	<u>19,794</u>	<u>8,110,976</u>	<u>9,103,598</u>	<u>9,103,598</u>	<u>992,622</u>
Cash balances end of year	<u>\$ 5,286,766</u>	<u>\$ 3,929,391</u>	<u>\$ 19,209</u>	<u>\$ 9,196,948</u>	<u>\$ 9,293,072</u>	<u>\$ 8,995,832</u>	<u>\$ (201,116)</u>

See accompanying independent auditor's report.

City of Fort Madison
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. 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 \$2,300,110. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the community and economic development function.

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, 2012

	Special Revenue										Permanent	Total
	Unrestricted Gifts and Misc	Hotel/Motel Tax	Library Donations	Targeted Jobs	Emergency Tax Levy	Law Enforcement	Tobacco and ESDA Grants	Flood Damage	Police/Fire Retirement	Employee Benefits	Cemetery PC	
Receipts:												
Property tax	\$ -	\$ -	\$ -	\$ -	\$ 62,732	\$ -	\$ -	\$ -	\$ 429,634	\$ 832,139	\$ -	\$ 1,324,505
Other taxes	373	132,580	-	-	-	-	-	-	-	-	-	132,953
Use of money and property	6,068	-	2,058	-	-	-	-	6,096	1,830	-	-	16,052
Intergovernmental	188,826	-	-	983,373	-	69,276	700	51,404	-	-	-	1,293,579
Charges for service	82,453	-	-	-	-	-	-	-	-	-	-	82,453
Miscellaneous	76,726	-	8,562	-	-	-	-	-	-	-	3,512	88,800
Total receipts	<u>354,446</u>	<u>132,580</u>	<u>10,620</u>	<u>983,373</u>	<u>62,732</u>	<u>69,276</u>	<u>700</u>	<u>51,404</u>	<u>435,730</u>	<u>833,969</u>	<u>3,512</u>	<u>2,938,342</u>
Disbursements:												
Public safety	164,000	-	-	-	63,559	70,660	656	-	8,114	-	-	306,989
Health and social services	39,570	-	-	-	-	-	-	-	-	-	-	39,570
Culture and recreation	146,941	-	25,097	-	-	-	-	-	-	-	-	172,038
Community and economic development	82,001	-	-	983,373	-	-	-	-	-	-	-	1,065,374
General government	11,716	11,904	-	-	-	-	-	72,883	-	12,117	-	108,620
Total disbursements	<u>444,228</u>	<u>11,904</u>	<u>25,097</u>	<u>983,373</u>	<u>63,559</u>	<u>70,660</u>	<u>656</u>	<u>72,883</u>	<u>8,114</u>	<u>12,117</u>	<u>-</u>	<u>1,692,591</u>
Excess (deficiency) of receipts over disbursements	<u>(89,782)</u>	<u>120,676</u>	<u>(14,477)</u>	<u>-</u>	<u>(827)</u>	<u>(1,384)</u>	<u>44</u>	<u>(21,479)</u>	<u>427,616</u>	<u>821,852</u>	<u>3,512</u>	<u>1,245,751</u>
Other financing sources (uses):												
Operating transfer in (out)	<u>37,306</u>	<u>(43,516)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(419,764)</u>	<u>(814,336)</u>	<u>-</u>	<u>(1,240,310)</u>
Total other	<u>37,306</u>	<u>(43,516)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(419,764)</u>	<u>(814,336)</u>	<u>-</u>	<u>(1,240,310)</u>
Net change in cash balances	(52,476)	77,160	(14,477)	-	(827)	(1,384)	44	(21,479)	7,852	7,516	3,512	5,441
Cash balances beginning of year, restated	<u>283,026</u>	<u>41,388</u>	<u>121,524</u>	<u>70</u>	<u>28,352</u>	<u>(100)</u>	<u>52,970</u>	<u>63,688</u>	<u>144,858</u>	<u>258,829</u>	<u>196,770</u>	<u>1,191,375</u>
Cash balances end of year	<u>\$ 230,550</u>	<u>\$ 118,548</u>	<u>\$ 107,047</u>	<u>\$ 70</u>	<u>\$ 27,525</u>	<u>\$ (1,484)</u>	<u>\$ 53,014</u>	<u>\$ 42,209</u>	<u>\$ 152,710</u>	<u>\$ 266,345</u>	<u>\$ 200,282</u>	<u>\$ 1,196,816</u>
Cash Basis Fund Balances												
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200,282	\$ 200,282
Restricted	-	-	46,230	-	-	-	49,083	42,209	152,710	266,345	-	556,577
Committed	-	-	-	-	-	-	-	-	-	-	-	-
Assigned	230,550	118,548	60,817	70	27,525	-	3,931	-	-	-	-	441,441
Unassigned	-	-	-	-	-	(1,484)	-	-	-	-	-	(1,484)
Total cash basis fund balances	<u>\$ 230,550</u>	<u>\$ 118,548</u>	<u>\$ 107,047</u>	<u>\$ 70</u>	<u>\$ 27,525</u>	<u>\$ (1,484)</u>	<u>\$ 53,014</u>	<u>\$ 42,209</u>	<u>\$ 152,710</u>	<u>\$ 266,345</u>	<u>\$ 200,282</u>	<u>\$ 1,196,816</u>

See accompanying independent auditor's report.

**City of Fort Madison
Statement of Indebtedness
Year Ended June 30, 2012**

<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:									
Street improvement	05/01/98	4.20-4.90%	\$ 750,000	\$ 130,000	\$ -	\$ 65,000	\$ 65,000	\$ 6,338	\$ -
GO Bonds 2005 issue	10/05/05	3.75-4.00%	3,750,000	2,895,000	-	190,000	2,705,000	115,325	-
GO Bonds 2006 issue	12/01/06	3.75-4.30%	1,740,000	1,500,000	-	75,000	1,425,000	60,043	-
GO Bonds 2008 issue	06/01/08	3.65-4.45%	1,690,000	1,530,000	-	100,000	1,430,000	61,095	-
GO Bonds 2010A issue	02/01/10	1.00-3.40%	1,350,000	<u>1,240,000</u>	-	<u>125,000</u>	<u>1,115,000</u>	<u>30,420</u>	-
Total				<u>7,295,000</u>	<u>-</u>	<u>555,000</u>	<u>6,740,000</u>	<u>273,221</u>	<u>-</u>
Revenue bonds/notes:									
Sewer revenue	04/19/04	3.00%	700,000	500,000	-	32,000	468,000	15,000	-
Sewer revenue	10/01/08	3.00%	2,000,000	1,331,000	-	61,000	1,270,000	39,930	-
Water revenue	10/14/09	3.00%	9,672,000	9,474,192	84,808	116,000	9,443,000	284,854	-
Water revenue	11/18/09	3.00%	1,306,000	929,420	580	36,000	894,000	27,897	-
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	2,169,580	14,420	44,000	2,140,000	65,453	-
Water revenue	05/11/11	3.00%	2,700,000	681,970	1,277,265	55,000	1,904,235	42,861	-
Water revenue	10/26/11	3.00%	384,000	-	<u>371,000</u>	<u>8,000</u>	<u>363,000</u>	<u>3,037</u>	-
Total				<u>17,086,162</u>	<u>1,748,073</u>	<u>2,352,000</u>	<u>16,482,235</u>	<u>479,032</u>	<u>-</u>
Capital loan notes:									
Capital loan note - street sweeper	05/05/09	4.99%	154,680	<u>63,295</u>	<u>-</u>	<u>30,859</u>	<u>32,436</u>	<u>3,232</u>	<u>-</u>
Promissory note:									
Sustainability loan	04/20/12	3.00%	4,500	<u>-</u>	<u>4,500</u>	<u>-</u>	<u>4,500</u>	<u>-</u>	<u>-</u>
Urban renewal TIF:									
Bluff subdivision	07/01/11	5.00%	291,208	<u>-</u>	<u>291,208</u>	<u>-</u>	<u>291,208</u>	<u>-</u>	<u>14,500</u>
Total of all debt				<u>\$ 24,444,457</u>	<u>\$ 2,043,781</u>	<u>\$ 2,937,859</u>	<u>\$ 23,550,379</u>	<u>\$ 755,485</u>	<u>\$ 14,500</u>

See accompanying independent auditor's report.

**City of Fort Madison
Bond and Note Maturities
June 30, 2012**

Year Ending June 30.	General Obligation Bonds											
	<u>Street Improvement</u>		<u>General Obligation</u>		<u>General Obligation</u>		<u>General Obligation</u>		<u>Sewer Utility Project</u>		<u>Total</u>	
	<u>Issued May 1, 1998</u>		<u>Issued October 5, 2005</u>		<u>Issued December 1,</u>		<u>Bonds</u>		<u>Issued June 1, 2008</u>			<u>Issued February 2, 2010</u>
Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate		Amount
2013	4.90%	\$ 65,000	4.00%	\$ 200,000	3.75%	\$ 75,000	4.00%	\$ 110,000	1.45%	\$ 125,000	\$ 575,000	
2014	-	-	4.00%	210,000	3.75%	80,000	4.00%	115,000	1.85%	130,000	535,000	
2015	-	-	4.00%	210,000	3.75%	85,000	4.00%	115,000	2.25%	135,000	545,000	
2016	-	-	4.00%	220,000	3.80%	85,000	3.65%	125,000	2.50%	135,000	565,000	
2017	-	-	4.00%	200,000	3.85%	90,000	3.75%	125,000	2.80%	140,000	555,000	
2018	-	-	4.00%	210,000	3.90%	95,000	3.80%	140,000	3.00%	145,000	590,000	
2019	-	-	4.00%	185,000	3.95%	100,000	3.90%	140,000	3.25%	150,000	575,000	
2020	-	-	4.00%	190,000	4.00%	105,000	4.00%	150,000	3.40%	155,000	600,000	
2021	-	-	4.00%	195,000	4.05%	110,000	4.10%	95,000	-	-	400,000	
2022	-	-	4.00%	210,000	4.10%	110,000	4.15%	40,000	-	-	360,000	
2023	-	-	4.00%	215,000	4.15%	115,000	4.20%	40,000	-	-	370,000	
2024	-	-	4.00%	225,000	4.20%	120,000	4.25%	45,000	-	-	390,000	
2025	-	-	4.00%	235,000	4.25%	125,000	4.30%	45,000	-	-	405,000	
2026	-	-	-	-	4.30%	130,000	4.35%	45,000	-	-	175,000	
2027	-	-	-	-	-	-	4.40%	50,000	-	-	50,000	
2028	-	-	-	-	-	-	4.45%	50,000	-	-	50,000	
		<u>\$ 65,000</u>		<u>\$ 2,705,000</u>		<u>\$ 1,425,000</u>		<u>\$ 1,430,000</u>		<u>\$ 1,115,000</u>	<u>\$ 6,740,000</u>	

See accompanying independent auditor's report.

**City of Fort Madison
Bond and Note Maturities
June 30, 2012**

Revenue Bonds															
Year Ending June 30.	Sewer		Sewer		Water		Water		Water		Water		Water		Total
	Issued April 19, 2004		Issued October 1, 2008		Issued October 14, 2009		Issued November 18, 2009		Issued December 23, 2009		Issued May 11, 2011		Issued October 26, 2011		
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
2013	3.00%	\$ 33,000	3.00%	\$ 63,000	3.00%	\$ 120,000	3.00%	\$ 51,000	3.00%	\$ 82,000	3.00%	\$ 56,000	3.00%	\$ 8,000	\$ 413,000
2014	3.00%	34,000	3.00%	65,000	3.00%	124,000	3.00%	52,000	3.00%	84,000	3.00%	58,000	3.00%	9,000	426,000
2015	3.00%	35,000	3.00%	67,000	3.00%	128,000	3.00%	54,000	3.00%	87,000	3.00%	60,000	3.00%	9,000	440,000
2016	3.00%	36,000	3.00%	69,000	3.00%	214,000	3.00%	56,000	3.00%	90,000	3.00%	62,000	3.00%	9,000	536,000
2017	3.00%	37,000	3.00%	71,000	3.00%	221,000	3.00%	57,000	3.00%	93,000	3.00%	64,000	3.00%	10,000	553,000
2018	3.00%	38,000	3.00%	73,000	3.00%	228,000	3.00%	59,000	3.00%	96,000	3.00%	66,000	3.00%	10,000	570,000
2019	3.00%	39,000	3.00%	75,000	3.00%	235,000	3.00%	61,000	3.00%	99,000	3.00%	68,000	3.00%	10,000	587,000
2020	3.00%	41,000	3.00%	77,000	3.00%	243,000	3.00%	63,000	3.00%	102,000	3.00%	70,000	3.00%	11,000	607,000
2021	3.00%	42,000	3.00%	80,000	3.00%	251,000	3.00%	65,000	3.00%	106,000	3.00%	73,000	3.00%	11,000	628,000
2022	3.00%	43,000	3.00%	82,000	3.00%	259,000	3.00%	67,000	3.00%	109,000	3.00%	75,000	3.00%	11,000	646,000
2023	3.00%	44,000	3.00%	85,000	3.00%	267,000	3.00%	70,000	3.00%	113,000	3.00%	78,000	3.00%	12,000	669,000
2024	3.00%	46,000	3.00%	87,000	3.00%	276,000	3.00%	72,000	3.00%	116,000	3.00%	80,000	3.00%	12,000	689,000
2025	-	-	3.00%	90,000	3.00%	285,000	3.00%	74,000	3.00%	120,000	3.00%	83,000	3.00%	12,000	664,000
2026	-	-	3.00%	93,000	3.00%	294,000	3.00%	77,000	3.00%	124,000	3.00%	85,000	3.00%	13,000	686,000
2027	-	-	3.00%	95,000	3.00%	304,000	3.00%	16,000	3.00%	128,000	3.00%	88,000	3.00%	13,000	644,000
2028	-	-	3.00%	98,000	3.00%	314,000	-	-	3.00%	132,000	3.00%	91,000	3.00%	14,000	649,000
2029	-	-	-	-	3.00%	324,000	-	-	3.00%	136,000	3.00%	94,000	3.00%	14,000	568,000
2030	-	-	-	-	3.00%	334,000	-	-	3.00%	141,000	3.00%	97,000	3.00%	15,000	587,000
2031	-	-	-	-	3.00%	433,000	-	-	3.00%	145,000	3.00%	100,000	3.00%	15,000	693,000
2032	-	-	-	-	3.00%	447,000	-	-	3.00%	37,000	3.00%	103,000	3.00%	15,000	602,000
2033	-	-	-	-	3.00%	462,000	-	-	-	3.00%	107,000	3.00%	16,000	585,000	
2034	-	-	-	-	3.00%	477,000	-	-	-	3.00%	110,000	3.00%	16,000	603,000	
2035	-	-	-	-	3.00%	492,000	-	-	-	3.00%	114,000	3.00%	17,000	623,000	
2036	-	-	-	-	3.00%	508,000	-	-	-	3.00%	22,235	3.00%	18,000	548,235	
2037	-	-	-	-	3.00%	525,000	-	-	-	-	-	3.00%	18,000	543,000	
2038	-	-	-	-	3.00%	542,000	-	-	-	-	-	3.00%	19,000	561,000	
2039	-	-	-	-	3.00%	559,000	-	-	-	-	-	3.00%	19,000	578,000	
2040	-	-	-	-	3.00%	577,000	-	-	-	-	-	3.00%	7,000	584,000	
		<u>\$ 468,000</u>		<u>\$ 1,270,000</u>		<u>\$ 9,443,000</u>		<u>\$ 894,000</u>		<u>\$ 2,140,000</u>		<u>\$ 1,904,235</u>		<u>\$ 363,000</u>	<u>\$ 16,482,235</u>

See accompanying independent auditor's report.

City of Fort Madison
Bond and Note Maturities
June 30, 2012

Year Ending June 30,	<u>Urban Renewal TIFs</u>		<u>Capital Loan Note</u>		<u>Promissory Note</u>	
	<u>Bluff Subdivision</u> <u>Issued July 1, 2011</u>		<u>Street Sweeper</u> <u>Issued May 5, 2009</u>		<u>Sustainability Loan</u> <u>Sustainability Loan</u>	
	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>
2013	5.00%	\$ 4,000	4.99%	\$ 32,436	3.00%	\$ 4,500
2014	5.00%	10,000	-	-	-	-
2015	5.00%	11,000	-	-	-	-
2016	5.00%	11,000	-	-	-	-
2017	5.00%	12,000	-	-	-	-
2018	5.00%	12,000	-	-	-	-
2019	5.00%	13,000	-	-	-	-
2020	5.00%	14,000	-	-	-	-
2021	5.00%	14,000	-	-	-	-
2022	5.00%	15,000	-	-	-	-
2023	5.00%	16,000	-	-	-	-
2024	5.00%	17,000	-	-	-	-
2025	5.00%	18,000	-	-	-	-
2026	5.00%	18,000	-	-	-	-
2027	5.00%	19,000	-	-	-	-
2028	5.00%	20,000	-	-	-	-
2029	5.00%	21,000	-	-	-	-
2030	5.00%	22,000	-	-	-	-
2031	5.00%	<u>24,208</u>	-	<u>-</u>	-	<u>-</u>
		<u>\$ 291,208</u>		<u>\$ 32,436</u>		<u>\$ 4,500</u>

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>2012</u>	<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	\$ 3,499,904	\$ 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	907,127	941,649	573,331	438,351	409,393	345,868	311,332	113,805	139,318	210,536
Other city tax	1,414,245	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	185,822	178,113	172,748	216,485	215,412	266,201	139,397	103,055	119,138	189,267
Licenses and permits	95,787	132,976	104,821	163,030	110,357	133,055	50,615	81,942	62,527	46,462
Intergovernmental	3,603,496	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	205,734	177,793	177,517	170,632	177,767	221,502	191,730	192,153	209,909	235,452
Special assessments	5,233	-	-	-	-	-	1,130	917	596	1,115
Miscellaneous	<u>723,103</u>	<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>\$10,640,451</u>	<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	\$ 3,505,490	\$ 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	1,143,332	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	39,668	40,644	38,434	38,786	39,359	41,334	36,498	37,616	39,599	39,589
Culture and recreation	1,068,703	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	2,168,257	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	709,288	812,807	819,443	813,101	524,451	667,301	1,906,586	1,821,715	622,754	628,539
Debt service	203,125	266,929	265,293	609,529	625,889	559,670	635,772	677,883	2,015,079	1,880,074
Capital projects	<u>2,135,365</u>	<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>\$10,973,228</u>	<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, 2012

<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:			
Pass-through from Iowa Finance Authority			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	D0201R	\$ <u>537,476</u>
U.S. Department of Transportation programs:			
Federal Aviation Administration Airport Improvement Program	20.106	3-19-0036-07	<u>282,483</u>
Subtotal U.S. Department of Transportation direct programs			<u>282,483</u>
Pass-through from Iowa Department of Transportation:			
Amtrak Station Restoration	20.205	STP-ES-2697(615)-8I-56	247,556
Amtrak Station Elevation	20.205	STP-ES-2697(619)-8I-56	21,389
Fort Madison Safe Routes to School Plan	20.205	STRS-U-2697(620)-8U-56	67,948
ARRA - Federal Highway Stimulus Program Project	20.205	ESL-2697(618)--7S-56	4,716
Avenue D Bridge Replacement	20.205	BROS-2697(621)--8J-56	28,500
Pass-through from Iowa Department of Public Safety/Governor's Traffic Safety Bureau:			
Alcohol Incentive Grant	20.601	PAP 11-410 Task 30	9,053
Alcohol Incentive Grant	20.601	PAP 12-410 Task 33	<u>16,218</u>
Subtotal U.S. Department of Transportation pass-through programs			<u>395,380</u>
Total U.S. Department of Transportation			<u>677,863</u>
U.S. Department of Housing and Urban Development programs:			
Pass-through from Iowa Department of Economic Development:			
Pass-through to Fort Madison Main Street			
Community Development Block Grant	14.228	10-DTR-007	<u>10,064</u>
U.S. Department of Homeland Security program:			
Pass-through from Iowa Homeland Security and Emergency Management Division			
Federal Emergency Management Agency	97.036	DR-1763-IA	29,591
Federal Emergency Management Agency	97.036	DR-1928-IA	<u>11,139</u>
Total U.S. Department of Homeland Security			<u>40,730</u>
U.S. Department of Commerce:			
Public works: Infrastructure improvements (sanitary sewer) to the southwest industrial corridor	11.300	05-01-05245	<u>9,809</u>
U.S. Department of the Interior program:			
Pass-through from State Historical Society of Iowa			
Historic Preservation Grants in Aid	15.904	2011-04	<u>12,604</u>
U.S. Department of Justice programs:			
Bureau of Justice Assistance - Bulletproof Vest Partnership Program	16.607	08041327	1,210
Pass-through to Fort Madison Community School District			
Community Policing Grants - Secure our Schools (SOS) Program	16.710	2011CKWX0031	66,563
Pass-through from Iowa Governor's Office of Drug Control Policy and City of Keokuk, Iowa			
ARRA - Byrne/Iowa-Justice Assistance Grant (JAG)	16.803	09-JAG/ARRA-16938C	<u>30,000</u>
Total U.S. Department of Justice			<u>97,773</u>

(Continued)

See accompanying independent auditor's report.

City of Fort Madison
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

<u>Federal Agency/Pass-Through Agency Program - Grant Title</u>	<u>CFDA Number</u>	<u>Grantor Program Number</u>	<u>Program Expenditures</u>
Corporation for National and Community Service program:			
Retired Senior Volunteer Program	94.002	09SRNIA004	\$ 12,572
Retired Senior Volunteer Program	94.002	12SRNIA002	<u>5,588</u>
Total Corporation for National and Community Service program			<u>18,160</u>
U.S. Department of Labor program:			
Pass-through Generations Area Agency on Aging			
Senior Community Service Employment Program	17.235		<u>1,957</u>
Total expenditures of federal awards			<u>\$ 1,406,436</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>
Siemens	Blades for wind turbines	810
Fort Madison Community Hospital	Healthcare	535
Pinnacle Foods Inc.	Canned meats and shelf stable microwavables	520
Iowa State Penitentiary	Corrections facility	500
The Scotts Co.	Consumer products for home, lawn and garden	425
Inhance Corporation	Healthcare - nursing homes	357
Fort Madison Community School District	Education	356
Climax Molybdenum Company, Division of AMAX	Molybdenum chemicals and sulfuric acid	145
E.I. Dupont de Nemours	Industrial and automotive sealants, finishes, resins and thinners	115
Bagcraft Papercon	Foodservice packaging	96
Burrows Paper Corp. Packaging Div.	Paper and packaging solutions	71
Cryotech Deicing Technology.	Acetate-based highway, commercial and airport runway deicers	54

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	12
Schools:	
Public	4
Parochial	2
2011-12 Tax Rates:	
City	14.97022
County	9.00170
School	14.60973
Merged Area College	1.01878
Other	<u>.66872</u>
Total	<u>40.26915</u>
Population:	
2010	11,051
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.



C P A A S S O C I A T E S P C
C E R T I F I E D P U B L I C A C C O U N T A N T S

401 South Roosevelt Avenue - Suite 2A, PO Box 547, Burlington, IA 52601 / 319 752 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, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 16, 2012. 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

The management of the City is responsible for establishing and maintaining effective 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. 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.

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'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

October 16, 2012



C P A A S S O C I A T E S P C
C E R T I F I E D P U B L I C A C C O U N T A N T S

401 South Roosevelt Avenue - Suite 2A, PO Box 547, Burlington, IA 52601 / 319 752 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, 2012. 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, 2012.

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-12 and III-B-12 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

October 16, 2012

**City of Fort Madison
Schedule of Findings
Year Ended June 30, 2012**

Part I: Summary of the Independent Auditor's Results

- (a) Qualified 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, 2012**

Part II: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES

II-A-12 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-12 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, 2012**

Part II: Findings Related to the Financial Statements (continued)

II-C-12 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 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 this 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-12 Segregation of Duties over Federal Receipts - The City did not properly segregate collection, deposit and record keeping for receipts, including those related to federal programs. See item II-B-12.

III-B-12 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-12.

**City of Fort Madison
Schedule of Findings
Year Ended June 30, 2012**

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-12 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

IV-B-12 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	\$ 3,266

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-12 Bonds and Revenue Notes - The water user charges and sewer user charges were not at a level that produces and maintains net revenues equal to at least 110% of principal and interest requirements due in the same year as required by the water revenue bond resolution and sewer revenue bond resolution.

Recommendation - Water user charges and sewer user charges need to be at a level that produces and maintains net revenues equal to at least 110% of principal and interest requirements due in the same year as required by the water revenue bond resolution and sewer revenue bond resolution.

Response - The City has raised sewer user charges for the next fiscal year. The City will consider a rate increase for water user charges.

Conclusion - Response accepted.

IV-D-12 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-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 insure that the coverage is adequate for current operations.

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

IV-G-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.

**City of Fort Madison
Schedule of Findings
Year Ended June 30, 2012**

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

IV-H-12 Certified Budget - Disbursements during the year ended June 30, 2012 exceeded the amount budgeted in the community and economic development function. 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-I-12 Financial Condition - At June 30, 2012, the following funds had deficit balances:

<u>Fund</u>	<u>Amount</u>
Special Revenue:	
Law Enforcement	\$ 1,484
Capital Projects	439,700

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.

IV-J-12 Vacation Hours - Employees are accruing more vacation time than the maximum hours allowed to be carried over each year per their employee contract.

Recommendation - We recommend that the City evaluate why employees are exceeding the maximum carryover limit and only allow employees to carryover the maximum number of hours allowed by their employee contract.

Response - We will follow the policy and investigate the reasons employees have exceeded the maximum carryover limit.

Conclusion - Response accepted.

**City of Fort Madison
Schedule of Findings
Year Ended June 30, 2012**

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

IV-K-12 Delinquent Utility Accounts - At June 30, 2012, ten employees or council members had delinquent utility accounts.

Recommendation - We recommend that the City emphasize to employees and council members that they are setting an example to the community by their actions.

Response - We will encourage employees and council members to pay their utility bills by their due date.

Conclusion - Response accepted.

IV-L-12 Nonprofit Utility Accounts - During utility testing we noted that three non-profit organizations were not being charged sales tax or the integrated water service tax.

Recommendation - We recommend that the City review all non-profit utility accounts for proper charges of sales tax and integrated water service tax.

Response - We will review all non-profit utility accounts.

Conclusion - Response accepted.

IV-M-12 Garbage Utilities - During utility testing, a residential account tested was not charged for solid waste services. Through inquiries, we found that residents are not charged for solid waste services if they are away from their address for more than 30 days. The City does not have a resolution stating this policy.

Recommendation - We recommend that the City pass a resolution for this policy.

Response - We will consider this.

Conclusion - Response accepted.

City of Fort Madison
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2012

Prior Audit Findings for Federal Awards

SIGNIFICANT DEFICIENCIES:

CFDA Number 66.468: Capitalization Grants for Drinking Water State Revolving Funds
Pass-through Agency Number: D0201R
Federal Award Year: 2010
U.S. Environmental Protection Agency
Passed through Iowa Finance Authority

CFDA Number 20.205: Federal Highway Administration
Federal Award Years: 2007, 2009
U.S. Department of Transportation
Passed through Iowa Finance Authority

- III-A-11 Segregation of Duties over Federal Receipts - City of Fort Madison did not properly segregate collection, deposit and record keeping 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-12 in the current year findings.

- III-B-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.

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