

**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, 2014**

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## City of Fort Madison

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brad Randolph	Mayor	January, 2016
Chris Greenwald	Council Member	January, 2016
Mark Lair	Council Member	October, 2014
Kevin Rink	Council Member	January, 2016
Travis Seidel	Council Member	January, 2016
Rusty Andrews	Council Member	January, 2018
Jason Huppert	Council Member	January, 2018
Brian Wright	Council Member	January, 2018
Byron D. Smith	City Manager	August, 2014
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



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## **Independent Auditor's Report**

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

### Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the presentation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

### *Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units*

The financial statements do not include the financial data for the City's legally separate component units. Accounting principles applicable to the cash basis of accounting require the financial data for those component units be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity which include the financial data for its component units. The City has not issued such reporting entity financial statements. The amounts by which this departure would affect the receipts, disbursements and cash balances of the aggregate discretely presented component units has not been determined.

### *Adverse Opinion*

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City as of June 30, 2014, or the changes in cash basis financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

### *Unmodified Opinions*

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting as described in Note 1.

## Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## Other Matters

### *Supplementary and Other Information*

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 third paragraph of this report, the financial statements for the 11 years ended June 30, 2013 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. 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, *Audit of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic 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.

Other Matters (continued)

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 5 through 11 and 29 through 30, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2014 on our consideration of the City's internal control over financial reporting and on 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*CPA Associates PC*

December 16, 2014

**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, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

**2014 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities increased 195%, or \$20,309,421, from fiscal 2013 to fiscal 2014. Capital grants and contributions and bond proceeds increased \$13,656,865 and \$6,000,000, respectively.
- Disbursements of the City's governmental activities increased 26%, or \$2,722,575, from fiscal 2013 to fiscal 2014. Culture and recreation, community and economic development, general government and capital projects increased \$129,320, \$1,381,688, \$506,304 and \$687,824, respectively.
- The City's total cash basis net assets increased 222%, or \$17,255,243, from June 30, 2013 to June 30, 2014. Of this amount, the cash basis net position of the governmental activities increased \$17,574,177 and the cash basis net position of business type activities decreased \$318,934.

**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 Cash Basis Statement of Activities and Net Position. 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 financial statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.
- Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness. 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, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

**REPORTING THE CITY'S FINANCIAL ACTIVITIES**

*Government-wide Financial Statement*

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

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

The Cash Basis Statement of Activities and Net Position 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 those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, 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 separate 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.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$5,193,296 to \$22,767,473. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

	Changes in Cash Basis Net Position of Governmental Activities	
	Year Ended June 30,	
	<u>2014</u>	<u>2013</u>
Receipts:		
Program receipts:		
Charges for services	\$ 385,130	\$ 397,208
Operating grants, contributions and restricted interest	2,150,712	1,628,232
Capital grants and contributions	14,707,557	1,050,692
General receipts:		
Property tax	4,147,899	3,943,325
Local option sales tax	1,107,926	1,129,747
Tax increment financing	818,967	799,143
Unrestricted interest on investments	159,817	71,019
Bond proceeds	6,000,000	-
Other general receipts	<u>1,232,555</u>	<u>1,381,776</u>
Total receipts	<u>30,710,563</u>	<u>10,401,142</u>
Disbursements:		
Public safety	3,551,493	3,620,281
Public works	1,179,219	1,137,656
Health and social services	47,497	39,639
Culture and recreation	1,158,641	1,029,321
Community and economic development	3,594,469	2,212,781
General government	1,319,860	813,556
Debt service	261,091	224,285
Capital projects	<u>2,149,126</u>	<u>1,461,302</u>
Total disbursements	<u>13,261,396</u>	<u>10,538,821</u>
Change in cash basis net position before transfers	17,449,167	(137,679)
Transfers, net	<u>125,010</u>	<u>25,000</u>
Change in cash basis net position	17,574,177	(112,679)
Cash basis net position beginning of year	<u>5,193,296</u>	<u>5,305,975</u>
Cash basis net position end of year	<u>\$ 22,767,473</u>	<u>\$ 5,193,296</u>

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

The City's total receipts for governmental activities increased by 195%, or \$20,309,421. The total cost of all programs and services increased by \$2,722,575, or 26%, with no new programs added this year.

The cost of all governmental activities this year was \$13,261,396 compared to \$10,538,821 last year. However, as shown in the statement of activities and net position on page 12, the amount that our taxpayers ultimately financed for these activities through City taxes was \$3,982,003 because some of the cost was paid by those directly benefited from the programs (\$385,130) or by other governments and organizations that subsidized certain programs with grants and contributions (\$16,858,269). Overall, the City's governmental program receipts, including intergovernmental aid and fees for service, increased in 2014 from \$3,076,132 to \$17,243,399, principally due to an increase in capital grants and contributions.

	Change in Cash Basis of Net Position of Business Type Activities	
	Year Ended June 30,	
	<u>2014</u>	<u>2013</u>
Receipts:		
Program receipts:		
Water charges	\$ 2,543,414	\$ 2,609,735
Sewer charges	1,964,923	2,027,452
Solid waste charges	774,457	733,002
Operating grants, contributions, and restricted interest	489,000	354,682
General receipts:		
Unrestricted investment earnings	29,768	51,757
Bond proceeds	180,609	275,012
Miscellaneous receipts	141,265	143,375
Total receipts	<u>6,123,436</u>	<u>6,195,015</u>
Disbursements:		
Water	2,991,775	4,507,152
Sewer	2,573,757	2,300,193
Solid waste	751,828	710,849
Total disbursements	<u>6,317,360</u>	<u>7,518,194</u>
Change in cash basis net position before transfers	(193,924)	(1,323,179)
Transfers, net	<u>(125,010)</u>	<u>(25,000)</u>
Change in cash basis net position	(318,934)	(1,348,179)
Cash basis net position beginning of year	<u>2,562,003</u>	<u>3,910,182</u>
Cash basis net position end of year	<u>\$ 2,243,069</u>	<u>\$ 2,562,003</u>

Total business type activities receipts for the fiscal year were \$6,123,436 compared to \$6,195,015 last year. This decrease was due primarily to decrease in bond proceeds. The cash balance decreased by \$318,934 from the prior year largely due to bond proceeds received in fiscal 2014. Total disbursements for the fiscal year decreased by 16% to a total of \$6,317,360.

**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 \$22,767,473, an increase of \$17,574,177 from last year's total of \$5,193,296. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$156,117 to \$1,593,207. The decrease was due to unexpected expenditures related to various projects funded from the General Fund.
- The Special Revenue, Road Use Fund cash balance decreased by \$842 to \$2,554.
- The Special Revenue, Local Option Sales Tax Fund 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 \$816,586, a decrease of \$123,803 from the previous year.
- The Special Revenue, Urban Renewal TIF Fund was established in previous years to account for a major urban renewal project within the City's business district. The cash balance was \$76,971, a decrease of \$1,215,285. The decrease is due to the early retirement of debt related to a prior urban renewal project.
- The Debt Service Fund cash balance increased \$1,378 to \$46,824.
- The Capital Projects Fund cash balance increased \$19,033,327 to a balance of \$18,876,007 due to bond proceeds and a payment from the State of Iowa to take over maintenance of Iowa Highway 2 through the City.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased \$254,818 to \$110,678, due primarily to a reduction of staff in the water department.
- The Sewer Fund cash balance decreased \$606,331 to \$1,886,929, due primarily to expenses related to major repairs to the sewer infrastructure.
- The Solid Waste Fund cash balance increased \$3,882 to \$211,826.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its operating budget. The amendment was approved on May 20, 2014 and resulted in an increase in revenues of \$15,080,200 and an increase in operating disbursements of \$4,137,200. Increases in revenues included licenses and permits, intergovernmental, and miscellaneous. Increases in expenditures included public works, health and social services, culture and recreation, community and economic development, general government, capital projects and business type.

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

**DEBT ADMINISTRATION**

At June 30, 2014, the City had \$27,021,422 in bonds and other long-term debt compared to \$23,055,499 last year as shown below.

	Outstanding Debt at Year-End	
	June 30, 2014	June 30, 2013
General obligation bonds	\$ 10,360,000	\$ 6,165,000
Revenue bonds	16,203,000	16,395,247
Capital loan notes	181,214	208,044
Urban renewal TIFs	<u>277,208</u>	<u>287,208</u>
Total	<u>\$ 27,021,422</u>	<u>\$ 23,055,499</u>

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, capital loan notes and TIF debt of \$10,818,422 is well below the City's \$20.6 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 2015 fiscal year budget, tax rates, and fees that will be charged for various City activities. The Siemens layoff has now been countered with a return of most of those workers to their jobs. The return of these workers has helped the Lee County unemployment rate improve from 7.4% in June 2013 to 7.3% in June 2014. The rates will hopefully continue to decline in the upcoming years. The beginning of construction of a new fertilizer manufacturing plant, to be built just a few miles north of the City in Lee County, has been a big factor in creating more jobs in this 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 is now complete on the State's new prison complex in Fort Madison. The state anticipates opening the facility in early 2015. This is another positive sign of economic activity. A nonprofit group led by Fort Madison Economic Development has secured funds to build a sports complex with baseball and soccer fields. The complex is almost completed.

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 David A. Varley, City Manager, City of Fort Madison, P.O. Box 240, Fort Madison, Iowa 52627.

## **BASIC FINANCIAL STATEMENTS**

**City of Fort Madison**  
**Cash Basis Statement of Activities and Net Position**  
**As of and for the Year Ended June 30, 2014**

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Disbursements	Charges for Service and Sales	Operating Grants, Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Functions / Programs:</b>							
Governmental activities:							
Public safety	\$ 3,551,493	\$ 34,030	\$ 404,461	\$ -	\$ (3,113,002)	\$ -	\$ (3,113,002)
Public works	1,179,219	24,678	1,112,962	-	(41,579)	-	(41,579)
Health and social services	47,497	-	24,872	-	(22,625)	-	(22,625)
Culture and recreation	1,158,641	177,709	103,038	-	(877,894)	-	(877,894)
Community and economic development	3,594,469	20,071	8,500	-	(3,565,898)	-	(3,565,898)
General government	1,319,860	128,642	496,879	-	(694,339)	-	(694,339)
Debt service	261,091	-	-	-	(261,091)	-	(261,091)
Capital projects	<u>2,149,126</u>	<u>-</u>	<u>-</u>	<u>14,707,557</u>	<u>12,558,431</u>	<u>-</u>	<u>12,558,431</u>
Total governmental activities	<u>13,261,396</u>	<u>385,130</u>	<u>2,150,712</u>	<u>14,707,557</u>	<u>3,982,003</u>	<u>-</u>	<u>3,982,003</u>
Business type activities:							
Water	2,991,775	2,543,414	486,750	-	-	38,389	38,389
Sewer	2,573,757	1,964,923	2,250	-	-	(606,584)	(606,584)
Solid waste	<u>751,828</u>	<u>774,457</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,629</u>	<u>22,629</u>
Total business type activities	<u>6,317,360</u>	<u>5,282,794</u>	<u>489,000</u>	<u>-</u>	<u>-</u>	<u>(545,566)</u>	<u>(545,566)</u>
Total	<u>\$ 19,578,756</u>	<u>\$ 5,667,924</u>	<u>\$ 2,639,712</u>	<u>\$ 14,707,557</u>	<u>3,982,003</u>	<u>(545,566)</u>	<u>3,436,437</u>
<b>General Receipts and Transfers:</b>							
Property and other city tax levied for:							
General purposes					4,016,520	-	4,016,520
Debt service					131,379	-	131,379
Tax increment financing					818,967	-	818,967
Local option sales tax					1,107,926	-	1,107,926
Unrestricted investment earnings					159,817	29,768	189,585
Bond proceeds					6,000,000	180,609	6,180,609
Transfers					125,010	(125,010)	-
Miscellaneous					<u>1,232,555</u>	<u>141,265</u>	<u>1,373,820</u>
Total general receipts and transfers					<u>13,592,174</u>	<u>226,632</u>	<u>13,818,806</u>
Change in cash basis net position					17,574,177	(318,934)	17,255,243
Cash basis net position beginning of year					<u>5,193,296</u>	<u>2,562,003</u>	<u>7,755,299</u>
Cash basis net position end of year					<u>\$ 22,767,473</u>	<u>\$ 2,243,069</u>	<u>\$ 25,010,542</u>
<b>Cash Basis Net Position</b>							
Restricted:							
Nonexpendable					\$ 205,559	\$ -	\$ 205,559
Expendable					21,058,440	2,833,144	23,891,584
Unrestricted					<u>1,503,474</u>	<u>(590,075)</u>	<u>913,399</u>
Total cash basis net position					<u>\$ 22,767,473</u>	<u>\$ 2,243,069</u>	<u>\$ 25,010,542</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, 2014**

	General	Special Revenue			Debt Service	Capital Projects	Other Nonmajor Governmental	Total
		Road Use	Local Option Sales Tax	Urban Renewal TIF				
<b>Receipts:</b>								
Property tax	\$ 2,148,160	\$ -	\$ -	\$ -	\$ 131,379	\$ 97,551	\$ 1,440,022	\$ 3,817,112
Tax increment financing	-	-	-	818,967	-	-	-	818,967
Other city taxes	105,524	-	1,107,926	-	-	-	225,263	1,438,713
Use of money and property	72,983	-	-	12,158	-	107,069	10,003	202,213
Licenses and permits	129,398	-	-	-	-	-	-	129,398
Intergovernmental	15,000	1,103,484	-	-	-	828,783	1,191,440	3,138,707
Charges for services	135,200	-	-	-	-	-	47,028	182,228
Special assessments	20,071	-	-	-	-	-	-	20,071
Miscellaneous	112,941	33,219	-	-	-	13,892,325	924,669	14,963,154
	<u>2,739,277</u>	<u>1,136,703</u>	<u>1,107,926</u>	<u>831,125</u>	<u>131,379</u>	<u>14,925,728</u>	<u>3,838,425</u>	<u>24,710,563</u>
Total receipts								
<b>Disbursements:</b>								
Governmental activities:								
Public safety	3,434,005	-	-	-	-	-	133,465	3,567,470
Public works	59,046	1,128,378	-	-	-	-	-	1,187,424
Health and social services	360	-	-	-	-	-	47,137	47,497
Culture and recreation	901,408	-	-	-	-	-	260,391	1,161,799
Community and economic development	151,331	-	-	2,046,410	-	-	1,400,917	3,598,658
General government	789,903	-	-	-	-	-	531,266	1,321,169
Debt service	-	-	-	-	261,091	-	-	261,091
Capital projects	-	-	-	-	-	2,149,126	-	2,149,126
Total disbursements	<u>5,336,053</u>	<u>1,128,378</u>	<u>-</u>	<u>2,046,410</u>	<u>261,091</u>	<u>2,149,126</u>	<u>2,373,176</u>	<u>13,294,234</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	(2,596,776)	8,325	1,107,926	(1,215,285)	(129,712)	12,776,602	1,465,249	11,416,329
Other financing sources (uses):								
Bond proceeds	-	-	-	-	-	6,000,000	-	6,000,000
Operating transfers in (out)	<u>2,440,659</u>	<u>(9,167)</u>	<u>(1,231,729)</u>	<u>-</u>	<u>131,090</u>	<u>256,725</u>	<u>(1,462,568)</u>	<u>125,010</u>
Net change in cash balances	(156,117)	(842)	(123,803)	(1,215,285)	1,378	19,033,327	2,681	17,541,339
Cash balances beginning of year	<u>1,749,324</u>	<u>3,396</u>	<u>940,389</u>	<u>1,292,256</u>	<u>45,446</u>	<u>(157,320)</u>	<u>1,277,610</u>	<u>5,151,101</u>
Cash balances end of year	<u>\$ 1,593,207</u>	<u>\$ 2,554</u>	<u>\$ 816,586</u>	<u>\$ 76,971</u>	<u>\$ 46,824</u>	<u>\$ 18,876,007</u>	<u>\$ 1,280,291</u>	<u>\$ 22,692,440</u>
<b>Cash Basis Fund Balances</b>								
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 205,559	\$ 205,559
Restricted	-	2,554	816,586	76,971	46,824	19,446,333	669,172	21,058,440
Assigned	-	-	-	-	-	124,269	698,916	823,185
Unassigned	<u>1,593,207</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(694,595)</u>	<u>(293,356)</u>	<u>605,256</u>
<b>Total cash basis fund balances</b>	<u>\$ 1,593,207</u>	<u>\$ 2,554</u>	<u>\$ 816,586</u>	<u>\$ 76,971</u>	<u>\$ 46,824</u>	<u>\$ 18,876,007</u>	<u>\$ 1,280,291</u>	<u>\$ 22,692,440</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 Cash Basis Statement of Activities and Net Position**  
**Governmental Funds**  
**As of and for the Year Ended June 30, 2014**

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**Total governmental funds cash balances (page 13)** \$ 22,692,440

*Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position 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. A portion of the cash balance of the Internal Service Fund is included in governmental activities in the Cash Basis Statement of Activities and Net Position.

75,033

**Cash basis net position of governmental activities (page 12)** \$ 22,767,473

**Change in cash balances (page 13)** \$ 17,541,339

*Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position 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. A portion of the change in the cash balance of the Internal Service Fund is reported with governmental activities in the Cash Basis Statement of Activities and Net Position.

32,838

**Change in cash basis net position of governmental activities (page 12)** \$ 17,574,177

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, 2014**

	Enterprise			Total	Internal
	Water	Sewer	Solid Waste		Service Employee Health
Operating Receipts:					
Charges for service	\$ 2,531,310	\$ 1,957,602	\$ 769,703	\$ 5,258,615	\$ 165,477
Total operating receipts	<u>2,531,310</u>	<u>1,957,602</u>	<u>769,703</u>	<u>5,258,615</u>	<u>165,477</u>
Operating Disbursements:					
Public safety	-	-	-	-	49,967
Public works	-	-	-	-	3,147
Culture and recreation	-	-	-	-	6,800
General government	-	-	-	-	9,358
Business type activities	1,981,688	1,387,715	734,823	4,104,226	34,670
Total operating disbursements	<u>1,981,688</u>	<u>1,387,715</u>	<u>734,823</u>	<u>4,104,226</u>	<u>103,942</u>
Excess of operating receipts over operating disbursements	<u>549,622</u>	<u>569,887</u>	<u>34,880</u>	<u>1,154,389</u>	<u>61,535</u>
Non-operating receipts (disbursements):					
Special assessments	12,104	7,321	4,754	24,179	-
Intergovernmental	499,639	-	-	499,639	-
Interest on investments	4,514	22,991	2,263	29,768	-
Customer deposits	24,773	-	-	24,773	-
Miscellaneous	102,400	2,250	1,203	105,853	-
Bond proceeds	180,609	-	-	180,609	-
Capital projects	(379,457)	(739,620)	(24,218)	(1,143,295)	-
Debt service	(644,376)	(454,160)	-	(1,098,536)	-
Net non-operating receipts (disbursements)	<u>(199,794)</u>	<u>(1,161,218)</u>	<u>(15,998)</u>	<u>(1,377,010)</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	349,828	(591,331)	18,882	(222,621)	61,535
Transfers in (out)	<u>(95,010)</u>	<u>(15,000)</u>	<u>(15,000)</u>	<u>(125,010)</u>	<u>-</u>
Change in cash balances	254,818	(606,331)	3,882	(347,631)	61,535
Cash balances beginning of year	<u>(144,140)</u>	<u>2,493,260</u>	<u>207,944</u>	<u>2,557,064</u>	<u>47,134</u>
Cash balances end of year	<u>\$ 110,678</u>	<u>\$ 1,886,929</u>	<u>\$ 211,826</u>	<u>\$ 2,209,433</u>	<u>\$ 108,669</u>
<b>Cash Basis Fund Balances</b>					
Restricted for equipment replacement	\$ 368,174	\$ 2,464,970	\$ -	\$ 2,833,144	-
Unrestricted	<u>(257,496)</u>	<u>(578,041)</u>	<u>211,826</u>	<u>(623,711)</u>	<u>108,669</u>
<b>Total cash basis fund balances</b>	<u>\$ 110,678</u>	<u>\$ 1,886,929</u>	<u>\$ 211,826</u>	<u>\$ 2,209,433</u>	<u>\$ 108,669</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 Cash Basis Statement of Activities and Net Position**  
**Proprietary Funds**  
**As of and for the Year Ended June 30, 2014**

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**Total enterprise funds cash balances (page 15)** \$ 2,209,433

*Amounts reported for business type activities in the Cash Basis Statement of Activities and Net Position 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. A portion of the cash balance of the Internal Service Fund is included in business type activities in the Cash Basis Statement of Activities and Net Position.

33,636

**Cash basis net position of business type activities (page 12)** \$ 2,243,069

**Change in cash balances (page 15)** \$ (347,631)

*Amounts reported for business type activities in the Cash Basis Statement of Activities and Net Position 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. A portion of the change in the cash balance of the Internal Service Fund is reported with business type activities in the Cash Basis Statement of Activities and Net Position.

28,697

**Change in cash basis net position of business type activities (page 12)** \$ (318,934)

See notes to financial statements.

**City of Fort Madison**  
**Notes to Financial Statements**

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**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 and 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

Except as discussed below, 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.

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 these component units have not been presented in the accompanying primary government audited financial statements.

Jointly Governed Organizations

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

Basis of Presentation

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

**City of Fort Madison**  
**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (continued)**

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

*Nonexpendable restricted net position* is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

*Expendable restricted net position* results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on cash balances imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position 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 from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

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

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

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

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

**City of Fort Madison**  
**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies** (continued)

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 wastewater 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 is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Governmental Cash Basis Fund Balances

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

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

**City of Fort Madison**  
**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (continued)**

*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 City Council intends to use for specific purpose.

*Unassigned* - All amounts not included in the preceding classifications.

**Budgets and Budgetary Accounting**

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

**Subsequent Events**

The City performed an evaluation of subsequent events through December 16, 2014, which is the date the financial statements were issued. There were no subsequent events that required disclosure or recognition in the financial statements as of June 30, 2014.

**Note 2. Cash and Pooled Investments**

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

The City received \$191,729 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
	2015	\$ 736,742	\$ 363,736	\$ 440,000	\$ 546,540	\$ 11,000	\$ 13,800	\$ 1,187,742
2016	758,090	341,950	536,000	533,310	11,000	13,250	1,305,090	888,510
2017	748,965	319,338	553,000	517,230	12,000	12,700	1,313,965	849,268
2018	784,866	296,729	570,000	500,640	12,000	12,100	1,366,866	809,469
2019	770,796	272,530	587,000	483,540	13,000	11,500	1,370,796	767,570
2020-2024	3,036,755	1,013,761	3,239,000	2,141,460	76,000	47,050	6,351,755	3,202,271
2025-2029	2,110,000	542,413	3,238,000	1,622,940	96,000	26,050	5,444,000	2,191,403
2030-2034	1,595,000	112,600	3,144,000	1,038,030	46,208	3,400	4,785,208	1,154,030
2035-2039	-	-	3,311,000	435,600	-	-	3,311,000	435,600
2040	-	-	585,000	17,910	-	-	585,000	17,910
	<u>\$10,541,214</u>	<u>\$ 3,263,057</u>	<u>\$ 16,203,000</u>	<u>\$ 7,837,200</u>	<u>\$ 277,208</u>	<u>\$ 139,850</u>	<u>\$ 27,021,422</u>	<u>\$ 11,240,107</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, principal and interest paid and total TIF receipts were \$24,300 and \$818,967, respectively.

Revenue Bonds/Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay five revenue bond issues. The bonds were issued between October 2009 and 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 \$22,154,690. For the current year, principal and interest paid and total customer net receipts were \$720,911 and \$549,622, respectively.

**City of Fort Madison**  
**Notes to Financial Statements**

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**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 \$1,885,510. For the current year, principal and interest paid and total customer net receipts were \$148,260 and \$569,887, 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.

The City's water net revenues for the year ended June 30, 2014 are less than the required 110% of principal and interest on bonds falling due during the year.

The City has entered into an escrow deposit agreement with an escrow agent to provide for all future debt service payments on certain bonds. The escrow agent will purchase direct obligations (government securities) to be used to provide for the debt service payments. As a result, the bonds are considered defeased and the liability has been removed from the statement of indebtedness. On June 30, 2014, \$1,350,000 of bonds outstanding are considered defeased.

**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 look only 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

The City assumes many of these issues have been repaid, but has been unable to determine actual amounts remaining at June 30, 2014.

**City of Fort Madison**  
**Notes to Financial Statements**

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**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 700 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 casualty 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 estimated for the fiscal 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 at a level determined by the Board not to exceed 300% of basis rate 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 property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal 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 contributions to the Pool for the year ended June 30, 2014 were \$97,236.

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 through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location. Property risks exceeding \$150,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any reinsurance and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. As of June 30, 2014, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

**City of Fort Madison**  
**Notes to Financial Statements**

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**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. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

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 and with 20 or more years of service upon retirement may elect to be paid for up to 600 hours of unused and accumulated sick leave or use the sick leave 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 with 20 or more years of service upon retirement may elect to be paid for up to 600 hours of unused and accumulated sick leave or use the sick leave 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, 2014, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 385,999
Sick leave	<u>104,838</u>
	<u>\$ 490,837</u>

This liability has been computed based on rates of pay as of July 1, 2014.

**City of Fort Madison**  
**Notes to Financial Statements**

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**Note 7. 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 \$1,500 per individual and \$3,000 per family. The City's total reimbursement liability for the period January 1, 2014 to December 31, 2014 is \$760,500. The City's cost related to this reimbursement for the year ended June 30, 2014 was \$101,901.

**Note 8. 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 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012, were \$226,905, \$222,571 and \$212,680, 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, is 30.12% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2014, 2013 and 2012 were \$524,959, \$433,144 and \$421,778, respectively, which (met) exceeded 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 for the City Manager to the ICMA retirement system, which allows contributions up to 25% of salary with a maximum of \$8,000. Contributions were \$7,221, \$6,661, and \$5,733 for the years ended June 30, 2014, 2013 and 2012.

**City of Fort Madison**  
**Notes to Financial Statements**

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**Note 9. Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 94 active and 15 retired members in the plan. Retired participants must be age 55 or older at retirement.

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

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$425 for single coverage and \$1,258 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2014, the City contributed \$1,249,589 and plan members eligible for benefits contributed \$125,048 to the plan.

**Note 10. Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfer to:	
General	\$ 2,464,466
Debt service	131,090
Capital projects	518,163
Nonmajor governmental	109,327
Water	1,241,508
Sewer	<u>643,010</u>
	<u>\$ 5,107,564</u>
Transfer from:	
General	\$ 23,807
Road use	9,167
Local option sales tax	1,231,729
Capital projects	261,438
Nonmajor governmental	1,571,895
Water	1,336,518
Sewer	658,010
Solid waste	<u>15,000</u>
	<u>\$ 5,107,564</u>

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

**City of Fort Madison**  
**Notes to Financial Statements**

**Note 11. Post-Closure Care Costs**

The City was previously a member of the Lee County Solid Waste Commission, a political subdivision pursuant to the Code of Iowa Chapter 28E. The landfill was closed in 1990 and is required to perform certain maintenance and monitoring functions at the site for thirty years after closure. The City paid \$22,026 for the year ended June 30, 2014 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, 2014, \$1,987 was outstanding on these loans to businesses. At June 30, 2014, SEIRPC holds cash of \$192,756 for the City which represents loan repayments received from participating businesses and is available to fund future commercial business growth loans.

**Note 13. Cash Basis Fund Balances**

The detail of the governmental fund cash basis fund balances for the year ended June 30, 2014 is as follows:

	<u>General</u>	<u>Road Use</u>	<u>Sales Tax</u>	<u>Urban Renewal TIF</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Nonmajor Governmental</u>	<u>Total</u>
Nonspendable for cemetery perpetual care	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 205,559	\$ 205,559
Restricted for:								
Road use purposes	-	2,554	-	-	-	-	-	2,554
Tax referendum purposes	-	-	816,586	-	-	-	-	816,586
Urban renewal projects	-	-	-	76,971	-	-	-	76,971
Debt service	-	-	-	-	46,824	-	-	46,824
Employee benefits	-	-	-	-	-	-	344,934	344,934
Police/fire retirement	-	-	-	-	-	-	194,339	194,339
FEMA grant	-	-	-	-	-	-	31,819	31,819
Library building maintenance	-	-	-	-	-	-	48,997	48,997
Highway 61 improvements	-	-	-	-	-	13,801,783	-	13,801,783
Park improvements	-	-	-	-	-	1,030,023	-	1,030,023
Street improvements	-	-	-	-	-	4,581,996	-	4,581,996
Public safety equipment	-	-	-	-	-	32,531	-	32,531
Other purposes	-	-	-	-	-	-	49,083	49,083
Assigned to:								
Library donations	-	-	-	-	-	-	82,740	82,740
Emergency tax levy	-	-	-	-	-	-	27,233	27,233
Hotel/motel tax	-	-	-	-	-	-	123,599	123,599
Grant opportunities	-	-	-	-	-	-	190,252	190,252
Other purposes	-	-	-	-	-	124,269	275,092	399,361
Unassigned	<u>1,593,207</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(694,595)</u>	<u>(293,356)</u>	<u>605,256</u>
Total	<u>\$ 1,593,207</u>	<u>\$ 2,554</u>	<u>\$ 816,586</u>	<u>\$ 76,971</u>	<u>\$ 46,824</u>	<u>\$ 18,876,007</u>	<u>\$ 1,280,291</u>	<u>\$ 22,692,440</u>

**City of Fort Madison**  
**Notes to Financial Statements**

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**Note 14. Commitments and Contingency**

Commitments

The City has committed to the following significant projects as of June 30, 2014:

Street improvements	\$ 7,619,977
Sewer projects	4,700,000
Park improvements	1,030,023
Equipment replacement	280,000
Sports complex	<u>250,000</u>
Total	<u>\$ 13,880,000</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.

Contingencies

The City is a defendant in a wrongful termination claim with a former employee. If the City's defense is not successful, approximately \$99,000 in back pay and benefits would be owed to the former employee.

**Note 15. Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB No. 27*. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

## **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, 2014**

	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>
<b>Receipts:</b>							
Property tax	\$ 3,817,112	\$ -	\$ -	\$ 3,817,112	\$ 3,653,507	\$ 3,653,507	\$ 163,605
Tax increment financing collections	818,967	-	-	818,967	920,450	920,450	(101,483)
Other taxes	1,438,713	-	-	1,438,713	1,518,374	1,518,374	(79,661)
Use of money and property	202,213	29,768	-	231,981	151,180	151,180	80,801
Licenses and permits	129,398	-	-	129,398	135,320	151,820	(22,422)
Intergovernmental	3,138,707	499,639	-	3,638,346	3,562,370	4,155,070	(516,724)
Charges for services	182,228	5,424,092	165,477	5,440,843	6,288,650	6,288,650	(847,807)
Special assessments	20,071	24,179	-	44,250	35,900	35,900	8,350
Miscellaneous	<u>14,963,154</u>	<u>130,626</u>	<u>-</u>	<u>15,093,780</u>	<u>2,002,170</u>	<u>16,473,170</u>	<u>(1,379,390)</u>
Total receipts	<u>24,710,563</u>	<u>6,108,304</u>	<u>165,477</u>	<u>30,653,390</u>	<u>18,267,921</u>	<u>33,348,121</u>	<u>(2,694,731)</u>
<b>Disbursements:</b>							
Public safety	3,567,470	49,967	49,967	3,567,470	3,686,710	3,686,710	119,240
Public works	1,187,424	3,147	3,147	1,187,424	1,143,080	1,148,080	(39,344)
Health and social services	47,497	-	-	47,497	46,900	49,700	2,203
Culture and recreation	1,161,799	6,800	6,800	1,161,799	1,081,580	1,190,930	29,131
Community and economic development	3,598,658	-	-	3,598,658	1,577,500	1,937,800	(1,660,858)
General government	1,321,169	9,358	9,358	1,321,169	2,653,250	3,259,750	1,938,581
Debt service	261,091	-	-	261,091	441,470	2,091,720	1,830,629
Capital projects	2,149,126	-	-	2,149,126	1,844,650	2,647,650	498,524
Business type	<u>-</u>	<u>6,380,727</u>	<u>34,670</u>	<u>6,346,057</u>	<u>7,043,480</u>	<u>7,643,480</u>	<u>1,297,423</u>
Total disbursements	<u>13,294,234</u>	<u>6,449,999</u>	<u>103,942</u>	<u>19,640,291</u>	<u>19,518,620</u>	<u>23,655,820</u>	<u>4,015,529</u>
Excess (deficiency) of receipts over (under) disbursements	11,416,329	(341,695)	61,535	11,013,099	(1,250,699)	9,692,301	(1,320,798)
Other financing sources, net	<u>6,125,010</u>	<u>55,599</u>	<u>-</u>	<u>6,180,609</u>	<u>1,069,100</u>	<u>7,087,781</u>	<u>907,172</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	17,541,339	(286,096)	61,535	17,193,708	(181,599)	16,780,082	(413,626)
Cash balances beginning of year	<u>5,151,101</u>	<u>2,604,198</u>	<u>47,134</u>	<u>7,708,165</u>	<u>7,755,262</u>	<u>7,755,262</u>	<u>47,097</u>
Cash balances end of year	<u>\$ 22,692,440</u>	<u>\$ 2,318,102</u>	<u>\$ 108,669</u>	<u>\$ 24,901,873</u>	<u>\$ 7,573,663</u>	<u>\$ 24,535,344</u>	<u>\$ (366,529)</u>

See accompanying independent auditor's report.

**City of Fort Madison**  
**Notes to Other Information - Budgetary Reporting**  
**June 30, 2014**

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund. 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. 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 \$4,137,200. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements exceeded the amount budgeted in the public works and community and economic development functions.

**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, 2014**

	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	
<b>Receipts:</b>												
Property tax	\$ -	\$ -	\$ -	\$ -	\$ 66,551	\$ -	\$ -	\$ -	\$ 500,568	\$ 872,903	\$ -	\$ 1,440,022
Other city taxes	-	144,759	-	-	2,114	-	-	-	50,994	27,396	-	225,263
Use of money and property	5,394	1,098	738	-	-	-	-	-	2,773	-	-	10,003
Intergovernmental	322,514	-	-	823,830	-	44,346	750	-	-	-	-	1,191,440
Charges for service	47,028	-	-	-	-	-	-	-	-	-	-	47,028
Miscellaneous	<u>773,628</u>	<u>-</u>	<u>14,609</u>	<u>-</u>	<u>4,500</u>	<u>-</u>	<u>-</u>	<u>129,298</u>	<u>-</u>	<u>-</u>	<u>2,634</u>	<u>924,669</u>
Total receipts	<u>1,148,564</u>	<u>145,857</u>	<u>15,347</u>	<u>823,830</u>	<u>73,165</u>	<u>44,346</u>	<u>750</u>	<u>129,298</u>	<u>554,335</u>	<u>900,299</u>	<u>2,634</u>	<u>3,838,425</u>
<b>Disbursements:</b>												
Public safety	25,117	-	-	-	63,743	35,696	75	-	8,834	-	-	133,465
Health and social services	47,137	-	-	-	-	-	-	-	-	-	-	47,137
Culture and recreation	216,256	-	44,135	-	-	-	-	-	-	-	-	260,391
Community and economic development	577,087	-	-	823,830	-	-	-	-	-	-	-	1,400,917
General government	<u>368,871</u>	<u>59,045</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>97,479</u>	<u>-</u>	<u>5,871</u>	<u>-</u>	<u>531,266</u>
Total disbursements	<u>1,234,468</u>	<u>59,045</u>	<u>44,135</u>	<u>823,830</u>	<u>63,743</u>	<u>35,696</u>	<u>75</u>	<u>97,479</u>	<u>8,834</u>	<u>5,871</u>	<u>-</u>	<u>2,373,176</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(85,904)</u>	<u>86,812</u>	<u>(28,788)</u>	<u>-</u>	<u>9,422</u>	<u>8,650</u>	<u>675</u>	<u>31,819</u>	<u>545,501</u>	<u>894,428</u>	<u>2,634</u>	<u>1,465,249</u>
<b>Other financing sources (uses):</b>												
Operating transfer in (out)	<u>(3,136)</u>	<u>(71,663)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(524,959)</u>	<u>(862,810)</u>	<u>-</u>	<u>(1,462,568)</u>
Total other	<u>(3,136)</u>	<u>(71,663)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(524,959)</u>	<u>(862,810)</u>	<u>-</u>	<u>(1,462,568)</u>
Change in cash balances	(89,040)	15,149	(28,788)	-	9,422	8,650	675	31,819	20,542	31,618	2,634	2,681
Cash balances beginning of year	<u>255,721</u>	<u>108,450</u>	<u>160,525</u>	<u>70</u>	<u>17,811</u>	<u>(8,650)</u>	<u>53,645</u>	<u>-</u>	<u>173,797</u>	<u>313,316</u>	<u>202,925</u>	<u>1,277,610</u>
Cash balances end of year	<u>\$ 166,681</u>	<u>\$ 123,599</u>	<u>\$ 131,737</u>	<u>\$ 70</u>	<u>\$ 27,233</u>	<u>\$ -</u>	<u>\$ 54,320</u>	<u>\$ 31,819</u>	<u>\$ 194,339</u>	<u>\$ 344,934</u>	<u>\$ 205,559</u>	<u>\$ 1,280,291</u>
<b>Cash Basis Fund Balances</b>												
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 205,559	\$ 205,559
Restricted	-	-	48,997	-	-	-	49,083	31,819	194,339	344,934	-	669,172
Assigned	460,037	123,599	82,740	70	27,233	-	5,237	-	-	-	-	698,916
Unassigned	<u>(293,356)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(293,356)</u>
<b>Total cash basis fund balances</b>	<u>\$ 166,681</u>	<u>\$ 123,599</u>	<u>\$ 131,737</u>	<u>\$ 70</u>	<u>\$ 27,233</u>	<u>\$ -</u>	<u>\$ 54,320</u>	<u>\$ 31,819</u>	<u>\$ 194,339</u>	<u>\$ 344,934</u>	<u>\$ 205,559</u>	<u>\$ 1,280,291</u>

See accompanying independent auditor's report.

**City of Fort Madison  
Statement of Indebtedness  
Year Ended June 30, 2014**

<u>Obligation</u>	<u>Date of Issuance</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
General obligation bonds:									
GO Bonds 2005 issue	10/05/05	3.75-4.00%	\$ 3,750,000	\$ 2,505,000	\$ -	\$ 210,000	\$ 2,295,000	\$ 100,200	\$ -
GO Bonds 2006 issue	12/01/06	3.75-4.30%	1,740,000	1,350,000	-	1,350,000	-	169,151	-
GO Bonds 2008 issue	06/01/08	3.65-4.45%	1,690,000	1,320,000	-	115,000	1,205,000	52,695	-
GO Bonds 2010A issue	02/01/10	1.00-3.40%	1,350,000	990,000	-	130,000	860,000	27,233	-
GO Bonds 2013 issue	08/22/13	2.00-4.00%	6,000,000	-	<u>6,000,000</u>	-	<u>6,000,000</u>	<u>149,972</u>	-
Total				<u>6,165,000</u>	<u>6,000,000</u>	<u>1,805,000</u>	<u>10,360,000</u>	<u>499,251</u>	-
Revenue bonds/notes:									
Sewer revenue	04/19/04	3.00%	700,000	435,000	-	34,000	401,000	13,050	-
Sewer revenue	10/01/08	3.00%	2,000,000	1,207,000	-	65,000	1,142,000	36,210	-
Water revenue	10/14/09	3.00%	9,672,000	9,323,000	-	124,000	9,199,000	279,690	-
Water revenue	11/18/09	3.00%	1,306,000	857,000	-	39,000	818,000	25,710	-
Water revenue	12/23/09	3.00%	3,800,000	2,095,000	-	47,000	2,048,000	62,850	-
Water revenue	05/11/11	3.00%	2,700,000	2,123,247	180,609	55,856	2,248,000	68,155	-
Water revenue	10/26/11	3.00%	384,000	355,000	-	8,000	347,000	10,650	-
Total				<u>16,395,247</u>	<u>180,609</u>	<u>372,856</u>	<u>16,203,000</u>	<u>496,315</u>	-
Capital loan notes:									
Capital loan note - fire truck	07/15/12	3.06%	203,544	<u>203,544</u>	-	<u>26,830</u>	<u>176,714</u>	<u>5,913</u>	-
Promissory note:									
Sustainability loan	04/20/12	3.00%	4,500	<u>4,500</u>	-	-	<u>4,500</u>	-	<u>222</u>
Urban renewal TIF:									
Bluff subdivision	07/01/11	5.00%	291,208	<u>287,208</u>	-	<u>10,000</u>	<u>277,208</u>	<u>14,300</u>	-
Total of all debt				<u>\$ 23,055,499</u>	<u>\$ 6,180,609</u>	<u>\$ 2,214,686</u>	<u>\$ 27,021,422</u>	<u>\$ 1,015,779</u>	<u>\$ 222</u>

See accompanying independent auditor's report.

**City of Fort Madison  
Bond and Note Maturities  
June 30, 2014**

Year Ending June 30,	<b>General Obligation Bonds</b>								
	<u>General Obligation Bonds</u>		<u>Street Improvement</u>		<u>Sewer Utility Project</u>		<u>General Obligation Bonds</u>		
	<u>Issued October 5, 2005</u>		<u>Issued June 1, 2008</u>		<u>Total</u>		<u>Issued August 22, 2013</u>		
	Interest		Interest		Interest		Interest		Total
	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	
2015	4.00%	\$ 210,000	4.00%	\$ 115,000	2.25%	\$ 135,000	2.00%	\$ 245,000	\$ 705,000
2016	4.00%	220,000	3.65%	125,000	2.50%	135,000	2.00%	250,000	730,000
2017	4.00%	200,000	3.75%	125,000	2.80%	140,000	2.00%	255,000	720,000
2018	4.00%	210,000	3.80%	140,000	3.00%	145,000	2.00%	260,000	755,000
2019	4.00%	185,000	3.90%	140,000	3.25%	150,000	2.00%	265,000	740,000
2020	4.00%	190,000	4.00%	150,000	3.40%	155,000	3.00%	270,000	765,000
2021	4.00%	195,000	4.10%	95,000	-	-	3.00%	280,000	570,000
2022	4.00%	210,000	4.15%	40,000	-	-	3.00%	290,000	540,000
2023	4.00%	215,000	4.20%	40,000	-	-	3.00%	300,000	555,000
2024	4.00%	225,000	4.25%	45,000	-	-	3.00%	305,000	575,000
2025	4.00%	235,000	4.30%	45,000	-	-	3.25%	315,000	595,000
2026		-	4.35%	45,000	-	-	3.50%	325,000	370,000
2027		-	4.40%	50,000	-	-	3.50%	335,000	385,000
2028		-	4.45%	50,000	-	-	3.75%	350,000	400,000
2029		-		-	-	-	4.00%	360,000	360,000
2030		-		-	-	-	4.00%	375,000	375,000
2031		-		-	-	-	4.00%	390,000	390,000
2032		-		-	-	-	4.00%	405,000	405,000
2033		-		-	-	-	4.00%	425,000	425,000
		<u>\$ 2,295,000</u>		<u>\$ 1,205,000</u>		<u>\$ 860,000</u>		<u>\$ 6,000,000</u>	<u>\$ 10,360,000</u>

See accompanying independent auditor's report.

**City of Fort Madison  
Bond and Note Maturities  
June 30, 2014**

<b>Revenue Bonds</b>															
Year Ending June 30.	Sewer Issued April 19, 2004		Sewer Issued October 1, 2008		Water Issued October 14, 2009		Water Issued November 18, 2009		Water Issued December 23, 2009		Water Issued May 11, 2011		Water Issued October 26, 2011		Total
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
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%	43,000	3.00%	128,000	3.00%	88,000	3.00%	13,000	671,000
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%	111,000	3.00%	103,000	3.00%	15,000	676,000
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%	117,000	3.00%	18,000	643,000
2037	-	-	-	-	3.00%	525,000	-	-	-	-	3.00%	121,000	3.00%	18,000	664,000
2038	-	-	-	-	3.00%	542,000	-	-	-	-	3.00%	125,000	3.00%	19,000	686,000
2039	-	-	-	-	3.00%	559,000	-	-	-	-	-	117,000	3.00%	19,000	695,000
2040	-	-	-	-	3.00%	577,000	-	-	-	-	-	-	3.00%	8,000	585,000
		<u>\$ 401,000</u>		<u>\$ 1,142,000</u>		<u>\$ 9,199,000</u>		<u>\$ 818,000</u>		<u>\$ 2,048,000</u>		<u>\$ 2,248,000</u>		<u>\$ 347,000</u>	<u>\$ 16,203,000</u>

See accompanying independent auditor's report.

**City of Fort Madison  
Bond and Note Maturities  
June 30, 2014**

Year Ending <u>June 30,</u>	<u>Capital Loan Note</u>		<u>Promissory Note</u>		<u>Urban Renewal TIFs</u>	
	<u>Fire Truck</u>		<u>Sustainability Loan</u>		<u>Bluff Subdivision</u>	
	<u>Issued July 15, 2012</u>		<u>Issued April 20, 2012</u>		<u>Issued July 1, 2011</u>	
	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Amount</u>
2015	3.06%	\$ 27,242	3.00%	\$ 4,500	5.00%	\$ 11,000
2016	3.06%	28,090	-	-	5.00%	11,000
2017	3.06%	28,965	-	-	5.00%	12,000
2018	3.06%	29,866	-	-	5.00%	12,000
2019	3.06%	30,796	-	-	5.00%	13,000
2020	3.06%	31,755	-	-	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%	24,208
		<u>\$ 176,714</u>		<u>\$ 4,500</u>		<u>\$ 277,208</u>

See accompanying independent auditor's report.

**City of Fort Madison**  
**Schedule of Receipts by Source and Disbursements by Function-**  
**All Governmental Funds**

	Year Ended June 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Receipts:										
Property tax	\$ 3,817,112	\$ 3,680,029	\$ 3,499,904	\$ 3,423,622	\$ 3,329,360	\$ 3,423,873	\$ 3,401,751	\$ 3,296,898	\$ 3,121,988	\$ 3,436,330
Tax increment financing	818,967	799,143	907,127	941,649	573,331	438,351	409,393	345,868	311,332	113,805
Other city tax	1,438,713	1,393,043	1,414,245	1,269,520	1,307,743	1,336,713	1,158,414	1,246,721	1,127,272	1,051,357
Use of money and property	202,213	124,293	185,822	178,113	172,748	216,485	215,412	266,201	139,397	103,055
Licenses and permits	129,398	124,084	95,787	132,976	104,821	163,030	110,357	133,055	50,615	81,942
Intergovernmental	3,138,707	2,918,645	3,603,496	2,736,801	2,236,864	2,430,503	2,573,650	1,850,646	1,882,041	1,783,304
Charges for service	182,228	197,800	205,734	177,793	177,517	170,632	177,767	221,502	191,730	192,153
Special assessments	20,071	21,040	5,233	-	-	-	-	-	1,130	917
Miscellaneous	<u>14,963,154</u>	<u>1,143,251</u>	<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>
Total	<u>\$24,710,563</u>	<u>\$10,401,328</u>	<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>
Disbursements:										
Public safety	\$ 3,567,470	\$ 3,639,192	\$ 3,505,490	\$ 3,247,480	\$ 3,119,344	\$ 3,051,021	\$ 3,183,137	\$ 3,139,372	\$ 3,472,101	\$ 2,829,448
Public works	1,187,424	1,144,276	1,143,332	1,192,716	1,114,132	1,032,424	1,021,522	924,372	1,016,709	1,076,688
Health and social services	47,497	39,639	39,668	40,644	38,434	38,786	39,359	41,334	36,498	37,616
Culture and recreation	1,161,799	1,033,637	1,068,703	1,090,228	1,034,028	1,020,231	967,006	908,384	992,903	938,339
Community and economic development	3,598,658	2,212,896	2,168,257	1,232,442	1,093,693	1,180,420	1,282,920	2,456,375	421,993	402,983
General government	1,321,169	806,766	709,288	812,807	819,443	813,101	524,451	667,301	1,906,586	1,821,715
Debt service	261,091	224,285	203,125	266,929	265,293	609,529	625,889	559,670	635,772	677,883
Capital projects	<u>2,149,126</u>	<u>1,461,302</u>	<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>
Total	<u>\$13,294,234</u>	<u>\$10,561,993</u>	<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>

See accompanying independent auditor's report.

**City of Fort Madison**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2014**

<u>Federal Agency/Pass-Through Agency Program - Grant Title</u>	<u>CFDA Number</u>	<u>Grantor Program Number</u>	<u>Program Expenditures</u>
U.S. Department of Transportation programs:			
Federal Aviation Administration Airport Improvement Program	20.106	3-19-0036-07	\$ <u>43,716</u>
Subtotal U.S. Department of Transportation direct programs			<u>43,716</u>
Pass-through from Iowa Department of Transportation:			
Avenue E - 15th St. to 19th St.	20.205	STP-U-2697(622)--70-56	392,303
Avenue D Bridge Replacement	20.205	BROS-2697(621)--8J-56	501,160
Pass-through from Iowa Department of Public Safety/Governor's Traffic Safety Bureau:			
Alcohol Incentive Grant	20.601	PAP 13-410 Task 23	7,350
Alcohol Incentive Grant	20.601	PAP 14-405d-M60T, Task 24	<u>3,618</u>
Subtotal U.S. Department of Transportation pass-through programs			<u>904,431</u>
Total U.S. Department of Transportation			<u>948,147</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	153,376
Department of the Interior, National Park Service			
American Battlefield Protection	15.926	GA-2287-13-009	<u>6,609</u>
Total U.S. Department of Housing and Urban Development			<u>159,985</u>
U.S. Department of Homeland Security program:			
Pass-through from Iowa Homeland Security and Emergency Management Division			
Federal Emergency Management Agency	97.036	#4119-DR-IA PA ID#111-28605-00	<u>163,407</u>
U.S. Department of Commerce:			
Public works: Infrastructure improvements (sanitary sewer) to the southwest industrial corridor	11.300	05-01-05245	<u>64,391</u>
U.S. Department of the Interior program:			
Pass-through from State Historical Society of Iowa			
Historic Preservation Grants in Aid	15.904	2012-04	<u>3,939</u>
U.S. Department of Justice programs:			
Bureau of Justice Assistance - Bulletproof Vest Partnership Program	16.607	Application ID 13069016	999
Pass-through from Iowa Governor's Office of Drug Control Policy and Lee County, Iowa			
Byrne/Iowa - Justice Assistance Grant (JAG)	16.738	Grant#11JAG-58780	22,800
Byrne/Iowa - Justice Assistance Grant (JAG)	16.738	Grant#2012-DJ-BX-0219	<u>1,323</u>
Total U.S. Department of Justice			<u>25,122</u>

(Continued)

See accompanying independent auditor's report.

**City of Fort Madison**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2014**

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<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	12SRNIA002	\$ <u>9,613</u>
Total expenditures of federal awards			\$ <u>1,374,604</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**

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<u>Name</u>	<u>Product</u>	<u>Approximate Number of Employees</u>
Pinnacle Foods Inc.	Canned meats and shelf stable microwavables	520
Siemens	Blades for wind turbines	470
Iowa State Penitentiary	Corrections facility	441
Fort Madison Community Hospital	Healthcare	432
The Scotts Co.	Consumer products for home, lawn and garden	425
Fort Madison Community School District	Education	356
Inhance Corporation	Healthcare - nursing homes	191
Gregory Design and Manufacturing	Design and manufacture various types of racks	155
Climax Molybdenum Company, Division of AMAX	Molybdenum chemicals and sulfuric acid	137
Bagcraft Papercon	Food service packaging	95
E.I. Dupont de Nemours	Industrial and automotive sealants, finishes, resins and thinners	93
Burrows Paper Corp. Packaging Div.	Paper and packaging solutions	63

See accompanying independent auditor's report.

**City of Fort Madison**  
**Miscellaneous Statistical Section**

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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 ..... 90  
Permanent part time ..... 22

Schools:

Public ..... 4  
Parochial ..... 2

2013-14 Tax Rates:

City	14.88562
County	8.17942
School	11.87133
Merged Area College	1.01523
Other	<u>.61010</u>
Total	<u>36.56170</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 in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the primary government of the City of Fort Madison, Iowa (City), as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 16, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than accounting principles generally accepted in the United States. We expressed an adverse opinion on the aggregate discretely presented component units.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified deficiencies in internal control we consider to 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 described in Part II of the accompanying schedule of findings as items II-A-14 and II-B-14 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 no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying schedule of findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 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.

### City's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of 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*

December 16, 2014



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  
for Each Major Program, on Internal Control Over Compliance  
and on the Schedule of Expenditures of Federal Awards  
Required by OMB Circular A-133**

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

Report on Compliance for Each Major Federal Program

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, 2014. The City's major federal program is identified in Part I of the accompanying schedule of findings.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, 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 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2014.

Other Matters

We did not identify any instances of noncompliance which is required to be reported in accordance with OMB Circular A-133.

## Report on Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal programs to determine the auditing procedures appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not 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 deficiency in internal control over compliance described in the accompanying Schedule of Findings as item III-A-14 and III-B-14 to be significant deficiencies.

The City's response to the internal control over compliance finding identified in our audit is reported in the accompanying schedule of findings. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the City as of and for the year ended June 30, 2014, and have issued our report thereon dated December 16, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than accounting principles generally accepted in the United States. We expressed an adverse opinion on the aggregate discretely presented component units. Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

*CPA Associates PC*

December 16, 2014

**City of Fort Madison  
Schedule of Findings  
Year Ended June 30, 2014**

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**Part I: Summary of the Independent Auditor's Results**

- (a) Unmodified 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 noncompliance 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 unmodified 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 program was as follows:
  - CFDA Number 20.205 - U.S. Department of Transportation - 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 does not qualify as a low-risk auditee.

**City of Fort Madison  
Schedule of Findings  
Year Ended June 30, 2014**

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

**SIGNIFICANT DEFICIENCIES**

II-A-14 Segregation of Duties - One important aspect of internal control structure is the segregation of duties among employees to prevent an 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.

II-B-14 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 NONCOMPLIANCE:**

No matters were noted.

**City of Fort Madison  
Schedule of Findings  
Year Ended June 30, 2014**

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**Part III: Findings - Major Federal Award Programs Audit**

**INTERNAL CONTROL SIGNIFICANT DEFICIENCIES**

- III-A-14 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-A-14.
- III-B-14 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-B-14.

**INSTANCES OF NONCOMPLIANCE:**

No matters were noted.

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

- IV-A-14 Certified Budget - Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public works and community and economic development functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation".

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

Response - In the future, the budget will be amended prior to disbursements exceeding the budgeted amount.

Conclusion - Response accepted.

- IV-B-14 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.
- IV-C-14 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name and Title</u>	<u>Transactions</u>	<u>Amount</u>
Joey Herren, Employee	Lawn mower	\$ 1,450

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the lawn mower transaction does not appear to represent a conflict of interest since the total transaction was less than \$1,500 during the fiscal year.

**City of Fort Madison  
Schedule of Findings  
Year Ended June 30, 2014**

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

IV-D-14 Revenue Bonds and Notes - The water service 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.

Recommendation - Water service 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.

Response - The City will consider a rate increase for water service charges.

Conclusion - Response accepted.

IV-E-14 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy.

IV-F-14 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

IV-G-14 City Council Minutes - No transactions were found that we believe should have been approved in the City Council minutes but were not.

IV-H-14 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.

IV-I-14 Petty Cash - The petty cash maintained by the retired senior volunteer program department is not reflected in the book balances. Receipts were not turned in to the accounting department timely.

Recommendation - All receipts should be turned in timely to be included in the City's financial records.

Response - All receipts for petty cash will be given to the accounting department timely.

Conclusion - Response accepted.

IV-J-14 Delinquent Utility Accounts - At June 30, 2014, ten employees or council members had delinquent utility accounts.

Recommendation - We recommend that the City emphasizes 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.

**City of Fort Madison  
Schedule of Findings  
Year Ended June 30, 2014**

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

IV-K-14 Urban Renewal Tax Increment Fund - Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. Indebtedness incurred is to be used to pay the principal of and interest on the certified indebtedness.

The Urban Renewal Tax Increment Fund appears to have an excess balance. The City no longer has debt to repay in several TIF districts and maintains a balance for these districts.

Recommendation - The City should consult TIF counsel to determine the disposition of the excess TIF funds.

Response - The City will consult TIF counsel.

Conclusion - Response accepted.

IV-L-14 Sewer Ordinance - The City passed an ordinance that stated the minimum unit rates for service billed after June 1, 2014 will be assessed contributors to the Sewage Works at an increased rate. However, the rate was not increased until billings after July 1, 2014.

Recommendation - We recommend that the City review new ordinances and ensure that they are followed as written.

Response - We will review new ordinances and ensure the changes are made in agreement with the ordinance.

Conclusion - Response accepted.

IV-M-14 Actuarial Report - 509A.15 of the Code of Iowa states "Within ninety days following the end of a fiscal year, the governing body of a self-insurance plan... shall file with the commissioner of insurance a certificate of compliance, actuarial opinion, and an annual financial report." The City qualified for an exemption from a self-insured benefit audit. However, the request for exemption was not filed within 90 days of the City's fiscal year end.

Recommendation - We recommend that the City file the required information within the ninety days after the City's fiscal year end.

Response - We will file timely.

Conclusion - Response accepted.

**City of Fort Madison**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2014**

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**Prior Audit Findings for Federal Awards**

**SIGNIFICANT DEFICIENCIES:**

CFDA Number 16.710: Community Policing Grants  
Pass-through Agency Number: 2011CKWX0031  
Federal Award Year: 2012  
U.S. Department of Justice  
Passed through Fort Madison Community School District

CFDA Number 20.106: Airport Improvement Program  
Federal Award Year: 2011  
U.S. Department of Transportation

- III-A-13 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-14 in the current year findings.

- III-B-13 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.