



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

March 6, 2012

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Auditor of State David A. Vaudt today released an audit report on the City of Monticello, Iowa.

The City's receipts totaled \$5,928,402 for the year ended June 30, 2011, a 9% decrease from the prior year. The receipts included \$1,144,769 in property tax, \$2,161,813 from charges for service, \$691,189 from operating grants, contributions and restricted interest, \$420,070 from capital grants, contributions and restricted interest, \$875,293 from tax increment financing, \$285,781 from local option sales tax, \$232,235 from utility franchise tax, \$39,985 from unrestricted interest on investments, \$10,500 from bond proceeds, \$66,251 from insurance proceeds and \$516 from other general receipts.

Disbursements for the year totaled \$6,268,538, a 32% decrease from the prior year, and included \$1,259,332 for public safety, \$1,137,119 for debt service and \$649,183 for public works. Also, disbursements for business type activities totaled \$1,724,496.

The significant decrease in receipts is due primarily to receiving significantly more bond proceeds in the prior year. The significant decrease in disbursements is due primarily to a decrease in capital project disbursements.

A copy of the audit report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1120-0495-B00F.pdf>.

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**CITY OF MONTICELLO**

**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2011**

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**City of Monticello**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Don Ho Miyagawa	Mayor	(Resigned)
John Sauser	Mayor Pro tem	Jan 2014
Chris Lux	Council Member	Jan 2012
Gregg Merfeld	Council Member	Jan 2012
Gerald Muller	Council Member	Jan 2012
Dave Goedken	Council Member	Jan 2014
Tom Yeoman	Council Member	Jan 2014
Douglas Herman	City Administrator	Indefinite
Sally Hinrichsen	City Clerk/Treasurer	Indefinite
Cheryl Clark	Deputy City Clerk	Indefinite
Anne E. Loomis	Attorney	Indefinite

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David A. Vaudt, CPA  
Auditor of State

Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

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

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

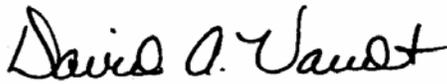
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Monticello as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated February 15, 2012 on our consideration of the City of Monticello's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 13 and 34 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Monticello's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. We also previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed qualified opinions on those financial statements, which were prepared in conformity with an other comprehensive basis of accounting, due to the omission of the financial activity of the Friends of Monticello Public Library. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

February 15, 2012

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The City of Monticello provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2011 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities increased 17%, or approximately \$643,000, from fiscal year 2010 to fiscal year 2011. The total cost of all governmental activities programs and services decreased 29%, or approximately \$1,854,000. The increase in receipts was primarily the result of an IJobs grant of \$300,000 received for the construction of the public safety building and an increase in receipts of \$152,159 for the Monticello Firefighters Organization, Inc. The decrease in disbursements was due primarily to a decrease in capital projects as a result of the completion of the public safety building and 2009 South Cedar Street reconstruction projects.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

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

### **BASIS OF ACCOUNTING**

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

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system and solid waste removal. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has three kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds and the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for water, sewer and sanitation operations. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

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

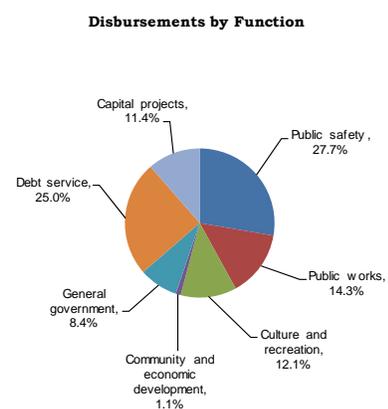
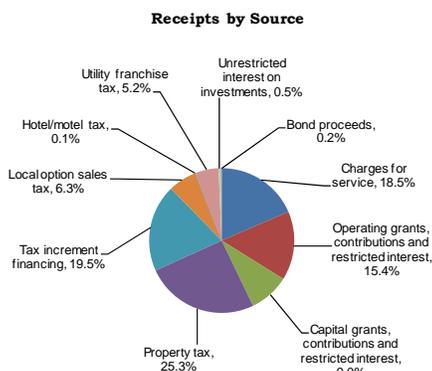
3) The Fiduciary Fund accounts for resources held for others. The Fiduciary Fund consists of an Agency, Flexible Benefits Fund.

The required financial statement for the Fiduciary Fund is a statement of changes in fiduciary assets and liabilities.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from approximately \$2.646 million to approximately \$2.662 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service	\$ 831,525	724,398
Operating grants, contributions and restricted interest	691,189	607,348
Capital grants, contributions and restricted interest	404,284	58,471
General receipts:		
Property tax	1,144,769	1,103,879
Tax increment financing	875,293	812,590
Local option sales tax	285,781	290,831
Hotel/motel tax	516	7,290
Utility franchise tax	232,235	210,059
Unrestricted interest on investments	23,907	39,795
Bond proceeds	8,117	-
Total receipts	<u>4,497,616</u>	<u>3,854,661</u>
Disbursements:		
Public safety	1,259,332	1,134,151
Public works	649,183	482,589
Culture and recreation	547,686	543,433
Community and economic development	47,860	26,100
General government	383,658	354,843
Debt service	1,137,119	1,074,569
Capital projects	519,204	2,782,615
Total disbursements	<u>4,544,042</u>	<u>6,398,300</u>
Decrease in cash basis net assets before transfers	(46,426)	(2,543,639)
Transfers, net	62,049	133,960
Change in cash basis net assets	<u>15,623</u>	<u>(2,409,679)</u>
Cash basis net assets beginning of year, as restated	2,646,198	5,055,877
Cash basis net assets end of year	<u>\$ 2,661,821</u>	<u>2,646,198</u>



The City's total receipts for governmental activities increased 17%, or approximately \$643,000. The total cost of all governmental programs and services decreased approximately \$1,854,000, or 29%, primarily due to a decrease in capital projects as a result of the public safety building and 2009 South Cedar Street reconstruction projects. The major changes in receipts were a \$300,000 IJobs grant received for construction of the public safety building and an increase in receipts of \$152,159 by the Monticello Firefighters Organization, Inc.

The cost of all governmental activities this year was \$4,544,042 compared to \$6,398,300 last year. The decrease in disbursements was primarily the result of a decrease in capital project disbursements.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 387,864	383,665
Sewer	561,287	527,049
Sanitation	381,137	381,900
Capital grants, contributions and restricted interest	15,786	-
General receipts:		
Unrestricted interest on investments	16,078	25,404
Bond proceeds	2,383	1,304,760
Insurance proceeds	66,251	-
Miscellaneous	-	15,667
Total receipts	<u>1,430,786</u>	<u>2,638,445</u>
Disbursements:		
Water	264,449	1,154,858
Sewer	1,063,015	1,279,333
Sanitation	397,032	376,516
Total disbursements	<u>1,724,496</u>	<u>2,810,707</u>
Decrease in cash basis net assets before transfers	(293,710)	(172,262)
Transfers, net	(62,049)	(133,960)
Change in cash basis net assets	(355,759)	(306,222)
Cash basis net assets beginning of year	<u>1,034,700</u>	<u>1,340,922</u>
Cash basis net assets end of year	<u>\$ 678,941</u>	<u>1,034,700</u>

Total business type activities receipts for the fiscal year were approximately \$1,431,000 compared to approximately \$2,638,000 last year. Total disbursements for the fiscal year decreased to a total of \$1,724,496 compared to \$2,810,707 last year. The decrease in receipts was due primarily to bond proceeds received as a result of issuance of \$1,310,000 of refunding bonds during fiscal year 2010. The decrease in disbursements was primarily due to the refunding of water and sewer revenue bonds during fiscal year 2010.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Monticello completed the year, its governmental funds reported a combined fund balance of \$2,661,821, an increase of \$15,623 from last year's restated total of \$2,646,198. 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 approximately \$132,500 from the prior year to \$464,650. The decrease was the cumulative effect of changes in receipts, disbursements and net transfers for fiscal year 2011. Property tax increased \$24,954, charges for service

increased \$56,772 and miscellaneous receipts increased \$26,093. Public safety function disbursements increased \$28,665. Public works function disbursements increased \$171,591, primarily due to purchase of a dump truck and a snowblower for the streets department and a tractor for the airport. Culture and recreation function disbursements increased \$27,792. General government function disbursements increased \$25,513. Net transfers to/from the General Fund decreased \$125,659 and resulted in a net transfer out of the General Fund of \$110,674 for fiscal year 2011.

- The Special Revenue, Tax Increment Financing Fund cash balance increased \$4,933 from the prior year to \$433,583.
- The Debt Service Fund cash balance decreased \$204 from the previous year to \$28,691.
- The Capital Projects Fund cash balance increased \$71,474 from the prior year to \$944,869. The increase was primarily the cumulative effect of changes in disbursements and other financing sources/uses for fiscal year 2011. Intergovernmental receipts increased \$317,148, primarily due to an IJobs grant of \$300,000 for construction of the public safety building. Capital projects function disbursements decreased \$2,263,411 due to construction contract payments for the public safety building and 2009 South Cedar Street reconstruction projects during fiscal year 2010. Total other financing sources/uses increased \$78,124 to \$120,684, primarily due to a \$154,254 transfer from the General Fund for public safety building construction expenses.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Water Fund cash balance increased \$611 to \$336,698.
- The Enterprise, Sewer Fund cash balance decreased \$326,758 to \$255,343, due primarily to disbursements for repairs and equipment related to the 2010 flood.
- The Enterprise, Sanitation Fund cash balance decreased \$29,612 to \$86,900, primarily due to increased payroll disbursements.

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City of Monticello amended its budget one time. The amendment was done on May 16, 2011. The amendment was needed to adjust receipts and disbursements.

Adjustments to receipts included an increase to intergovernmental receipts, a decrease to charges for service and an increase to miscellaneous receipts. Adjustments to disbursements included increases in the public safety, public works, culture and recreation, general government, debt service, capital projects and business type activities functions.

The City's receipts were \$337,392 less than budgeted. This was primarily due to the cumulative effect of the City overestimating use of money and property and intergovernmental receipts.

Total disbursements were \$1,005,367 less than the amended budget. Actual disbursements for the capital projects, public safety and business type activities functions were \$464,860, \$151,796 and \$260,979, respectively, less than the amended budget. This was primarily due to anticipating more project activity than actually occurred.

#### **DEBT ADMINISTRATION**

At June 30, 2011, the City had \$6,275,166 in bonds, notes and other long-term debt outstanding, compared to \$7,298,770 last year, as shown below.

Outstanding Debt at Year-End		
	June 30,	
	2011	2010
General obligation bonds	\$ 5,085,500	5,790,000
General obligation capital loan notes	255,000	465,000
Revenue bonds	915,000	1,015,000
Capital lease purchase agreement	19,666	28,770
Total	\$ 6,275,166	7,298,770

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$5,360,166 is significantly below its constitutional debt limit of approximately \$8.9 million.

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

The City of Monticello's organizational chart and Code of Ordinances place the responsibility for the preparation of the budget largely on the City Administrator, with the assistance of the City Clerk and department heads. The budget process gets underway, in earnest, during the month of January and wraps up in the month of March. While the City Administrator is responsible for the preparation and proposal of the budget, the department heads are intricately involved in the preparation of proposed budgets related to their department. One exception to the above "general rule" is the library budget, which is prepared by the Library Director in consultation with the Library Board. The City Administrator is involved in the Library budget preparation and presentation only to the extent requested by the Library Board or Library Director. The City Council has always provided an appropriation to the Library as part of the General Fund. The City Administrator offers input to the City Council on General Fund appropriations and the ability of the General Fund to meet requests for appropriations, whether from the Library or for other purposes. Ultimately, the decision on final budgetary numbers and tax rates lies with the City Council.

The budgeting process included meetings and conversations by and between the City Administrator and department heads, followed by public meetings and work sessions with the City Council. Throughout the year, a constant analysis of ongoing disbursements is undertaken with an eye towards operating more efficiently to avoid cost increases or tax rate increases whenever possible. The primary focus has been on disbursements as opposed to receipts due to the fact the City's revenue stream options are limited and, to a great extent, out of our control. This does not mean additional revenue streams are not considered and pursued when possible. Over the last few years, the City has realized substantial savings in the categories of insurance, telephone expenses, interest, by way of refinancing and early payment of debt, and steps have been, and will continue to be, taken to minimize overtime. When potential cost savings opportunities are identified, efforts are made at implementing practices and procedures to realize same. In addition to the efforts of city administration to cut costs, any and all other cost cutting options the City Council may propose from time to time also receive careful study and analysis.

The City tax rate is best described as a three-legged stool comprised of the \$8.10 General Fund levy, the debt service levy and the employee benefits levy. The funds generated by the \$8.10 levy are used to support the following departments: police, aquatic center, cemetery, airport, administration, engineer, attorney and appropriations to the Library, Berndes Center, Fire Department, Ambulance, as necessary, and other miscellaneous categories. This is not to say that many of these departments do not also generate their own revenue streams. For example, it is not atypical for the Airport to generate receipts which meet or exceed disbursements, with all airport receipts being included in General Fund receipts. The debt service levy is largely pre-determined by the amount of debt payments to be made by the City during the coming year. The City has seen its debt service levy drop in the past years, due largely to the early payment of and/or refinancing of higher interest rate debt. If and when a debt issuance becomes callable, a

careful analysis of the possibility and appropriateness of satisfying the debt in advance of its scheduled maturity is undertaken.

The employee benefits levy is based upon the cost of paying contractually or statutorily mandated employee benefits, such as insurance, retirement account contributions, social security/Medicare, etc. The employee benefits levy is probably the most volatile, with the City choosing to self-insure a portion of our obligations to employees, as outlined in the Collective Bargaining Agreement, to maintain as much consistency in costs as is possible.

In addition to careful management of daily expenses and a review of all areas within which savings may be realized, the City of Monticello's elected and appointed officials and department heads also consider many other factors in preparing the annual budget. Important factors include necessary infrastructure additions or improvements, equipment updates and/or replacements and investment in other projects and/or ventures deemed by the City Council to be in the best interest of the City.

The City's General Fund levy for fiscal year 2012 remained basically identical to the fiscal year 2011 levy. Preparation of the fiscal year 2013 budget is underway and it is anticipated, although yet unknown, that the tax levy for the coming year will not exceed the current fiscal year rate.

The South Cedar Street Reconstruction project, the Monticello Emergency Response Center, a/k/a Public Safety Building project, replacement of HVAC unit at the Community Building, finalization of the Sewage Treatment Plant Levee, completion of the Hardscrabble Road overlay project and acquisition and related clean-up of the Riddle Building site have all been completed in the last twelve months. Presently under construction is the Monticello Airport Terminal Building. This project, along with the refurbishing of the Monticello FBO building, acquired by the City in fiscal year 2012, will result in one City owned building to house City airport operations, as well as space which will be rented to the FBO for their business operations. This project will be funded entirely with FAA, IDOT Aviation and donated funds. The City also submitted two HMGP Applications with FEMA requesting FEMA assistance in the purchase and removal of a number of residential properties in the flood plain adjacent to Kitty Creek in Monticello, as well as three commercial properties in said flood plain. The Residential Application was recently approved and the commercial application is pending. There will be much activity in regard to these projects in the coming fiscal year. The City has also partnered with the Jones County Fair and Jones County Extension in regard to the construction of the Jones County Youth Development Center in the City of Monticello on the grounds of the City Park/City Fairgrounds. Construction on that CAT grant supported project will commence in the spring of 2012.

The City, with a goal of limiting increases in insurance premiums related to worker's compensation, health and property/casualty insurance, has taken an approach of limiting claims against those policies when possible. The City weighs all claims and makes an informed decision on which claims should be handled as a self-insured event as opposed to an insurance reimbursement submittal.

Administration and the City Council will continue to be proactive in seeking to maintain a handle on expenses while exploring all appropriate revenue generating options. It is recognized by Administration and the City Council the community cannot be allowed to become stagnant. A continued proactive and progressive approach to infrastructure management and smart community growth is vital to the long-term viability of the community, and the City Council will take those measured steps necessary to ensure Monticello is an attractive location for families and business for years to come.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sally Hinrichsen, City Clerk, 200 E. 1<sup>st</sup> Street, Monticello, Iowa, 52310.

**City of Monticello**

## **Basic Financial Statements**

City of Monticello

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2011

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 1,259,332	433,664	308,208	-
Public works	649,183	127,929	338,806	-
Culture and recreation	547,686	183,207	-	-
Community and economic development	47,860	-	32,782	-
General government	383,658	55,974	-	-
Debt service	1,137,119	-	1,123	-
Capital projects	519,204	30,751	10,270	404,284
Total governmental activities	4,544,042	831,525	691,189	404,284
Business type activities:				
Water	264,449	387,864	-	-
Sewer	1,063,015	561,287	-	15,786
Sanitation	397,032	381,137	-	-
Total business type activities	1,724,496	1,330,288	-	15,786
Total	\$ 6,268,538	2,161,813	691,189	420,070
<b>General Receipts and Transfers:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Utility franchise tax				
Unrestricted interest on investments				
Bond proceeds				
Insurance proceeds				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year, as restated				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Nonexpendable:				
Permanent fund purposes				
Expendable:				
Streets				
Urban renewal purposes				
Debt service				
Library improvements				
Capital projects				
Other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
(517,460)	-	(517,460)
(182,448)	-	(182,448)
(364,479)	-	(364,479)
(15,078)	-	(15,078)
(327,684)	-	(327,684)
(1,135,996)	-	(1,135,996)
(73,899)	-	(73,899)
(2,617,044)	-	(2,617,044)
-	123,415	123,415
-	(485,942)	(485,942)
-	(15,895)	(15,895)
-	(378,422)	(378,422)
(2,617,044)	(378,422)	(2,995,466)
903,036	-	903,036
241,733	-	241,733
875,293	-	875,293
285,781	-	285,781
516	-	516
232,235	-	232,235
23,907	16,078	39,985
8,117	2,383	10,500
-	66,251	66,251
62,049	(62,049)	-
2,632,667	22,663	2,655,330
15,623	(355,759)	(340,136)
2,646,198	1,034,700	3,680,898
\$ 2,661,821	678,941	3,340,762

\$ 242,856	-	242,856
59,474	-	59,474
433,583	-	433,583
28,691	137,078	165,769
51,683	-	51,683
944,869	-	944,869
488,732	-	488,732
411,933	541,863	953,796
\$ 2,661,821	678,941	3,340,762

City of Monticello

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2011

	General	Special Revenue Tax Increment Financing
Receipts:		
Property tax	\$ 605,119	-
Tax increment financing	-	875,293
Other city tax	540,939	-
Licenses and permits	11,904	-
Use of money and property	136,838	4,883
Intergovernmental	86,981	-
Charges for service	575,084	-
Special assessments	-	-
Miscellaneous	94,437	-
Total receipts	<u>2,051,302</u>	<u>880,176</u>
Disbursements:		
Operating:		
Public safety	953,588	-
Public works	277,197	-
Culture and recreation	495,689	-
Community and economic development	-	47,860
General government	346,686	-
Debt service	-	-
Capital projects	-	-
Total disbursements	<u>2,073,160</u>	<u>47,860</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(21,858)</u>	<u>832,316</u>
Other financing sources (uses):		
Bond proceeds	-	-
Operating transfers in	220,941	-
Operating transfers out	(331,615)	(827,383)
Total other financing sources (uses)	<u>(110,674)</u>	<u>(827,383)</u>
Net change in cash balances	(132,532)	4,933
Cash balances beginning of year, as restated	597,182	428,650
Cash balances end of year	<u>\$ 464,650</u>	<u>433,583</u>
<b>Cash Basis Fund Balances</b>		
Nonspendable - permanent funds	\$ -	-
Restricted for:		
Urban renewal purposes	-	433,583
Debt service	-	-
Streets	-	-
Capital projects	-	-
Library improvements	51,683	-
Cemetery improvements	234	-
Police equipment	800	-
Other purposes	-	-
Assigned for equipment	32,926	-
Unassigned	379,007	-
Total cash basis fund balances	<u>\$ 464,650</u>	<u>433,583</u>

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
241,733	-	259,324	1,106,176
-	-	-	875,293
6,520	-	9,666	557,125
-	-	-	11,904
1,123	8,945	7,116	158,905
-	420,971	333,806	841,758
-	11,984	-	587,068
-	18,767	-	18,767
-	9,327	228,739	332,503
249,376	469,994	838,651	4,489,499
-	-	305,744	1,259,332
-	-	371,986	649,183
-	-	51,997	547,686
-	-	-	47,860
-	-	36,972	383,658
1,137,119	-	-	1,137,119
-	519,204	-	519,204
1,137,119	519,204	766,699	4,544,042
(887,743)	(49,210)	71,952	(54,543)
-	8,117	-	8,117
887,539	154,254	-	1,262,734
-	(41,687)	-	(1,200,685)
887,539	120,684	-	70,166
(204)	71,474	71,952	15,623
28,895	873,395	718,076	2,646,198
28,691	944,869	790,028	2,661,821
-	-	242,856	242,856
-	-	-	433,583
28,691	-	-	28,691
-	-	59,474	59,474
-	944,869	-	944,869
-	-	-	51,683
-	-	-	234
-	-	-	800
-	-	487,698	487,698
-	-	-	32,926
-	-	-	379,007
28,691	944,869	790,028	2,661,821

**Exhibit C**

## City of Monticello

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2011

	Enterprise				Internal Service
	Water	Sewer	Sanitation	Total	Self Insurance
Operating receipts:					
Charges for service	\$ 376,627	531,979	341,731	1,250,337	13,244
Miscellaneous	11,237	29,308	39,406	79,951	-
Total operating receipts	387,864	561,287	381,137	1,330,288	13,244
Operating disbursements:					
Governmental activities:					
Public safety	-	-	-	-	542
Public works	-	-	-	-	4,387
Culture and recreation	-	-	-	-	1,139
General government	-	-	-	-	2,142
Business type activities	254,449	363,952	397,032	1,015,433	5,034
Total operating disbursements	254,449	363,952	397,032	1,015,433	13,244
Excess (deficiency) of operating receipts over (under) operating disbursements	133,415	197,335	(15,895)	314,855	-
Non-operating receipts (disbursements):					
Interest on investments	4,850	9,945	1,283	16,078	-
Bond proceeds	-	2,383	-	2,383	-
Capital improvements	(10,000)	(185,425)	-	(195,425)	-
Debt service	-	(137,078)	-	(137,078)	-
Insurance proceeds	-	66,251	-	66,251	-
Special assessments	-	15,786	-	15,786	-
Flood expense	-	(376,560)	-	(376,560)	-
Total non-operating receipts (disbursements)	(5,150)	(604,698)	1,283	(608,565)	-
Excess (deficiency) of receipts over (under) disbursements	128,265	(407,363)	(14,612)	(293,710)	-
Operating transfers in	-	170,000	-	170,000	-
Operating transfers out	(127,654)	(89,395)	(15,000)	(232,049)	-
Total transfers	(127,654)	80,605	(15,000)	(62,049)	-
Net change in cash balances	611	(326,758)	(29,612)	(355,759)	-
Cash balances beginning of year	336,087	582,101	116,512	1,034,700	-
Cash balances end of year	\$ 336,698	255,343	86,900	678,941	-
<b>Cash Basis Fund Balances</b>					
Restricted for debt service	\$ -	137,078	-	137,078	-
Unrestricted	336,698	118,265	86,900	541,863	-
Total cash basis fund balances	\$ 336,698	255,343	86,900	678,941	-

See notes to financial statements.

## City of Monticello

Statement of Changes in Fiduciary Assets and Liabilities  
Fiduciary Fund

As of and for the year ended June 30, 2011

	<u>Agency Flexible Benefits</u>
Additions:	
Employee contributions	\$ 2,000
Deductions:	
Medical reimbursements	<u>1,461</u>
Net change in cash balance	539
Cash balance beginning of year	<u>258</u>
Cash balance end of year	<u><u>\$ 797</u></u>

See notes to financial statements.

City of Monticello

Notes to Financial Statements

June 30, 2011

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

The City of Monticello is a political subdivision of the State of Iowa located in Jones County. It was first incorporated in 1837 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, culture and recreation, community and economic development and general government services. The City also provides water, sewer and sanitation utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Monticello has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Monticello (the primary government) and Riverside Gardeners, Inc., Monticello Firefighters Organization, Inc., Monticello Emergency Medical Team and Friends of the Monticello Public Library (component units). These component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Blended Component Units

Riverside Gardeners, Inc. is legally separate from the City but is so intertwined with the City it is, in substance, the same as the City. It is reported as part of the City and blended into the Special Revenue Funds. Riverside Gardeners, Inc. has been established pursuant to Chapter 504A of the Code of Iowa for the purpose of developing and maintaining public parks, the maintenance and improvement of community recreational areas and facilities and the beautification of parklands. The Monticello Riverside Park is the primary beneficiary of this charitable organization and it is the intent of the Board of Directors of Riverside Gardeners, Inc. to continue this relationship with the City.

Monticello Firefighters Organization, Inc. is legally separate from the City but is so intertwined with the City it is, in substance, the same as the City. It is reported as part of the City and blended into the Special Revenue Funds. Monticello Firefighters Organization, Inc. has been established pursuant to Chapter 504A of the Code of Iowa for the purpose of assisting the Monticello Fire Department.

Monticello Emergency Medical Team is legally separate from the City but is so intertwined with the City it is, in substance, the same as the City. It is reported as part of the City and blended into the Special Revenue Funds. Although Monticello Emergency Medical Team is legally separate from the City, its purpose is to benefit the City of Monticello Ambulance Service by soliciting contributions and managing those funds.

Friends of the Monticello Public Library is legally separate from the City but is so intertwined with the City it is, in substance, the same as the City. It is reported as part of the City and blended into the Special Revenue Funds. Although Friends of the Monticello Public Library is legally separate from the City, its purpose is to benefit the City of Monticello public library by soliciting contributions and managing those funds.

#### Jointly Governed Organizations

The City participates in several jointly governed organizations for which the City is not financially accountable or the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following boards and commissions: Jones County Assessor's Conference Board, E911 Joint Service Board and Emergency Management Agency. The City also participates in the Jones County Solid Waste Management Commission, a jointly governed organization established pursuant to Chapter 28E of the Code of Iowa.

#### B. Basis of Presentation

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

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

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

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

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

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

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary 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.

The Special Revenue, Tax Increment Financing Fund is used to account for tax increment financing receipts and the repayment of tax increment financing indebtedness.

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

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities and certain equipment, with the exception of those financed through Enterprise Funds.

The City reports the following major proprietary funds:

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

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

The Enterprise, Sanitation Fund accounts for the operation and maintenance of the City's solid waste removal system.

The City reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of a portion of the benefits employees are entitled to under the collective bargaining agreement/union contract due to the City buying higher deductible health insurance policies.

Additionally, the City reports a fiduciary fund to account for assets held by the City as an agent for employee flexible benefit contributions and related payments.

C. 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 U.S. generally accepted accounting principles.

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

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

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

#### D. Governmental Cash Basis Fund Balances

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

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

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

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

Unassigned – All amounts not included in the preceding classifications.

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amount budgeted in the business type activities function prior to adoption of a budget amendment.

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

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

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; 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 Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

### (3) Long-Term Debt

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

Year Ending June 30,	General Obligation Bonds		General Obligation Capital Loan Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2012	\$ 660,000	175,002	255,000	8,160	100,000	33,628	1,015,000
2013	675,000	155,830	-	-	105,000	30,478	780,000	186,308
2014	690,000	134,760	-	-	110,000	27,013	800,000	161,773
2015	645,000	111,927	-	-	110,000	23,218	755,000	135,145
2016	670,000	89,650	-	-	115,000	19,258	785,000	108,908
2017-2021	1,735,000	157,610	-	-	375,000	30,475	2,110,000	188,085
Total	\$5,075,000	824,779	255,000	8,160	915,000	164,070	6,245,000	997,009

#### Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,195,000 of sewer refunding bonds issued in May 2008. Proceeds from the bonds refunded the City's outstanding Series 1998B sewer revenue bonds. The bonds are payable solely from sewer customer net receipts and are payable through 2019. Annual principal and interest payments on the bonds are expected to require less than 70% of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,079,070. For the current year, principal and interest paid and total customer net receipts were \$136,628 and \$197,335, respectively.

The resolution providing for the issuance of the sewer refunding 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) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (c) Monthly transfers shall be made to a separate sewer reserve account until a specified required balance has been accumulated. This account is restricted for paying principal at maturity or interest on the bonds in the event the sinking account is unable to make the payments.
- (d) Monthly transfers of \$400 shall be made to a sewer improvement account until the required balance of \$75,000 is accumulated. This account is restricted for paying principal or interest on the bonds when there is insufficient money in the sinking or reserve accounts, for extraordinary maintenance expenses or repair, renewals and replacements not included in the annual budget of revenues and current expenses, payment of rentals on any part of the system and for capital improvements to the system.
- (e) User rates shall be established at a level which produces and maintains net revenues at a level not less than 125% of the amount of principal and interest on the bonds falling due in the same year.
- (f) In the event the City or any department, agency or instrumentality thereof in any way uses or is served by the Utility, the rates or charges provided for shall be paid by the City from its General Fund.

For the year ended June 30, 2011, the City did not pay for its use of City utilities.

### General Obligation Corporate Purpose Bonds

As more fully described in Note 16 to the financial statements, the City is in the process of issuing general obligation corporate purpose bonds of \$1,145,000. The City received a good faith deposit of \$10,500 which was credited to the Capital Projects and Enterprise, Sewer Funds.

### Capital Lease Purchase Agreement

On February 7, 2009, the City entered into a lease purchase agreement for a backhoe loader. The lease term is for five years, with interest at 5.25% per annum, and requires annual payments of \$10,614. The present value of net minimum lease payments under the agreement in effect at June 30, 2011 is as follows:

<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Amount</u>
2012	\$ 10,614
2013	10,614
2014	1
Total minimum lease payments	<u>21,229</u>
Less amount representing interest	<u>(1,563)</u>
Present value of net minimum lease payments	<u>\$ 19,666</u>

Payments under the lease purchase agreement for the year ended June 30, 2011 totaled \$10,614.

#### **(4) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% 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, 2011, 2010 and 2009 were \$106,598, \$96,784 and \$85,114, respectively, equal to the required contributions for each year.

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

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 28 active and no 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 would 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 \$365 for single coverage and \$1,121 for family coverage. The same monthly premiums would apply to retirees. For the year ended June 30, 2011, the City contributed \$116,335 and plan members eligible for benefits contributed \$695 to the plan.

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. Sick leave is payable upon termination, retirement or death for certain employees who were employed by the City at least eight years as of 1998. These employees will receive a payout of one-half the total accumulated sick leave hours, not to exceed 360 hours, and paid at the effective hourly rate at June 30, 1998 for the employee. The City also allows employees to accumulate holiday and compensatory time during the fiscal year in lieu of overtime pay. The City's approximate liability for earned compensated absences payable to employees at June 30, 2011, primarily relating to the General and Enterprise Funds, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 24,700
Sick leave	1,400
Holiday	<u>1,300</u>
Total	<u>\$ 27,400</u>

This liability has been computed based on rates of pay in effect at June 30, 2011.

**(7) Risk Management**

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

The City has a group insurance policy which provides comprehensive medical coverage for eligible employees and, if elected, their spouses and dependents. The City's group insurance is a partially self-funded health plan. Under the partially self-funded plan, the City will reimburse an eligible employee for a portion of the deductible. The amount of the deductible for employees and the City are as follows:

	<u>Single</u>	<u>Family</u>
Employee	\$ 500	1,000
City	2,500	5,000

In addition to the deductible, the City also self-funds a portion of office visits and prescription co-pays. Employees are charged \$25 per office visit, while the employee agreements (City employees union, policy manual and police) state employees are responsible for 10% of the actual cost if a network provider is used and 20% if the provider is outside the network. Therefore, the City reimburses the employees for the difference, if any.

For prescriptions, the City reimburses employees for the entire deductible (\$100 single deductible and \$200 family deductible) as well as the difference between the co-pay (ranges from \$8 to \$50) paid by the employee and the amounts the employee agreements state the employee is responsible for (\$10 for generic or \$20 for name brand).

The City also partially self-funds dental insurance for major dental work and orthodontics. The employee agreements state insurance shall cover 80% of major dental work and 50% of orthodontics, with no limitation stated. The City's dental insurance pays 50% of major dental work and orthodontics with a lifetime maximum of \$1,000 for orthodontics. The City is responsible for the difference between the amount covered by insurance and the amount of coverage stated in the employee agreements.

**(8) Construction Commitment**

The City has entered into construction contracts totaling \$1,492,536 for the Public Safety Building and 2011 2<sup>nd</sup> Street Reconstruction projects. As of June 30, 2011, \$796,423 had been paid on the contracts. The remaining \$696,113 will be paid as work on the project progresses.

**(9) Urban Renewal Project Agreements**

In prior years, the City entered into two tax increment financing agreements. The City has agreed to assist in urban renewal projects by rebating incremental property tax paid by the participating companies with respect to the improvements set forth in the urban renewal plan. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the participating companies will be rebated for a period of five years, beginning with the tax year in which the property tax on the completed value of the improvements is first paid. The total amount to be rebated in any fiscal year for the tax increment financing agreement is not to exceed fifty-five percent (55%) of the incremental property tax paid by the companies to the City as the result of property improvements. The total amount rebated during the year ended June 30, 2011 was \$4,667. The total cumulative amount rebated since inception of the existing agreement is \$22,779. One agreement ended July 1, 2010 and the remaining balance of the agreement at June 30, 2011 is \$0.

The City has entered into various tax increment financing development agreements for urban renewal projects. The agreements require the City to provide incremental property tax payments to developers in exchange for infrastructure improvements and development of commercial projects by the developers. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the participating company will be rebated for a period of 10 years, beginning with the tax year in which the property tax on the completed value of the improvements is first paid. The agreements are expected to end by fiscal year 2022. Certain agreements include payment of a series of grants totaling \$316,257, subject to timing and performance requirements as set forth in the agreements. The total rebates and grants to be paid by the City under the agreements is not to exceed \$1,329,000. The total amount rebated and granted during the year ended June 30, 2011 is \$43,193.

**(10) Economic Development Loans**

The City has awarded certain loans to local businesses under the City's downtown business rehabilitation loan program. The loans are interest free and are to be repaid in monthly installments within a five year period following the City's first advance on each loan agreement. As of June 30, 2011, the balance on the loans was \$22,880 and the City received repayments totaling \$11,484 during the year.

**(11) Library Trusts**

The City has received bequests from Charles S. Bidwell and Ioma M. Baker to be used for specific library purposes. The interest received from the Bidwell bequest is to be used to purchase library books and interest received from the Baker bequest is to be used towards library purposes.

**(12) Interfund Loans**

The General Fund has loaned the Capital Projects Fund and the Enterprise, Sewer Fund \$272,902 and \$181,202, respectively, interest free, for various capital improvement projects. During the year, \$66,687 was repaid to the General Fund, leaving balances owed of \$181,215 and \$181,202 respectively.

**(13) Interfund Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue	
	Tax Increment Financing	\$ 154,254
	Capital Projects	41,687
	Enterprise:	
	Water	10,000
	Sanitation	15,000
		<u>220,941</u>
Debt Service	General	7,361
	Special Revenue:	
	Tax Increment Financing	673,129
	Enterprise:	
	Water	117,654
	Sewer	89,395
		<u>887,539</u>
Capital Projects	General	<u>154,254</u>
Enterprise:		
Sewer	General	<u>170,000</u>
Total		<u>\$ 1,432,734</u>

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

**(14) Operating Lease Agreement**

The City entered into a lease during the year end June 30, 2011. The City is leasing multiple copiers, printers and fax machines. The lease has been classified as an operating lease and, accordingly, all rents are charged to expense as incurred. The lease expires in December 2015.

The following is a schedule of future minimum rental payments required under the operating lease which has an initial or remaining non-cancelable lease term in excess of one year as of June 30, 2011.

Year Ending June 30,	Amount
2012	\$ 15,192
2013	15,192
2014	15,192
2015	15,192
2016	7,596
Total	<u>\$ 68,364</u>

**(15) Employee Health Insurance Plan**

The City established the Internal Service, Self Insurance Fund to account for the partial self funding of the City's health insurance benefit plan. The plan is funded by City contributions and is administered by the City. The City assumes liability for claims between \$500 and \$3,000 for single coverage and \$1,000 and \$6,000 for family coverage. Claims in excess of the deductible are insured through the purchase of insurance.

Payments to the Self Insurance Fund were recorded as disbursements by the operating funds. Payments to employees for medical claims for the year ended June 30, 2010 were \$13,244.

**(16) Subsequent Events**

In July 2011, the City entered into a construction contract for the Airport Terminal Building for \$719,000. The construction will be funded by a Federal Aviation Administration grant of \$704,000, with the remainder funded by donations to the City.

Also in July 2011, the City issued \$1,145,000 of general obligation corporate purpose bonds for the purpose of paying costs for street improvements, levee improvements for the sanitary sewer system, acquiring a GIS mapping system for the sanitation and water departments, removing asbestos from and demolishing a dilapidated building, reconstructing the public works facility and the purchase of an ambulance.

**(17) Accounting Change/Restatement**

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassification is as follows:

	Balances June 30, 2010, as previously reported	Change in fund type classification per implementation of GASB Statement No. 54	Balances July 1, 2010, as restated
General Fund	\$ 516,354	80,828	597,182
Special Revenue Funds:			
Park Improvements	7,672	(7,672)	-
Ambulance Improvements	23,683	(23,683)	-
Library Improvements	44,044	(44,044)	-
Earl F. Lehmann Trust	232	(232)	-
Cemetery Improvements	53,180	(53,180)	-
Family Aquatic Center Campaign	20,024	(20,024)	-
Library Building	5,039	(5,039)	-
Insurance	36,557	(36,557)	-
Police Forfeiture	-	5	5
Capital Projects	763,797	109,598	873,395
Total	\$ 1,470,582	-	1,470,582

Also, the beginning cash balances of the Monticello Firefighters Organization, Inc. and Friends of the Monticello Public Library were restated to include a certificate of deposit previously excluded and exclude a certificate of deposit previously included, respectively.

	Monticello Firefighters Organization, Inc.	Friends of the Monticello Public Library
Balances June 30, 2010, as previously reported	\$ 48,827	11,581
Adjustment for certificates of deposit	14,999	(5,051)
Balance July 1, 2010, as restated	\$ 63,826	6,530

**Required Supplementary Information**

City of Monticello  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements, and Changes in Balances -  
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
<b>Receipts:</b>			
Property tax	\$ 1,106,176	-	-
Tax increment financing	875,293	-	-
Other city tax	569,636	-	-
Licenses and permits	11,904	-	-
Use of money and property	158,905	16,078	820
Intergovernmental	829,247	-	-
Charges for service	587,068	1,250,337	-
Special assessments	18,767	15,786	-
Miscellaneous	332,503	146,202	223,894
Total receipts	<u>4,489,499</u>	<u>1,428,403</u>	<u>224,714</u>
<b>Disbursements:</b>			
Public safety	1,259,332	-	139,658
Public works	649,183	-	-
Culture and recreation	547,686	-	7,710
Community and economic development	47,860	-	-
General government	383,658	-	-
Debt service	1,137,119	-	-
Capital projects	519,204	-	-
Business type activities	-	1,724,496	-
Total disbursements	<u>4,544,042</u>	<u>1,724,496</u>	<u>147,368</u>
Excess (deficiency) of receipts over (under) disbursements	(54,543)	(296,093)	77,346
Other financing sources (uses)	70,166	(59,666)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	15,623	(355,759)	77,346
Balances beginning of year, as restated	<u>2,646,198</u>	<u>1,034,700</u>	<u>103,798</u>
Balances end of year	<u>\$ 2,661,821</u>	<u>678,941</u>	<u>181,144</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Net Variance
	Original	Final	
1,106,176	1,102,822	1,102,822	3,354
875,293	845,701	845,701	29,592
569,636	520,792	520,792	48,844
11,904	11,420	11,420	484
174,163	324,936	325,540	(151,377)
829,247	453,161	1,115,575	(286,328)
1,837,405	1,859,163	1,834,000	3,405
34,553	9,250	25,852	8,701
254,811	141,703	248,878	5,933
<u>5,693,188</u>	<u>5,268,948</u>	<u>6,030,580</u>	<u>(337,392)</u>
1,119,674	1,242,460	1,271,470	151,796
649,183	642,465	701,015	51,832
539,976	522,637	591,213	51,237
47,860	49,193	49,193	1,333
383,658	371,840	406,988	23,330
1,137,119	998,004	1,137,119	-
519,204	745,000	984,064	464,860
1,724,496	1,387,009	1,985,475	260,979
<u>6,121,170</u>	<u>5,958,608</u>	<u>7,126,537</u>	<u>1,005,367</u>
(427,982)	(689,660)	(1,095,957)	667,975
10,500	-	49,762	(39,262)
(417,482)	(689,660)	(1,046,195)	628,713
<u>3,577,100</u>	<u>4,187,240</u>	<u>3,577,359</u>	<u>(259)</u>
<u>3,159,618</u>	<u>3,497,580</u>	<u>2,531,164</u>	<u>628,454</u>

City of Monticello

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,167,929. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amount budgeted in the business type activities function prior to a budget amendment.

**Other Supplementary Information**

City of Monticello

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2011

	Road Use Tax	CEBA and Other Grants	Police Forfeiture	Employee Benefits	Special Slavka Gehret Trust
<b>Receipts:</b>					
Property tax	\$ -	-	-	259,324	-
Other city tax	-	-	-	9,666	-
Use of money and property	-	-	-	1,038	3,712
Intergovernmental	333,806	-	-	-	-
Miscellaneous	-	-	550	-	-
Total receipts	<u>333,806</u>	<u>-</u>	<u>550</u>	<u>270,028</u>	<u>3,712</u>
<b>Disbursements:</b>					
Operating:					
Public safety	-	-	-	166,086	-
Public works	336,065	-	-	35,921	-
Culture and recreation	-	-	-	44,287	-
General government	-	-	-	36,972	-
Total disbursements	<u>336,065</u>	<u>-</u>	<u>-</u>	<u>283,266</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	(2,259)	-	550	(13,238)	3,712
Cash balances beginning of year, as restated	61,733	2,704	5	103,225	200,826
Cash balances end of year	<u>\$ 59,474</u>	<u>2,704</u>	<u>555</u>	<u>89,987</u>	<u>204,538</u>
<b>Cash Basis Fund Balances</b>					
Nonspendable - permanent funds	\$ -	-	-	-	-
Restricted for:					
Streets	59,474	-	-	-	-
Other purposes	-	2,704	555	89,987	204,538
Total cash basis fund balances	<u>\$ 59,474</u>	<u>2,704</u>	<u>555</u>	<u>89,987</u>	<u>204,538</u>

See accompanying independent auditor's report.

Revenue				Permanent			Total
Riverside Gardeners, Inc.	Monticello Firefighters Organization, Inc.	Monticello Emergency Medical Team	Friends of the Monticello Public Library	Cemetery Perpetual Care	Ioma M. Baker Library Trust	Charles S. Bidwell Book Trust	
-	-	-	-	-	-	-	259,324
-	-	-	-	-	-	-	9,666
244	565	11	-	-	705	841	7,116
-	-	-	-	-	-	-	333,806
3,780	198,239	21,625	250	4,295	-	-	228,739
4,024	198,804	21,636	250	4,295	705	841	838,651
-	124,652	15,006	-	-	-	-	305,744
-	-	-	-	-	-	-	371,986
6,150	-	-	1,560	-	-	-	51,997
-	-	-	-	-	-	-	36,972
6,150	124,652	15,006	1,560	-	-	-	766,699
(2,126)	74,152	6,630	(1,310)	4,295	705	841	71,952
19,115	63,826	14,327	6,530	128,787	37,886	79,112	718,076
16,989	137,978	20,957	5,220	133,082	38,591	79,953	790,028
-	-	-	-	133,082	32,774	77,000	242,856
-	-	-	-	-	-	-	59,474
16,989	137,978	20,957	5,220	-	5,817	2,953	487,698
16,989	137,978	20,957	5,220	133,082	38,591	79,953	790,028

City of Monticello  
Schedule of Indebtedness  
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Urban renewal	May 1, 2004	1.25-4.00%	\$ 1,200,000
General corporate purpose	Apr 3, 2006	3.875-4.00	460,000
General corporate purpose	Sep 25, 2008	2.75-3.90	1,065,000
Corporate purpose and refunding	Oct 15, 2008	2.50-4.05	3,400,000
Refunding	Jun 1, 2010	1.00-3.60	1,310,000
General corporate purpose	Jul 6, 2011 *	.70-2.35	1,145,000
Total			
General obligation capital loan notes:			
Corporate purpose and refunding	Mar 1, 2005	2.30-3.20%	\$ 1,450,000
Revenue bonds:			
Sewer refunding	May 12, 2008	2.70-4.05%	\$ 1,195,000
Capital lease purchase agreement:			
Backhoe loader	Feb 7, 2009	5.25%	\$ 48,033

\* \$10,500 good faith deposit was received prior to June 30, 2011.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
600,000	-	100,000	500,000	22,300
300,000	-	45,000	255,000	11,694
700,000	-	195,000	505,000	24,100
2,880,000	-	270,000	2,610,000	103,240
1,310,000	-	105,000	1,205,000	33,415
-	10,500	-	10,500	-
<b>\$ 5,790,000</b>	<b>10,500</b>	<b>715,000</b>	<b>5,085,500</b>	<b>194,749</b>
465,000	-	210,000	255,000	14,670
1,015,000	-	100,000	915,000	36,628
28,770	-	9,104	19,666	1,510

City of Monticello  
Bond and Note Maturities  
June 30, 2011

Year Ending June 30,	General Obligation Bonds							
	Urban Renewal		General Corporate Purpose		General Corporate Purpose		Corporate Purpose and Refunding	
	Issued May 1, 2004		Issued Apr 3, 2006		Issued Sep 25, 2008		Issued Oct 15, 2008	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2012	3.50%	\$ 100,000	3.875%	\$ 50,000	3.300%	\$ 120,000	3.00%	\$ 280,000
2013	3.70	100,000	3.875	50,000	3.450	125,000	3.20	295,000
2014	3.85	100,000	3.875	50,000	3.600	130,000	3.40	305,000
2015	4.00	100,000	3.875	50,000	3.800	65,000	3.60	315,000
2016	4.00	100,000	4.000	55,000	3.900	65,000	3.80	330,000
2017		-		-		-	4.00	345,000
2018		-		-		-	4.00	360,000
2019		-		-		-	4.05	380,000
2020		-		-		-		-
2021		-		-		-		-
Total		<u>\$ 500,000</u>		<u>\$ 255,000</u>		<u>\$ 505,000</u>		<u>\$2,610,000</u>

See accompanying independent auditor's report.

<u>Refunding</u>			<u>General Obligation Capital Loan Notes</u>		<u>Revenue Bonds</u>	
<u>Issued June 1, 2010</u>			<u>Corporate</u>		<u>Sewer</u>	
<u>Interest</u>			<u>Purpose and Refunding</u>		<u>Refunding</u>	
<u>Issued June 1, 2010</u>			<u>Issued Mar 1, 2005</u>		<u>Issued May 12, 2008</u>	
<u>Interest</u>			<u>Interest</u>		<u>Interest</u>	
Rates	Amount	Total	Rates	Amount	Rates	Amount
1.25%	\$ 110,000	660,000	3.20%	\$ 255,000	3.15%	\$ 100,000
1.60	105,000	675,000		-	3.30	105,000
1.90	105,000	690,000		-	3.45	110,000
2.20	115,000	645,000		-	3.60	110,000
2.60	120,000	670,000		-	3.75	115,000
2.90	120,000	465,000		-	3.90	120,000
3.20	125,000	485,000		-	4.00	125,000
3.40	130,000	510,000		-	4.05	130,000
3.50	135,000	135,000		-		-
3.60	140,000	140,000		-		-
	<u>\$1,205,000</u>	<u>5,075,000</u>		<u>\$ 255,000</u>		<u>\$ 915,000</u>

City of Monticello

Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For the Last Nine Years

	2011	2010	2009	2008	2007
<b>Receipts:</b>					
Property tax	\$ 1,106,176	1,068,538	1,052,215	1,031,036	1,018,093
Tax increment financing	875,293	812,590	776,551	736,987	737,067
Other city tax	557,125	543,522	538,075	550,145	534,957
Licenses and permits	11,904	16,337	14,183	13,726	9,280
Use of money and property	158,905	164,893	165,836	253,147	266,114
Intergovernmental	841,758	533,704	538,671	845,758	842,157
Charges for service	587,068	534,278	532,065	476,301	415,499
Special assessments	18,767	8,225	12,883	7,383	14,647
Miscellaneous	332,503	172,524	155,072	281,784	475,685
<b>Total</b>	<b>\$ 4,489,499</b>	<b>3,854,611</b>	<b>3,785,551</b>	<b>4,196,267</b>	<b>4,313,499</b>
<b>Disbursements:</b>					
<b>Operating:</b>					
Public safety	\$ 1,259,332	1,134,151	1,395,211	1,248,907	1,200,750
Public works	649,183	482,589	507,485	459,982	676,486
Culture and recreation	547,686	543,433	582,056	549,814	473,385
Community and economic development	47,860	26,100	4,739	-	-
General government	383,658	354,843	347,772	368,391	383,815
Debt service	1,137,119	1,074,569	2,062,841	1,329,544	826,855
Capital projects	519,204	2,782,615	1,188,083	532,482	648,952
<b>Total</b>	<b>\$ 4,544,042</b>	<b>6,398,300</b>	<b>6,088,187</b>	<b>4,489,120</b>	<b>4,210,243</b>

See accompanying independent auditor's report.

2006	2005	2004	2003
970,967	974,046	975,086	1,055,907
611,546	553,027	486,288	344,043
483,068	374,781	313,289	283,326
13,198	10,604	14,209	16,339
235,079	195,023	126,753	152,068
717,539	982,672	629,557	668,673
353,670	310,984	271,306	304,434
102,812	8,444	36,266	35,616
1,036,729	530,563	1,127,155	758,828
<u>4,524,608</u>	<u>3,940,144</u>	<u>3,979,909</u>	<u>3,619,234</u>
937,287	839,798	897,445	987,995
443,983	396,103	424,924	416,198
467,947	469,241	407,367	482,741
60,002	59,686	140,512	75,215
374,420	318,686	280,442	290,933
767,225	1,946,432	621,260	788,965
<u>3,575,064</u>	<u>1,236,174</u>	<u>2,182,544</u>	<u>1,186,191</u>
<u>6,625,928</u>	<u>5,266,120</u>	<u>4,954,494</u>	<u>4,228,238</u>

**City of Monticello**



# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

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Des Moines, Iowa 50319-0004

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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

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Monticello, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 15, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

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

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

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

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 the accompanying Schedule of Findings as items (C) through (E) to be significant deficiencies.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Monticello'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 which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

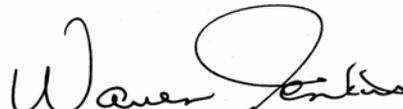
The City of Monticello's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Monticello's responses and, accordingly, we express no opinion on them.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Monticello 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.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

February 15, 2012

City of Monticello

Schedule of Findings

Year ended June 30, 2011

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Weaknesses were noted in the following areas for which no compensating controls exist:
- (1) Responsibilities for collection and deposit preparation functions are not segregated from those for recording and accounting for cash receipts.
  - (2) The duties of record keeping and reconciliation of investments are performed by the same person.
  - (3) One individual on the Soldiers Memorial Board performs all receipt and disbursement functions for the Soldiers Memorial Board Maintenance Account prior to recording into the General Ledger by the City Clerk.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. In addition, internal control over the Soldiers Memorial Board Maintenance Account could be strengthened by integrating the receipt and disbursement functions into the City Clerk’s office.

Response – Processes have been implemented over the last two years to improve upon the issues falling within the “Segregation of Duties” category. The City Clerk now performs spot checks of our receivables clerk’s entries and records. As a result of the last audit the City Administrator now reviews and initials investment and bank reconciliations and supporting documents, and on various occasions, like a spot review, reviews and participates in the opening of the daily mail, which includes utility account and other receivables. The City Clerk has also responded to last year’s audit by reviewing and initialing monthly utility reconciliations prepared by the Deputy City Clerk.

In regard to the Soldiers Memorial Board comment, the City Clerk has already discussed the contents of the draft comment with the person presently responsible for the Soldiers Memorial funds, receipts and disbursements, and efforts will continue to work with them to assist us in such a fashion as to fully address this comment.

Other procedures will continue to be considered to address the issue of Segregation of Duties comment when appropriate and feasible.

Conclusion – Response accepted.

- (B) Monticello Firefighters Organization, Inc. and Friends of the Monticello Public Library – The Monticello Firefighters Organization, Inc. and Friends of the Monticello Public Library do not maintain an investment register showing certificate of deposit activity. As a result, the ending fund balance as of June 30, 2010 was incorrect and a restatement of beginning fund balance was needed for fiscal year 2011.

City of Monticello

Schedule of Findings

Year ended June 30, 2011

Recommendation – The Monticello Firefighters Organization, Inc. and Friends of the Monticello Public Library should maintain an investment register showing certificate of deposit activity.

Response – The City Clerk will advise the two identified organizations of the audit comment and assist them in complying with the audit comment recommendation.

Conclusion – Response accepted.

- (C) Property Purchase – During the years ended June 30, 2008 and June 30, 2010, the City and the Monticello Development Corporation jointly purchased a parcel of real estate which is currently being used as a rental property. The Monticello Development Corporation manages the property. However, the agreement between the City and the Monticello Development Corporation has not been reduced to writing.

Recommendation – A written agreement between the City and the Monticello Development Corporation should be developed to document the management of the jointly owned property.

Response – A written agreement has been prepared and proposed to the City Council for consideration. However, the City Council at that time did not approve it as one or two of the City Council members did not believe the City should have been involved with the house purchase when it originally happened and, therefore, were not agreeable to approving anything related thereto. Staff will again present this issue and proposed agreement to the City Council for review and consideration and re-emphasize to them that whether they believe the property should or should not have been purchased, it was purchased and the City is a one-half owner and, therefore, the written agreement related to said ownership should be reduced to writing.

Conclusion – Response accepted.

- (D) Uniform Chart of Accounts – The City has not implemented the Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee on September 25, 2002. As a result, receipts and disbursements were not classified to the proper function in accordance with the Uniform Chart of Accounts. These were classified and resolved for audit purposes.

Recommendation – To provide better financial information and control, the City should follow the Uniform Chart of Accounts for Iowa City Governments.

Response – The City Clerk continues to work with the City's accounting software provider to implement the Uniform Chart of Accounts as soon as is possible. Unless we see progress in the near future, and even if we do, there appears to be some desire to investigate a new software provider which may help to resolve this issue.

Conclusion – Response accepted.

- (E) Information Systems (IS) Policies – The City does not have written policies in place on password privacy and confidentiality and internet usage.

Recommendation – The City should draft policies on password privacy and confidentiality and internet usage.

City of Monticello

Schedule of Findings

Year ended June 30, 2011

Response – The City has begun to collect and review policies on these issues implemented in other communities and will take steps to present policies to the City Council for consideration.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE**

No matters were noted.

City of Monticello

Schedule of Findings

Year ended June 30, 2011

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

- (1) Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amount budgeted in the business type activities function prior to adoption of a budget amendment. 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 current and future fiscal years we will carefully analyze the status of all activities to ensure timely amendments are considered and approved before disbursements exceed budgeted amounts.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Stuart Gerdes, Fire Board Member, employee of Bard Concrete Inc. and Bard Materials	Services and supplies	\$ 2,618
Dennis Gray, Soldiers Memorial Board Member, owner of Lock Shop	Services	484
Todd Lambert, Park and Recreation Board Member, co-owner of Monticello Sports	Supplies	7,911
Doug Monck, Ambulance Advisory Board Member, employee of Monticello Machine Shop	Services and supplies	3,424
Jerry Pasker, Board of Adjustment Member, member/owner of Netconnect	Services	1,433
Cliff Payne, Tree Board Member, owner of Cliff’s Radio & TV	Services	14
Nick Sauser, Jr., Planning and Zoning Board Member, owner of Sauser’s Gas and Repair Shop	Services and supplies	349
Dave Savage, Airport Board Member, owner of Insurance Associates, Inc.	Insurance, per bid	113,913

City of Monticello

Schedule of Findings

Year ended June 30, 2011

Alison Bergman, Library Board Member, employee of Kramer Bros. Dairy Supply	Supplies	261
Kim Brooks, Library Board Member, employee of Monticello Express	Services and Supplies	10,231
Kevin Smith, Cemetery Board Member, owner of Smith's Guns	Supplies	325

The transactions with Lock Shop, Netconnect, Cliff's Radio & TV, Sauser's Gas and Repair Shop, Kramer Bros. Dairy Supply and Smith's Guns do not represent conflicts of interest in accordance with Chapter 362.5(3)(j) of the Code of Iowa because the cumulative totals with each during the fiscal year were less than \$1,500.

In accordance with Chapter 362.5(3)(d) of the Code of Iowa, the transaction with Insurance Associates, Inc. does not represent a conflict of interest since it was competitively bid.

The remaining transactions with Bard Concrete Inc. and Bard Materials, Monticello Sports, Monticello Machine Shop and Monticello Express may represent a conflict of interest as defined in Chapter 362.5 of the Code of Iowa since the total transactions exceed \$1,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The City Council will be asked to review this comment and to consider whether or not a potential conflict exists to the point of necessitating legal counsel involvement. Those identified as potential conflicts all relate to the involvement of employees of those firms with the City, not owners, and all of those companies have been long-term suppliers of products, materials, and services to the City, in similar amounts, prior to the appointment of an employee to a City Board.

Conclusion – Response accepted.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds – The provisions of the sewer refunding bonds require the City pay for its utility usage from the General Fund.

Currently, the City does not pay for its usage of City utilities.

Recommendation – The City should ensure usage of City utilities are paid from the General Fund as required by the bond provisions.

City of Monticello

Schedule of Findings

Year ended June 30, 2011

Response – The City will investigate whether it is possible to amend our ordinances to provide for a flat fee for services or if we would in fact need to install water meters which don't presently exist at City owned properties. We will then proceed accordingly.

Conclusion – Response accepted.

- (9) Appointment or Special Election of Mayor – Chapter 372.13(2)(a) of the Code of Iowa requires the City Council to fill an elective office by appointment within 45 days of the vacancy or hold a special election. The City may hold a special election concurrently with any pending election if the vacancy will be filled no more than ninety days after the vacancy occurs.

The Mayor resigned February 22, 2011 and the City waited until the November 8, 2011 election, exceeding the 90 days stipulated by Chapter 372.13(2)(a) of the Code of Iowa, to fill the position.

Recommendation – The City should comply with Chapter 372.13(2)(a) of the Code of Iowa.

Response – After the resignation of the Mayor on February 22, 2011, the remaining Council Members, six in total, could not agree whether or not to appoint someone to fill the mayoral vacancy or to hold an election. A number of resolutions were proposed and considered. However, the Council could not reach a consensus on which route to follow. In addition, the referenced code section does not provide any detail as to the consequences that follow the failure of the Council to either appoint or to schedule a special election to fill the vacancy. The Iowa Supreme Court has identified what has been termed the “Mandatory – Directory dichotomy” which may very well apply here. At the risk of oversimplifying the definition of the “mandatory – directory dichotomy”, the holding of the Court has been that sometimes “shall” means “should” or “may”. The absence of any penalty provision within the referenced code section or any language that creates an automatic special election upon the failure of the Council to appoint a replacement within a given time is suggestive that the use of the word “shall” within this code section is directory, not mandatory.

Conclusion – Response acknowledged. Chapter 4.1(30) of the Code of Iowa States in part the word “shall” imposes a duty. The City should comply with Chapter 372.13(2)(a) of the Code of Iowa.

- (10) Tax Increment Financing (TIF) Indebtedness Certification – The City has entered into a \$500,000 economic development agreement which, pursuant to the agreement, provides for annual appropriation tax increment payments in a total amount not exceeding \$50,000 per year. Until appropriated, the payments do not represent debt and, accordingly, should not have been certified as debt. At the time of the November 2010 certification, the City Council had appropriated only \$50,000 in payments related to this agreement, resulting in an over certification of \$450,000.

Recommendation – The City should decertify \$450,000 and annually certify \$50,000 when appropriated by the City Council.

Response – We will work with the County Auditor to correct this.

Conclusion – Response accepted.

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City of Monticello

Staff

This audit was performed by:

Ernest H. Ruben Jr., CPA, Manager  
Gwen D. Fangman, CPA, Senior Auditor II  
Daniel L. Grady, Senior Auditor  
William Bradley Corley, Assistant Auditor  
Eric L. Rath, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA  
Deputy Auditor of State