



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

May 14, 2013

Contact: Andy Nielsen
515/281-5834

The Office of Auditor of State today released an audit report on the City of Monticello, Iowa.

The City's receipts totaled \$8,422,943 for the year ended June 30, 2012, a 42% increase over the prior year. The receipts included \$1,239,083 in property tax, \$2,259,769 from charges for service, \$854,498 from operating grants, contributions and restricted interest, \$926,089 from capital grants, contributions and restricted interest, \$715,234 from tax increment financing, \$288,736 from local option sales tax, \$208,114 from utility franchise tax, \$43,560 from unrestricted interest on investments, \$1,844,229 from bond proceeds and \$43,631 from other general receipts.

Disbursements for the year totaled \$7,308,329, a 17% increase over the prior year, and included \$1,848,696 for capital projects, \$1,418,347 for public safety and \$1,317,865 for debt service. Also, disbursements for business type activities totaled \$1,165,073.

The significant increase in receipts is due primarily to receiving significantly more bond proceeds in the current year. The significant increase in disbursements is due primarily to an increase in capital project disbursements in the current year.

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/1220-0495-B00F.pdf>.

###

CITY OF MONTICELLO

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2012

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-14
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	16-17
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	18-19
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	20
Fiduciary Fund Financial Statement:		
Statement of Changes in Fiduciary Assets and Liabilities	D	21
Notes to Financial Statements		22-31
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		34-35
Notes to Other Information – Budgetary Reporting		36
Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	38-39
Schedule of Indebtedness	2	40-41
Bond Maturities	3	42-43
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4	44-45
Schedule of Expenditures of Federal Awards	5	46
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 <u>Government Auditing Standards</u>		47-48
Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133		51-52
Schedule of Findings and Questioned Costs		53-60
Staff		61

City of Monticello

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2012)		
Dena Himes	Mayor	Jan 2014
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
(After January 2012)		
Dena Himes	Mayor	Jan 2014
John Sauser	Mayor Pro tem	Jan 2014
Dave Goedken	Council Member	Jan 2014
Tom Yeoman	Council Member	Jan 2014
Reenie Breyer	Council Member	Jan 2016
Chris Lux	Council Member	Jan 2016
Bill Meyer	Council Member	Jan 2016
Douglas Herman	City Administrator	Indefinite
Sally Hinrichsen	City Clerk/Treasurer	Indefinite
Cheryl Clark	Deputy City Clerk	Indefinite
Anne E. Loomis	Attorney	Indefinite

City of Monticello



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of 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.

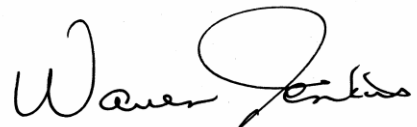
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Monticello as of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

In accordance with Government Auditing Standards, we have also issued our report dated April 15, 2013 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.

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 six years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Monticello's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 14 and 34 through 36 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 15, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 45%, or approximately \$2,032,000, from fiscal year 2011 to fiscal year 2012. The total cost of all governmental activities programs and services increased 35%, or approximately \$1,599,000. The increase in receipts was primarily the result of bond proceeds issued for capital improvement projects. The increase in disbursements was due primarily to an increase in capital projects, including the airport terminal building construction and Second Street reconstruction.

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.

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

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

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.

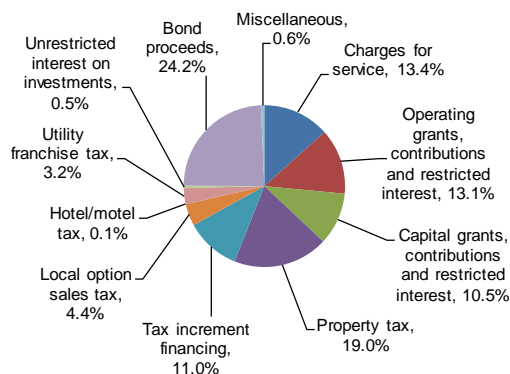
The required financial statement for the Fiduciary Fund is a Statement of Changes in Fiduciary Assets and Liabilities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

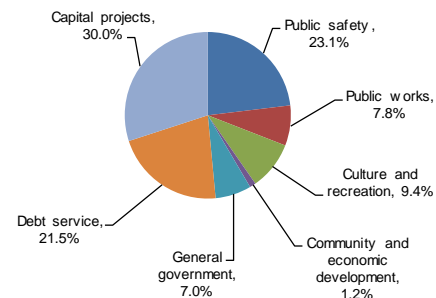
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from approximately \$2.7 million to approximately \$3.5 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service	\$ 877,689	831,525
Operating grants, contributions and restricted interest	854,498	691,189
Capital grants, contributions and restricted interest	685,690	404,284
General receipts:		
Property tax	1,239,083	1,144,769
Tax increment financing	715,234	875,293
Local option sales tax	288,736	285,781
Hotel/motel tax	445	516
Utility franchise tax	208,114	232,235
Unrestricted interest on investments	30,109	23,907
Miscellaneous	43,186	-
Bond proceeds	1,586,613	8,117
Total receipts	6,529,397	4,497,616
Disbursements:		
Public safety	1,418,347	1,259,332
Public works	476,325	649,183
Culture and recreation	575,555	547,686
Community and economic development	75,855	47,860
General government	430,613	383,658
Debt service	1,317,865	1,137,119
Capital projects	1,848,696	519,204
Total disbursements	6,143,256	4,544,042
Increase (decrease) in cash basis net assets before transfers	386,141	(46,426)
Transfers, net	468,868	62,049
Change in cash basis net assets	855,009	15,623
Cash basis net assets beginning of year	2,661,821	2,646,198
Cash basis net assets end of year	\$ 3,516,830	2,661,821

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 45%, or approximately \$2,032,000. The total cost of all governmental programs and services increased approximately \$1,599,000, or 35%, primarily due to an increase in capital projects as a result of the airport terminal building construction and Second Street reconstruction projects. The significant increase in receipts was primarily the result of \$1,586,613 of bond proceeds received from the issuance of general obligation corporate purpose bonds.

The cost of all governmental activities this year was approximately \$6,143,000 compared to approximately \$4,544,000 last year. The increase in disbursements was primarily the result of an increase in capital project disbursements.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 423,676	387,864
Sewer	566,825	561,287
Sanitation	391,579	381,137
Capital grants, contributions and restricted interest	13,558	15,786
General receipts:		
Unrestricted interest on investments	13,451	16,078
Bond proceeds	257,616	2,383
Insurance proceeds	-	66,251
FEMA reimbursements	226,841	-
Total receipts	<u>1,893,546</u>	<u>1,430,786</u>
Disbursements:		
Water	254,588	264,449
Sewer	528,083	1,063,015
Sanitation	382,402	397,032
Total disbursements	<u>1,165,073</u>	<u>1,724,496</u>
Increase (decrease) in cash basis net assets before transfers	728,473	(293,710)
Transfers, net	<u>(468,868)</u>	<u>(62,049)</u>
Change in cash basis net assets	259,605	(355,759)
Cash basis net assets beginning of year	<u>678,941</u>	<u>1,034,700</u>
Cash basis net assets end of year	<u><u>\$ 938,546</u></u>	<u><u>678,941</u></u>

Total business type activities receipts for the fiscal year were approximately \$1,894,000 compared to approximately \$1,431,000 last year. Total disbursements for the fiscal year decreased to \$1,165,073 compared to \$1,724,496 last year. The increase in receipts was due primarily to the receipt of \$257,616 of bond proceeds and \$226,841 of reimbursements received from FEMA. The decrease in disbursements was primarily due to flood expenses paid during fiscal year 2011.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Monticello completed the year, its governmental funds reported a combined fund balance of \$3,516,830, an increase of \$855,009 from last year's total of \$2,661,821. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$397,399 over the prior year to \$862,049. The increase was the cumulative effect of changes in receipts, disbursements and net transfers for fiscal year 2012. Property tax increased \$68,285, intergovernmental receipts increased \$51,156, mostly for a grant to purchase fire equipment, and miscellaneous receipts increased \$53,020. Public safety function disbursements increased \$45,177. Public works function disbursements decreased \$149,087, primarily due to the fiscal 2011 purchases of a dump truck and a snowblower for the streets department and a tractor for the airport. Culture and recreation function disbursements increased \$26,617. General government function disbursements increased \$45,142. Net transfers to/from the General Fund increased \$350,505 and resulted in a net transfer to the General Fund of \$239,831 during fiscal year 2012. The net transfer to the General Fund was primarily interfund loan repayments from other funds.
- The Special Revenue, Tax Increment Financing Fund cash balance decreased \$222,074 from the prior year to \$211,509, primarily due to a decrease of \$160,059 in tax increment financing receipts.
- The Debt Service Fund cash balance decreased \$17,237 from the previous year to \$11,454.
- The Capital Projects Fund cash balance increased \$563,176 from the prior year to \$1,508,045. The increase was primarily the cumulative effect of changes in receipts, disbursements and other financing sources/uses for fiscal year 2012. Intergovernmental receipts increased \$228,881. This increase is primarily due to the receipt of Federal Aviation Administration (FAA) grant funds of \$446,012 for construction of the airport terminal building, a grant for \$74,100 from the State of Iowa for purchase of the airport FBO building and \$23,923 received for the demolition of the Riddle building in fiscal 2012, offset by the receipt in fiscal 2011 of an IJobs grant of \$300,000 for construction of the public safety building. Capital projects function disbursements increased \$1,329,492 due to construction contract payments for the airport terminal building construction and Second Street reconstruction projects during fiscal year 2012. Total other financing sources/uses increased \$1,481,800 to \$1,602,484, primarily due to bond proceeds of \$1,586,613 to be used for various capital projects and purchase of equipment.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$47,375 to \$384,073.
- The Enterprise, Sewer Fund cash balance increased \$207,022 to \$462,365 due to the cumulative effect of changes in receipts, disbursements and other financing sources/uses for fiscal year 2012. Receipts increased \$416,347, primarily due to the receipt of \$257,616 of bond proceeds and \$226,841 from FEMA reimbursements in fiscal 2012. Expenses related to capital improvements decreased \$160,261 and flood expenses decreased \$346,715. Total other financing sources/uses decreased \$256,289, primarily due to repayments to the General Fund for interfund loans made in a prior year.
- The Enterprise, Sanitation Fund cash balance increased \$5,208 to \$92,108.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City of Monticello amended its budget one time. The amendment was done on May 21, 2012. The amendment was needed to adjust receipts and disbursements.

Adjustments to receipts included a decrease to use of money and property and increases in intergovernmental, miscellaneous and other financing sources, primarily due to receipt of general obligation bond proceeds in June. Adjustments to disbursements included a decrease in public safety and increases in public works, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities.

The City's receipts were \$103,077 less than budgeted. This was primarily due to the cumulative effect of the City overestimating use of money and property and intergovernmental receipts while underestimating tax increment financing and miscellaneous receipts.

Total disbursements were \$801,657 less than the amended budget. Actual disbursements for the public safety, public works, capital projects and business type activities functions were \$136,136, \$82,720, \$325,567 and \$176,525 respectively, less than the amended budget. This was primarily due to anticipating more project activity than actually occurred.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$7,005,085 of bonds, notes and other long-term debt outstanding, compared to \$6,275,166 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2012	2011
General obligation bonds	\$ 6,080,000	5,085,500
General obligation capital loan notes	-	255,000
Revenue bonds	815,000	915,000
Capital lease purchase agreement	10,085	19,666
Installment purchase agreement	100,000	-
Total	\$ 7,005,085	6,275,166

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 \$6,080,000 is below its constitutional debt limit of approximately \$9.0 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. The process related to the preparation of the Library budget is potentially an exception to the above rule. Typically, the preparation of the Library budget is a collaborative effort between the Library Director, City Administrator and Library Board, with the extent of the City Administrator's involvement being largely determined by the Library Board. 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 to the Library or for other purposes. Ultimately, the decision on final budgetary numbers and tax rates lies with the City Council.

The City budget process includes multiple meetings, both formal and informal, by and between the City Administrator, department heads, Mayor and City Council members. Most of the formal discussions happen as part of a regular City Council meeting, usually following the completion of that meetings "regular" business. 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. In the last number of years, the City has realized substantial savings in the categories of insurance, telephone expenses, interest, by way of refinancing and early payment of debt, overtime minimization and, finally, something as simple as changing our postage meter vendor will cut that expense in half. 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. On the revenue side, we have begun to spend more time on our TIF certification. Historically we have requested all available increment be transferred to our Special Revenue, Tax Increment Financing Fund. This has been legally permissible, based upon our outstanding debt and TIF related development agreement obligations. However, the receipt of all available increment on an annual basis is not necessary from a budgetary standpoint. We now undertake an annual analysis of our TIF obligations and potential TIF revenues and make an informed decision on the appropriate amount of TIF to certify. In the last two years, we have de-certified a portion of eligible increment, allowing that increment to pass to our General Fund and the General Funds of the other taxing bodies.

Our gross tax rate is comprised of three individual levies: 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 and attorney and appropriations to the Library, Berndes Center, Fire Department, Ambulance, as necessary, and other miscellaneous categories. Nearly all City Departments have their own revenue streams as well. Most noteworthy in that regard would be the Ambulance, Airport, Park and Recreation and Police Department, to a lesser extent. Of those departments, the Airport is the only department that produces revenues that exceed its expenses on an annual basis.

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. If a debt is called early, we may have levied for funds to pay a debt that has now been paid, leaving excess cash in the Debt Service Fund. This cash on hand is used to offset future debt service levies and/or to pay other debt in advance of its maturity.

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. In an effort to control our "benefit" costs, the City chose, a number of years ago, to self-insure a portion of our health care costs. For example, we purchase health insurance with an annual deductible of \$3,000 instead of the \$500 deductible we are contractually obligated to provide. By self-insuring the difference of \$2,500 per employee we have realized savings which vary from year to year depending upon the healthcare needs of our employees. Another variable to weigh when setting our tax rate is the availability of cash in the Special Revenue, Employee Benefits Fund. At the creation of the budget, and therefore the tax rate, we are estimating as best we can what the employee benefits expenses will be in the coming year and assessing the taxpayers based upon those estimates. In some years, we may collect a little more than we spend. That excess, or cash balance, gives us the flexibility to pay for a coming year's estimated benefits with cash on hand as opposed to levying for the full estimated amount of expenses.

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 2013 remained basically identical to the fiscal year 2012 levy, with some fractional reduction. Preparation of the fiscal year 2014 budget is underway and it is anticipated, based upon preliminary data and budget planning, the fiscal year 2014 tax rate will not exceed the fiscal year 2013 rate.

In the last fiscal year, the City saw the substantial completion of the Airport Terminal Building project and FBO building renovations. The Airport Terminal and FBO Building projects were funded entirely with FAA, IDOT Aviation and donated funds. We also made progress on purchasing 7 residential and 3 commercial properties through the FEMA HMGP program (Flood Buyouts). At the writing of this summary, we have taken ownership of 6 of the 7 residential properties and 1 of the 3 commercial properties. The asbestos surveys are about to begin, followed by necessary remediation and demolition. Planning has occurred for the future of this area and said planning will continue. The City also pursued approximately \$250,000 in a variety of street repairs, with a portion of those projects to be finalized in the spring of 2014. The City also partnered with the Jones County Fair, Jones County Extension, Jones County, the CAT grant board and many generous donors in regard to the construction of the Citizens State Bank Youth Development Center located on the grounds of the City Park/Jones County Fairgrounds. Construction commenced in the spring of 2012 with occupancy expected to occur in November of 2013.

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. We have seen a negative trend in our worker's compensation premiums. Plans are in place for implementation in the next few months to offer more training and thought to working in a safe work environment with the hope of reducing incidences of claims and the dollar amount of claims.

Projects planned for the coming year include continued street repairs, the repair or replacement of the East 1st Street Bridge, the replacement of a sewer line west of and parallel to South Walnut Street, the GIS mapping of City infrastructure and continued planning of Community Building improvements/renovations.

The City will also be involved with downtown property and business owners impacted by a downtown fire that occurred in November of 2012. The fire will likely result in demolitions and renovations in the heart of downtown Monticello. While little is presently known on the future of the damaged structures, it is clear the City will need to be proactive in its approach to ensure the continued success and vitality of our downtown.

Administration, staff and elected officials 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 businesses 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. 1st Street, Monticello, Iowa, 52310.

Basic Financial Statements

City of Monticello

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2012

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,418,347	439,824	422,497	-
Public works	476,325	155,394	377,784	-
Culture and recreation	575,555	189,219	33,576	-
Community and economic development	75,855	-	-	-
General government	430,613	50,877	1,958	-
Debt service	1,317,865	-	1,081	-
Capital projects	1,848,696	42,375	17,602	685,690
Total governmental activities	6,143,256	877,689	854,498	685,690
Business type activities:				
Water	254,588	423,676	-	-
Sewer	528,083	566,825	-	240,399
Sanitation	382,402	391,579	-	-
Total business type activities	1,165,073	1,382,080	-	240,399
Total	\$ 7,308,329	2,259,769	854,498	926,089
General Receipts and Transfers:				
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				
Miscellaneous				
Bond proceeds, net of \$10,271 discount				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Nonexpendable:				
Permanent fund purposes				
Expendable:				
Streets				
Urban renewal purposes				
Debt service				
Library improvements				
Capital projects				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(556,026)	-	(556,026)
56,853	-	56,853
(352,760)	-	(352,760)
(75,855)	-	(75,855)
(377,778)	-	(377,778)
(1,316,784)	-	(1,316,784)
(1,103,029)	-	(1,103,029)
(3,725,379)	-	(3,725,379)
-	169,088	169,088
-	279,141	279,141
-	9,177	9,177
-	457,406	457,406
(3,725,379)	457,406	(3,267,973)
1,026,462	-	1,026,462
212,621	-	212,621
715,234	-	715,234
288,736	-	288,736
445	-	445
208,114	-	208,114
30,109	13,451	43,560
43,186	-	43,186
1,586,613	257,616	1,844,229
468,868	(468,868)	-
4,580,388	(197,801)	4,382,587
855,009	259,605	1,114,614
2,661,821	678,941	3,340,762
\$ 3,516,830	938,546	4,455,376
\$ 247,771	-	247,771
109,468	-	109,468
211,509	-	211,509
11,454	134,128	145,582
46,545	-	46,545
1,508,045	-	1,508,045
571,620	-	571,620
810,418	804,418	1,614,836
\$ 3,516,830	938,546	4,455,376

City of Monticello

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

As of and for the year ended June 30, 2012

	General	Special Revenue Tax Increment Financing
Receipts:		
Property tax	\$ 673,404	-
Tax increment financing	-	715,234
Other city tax	519,462	-
Licenses and permits	12,521	-
Use of money and property	136,815	6,774
Intergovernmental	138,137	-
Charges for service	570,781	-
Special assessments	-	-
Miscellaneous	147,457	-
Total receipts	<u>2,198,577</u>	<u>722,008</u>
Disbursements:		
Operating:		
Public safety	998,765	-
Public works	128,110	-
Culture and recreation	522,306	-
Community and economic development	-	75,855
General government	391,828	-
Debt service	-	-
Capital projects	-	-
Total disbursements	<u>2,041,009</u>	<u>75,855</u>
Excess (deficiency) of receipts over (under) disbursements	<u>157,568</u>	<u>646,153</u>
Other financing sources (uses):		
Bond proceeds, net of \$10,271 discount	-	-
Operating transfers in	246,376	-
Operating transfers out	(6,545)	(868,227)
Total other financing sources (uses)	<u>239,831</u>	<u>(868,227)</u>
Change in cash balances	397,399	(222,074)
Cash balances beginning of year	464,650	433,583
Cash balances end of year	<u>\$ 862,049</u>	<u>211,509</u>
Cash Basis Fund Balances		
Nonspendable - Permanent Funds	\$ -	-
Restricted for:		
Streets	-	-
Urban renewal purposes	-	211,509
Debt service	-	-
Library improvements	46,545	-
Capital projects	-	-
Cemetery improvements	235	-
Police equipment	4,851	-
Other purposes	-	-
Assigned for equipment	47,330	-
Unassigned	763,088	-
Total cash basis fund balances	<u>\$ 862,049</u>	<u>211,509</u>

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
212,621	-	310,899	1,196,924
-	-	-	715,234
5,533	-	14,460	539,455
-	-	-	12,521
1,081	17,603	6,918	169,191
-	649,852	360,054	1,148,043
-	10,250	-	581,031
-	32,125	-	32,125
-	99,558	301,245	548,260
219,235	809,388	993,576	4,942,784
-	-	419,582	1,418,347
-	-	348,215	476,325
-	-	53,249	575,555
-	-	-	75,855
-	-	38,785	430,613
1,317,865	-	-	1,317,865
-	1,848,696	-	1,848,696
1,317,865	1,848,696	859,831	6,143,256
(1,098,630)	(1,039,308)	133,745	(1,200,472)
-	1,586,613	-	1,586,613
1,081,393	56,045	-	1,383,814
-	(40,174)	-	(914,946)
1,081,393	1,602,484	-	2,055,481
(17,237)	563,176	133,745	855,009
28,691	944,869	790,028	2,661,821
11,454	1,508,045	923,773	3,516,830
-	-	247,771	247,771
-	-	109,468	109,468
-	-	-	211,509
11,454	-	-	11,454
-	-	-	46,545
-	1,508,045	-	1,508,045
-	-	-	235
-	-	-	4,851
-	-	566,534	566,534
-	-	-	47,330
-	-	-	763,088
11,454	1,508,045	923,773	3,516,830

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, 2012

	Enterprise				Internal Service Self Insurance
	Water	Sewer	Sanitation	Total	
Operating receipts:					
Charges for service	\$ 405,803	561,972	348,132	1,315,907	16,974
Miscellaneous	17,873	4,853	43,447	66,173	-
Total operating receipts	<u>423,676</u>	<u>566,825</u>	<u>391,579</u>	<u>1,382,080</u>	<u>16,974</u>
Operating disbursements:					
Governmental activities:					
Public safety	-	-	-	-	4,088
Public works	-	-	-	-	833
Culture and recreation	-	-	-	-	658
General government	-	-	-	-	1,860
Business type activities	249,281	333,639	382,402	965,322	9,535
Total operating disbursements	<u>249,281</u>	<u>333,639</u>	<u>382,402</u>	<u>965,322</u>	<u>16,974</u>
Excess of operating receipts over operating disbursements	<u>174,395</u>	<u>233,186</u>	<u>9,177</u>	<u>416,758</u>	<u>-</u>
Non-operating receipts (disbursements):					
Interest on investments	5,261	7,159	1,031	13,451	-
Bond proceeds	-	257,616	-	257,616	-
Capital improvements	-	(25,164)	-	(25,164)	-
Debt service	(5,307)	(139,435)	-	(144,742)	-
FEMA reimbursements	-	226,841	-	226,841	-
Special assessments	-	13,558	-	13,558	-
Flood expenses	-	(29,845)	-	(29,845)	-
Total non-operating receipts (disbursements)	<u>(46)</u>	<u>310,730</u>	<u>1,031</u>	<u>311,715</u>	<u>-</u>
Excess of receipts over disbursements	<u>174,349</u>	<u>543,916</u>	<u>10,208</u>	<u>728,473</u>	<u>-</u>
Operating transfers out	<u>(126,974)</u>	<u>(336,894)</u>	<u>(5,000)</u>	<u>(468,868)</u>	<u>-</u>
Change in cash balances	47,375	207,022	5,208	259,605	-
Cash balances beginning of year	336,698	255,343	86,900	678,941	-
Cash balances end of year	<u>\$ 384,073</u>	<u>462,365</u>	<u>92,108</u>	<u>938,546</u>	<u>-</u>
Cash Basis Fund Balances					
Restricted for debt service	\$ -	134,128	-	134,128	-
Unrestricted	384,073	328,237	92,108	804,418	-
Total cash basis fund balances	<u>\$ 384,073</u>	<u>462,365</u>	<u>92,108</u>	<u>938,546</u>	<u>-</u>

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, 2012

	<u>Agency Flexible Benefits</u>
Additions:	
Employee contributions	\$ 4,730
Deductions:	
Medical reimbursements	<u>3,622</u>
Change in cash balance	1,108
Cash balance beginning of year	<u>797</u>
Cash balance end of year	<u>\$ 1,905</u>

See notes to financial statements.

City of Monticello

Notes to Financial Statements

June 30, 2012

(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 Other Information. During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

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

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

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 and revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2013	\$ 955,000	170,156	105,000	30,478	1,060,000	200,634	1,260,634
2014	1,035,000	147,990	110,000	27,013	1,145,000	175,003	1,320,003
201	750,000	122,983	110,000	23,218	860,000	146,201	1,006,201
2016	780,000	102,550	115,000	19,258	895,000	121,808	1,016,808
2017	735,000	79,320	120,000	14,945	855,000	94,265	949,265
2018-2021	1,825,000	107,990	255,000	15,530	2,080,000	123,520	2,203,520
Total	\$ 6,080,000	730,989	815,000	130,442	6,895,000	861,431	7,756,431

General Obligation Corporate Purpose Bonds

On July 6, 2011, the City issued \$1,145,000 of general obligation corporate purpose bonds to pay the costs of acquiring an ambulance, constructing street improvements, constructing levee improvements for the sanitary sewer treatment plant, acquiring a GIS mapping system for the sanitation and water departments, removing asbestos from and demolishing a dilapidated building and reconstructing the public works facility.

On June 28, 2012, the City issued \$720,000 of general obligation corporate purpose bonds to pay the costs of street improvements, acquiring a dump truck and snow removal equipment for the street department, acquiring a garbage truck and window repairs and other improvements to the Community Building.

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 58% of net receipts. The total principal and interest remaining to be paid on the bonds is \$945,442. For the current year, principal and interest paid and total customer net receipts were \$133,628 and \$233,186, respectively.

The resolution providing for the issuance of the sewer refunding bonds includes 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, 2012, the City did not pay for its use of City utilities.

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, 2012 is as follows:

Year Ending June 30,	Amount
2013	\$ 10,614
2014	1
Total minimum lease payments	10,615
Less amount representing interest	(430)
Present value of net minimum lease payments	<u>\$ 10,185</u>

Payments under the lease purchase agreement for the year ended June 30, 2012 totaled \$10,614.

Installment Purchase Agreement

On April 25, 2011, the City entered into an installment purchase agreement with Monticello Aviation, Inc. for \$110,000 for the purchase of the Fixed Base Operations (FBO) building.

The agreement commenced July 1, 2011 with interest at 4.00% per annum and requires annual payments of \$10,000 plus interest on the unpaid balance. Principal payments under the agreement for the year ended June 30, 2012 totaled \$10,000, resulting in an unpaid principal balance of \$100,000 at June 30, 2012.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$116,170, \$106,598 and \$96,784, 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, 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 \$399 for single coverage and \$1,223 for family coverage. For the year ended June 30, 2012, the City contributed \$139,207 and plan members eligible for benefits contributed \$5,776 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, 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, 2012, primarily relating to the General and Enterprise Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 43,000
Sick leave	1,000
Holiday	<u>3,000</u>
Total	<u>\$ 47,000</u>

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

(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 prescriptions).

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 \$1,597,205 for the 2nd Street reconstruction, airport terminal building and airport FBO building construction projects. As of June 30, 2012, \$1,205,210 had been paid on the contracts. The remaining \$391,995 will be paid as work on the projects progresses.

(9) Urban Renewal Project Agreements

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, 2012 was \$75,855. The total cumulative amount rebated and granted since inception of the existing agreements is \$119,048.

The City has entered into a tax increment financing agreement for an urban renewal project. The City has agreed to assist in the urban renewal project by rebating incremental property tax paid by the participating company 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

company will be rebated for a period of 20 years, beginning in fiscal year 2014. The agreement includes payment of a series of grants over the first five years of the agreement. Over the life of the agreement, the rebate and grants will range from 70% to 100% of the assessed valuation for the first ten years and 20% of the assessed valuation for the remaining term of the agreement. The total rebates and grants to be paid by the City is dependent upon the assessed valuation of the property over the term of the agreement. The agreement is also subject to annual appropriation by the City Council.

(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, 2012, the balance on the loans was \$13,362 and the City received repayments totaling \$10,250 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, \$240,331 was repaid to the General Fund, leaving balances owed by the Capital Projects Fund and the Enterprise, Sewer Fund of \$122,086 and \$0, respectively.

(13) Interfund Transfers

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

Transfer to	Transfer from	Amount
General	Capital Projects	\$ 40,174
	Enterprise:	
	Water	10,000
	Sewer	191,202
	Sanitation	5,000
		<u>246,376</u>
Debt Service	General	500
	Special Revenue:	
	Tax Increment Financing	-
	Tax Increment Financing	868,227
	Enterprise:	
	Water	116,974
Sewer	95,692	
	<u>1,081,393</u>	
Capital Projects	General	6,045
	Enterprise:	
	Sewer	50,000
	<u>56,045</u>	
Total		<u>\$ 1,383,814</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, 2012.

Year Ending June 30,	Amount
2013	\$ 15,192
2014	15,192
2015	15,192
2016	7,596
Total	<u>\$ 53,172</u>

Rental expense for the year ended June 30, 2012 for this operating lease totaled \$15,192.

(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 Internal Service, Self Insurance Fund were recorded as disbursements by the operating funds. Payments to employees for medical claims for the year ended June 30, 2012 were \$16,974.

(16) Related Party Transactions

The City had business transactions between the City and City officials totaling \$272,582 during the year ended June 30, 2012.

City of Monticello

Other 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

Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 1,196,924	-	-
Tax increment financing	715,234	-	-
Other city tax	539,455	-	-
Licenses and permits	12,521	-	-
Use of money and property	169,191	13,451	118
Intergovernmental	1,148,043	-	-
Charges for service	581,031	1,315,907	-
Special assessments	32,125	13,558	-
Miscellaneous	548,260	293,014	294,707
Total receipts	<u>4,942,784</u>	<u>1,635,930</u>	<u>294,825</u>
Disbursements:			
Public safety	1,418,347	-	243,743
Public works	476,325	-	-
Culture and recreation	575,555	-	6,584
Community and economic development	75,855	-	-
General government	430,613	-	-
Debt service	1,317,865	-	-
Capital projects	1,848,696	-	-
Business type activities	-	1,165,073	-
Total disbursements	<u>6,143,256</u>	<u>1,165,073</u>	<u>250,327</u>
Excess (deficiency) of receipts over (under) disbursements	(1,200,472)	470,857	44,498
Other financing sources (uses)	2,055,481	(211,252)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	855,009	259,605	44,498
Balances beginning of year	2,661,821	678,941	181,144
Balances end of year	<u>\$ 3,516,830</u>	<u>938,546</u>	<u>225,642</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Net Variance
	Original	Final	
1,196,924	1,204,157	1,204,157	(7,233)
715,234	675,000	675,000	40,234
539,455	546,138	548,258	(8,803)
12,521	11,900	13,763	(1,242)
182,524	252,890	233,736	(51,212)
1,148,043	1,013,007	1,423,140	(275,097)
1,896,938	1,896,459	1,893,653	3,285
45,683	2,000	39,901	5,782
546,567	220,550	355,358	191,209
6,283,889	5,822,101	6,386,966	(103,077)
1,174,604	1,371,883	1,310,740	136,136
476,325	536,761	559,045	82,720
568,971	552,312	600,266	31,295
75,855	75,267	82,427	6,572
430,613	407,845	464,881	34,268
1,317,865	1,201,163	1,326,439	8,574
1,848,696	1,563,000	2,174,263	325,567
1,165,073	1,355,624	1,341,598	176,525
7,058,002	7,063,855	7,859,659	801,657
(774,113)	(1,241,754)	(1,472,693)	698,580
1,844,229	833,620	1,949,325	(105,096)
1,070,116	(408,134)	476,632	593,484
3,159,618	2,899,483	3,160,418	(800)
4,229,734	2,491,349	3,637,050	592,684

City of Monticello

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2012

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 \$795,804. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted.

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, 2012

	Road Use Tax	CEBA and Other Grants	Police Forfeiture	Employee Benefits	Special Slavka Gehret Trust
Receipts:					
Property tax	\$ -	-	-	310,899	-
Other city tax	-	-	-	14,460	-
Use of money and property	-	-	13	1,138	3,716
Intergovernmental	360,054	-	-	-	-
Miscellaneous	-	-	1,623	-	-
Total receipts	<u>360,054</u>	<u>-</u>	<u>1,636</u>	<u>326,497</u>	<u>3,716</u>
Disbursements:					
Operating:					
Public safety	-	-	129	175,710	-
Public works	310,060	-	-	38,155	-
Culture and recreation	-	-	-	46,665	-
General government	-	-	-	38,785	-
Total disbursements	<u>310,060</u>	<u>-</u>	<u>129</u>	<u>299,315</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	49,994	-	1,507	27,182	3,716
Cash balances beginning of year	59,474	2,704	555	89,987	204,538
Cash balances end of year	<u>\$ 109,468</u>	<u>2,704</u>	<u>2,062</u>	<u>117,169</u>	<u>208,254</u>
Cash Basis Fund Balances					
Nonspendable - Permanent Funds	\$ -	-	-	-	-
Restricted for:					
Streets	109,468	-	-	-	-
Other purposes	-	2,704	2,062	117,169	208,254
Total cash basis fund balances	<u>\$ 109,468</u>	<u>2,704</u>	<u>2,062</u>	<u>117,169</u>	<u>208,254</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	
-	-	-	-	-	-	-	310,899
-	-	-	-	-	-	-	14,460
109	-	9	-	-	654	1,279	6,918
-	-	-	-	-	-	-	360,054
4,612	264,185	25,910	-	4,915	-	-	301,245
4,721	264,185	25,919	-	4,915	654	1,279	993,576
-	222,939	20,804	-	-	-	-	419,582
-	-	-	-	-	-	-	348,215
6,584	-	-	-	-	-	-	53,249
-	-	-	-	-	-	-	38,785
6,584	222,939	20,804	-	-	-	-	859,831
(1,863)	41,246	5,115	-	4,915	654	1,279	133,745
16,989	137,978	20,957	5,220	133,082	38,591	79,953	790,028
15,126	179,224	26,072	5,220	137,997	39,245	81,232	923,773
-	-	-	-	137,997	32,774	77,000	247,771
-	-	-	-	-	-	-	109,468
15,126	179,224	26,072	5,220	-	6,471	4,232	566,534
15,126	179,224	26,072	5,220	137,997	39,245	81,232	923,773

City of Monticello
Schedule of Indebtedness
Year ended June 30, 2012

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
General corporate purpose	Jun 28, 2012	.35-1.25	720,000
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
Installment purchase agreement:			
Building	Apr 25, 2011	4.00%	\$ 110,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
500,000	-	300,000	200,000	19,183
255,000	-	50,000	205,000	9,950
505,000	-	120,000	385,000	17,958
2,610,000	-	280,000	2,330,000	95,680
1,205,000	-	110,000	1,095,000	32,365
10,500	1,134,500	-	1,145,000	15,794
-	720,000	-	720,000	-
\$ 5,085,500	1,854,500	860,000	6,080,000	190,930
<hr/>				
255,000	-	255,000	-	8,160
<hr/>				
915,000	-	100,000	815,000	33,628
<hr/>				
19,666	-	9,581	10,085	1,033
<hr/>				
-	110,000	10,000	100,000	-
<hr/>				

City of Monticello

Bond Maturities

June 30, 2012

Year Ending June 30,	Urban Renewal		General		General		General	
	Issued May 1, 2004		Corporate Purpose		Corporate Purpose		Corporate Purpose	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2013	3.70%	\$ 100,000	3.875%	\$ 50,000	3.45%	\$ 125,000	3.20%	\$ 295,000
2014	3.85	100,000	3.875	50,000	3.60	130,000	3.40	305,000
2015	-	-	3.875	50,000	3.80	65,000	3.60	315,000
2016	-	-	4.000	55,000	3.90	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>\$ 200,000</u>		<u>\$ 205,000</u>		<u>\$ 385,000</u>		<u>\$ 2,330,000</u>

See accompanying independent auditor's report.

Obligation Bonds						Revenue Bonds			
Refunding		General Corporate Purpose		General Corporate Purpose		Sewer Refunding			
Issued June 1, 2010		Issued July 6, 2011		Issued June 28, 2012		Issued May 12, 2008			
Interest		Interest		Interest		Total	Interest		
Rates	Amount	Rates	Amount	Rates	Amount		Rates	Amount	
1.60%	\$ 105,000	.70%	\$ 145,000	.35%	\$ 135,000	955,000	3.30%	\$ 105,000	
1.90	105,000	.80	150,000	.50	195,000	1,035,000	3.45	110,000	
2.20	115,000	1.15	160,000	.70	45,000	750,000	3.60	110,000	
2.60	120,000	1.50	165,000	.80	45,000	780,000	3.75	115,000	
2.90	120,000	1.80	170,000	.85	100,000	735,000	3.90	120,000	
3.20	125,000	2.10	175,000	1.00	100,000	760,000	4.00	125,000	
3.40	130,000	2.35	180,000	1.25	100,000	790,000	4.05	130,000	
3.50	135,000		-		-	135,000		-	
3.60	140,000		-		-	140,000		-	
	<u>\$ 1,095,000</u>		<u>\$ 1,145,000</u>		<u>\$ 720,000</u>	<u>6,080,000</u>		<u>\$ 815,000</u>	

City of Monticello

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

For the Last Ten Years

	2012	2011	2010	2009
Receipts:				
Property tax	\$ 1,196,924	1,106,176	1,068,538	1,052,215
Tax increment financing	715,234	875,293	812,590	776,551
Other city tax	539,455	557,125	543,522	538,075
Licenses and permits	12,521	11,904	16,337	14,183
Use of money and property	169,191	158,905	164,893	165,836
Intergovernmental	1,148,043	841,758	533,704	538,671
Charges for service	581,031	587,068	534,278	532,065
Special assessments	32,125	18,767	8,225	12,883
Miscellaneous	548,260	332,503	172,524	155,072
Total	\$ 4,942,784	4,489,499	3,854,611	3,785,551
Disbursements:				
Operating:				
Public safety	\$ 1,418,347	1,259,332	1,134,151	1,395,211
Public works	476,325	649,183	482,589	507,485
Culture and recreation	575,555	547,686	543,433	582,056
Community and economic development	75,855	47,860	26,100	4,739
General government	430,613	383,658	354,843	347,772
Debt service	1,317,865	1,137,119	1,074,569	2,062,841
Capital projects	1,848,696	519,204	2,782,615	1,188,083
Total	\$ 6,143,256	4,544,042	6,398,300	6,088,187

See accompanying independent auditor's report.

2008	2007	2006	2005	2004	2003
1,031,036	1,018,093	970,967	974,046	975,086	1,055,907
736,987	737,067	611,546	553,027	486,288	344,043
550,145	534,957	483,068	374,781	313,289	283,326
13,726	9,280	13,198	10,604	14,209	16,339
253,147	266,114	235,079	195,023	126,753	152,068
845,758	842,157	717,539	982,672	629,557	668,673
476,301	415,499	353,670	310,984	271,306	304,434
7,383	14,647	102,812	8,444	36,266	35,616
281,784	475,685	1,036,729	530,563	1,127,155	758,828
4,196,267	4,313,499	4,524,608	3,940,144	3,979,909	3,619,234
1,248,907	1,200,750	937,287	839,798	897,445	987,995
459,982	676,486	443,983	396,103	424,924	416,198
549,814	473,385	467,947	469,241	407,367	482,741
-	-	60,002	59,686	140,512	75,215
368,391	383,815	374,420	318,686	280,442	290,933
1,329,544	826,855	767,225	1,946,432	621,260	788,965
532,482	648,952	3,575,064	1,236,174	2,182,544	1,186,191
4,489,120	4,210,243	6,625,928	5,266,120	4,954,494	4,228,238

Schedule 5

City of Monticello

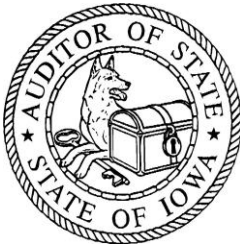
Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Agriculture:			
ARRA-Community Facilities Loans and Grants	10.780	IA-03-171714897	\$ 51,062
U.S. Department of Transportation:			
Airport Improvement Program	20.106	3-19-0061-06-2011	446,005
U.S. Department of Homeland Security:			
Assistance to Firefighters Grant	97.044		35,706
Total direct			532,773
Indirect:			
U.S. Environmental Protection Agency:			
Iowa Department of Natural Resources:			
State and Tribal Response Program Grants	66.817	11-7540-32	13,250
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1930-DR-IA	22,384
Total indirect			35,634
Total			\$ 568,407

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

See accompanying independent auditor's report.



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

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated April 15, 2013. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, 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 Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-12 and II-B-12 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 Part II of the accompanying Schedule of Findings and Questioned Costs as items II-C-12 through II-E-12 to be significant deficiencies.

Compliance and Other Matters

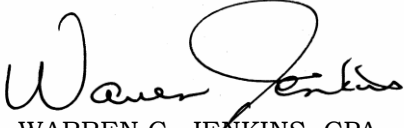
As part of obtaining reasonable assurance about whether the City of Monticello's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and 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 Part IV of the accompanying Schedule of Findings and Questioned Costs.

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

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

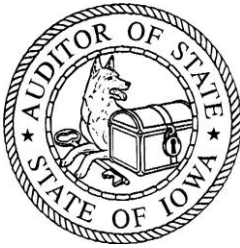
We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Monticello during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 15, 2013

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

City of Monticello



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the City of Monticello, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Monticello's major federal program for the year ended June 30, 2012. The City of Monticello's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Monticello's management. Our responsibility is to express an opinion on the City of Monticello's compliance based on our audit.

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

In our opinion, the City of Monticello complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

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

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

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

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, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Warren Jenkins". The signature is written in a cursive style with a large, looping initial "W".

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 15, 2013

City of Monticello

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

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

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 20.106 – Airport Improvement Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Monticello did not qualify as a low-risk auditee.

City of Monticello

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-12 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. 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 number of 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 reviews and participates in the opening of the daily mail, which includes among other things utility account payments and other receivables. After the FY '11 audit the City Clerk began the process of 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.

II-B-12 Segregation of Duties – Component Units – One important aspect of internal control is segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. For the Riverside Gardeners, Inc., Monticello Firefighters Organization, Inc., Monticello Emergency Medical Team and Friends of the Monticello Public Library, there is no independent

City of Monticello

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

review of monthly bank reconciliations, and the preparer of the bank reconciliations has control over, or involvement in each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City’s component units should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of review of reconciliations should be indicated by the signature or initials of the independent reviewer and the date of the review.

Response – The response from the City to the above comment is applicable to all of the above entities, to wit: A letter will be sent by the City Administrator to each identified entity with a copy of this audit comment and a request that they immediately implement steps to satisfy the auditor’s concern with regard to the proposed review of bank statements and reconciliations.

Conclusion – Response accepted.

II-C-12 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 was prepared and proposed to the City Council for consideration. However, it was not approved. One or two current City Council members did not believe the City should have been involved with the house purchases when those transactions occurred and based thereon would not agree to vote in favor of the written agreement, even though the approval or failure to approve the agreement would not change the fact that the City was a 50% owner of the properties. The sale of the properties is presently in the works with a signed agreement in place. The agreement has some contingencies that must be met before the actual sale will be consummated. It is hoped that the sale goes through and with that this comment will no longer be germane.

Conclusion – Response accepted.

II-D-12 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. This issue was resolved for audit purposes.

City of Monticello

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

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 possible. Unless we see process 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.

II-E-12 Computer System 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.

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 council for consideration in the near future.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

City of Monticello

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Part III: Findings and Questioned Costs for Federal Awards:

No matters were noted.

City of Monticello

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-12 Certified Budget – Disbursements during the year ended June 30, 2012 did not exceed the amounts budgeted.
- IV-B-12 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.
- IV-C-12 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-D-12 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Stuart Gerdes, Fire Board Member, employee of Bard Concrete Inc. and Bard Materials	Services and supplies	\$ 752
Dennis Gray, Soldiers Memorial Board Member, owner of Lock Shop	Services	152
Todd Lambert, Park and Recreation Board Member, co-owner of Monticello Sports	Supplies	8,366
Doug Monck, Ambulance Advisory Board Member, employee of Monticello Machine Shop	Services and supplies	2,845
Jerry Pasker, Board of Adjustment Member, member/owner of Netconnect	Services	362
Cliff Payne, Tree Board Member, owner of Cliff’s Radio & TV	Services	7
Dave Savage, Airport Board Member, owner of Insurance Associates, Inc.	Insurance, per bid	139,278
Kim Brooks, Library Board Member, employee of Monticello Express	Services and supplies	10,201
Paul Elmegreen, Airport Manager, owner of Monticello Aviation, Inc.	Building purchase, services and supplies	110,619

The transactions with Bard Concrete Inc. and Bard Materials, Lock Shop, Netconnect and Cliff’s Radio & TV 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.

City of Monticello

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

The remaining transactions with Monticello Sports, Monticello Machine Shop, Monticello Express and Monticello Aviation Inc. may represent conflicts 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. Many of those identified as potential conflicts are employees of those firms, 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. The purchase of Paul Elmegreen’s building was accomplished or negotiated between the Airport Board and Paul Elmegreen, as an “arms-length” transaction. Mr. Elmegreen was represented by legal counsel and the Airport Board received advice from the City Administrator/Attorney, Doug Herman. Mr. Elmegreen and the City each obtained an appraisal on the property, with the purchase price being substantially less than either of the appraised values.

Conclusion – Response acknowledged. The City should consult legal counsel to aid in determining the disposition of this matter.

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

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

IV-G-12 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.

IV-H-12 Revenue Bonds – The provisions of the sewer refunding revenue 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 is paid from the General Fund as required by the bond provisions.

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 that don’t presently exist at City owned properties. We will then proceed accordingly.

Conclusion – Response accepted.

City of Monticello

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

IV-I-12 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 2011 certification, \$500,000 was certified as TIF debt, but the City Council had only appropriated \$50,000 related to this agreement, resulting in an over certification of \$450,000.

Recommendation – The City should consult TIF legal counsel to determine the disposition of the City’s TIF certifications and the amount of TIF debt to be decertified.

Response – The City Clerk has worked with the County Auditor to correct the issue identified by this comment. At the time of the November 2012 certification, the City Clerk decertified \$480,000 to correct the overstated amount.

Conclusion – Response accepted.

City of Monticello

Staff

This audit was performed by:

Ernest H. Ruben Jr., CPA, Manager
Gwen D. Fangman, CPA, Senior Auditor II
William Bradley Corley, Assistant Auditor
Kelsey J. Kranz, 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