



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

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Auditor of State

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NEWS RELEASE

FOR RELEASE

March 12, 2014

Contact: Andy Nielsen  
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Auditor of State Mary Mosiman today released an audit report on the City of Monticello, Iowa.

The City's receipts totaled \$6,317,847 for the year ended June 30, 2013, a 25% decrease from the prior year. The receipts included \$1,249,238 in property tax, \$2,220,611 from charges for service, \$750,579 from operating grants, contributions and restricted interest, \$567,557 from capital grants, contributions and restricted interest, \$954,563 from tax increment financing, \$313,805 from local option sales tax, \$220,252 from utility franchise tax, \$40,536 from unrestricted interest on investments and \$706 from other general receipts.

Disbursements for the year ended June 30, 2013 totaled \$7,223,781, a 1% decrease from the prior year, and included \$1,716,184 for capital projects, \$1,554,299 for public safety and \$1,128,656 for debt service. Also, disbursements for business type activities totaled \$1,154,238.

The significant decrease in receipts is due primarily to receiving bond proceeds in the prior 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/1320-0495-B00F.pdf>.

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**CITY OF MONTICELLO**

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

**JUNE 30, 2013**

## 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:		
Cash Basis Statement of Activities and Net Position	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 Cash Receipts, Disbursements and Changes in Cash Balance	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 for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133		51-52
Schedule of Findings and Questioned Costs		53-59
Staff		60

**City of Monticello**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dena Himes	Mayor	Jan 2014
John Sauser	Mayor Pro tem	Jan 2014
Reenie Breyer	Council Member	(Resigned March 2013)
Rory Mescher (Appointed)	Council Member	Nov 2013
Dave Goedken	Council Member	Jan 2014
Tom Yeoman	Council Member	Jan 2014
Chris Lux	Council Member	Jan 2016
William 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

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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Monticello, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with 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 from material misstatement.

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

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

Opinions

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, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### Basis of Accounting

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

### Other Matters

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Monticello's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the seven years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. We also previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the two 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.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with 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.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 14 and 34 through 36, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 6, 2014 on our consideration of the City of Monticello's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 in considering the City of Monticello's internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

February 6, 2014

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

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The City of Monticello provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2013 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities decreased 27%, or approximately \$1,748,000, from fiscal year 2012 to fiscal year 2013. Property tax increased approximately \$10,000, and bond proceeds decreased approximately \$1,587,000.
- Disbursements of the City's governmental activities decreased 1%, or approximately \$73,700. Public safety and community and economic development disbursements increased approximately \$136,000 and \$67,000, respectively, offset by debt service and capital projects disbursement decreases of approximately \$189,000 and \$133,000, respectively. The decrease in receipts was primarily the result of bond proceeds received during fiscal year 2012 for capital improvement projects.
- The City's total cash basis net position decreased 20%, or approximately \$906,000, from June 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the governmental activities decreased approximately \$1,096,000 and the cash basis net position of the business type activities increased approximately \$190,000.

### **USING THIS ANNUAL REPORT**

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial 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 Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

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

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, 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.

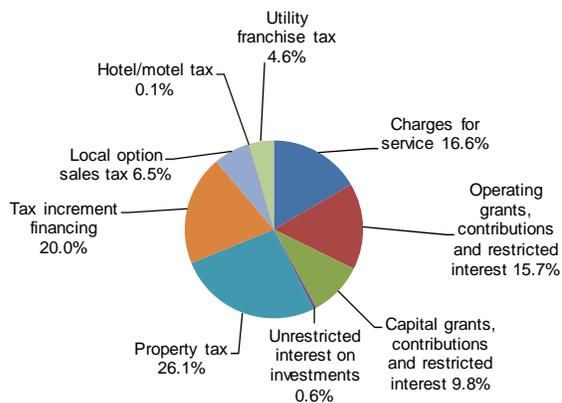
The required financial statement for the Fiduciary Fund is a Statement of Cash Receipts, Disbursements and Changes in Cash Balance.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

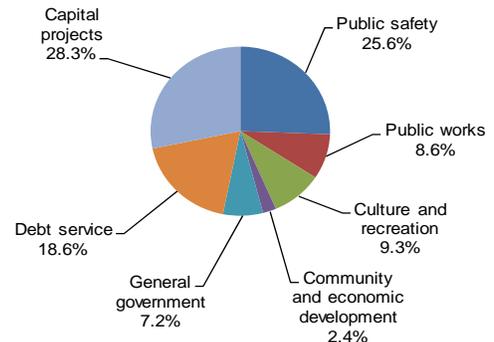
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from approximately \$3.5 million to approximately \$2.4 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year ended June 30,	
	2013	2012
<b>Receipts:</b>		
Program receipts:		
Charges for service	\$ 795,187	877,689
Operating grants, contributions and restricted interest	750,579	854,498
Capital grants, contributions and restricted interest	469,614	685,690
General receipts:		
Property tax	1,249,238	1,239,083
Tax increment financing	954,563	715,234
Local option sales tax	313,805	288,736
Hotel/motel tax	706	445
Utility franchise tax	220,252	208,114
Unrestricted interest on investments	27,142	30,109
Miscellaneous	-	43,186
Bond proceeds	-	1,586,613
<b>Total receipts</b>	<b>4,781,086</b>	<b>6,529,397</b>
<b>Disbursements:</b>		
Public safety	1,554,299	1,418,347
Public works	523,740	476,325
Culture and recreation	565,742	575,555
Community and economic development	143,022	75,855
General government	437,900	430,613
Debt service	1,128,656	1,317,865
Capital projects	1,716,184	1,848,696
<b>Total disbursements</b>	<b>6,069,543</b>	<b>6,143,256</b>
Change in cash basis net position before transfers	(1,288,457)	386,141
Transfers, net	192,215	468,868
Change in cash basis net position	(1,096,242)	855,009
Cash basis net position beginning of year	3,516,830	2,661,821
Cash basis net position end of year	\$ 2,420,588	3,516,830

**Receipts by Source**



**Disbursements by Function**



The City's total receipts for governmental activities decreased 27%, or approximately \$1,748,000. The total cost of all governmental programs and services decreased approximately \$73,700, or 1%. The significant decrease in receipts was primarily the result of \$1,586,613 of bond proceeds received from the issuance of general obligation corporate purpose bonds during fiscal year 2012.

The cost of all governmental activities this year was approximately \$6,070,000 compared to approximately \$6,143,000 last year.

Changes in Cash Basis Net Position of Business Type Activities		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 437,565	423,676
Sewer	573,992	566,825
Sanitation	413,867	391,579
Capital grants, contributions and restricted interest	7,843	13,558
General receipts:		
Unrestricted interest on investments	13,394	13,451
Bond proceeds	-	257,616
FEMA reimbursements	90,100	226,841
Total receipts	<u>1,536,761</u>	<u>1,893,546</u>
Disbursements:		
Water	252,596	254,588
Sewer	513,475	528,083
Sanitation	388,167	382,402
Total disbursements	<u>1,154,238</u>	<u>1,165,073</u>
Change in cash basis net position before transfers	382,523	728,473
Transfers, net	<u>(192,215)</u>	<u>(468,868)</u>
Change in cash basis net position	190,308	259,605
Cash basis net position beginning of year	938,546	678,941
Cash basis net position end of year	<u>\$ 1,128,854</u>	<u>938,546</u>

Total business type activities receipts for the fiscal year were approximately \$1,537,000 compared to approximately \$1,894,000 last year. Total disbursements for the fiscal year decreased to approximately \$1,154,000 compared to approximately \$1,165,000 last year. The decrease in receipts was due primarily to the receipt of \$257,616 of bond proceeds in fiscal year 2012 and a decrease of \$136,741 in reimbursements received from FEMA, partially offset by an increase in charges for service of \$43,344.

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

As the City of Monticello completed the year, its governmental funds reported a combined fund balance of \$2,420,588, a decrease of \$1,096,242 from last year's total of \$3,516,830. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$219,528 from the prior year to \$642,521. Public safety function disbursements increased \$270,853, mostly due to the purchase of a new fire truck for \$193,900 and an increase in police expenses of \$48,600 due to hiring of a new police officer, purchase of minor equipment and purchase of a new records management system. The decrease in net transfer to the General Fund was primarily interfund loan repayments from other funds during fiscal year 2012.
- The Special Revenue, Tax Increment Financing Fund cash balance increased \$177,232 from the prior year to \$388,741, primarily due to an increase of \$239,329 in tax increment financing receipts.
- The Debt Service Fund cash balance decreased \$699 from the previous year to \$10,755.
- The Capital Projects Fund cash balance decreased \$1,112,103 from the prior year to \$395,942. The decrease was primarily the cumulative effect of changes in receipts, disbursements and other financing sources/uses for fiscal year 2013. Intergovernmental receipts decreased \$239,283. This decrease is primarily due to the receipt of Federal Aviation Administration (FAA) grant funds in fiscal year 2012 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, offset by the receipt in fiscal year 2013 of \$311,846 of Federal Hazard Mitigation and state match funds used to buyout properties in the flood plain and an increase of \$70,481 in airport donations. Capital projects function disbursements decreased \$132,512 and included buyout of properties in the flood plain in fiscal year 2013. Total other financing sources/uses decreased \$1,648,477, primarily due to receipt in fiscal year 2012 of bond proceeds of \$1,586,613 used for various capital projects and the purchase of equipment.

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

- The Enterprise, Water Fund cash balance increased \$146,427 to \$530,500 due to the cumulative effect of changes in receipts, disbursements and other financing sources/uses for fiscal year 2013. Receipts for charges for service increased \$17,274. Total non-operating receipts/disbursements increased \$49,578, primarily due to \$43,617 in FEMA reimbursements in the current year. Total operating transfers out to the Debt Service Fund to help service the 2010 refunding bonds decreased by \$38,900.
- The Enterprise, Sewer Fund cash balance increased \$21,993 to \$484,358.
- The Enterprise, Sanitation Fund cash balance increased \$21,888 to \$113,996.

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City of Monticello amended its budget twice. The first amendment was done on January 7, 2013 and resulted in an increase in both receipts and disbursements to fund the flood buyout program. The second amendment was done on May 6, 2013 to provide for additional donations and receipts and subsequent disbursements to fund the airport terminal building and library daycare outreach.

The City's receipts were \$1,325,141 less than budgeted. This was primarily due to the cumulative effect of the City overestimating intergovernmental receipts while underestimating tax increment financing, other city tax and miscellaneous receipts.

Total disbursements were \$2,259,954 less than the amended budget. Actual disbursements for the public works, capital projects and business type activities functions were \$148,673, \$1,728,334 and \$257,819, respectively, less than the amended budget. This was primarily due to anticipating more project activity than actually occurred.

## **DEBT ADMINISTRATION**

At June 30, 2013, the City had \$5,925,000 of bonds, notes and other long-term debt outstanding, compared to \$7,005,085 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2013	2012
General obligation bonds	\$ 5,125,000	6,080,000
Revenue bonds	710,000	815,000
Capital lease purchase agreement	-	10,085
Installment purchase agreement	90,000	100,000
Total	\$ 5,925,000	7,005,085

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 and installment purchase agreement totaling \$5,925,000 is below its constitutional debt limit of approximately \$9.2 million. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

## **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 follows a different path. 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 appropriated funds to the Library from the General Fund. The City Administrator provides 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. 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 (savings created by the early payment of debt with cash or bond proceeds at a lower interest rate), and overtime minimization, for example. In addition, we have made an effort to identify smaller cost savings from items such as our postage meter lease, where we found a new vendor that cut our annual expenditures 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, the City requested and received all available increment. 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. We recently analyzed the period of June 1, 2013 through November 30, 2013 and found the City had realized a savings of \$22,553 by self-insuring instead of purchasing a lower deductible policy. 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. Due to considerations associated with the Affordable Care Act implementation, we locked in our health insurance rates last December, with the next potential rate change coming in December, 2014 instead of June, 2014, as would have been the case in the past. We have estimated a small increase in our costs for the coming year and have a comfortable cash balance in our Special Revenue, Employee Benefits Fund to cover increases that may not be met by our tax rate.

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 2014 remained basically identical to the fiscal year 2013 and 2012 levy, with some fractional reduction. Preparation of the fiscal year 2015 budget is underway and it is anticipated, based upon preliminary data and budget planning, the fiscal year 2015 tax levy will reflect a noticeable reduction. The reduction is largely tied to a lower debt service levy and an increase in the City tax base.

In the last fiscal year, the Monticello Regional Airport Terminal building was finalized, various pieces of public works equipment were purchased, numerous street repairs were undertaken and a sewer line was replaced in the S. Walnut Street area, in addition to day-to-day repairs and upgrades to City infrastructure. The City is in the final stages of completing the buy out of ten (10) flood ravaged properties, seven (7) residential and three (3) commercial. The buy-out area will be converted to a City park/green space in the coming months. In early 2013, the City sold two residential properties it owned with the Monticello Development Corporation to a developer. The properties were originally purchased to promote development in that area, and with the sale said development will occur. Finally, the City suffered a downtown fire in November of 2012. The City has worked with property owners and has partnered with the property owners to bring businesses back to the fire damaged area. The City will be improving an alleyway, constructing a parking lot and downtown park environment. In the process, the City has acquired a duplex and commercial building which will be demolished. One large fire damaged building is currently undergoing renovations and an adjacent fire damaged set of buildings has been demolished and plans are being drawn up to rebuild.

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 replacement of the East 1<sup>st</sup> Street Bridge, for which we will utilize federal bridge funding, the GIS mapping of City infrastructure, potential Community Building improvements/renovations, upgraded street lighting from high pressure sodium to LED and the potential installation of radio read water meters.

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 the City of 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. 1<sup>st</sup> Street, Monticello, Iowa, 52310.

## **Basic Financial Statements**

City of Monticello

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2013

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 1,554,299	434,729	241,809	-
Public works	523,740	171,292	367,958	-
Culture and recreation	565,742	146,565	38,961	-
Community and economic development	143,022	-	-	-
General government	437,900	34,555	140	-
Debt service	1,128,656	-	834	-
Capital projects	1,716,184	8,046	100,877	469,614
Total governmental activities	6,069,543	795,187	750,579	469,614
Business type activities:				
Water	252,596	437,565	-	43,617
Sewer	513,475	573,992	-	54,326
Sanitation	388,167	413,867	-	-
Total business type activities	1,154,238	1,425,424	-	97,943
Total	\$ 7,223,781	2,220,611	750,579	567,557
<b>General Receipts and Transfers:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Utility franchise tax				
Unrestricted interest on investments				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
<b>Cash Basis Net Position</b>				
Restricted:				
Nonexpendable:				
Permanent fund purposes				
Expendable:				
Streets				
Urban renewal purposes				
Debt service				
Customer deposits				
Library improvements				
Capital projects				
Cemetery improvements				
Police equipment				
Other purposes				
Unrestricted				
<b>Total cash basis net position</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
(877,761)	-	(877,761)
15,510	-	15,510
(380,216)	-	(380,216)
(143,022)	-	(143,022)
(403,205)	-	(403,205)
(1,127,822)	-	(1,127,822)
(1,137,647)	-	(1,137,647)
(4,054,163)	-	(4,054,163)
-	228,586	228,586
-	114,843	114,843
-	25,700	25,700
-	369,129	369,129
(4,054,163)	369,129	(3,685,034)
1,038,258	-	1,038,258
210,980	-	210,980
954,563	-	954,563
313,805	-	313,805
706	-	706
220,252	-	220,252
27,142	13,394	40,536
192,215	(192,215)	-
2,957,921	(178,821)	2,779,100
(1,096,242)	190,308	(905,934)
3,516,830	938,546	4,455,376
\$ 2,420,588	1,128,854	3,549,442
\$ 268,691	-	268,691
147,630	-	147,630
388,741	-	388,741
10,755	135,978	146,733
-	119,864	119,864
39,069	-	39,069
395,942	-	395,942
235	-	235
5,581	-	5,581
566,308	-	566,308
597,636	873,012	1,470,648
\$ 2,420,588	1,128,854	3,549,442

City of Monticello

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

As of and for the year ended June 30, 2013

	General	Special Revenue Tax Increment Financing
Receipts:		
Property tax	\$ 673,574	-
Tax increment financing	-	954,563
Other city tax	557,335	-
Licenses and permits	15,898	-
Use of money and property	169,255	8,309
Intergovernmental	86,838	-
Charges for service	530,829	-
Special assessments	-	-
Miscellaneous	113,245	-
Total receipts	<u>2,146,974</u>	<u>962,872</u>
Disbursements:		
Operating:		
Public safety	1,269,618	-
Public works	154,827	-
Culture and recreation	515,962	-
Community and economic development	-	143,022
General government	396,062	-
Debt service	-	-
Capital projects	-	-
Total disbursements	<u>2,336,469</u>	<u>143,022</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(189,495)</u>	<u>819,850</u>
Other financing sources (uses):		
Operating transfers in	25,000	101,026
Operating transfers out	(55,033)	(743,644)
Total other financing sources (uses)	<u>(30,033)</u>	<u>(642,618)</u>
Change in cash balances	(219,528)	177,232
Cash balances beginning of year	862,049	211,509
Cash balances end of year	<u>\$ 642,521</u>	<u>388,741</u>
<b>Cash Basis Fund Balances</b>		
Nonspendable - Permanent Funds	\$ -	-
Restricted for:		
Streets	-	-
Urban renewal purposes	-	388,741
Debt service	-	-
Library improvements	39,069	-
Capital projects	-	-
Cemetery improvements	235	-
Police equipment	5,581	-
Other purposes	-	-
Assigned for equipment	14,258	-
Unassigned	583,378	-
Total cash basis fund balances	<u>\$ 642,521</u>	<u>388,741</u>

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
210,980	-	322,799	1,207,353
-	-	-	954,563
5,283	-	14,030	576,648
-	-	-	15,898
835	10,110	7,179	195,688
-	410,569	363,527	860,934
-	8,046	-	538,875
-	33,067	-	33,067
-	188,282	96,533	398,060
217,098	650,074	804,068	4,781,086
-	-	284,681	1,554,299
-	-	368,913	523,740
-	-	49,780	565,742
-	-	-	143,022
-	-	41,838	437,900
1,128,656	-	-	1,128,656
-	1,716,184	-	1,716,184
1,128,656	1,716,184	745,212	6,069,543
(911,558)	(1,066,110)	58,856	(1,288,457)
910,859	55,033	-	1,091,918
-	(101,026)	-	(899,703)
910,859	(45,993)	-	192,215
(699)	(1,112,103)	58,856	(1,096,242)
11,454	1,508,045	923,773	3,516,830
10,755	395,942	982,629	2,420,588
-	-	268,691	268,691
-	-	147,630	147,630
-	-	-	388,741
10,755	-	-	10,755
-	-	-	39,069
-	395,942	-	395,942
-	-	-	235
-	-	-	5,581
-	-	566,308	566,308
-	-	-	14,258
-	-	-	583,378
10,755	395,942	982,629	2,420,588

**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, 2013

	Enterprise				Internal
	Water	Sewer	Sanitation	Total	Service Self Insurance
Operating receipts:					
Charges for service	\$ 423,077	571,200	370,051	1,364,328	16,845
Miscellaneous	14,488	2,792	43,816	61,096	-
Total operating receipts	437,565	573,992	413,867	1,425,424	16,845
Operating disbursements:					
Governmental activities:					
Public safety	-	-	-	-	3,226
Public works	-	-	-	-	4,089
Culture and recreation	-	-	-	-	3,305
General government	-	-	-	-	1,272
Business type activities	252,596	311,120	388,167	951,883	4,953
Total operating disbursements	252,596	311,120	388,167	951,883	16,845
Excess of operating receipts over operating disbursements	184,969	262,872	25,700	473,541	-
Non-operating receipts (disbursements):					
Interest on investments	5,915	6,291	1,188	13,394	-
Capital improvements	-	(66,377)	-	(66,377)	-
Debt service	-	(135,978)	-	(135,978)	-
FEMA reimbursements	43,617	46,483	-	90,100	-
Special assessments	-	7,843	-	7,843	-
Total non-operating receipts (disbursements)	49,532	(141,738)	1,188	(91,018)	-
Excess of receipts over disbursements	234,501	121,134	26,888	382,523	-
Operating transfers out	(88,074)	(99,141)	(5,000)	(192,215)	-
Change in cash balances	146,427	21,993	21,888	190,308	-
Cash balances beginning of year	384,073	462,365	92,108	938,546	-
Cash balances end of year	\$ 530,500	484,358	113,996	1,128,854	-
<b>Cash Basis Fund Balances</b>					
Restricted for:					
Debt service	\$ -	135,978	-	135,978	-
Customer deposits	119,864	-	-	119,864	-
Unrestricted	410,636	348,380	113,996	873,012	-
Total cash basis fund balances	\$ 530,500	484,358	113,996	1,128,854	-

See notes to financial statements.

City of Monticello

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balance  
Fiduciary Fund

As of and for the year ended June 30, 2013

	<u>Agency Flexible Benefits</u>
Additions:	
Employee contributions	\$ 4,846
Deductions:	
Medical reimbursements	<u>6,345</u>
Change in cash balance	(1,499)
Cash balance beginning of year	<u>1,905</u>
Cash balance end of year	<u><u>\$ 406</u></u>

See notes to financial statements.

City of Monticello

Notes to Financial Statements

June 30, 2013

**(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 that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: 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 Cash Basis Statement of Activities and Net Position (previously referred to as 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 Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

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

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

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

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

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

The City reports the following major governmental funds:

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

The Special Revenue, Tax Increment Financing Fund is used to account for tax increment financing collections 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 is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned 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 are 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, 2013, disbursements did not exceed the amounts budgeted.

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

The City's deposits in banks at June 30, 2013 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
2014	\$ 1,035,000	147,990	110,000	27,013	1,145,000	175,003	1,320,003
2015	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	760,000	58,130	125,000	10,265	885,000	68,395	953,395
2019-2021	1,065,000	49,860	130,000	5,265	1,195,000	55,125	1,250,125
Total	\$ 5,125,000	560,833	710,000	99,964	5,835,000	660,797	6,495,797

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 52% of net receipts. The total principal and interest remaining to be paid on the bonds is \$809,964. For the current year, principal and interest paid and total customer net receipts were \$135,478 and \$262,872, 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, 2013, 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 was for five years, with interest at 5.25% per annum, and required annual payments. During the year ended June 30, 2013, the City made the final payment of \$10,602.

#### 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, 2013 totaled \$10,000, resulting in an unpaid principal balance of \$90,000 at June 30, 2013.

#### **(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 5.78% of their annual covered salary and the City is required to contribute 8.67% 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, 2013, 2012 and 2011 were \$125,531, \$116,170 and \$106,598, 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 29 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 \$418 for single coverage and \$1,284 for family coverage. For the year ended June 30, 2013, the City contributed \$148,588 and plan members eligible for benefits contributed \$6,030 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, 2013, primarily relating to the General and Enterprise Funds, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 40,000
Sick leave	1,000
Holiday	<u>2,000</u>
Total	<u>\$ 43,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2013.

**(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 \$1,020,481 for street repairs, an airport terminal building and Walnut Street sewer construction projects. As of June 30, 2013, \$996,751 had been paid on the contracts. The remaining \$23,730 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, 2013 was \$127,776. The total cumulative amount rebated and granted since inception of the existing agreements is \$246,824.

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 the 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 2013. 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. The total amount rebated and granted during the year ended June 30, 2013 and total cumulative amount rebated and granted is \$15,246.

**(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, 2013, the balance on the loans was \$14,583 and the City received repayments totaling \$8,046 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 \$197,086 for various capital improvement projects. During the year, \$25,000 was repaid to the General Fund, leaving a balance owed of \$97,086

**(13) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer from	Amount
General	Enterprise:	
	Water	\$ 10,000
	Sewer	10,000
	Sanitation	5,000
		<u>25,000</u>
Special Revenue		
Tax Increment Financing	Capital Projects	<u>101,026</u>
Debt Service	Special Revenue:	
	Tax Increment Financing	743,644
	Enterprise:	
	Water	78,074
	Sewer	89,141
		<u>910,859</u>
Capital Projects	General	<u>55,033</u>
Total		<u>\$ 1,091,918</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 ended 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, 2013.

Year Ending June 30,	Amount
2014	15,192
2015	15,192
2016	7,596
Total	<u>\$ 37,980</u>

Rental expense for the year ended June 30, 2013 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, 2013 were \$16,845.

**(16) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$212,243 during the year ended June 30, 2013.

**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, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
<b>Receipts:</b>			
Property tax	\$ 1,207,353	-	-
Tax increment financing	954,563	-	-
Other city tax	576,648	-	-
Licenses and permits	15,898	-	-
Use of money and property	195,688	13,394	827
Intergovernmental	860,934	-	-
Charges for service	538,875	1,381,173	16,845
Special assessments	33,067	-	-
Miscellaneous	398,060	159,039	88,676
Total receipts	4,781,086	1,553,606	106,348
<b>Disbursements:</b>			
Public safety	1,554,299	3,226	93,565
Public works	523,740	4,089	4,089
Culture and recreation	565,742	3,305	7,895
Community and economic development	143,022	-	-
General government	437,900	1,272	1,272
Debt service	1,128,656	-	-
Capital projects	1,716,184	-	-
Business type activities	-	1,159,191	4,953
Total disbursements	6,069,543	1,171,083	111,774
Excess (deficiency) of receipts over (under) disbursements	(1,288,457)	382,523	(5,426)
Other financing sources (uses)	192,215	(192,215)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(1,096,242)	190,308	(5,426)
Balances beginning of year	3,516,830	938,546	225,642
Balances end of year	\$ 2,420,588	1,128,854	220,216

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Net Variance
	Original	Final	
1,207,353	1,208,049	1,208,049	(696)
954,563	895,000	895,000	59,563
576,648	540,180	540,180	36,468
15,898	12,400	13,916	1,982
208,255	209,045	217,395	(9,140)
860,934	1,109,882	2,397,559	(1,536,625)
1,903,203	1,889,736	1,892,491	10,712
33,067	21,906	46,790	(13,723)
468,423	180,100	342,105	126,318
6,228,344	6,066,298	7,553,485	(1,325,141)
1,463,960	1,478,002	1,514,598	50,638
523,740	670,222	672,413	148,673
561,152	558,590	612,970	51,818
143,022	118,131	143,023	1
437,900	421,343	452,484	14,584
1,128,656	996,325	1,136,743	8,087
1,716,184	1,411,760	3,444,518	1,728,334
1,154,238	1,375,457	1,412,057	257,819
7,128,852	7,029,830	9,388,806	2,259,954
(900,508)	(963,532)	(1,835,321)	934,813
-	500,000	466,001	(466,001)
(900,508)	(463,532)	(1,369,320)	468,812
4,229,734	4,231,642	4,231,642	(1,908)
3,329,226	3,768,110	2,862,322	466,904

City of Monticello

Notes to Other Information – Budgetary Reporting

June 30, 2013

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$2,358,976. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2013, 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, 2013

	Road Use Tax	CEBA and Other Grants	Police Forfeiture	Employee Benefits	Special Slavka Gehret Trust
<b>Receipts:</b>					
Property tax	\$ -	-	-	322,799	-
Other city tax	-	-	-	14,030	-
Use of money and property	-	-	14	1,423	2,555
Intergovernmental	363,527	-	-	-	-
Miscellaneous	-	-	-	-	-
Total receipts	363,527	-	14	338,252	2,555
<b>Disbursements:</b>					
Operating:					
Public safety	-	-	-	194,342	-
Public works	325,365	2,704	-	40,844	-
Culture and recreation	-	-	-	45,190	-
General government	-	-	-	41,838	-
Total disbursements	325,365	2,704	-	322,214	-
Excess (deficiency) of receipts over (under) disbursements	38,162	(2,704)	14	16,038	2,555
Cash balances beginning of year	109,468	2,704	2,062	117,169	208,254
Cash balances end of year	\$ 147,630	-	2,076	133,207	210,809
<b>Cash Basis Fund Balances</b>					
Nonspendable - Permanent Funds	\$ -	-	-	-	-
Restricted for:					
Streets	147,630	-	-	-	-
Other purposes	-	-	2,076	133,207	210,809
Total cash basis fund balances	\$ 147,630	-	2,076	133,207	210,809

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	
-	-	-	-	-	-	-	322,799
-	-	-	-	-	-	-	14,030
27	788	12	-	-	482	1,878	7,179
-	-	-	-	-	-	-	363,527
3,483	67,446	17,453	294	5,174	-	2,683	96,533
3,510	68,234	17,465	294	5,174	482	4,561	804,068
-	85,913	4,426	-	-	-	-	284,681
-	-	-	-	-	-	-	368,913
3,492	-	-	1,098	-	-	-	49,780
-	-	-	-	-	-	-	41,838
3,492	85,913	4,426	1,098	-	-	-	745,212
18	(17,679)	13,039	(804)	5,174	482	4,561	58,856
15,126	179,224	26,072	5,220	137,997	39,245	81,232	923,773
15,144	161,545	39,111	4,416	143,171	39,727	85,793	982,629
-	-	-	-	143,171	39,727	85,793	268,691
-	-	-	-	-	-	-	147,630
15,144	161,545	39,111	4,416	-	-	-	566,308
15,144	161,545	39,111	4,416	143,171	39,727	85,793	982,629

City of Monticello  
Schedule of Indebtedness  
Year ended June 30, 2013

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			
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
200,000	-	100,000	100,000	7,550
205,000	-	50,000	155,000	8,012
385,000	-	125,000	260,000	13,998
2,330,000	-	295,000	2,035,000	87,280
1,095,000	-	105,000	990,000	30,990
1,145,000	-	145,000	1,000,000	17,495
720,000	-	135,000	585,000	4,831
<u>\$ 6,080,000</u>	<u>-</u>	<u>955,000</u>	<u>5,125,000</u>	<u>170,156</u>
815,000	-	105,000	710,000	30,478
10,085	-	10,085	-	517
100,000	-	10,000	90,000	4,085

City of Monticello

Bond Maturities

June 30, 2013

Year Ending June 30,	Urban Renewal Issued May 1, 2004		General Corporate Purpose Issued Apr 3, 2006		General Corporate Purpose Issued Sep 25, 2008		General Corporate Purpose and Refunding Issued Oct 15, 2008	
	Interest		Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount
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>\$ 100,000</u>		<u>\$ 155,000</u>		<u>\$ 260,000</u>		<u>\$ 2,035,000</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	
1.90%	\$ 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>\$ 990,000</u>		<u>\$ 1,000,000</u>		<u>\$ 585,000</u>	<u>5,125,000</u>		<u>\$ 710,000</u>	

City of Monticello

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

For the Last Ten Years

	2013	2012	2011	2010
<b>Receipts:</b>				
Property tax	\$ 1,207,353	1,196,924	1,106,176	1,068,538
Tax increment financing	954,563	715,234	875,293	812,590
Other city tax	576,648	539,455	557,125	543,522
Licenses and permits	15,898	12,521	11,904	16,337
Use of money and property	195,688	169,191	158,905	164,893
Intergovernmental	860,934	1,148,043	841,758	533,704
Charges for service	538,875	581,031	587,068	534,278
Special assessments	33,067	32,125	18,767	8,225
Miscellaneous	398,060	548,260	332,503	172,524
<b>Total</b>	<b>\$ 4,781,086</b>	<b>4,942,784</b>	<b>4,489,499</b>	<b>3,854,611</b>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	\$ 1,554,299	1,418,347	1,259,332	1,134,151
Public works	523,740	476,325	649,183	482,589
Culture and recreation	565,742	575,555	547,686	543,433
Community and economic development	143,022	75,855	47,860	26,100
General government	437,900	430,613	383,658	354,843
Debt service	1,128,656	1,317,865	1,137,119	1,074,569
Capital projects	1,716,184	1,848,696	519,204	2,782,615
<b>Total</b>	<b>\$ 6,069,543</b>	<b>6,143,256</b>	<b>4,544,042</b>	<b>6,398,300</b>

See accompanying independent auditor's report.

2009	2008	2007	2006	2005	2004
1,052,215	1,031,036	1,018,093	970,967	974,046	975,086
776,551	736,987	737,067	611,546	553,027	486,288
538,075	550,145	534,957	483,068	374,781	313,289
14,183	13,726	9,280	13,198	10,604	14,209
165,836	253,147	266,114	235,079	195,023	126,753
538,671	845,758	842,157	717,539	982,672	629,557
532,065	476,301	415,499	353,670	310,984	271,306
12,883	7,383	14,647	102,812	8,444	36,266
155,072	281,784	475,685	1,036,729	530,563	1,127,155
3,785,551	4,196,267	4,313,499	4,524,608	3,940,144	3,979,909
1,395,211	1,248,907	1,200,750	937,287	839,798	897,445
507,485	459,982	676,486	443,983	396,103	424,924
582,056	549,814	473,385	467,947	469,241	407,367
4,739	-	-	60,002	59,686	140,512
347,772	368,391	383,815	374,420	318,686	280,442
2,062,841	1,329,544	826,855	767,225	1,946,432	621,260
1,188,083	532,482	648,952	3,575,064	1,236,174	2,182,544
6,088,187	4,489,120	4,210,243	6,625,928	5,266,120	4,954,494

**Schedule 5**

## City of Monticello

## Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Justice:			
Bulletproof Vest Partnership Program	16.607		\$ 904
U.S. Department of Transportation:			
Airport Improvement Program	20.106	3-19-0061-06-2011	201,853
U.S. Department of Homeland Security:			
Assistance to Firefighters Grant	97.044	EMW-2011-FR-00144	80,766
Total direct			283,523
Indirect:			
U.S. Department of Transportation:			
Iowa Department of Public Safety:			
State and Community Highway Safety	20.600	12-03 TASK 225	1,392
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency			
Management Division:			
Hazard Mitigation Grant	97.039	HMGP-DR-1880-0044-01	266,325
Hazard Mitigation Grant	97.039	HMGP-DR-1930-0031-01	141,451
			407,776
Total indirect			409,168
Total			\$ 692,691

**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.



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STATE OF IOWA

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Mary Mosiman, CPA  
Auditor of State

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 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, the 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, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 6, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control we consider to be material weaknesses and 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 in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-13 and II-B-13 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-13 and II-D-13 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 or other matters 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, 2013 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 the Findings

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

### Purpose of this Report

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

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

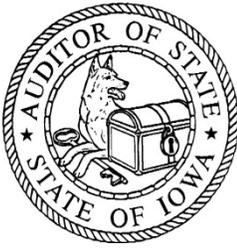
  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

February 6, 2014

**Independent Auditor's Report on Compliance  
for Each Major Federal Program and on Internal Control over Compliance  
Required by OMB Circular A-133**

**City of Monticello**



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

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Auditor of State

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Independent Auditor's Report on Compliance  
for Each Major Federal Program and on Internal Control over Compliance  
Required by OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council:

Report on Compliance for Each Major Federal Program

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, 2013. The City of Monticello's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on Each Major Federal Program

In our opinion, the City of Monticello complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

## Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliances 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

February 6, 2014

City of Monticello

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

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

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than 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 unmodified 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 97.039 – Hazard Mitigation Grant.
- (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.

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

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

**INTERNAL CONTROL DEFICIENCIES:**

II-A-13 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. 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. 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 – The City 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.

Conclusion – Response accepted.

II-B-13 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 review of monthly bank reconciliation 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. All of the above entities will be invited to meet with the City Administrator to review this comment, their procedures, and to ask questions in an attempt to address this comment and to improve their compliance.

Conclusion – Response accepted.

City of Monticello

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

II-C-13 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.

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 has been directed to implement the Uniform Chart of Accounts by no later than December 31, 2014. The City is also exploring other providers of financial software. If a change is made, this issue may be resolved at that time.

Conclusion - Response accepted.

II-D-13 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 collected policies on these issues implemented in other communities. Time will be set aside to review the policies and to thereafter present a policy with a recommendation to the Council for consideration.

Conclusion - Response accepted.

**INSTANCES OF NON-COMPLIANCE**

No matters were noted.

City of Monticello

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

**Part III: Findings and Questioned Costs for Federal Awards:**

**INSTANCES OF NON-COMPLIANCE**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

No material weaknesses in internal control over the major program was noted.

City of Monticello

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

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

- IV-A-12 Certified Budget – Disbursements during the year ended June 30, 2013 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	\$ 2,320
Dennis Gray, Soldiers Memorial Board Member, owner of Lock Shop	Services	299
Mary Intlekofer, Ambulance Advisory Board Member, spouse owns Evan's Inspection Service, Inc.	Flood buyout	4,720
Doug Monck, Ambulance Advisory Board Member, employee of Monticello Machine Shop	Services and supplies	4,112
Chris Taylor, employee, owner of Taylor Ironworks	Services	822
Dave Savage, Airport Board Member, owner of Insurance Associates, Inc.	Insurance, per bid	159,299
Kim Brooks, Library Board Member, employee of Monticello Express	Services and supplies	13,966
Paul Elmegreen, Airport Manager, owner of Monticello Aviation, Inc.	Building purchase, services and supplies	5,127
Nick Sauser Jr., Planning and Zoning Member, owner of Nick's Service Center	Services	271
Kirk Freese, Library Board Member, employee of Freese Motors, Inc.	Service	8,968
Richard Schneiter, Tree Board Member, children own Je Me Ty, Inc.	Supplies	12,339

The transactions with Lock Shop, Taylor Ironworks and Nick’s Service Center 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.

City of Monticello

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

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

The remaining transactions with Bard Concrete, Inc., Bard Materials, Evan's Inspection Service, Inc., Monticello Machine Shop, Monticello Express, Monticello Aviation, Inc., Freese Motors, Inc., and Je Me Ty, 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 with the exception of Richard Schneider. Richard Schneider's resignation from the Tree Board was recently approved. This will avoid potential future conflicts of interest.

Conclusion – Response accepted.

- 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. The City does not currently 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 intends to 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. The City is also contemplating the early payment or refinancing of these bonds as general obligation debt which would do away with the obligation for the City to pay for utility usage.

Conclusion – Response accepted.

City of Monticello

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

- IV-I-12 Urban Renewal Annual Report – The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

City of Monticello

Staff

This audit was performed by:

Ernest H. Ruben Jr., CPA, Manager  
Gwen D. Fangman, CPA, Senior Auditor II  
Kelsey J. Kranz, Staff Auditor  
Tyler G. Huedepohl, Auditor Intern

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