



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

State Capitol Building
Des Moines, Iowa 50319-0004

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

Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

April 4, 2016

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$7,758,038 for the year ended June 30, 2015, an 8.2% increase over the prior year. The receipts included \$1,464,639 in property tax, \$2,131,611 from charges for service, \$1,026,445 from operating grants, contributions and restricted interest, \$140,158 from capital grants, contributions and restricted interest, \$705,038 from tax increment financing, \$331,227 from local option sales tax, \$237,635 from utility franchise tax, \$32,595 from commercial/industrial tax replacement, \$36,355 from unrestricted interest on investments, \$1,622,969 from general obligation bond proceeds and \$29,366 from other general receipts.

Disbursements for the year ended June 30, 2015 totaled \$6,365,091, a 13.8% decrease from the prior year, and included \$1,314,857 for public safety, \$1,031,717 for debt service and \$777,768 for capital projects. Also, disbursements for business type activities totaled \$1,554,212.

The significant decrease in disbursements is due primarily to flood buyouts in the prior fiscal 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/1520-0495-B00F.pdf>.

#

CITY OF MONTICELLO

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

JUNE 30, 2015

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 | 22-33 |
| Other Information: | |
| Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds | 36-37 |
| Notes to Other Information – Budgetary Reporting | 38 |
| Schedule of the City's Proportionate Share of the Net Pension Liability | 39 |
| Schedule of City Contributions | 40-41 |
| Notes to Other Information – Pension Liability | 42-43 |
| Supplementary Information: | <u>Schedule</u> |
| Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds | 1 46-47 |
| Schedule of Indebtedness | 2 48-49 |
| Bond Maturities | 3 50-51 |
| Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds | 4 52-53 |
| 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> | 55-56 |
| Schedule of Findings | 57-61 |
| Staff | 62 |

City of Monticello

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-----------------------------------|----------------------|-------------------------|
| Dena Himes | Mayor | Jan 2016 |
| Tom Yeoman | Mayor Pro tem | Jan 2018 |
| Chris Lux | Council Member | Jan 2016 |
| Bill Meyer | Council Member | Jan 2016 |
| Frank Yanda | Council Member | (Resigned June 1, 2015) |
| Rob Paulson (Appointed June 2015) | Council Member | Nov 2015 |
| Dave Goedken | Council Member | Jan 2018 |
| Johnny Russ | Council Member | Jan 2018 |
| Douglas Herman | City Administrator | Indefinite |
| Sally Hinrichsen | City Clerk/Treasurer | Indefinite |
| Cheryl Clark | Deputy City Clerk | Indefinite |
| Anne E. Loomis | Attorney | Indefinite |

City of Monticello



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004
Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

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, 2015, 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, 2015, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed 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 opinions are not modified with respect to this matter.

Emphasis of a Matter

As discussed in Note 4, the City of Monticello adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinions are 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 nine years ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 7 through 14 and 36 through 43, 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 March 24, 2016 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

March 24, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Monticello provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2015 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 7.4%, or approximately \$424,000, from fiscal year 2014 to fiscal year 2015. Capital grants, contributions, and restricted interest decreased approximately \$1,250,000 due to FEMA grant receipts for flood buyouts in the prior fiscal year. During the fiscal year ended June 30, 2015, the City received approximately \$1,480,000 of bond proceeds, approximately \$32,600 of commercial/industrial tax replacement and property tax receipts increased approximately \$61,000.
- Disbursements of the City's governmental activities decreased 20.5%, or approximately \$1,244,000. Capital projects disbursements decreased approximately \$942,000 due to FEMA flood buyouts in the prior year. Debt service disbursements decreased approximately \$155,000 due to decreases in required scheduled payments.
- The City's total cash basis net position increased 41.8%, or approximately \$1,393,000, from June 30, 2014 to June 30, 2015. Of this amount, the cash basis net position of the governmental activities increased approximately \$1,533,000 and the cash basis net position of the business type activities decreased approximately \$140,000.

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 and the City's proportionate share of the net pension liability and related contributions.

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The 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, the sanitary sewer system and the sanitation system. 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.

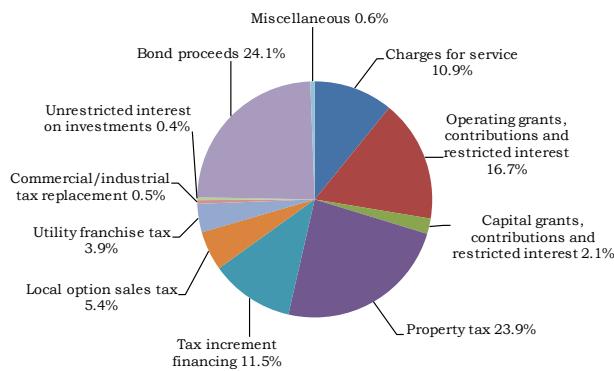
The required financial statement for the Fiduciary Fund is a Statement of Cash Receipts, Disbursements and Changes in Cash Balance.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

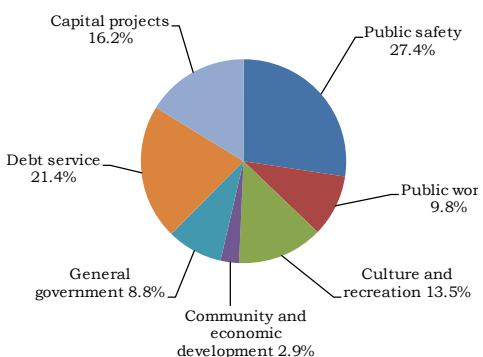
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from approximately \$2.3 million to approximately \$3.9 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

| Changes in Cash Basis Net Position of Governmental Activities | | |
|---|---------------------|-----------|
| | Year ended June 30, | |
| | 2015 | 2014 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service | \$ 665,429 | 743,840 |
| Operating grants, contributions and restricted interest | 1,024,346 | 856,835 |
| Capital grants, contributions and restricted interest | 129,464 | 1,379,755 |
| General receipts: | | |
| Property tax | 1,464,639 | 1,403,839 |
| Tax increment financing | 705,038 | 707,631 |
| Local option sales tax | 331,227 | 294,450 |
| Utility franchise tax | 237,635 | 249,660 |
| Commercial/industrial tax replacement | 32,595 | - |
| Unrestricted interest on investments | 22,987 | 18,068 |
| Bond proceeds | 1,480,113 | - |
| Miscellaneous | 29,366 | 45,036 |
| Total receipts | 6,122,839 | 5,699,114 |
| Disbursements: | | |
| Public safety | 1,314,857 | 1,314,483 |
| Public works | 472,415 | 567,227 |
| Culture and recreation | 650,097 | 714,327 |
| Community and economic development | 138,630 | 115,893 |
| General government | 425,395 | 437,104 |
| Debt service | 1,031,717 | 1,186,490 |
| Capital projects | 777,768 | 1,719,321 |
| Total disbursements | 4,810,879 | 6,054,845 |
| Change in cash basis net position before transfers | 1,311,960 | (355,731) |
| Transfers, net | 221,180 | 261,412 |
| Change in cash basis net position | 1,533,140 | (94,319) |
| Cash basis net position beginning of year | 2,326,269 | 2,420,588 |
| Cash basis net position end of year | \$ 3,859,409 | 2,326,269 |

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 7.4%, or approximately \$424,000, over the prior year. The total cost of all governmental programs and services decreased approximately \$1,244,000 or 20.5%. The increase in receipts was primarily the result of approximately \$1,490,000 of bond proceeds received during fiscal year 2015, offset by a decrease in FEMA grant receipts. Property tax receipts also increased approximately \$61,000, or 4.3%.

The cost of all governmental activities this year was approximately \$4,811,000 compared to approximately \$6,055,000 in the prior year. Capital projects disbursements decreased as the City substantially completed FEMA supported flood buyouts in the prior year. Debt service disbursements also decreased due to a decrease in required scheduled payments.

| Changes in Cash Basis Net Position of Business Type Activities | | |
|--|---------------------|------------------|
| | Year ended June 30, | |
| | 2015 | 2014 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service: | | |
| Water | \$ 435,656 | 429,164 |
| Sewer | 596,773 | 585,010 |
| Sanitation | 433,753 | 420,289 |
| Operating grants, contributions and restricted interest | 2,099 | - |
| Capital grants, contributions and restricted interest | 10,694 | 7,854 |
| General receipts: | | |
| Unrestricted interest on investments | 13,368 | 15,019 |
| Bond proceeds | 142,856 | - |
| Miscellaneous | - | 12,510 |
| Total receipts | <u>1,635,199</u> | <u>1,469,846</u> |
| Disbursements: | | |
| Water | 292,277 | 491,003 |
| Sewer | 881,101 | 449,275 |
| Sanitation | 380,834 | 391,902 |
| Total disbursements | <u>1,554,212</u> | <u>1,332,180</u> |
| Change in cash basis net position before transfers | 80,987 | 137,666 |
| Transfers, net | (221,180) | (261,412) |
| Change in cash basis net position | (140,193) | (123,746) |
| Cash basis net position beginning of year | <u>1,005,108</u> | <u>1,128,854</u> |
| Cash basis net position end of year | <u>\$ 864,915</u> | <u>1,005,108</u> |

Total business type activities receipts for the fiscal year were approximately \$1,635,000 compared to approximately \$1,470,000 last year, an 11.2% increase. Total disbursements for the fiscal year increased to approximately \$1,554,000 compared to approximately \$1,332,000 last year, an increase of 16.7%. The increase in receipts and disbursements was due primarily to bond proceeds received during the year to repair flood damage to the wastewater treatment plant.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Monticello completed the year, its governmental funds reported a combined fund balance of \$3,859,409, an increase of \$1,533,140 from last year's total of \$2,326,269. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$136,543 from the prior year to \$783,857. Receipts decreased approximately \$106,000, or 4.5%, and disbursements decreased approximately \$129,000, or 5.8%. The increase in the cash balance is primarily due to a decrease in transfers to the Capital Projects Fund to provide a local match for FEMA flood buyouts in the prior year.
- The Special Revenue, Tax Increment Financing (TIF) Fund cash balance increased \$25,240 from the prior year to \$238,746. Transfers to the Debt Service Fund for payment of TIF debt decreased in the current year.
- The Debt Service Fund cash balance increased \$6,246 from the previous year to \$25,756.
- The Capital Projects Fund cash balance increased \$1,212,435 from the prior year to \$1,601,891. The increase was primarily due to the receipt of general obligation bond proceeds of \$1,465,675 for use on various projects.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$46,736, or 13.3%, to \$398,867. Disbursements decreased \$198,726, or 40.5%, due to the purchase of radio read water meters in the prior fiscal year.
- The Enterprise, Sewer Fund cash balance decreased \$241,804, or 48.2%, to \$259,757. Disbursements increased approximately \$432,000, or 96.1%, due to costs related to the Kitty Creek Sewer repairs and flood repairs to the wastewater treatment plant during the current fiscal year.
- The Enterprise, Sanitation Fund cash balance increased \$54,875 to \$206,291. Receipts remained steady and disbursements decreased \$11,068, or 2.8%.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City of Monticello amended its budget once. The amendment was adopted on May 18, 2015 and resulted in an increase in both budgeted receipts and disbursements to fund flood repairs on the wastewater treatment plant.

The City's receipts were \$537,601 less than budgeted, partially due to the City not receiving a grant for ambulance department equipment as expected.

Total disbursements were \$1,131,344 less than the amended budget. Actual disbursements for the public works, capital projects and business type activities functions were \$133,562, \$482,316 and \$265,664, respectively, less than the amended budget. This was primarily due to anticipating more project activity than actually occurred.

DEBT ADMINISTRATION

At June 30, 2015, the City had \$5,360,000 of bonds and other long-term debt outstanding, compared to \$4,770,000 last year, as shown below.

| Outstanding Debt at Year-End | | |
|--------------------------------|--------------|-----------|
| | June 30, | |
| | 2015 | 2014 |
| General obligation bonds | \$ 4,800,000 | 4,090,000 |
| Revenue bonds | 490,000 | 600,000 |
| Installment purchase agreement | 70,000 | 80,000 |
| Total | \$ 5,360,000 | 4,770,000 |

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 bonds and installment purchase agreement totaling \$4,870,000 is below its constitutional debt limit of approximately \$9.8 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 the proposed budget 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 historically appropriated funds to the Library from the General Fund to cover a significant portion of the Library's annual operating expenses. 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. A draft proposed budget is reviewed with the City Council along with a discussion on outstanding debt, upcoming capital projects, assessed and taxable valuations and the City Council's desires with regard to tax rates. After a complete review of those matters, the City Council determines the appropriate direction to take with regard to the budget, debt and tax rates.

The City budget process includes multiple meetings, both formal and informal, by and between the City Administrator, department heads, and 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 meeting's "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 and copy equipment leases. A new vendor was identified for the postage meter and the City purchased the copy machine at the end of the lease, both decisions resulting in noticeable reductions in monthly expenses. When potential cost savings opportunities are identified, efforts are made to implement practices and

procedures to realize those savings. 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 consideration. After much study and analysis, the City recently contracted for garbage collection which was previously collected by City staff. It is believed this decision will save money, allow us to better utilize staff for other tasks, reduce the workers compensation rate attached to the work being performed by those workers and limit significant capital expenditures related to equipment replacement. On the revenue side, the City has been paying more attention to the annual TIF certification. Until a few years ago, the City requested and received all available increment. While legally permissible, collection of 100% of the available increment kept most of the community's new growth from providing a positive impact on the General Fund revenue budget. 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 three 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 which 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. When new debt is taken on we analyze the impact that debt will have on our existing tax rate. We strive to plan new debt issues in a way that will allow us to maintain a consistent and steady overall tax levy rate.

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, and reducing our health insurance premium expense, we have realized significant savings, generally around a 20% reduction, or \$36,000, in our premium expenses each year.

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 have continued forward with a "grandfathered" plan and will again look at the benefits and negatives of remaining grandfathered in the coming year.

In addition to careful management of daily expenses and a review of all areas within where 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 combined levy has remained static from fiscal year 2012 through the fiscal year 2016 budget, which includes a combined levy identical to the fiscal year 2015 levy rate of \$13.86898 per \$1,000 of assessed value of taxable property.

During fiscal year 2015, the City saw many capital improvements, as follows:

1. The City continued to upgrade and improve approximately 23 acres of new "park" grounds that include a shelter, a disc golf course, a parking lot and greenspace.
2. The City continued to work towards completion of a downtown parking lot and pocket park being built on the location of a November 2011 downtown fire. The project is expected to be completed in the summer of 2016.
3. Numerous street repair projects, including patching, seal coat, curb and gutter, manhole replacement and other miscellaneous improvements, were pursued this year.
4. Planning with the City Engineer for replacement of the East 1st Street bridge continued. The City will receive significant federal bridge funding to help defray the cost of the project which is expected to be completed in 2017.
5. The City finished the upgrade of period lighting in town from high pressure sodium to LED and worked towards completing the radio read meter installation throughout town.
6. The City completed GIS mapping of all critical infrastructure.
7. The City completed the extension of sanitary sewer along 190th Street to serve a new truck stop.
8. Community building improvements/renovations commenced with City Hall staff relocating to the upstairs of the building to allow for installation of new windows throughout the building and significant upgrades to the lower level, including wiring, plumbing, insulation, reorganization of offices, painting and floorcovering.

Administration, staff and elected officials will continue to be proactive in seeking to control expenses while exploring all appropriate revenue generating options. City Administration, staff and the City Council recognize the importance of avoiding stagnation. A continued proactive and progressive approach to infrastructure management, economic development, community aesthetics and amenities and general quality of life are all vital to the long-term viability of the community and the City Council will take the necessary steps to ensure Monticello is an attractive location for families and businesses to locate now and for many years to come.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

City of Monticello

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2015

| | Disbursements | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
|---|---------------------|---------------------|---|---|
| Functions/Programs: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 1,314,857 | 375,815 | 165,750 | 26,285 |
| Public works | 472,415 | 80,505 | 431,065 | - |
| Culture and recreation | 650,097 | 142,794 | 89,571 | - |
| Community and economic development | 138,630 | - | - | - |
| General government | 425,395 | 58,098 | 203 | - |
| Debt service | 1,031,717 | - | 1,032 | - |
| Capital projects | 777,768 | 8,217 | 336,725 | 103,179 |
| Total governmental activities | 4,810,879 | 665,429 | 1,024,346 | 129,464 |
| Business type activities: | | | | |
| Water | 292,277 | 435,656 | - | - |
| Sewer | 881,101 | 596,773 | 2,099 | 10,694 |
| Sanitation | 380,834 | 433,753 | - | - |
| Total business type activities | 1,554,212 | 1,466,182 | 2,099 | 10,694 |
| Total primary government | \$ 6,365,091 | 2,131,611 | 1,026,445 | 140,158 |
| General Receipts and Transfers: | | | | |
| Property and other city tax levied for: | | | | |
| General purposes | | | | |
| Debt service | | | | |
| Tax increment financing | | | | |
| Local option sales tax | | | | |
| Hotel/motel tax | | | | |
| Utility franchise fees | | | | |
| Commercial/industrial tax replacement | | | | |
| Unrestricted interest on investments | | | | |
| Bond proceeds, including \$39,138 of premium and net of \$11,169 of issue costs | | | | |
| Sale of capital assets | | | | |
| Miscellaneous | | | | |
| 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 | | | | |
| Cash Basis Net Position | | | | |
| Restricted: | | | | |
| Nonexpendable: | | | | |
| Permanent fund purposes | | | | |
| Expendable: | | | | |
| Streets | | | | |
| Debt service | | | | |
| Library purposes | | | | |
| Customer deposits | | | | |
| Employee benefits | | | | |
| Fire purposes | | | | |
| Capital projects | | | | |
| Equipment set-aside | | | | |
| Other purposes | | | | |
| Unrestricted | | | | |
| Total cash basis net position | | | | |

See notes to financial statements.

| Net (Disbursements) Receipts and Changes in Cash Basis Net Position | | |
|--|--------------------------|--------------------|
| Governmental Activities | Business Type Activities | Total |
| (747,007) | - | (747,007) |
| 39,155 | - | 39,155 |
| (417,732) | - | (417,732) |
| (138,630) | - | (138,630) |
| (367,094) | - | (367,094) |
| (1,030,685) | - | (1,030,685) |
| (329,647) | - | (329,647) |
| <u>(2,991,640)</u> | <u>-</u> | <u>(2,991,640)</u> |
| | | |
| - | 143,379 | 143,379 |
| - | (271,535) | (271,535) |
| - | 52,919 | 52,919 |
| - | (75,237) | (75,237) |
| <u>(2,991,640)</u> | <u>(75,237)</u> | <u>(3,066,877)</u> |
| | | |
| 1,198,047 | - | 1,198,047 |
| 266,592 | - | 266,592 |
| 705,038 | - | 705,038 |
| 331,227 | - | 331,227 |
| 649 | - | 649 |
| 237,635 | - | 237,635 |
| 32,595 | | 32,595 |
| 22,987 | 13,368 | 36,355 |
| | | |
| 1,480,113 | 142,856 | 1,622,969 |
| 25,650 | - | 25,650 |
| 3,067 | - | 3,067 |
| 221,180 | (221,180) | - |
| <u>4,524,780</u> | <u>(64,956)</u> | <u>4,459,824</u> |
| | | |
| 1,533,140 | (140,193) | 1,392,947 |
| 2,326,269 | 1,005,108 | 3,331,377 |
| <u>\$ 3,859,409</u> | <u>864,915</u> | <u>4,724,324</u> |
| | | |
| \$ 279,472 | - | 279,472 |
| 259,926 | - | 259,926 |
| 264,502 | 128,023 | 392,525 |
| 208,330 | - | 208,330 |
| - | 81,320 | 81,320 |
| 205,477 | - | 205,477 |
| 205,431 | - | 205,431 |
| - | - | - |
| 1,601,891 | 67,929 | 1,669,820 |
| 132,695 | - | 132,695 |
| 701,685 | 587,643 | 1,289,328 |
| <u>\$ 3,859,409</u> | <u>864,915</u> | <u>4,724,324</u> |

City of Monticello

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

As of and for the year ended June 30, 2015

| | General | Special Revenue Tax Increment Financing | Debt Service |
|--|-------------------|---|------------------|
| Receipts: | | | |
| Property tax | \$ 803,146 | - | 259,367 |
| Tax increment financing | - | 705,038 | - |
| Other city tax | 358,971 | - | 7,225 |
| Licenses and permits | 257,563 | - | - |
| Use of money and property | 171,215 | 7,651 | 1,032 |
| Intergovernmental | 128,660 | - | 5,077 |
| Charges for service | 441,308 | - | - |
| Special assessments | - | - | - |
| Miscellaneous | 68,326 | - | - |
| Total receipts | 2,229,189 | 712,689 | 272,701 |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | 1,054,868 | - | - |
| Public works | 129,688 | - | - |
| Culture and recreation | 523,553 | - | - |
| Community and economic development | - | 138,630 | - |
| General government | 386,221 | - | - |
| Debt service | - | - | 1,031,717 |
| Capital projects | - | - | - |
| Total disbursements | 2,094,330 | 138,630 | 1,031,717 |
| Excess (deficiency) of receipts over (under) disbursements | 134,859 | 574,059 | (759,016) |
| Other financing sources (uses): | | | |
| Sale of property | 14,000 | 5,825 | - |
| Bond proceeds, including \$39,138 of premium and net of \$11,169 of issue costs | - | - | 14,438 |
| Transfers in | 55,239 | - | 750,824 |
| Transfers out | (67,555) | (554,644) | - |
| Total other financing sources (uses) | 1,684 | (548,819) | 765,262 |
| Change in cash balances | 136,543 | 25,240 | 6,246 |
| Cash balances beginning of year | 647,314 | 213,506 | 19,510 |
| Cash balances end of year | \$ 783,857 | 238,746 | 25,756 |
| Cash Basis Fund Balances | \$ | - | - |
| Nonspendable - Permanent Funds | - | - | - |
| Restricted for: | | | |
| Streets | - | - | - |
| Debt service | - | 238,746 | 25,756 |
| Library purposes | 1,468 | - | - |
| Employee benefits | - | - | - |
| Fire purposes | - | - | - |
| Capital projects | - | - | - |
| Other purposes | 80,704 | - | - |
| Unassigned | 701,685 | - | - |
| Total cash basis fund balances | \$ 783,857 | 238,746 | 25,756 |

See notes to financial statements.

| Capital Projects | Nonmajor | Total |
|---------------------|------------------|------------------|
| - | 355,730 | 1,418,243 |
| - | - | 705,038 |
| - | 12,076 | 378,272 |
| - | - | 257,563 |
| 13,745 | 5,902 | 199,545 |
| 77,050 | 403,201 | 613,988 |
| 800 | - | 442,108 |
| 8,841 | - | 8,841 |
| <u>380,951</u> | <u>144,201</u> | <u>593,478</u> |
| <u>481,387</u> | <u>921,110</u> | <u>4,617,076</u> |
| | | |
| - | 259,989 | 1,314,857 |
| - | 342,727 | 472,415 |
| - | 126,544 | 650,097 |
| - | - | 138,630 |
| - | 39,174 | 425,395 |
| - | - | 1,031,717 |
| <u>777,768</u> | <u>-</u> | <u>777,768</u> |
| <u>777,768</u> | <u>768,434</u> | <u>4,810,879</u> |
| <u>(296,381)</u> | <u>152,676</u> | <u>(193,803)</u> |
| | | |
| 5,825 | - | 25,650 |
| | | |
| 1,465,675 | - | 1,480,113 |
| 67,555 | - | 873,618 |
| (30,239) | - | (652,438) |
| <u>1,508,816</u> | <u>-</u> | <u>1,726,943</u> |
| <u>1,212,435</u> | <u>152,676</u> | <u>1,533,140</u> |
| <u>389,456</u> | <u>1,056,483</u> | <u>2,326,269</u> |
| <u>1,601,891</u> | <u>1,209,159</u> | <u>3,859,409</u> |
| | | |
| - | 279,472 | 279,472 |
| | | |
| - | 259,926 | 259,926 |
| - | - | 264,502 |
| - | 206,862 | 208,330 |
| - | 205,477 | 205,477 |
| - | 205,431 | 205,431 |
| <u>1,601,891</u> | <u>-</u> | <u>1,601,891</u> |
| <u>-</u> | <u>51,991</u> | <u>132,695</u> |
| <u>-</u> | <u>-</u> | <u>701,685</u> |
| <u>1,601,891</u> | <u>1,209,159</u> | <u>3,859,409</u> |

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, 2015

| | Enterprise | | | | Internal Service Self |
|---|------------|-----------|------------|-----------|-----------------------------|
| | Water | Sewer | Sanitation | Total | Insurance |
| | | | | | |
| Operating receipts: | | | | | |
| Charges for service | \$ 424,640 | 591,440 | 433,753 | 1,449,833 | 28,281 |
| Miscellaneous | 11,016 | 5,333 | - | 16,349 | - |
| Total operating receipts | 435,656 | 596,773 | 433,753 | 1,466,182 | 28,281 |
| Operating disbursements: | | | | | |
| Governmental activities: | | | | | |
| Public safety | - | - | - | - | 5,997 |
| Public works | - | - | - | - | 4,680 |
| Culture and recreation | - | - | - | - | 561 |
| General government | - | - | - | - | 8,079 |
| Business type activities | 292,277 | 331,914 | 380,834 | 1,005,025 | 8,964 |
| Total operating disbursements | 292,277 | 331,914 | 380,834 | 1,005,025 | 28,281 |
| Excess of operating receipts over operating disbursements | 143,379 | 264,859 | 52,919 | 461,157 | - |
| Non-operating receipts (disbursements): | | | | | |
| Interest on investments | 4,212 | 7,200 | 1,956 | 13,368 | - |
| Special assessments | - | 10,694 | - | 10,694 | - |
| Sale of capital assets | - | - | - | - | - |
| Capital outlay | - | (415,469) | - | (415,469) | - |
| FEMA reimbursements | | 2,099 | | 2,099 | |
| Bond proceeds | - | 142,856 | - | 142,856 | |
| Debt service | - | (133,718) | - | (133,718) | - |
| Net non-operating receipts (disbursements) | 4,212 | (386,338) | 1,956 | (380,170) | - |
| Excess (deficiency) of receipts over (under) disbursements | 147,591 | (121,479) | 54,875 | 80,987 | - |
| Transfers in | - | 20,000 | - | 20,000 | - |
| Transfers out | (100,855) | (140,325) | - | (241,180) | - |
| Total transfers in (out) | (100,855) | (120,325) | - | (221,180) | - |
| Change in cash balances | 46,736 | (241,804) | 54,875 | (140,193) | - |
| Cash balances beginning of year | 352,131 | 501,561 | 151,416 | 1,005,108 | - |
| Cash balances end of year | \$ 398,867 | 259,757 | 206,291 | 864,915 | - |
| Cash Basis Fund Balances | | | | | |
| Restricted for: | | | | | |
| Debt service | \$ - | 128,023 | - | 128,023 | - |
| Customer deposits | 81,320 | - | - | 81,320 | - |
| Equipment set-aside | 38,915 | - | 29,014 | 67,929 | - |
| Unrestricted | 278,632 | 131,734 | 177,277 | 587,643 | - |
| Total cash basis fund balances | \$ 398,867 | 259,757 | 206,291 | 864,915 | - |

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, 2015

| | <u>Agency</u> |
|--------------------------------|-----------------|
| | <u>Flexible</u> |
| | <u>Benefits</u> |
| Additions: | |
| Employee contributions | \$ 32,984 |
| Deductions: | |
| Medical reimbursements | <u>32,947</u> |
| Change in cash balance | 37 |
| Cash balance beginning of year | <u>613</u> |
| Cash balance end of year | <u>\$ 650</u> |

See notes to financial statements.

City of Monticello

Notes to Financial Statements

June 30, 2015

(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, Friends of the Monticello Public Library and Monticello Youth Baseball and Softball Association (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. was 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. was 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.

Monticello Youth Baseball and Softball Association 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 Youth Baseball and Softball Association is legally separate from the City, its purpose is to benefit the City of Monticello parks and recreation 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 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. Net position restricted through enabling Legislation consists of \$67,929 for equipment set-aside.

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 sanitation 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.

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, 2015, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2015 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 ensure 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 | | | | | | Total | |
|----------------------------|--------------------|----------|---------------|----------|-----------|----------|-----------|--|
| | Bonds | | Revenue Bonds | | | | | |
| | Principal | Interest | Principal | Interest | Principal | Interest | | |
| 2016 | \$ 840,000 | 134,525 | 115,000 | 19,258 | 955,000 | 153,783 | 1,108,783 | |
| 2017 | 855,000 | 111,195 | 120,000 | 14,945 | 975,000 | 126,140 | 1,101,140 | |
| 2018 | 880,000 | 87,605 | 125,000 | 10,265 | 1,005,000 | 97,870 | 1,102,870 | |
| 2019 | 910,000 | 62,130 | 130,000 | 5,265 | 1,040,000 | 67,395 | 1,107,395 | |
| 2020 | 400,000 | 34,440 | - | - | 400,000 | 34,440 | 434,440 | |
| 2021-2024 | 915,000 | 50,103 | - | - | 915,000 | 50,103 | 965,103 | |
| Total | \$ 4,800,000 | 479,998 | 490,000 | 49,733 | 5,290,000 | 529,731 | 5,819,731 | |

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 50% of net receipts. The total principal and interest remaining to be paid on the bonds is \$539,733. For the current year, principal and interest paid and total customer net receipts were \$133,218 and \$264,859, 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 receipts 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, 2015, the City did not pay for its use of City utilities.

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 and requires annual payments of \$10,000 plus interest at 4.00% per annum on the unpaid balance. Principal payments under the agreement for the year ended June 30, 2015 totaled \$10,000, resulting in an unpaid principal balance of \$70,000 at June 30, 2015.

(4) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

Protection occupation member may retire at normal retirement age, which is generally at age 55. Protection occupation members may retire any time after reaching age 50 with 22 or more years covered employment.

The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1%. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% for a total rate of 14.88%. Protection occupation members contributed 6.76% of covered payroll and the City contributed 10.14% for a total rate of 16.90%.

The City's contributions to IPERS for the year ended June 30, 2015 were \$133,100.

Collective Net Pension Liability, Collective Pension Expense, Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$281,003. The collective net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to

IPERS relative to the contributions of all IPERS participating employers. At June 30, 2014, the City's proportion was 0.007086%, which was a decrease of 0.004624% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City's collective pension expense, collective deferred outflows of resources and collective deferred inflows of resources totaled \$47,589, \$24,232 and \$339,588, respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

| | |
|--|---|
| Rate of inflation (effective June 30, 2014) | 3.00% per annum. |
| Rates of salary increase (effective June 30, 2010) | 4.00 to 17.00% average, including inflation. Rates vary by membership group. |
| Long-term investment rate of return (effective June 30, 1996) | 7.50% compounded annually, net of investment expense, including inflation. |

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Asset Allocation | Long-Term Expected Real Rate of Return |
|------------------------|------------------|--|
| US Equity | 23% | 6.31% |
| Non US Equity | 15 | 6.76 |
| Private Equity | 13 | 11.34 |
| Real Estate | 8 | 3.52 |
| Core Plus Fixed Income | 28 | 2.06 |
| Credit Opportunities | 5 | 3.67 |
| TIPS | 5 | 1.92 |
| Other Real Assets | 2 | 6.27 |
| Cash | 1 | (0.69) |
| Total | 100% | |

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

| | 1% Decrease (6.50%) | Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---------------------------|-----------------------------|---------------------------|
| City's proportionate share of the net pension liability (asset) | \$ 1,000,694 | \$ 281,003 | \$ (326,011) |

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(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 30 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 \$427 for single coverage, \$874 for employee and spouse coverage, \$808 for employee and children coverage and \$1,310 for family coverage. For the year ended June 30, 2015, the City contributed \$151,397 and plan members eligible for benefits contributed \$20,932 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation 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. 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, 2015, primarily relating to the General and Enterprise Funds, is as follows:

| Type of Benefit | Amount |
|-----------------|------------------|
| Vacation | \$ 26,000 |
| Holiday | <u>500</u> |
| Total | <u>\$ 26,500</u> |

This liability has been computed based on rates of pay in effect at June 30, 2015.

(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) 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 developer 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 \$336,257, 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 \$1,804,000. The total amount rebated and granted during the year ended June 30, 2015 was \$123,536. The total cumulative amount rebated and granted since inception of the existing agreements is \$470,938.

The City has entered into two tax increment financing agreements for urban renewal projects. The City has agreed to assist in the urban renewal projects 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 are 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, 2015 was \$15,094 and the total cumulative amount rebated and granted is \$45,655.

(9) 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. The City received repayments totaling \$7,383 during the year ended June 30, 2015. As of June 30, 2015, the balances on the loans were paid in full.

(10) 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.

(11) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

| Transfer to | Transfer from | Amount |
|------------------|-------------------------|---------------|
| General | Special Revenue: | |
| | Tax Increment Financing | \$ 25,000 |
| | Capital Projects | 30,239 |
| | | <hr/> 55,239 |
| Debt Service | Special Revenue: | |
| | Tax Increment Financing | 529,644 |
| | Enterprise: | |
| | Water | 80,855 |
| | Sewer | 140,325 |
| | | <hr/> 750,824 |
| Enterprise: | Enterprise: | |
| Sewer | Water | 20,000 |
| Capital Projects | General | <hr/> 67,555 |
| Total | | \$ 806,063 |

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

(12) Operating Lease Agreement

The City entered into a lease for multiple copiers, printers and fax machines during the year ended June 30, 2011. 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, 2015.

| Year Ending | Amount |
|----------------|-----------------|
| June 30, | |
| 2016 | <u>\$ 7,596</u> |

Rental expense for the year ended June 30, 2015 for this operating lease totaled \$16,458.

(13) 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 are recorded as disbursements by the operating funds. Payments to employees for medical claims for the year ended June 30, 2015 totaled \$28,281.

(14) Related Party Transactions

The City had business transactions between the City and City officials totaling \$237,334 during the year ended June 30, 2015.

(15) Construction Commitments

The City entered into construction contracts totaling \$995,979 for street repairs, community center renovation, hail repair, an airport terminal building, traffic control lights, asbestos removal and a house demolition. As of June 30, 2015, \$430,791 has been paid on the contracts. The remaining \$565,188 will be paid as work on the projects progresses.

(16) Subsequent Events

Development Agreement – In September 2015, the City approved a development agreement with Boulders Inn (Developer) totaling \$583,900. The agreement requires the City to provide a maximum of \$350,000 of incremental property tax rebate payments to the Developer in exchange for infrastructure improvements and development of commercial property. The agreement also provides for grants totaling \$36,800 from incremental property tax and \$197,100 from hotel/motel tax receipts, subject to timing and performance requirements as set forth in the agreement.

General Obligation Corporate Purpose and Refunding Bonds – In February 2016, the City approved the issuance of not to exceed \$3,000,000 of general obligation corporate purpose and refunding bonds to currently refund the 2008 sewer revenue and general obligation bonds and to provide funds for the South Street and Business 151 project. The bonds are payable from a continuing annual levy of property tax against all taxable property in the City and incremental property tax received in the Special Revenue, Tax Increment Financing Fund.

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, 2015

| | Governmental Funds Actual | Proprietary Funds Actual | Less Funds not Required to be Budgeted |
|--|---------------------------------|--------------------------------|---|
| Receipts: | | | |
| Property tax | \$ 1,418,243 | - | - |
| Tax increment financing | 705,038 | - | - |
| Other city tax | 378,272 | - | - |
| Licenses and permits | 257,563 | - | - |
| Use of money and property | 199,545 | 13,368 | 17 |
| Intergovernmental | 614,018 | 2,099 | - |
| Charges for service | 442,108 | 1,449,833 | - |
| Special assessments | 8,841 | 10,694 | - |
| Miscellaneous | 593,478 | 16,349 | 140,822 |
| Total receipts | 4,617,106 | 1,492,343 | 140,839 |
| Disbursements: | | | |
| Public safety | 1,314,857 | - | 62,637 |
| Public works | 472,415 | - | - |
| Culture and recreation | 650,097 | - | 61,808 |
| Community and economic development | 138,630 | - | - |
| General government | 425,395 | - | - |
| Debt service | 1,031,717 | - | - |
| Capital projects | 777,768 | - | - |
| Business type activities | - | 1,554,212 | - |
| Total disbursements | 4,810,879 | 1,554,212 | 124,445 |
| Excess (deficiency) of receipts over (under) disbursements | (193,773) | (61,869) | 16,394 |
| Other financing sources (uses), net | 1,726,943 | (78,324) | - |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | 1,533,170 | (140,193) | 16,394 |
| Balances beginning of year | 2,326,269 | 1,005,108 | 239,702 |
| Balances end of year | \$ 3,859,439 | 864,915 | 256,096 |

See accompanying independent auditor's report.

| Total | Budgeted Amounts | | Final to Net Variance |
|-----------|------------------|-----------|-----------------------------|
| | Original | Final | |
| 1,418,243 | 1,421,202 | 1,421,202 | (2,959) |
| 705,038 | 700,000 | 700,000 | 5,038 |
| 378,272 | 548,825 | 548,825 | (170,553) |
| 257,563 | 12,100 | 15,403 | 242,160 |
| 212,896 | 187,515 | 190,023 | 22,873 |
| 616,117 | 1,081,423 | 918,627 | (302,510) |
| 1,891,941 | 2,068,647 | 2,058,647 | (166,706) |
| 19,535 | 25,000 | 16,747 | 2,788 |
| 469,005 | 340,600 | 636,737 | (167,732) |
| 5,968,610 | 6,385,312 | 6,506,211 | (537,601) |
| | | | |
| 1,252,220 | 1,288,588 | 1,342,473 | 90,253 |
| 472,415 | 683,537 | 605,977 | 133,562 |
| 588,289 | 595,783 | 672,859 | 84,570 |
| 138,630 | 114,203 | 138,631 | 1 |
| 425,395 | 428,867 | 500,368 | 74,973 |
| 1,031,717 | 930,983 | 1,031,722 | 5 |
| 777,768 | 1,572,800 | 1,260,084 | 482,316 |
| 1,554,212 | 1,734,876 | 1,819,876 | 265,664 |
| 6,240,646 | 7,349,637 | 7,371,990 | 1,131,344 |
| | | | |
| (272,036) | (964,325) | (865,779) | 593,743 |
| 1,648,619 | 1,195,000 | 1,644,618 | 4,001 |
| | | | |
| 1,376,583 | 230,675 | 778,839 | 597,744 |
| 3,091,675 | 3,092,288 | 3,092,288 | (613) |
| 4,468,258 | 3,322,963 | 3,871,127 | 597,131 |

City of Monticello

Notes to Other Information – Budgetary Reporting

June 30, 2015

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, one budget amendment increased budgeted disbursements by \$22,353. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements did not exceed the amounts budgeted.

City of Monticello
Schedule of the City's Proportionate Share of the Net Pension Liability
Iowa Public Employees' Retirement System
Last Fiscal Year*
(In Thousands)

Other Information

| 2015 | | |
|---|----|-----------|
| City's proportion of the net pension liability | | 0.007086% |
| City's proportionate share of the net pension liability | \$ | 281 |
| City's covered-employee payroll | \$ | 1,381 |
| City's proportionate share of the net pension liability as a percentage of its covered-employee payroll | | 20.35% |
| Plan fiduciary net position as a percentage of the total pension liability | | 87.61% |

* The amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report.

City of Monticello
Schedule of City Contributions
Iowa Public Employees' Retirement System
Last Ten Fiscal Years
(In Thousands)

Other Information

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|--------------|--------------|--------------|--------------|
| Statutorily required contribution | \$ 133 | 131 | 126 | 116 |
| Contributions in relation to the statutorily required contribution | <u>(133)</u> | <u>(131)</u> | <u>(126)</u> | <u>(116)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| City's covered-employee payroll | \$ 1,400 | 1,381 | 1,331 | 1,296 |
| Contributions as a percentage of covered-employee payroll | 9.50% | 9.49% | 9.47% | 8.95% |

*City's covered-employee payroll information was not readily available. Therefore, contributions as a percentage of covered-employee payroll could not be calculated.

See accompanying independent auditor's report.

| 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|--------------|--------------|--------------|------|------|------|
| 107 | 97 | 104 | 75 | 69 | 64 |
| (107) | (97) | (104) | (75) | (69) | (64) |
| - | - | - | - | - | - |
| 1,283 | 1,229 | 1,345 | * | * | * |
| 8.34% | 7.89% | 7.73% | * | * | * |

City of Monticello

Notes to Other Information – Pension Liability

Year ended June 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25% to 4.00%.
- Lowered the inflation assumption from 3.50% to 3.25%.
- Lowered disability rates for sheriffs, deputies and protection occupation members.

City of Monticello

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, 2015

| | Road Use Tax | Police Forfeiture | Employee Benefits | Slavka Gehret Trust | Riverside Gardeners, Inc. | Firefighters Organization, Inc. | Special Monticello |
|---------------------------------------|-------------------|----------------------|----------------------|---------------------------|---------------------------------|---------------------------------------|-----------------------|
| Receipts: | | | | | | | |
| Property tax | \$ - | - | 355,730 | - | - | - | - |
| Other city tax | - | - | 12,076 | - | - | - | - |
| Use of money and property | - | 14 | 1,852 | 2,511 | 12 | - | - |
| Intergovernmental | 394,718 | - | 8,483 | - | - | - | - |
| Miscellaneous | - | - | - | - | 14,150 | 64,699 | |
| Total receipts | 394,718 | 14 | 378,141 | 2,511 | 14,162 | 64,699 | |
| Disbursements: | | | | | | | |
| Operating: | | | | | | | |
| Public safety | - | - | 197,352 | - | - | 41,980 | |
| Public works | 304,317 | - | 38,410 | - | - | - | |
| Culture and recreation | - | - | 54,298 | 9,839 | 11,659 | - | |
| General government | - | - | 39,174 | - | - | - | |
| Total disbursements | 304,317 | - | 329,234 | 9,839 | 11,659 | 41,980 | |
| Change in cash balances | 90,401 | 14 | 48,907 | (7,328) | 2,503 | 22,719 | |
| Cash balances beginning of year | 169,525 | 2,088 | 156,570 | 213,414 | 15,021 | 182,712 | |
| Cash balances end of year | \$ 259,926 | 2,102 | 205,477 | 206,086 | 17,524 | 205,431 | |
| Cash Basis Fund Balances | | | | | | | |
| Nonspendable - Permanent Funds | \$ - | - | - | - | - | - | - |
| Restricted for: | | | | | | | |
| Streets | 259,926 | - | - | - | - | - | - |
| Library purposes | - | - | - | 206,086 | - | - | - |
| Employee benefits | - | - | 205,477 | - | - | - | - |
| Fire purposes | - | - | - | - | - | 205,431 | |
| Other purposes | - | 2,102 | - | - | 17,524 | - | - |
| Total cash basis fund balances | \$ 259,926 | 2,102 | 205,477 | 206,086 | 17,524 | 205,431 | |

See accompanying independent auditor's report.

| Revenue | | | Permanent | | | |
|--|---|--|-------------------------------|--------------------------------------|-------------------------------------|-----------|
| Monticello Emergency Medical Team | Friends of the Monticello Public Library | Monticello Youth Base ball and Softball Association | Cemetery Perpetual Care | Ioma M. Baker Library Trust | Charles S. Bidwell Book Trust | Total |
| - | - | - | - | - | - | 355,730 |
| - | - | - | - | - | - | 12,076 |
| 5 | - | - | - | 481 | 1,027 | 5,902 |
| - | - | - | - | - | - | 403,201 |
| 18,393 | - | 43,580 | 3,379 | - | - | 144,201 |
| 18,398 | - | 43,580 | 3,379 | 481 | 1,027 | 921,110 |
| <hr/> | | | | | | |
| 20,657 | - | - | - | - | - | 259,989 |
| - | - | - | - | - | - | 342,727 |
| - | 3,618 | 46,531 | - | - | 599 | 126,544 |
| - | - | - | - | - | - | 39,174 |
| 20,657 | 3,618 | 46,531 | - | - | 599 | 768,434 |
| (2,259) | (3,618) | (2,951) | 3,379 | 481 | 428 | 152,676 |
| 18,492 | 4,394 | 19,083 | 148,847 | 40,219 | 86,118 | 1,056,483 |
| 16,233 | 776 | 16,132 | 152,226 | 40,700 | 86,546 | 1,209,159 |
| <hr/> | | | | | | |
| - | - | - | 152,226 | 40,700 | 86,546 | 279,472 |
| - | - | - | - | - | - | 259,926 |
| - | 776 | - | - | - | - | 206,862 |
| - | - | - | - | - | - | 205,477 |
| - | - | - | - | - | - | 205,431 |
| 16,233 | - | 16,132 | - | - | - | 51,991 |
| 16,233 | 776 | 16,132 | 152,226 | 40,700 | 86,546 | 1,209,159 |

City of Monticello

Schedule of Indebtedness

Year ended June 30, 2015

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|--|---------------|----------------|--------------------------|
| General obligation bonds: | | | |
| 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 | 0.70-2.35 | 1,145,000 |
| General corporate purpose | Jun 28, 2012 | 0.35-1.25 | 720,000 |
| General corporate purpose | Oct 21, 2014 | 2.00-2.75 | 1,595,000 |
| Total | | | |
| Revenue bonds: | | | |
| Sewer refunding | May 12, 2008 | 2.70-4.05% | \$ 1,195,000 |
| 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 |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|
| 105,000 | - | 105,000 | - | 2,460 |
| 130,000 | - | 65,000 | 65,000 | 5,005 |
| 1,730,000 | - | 315,000 | 1,415,000 | 67,470 |
| 885,000 | - | 115,000 | 770,000 | 27,315 |
| 850,000 | - | 160,000 | 690,000 | 15,280 |
| 390,000 | - | 45,000 | 345,000 | 3,775 |
| - | 1,595,000 | 80,000 | 1,515,000 | 21,862 |
| \$ 4,090,000 | 1,595,000 | 885,000 | 4,800,000 | 143,167 |
| 600,000 | - | 110,000 | 490,000 | 23,218 |
| 80,000 | - | 10,000 | 70,000 | 3,200 |

City of Monticello

Bond Maturities

June 30, 2015

| General Obligation Bonds | | | | | | | | | |
|---------------------------------|------------------------------|-----------|-------------------------|------------------------------------|------------|----------------------------|---------------------|------------|--------------------------|
| General | | | | | | | | | |
| Year Ending June 30, | General Corporate Purpose | | | Corporate Purpose and Refunding | | | Refunding | | |
| | Issued Sep 25, 2008 | Interest | Amount | Issued Oct 15, 2008 | Interest | Amount | Issued June 1, 2010 | Interest | Amount |
| | Interest | Rates | Amount | Interest | Rates | Amount | Interest | Rates | Amount |
| 2016 | 3.90% | \$ 65,000 | | 3.80% | \$ 330,000 | | 2.60% | \$ 120,000 | |
| 2017 | | - | | 4.00 | | \$ 345,000 | 2.90 | | \$ 120,000 |
| 2018 | | - | | 4.00 | | \$ 360,000 | 3.20 | | \$ 125,000 |
| 2019 | | - | | 4.05 | | \$ 380,000 | 3.40 | | \$ 130,000 |
| 2020 | | - | | | | - | 3.50 | | \$ 135,000 |
| 2021 | | - | | | | - | 3.60 | | \$ 140,000 |
| 2022 | | - | | | | - | | | - |
| 2023 | | - | | | | - | | | - |
| 2024 | | - | | | | - | | | - |
| Total | | | <u><u>\$ 65,000</u></u> | | | <u><u>\$ 1,415,000</u></u> | | | <u><u>\$ 690,000</u></u> |

See accompanying independent auditor's report.

| Revenue Bonds | | | | | | | |
|------------------------------|-------------------|------------------------------|---------------------|---------------------|-------|-------------------|--|
| General Corporate Purpose | | General Corporate Purpose | | Sewer Refunding | | | |
| Issued June 28, 2012 | | Issued Oct 21, 2014 | | Issued May 12, 2008 | | | |
| Interest | | Interest | | Interest | | | |
| Rates | Amount | Rates | Amount | Total | Rates | Amount | |
| 0.80% | \$ 45,000 | 2.00% | \$ 115,000 | 840,000 | 3.75% | \$ 115,000 | |
| 0.85 | 100,000 | 2.00 | 120,000 | 855,000 | 3.90 | 120,000 | |
| 1.00 | 100,000 | 2.00 | 120,000 | 880,000 | 4.00 | 125,000 | |
| 1.25 | 100,000 | 2.00 | 120,000 | 910,000 | 4.05 | 130,000 | |
| | - | 2.25 | 265,000 | 400,000 | | - | |
| | - | 2.25 | 265,000 | 405,000 | | - | |
| | - | 2.25 | 170,000 | 170,000 | | - | |
| | - | 2.50 | 170,000 | 170,000 | | - | |
| | - | 2.75 | 170,000 | 170,000 | | - | |
| | <u>\$ 345,000</u> | | <u>\$ 1,515,000</u> | <u>4,800,000</u> | | <u>\$ 490,000</u> | |

City of Monticello

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

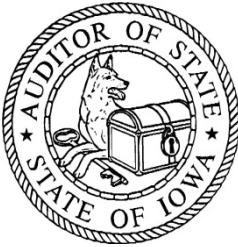
For the Last Ten Years

| | 2015 | 2014 | 2013 | 2012 |
|------------------------------------|---------------------|------------------|------------------|------------------|
| Receipts: | | | | |
| Property tax | \$ 1,418,243 | 1,359,156 | 1,207,353 | 1,196,924 |
| Tax increment financing | 705,038 | 707,631 | 954,563 | 715,234 |
| Other city tax | 378,272 | 589,325 | 576,648 | 539,455 |
| Licenses and permits | 257,563 | 23,739 | 15,898 | 12,521 |
| Use of money and property | 199,545 | 182,975 | 195,688 | 169,191 |
| Intergovernmental | 613,988 | 1,785,111 | 860,934 | 1,148,043 |
| Charges for service | 442,108 | 513,066 | 538,875 | 581,031 |
| Special assessments | 8,841 | 25,545 | 33,067 | 32,125 |
| Miscellaneous | 593,478 | 496,566 | 398,060 | 548,260 |
| Total | \$ 4,617,076 | 5,683,114 | 4,781,086 | 4,942,784 |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | \$ 1,314,857 | 1,314,483 | 1,554,299 | 1,418,347 |
| Public works | 472,415 | 567,227 | 523,740 | 476,325 |
| Culture and recreation | 650,097 | 714,327 | 565,742 | 575,555 |
| Community and economic development | 138,630 | 115,893 | 143,022 | 75,855 |
| General government | 425,395 | 437,104 | 437,900 | 430,613 |
| Debt service | 1,031,717 | 1,186,490 | 1,128,656 | 1,317,865 |
| Capital projects | 777,768 | 1,719,321 | 1,716,184 | 1,848,696 |
| Total | \$ 4,810,879 | 6,054,845 | 6,069,543 | 6,143,256 |

See accompanying independent auditor's report.

| 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|------------------|------------------|------------------|------------------|------------------|------------------|
| 1,106,176 | 1,068,538 | 1,052,215 | 1,031,036 | 1,018,093 | 970,967 |
| 875,293 | 812,590 | 776,551 | 736,987 | 737,067 | 611,546 |
| 557,125 | 543,522 | 538,075 | 550,145 | 534,957 | 483,068 |
| 11,904 | 16,337 | 14,183 | 13,726 | 9,280 | 13,198 |
| 158,905 | 164,893 | 165,836 | 253,147 | 266,114 | 235,079 |
| 841,758 | 533,704 | 538,671 | 845,758 | 842,157 | 717,539 |
| 587,068 | 534,278 | 532,065 | 476,301 | 415,499 | 353,670 |
| 18,767 | 8,225 | 12,883 | 7,383 | 14,647 | 102,812 |
| 332,503 | 172,524 | 155,072 | 281,784 | 475,685 | 1,036,729 |
| 4,489,499 | 3,854,611 | 3,785,551 | 4,196,267 | 4,313,499 | 4,524,608 |
| | | | | | |
| 1,259,332 | 1,134,151 | 1,395,211 | 1,248,907 | 1,200,750 | 937,287 |
| 649,183 | 482,589 | 507,485 | 459,982 | 676,486 | 443,983 |
| 547,686 | 543,433 | 582,056 | 549,814 | 473,385 | 467,947 |
| 47,860 | 26,100 | 4,739 | - | - | 60,002 |
| 383,658 | 354,843 | 347,772 | 368,391 | 383,815 | 374,420 |
| 1,137,119 | 1,074,569 | 2,062,841 | 1,329,544 | 826,855 | 767,225 |
| 519,204 | 2,782,615 | 1,188,083 | 532,482 | 648,952 | 3,575,064 |
| 4,544,042 | 6,398,300 | 6,088,187 | 4,489,120 | 4,210,243 | 6,625,928 |

City of Monticello



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited 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, 2015, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 24, 2016. 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, 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 the accompanying Schedule of Findings as items (A) through (C) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (D) through (F) 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 the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2015 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. 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 C. JENKINS, CPA
Chief Deputy Auditor of State

March 24, 2016

City of Monticello

Schedule of Findings

Year ended June 30, 2015

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties - During our review of internal control, the exiting procedures are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the City's financial statements.
- (1) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
 - (2) Receipts – collecting, depositing, posting and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel.

Response – Many new processes have been implemented over the last number of years to improve upon the issues falling within the “Segregation of Duties” category. City staff will continue to explore additional opportunities to improve our internal controls.

Conclusion – Response accepted.

- (B) 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., the Monticello Youth Baseball and Softball Association and the 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 documented by the signature or initials of the independent reviewer and the date of the review.

Response – City staff will again communicate the concerns raised in the audit to the leaders of the Riverside Gardeners, Inc., the Monticello Youth Baseball and Softball Association and the Friends of the Monticello Public Library. We will offer our services and guidance to help them address the segregation of duties concerns outlined in the audit.

Conclusion – Response accepted.

City of Monticello

Schedule of Findings

Year ended June 30, 2015

- (C) Monticello Firefighters Organization Bank Reconciliations – The cash and investment balances in the Monticello Firefighters Organization (Firefighters Organization) general ledger were not reconciled to bank and investment account balances throughout the year.

Recommendation – The Firefighters Organization should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely.

Response – City staff have communicated this finding to the Fire Chief. City staff will offer our services and guidance to help the Fire Department address the segregation of duties concerns outlined in the audits.

Conclusion – Response accepted.

- (D) Uniform Chart of Accounts – The City has not fully implemented the recommended 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 fully implement the Uniform Chart of Accounts for Iowa City Governments.

Response – The City has implemented new financial software and implemented the Uniform Chart of Accounts effective September 2015.

Conclusion - Response accepted.

- (E) Computer System Policies – The City does not have written policies in place to address password privacy and confidentiality and internet usage. In addition, the City does not have a written disaster recovery plan.

Recommendation – The City should draft policies on password privacy and confidentiality and internet usage. In addition, a written disaster recovery plan should be developed.

Response – The City has been reviewing policies on these issues which have been implemented in other communities and plan to present a proposed policy to the City Council for consideration in the near future.

Conclusion – Response accepted.

- (F) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- Aid in training additional or replacement personnel.
- Help achieve uniformity in accounting and in the application of policies and procedures.
- Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

City of Monticello

Schedule of Findings

Year ended June 30, 2015

Response – The City implemented an accounting policies and procedures manual in September 2015.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

City of Monticello

Schedule of Findings

Year ended June 30, 2015

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2015 did not exceed the amounts budgeted.
- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

| Name, Title and Business Connection | Transaction Description | Amount |
|--|--|-------------------|
| Dennis Gray, Soldiers Memorial Board Member, owner of Lock Shop | Services | \$ 335 |
| Doug Monck, Ambulance Advisory Board Member, employee of Monticello Machine Shop | Services and supplies | 1,901 |
| Chris Taylor, employee, owner of Taylor Ironworks | Services | 220 |
| Dave Savage, Airport Advisory Board Member, owner of Insurance Associates, Inc. | Insurance | 150,134 |
| Kim Brooks, Library Board Member, employee of Monticello Express | Services and supplies: Library Other departments | 718 11,510 |
| Paul Elmegreen, Airport Manager, owner of Monticello Aviation, Inc. | Building purchase, services and supplies | 13,480 |
| Kirk Freese, Library Board Member, employee of Freese Motors, Inc. | Service | 34,491 |
| Johnny Russ, Council Member, employee of Spahn Rose and Lumber Company | Supplies | 24,545 |
| Total | | <u>\$ 237,334</u> |

The transactions with Lock Shop, Taylor Ironworks and Monticello Express for the Library 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

Year ended June 30, 2015

In accordance with Chapter 362.5(3)(d) of the Code of Iowa, the transactions with Monticello Express for other departments and Freese Motors, Inc. do not represent a conflict of interest since the Library Board Member's employment are not directly affected as a result of the contracts and the duties of employment do not directly involve procurement or preparation of any part of the contracts.

The remaining transactions with Monticello Machine Shop, Insurance Associates, Inc., Monticello Aviation, Inc. and Spahn Rose and Lumber Company may represent conflicts of interest as defined in Chapter 362.5 of the Code of Iowa since the total transactions with each 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 will review these transactions with legal counsel.

Conclusion – Response accepted.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds – The provisions of the sewer refunding revenue bonds require the City to 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 is in the process of refunding the revenue bonds with general obligation debt and the metering of City used water/sewer will, thereafter, not be required.

Conclusion – Response accepted.

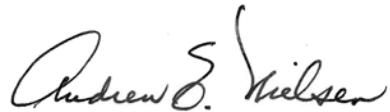
- (9) Annual Urban Renewal Report (AURR) – The annual urban renewal report was approved and certified to the Iowa Department of Management on or before December 1 as required.

City of Monticello

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Director
Dorothy O. Stover, Senior Auditor II
Nathaniel W. Packer, CPA, Staff Auditor
Eileen D. Loomis, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State