

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

NEWS RELEASE

Contact: Andy Nielsen
515/281-5834

FOR RELEASE _____ June 14, 2017

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

The City's receipts totaled \$8,716,289 for the year ended June 30, 2016, a 12.4% increase over the prior year. The receipts included \$1,552,580 in property tax, \$2,161,645 from charges for service, \$832,831 from operating grants, contributions and restricted interest, \$141,909 from capital grants, contributions and restricted interest, \$697,082 from tax increment financing, \$318,789 from local option sales tax, \$219,963 from utility franchise tax, \$74,221 from commercial/industrial tax replacement, \$59,485 from unrestricted interest on investments, \$2,633,400 from general obligation bond proceeds and \$24,384 from other general receipts.

Disbursements for the year ended June 30, 2016 totaled \$8,501,848, a 33.6% increase over the prior year, and included \$1,578,911 for capital projects, \$1,301,333 for public safety and \$1,265,000 for refunded bonds. Also, disbursements for business type activities totaled \$1,580,229.

The significant increase in disbursements is due primarily to bonds refunded and an increase in capital projects activity in the current year.

A copy of the audit report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1620-0495-B00F>.

###

CITY OF MONTICELLO

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

JUNE 30, 2016

Table of Contents

			<u>Page</u>
Officials			3
Independent Auditor’s Report			5-6
Management’s Discussion and Analysis			7-15
Basic Financial Statements:		<u>Exhibit</u>	
Government-wide Financial Statement:			
Cash Basis Statement of Activities and Net Position	A		18-19
Governmental Fund Financial Statement:			
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B		20-21
Proprietary Fund Financial Statement:			
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C		22
Fiduciary Fund Financial Statement:			
Statement of Cash Receipts, Disbursements and Changes in Cash Balance	D		23
Notes to Financial Statements			24-35
Other Information:			
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds			38-39
Notes to Other Information – Budgetary Reporting			40
Schedule of the City’s Proportionate Share of the Net Pension Liability			41
Schedule of City Contributions			42-43
Notes to Other Information – Pension Liability			44
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			57-63
Staff			64

**City of Monticello
Officials**

(Before January 2016)

<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
Rob Paulson	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

(After January 2016)

<u>Name</u>	<u>Title</u>	<u>Expires</u>
Dena Himes	Mayor	Jan 2018
Tom Yeoman	Mayor Pro tem	Jan 2018
Dave Goedken	Council Member	Jan 2018
Johnny Russ	Council Member	Jan 2018
Chris Lux	Council Member	Jan 2020
Brian Wolken	Council Member	Jan 2020
Rob Paulson	Council Member	Jan 2020
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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Monticello, Iowa, as of and for the year ended June 30, 2016, 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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Monticello as of June 30, 2016, 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.

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, 2015 (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 15 and 38 through 44, 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 June 6, 2017 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

June 6, 2017

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, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 14.0%, or approximately \$847,000, from fiscal year 2015 to fiscal year 2016. During the fiscal year ended June 30, 2016, the City received approximately \$2,453,000 of bond proceeds compared to approximately \$1,480,000 in the prior year.
- Disbursements of the City's governmental activities increased 41.4%, or approximately \$1,973,000. Capital projects disbursements increased approximately \$801,000 due to road projects in the current year. The City disbursed \$1,085,000 during the year to refund bonds.
- The City's total cash basis net position remained fairly steady at approximately \$4.7 million. Of this amount, the cash basis net position of the governmental activities is approximately \$4.0 million and the cash basis net position of the business type activities is approximately \$748,000.

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.

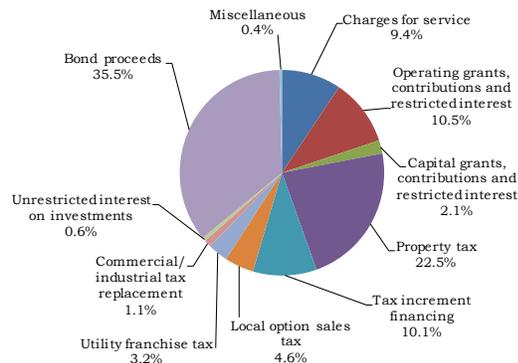
The required financial statement for the Fiduciary Fund is a Statement of Cash Receipts, Disbursements and Changes in Cash Balance.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

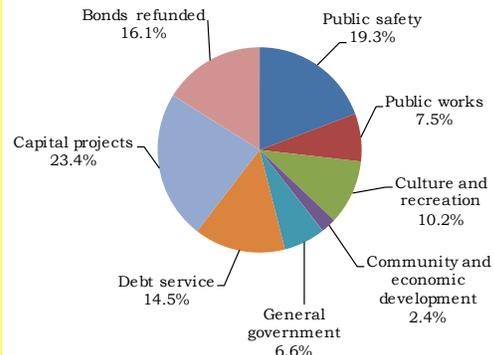
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from approximately \$3.7 million to approximately \$4.0 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service	\$ 650,850	665,429
Operating grants, contributions and restricted interest	727,162	959,647
Capital grants, contributions and restricted interest	141,909	129,464
General receipts:		
Property tax	1,552,580	1,464,639
Tax increment financing	697,082	705,038
Local option sales tax	318,789	331,227
Utility franchise tax	219,963	237,635
Commercial/industrial tax replacement	74,221	32,595
Unrestricted interest on investments	44,535	22,987
Bond proceeds	2,453,400	1,480,113
Miscellaneous	24,384	29,366
Total receipts	6,904,875	6,058,140
Disbursements:		
Public safety	\$ 1,301,333	1,272,877
Public works	505,104	472,415
Culture and recreation	684,872	650,097
Community and economic development	160,185	138,630
General government	447,938	425,395
Debt service	978,276	1,031,717
Capital projects	1,578,911	777,768
Bonds refunded	1,085,000	-
Total disbursements	6,741,619	4,768,899
Change in cash basis net position before transfers	163,256	1,289,241
Transfers, net	168,155	221,180
Change in cash basis net position	331,411	1,510,421
Cash basis net position beginning of year, as restated	3,653,978	2,143,557
Cash basis net position end of year	\$ 3,985,389	3,653,978

Receipts by Source



Disbursements by Function



Receipts of the City's governmental activities increased 14.0%, or approximately \$847,000, from fiscal year 2015 to fiscal year 2016. During the fiscal year ended June 30, 2016, the City received approximately \$2,453,000 of bond proceeds compared to approximately \$1,480,000 in the prior year.

The cost of all governmental activities this year was approximately \$6,742,000 compared to approximately \$4,769,000 in the prior year. Capital projects disbursements increased approximately \$801,000 due to road projects in the current year. The City disbursed \$1,085,000 during the year to refund bonds.

Changes in Cash Basis Net Position of Business Type Activities		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 451,507	435,656
Sewer	612,518	596,773
Sanitation	446,770	433,753
Operating grants, contributions and restricted interest	105,669	2,099
Capital grants, contributions and restricted interest	-	10,694
General receipts:		
Unrestricted interest on investments	14,950	13,368
Bond proceeds	180,000	142,856
Total receipts	1,811,414	1,635,199
Disbursements:		
Water	318,512	292,277
Sewer	814,965	881,101
Sanitation	446,752	380,834
Bonds refunded	180,000	-
Total disbursements	1,760,229	1,554,212
Change in cash basis net position before transfers	51,185	80,987
Transfers, net	(168,155)	(221,180)
Change in cash basis net position	(116,970)	(140,193)
Cash basis net position beginning of year	864,915	1,005,108
Cash basis net position end of year	\$ 747,945	864,915

Total business type activities receipts for the fiscal year were approximately \$1,811,000 compared to approximately \$1,635,000 last year, a 10.8% increase. Total disbursements for the fiscal year increased to approximately \$1,760,000 compared to approximately \$1,554,000 last year, an increase of 13.3%. The increase in receipts and disbursements was due primarily to bond proceeds received during the year to refund sewer revenue bonds.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Monticello completed the year, its governmental funds reported a combined fund balance of \$3,985,389, an increase of \$331,411 from last year's restated total of \$3,653,978. 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 \$72,905 over the prior year to \$856,762. Receipts increased approximately \$32,000, or 1.4% and disbursements increased approximately \$88,000, or 4.2%. The increase in the cash balance is primarily due to an increase in property taxes.
- The Special Revenue, Tax Increment Financing (TIF) Fund cash balance decreased \$46,001 from the prior year to \$192,745. Disbursements for developer agreements and transfers to the Debt Service Fund for payment of TIF debt increased in the current year.
- The Special Revenue, Road Use Tax Fund cash balance increased \$145,731 over the prior year to \$405,657. Road use tax receipts increased \$74,389 due to increases in the gas tax. Disbursements increased \$19,059 over the prior year to \$323,376.
- The Debt Service Fund cash balance increased \$13,228 over the previous year to \$38,984.
- The Capital Projects Fund cash balance increased \$35,886 over the prior year to \$1,637,777. The increase was primarily due to the receipt of general obligation bond proceeds of \$1,369,900 and increased disbursements for capital projects.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$53,929, or 13.5%, to \$452,796. Receipts increased \$17,003, or 3.9% and disbursements increased \$26,235, or 9.0%.
- The Enterprise, Sewer Fund cash balance decreased \$173,488, or 66.8%, to \$86,269. The decrease in the cash balance is due to the City using \$195,000 of cash balances plus \$180,000 of bond proceeds to refund the sewer revenue bonds. Disbursements increased approximately \$113,864, or 12.9%, due to refunding of the sewer revenue bond.
- The Enterprise, Sanitation Fund cash balance remained fairly steady.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City of Monticello amended its budget twice. The first amendment was adopted on May 2, 2016 and resulted in an increase in both budgeted receipts and disbursements. The City amended to include bond proceeds issued for capital projects and to refund bonds. Intergovernmental receipts were decreased because the City did not receive grants for projects that were delayed. The second amendment was adopted on June 20, 2016 and resulted in an increase in budgeted receipts and a decrease in budgeted disbursements. The increase in receipts was for road use tax receipts exceeding the estimate. The City moved the Trees Forever disbursements from the public works function to culture and recreation and decreased budgeted disbursements in the business type activities function.

The City's receipts were \$773,108 less than budgeted, partially due to anticipating more project activity than actually occurred.

Total disbursements were \$3,498,766 less than the amended budget. Actual disbursements for the debt service, capital projects and business type activities functions were \$1,086,032, \$1,232,783 and \$585,559, respectively, less than the amended budget. This was primarily due to the City budgeting for the debt refunding which is reported as an other financing use and anticipating more project activity than actually occurred.

DEBT ADMINISTRATION

At June 30, 2016, the City had \$5,575,000 of bonds and other long-term debt outstanding, compared to \$5,360,000 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2016	2015
General obligation bonds	\$ 5,515,000	4,800,000
Revenue bonds	-	490,000
Installment purchase agreement	60,000	70,000
Total	\$ 5,575,000	5,360,000

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 debt totaling \$5,945,430, including \$370,430 for developer agreements is below its constitutional debt limit of approximately \$10.3 million. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Monticello's organizational chart and Code of Ordinances place the responsibility for the preparation of the budget largely on the City Administrator, with the assistance of the City Clerk and department heads. The budget process gets underway, in earnest, during the month of January and wraps up in the month of March. While the City Administrator is responsible for the preparation and proposal of the budget, the department heads are intricately involved in the preparation of proposed budgets related to their department. The process related to the preparation of the Library budget follows a different path. Typically, the preparation of the Library budget is a collaborative effort between the Library Director, City Administrator and Library Board, with the extent of the City Administrator's involvement being largely determined by the Library Board. The City Council has 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 from the Library or for other purposes. A draft proposed budget is reviewed with the Council along with a discussion of outstanding debt, upcoming capital projects, assessed and taxable valuations, and the Council's desires with regard to tax rates. After a complete review of those matters the City Council provides direction to the City Administrator with regard to their desires associated therewith.

The City budget process includes multiple meetings, both formal and informal, by and between the City Administrator, department heads, the Mayor and City Council members. Most of the formal discussions happen as part of a regular City Council meeting, usually following the completion of that meetings "regular" business, on occasion the City Council will schedule a special work session to review the proposed budget or portions thereof. 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. For

example, City staff and the City Council were instrumental in working with representatives of the Boulder's Hotel Chain, bringing a Boulder's Hotel to Monticello. The Hotel will generate property tax and hotel/motel tax. The Council is always ready to consider how the City may play a role in creating a pro-growth and progressive community where existing businesses wish to grow and new businesses wish to locate. 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. In addition, staff is always seeking out even small opportunities for cost savings. 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. The City continues to give careful consideration to the annual TIF certification, only requesting those sums necessary to meet immediate obligations, freeing up more property tax dollars for division as if they were not being collected from properties located within the City TIF District.

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 Recreation 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 annual revenues that normally exceed its annual expenses.

The debt service levy is largely pre-determined by the amount of debt payments to be made by the City during the coming year. The City has seen its debt service levy drop in the past years, due largely to the early payment of and/or refinancing of higher interest rate debt. If and when a debt issuance becomes callable, a careful analysis of the possibility and appropriateness of satisfying the debt in advance of its scheduled maturity is undertaken. If a debt is called early, we may have levied for funds to pay a debt that has now been paid, leaving excess cash in the Debt Service Fund. This cash on hand is used to offset future debt service levies and/or to pay other debt in advance of its maturity. When new debt is taken on we analyze the impact said 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-fund 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-funding the difference of \$2,500 per employee we have realized significant premium savings, generally in excess of 20%, and have saved actual annual savings in excess of \$60,000.

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 basing the tax rate on those estimates. In some years we collect 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 we have continued forward with a "grandfathered" plan. Each year we look closely at multiple options related to health insurance.

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

The City's Combined Levy has remained basically static from fiscal year 2012 through fiscal year 2017 and the fiscal year 2018 budget maintains that same practice, coming in with a combined levy of \$13.86897, just under the fiscal year 2017 levy of \$13.86898.

During fiscal year 2016 the City saw many capital improvements, and other significant projects:

- 1) The City continued to upgrade and improve an approximate 23 acre parcel of new "park" grounds that include a shelter, disc golf course, parking lot and greenspace.
- 2) The City continued to work towards the completion of a downtown parking lot and pocket park being built in the location of a November, 2011 downtown fire. (Completed during 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) Continues planning with the City Engineer for the replacement of the E. 1st Street Bridge continued, same to receive significant Federal Bridge funding. (Bids to be let in May, 2017 with completion by the end of 2017.)
- 5) City staff finalized the radio read water meter installation project.
- 6) Community Building Renovation Project, including the installation of new windows throughout the building and significant upgrades to the lower level, including wiring, plumbing, insulation, reorganization of offices, painting and floorcovering was completed.
- 7) Continued planning for the 6th Street Ditch Project which is anticipated to begin in the fall of 2017, same to include the cleaning, clearing and shaping of the ditch, which is a recognized waterway by the Corps of Engineers and which also carries storm water from rural Jones County and various areas within the Monticello City limits.
- 8) Worked on planning and implementation of Airport Grading and Taxiway extension project, completing same in fiscal year 2017. The hangar is to be built in fiscal year 2018.
- 9) Participated with Jones County in the X44 Paving project.
- 10) Installed new traffic light control system replacing outdated systems with modern systems at all three controlled intersections, updating related crosswalks with equipment that met ADA standards.
- 11) City Staff and Council reviewed City boundaries and worked with property owners to sever certain property from the City that was not likely developable. (River bottom property.) City Staff and Council also worked towards the completion of various annexations that were developable and serviceable with City infrastructure.

- 12) Bonds were sold for the following purposes: Refunding of the Series 2008 Sewer Revenue Bonds, refunding of the Series 2008B G.O. Urban Renewal Corporate Purpose Bonds, North Water Tower rehabilitation project (Scheduled to be completed in the summer of 2017), E. South Street Reconstruction Project (to be complete in the spring of 2017) and the Main Street Rehabilitation Project (to be complete in the summer of 2017). In addition to the bonded sums, the City Council used cash on hand and revenue streams to cover portions of the anticipated project costs.

Administration, staff and elected officials will continue to be proactive in seeking to control expenses while exploring all appropriate revenue generating options. Both 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 those steps necessary to ensure that 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.

City of Monticello

Basic Financial Statements

City of Monticello

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2016

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Primary Government:				
Governmental activities:				
Public safety	\$ 1,301,333	349,922	81,268	-
Public works	505,104	81,498	495,746	6,726
Culture and recreation	684,872	142,658	137,709	-
Community and economic development	160,185	-	-	-
General government	447,938	75,872	-	-
Debt service	978,276	-	-	-
Capital projects	1,578,911	900	12,439	135,183
Total governmental activities	5,656,619	650,850	727,162	141,909
Business type activities:				
Water	318,512	451,507	-	-
Sewer	814,965	612,518	105,669	-
Sanitation	446,752	446,770	-	-
Total business type activities	1,580,229	1,510,795	105,669	-
Total primary government	\$ 7,236,848	2,161,645	832,831	141,909
Component Unit:				
Monticello Firefighter's Organization	\$ 44,131	-	59,374	-
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, net \$6,600 of discount				
Bonds refunded				
Sale of capital assets				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year, as restated				
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			
Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Monticello Firefighter's Organization
(870,143)	-	(870,143)	
78,866	-	78,866	
(404,505)	-	(404,505)	
(160,185)	-	(160,185)	
(372,066)	-	(372,066)	
(978,276)	-	(978,276)	
(1,430,389)	-	(1,430,389)	
(4,136,698)	-	(4,136,698)	
-	132,995	132,995	
-	(96,778)	(96,778)	
-	18	18	
-	36,235	36,235	
(4,136,698)	36,235	(4,100,463)	
			15,243
1,277,099	-	1,277,099	-
275,481	-	275,481	-
697,082	-	697,082	-
318,789	-	318,789	-
622	-	622	-
219,963	-	219,963	-
74,221	-	74,221	-
44,535	14,950	59,485	-
2,453,400	180,000	2,633,400	-
(1,085,000)	(180,000)	(1,265,000)	-
22,929	-	22,929	-
833	-	833	-
168,155	(168,155)	-	-
4,468,109	(153,205)	4,314,904	-
331,411	(116,970)	214,441	15,243
3,653,978	864,915	4,518,893	205,431
\$ 3,985,389	747,945	4,733,334	220,674
\$ 282,871	-	282,871	-
405,657	-	405,657	-
231,729	-	231,729	-
237,376	-	237,376	-
-	85,050	85,050	-
293,250	-	293,250	-
-	-	-	220,674
1,637,777	-	1,637,777	-
-	84,913	84,913	-
79,284	-	79,284	-
817,445	577,982	1,395,427	-
\$ 3,985,389	747,945	4,733,334	220,674

City of Monticello

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

As of and for the year ended June 30, 2016

	Special Revenue			
	General	Tax	Road	Debt Service
Increment Financing		Use Tax		
Receipts:				
Property tax	\$ 856,243	-	-	268,632
Tax increment financing	-	697,082	-	-
Other city tax	345,551	-	-	6,849
Licenses and permits	235,517	-	-	-
Use of money and property	184,593	8,130	-	1,276
Intergovernmental	141,008	-	469,107	11,357
Charges for service	421,657	-	-	-
Special assessments	-	-	-	-
Miscellaneous	76,541	-	-	-
Total receipts	2,261,110	705,212	469,107	288,114
Disbursements:				
Operating:				
Public safety	1,096,434	-	-	-
Public works	149,649	-	323,376	-
Culture and recreation	531,658	-	-	-
Community and economic development	-	160,185	-	-
General government	404,525	-	-	-
Debt service	-	-	-	978,276
Capital projects	-	-	-	-
Total disbursements	2,182,266	160,185	323,376	978,276
Excess (deficiency) of receipts over (under) disbursements	78,844	545,027	145,731	(690,162)
Other financing sources (uses):				
Sale of property	-	5,724	-	-
Bond proceeds, net \$6,600 of discount	-	-	-	1,083,500
Bonds refunded	-	-	-	(1,085,000)
Transfers in	70,511	-	-	704,890
Transfers out	(76,450)	(596,752)	-	-
Total other financing sources (uses)	(5,939)	(591,028)	-	703,390
Change in cash balances	72,905	(46,001)	145,731	13,228
Cash balances beginning of year, as restated	783,857	238,746	259,926	25,756
Cash balances end of year	\$ 856,762	192,745	405,657	38,984
Cash Basis Fund Balances				
Nonspendable - Permanent Funds	\$ -	-	-	-
Restricted for:				
Streets	-	-	405,657	-
Debt service	-	192,745	-	38,984
Library purposes	26,554	-	-	-
Employee benefits	-	-	-	-
Capital projects	-	-	-	-
Other purposes	12,763	-	-	-
Assigned for:				
Capital equipment	50,816	-	-	-
Unassigned	766,629	-	-	-
Total cash basis fund balances	\$ 856,762	192,745	405,657	38,984

See notes to financial statements.

Capital Projects	Nonmajor	Total
-	382,948	1,507,823
-	-	697,082
-	11,768	364,168
900	-	236,417
11,222	6,732	211,953
15,858	19,516	656,846
-	-	421,657
10,245	-	10,245
123,511	122,303	322,355
161,736	543,267	4,428,546
-	204,899	1,301,333
-	32,079	505,104
-	153,214	684,872
-	-	160,185
-	43,413	447,938
-	-	978,276
1,578,911	-	1,578,911
1,578,911	433,605	5,656,619
(1,417,175)	109,662	(1,228,073)
17,205	-	22,929
1,369,900	-	2,453,400
-	-	(1,085,000)
76,450	-	851,851
(10,494)	-	(683,696)
1,453,061	-	1,559,484
35,886	109,662	331,411
1,601,891	743,802	3,653,978
1,637,777	853,464	3,985,389
-	282,871	282,871
-	-	405,657
-	-	231,729
-	210,822	237,376
-	293,250	293,250
1,637,777	-	1,637,777
-	66,521	79,284
-	-	50,816
-	-	766,629
1,637,777	853,464	3,985,389

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, 2016

	Enterprise				Internal
	Water	Sewer	Sanitation	Total	Service Self Insurance
Operating receipts:					
Charges for service	\$ 435,410	601,366	443,431	1,480,207	21,171
Miscellaneous	16,097	3,305	3,339	22,741	-
Total operating receipts	451,507	604,671	446,770	1,502,948	21,171
Operating disbursements:					
Governmental activities:					
Public safety	-	-	-	-	6,738
Public works	-	-	-	-	3,556
Culture and recreation	-	-	-	-	6,085
General government	-	-	-	-	705
Business type activities	316,204	350,166	445,872	1,112,242	4,087
Total operating disbursements	316,204	350,166	445,872	1,112,242	21,171
Excess of operating receipts over operating disbursements	135,303	254,505	898	390,706	-
Non-operating receipts (disbursements):					
Interest on investments	5,364	7,015	2,571	14,950	-
Special assessments	-	8,347	-	8,347	-
Capital outlay	(2,308)	(134,541)	(880)	(137,729)	-
Intergovernmental	-	105,169	-	105,169	-
Bond proceeds	-	180,000	-	180,000	-
Bonds refunded	-	(180,000)	-	(180,000)	-
Debt service	-	(330,258)	-	(330,258)	-
Net non-operating receipts (disbursements)	3,056	(344,268)	1,691	(339,521)	-
Excess (deficiency) of receipts over (under) disbursements	138,359	(89,763)	2,589	51,185	-
Transfers out	(84,430)	(83,725)	-	(168,155)	-
Change in cash balances	53,929	(173,488)	2,589	(116,970)	-
Cash balances beginning of year	398,867	259,757	206,291	864,915	-
Cash balances end of year	\$ 452,796	86,269	208,880	747,945	-
Cash Basis Fund Balances					
Restricted for:					
Customer deposits	\$ 85,050	-	-	85,050	-
Equipment set-aside	45,569	-	39,344	84,913	-
Unrestricted	322,177	86,269	169,536	577,982	-
Total cash basis fund balances	\$ 452,796	86,269	208,880	747,945	-

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, 2016

	<u>Agency Flexible Benefits</u>
Additions:	
Employee contributions	\$ 2,000
Deductions:	
Medical reimbursements	<u>1,481</u>
Change in cash balance	519
Cash balance beginning of year	<u>650</u>
Cash balance end of year	<u><u>\$ 1,169</u></u>

See notes to financial statements.

City of Monticello

Notes to Financial Statements

June 30, 2016

(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 1889 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.

Discretely Presented Component Unit

The Monticello Firefighter's Organization is legally separate from the City. The Firefighter's Organization was organized under Chapter 504A of the Code of Iowa as a non-profit corporation. The Firefighter's Organization collects donations which are used to purchase items not included in the City's budget. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Firefighter's Organization meets the definition of a component unit which should be discretely presented.

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 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 receipts, 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 \$84,913 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.

Special Revenue:

The Tax Increment Financing Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

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

The 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.

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

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

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2016 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. 72.

(3) Long-Term Debt

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2017	\$ 980,000	98,218
2018	1,060,000	83,758
2019	1,085,000	68,093
2020	545,000	50,520
2021	555,000	38,311
2022-2026	1,290,000	67,756
Total	\$ 5,515,000	406,656

General Obligation Refunding Bonds

On May 17, 2016, the City issued \$2,640,000 of general obligation corporate purpose and refunding bonds to fund projects and to refund \$1,085,000 of corporate purpose and refunding bonds dated October 15, 2008, and \$180,000 of sewer revenue refunding bonds dated May 12, 2008. The City also used \$195,000 of cash on hand in the Enterprise, Sewer Fund to retire the sewer revenue bonds.

The City refunded the general obligation bonds and sewer revenue bonds to reduce its total debt service by approximately \$58,900 and \$25,300, respectively. The City obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$59,000 and \$19,300, respectively.

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, 2016 totaled \$10,000, resulting in an unpaid principal balance of \$60,000 at June 30, 2016.

(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, PO 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, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. 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 more than 22 years of service 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 - 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 percentage point. 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 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%

The City's contributions to IPERS for the year ended June 30, 2016 totaled \$129,866.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$435,736 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the 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, 2015, the City's proportion was 0.008820%, which was an increase of 0.001734% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$68,145, \$179,074 and \$257,852, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

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.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 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 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
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
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 of 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 City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 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)	\$ 1,178,722	435,736	(190,869)

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 \$519 for single coverage, \$1,062 for employee and spouse coverage, \$982 for employee and children coverage and \$1,592 for family coverage. For the year ended June 30, 2016, the City contributed \$159,833 and plan members eligible for benefits contributed \$26,270 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, 2016, primarily relating to the General and Enterprise Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 41,000
Compensatory Time	2,000
Holiday	<u>2,000</u>
Total	<u>\$ 45,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2016.

(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 2027. Certain agreements require the City to make grant payments, 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 \$2,560,430. The total amount rebated and granted during the year ended June 30, 2016 was \$160,185. The total cumulative amount rebated and granted since inception of the existing agreements is \$698,227. Certain agreements are subject to annual appropriation by the City Council.

(9) 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.

(10) Interfund Loan

The detail of interfund loan for the year ended June 30, 2016 is as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
Capital Projects Fund	General	\$27,375

In a prior year, an advance was made from the General Fund to the Capital Projects Fund to provide funding for a recreation project. The loan will be repaid through transfers from the Capital Projects Fund as receipts of the fund become available.

(11) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Tax Increment Financing	\$ 60,017
	Capital Projects	10,494
		<u>70,511</u>
Debt Service	Special Revenue:	
	Tax Increment Financing	536,735
	Enterprise:	
	Water	84,430
	Sewer	83,725
		<u>704,890</u>
Capital Projects	General	<u>76,450</u>
Total		<u>\$ 851,851</u>

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

(12) 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, 2016 totaled \$21,171.

(13) Related Party Transactions

The City had business transactions between the City and City officials totaling \$214,772 during the year ended June 30, 2016.

(14) Construction Commitments

The City entered into construction contracts totaling \$913,228 for an airport grading project and street reconstruction. As of June 30, 2016, no disbursements have been paid on the contracts. The contracts will be paid as work on the projects progresses.

(15) New Accounting Pronouncement

The City of Monticello adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

(16) Reclassification

The beginning cash balance of the Special Revenue, Monticello Firefighter's Organization Fund was reclassified to report the Firefighter's Organization as a discretely presented component unit in accordance with criteria set forth by the Governmental Accounting Standards Board. As a result, beginning of year cash balances for governmental funds and governmental activities were decreased by \$205,431.

	<u>Governmental Funds/Activities</u>	<u>Discretely presented component unit</u>
Balances June 30, 2015, as previously reported	\$ 3,859,409	-
Discretely presented component unit	(205,431)	205,431
Balances July 1, 2015, as restated	<u>\$ 3,653,978</u>	<u>205,431</u>

(17) Subsequent Event

In April 2017, the City approved a development agreement with Orbis Manufacturing. The agreement requires the City to provide a maximum of \$1,207,236 of incremental property tax rebate payments to the Developer in exchange for infrastructure improvements and development of commercial property.

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, 2016

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 1,507,823	-	-
Tax increment financing	697,082	-	-
Other city tax	364,168	-	-
Licenses and permits	236,417	-	-
Use of money and property	211,953	14,950	16
Intergovernmental	656,846	105,169	-
Charges for service	421,657	1,480,207	-
Special assessments	10,245	8,347	-
Miscellaneous	322,355	22,741	118,746
Total receipts	4,428,546	1,631,414	118,762
Disbursements:			
Public safety	1,301,333	-	8,351
Public works	505,104	-	-
Culture and recreation	684,872	-	89,539
Community and economic development	160,185	-	-
General government	447,938	-	-
Debt service	978,276	-	-
Capital projects	1,578,911	-	-
Business type activities	-	1,580,229	-
Total disbursements	5,656,619	1,580,229	97,890
Excess (deficiency) of receipts over (under) disbursements	(1,228,073)	51,185	20,872
Other financing sources (uses), net	1,559,484	(168,155)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	331,411	(116,970)	20,872
Balances beginning of year, as restated	3,653,978	864,915	50,665
Balances end of year	\$ 3,985,389	747,945	71,537

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Net Variance
	Original	Final	
1,507,823	1,505,603	1,505,603	2,220
697,082	700,000	700,000	(2,918)
364,168	347,634	347,634	16,534
236,417	236,600	248,820	(12,403)
226,887	183,360	188,360	38,527
762,015	1,588,967	1,134,125	(372,110)
1,901,864	2,060,204	2,060,204	(158,340)
18,592	25,400	25,400	(6,808)
226,350	550,100	504,160	(277,810)
5,941,198	7,197,868	6,714,306	(773,108)
1,292,982	1,332,241	1,445,596	152,614
505,104	710,564	687,475	182,371
595,333	632,780	749,048	153,715
160,185	145,073	160,185	-
447,938	451,695	553,630	105,692
978,276	977,365	2,064,308	1,086,032
1,578,911	2,104,750	2,811,694	1,232,783
1,580,229	1,524,546	2,165,788	585,559
7,138,958	7,879,014	10,637,724	3,498,766
(1,197,760)	(681,146)	(3,923,418)	2,725,658
1,391,329	20,000	2,982,929	(1,591,600)
193,569	(661,146)	(940,489)	1,134,058
4,468,228	3,299,152	3,299,152	1,169,076
4,661,797	2,638,006	2,358,663	2,303,134

City of Monticello

Notes to Other Information – Budgetary Reporting

June 30, 2016

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendment increased budgeted disbursements by \$2,758,710. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2016, 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
For the Last Two Years*
(In Thousands)

Other Information

	2016	2015
City's proportion of the net pension liability	0.008820%	0.007086%
City's proportionate share of the net pension liability	\$ 436	281
City's covered-employee payroll	\$ 1,400	1,381
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	31.14%	20.35%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

* In accordance with GASB No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Monticello

Schedule of City Contributions

Iowa Public Employees' Retirement System
For the Last Ten Years
(In Thousands)

Other Information

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 130	133	131	126
Contributions in relation to the statutorily required contribution	<u>(130)</u>	<u>(133)</u>	<u>(131)</u>	<u>(126)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	\$ 1,386	1,400	1,381	1,331
Contributions as a percentage of covered-employee payroll	9.38%	9.50%	9.49%	9.47%

*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.

2012	2011	2010	2009	2008	2007
116	107	97	104	75	69
(116)	(107)	(97)	(104)	(75)	(69)
-	-	-	-	-	-
1,296	1,283	1,229	1,345	*	*
8.95%	8.34%	7.89%	7.73%	*	*

City of Monticello

Notes to Other Information – Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for 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.

Legislative action in 2008 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.

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 future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

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, 2016

	Special			
	Police Forfeiture	Employee Benefits	Slavka Gehret Trust	Riverside Gardeners, Inc.
Receipts:				
Property tax	\$ -	382,948	-	-
Other city tax	-	11,768	-	-
Use of money and property	7	2,535	2,593	9
Intergovernmental	-	19,516	-	-
Miscellaneous	-	-	-	12,491
Total receipts	7	416,767	2,593	12,500
Disbursements:				
Operating:				
Public safety	1,188	195,360	-	-
Public works	-	32,079	-	-
Culture and recreation	-	58,142	3,794	16,890
General government	-	43,413	-	-
Total disbursements	1,188	328,994	3,794	16,890
Change in cash balances	(1,181)	87,773	(1,201)	(4,390)
Cash balances beginning of year, as restated	2,102	205,477	206,086	17,524
Cash balances end of year	\$ 921	293,250	204,885	13,134
Cash Basis Fund Balances				
Nonspendable - Permanent Funds	\$ -	-	-	-
Restricted for:				
Library purposes	-	-	204,885	-
Employee benefits	-	293,250	-	-
Other purposes	921	-	-	13,134
Total cash basis fund balances	\$ 921	293,250	204,885	13,134

See accompanying independent auditor's report.

Revenue			Permanent			Total
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	
-	-	-	-	-	-	382,948
-	-	-	-	-	-	11,768
7	-	-	-	506	1,075	6,732
-	-	-	-	-	-	19,516
13,167	6,578	86,510	3,557	-	-	122,303
13,174	6,578	86,510	3,557	506	1,075	543,267
8,351	-	-	-	-	-	204,899
-	-	-	-	-	-	32,079
-	1,417	71,232	-	242	1,497	153,214
-	-	-	-	-	-	43,413
8,351	1,417	71,232	-	242	1,497	433,605
4,823	5,161	15,278	3,557	264	(422)	109,662
16,233	776	16,132	152,226	40,700	86,546	743,802
21,056	5,937	31,410	155,783	40,964	86,124	853,464
-	-	-	155,783	40,964	86,124	282,871
-	5,937	-	-	-	-	210,822
-	-	-	-	-	-	293,250
21,056	-	31,410	-	-	-	66,521
21,056	5,937	31,410	155,783	40,964	86,124	853,464

City of Monticello
Schedule of Indebtedness
Year ended June 30, 2016

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
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
Corporate purpose and refunding	May 17, 2016	0.75-2.00	2,640,000
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
65,000	-	65,000	-	2,535
1,415,000	-	1,415,000	-	56,130
770,000	-	120,000	650,000	24,785
690,000	-	165,000	525,000	13,440
345,000	-	45,000	300,000	3,460
1,515,000	-	115,000	1,400,000	34,175
-	2,640,000	-	2,640,000	-
<u>\$ 4,800,000</u>	<u>2,640,000</u>	<u>1,925,000</u>	<u>5,515,000</u>	<u>134,525</u>
490,000	-	490,000	-	19,258
70,000	-	10,000	60,000	2,800

City of Monticello

Bond Maturities

June 30, 2016

Year Ending June 30,	General Obligation Bonds					
	Refunding		General		General	
	Issued June 1, 2010		Corporate Purpose		Corporate Purpose	
	Issued June 1, 2010		Issued July 6, 2011		Issued June 28, 2012	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2017	2.90%	\$ 120,000	1.80%	\$ 170,000	0.85%	\$ 100,000
2018	3.20	125,000	2.10	175,000	1.00	100,000
2019	3.40	130,000	2.35	180,000	1.25	100,000
2020	3.50	135,000		-		-
2021	3.60	140,000		-		-
2022		-		-		-
2023		-		-		-
2024		-		-		-
2025		-		-		-
2026		-		-		-
Total		<u>\$ 650,000</u>		<u>\$ 525,000</u>		<u>\$ 300,000</u>

See accompanying independent auditor's report.

General Corporate Purpose Issued Oct 21, 2014		General Corporate Purpose and Refunding Issued May 17, 2016		Total
Interest Rates	Amount	Interest Rates	Amount	
2.00%	\$ 120,000	0.75%	\$ 470,000	980,000
2.00	120,000	0.85	540,000	1,060,000
2.00	120,000	0.95	555,000	1,085,000
2.25	265,000	1.05	145,000	545,000
2.25	265,000	1.20	150,000	555,000
2.25	170,000	1.30	150,000	320,000
2.50	170,000	1.45	155,000	325,000
2.75	170,000	1.60	155,000	325,000
	-	1.80	160,000	160,000
	-	2.00	160,000	160,000
	<u>\$ 1,400,000</u>		<u>\$ 2,640,000</u>	<u>5,515,000</u>

City of Monticello

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

For the Last Ten Years

	2016	2015	2014	2013
Receipts:				
Property tax	\$ 1,507,823	1,418,243	1,359,156	1,207,353
Tax increment financing	697,082	705,038	707,631	954,563
Other city tax	364,168	378,272	589,325	576,648
Licenses and permits	236,417	257,563	23,739	15,898
Use of money and property	211,953	199,545	182,975	195,688
Intergovernmental	656,846	613,988	1,785,111	860,934
Charges for service	421,657	442,108	513,066	538,875
Special assessments	10,245	8,841	25,545	33,067
Miscellaneous	322,355	593,478	496,566	398,060
Total	\$ 4,428,546	4,617,076	5,683,114	4,781,086
Disbursements:				
Operating:				
Public safety	\$ 1,301,333	1,314,857	1,314,483	1,554,299
Public works	505,104	472,415	567,227	523,740
Culture and recreation	684,872	650,097	714,327	565,742
Community and economic development	160,185	138,630	115,893	143,022
General government	447,938	425,395	437,104	437,900
Debt service	978,276	1,031,717	1,186,490	1,128,656
Capital projects	1,578,911	777,768	1,719,321	1,716,184
Total	\$ 5,656,619	4,810,879	6,054,845	6,069,543

See accompanying independent auditor's report.

2012	2011	2010	2009	2008	2007
1,196,924	1,106,176	1,068,538	1,052,215	1,031,036	1,018,093
715,234	875,293	812,590	776,551	736,987	737,067
539,455	557,125	543,522	538,075	550,145	534,957
12,521	11,904	16,337	14,183	13,726	9,280
169,191	158,905	164,893	165,836	253,147	266,114
1,148,043	841,758	533,704	538,671	845,758	842,157
581,031	587,068	534,278	532,065	476,301	415,499
32,125	18,767	8,225	12,883	7,383	14,647
548,260	332,503	172,524	155,072	281,784	475,685
4,942,784	4,489,499	3,854,611	3,785,551	4,196,267	4,313,499
1,418,347	1,259,332	1,134,151	1,395,211	1,248,907	1,200,750
476,325	649,183	482,589	507,485	459,982	676,486
575,555	547,686	543,433	582,056	549,814	473,385
75,855	47,860	26,100	4,739	-	-
430,613	383,658	354,843	347,772	368,391	383,815
1,317,865	1,137,119	1,074,569	2,062,841	1,329,544	826,855
1,848,696	519,204	2,782,615	1,188,083	532,482	648,952
6,143,256	4,544,042	6,398,300	6,088,187	4,489,120	4,210,243

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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Monticello, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 6, 2017. 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 (E) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Monticello's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance 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, 2016 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

June 6, 2017

City of Monticello

Schedule of Findings

Year ended June 30, 2016

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements.

Condition – Generally, one or two individuals may have control over the following areas for which no compensating controls exist:

- | | |
|--|---|
| (1) Investing – recordkeeping, investing, custody of investments and reconciling earnings. | City |
| (2) Receipts – collecting, depositing, posting and reconciling. | City
Riverside Gardeners
Youth Baseball and Softball Association
Friends of the Library
Monticello Firefighter’s Organization |
| (3) Utility Receipts -- Utility rates are not tested to ensure proper calculations. Aging of receivables is not printed and reviewed. The accounts receivable listing is not segregated from collections and records positing. | City |
| (4) The person who signs checks is not independent of the person preparing the checks, approving disbursements, recording cash disbursements, handling cash, and reconciling. | Friends of the Library
Monticello Firefighter’s Organization |

Cause – The City, Riverside Gardeners, Youth Baseball and Softball Association, Friends of the Library, and Monticello Firefighter’s Organization have a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

City of Monticello

Schedule of Findings

Year ended June 30, 2016

Effect – Inadequate segregation of duties could adversely affect the City’s and the Riverside Gardeners, Youth Baseball and Softball Association, Friends of the Library, and Monticello Firefighter’s Organizations’ ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The City, Riverside Gardeners, Youth Baseball and Softball Association, Friends of the Library, and Monticello Firefighter’s Organization should review control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports. Independent reviews of financial transactions reconciliations and reports should be documented by the signature or initials of the reviewer and the date of the review.

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.

City staff will again communicate the concerns raised in the audit to the leaders of the various organizations. A letter will be sent to the organizational leaders from the City Administrator setting forth the concerns and offering to meet with them to review how they may address the concerns.

Conclusion – Response accepted.

(B) Financial Reporting

Criteria – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City’s financial statements.

Condition – A material amount of property tax receipts were misposted as intergovernmental receipts rather than property tax receipts. Adjustments were subsequently made by the City to properly report these amounts in the City’s financial statements.

Cause – A deficiency in internal control over financial reporting 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. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City’s financial records. City policies do not require and procedures have not been established to require receipts from the County’s property tax orders to be compared to the City’s accounting records.

City of Monticello

Schedule of Findings

Year ended June 30, 2016

Effect – Lack of policies and procedures resulted in City employees not detecting the errors in the normal course of performing their assigned functions and material adjustments to the City’s financial statements were necessary.

Recommendation – The City should implement procedures to ensure property tax receipts are properly recorded in the City’s financial statements. Property tax orders from the County should be compared to the accounting records by an independent person and the evidence of review should be documented.

Response – The County has updated its software which is easier to understand the coding of tax collections. The City will implement procedures to review the County tax receipt reports to the City records.

Conclusion – Response accepted.

(C) Service Organization

Criteria – A deficiency in internal control over service organization receipts 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. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City’s financial records.

Condition – The City contracts with an outside company to bill ambulance receipts. The ambulance receipts are collected by the City. A reconciliation of billings, collections and receivable balances is not prepared.

Cause – City policies do not require and procedures have not been established to require reconciliation of billings, collections and accounts receivable.

Effect – Lack of policies and procedures resulted in City employees not detecting the errors in the normal course of performing their assigned functions.

Recommendation – The City should implement procedures to ensure reconciliation of billings, collections and accounts received is prepared monthly.

Response – The City billing service currently sends invoices to the patients and the City receives all payments. The City shares files of all payments received daily with the billing service, for them to reconcile and invoice the City for payments received. The City currently receives a monthly invoice from the billing service with a list of payments, we are being charged for. The City reconciles the billing services’ list of payments to the City payments actually received for the billing period. Once reconciled, all changes and adjustments, if any, are reported to the billing service. We double check to be sure changes or adjustments have been corrected on future billings. The City only pays the billing service for collections actually made to the City.

Conclusion – Response accepted.

City of Monticello

Schedule of Findings

Year ended June 30, 2016

(D) Computer System Policies

Criteria – Properly designed policies and procedures pertaining to control activities over the City’s computer systems and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable, regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Condition – The City does not have written policies for:

- password privacy and confidentiality.
- requiring password changes because software does not require the user to change log-ins/passwords periodically.
- ensuring only software licensed to the City is installed on computers.
- usage of the internet.
- personal use of computer equipment and software.

Cause – Management has not required written policies for the above computer based controls.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over its computer systems.

Response – The City will endeavor to address these concerns by the end of fiscal year 2017.

Conclusion – Response accepted.

(E) Disaster Recovery Plan

Criteria – A disaster recovery plan for financial continuity should include the following:

- Identification of critical applications.
- Identification of steps for recovery of any operating systems for City operations.
- Identification of computer equipment needed for temporary processing.
- Identification of business location(s) which could be used to process critical applications in the event of an emergency, including any applicable written agreements for the use of the locations.
- Requirement to keep a copy of the disaster recovery plan off site.
- Requirement to keep system backups current and off site.
- An inventory of all hardware and components.
- An inventory of all software applications.
- A requirement that copies of all user documentation and policy and procedures manuals be located off site.
- A requirement for extra stock of paper supplies, such as checks, warrants, purchase orders, etc., be located off site.

City of Monticello

Schedule of Findings

Year ended June 30, 2016

- Requirement outlining the frequency of testing the disaster recovery plan to identify issues and document the results of testing.

Condition – The City does not have a disaster recovery plan.

Cause – Management has not required written disaster recovery policies addressing financial continuity.

Effect – Lack of a disaster recovery plan could result in the City's inability to function in the event of a disaster or continue business without interruption.

Recommendation – A written disaster recovery plan should be developed.

Response – The City will look at implementing a financial continuity disaster recovery plan.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

City of Monticello

Schedule of Findings

Year ended June 30, 2016

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2016 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
Doug Monck, Ambulance Advisory Board Member, employee of Monticello Machine Shop	Services and supplies	2,500
Dave Savage, Airport Advisory Board Member, owner of Insurance Associates, Inc.	Insurance	146,274
Kim Brooks, Library Board Member, employee of Monticello Express	Services and supplies: Library	911
	Other departments	11,173
Paul Elmegreen, Airport Manager, owner of Monticello Aviation, Inc.	Building purchase, services and supplies	19,260
Kirk Freese, Library Board Member, employee of Freese Motors, Inc.	Services	5,552
Johnny Russ, Council Member, employee of Spahn and Rose Lumber Company	Supplies	29,102
Total		\$ 214,772

The transactions with Monticello Express for the Library does not represent a conflict of interest in accordance with Chapter 362.5(3)(j) of the Code of Iowa because the cumulative totals with each during the fiscal year were less than \$1,500.

In accordance with Chapter 362.5(3)(e) 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.

City of Monticello

Schedule of Findings

Year ended June 30, 2016

The remaining transactions with Monticello Machine Shop, Insurance Associates, Inc., Monticello Aviation, Inc., Spahn and Rose 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) Senior Discount – Section 388.6 of the Code of Iowa state, “A city utility or a combined utility system may not provide use or service at a discriminatory rate, except to the city or its agencies, as provided in section 384.91.” Senior discounts were provided by the City Council.

Recommendation – The City is required to establish and apply consistent billing rates to certain types of customers, such residential or commercial. The City Council should implement procedures which ensure nondiscriminatory utility rates are used for all customers.

Response – On August 15, 2016, the City Council approved a new resolution which rescinded the senior discounts. We would like to note that previously only approximately seven customers took advantage of the discount.

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:

Donna F. Kruger, CPA, Manager
Dorothy O. Stover, Senior Auditor II
Michael Holowinski, Staff Auditor
Robert Q. Barrett, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State