



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

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**NEWS RELEASE**

FOR RELEASE

March 30, 2010

Contact: Andy Nielsen  
515/281-5834

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

The City's receipts totaled \$9,611,533 for the year ended June 30, 2009, a 43 percent increase over the prior year. The receipts included \$2,053,655 from charges for service, \$545,047 from operating grants, contributions and restricted interest, \$105,499 from capital grants, contributions and restricted interest, \$1,087,785 in property tax, \$776,551 from tax increment financing, \$262,413 from local option sales tax, \$229,470 from utility franchise tax, \$100,820 from unrestricted interest on investments, \$4,432,543 from bond proceeds and \$17,750 from other general receipts.

Disbursements for the year totaled \$7,385,903, a 23 percent increase over the prior year, and included \$2,062,841 for debt service, \$1,402,547 for public safety and \$1,188,083 for capital projects. Also, disbursements for business type activities totaled \$1,285,271.

The significant increase in receipts and disbursements is due primarily to receiving general obligation bond proceeds which were used for the early repayment of street improvement and corporate purpose general obligation bonds, disbursements for capital projects and the purchase of a fire truck.

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

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**CITY OF MONTICELLO**

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

**JUNE 30, 2009**

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**City of Monticello**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Don Ho Miyagawa	Mayor	Jan 2010
Ron Newland	Mayor Pro tem	Jan 2010
Dena Himes	Council Member	Jan 2010
Jerry Welter	Council Member	Jan 2010
Russell Hodge	Council Member	Jan 2012
Gregg Merfeld	Council Member	Jan 2012
Gerald Muller	Council Member	Jan 2012
Douglas Herman	City Administrator	Indefinite
Sally Hinrichsen	City Clerk/Treasurer	Indefinite
Cheryl Clark	Deputy City Clerk	Indefinite
Anne E. Loomis	Attorney	Indefinite

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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Monticello, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Monticello's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

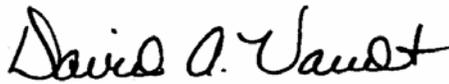
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Monticello as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated February 12, 2010 on our consideration of the City of Monticello's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 14 and 34 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Monticello's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2008 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. We also previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed qualified opinions on those financial statements, which were prepared in conformity with an other comprehensive basis of accounting, due to the omission of the financial activity of the Friends of Monticello Public Library, Inc. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

February 12, 2010

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

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The City of Monticello provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2009 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities increased 94.9%, or approximately \$4,008,000, from fiscal year 2008 to fiscal year 2009. The total cost of all governmental activities programs and services increased 35.1%, or approximately \$1,586,000. The increase in receipts was primarily the result of bond proceeds received as a result of issuances of \$1,065,000 of general corporate purpose and refunding bonds and \$3,400,000 of general corporate purpose bonds. The increase in disbursements was due primarily to increases in debt service as a result of the early repayment of street improvement and corporate purpose general obligation bonds and capital projects.
- The cost of all City governmental activities this year was approximately \$6,101,000, compared to approximately \$4,515,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 16-17, the amount taxpayers ultimately financed for these activities was approximately \$4,739,000 because some of the cost was paid by those directly benefited from the programs (\$744,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$618,000).

### **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 Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

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

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

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

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

## **BASIS OF ACCOUNTING**

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

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

### *Government-wide Financial Statement*

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

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

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

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

### *Fund Financial Statements*

The City has three kinds of funds:

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

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

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

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

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

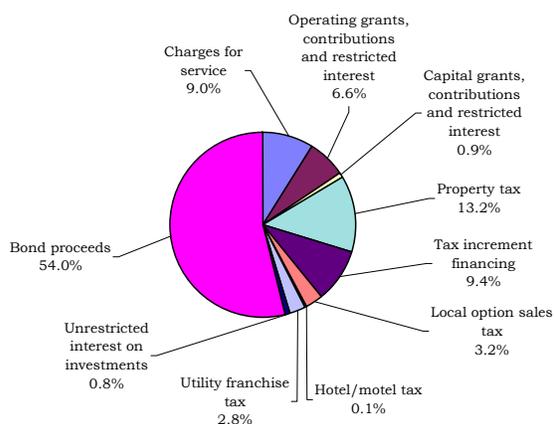
The required financial statement for the Fiduciary Fund is a statement of changes in fiduciary assets and liabilities.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

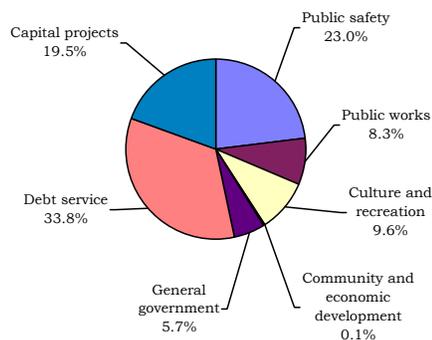
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from approximately \$2.791 million to approximately \$5.046 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2009	2008
Receipts:		
Program receipts:		
Charges for service	\$ 744,360	688,563
Operating grants, contributions and restricted interest	545,047	668,392
Capital grants, contributions and restricted interest	72,514	434,622
General receipts:		
Property tax	1,087,785	1,074,295
Tax increment financing	776,551	736,987
Local option sales tax	262,413	273,109
Hotel/motel tax	10,621	12,329
Utility franchise tax	229,470	221,448
Unrestricted interest on investments	69,235	112,522
Bond proceeds	4,432,543	-
<b>Total receipts</b>	<b>8,230,539</b>	<b>4,222,267</b>
Disbursements:		
Public safety	1,402,547	1,274,907
Public works	509,023	459,982
Culture and recreation	584,973	549,814
Community and economic development	4,739	-
General government	348,426	368,391
Debt service	2,062,841	1,329,544
Capital projects	1,188,083	532,482
<b>Total disbursements</b>	<b>6,100,632</b>	<b>4,515,120</b>
Increase (decrease) in cash basis net assets before transfers	2,129,907	(292,853)
Transfers, net	124,922	97,664
<b>Change in cash basis net assets</b>	<b>2,254,829</b>	<b>(195,189)</b>
Cash basis net assets beginning of year	2,791,100	2,986,289
<b>Cash basis net assets end of year</b>	<b>\$ 5,045,929</b>	<b>2,791,100</b>

**Receipts by Source**



**Disbursements by Function**



The City's total receipts for governmental activities increased 94.9%, or approximately \$4,008,000. The total cost of all governmental programs and services increased approximately \$1,586,000, or 35.1%, primarily due to increases in debt service as a result of the early repayment of street improvement and corporate purpose general obligation bonds and capital projects. The major changes in receipts were a \$4,432,543 increase in bond proceeds as a result of issuances of \$1,065,000 of general corporate purpose and refunding bonds and \$3,400,000 of general corporate purpose bonds, offset by a \$362,108 decrease in capital grants, contributions and restricted interest and a \$123,345 decrease in operating grants, contributions and restricted interest.

The cost of all governmental activities this year was approximately \$6,101,000 compared to approximately \$4,515,000 last year. However, as shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only approximately \$4,739,000 because some of the cost was paid by those directly benefited from the programs (\$744,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$618,000).

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2009	2008
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 381,658	351,347
Sewer	557,516	522,794
Sanitation	370,121	373,334
Capital grants, contributions and restricted interest	32,985	-
General receipts:		
Unrestricted interest on investments	31,585	72,758
Bond proceeds	-	1,187,830
Miscellaneous	7,129	-
Total receipts	<u>1,380,994</u>	<u>2,508,063</u>
Disbursements:		
Water	324,686	299,913
Sewer	579,456	751,163
Sanitation	381,129	459,381
Total disbursements	<u>1,285,271</u>	<u>1,510,457</u>
Increase in cash basis net assets before transfers and refunded bonds	95,723	997,606
Transfers, net	(124,922)	(97,664)
Sewer revenue bonds refunded	-	(1,160,000)
Change in cash basis net assets	(29,199)	(260,058)
Cash basis net assets beginning of year	<u>1,370,121</u>	<u>1,630,179</u>
Cash basis net assets end of year	<u>\$ 1,340,922</u>	<u>1,370,121</u>

Total business type activities receipts for the fiscal year were approximately \$1,381,000 compared to approximately \$2,508,000 last year. Total disbursements for the fiscal year decreased to a total of \$1,285,271 compared to \$1,510,457 last year. The decrease in receipts was due primarily to bond proceeds received last year as a result of issuance of \$1,195,000 of sewer revenue refunding bonds. The decrease in disbursements was due to a sewer extension project and the purchase of a garbage truck last year.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Monticello completed the year, its governmental funds reported a combined fund balance of \$5,045,929, an increase of approximately \$2,255,000 from last year's total of \$2,791,100. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased approximately \$676,000 from the prior year to \$396,245. The decrease was the cumulative effect of changes in receipts, disbursements and net transfers for fiscal year 2009. Use of money and property decreased \$87,422 as a result of decreased interest rates on investments. Property tax receipts increased \$20,501. Culture and recreation function disbursements increased \$42,971 due to Berndes Center and playground equipment purchases. Public safety function disbursements increased \$288,724 due to police vehicle purchase and increased personnel costs for the police department. Net transfers to/from the General Fund increased \$412,808 to (\$456,741) for fiscal year 2009.
- The Special Revenue, Tax Increment Financing Fund cash balance increased \$85,388 from the prior year to \$382,902. The increase was primarily a result of decreased transfers to the Debt Service Fund to repay urban renewal general obligation bonds.
- The Debt Service Fund cash balance decreased \$36,279 from the previous year to \$31,191.
- The Capital Projects Fund cash balance increased \$2,875,900 from the prior year to \$3,364,013. The increase was due primarily to an increase in bond proceeds as a result of issuance of \$1,065,000 of general corporate purpose and refunding bonds and \$3,400,000 of general corporate purpose bonds, offset by an increase of \$655,601 in capital projects disbursements. Major capital projects during the year included the Grand/Maple Street project, the public works building project, the Welter Drive project and the Cedar Street resurfacing project.

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

- The Water Fund cash balance increased \$24,281 to \$395,509.
- The Sewer Fund cash balance increased \$14,656 to \$825,895.
- The Sanitation Fund cash balance decreased \$68,136 to \$119,518, due primarily to transfers to the Capital Projects Fund for construction of the public works building.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City of Monticello amended its budget two times. The amendments were done on February 2, 2009 and May 26, 2009. The amendments were needed to adjust receipts and disbursements.

On February 2, 2009, receipts were increased to include USDA grants, FEMA and insurance reimbursement and bond proceeds, and disbursements were increased to include ambulance expenses, fire truck expenses, capital lease expense, public works building capital project and calling and refinancing of bonds.

On May 26, 2009, receipts were decreased, primarily due to grants anticipated not being received for Daycare project as the project had not been started, and disbursements were decreased due to less than anticipated capital project disbursements for the year.

The City's receipts were \$973,894 less than budgeted. This was primarily due to the City overestimating intergovernmental, use of money and property and miscellaneous receipts.

Total disbursements were \$1,939,821 less than the amended budget. Actual disbursements for public safety, business type activities and capital projects were \$91,516, \$217,741 and \$1,452,415, respectively, less than the amended budget. This was primarily due to anticipating more project activity than actually occurred.

## **DEBT ADMINISTRATION**

At June 30, 2009, the City had \$8,527,419 in bonds, notes and other long-term debt outstanding, compared to \$6,080,000 last year, as shown below.

Outstanding Debt at Year-End		
	June 30,	
	2009	2008
General obligation bonds	\$ 5,145,000	2,350,000
General obligation capital loan notes	670,000	875,000
Revenue bonds	2,675,000	2,855,000
Capital lease purchase agreement	37,419	-
Total	<u>\$ 8,527,419</u>	<u>6,080,000</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$5,852,419 is significantly below its constitutional debt limit of approximately \$8.8 million.

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

The City of Monticello's organizational chart and Code of Ordinances place the responsibility for the preparation of the budget largely on the City Administrator, with the assistance of the City Clerk and department heads. The budget process gets underway, in earnest, during the month of January and wraps up in the month of March. While the City Administrator is responsible for the preparation and proposal of the budget, the department heads are intricately involved in the preparation of proposed budgets related to their department. Two specific departmental budgets are exceptions to this general rule. Those are the Police Department and Library budgets. The Police Department answers directly to the City Council, not the City Administrator, and for that reason has more independent responsibility for preparation and presentation of its budget to the City Council. The City Administrator is involved in the Police Department budget preparation and presentation only to the extent requested by the Police Chief or as directed by formal request of the City Council. The Library Director answers to a Library Board which works with the Director on preparation of the Library budget. The City Administrator is involved in the Library budget preparation and presentation only to the extent requested by the Library Board or Library Director. The City Council provides for the Library budget within the appropriations section of the General Fund and the City Administrator offers input to the City Council on General Fund appropriations. Ultimately, the decision on final budgetary numbers and tax rates lies with the City Council.

The budgeting process included meetings and conversations by and between the City Administrator and department heads followed by regular public meetings and work sessions with the City Council. Throughout the year, a constant analysis of ongoing disbursements is undertaken with an eye towards operating more efficiently to avoid cost increases or tax rate increases whenever possible. The primary focus has been on disbursements as opposed to receipts due to the fact the City's revenue stream options are limited and, to some extent, out of our control. This does not mean additional revenue streams are not considered and pursued when possible. Over the last few years, the City has realized substantial savings in the categories of insurance, telephone expenses, interest, by way of refinancing and early payment of debt, and

steps have been, and will continue to be taken to minimize overtime. When potential cost savings opportunities are identified, efforts are made at implementation. In addition to City administration's efforts to cut costs, any and all other cost cutting options the Council may propose from time to time also receive careful study and analysis, with the final decision on the implementation of any and all cost saving measures, as always, subject to the final direction of the City Council.

The City tax rate is best described as a three-legged stool comprised of the \$8.10 General Fund levy, the debt service levy and the employee benefits levy. The funds generated by the \$8.10 levy are used to support the following departments: police, aquatic center, cemetery, airport, administration, engineer, attorney and appropriations to the Library, Berndes Center, fire department and other miscellaneous categories. This is not to say many of these departments do not also generate their own revenue streams. For example, it is not atypical for the Airport to generate receipts which meet or exceed disbursements, with all airport receipts being included in General Fund receipts. The debt service levy is determined by the amount of debt payments to be made by the City for general obligation debt. 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. As debt issuances become callable, under the terms of each respective bond, a careful analysis of the possibility and appropriateness of satisfying the debt in advance of its scheduled maturity is undertaken.

The employee benefits levy is based upon the cost of paying contractually or statutorily mandated employee benefits, such as insurance, retirement account contributions, social security/Medicare, etc. The employee benefits levy is probably the most volatile. However, due to restructuring of ambulance department finances a couple years ago, setting the ambulance receipts and disbursements accounts up as stand alone accounts, outside of the City's General Fund, ambulance employee "benefits" began to be taken from ambulance receipts as opposed to being collected as part of the employee benefits levy.

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 current fiscal year 2010 budgeted disbursements total \$8,938,808 while budgeted receipts total \$6,551,065. The status of actual disbursements and receipts are regularly reviewed by staff to ensure the City is operating within the parameters of the budget. The City of Monticello's General Fund levy is \$8.10 per \$1,000 of taxable valuation, the same levy rate as in fiscal years 2007, 2008 and 2009.

The fiscal year 2010 budget includes \$3,910,000 for proposed capital projects, including capital projects funded by debt proceeds to be repaid through the City's debt service levy and tax increment financing receipts. The most notable budgeted capital improvements include the following: \$1,500,000 related to Cedar Street reconstruction, \$400,000 related to the Amber Road Bridge and \$450,000 related to the Public Safety building. The Amber Road Bridge project will be funded by contributions from Jones County and the City of Monticello in the approximate amount of \$50,000 each with the balance to be paid by way of IDOT funding. The public safety building will be paid for with City tax increment financing (TIF) receipts, a \$300,000 State of Iowa IJOBS grant and a USDA grant in the approximate amount of \$90,000.

The City, with a goal of limiting increases in insurance premiums related to worker's compensation, health and property/casualty insurance, has taken an approach of limiting claims against those policies when possible. From a worker's compensation standpoint, any work related injury is reported to and handled by the worker's compensation carrier. However, at completion of the claim, the City weighs whether or not the City should self-fund the claim by paying back the carrier the sums it has expended on behalf of the City's claim. If the choice is made to self-

fund the claim, neither the claim nor the claim payment count against the City and its worker's compensation "history", resulting in stable and/or decreasing premiums. The City Council established a "Self-Insurance Fund" in fiscal year 2009 with funds received by the City from ICAP, the City's prior insurance carrier, representing funds the City was entitled to based upon contractual language in the City's prior insurance contract with ICAP. Many department budgets within the City contain a self insurance line item. This line item is necessary as the City buys a higher deductible health insurance policy than is required to be provided to employees under the collective bargaining agreement/union contract. The City's experience with "self-insuring" over the past few years has been positive. The amount expended to self-insure a portion of the benefits employees are entitled to has been far less than what the City would have expended to purchase the required level of insurance. At the end of fiscal year 2010 any funds budgeted for self-insurance purposes, within all general fund budgets, which have not been spent by the end of the year will be transferred to the Self-Insurance Fund. It is the intent of staff and Council to allow this fund to grow for a number of years, eventually providing the City with a comfortable cushion allowing even more flexibility in choosing what policies to purchase and what level of self-insurance to take on.

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

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

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

## **Basic Financial Statements**

City of Monticello

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2009

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 1,402,547	413,469	164,514	18,800
Public works	509,023	74,737	324,574	-
Culture and recreation	584,973	160,370	30,961	-
Community and economic development	4,739	-	130	-
General government	348,426	67,967	-	-
Debt service	2,062,841	-	1,586	-
Capital projects	1,188,083	27,817	23,282	53,714
Total governmental activities	6,100,632	744,360	545,047	72,514
Business type activities:				
Water	324,686	381,658	-	-
Sewer	579,456	557,516	-	32,985
Sanitation	381,129	370,121	-	-
Total business type activities	1,285,271	1,309,295	-	32,985
Total	\$ 7,385,903	2,053,655	545,047	105,499
<b>General Receipts:</b>				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Hotel/motel tax				
Utility franchise tax				
Unrestricted interest on investments				
Bond proceeds, net of \$32,457 discount				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Nonexpendable:				
Permanent fund purposes				
Expendable:				
Urban renewal purposes				
Debt service				
Capital projects				
Other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(805,764)	-	(805,764)
(109,712)	-	(109,712)
(393,642)	-	(393,642)
(4,609)	-	(4,609)
(280,459)	-	(280,459)
(2,061,255)	-	(2,061,255)
(1,083,270)	-	(1,083,270)
(4,738,711)	-	(4,738,711)
-	56,972	56,972
-	11,045	11,045
-	(11,008)	(11,008)
-	57,009	57,009
(4,738,711)	57,009	(4,681,702)
793,331	-	793,331
776,551	-	776,551
294,454	-	294,454
262,413	-	262,413
10,621	-	10,621
229,470	-	229,470
69,235	31,585	100,820
4,432,543	-	4,432,543
-	7,129	7,129
124,922	(124,922)	-
6,993,540	(86,208)	6,907,332
2,254,829	(29,199)	2,225,630
2,791,100	1,370,121	4,161,221
\$ 5,045,929	1,340,922	6,386,851
\$ 254,284	-	254,284
382,902	-	382,902
31,191	451,092	482,283
3,364,013	155,893	3,519,906
617,294	-	617,294
396,245	733,937	1,130,182
\$ 5,045,929	1,340,922	6,386,851

City of Monticello

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

As of and for the year ended June 30, 2009

	General	Special Revenue Tax Increment Financing
<b>Receipts:</b>		
Property tax	\$ 568,409	-
Tax increment financing	-	776,551
Other city tax	518,683	-
Licenses and permits	14,183	-
Use of money and property	122,210	2,815
Intergovernmental	144,627	-
Charges for service	517,131	-
Special assessments	-	-
Miscellaneous	62,552	-
Total receipts	<u>1,947,795</u>	<u>779,366</u>
<b>Disbursements:</b>		
Operating:		
Public safety	1,236,071	-
Public works	101,507	-
Culture and recreation	513,623	-
Community and economic development	-	4,739
General government	315,702	-
Debt service	-	-
Capital projects	-	-
Total disbursements	<u>2,166,903</u>	<u>4,739</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(219,108)</u>	<u>774,627</u>
<b>Other financing sources (uses):</b>		
Bond proceeds, net of \$32,457 discount	-	-
Operating transfers in	-	-
Operating transfers out	(456,741)	(689,239)
Total other financing sources (uses)	<u>(456,741)</u>	<u>(689,239)</u>
Net change in cash balances	(675,849)	85,388
Cash balances beginning of year	1,072,094	297,514
Cash balances end of year	<u>\$ 396,245</u>	<u>382,902</u>
<b>Cash Basis Fund Balances</b>		
Reserved for debt service	\$ -	-
Unreserved:		
General fund	396,245	-
Special revenue funds	-	382,902
Capital projects fund	-	-
Permanent funds	-	-
Total cash basis fund balances	<u>\$ 396,245</u>	<u>382,902</u>

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
294,454	-	189,352	1,052,215
-	-	-	776,551
11,053	-	8,339	538,075
-	-	-	14,183
1,585	17,018	22,208	165,836
-	59,979	334,065	538,671
-	14,934	-	532,065
-	12,883	-	12,883
-	-	92,520	155,072
307,092	104,814	646,484	3,785,551
-	-	159,140	1,395,211
-	-	405,978	507,485
-	-	68,433	582,056
-	-	-	4,739
-	-	32,070	347,772
2,062,841	-	-	2,062,841
-	1,188,083	-	1,188,083
2,062,841	1,188,083	665,621	6,088,187
(1,755,749)	(1,083,269)	(19,137)	(2,302,636)
816,276	3,616,267	-	4,432,543
903,194	342,902	24,806	1,270,902
-	-	-	(1,145,980)
1,719,470	3,959,169	24,806	4,557,465
(36,279)	2,875,900	5,669	2,254,829
67,470	488,113	865,909	2,791,100
31,191	3,364,013	871,578	5,045,929
31,191	-	-	31,191
-	-	-	396,245
-	-	617,294	1,000,196
-	3,364,013	-	3,364,013
-	-	254,284	254,284
31,191	3,364,013	871,578	5,045,929

**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, 2009

	Enterprise				Internal Service
	Water	Sewer	Sanitation	Total	Self Insurance
Operating receipts:					
Charges for service	\$ 366,005	517,378	320,865	1,204,248	21,950
Miscellaneous	12,794	37,279	45,469	95,542	-
Total operating receipts	378,799	554,657	366,334	1,299,790	21,950
Operating disbursements:					
Governmental activities:					
Public safety	-	-	-	-	7,336
Public works	-	-	-	-	1,538
Culture and recreation	-	-	-	-	2,917
General government	-	-	-	-	654
Business type activities	222,489	372,262	377,342	972,093	9,505
Total operating disbursements	222,489	372,262	377,342	972,093	21,950
Excess (deficiency) of operating receipts over (under) operating disbursements	156,310	182,395	(11,008)	327,697	-
Non-operating receipts (disbursements):					
Interest on investments	9,639	19,074	2,872	31,585	-
FEMA public assistance	-	32,985	-	32,985	-
Special assessments	-	7,129	-	7,129	-
Debt service	(99,338)	(204,335)	-	(303,673)	-
Total non-operating receipts (disbursements)	(89,699)	(145,147)	2,872	(231,974)	-
Excess (deficiency) of receipts over (under) disbursements	66,611	37,248	(8,136)	95,723	-
Transfers:					
Operating transfers in	-	11,202	-	11,202	-
Operating transfers out	(42,330)	(33,794)	(60,000)	(136,124)	-
Net transfers in (out)	(42,330)	(22,592)	(60,000)	(124,922)	-
Net change in cash balances	24,281	14,656	(68,136)	(29,199)	-
Cash balances beginning of year	371,228	811,239	187,654	1,370,121	-
Cash balances end of year	\$ 395,509	825,895	119,518	1,340,922	-
<b>Cash Basis Fund Balances</b>					
Reserved for:					
Debt service	\$ 153,997	297,095	-	451,092	-
Capital improvements	45,316	110,577	-	155,893	-
Unreserved	196,196	418,223	119,518	733,937	-
Total cash basis fund balances	\$ 395,509	825,895	119,518	1,340,922	-

See notes to financial statements.

City of Monticello  
Statement of Changes in Fiduciary Assets and Liabilities  
Fiduciary Fund

Year ended June 30, 2009

	<u>Agency Flexible Benefits</u>
Additions:	
Employee contributions	<u>\$ 10,700</u>
Deductions:	
Medical reimbursements	4,379
Child care reimbursements	<u>4,565</u>
Total deductions	<u>8,944</u>
Net change in cash balance	1,756
Cash balance beginning of year	<u>652</u>
Cash balance end of year	<u><u>\$ 2,408</u></u>

See notes to financial statements.

City of Monticello

Notes to Financial Statements

June 30, 2009

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

The City of Monticello is a political subdivision of the State of Iowa located in Jones County. It was first incorporated in 1837 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water, sewer and sanitation utilities for its citizens.

**A. Reporting Entity**

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

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

**Blended Component Units**

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

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

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

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

#### Jointly Governed Organizations

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

#### B. Basis of Presentation

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

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

##### Restricted Net Assets:

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

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

##### Unrestricted Net Assets:

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

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or

directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

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

The City reports the following major governmental funds:

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

The Special Revenue, Tax Increment Financing Fund is used to account for tax increment financing collections and principal and interest on debt incurred for urban renewal projects.

The Debt Service Fund is utilized to account 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 with the exception of those financed through Enterprise Funds.

The City reports the following major proprietary funds:

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

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

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

The City reports the following additional proprietary fund:

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

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

#### C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

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

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. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements did not exceed the amounts budgeted.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

**(3) Long-Term Debt**

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

Year Ending June 30,	General Obligation							
	General Obligation Bonds		Capital Loan Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 665,000	181,149	205,000	20,820	195,000	114,365	1,065,000	316,334
2011	610,000	161,334	210,000	14,670	205,000	107,392	1,025,000	283,396
2012	550,000	142,638	255,000	8,160	210,000	99,862	1,015,000	250,660
2013	570,000	124,841	-	-	220,000	91,822	790,000	216,663
2014	585,000	109,763	-	-	225,000	83,132	810,000	192,895
2015 - 2019	2,165,000	238,248	-	-	1,290,000	262,955	3,455,000	501,203
2020 - 2021	-	-	-	-	330,000	25,454	330,000	25,454
Total	\$5,145,000	957,973	670,000	43,650	2,675,000	784,982	8,490,000	1,786,605

On September 25, 2008, the City issued \$1,065,000 of general obligation general corporate purpose and refunding bonds, series 2008A, with interest rates ranging from 2.75% to 3.90% per annum, to fund community building repairs, street improvements and a generator and for a current refunding of the following:

- \$475,000 of general obligation bonds dated December 1, 1998.
- \$330,000 of general obligation bonds dated May 1, 2001.

The City refunded the bonds to reduce its total debt service payments by approximately \$15,000 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$13,900.

On October 15, 2008, the City issued \$3,400,000 of general obligation general corporate purpose bonds, series 2008B, with interest rates ranging from 2.50% to 4.05% per annum, to fund street and bridge improvements and the public safety building project.

### Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$1,210,000 of water revenue bonds issued in March 2002. Proceeds from the bonds provided financing for the construction of water main extensions. The bonds are payable solely from water customer net receipts and are payable through 2021. Annual principal and interest payments on the bonds are expected to require less than 64 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,185,358. For the current year, principal and interest paid and total customer net receipts were \$99,038 and \$156,310, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,130,000 of sewer revenue and sewer refunding bonds issued in March 2002 and May 2008. Proceeds from the bonds provided financing for the construction of improvements to the sewer treatment plant and refunded the City's outstanding Series 1998B sewer revenue bonds. The bonds are payable solely from sewer customer net receipts and are payable through 2021. Annual principal and interest payments on the bonds are expected to require less than 110 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$2,274,624. For the current year, principal and interest paid and total customer net receipts were \$203,635 and \$182,395, respectively.

The resolutions providing for the issuance of the water and sewer revenue and sewer refunding bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water and sewer revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.
- (c) Monthly transfers shall be made to separate water and sewer reserve accounts until specified required balances have been accumulated. These accounts are restricted for paying principal at maturity or interest on the bonds in the event the sinking accounts are unable to make the payments.
- (d) Monthly transfers of \$400 shall be made to a sewer improvement account until the required balance of \$75,000 is accumulated. At the time of delivery of the bonds, \$37,000 shall be deposited to a water improvement and extension account. These accounts are restricted for paying principal or interest on the bonds when there is insufficient money in the sinking or reserve accounts, for extraordinary maintenance expenses or repair, renewals and replacements not included in the annual budget of revenues and current expenses, payment of rentals on any part of the system and for capital improvements to the system.

- (e) All funds remaining in the water accounts after making the required transfers to the sinking, reserve and improvement accounts shall be placed in a surplus account. As long as the sinking, reserve and improvement accounts have the full amounts required to be deposited, the balance in the surplus account may be made available to the Utility as the Council may direct.
- (f) User rates shall be established at a level which produces and maintains net revenues at a level not less than 125% of the amount of principal and interest on the bonds falling due in the same year.
- (g) In the event the City or any department, agency, or instrumentality thereof in any way uses or is served by the Utility, the rates or charges provided for shall be paid by the City from its General Fund.

The City's sewer net revenues for the year ended June 30, 2009 are less than the required 125% of principal and interest on bonds falling due during the year.

For the year ended June 30, 2009, the City did not pay for its use of City utilities.

Capital Lease Purchase Agreement

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

Year Ending June 30,	Amount
2010	\$ 10,614
2011	10,614
2012	10,614
2013	10,614
2014	1
Total minimum lease payments	<u>42,457</u>
Less amount representing interest	<u>(5,038)</u>
Present value of net minimum lease payments	<u>\$ 37,419</u>

Payments under the lease purchase agreement for the year ended June 30, 2009 totaled \$10,614.

**(4) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$85,114, \$74,631 and \$68,605, respectively, equal to the required contributions for each year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. Sick leave is payable upon termination, retirement or death for certain employees who were employed by the City at least eight years as of 1998. These employees will receive a payout of one-half the total accumulated sick leave hours, not to exceed 360 hours, and paid at the effective hourly rate at June 30, 1998 for the employee. The City also allows employees to accumulate holiday and compensatory time during the fiscal year in lieu of overtime pay. The City's approximate liability for earned compensated absences payable to employees at June 30, 2009, primarily relating to the General and Enterprise Funds, is as follows:

Type of Benefit	Amount
Compensatory time	\$ 40
Vacation	18,100
Sick leave	1,400
Holiday	<u>2,400</u>
Total	<u>\$ 21,940</u>

This liability has been computed based on rates of pay in effect at June 30, 2009.

**(6) 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, \$20 for name brand).

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

**(7) Construction Commitment**

The City has entered into construction contracts totaling approximately \$1,581,000 for the public works building and 2009 South Cedar Street reconstruction projects. As of June 30, 2009, approximately \$250,000 had been paid on the contracts. The remaining \$1,331,000 will be paid as work on the projects progresses.

**(8) Urban Renewal Project Agreements**

In prior years, the City entered into two tax increment financing agreements. The City has agreed to assist in urban renewal projects by rebating incremental tax paid by the participating companies with respect to the improvements set forth in the urban renewal plan. The incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the participating companies will be rebated for a period of 5 years, beginning with the tax year in which the property tax on the completed value of the improvements is first paid. The agreements end by fiscal year 2014. The total amount to be rebated in any fiscal year for the two tax increment financing agreements is not to exceed fifty-five percent (55%) of the incremental property tax paid by the companies to the City as the result of property improvements. The total amount rebated during the year ended June 30, 2009 was \$4,739. The total cumulative amount rebated since inception of the agreements is \$13,462. The outstanding principal balance on the rebate agreements at June 30, 2009 is \$40,089.

Also, the City entered into a tax increment financing development agreement. The City agreed to assist in urban renewal projects by providing economic development grants for infrastructure improvements within the urban renewal area. The City agreed to provide an economic development grant equal to forty-six percent (46%) of the infrastructure improvement costs within Welter's First Addition in the City. To assist with the financing of the City's share of the development, the City plans to issue general obligation debt to be satisfied with tax increment financing receipts not to exceed \$370,000. Additionally, the City will use \$160,000 of economic development funds earmarked and presently held by the City. Finally, the City earmarked \$60,000 of storm water management fees presently held by the City to assist with eligible storm water related disbursements. The City agreed to pay the developer fifty percent (50%) of the City's share of the project, or \$230,000, whichever is lower, two weeks after the commencement of construction. Thirty percent (30%) of the City's share of the project will be paid upon confirmation by the City Engineer the project is eighty percent (80%) or more complete. Finally, twenty percent (20%) of the City's share of the project will be paid upon confirmation by the City Engineer the project has reached the point of "substantial completion". It is estimated the total amount owed by the City will be \$498,603. The total amount paid during the year ended June 30, 2009 was \$230,000. The estimated outstanding balance on the development agreement at June 30, 2009 is \$268,603.

**(9) Economic Development Loans**

The City has awarded seven loans to local businesses under the City's downtown business rehabilitation loan program. The loans are interest free and are to be repaid in monthly installments within a five year period following the City's first advance on each loan agreement. As of June 30, 2009, the balance on the loans was \$30,202 and the City received repayments totaling \$12,716 during the year.

**(10) Library Trusts**

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

**(11) Interfund Loans**

During the year ended June 30, 2009, the General Fund loaned the Capital Projects Fund and the Enterprise, Sewer Fund \$272,902 and \$11,202, respectively, interest free, for various capital improvement projects.

**(12) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue:		
Ambulance Improvements	General	\$ 24,806
Debt Service	General	147,831
	Special Revenue:	
	Tax Increment Financing	689,239
	Enterprise:	
	Water	37,330
	Sewer	28,794
		<u>903,194</u>
Capital Projects	General	272,902
	Enterprise:	
	Water	5,000
	Sewer	5,000
	Sanitation	60,000
		<u>342,902</u>
Enterprise:		
Sewer	General	11,202
Total		<u>\$ 1,282,104</u>

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

**(13) Employee Health Insurance Plan**

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

Payments to the Self Insurance Fund were recorded as disbursements by the operating funds. Payments to employees for medical claims for the year ended June 30, 2009 were \$21,950.

**(14) Subsequent Events**

In September 2009, the City accepted a bid of \$789,100 for the Monticello Public Safety Emergency Response Center building project.

In September 2009, the City purchased a one-half interest in the property located at 416 East Oak Street, Monticello, IA.

In October 2009, the City entered into a tax increment financing development agreement for the acquisition of land and construction of office and warehousing facilities with incremental property tax payments not to exceed \$377,000.

In October 2009, the City entered into a tax increment financing development agreement for the acquisition of land and construction of office and warehousing facilities with incremental property tax payments not to exceed \$332,000.

**City of Monticello**

**Required Supplementary Information**

City of Monticello

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

Required Supplementary Information

Year ended June 30, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 1,052,215	-	-
Tax increment financing	776,551	-	-
Other city tax	538,075	-	-
Licenses and permits	14,183	-	-
Use of money and property	165,836	31,585	1,463
Intergovernmental	538,671	32,985	-
Charges for service	532,065	1,204,248	-
Special assessments	12,883	7,129	-
Miscellaneous	155,072	95,542	44,952
Total receipts	3,785,551	1,371,489	46,415
Disbursements:			
Public safety	1,395,211	-	13,712
Public works	507,485	-	-
Culture and recreation	582,056	-	13,406
Community and economic development	4,739	-	-
General government	347,772	-	-
Debt service	2,062,841	-	-
Capital projects	1,188,083	-	-
Business type activities	-	1,275,766	-
Total disbursements	6,088,187	1,275,766	27,118
Excess (deficiency) of receipts over (under) disbursements	(2,302,636)	95,723	19,297
Other financing sources (uses)	4,557,465	(124,922)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	2,254,829	(29,199)	19,297
Balances beginning of year	2,791,100	1,370,121	74,701
Balances end of year	\$ 5,045,929	1,340,922	93,998

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Net Variance
	Original	Final	
1,052,215	1,066,673	1,066,673	(14,458)
776,551	781,306	781,306	(4,755)
538,075	552,470	554,805	(16,730)
14,183	10,220	13,943	240
195,958	387,391	407,286	(211,328)
571,656	1,585,742	948,489	(376,833)
1,736,313	1,790,077	1,792,257	(55,944)
20,012	-	18,927	1,085
205,662	488,388	500,833	(295,171)
<u>5,110,625</u>	<u>6,662,267</u>	<u>6,084,519</u>	<u>(973,894)</u>
1,381,499	1,085,275	1,473,015	91,516
507,485	492,840	577,915	70,430
568,650	544,227	612,275	43,625
4,739	6,000	4,739	-
347,772	399,631	410,197	62,425
2,062,841	1,133,075	2,064,510	1,669
1,188,083	5,178,000	2,640,498	1,452,415
1,275,766	1,569,602	1,493,507	217,741
<u>7,336,835</u>	<u>10,408,650</u>	<u>9,276,656</u>	<u>1,939,821</u>
(2,226,210)	(3,746,383)	(3,192,137)	965,927
<u>4,432,543</u>	<u>3,420,000</u>	<u>4,320,195</u>	<u>112,348</u>
2,206,333	(326,383)	1,128,058	1,078,275
4,086,520	4,277,375	4,087,171	(651)
<u>6,292,853</u>	<u>3,950,992</u>	<u>5,215,229</u>	<u>1,077,624</u>

City of Monticello

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments decreased budgeted disbursements by \$1,131,994. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements did not exceed the amounts budgeted.

**Other Supplementary Information**

City of Monticello

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

As of and for the year ended June 30, 2009

	Road Use Tax	CEBA and Other Grants	Park Improvements	Ambulance Improvements	Employee Benefits	Library Improvements	Earl F. Lehmann	Street Bonding	Cemetery Improvements	Special
<b>Receipts:</b>										
Property tax	\$ -	-	-	-	189,352	-	-	-	-	-
Other city tax	-	-	-	-	8,339	-	-	-	-	-
Use of money and property	-	-	97	13	1,021	1,413	2	-	6,140	-
Intergovernmental	299,936	130	-	33,999	-	-	-	-	-	-
Miscellaneous	-	-	3,277	4,245	-	5,014	-	150	-	-
<b>Total receipts</b>	<b>299,936</b>	<b>130</b>	<b>3,374</b>	<b>38,257</b>	<b>198,712</b>	<b>6,427</b>	<b>2</b>	<b>150</b>	<b>6,140</b>	
<b>Disbursements:</b>										
<b>Operating:</b>										
Public safety	-	-	-	63,782	81,646	-	-	-	-	-
Public works	372,976	-	-	-	32,702	-	-	300	-	-
Culture and recreation	-	-	-	-	38,614	2,559	-	-	5,000	-
General government	-	-	-	-	32,070	-	-	-	-	-
<b>Total disbursements</b>	<b>372,976</b>	<b>-</b>	<b>-</b>	<b>63,782</b>	<b>185,032</b>	<b>2,559</b>	<b>-</b>	<b>300</b>	<b>5,000</b>	
Excess (deficiency) of receipts over (under) disbursements	(73,040)	130	3,374	(25,525)	13,680	3,868	2	(150)	1,140	
<b>Other financing sources:</b>										
Operating transfers in	-	-	-	24,806	-	-	-	-	-	-
<b>Net change in cash balances</b>	<b>(73,040)</b>	<b>130</b>	<b>3,374</b>	<b>(719)</b>	<b>13,680</b>	<b>3,868</b>	<b>2</b>	<b>(150)</b>	<b>1,140</b>	
Cash balances beginning of year	159,588	2,574	4,197	719	63,131	43,097	229	150	47,398	
<b>Cash balances end of year</b>	<b>\$ 86,548</b>	<b>2,704</b>	<b>7,571</b>	<b>-</b>	<b>76,811</b>	<b>46,965</b>	<b>231</b>	<b>-</b>	<b>48,538</b>	
<b>Cash Basis Fund Balances</b>										
<b>Unreserved:</b>										
Special revenue funds	86,548	\$ 2,704	7,571	-	76,811	46,965	231	-	48,538	
Permanent funds	-	-	-	-	-	-	-	-	-	
<b>Total cash basis fund balances</b>	<b>\$ 86,548</b>	<b>\$ 2,704</b>	<b>7,571</b>	<b>-</b>	<b>76,811</b>	<b>46,965</b>	<b>231</b>	<b>-</b>	<b>48,538</b>	

See accompanying independent auditor's report.

Revenue										Permanent			
Slavka Gehret Trust	Family Aquatic Center Campaign	Library Building	Insurance	Riverside Gardeners, Inc.	Monticello Firefighters Organization, Inc.	Monticello Emergency Medical Team	Friends of the Monticello Public Library	Cemetery Perpetual Care	Ioma M. Baker Library Trust	Charles S. Bidwell Book Trust	Total		
-	-	-	-	-	-	-	-	-	-	-	189,352		
-	-	-	-	-	-	-	-	-	-	-	8,339		
8,812	308	77	296	1,016	5	442	-	-	1,149	1,417	22,208		
-	-	-	-	-	-	-	-	-	-	-	334,065		
-	-	-	33,238	3,531	29,750	9,826	1,845	1,644	-	-	92,520		
8,812	308	77	33,534	4,547	29,755	10,268	1,845	1,644	1,149	1,417	646,484		
-	-	-	-	-	10,597	3,115	-	-	-	-	159,140		
-	-	-	-	-	-	-	-	-	-	-	405,978		
1,817	-	-	-	12,052	-	-	1,354	-	596	6,441	68,433		
-	-	-	-	-	-	-	-	-	-	-	32,070		
1,817	-	-	-	12,052	10,597	3,115	1,354	-	596	6,441	665,621		
6,995	308	77	33,534	(7,505)	19,158	7,153	491	1,644	553	(5,024)	(19,137)		
-	-	-	-	-	-	-	-	-	-	-	24,806		
6,995	308	77	33,534	(7,505)	19,158	7,153	491	1,644	553	(5,024)	5,669		
188,664	19,454	4,896	-	26,246	30,275	11,466	6,714	124,065	44,504	88,542	865,909		
195,659	19,762	4,973	33,534	18,741	49,433	18,619	7,205	125,709	45,057	83,518	871,578		
195,659	19,762	4,973	33,534	18,741	49,433	18,619	7,205	-	-	-	617,294		
-	-	-	-	-	-	-	-	125,709	45,057	83,518	254,284		
195,659	19,762	4,973	33,534	18,741	49,433	18,619	7,205	125,709	45,057	83,518	871,578		

City of Monticello  
Schedule of Indebtedness  
Year ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Street improvement	Dec 1, 1998	4.05-4.55%	\$ 1,000,000
General corporate purpose	May 1, 2001	4.00-4.50	885,000
Urban renewal	Aug 1, 2001	3.90-4.80	995,000
General corporate purpose	Aug 1, 2003	1.50-3.16	395,000
Urban renewal	May 1, 2004	1.25-4.00	1,200,000
General corporate purpose	Apr 3, 2006	3.875-4.00	460,000
General corporate purpose	Sep 25, 2008	2.75-3.90	1,065,000
Corporate purpose and refunding	Oct 15, 2008	2.50-4.05	3,400,000
Total			
General obligation capital loan notes:			
Corporate purpose and refunding	Mar 1, 2005	2.30-3.20%	\$ 1,450,000
Revenue bonds:			
Water	Mar 15, 2002	3.00-5.10%	\$ 1,210,000
Sewer	Mar 15, 2002	3.40-5.10	935,000
Sewer refunding	May 12, 2008	2.70-4.05	1,195,000
Total			
Capital lease purchase agreement:			
Backhoe loader	Feb 7, 2009	5.25%	\$ 48,033

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
475,000	-	475,000	-	6,656
330,000	-	330,000	-	4,620
140,000	-	70,000	70,000	5,810
225,000	-	225,000	-	2,629
800,000	-	100,000	700,000	28,100
380,000	-	40,000	340,000	14,794
-	1,065,000	175,000	890,000	23,652
-	3,400,000	255,000	3,145,000	72,493
<u>\$ 2,350,000</u>	<u>4,465,000</u>	<u>1,670,000</u>	<u>5,145,000</u>	<u>158,754</u>
875,000	-	205,000	670,000	26,663
935,000	-	55,000	880,000	44,038
725,000	-	40,000	685,000	34,758
1,195,000	-	85,000	1,110,000	43,877
<u>\$ 2,855,000</u>	<u>-</u>	<u>180,000</u>	<u>2,675,000</u>	<u>122,673</u>
-	48,033	10,614	37,419	-

City of Monticello  
Bond and Note Maturities  
June 30, 2009

Year Ending June 30,	General Obligation Bonds					
	Urban Renewal		Urban Renewal		General Corporate Purpose	
	Issued Aug 1, 2001		Issued May 1, 2004		Issued Apr 3, 2006	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2010	4.20%	\$ 70,000	3.00%	\$ 100,000	3.875%	\$ 40,000
2011		-	3.25	100,000	3.875	45,000
2012		-	3.50	100,000	3.875	50,000
2013		-	3.70	100,000	3.875	50,000
2014		-	3.85	100,000	3.875	50,000
2015		-	4.00	100,000	3.875	50,000
2016		-	4.00	100,000	4.000	55,000
2017		-		-		-
2018		-		-		-
2019		-		-		-
Total		<u>\$ 70,000</u>		<u>\$ 700,000</u>		<u>\$ 340,000</u>

Year Ending June 30,	Revenue Bonds						
	Water		Sewer		Sewer Refunding		Total
	Issued Mar 15, 2002		Issued Mar 15, 2002		Issued May 12, 2008		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2010	4.15%	\$ 55,000	4.30%	\$ 45,000	2.90%	\$ 95,000	
2011	4.25	60,000	4.40	45,000	3.00	100,000	205,000
2012	4.40	60,000	4.50	50,000	3.15	100,000	210,000
2013	4.50	65,000	4.60	50,000	3.30	105,000	220,000
2014	4.60	65,000	4.70	50,000	3.45	110,000	225,000
2015	4.70	70,000	4.80	55,000	3.60	110,000	235,000
2016	4.89	75,000	4.90	55,000	3.75	115,000	245,000
2017	4.90	80,000	5.00	60,000	3.90	120,000	260,000
2018	5.00	80,000	5.00	65,000	4.00	125,000	270,000
2019	5.00	85,000	5.05	65,000	4.05	130,000	280,000
2020	5.05	90,000	5.10	70,000		-	160,000
2021	5.10	95,000	5.10	75,000		-	170,000
Total		<u>\$ 880,000</u>		<u>\$ 685,000</u>		<u>\$ 1,110,000</u>	<u>2,675,000</u>

See accompanying independent auditor's report.

General Corporate Purpose Issued Sep 25, 2008		General Corporate Purpose Issued Oct 15, 2008			General Obligation Capital Loan Notes General Corporate Purpose and Refunding Issued Mar 1, 2005	
Interest		Interest			Interest	
Rates	Amount	Rates	Amount	Total	Rates	Amount
3.000%	\$ 190,000	2.50%	\$ 265,000	665,000	3.00%	\$ 205,000
3.150	195,000	2.80	270,000	610,000	3.10	210,000
3.300	120,000	3.00	280,000	550,000	3.20	255,000
3.450	125,000	3.20	295,000	570,000		-
3.600	130,000	3.40	305,000	585,000		-
3.800	65,000	3.60	315,000	530,000		-
3.900	65,000	3.80	330,000	550,000		-
	-	4.00	345,000	345,000		-
	-	4.00	360,000	360,000		-
	-	4.05	380,000	380,000		-
	<u>\$ 890,000</u>		<u>\$ 3,145,000</u>	<u>5,145,000</u>		<u>\$ 670,000</u>

**Schedule 4**

## City of Monticello

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

For the Last Seven Years

	2009	2008	2007	2006	2005	2004	2003
Receipts:							
Property tax	\$ 1,052,215	1,031,036	1,018,093	970,967	974,046	975,086	1,055,907
Tax increment financing	776,551	736,987	737,067	611,546	553,027	486,288	344,043
Other city tax	538,075	550,145	534,957	483,068	374,781	313,289	283,326
Licenses and permits	14,183	13,726	9,280	13,198	10,604	14,209	16,339
Use of money and property	165,836	253,147	266,114	235,079	195,023	126,753	152,068
Intergovernmental	538,671	845,758	842,157	717,539	982,672	629,557	668,673
Charges for service	532,065	476,301	415,499	353,670	310,984	271,306	304,434
Special assessments	12,883	7,383	14,647	102,812	8,444	36,266	35,616
Miscellaneous	155,072	281,784	475,685	1,036,729	530,563	1,127,155	758,828
Total	<u>\$ 3,785,551</u>	<u>4,196,267</u>	<u>4,313,499</u>	<u>4,524,608</u>	<u>3,940,144</u>	<u>3,979,909</u>	<u>3,619,234</u>
Disbursements:							
Operating:							
Public safety	\$ 1,395,211	1,248,907	1,200,750	937,287	839,798	897,445	987,995
Public works	507,485	459,982	676,486	443,983	396,103	424,924	416,198
Culture and recreation	582,056	549,814	473,385	467,947	469,241	407,367	482,741
Community and economic development	4,739	-	-	60,002	59,686	140,512	75,215
General government	347,772	368,391	383,815	374,420	318,686	280,442	290,933
Debt service	2,062,841	1,329,544	826,855	767,225	1,946,432	621,260	788,965
Capital projects	1,188,083	532,482	648,952	3,575,064	1,236,174	2,182,544	1,186,191
Total	<u>\$ 6,088,187</u>	<u>4,489,120</u>	<u>4,210,243</u>	<u>6,625,928</u>	<u>5,266,120</u>	<u>4,954,494</u>	<u>4,228,238</u>

See accompanying independent auditor's report.



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Monticello, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 12, 2010. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including a deficiency we consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Monticello's ability to initiate, authorize, record, process or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Monticello's financial statements that is more than inconsequential will not be prevented or detected by the City of Monticello's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Monticello's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item (A) is a material weakness.

#### 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 that 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, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

February 12, 2010

City of Monticello

Schedule of Findings

Year ended June 30, 2009

**Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Weaknesses were noted in the following areas for which no compensating controls exists:

- (1) Responsibilities for collection and deposit preparation functions are not segregated from those for recording and accounting for cash receipts.
- (2) The duties of record keeping and reconciliation of investments are performed by the same person.
- (3) Bank reconciliations are not reviewed by an independent person.

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

Response – We will work towards one clerk's office employee being responsible for the preparation of all receipts while another shall be responsible to enter the receipts into the computer system. At a minimum, the City Clerk will perform and record spot-checking of the preparation and entry of the receipts. The City Administrator will meet with City Clerk at least once per month to review and initial investment and bank reconciliations and supporting documentation. The City Clerk shall be responsible to review and initial monthly utility reconciliations.

Conclusion – Response acknowledged. Implementation of the recommendations noted above will help strengthen the City's internal controls.

(B) Payroll – Salaried employees account for their own vacation and sick leave balances. Additionally, not all time card/time sheets for volunteer ambulance staff were approved by a supervisor.

Recommendation – All employee vacation and sick leave earned and used should be accounted for through the payroll system. All City employees should keep time cards/time sheets to support the actual hours worked. Additionally, all time cards/time sheets should be reviewed and approved by a department head and/or supervisor.

Response – Effective April 1, 2009, all employee vacation and sick leave earned and used is being accounted for through the payroll system. All City employees are required to keep time cards/time sheets to support the actual hours worked. Additionally, all time cards/time sheets are required to be reviewed and approved by a department head and/or supervisor. The Deputy Clerk reviews the time cards for completion and will direct any incomplete time cards to the appropriate department head for review and appropriate action.

Conclusion – Response accepted.

City of Monticello

Schedule of Findings

Year ended June 30, 2009

- (C) Soldiers Memorial Board Maintenance Account – One individual performs all accounting functions for the Soldiers Memorial Board Maintenance Account. Also, the primary record kept for the General Fund, Soldiers Memorial Board Maintenance Account was a check register.

Recommendation – Internal control could be strengthened and operating efficiency could be increased by integrating the Soldiers Memorial Board Maintenance Account receipts and disbursements with the City’s accounting records in the City Clerk’s office.

Response – The City Administrator and City Clerk will set up a meeting with the Soldier’s Memorial Board to review recommendation and to request compliance with the recommendation by the Board.

Conclusion – Response acknowledged. However, the Soldiers Memorial Board should consider integrating the maintenance account with the City to strengthen internal controls.

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

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

Response – The City Administrator will prepare written agreement to outline the practices and oral understanding/agreement between the Development Corporation and the City with regard to the jointly owned property. This document is complete and will be approved in either December, 2009 or January, 2010.

Conclusion – Response accepted.

- (E) Ambulance Receipts – Beginning in November 2007, the City utilized an outside company to prepare ambulance billings and maintain accounts receivable records. Payments on account are received by the City and the payment information is forwarded to the company to allow for maintenance of receivable balances. The City receives monthly financial information from the company but did not reconcile the amount of receipts per the City’s records to the amount of payments reported in the monthly financials prepared by the company.

Recommendation – The City should perform a monthly reconciliation of the City’s ambulance receipts and payments received on account with the accounts receivable records.

Response – The City implemented practices during FY09 to reconcile the amounts of receipts per the City’s records with the financial reports received from the ambulance department billing company.

Conclusion – Response accepted.

City of Monticello

Schedule of Findings

Year ended June 30, 2009

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

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

Response – The City Clerk has been working with the City software provider and intends on implementing the Uniform Chart of Accounts as of July 1, 2010 assuming all software modifications can be completed by the software provider by that time.

Conclusion – Response accepted.

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

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

Response – The City Administrator will work to establish proposed policies on these topics for Council consideration and approval in early 2010.

Conclusion – Response accepted.

- (H) City Accounts – The City does not have an established policy to require City departments to periodically submit all bank account information to the City for financial reporting purposes.

Recommendation – The City should work on drafting a policy to require all City departments to periodically submit all bank account information to the City for financial reporting purposes.

Response – It was always the “policy” that departments would submit all bank account information to the City for financial reporting purposes. However, a more “formal” written policy to that effect will be prepared and presented to the City Council for approval in December 2009 or January 2010.

Conclusion – Response accepted.

- (I) Taxable Allowances – The City does not include taxable allowances paid to City employees as taxable income on employee W-2s.

Recommendation – The City should ensure all allowances paid to its employees which qualify as taxable income are included as taxable income reported on employee W-2s as required by the IRS.

Response – The City will determine what IRS regulations apply to taxable allowances, and ensure that all “allowances” requiring treatment as taxable income are treated and reported appropriately.

Conclusion – Response accepted.

City of Monticello

Schedule of Findings

Year ended June 30, 2009

**INSTANCES OF NON-COMPLIANCE**

No matters were noted.

City of Monticello

Schedule of Findings

Year ended June 30, 2009

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

- (1) Certified Budget – Disbursements during the year ended June 30, 2009 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
Stuart Gerdes, Fire Board Member, Employee of Bard Concrete Inc. and Bard Materials	Services and supplies	\$ 4,992
Dennis Gray, Soldiers Memorial Board Member, Owner of Lock Shop	Services	392
Todd Lambert, Park and Recreation Board Member, Employee of Monticello Sports	Supplies	1,029
Doug Monck, Ambulance Advisory Board Member, Employee of Monticello Machine Shop	Services and supplies	3,258
Billy Norton, Fire Department Employee, Owner/Operator of Lawn Care Services	Services	1,061
Jerry Pasker, Board of Adjustment Member, Member/Owner of Netconnect	Services	1,495
Cliff Payne, Tree Board Member, Owner of Cliff’s Radio & TV	Services	106
Nick Sauser, Jr., Planning and Zoning Board Member, Owner of Sauser’s Gas and Repair Shop	Services and supplies	548
Jerry Welter, Council Member, Brother owns Welter Storage Company, Inc.	Services	9,587
Jerry Welter, Council Member, Brother owns Welter Enterprise LLC	Infrastructure improvements, per Developer’s Agreement	230,000
Dave Savage and Steve Edwards, Airport Board and Fire Board Member, respectively, Owner and Employee, respectively, of Insurance Associates, Inc.	Insurance, per bid	100,658

City of Monticello

Schedule of Findings

Year ended June 30, 2009

The transactions with Lock Shop, Monticello Sports, Lawn Care Services, Netconnect, Cliff's Radio & TV and Sauser's Gas and Repair Shop do not represent conflicts of interest in accordance with Chapter 362.5(10) of the Code of Iowa because the cumulative totals during the fiscal year were each less than \$1,500.

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

Chapter 403.16 of the Code of Iowa pertains to urban renewal and "Personal interest prohibited." Conflicts of interest are addressed in statute in terms of both direct and indirect and may result both in fact and/or appearance. Although Council Member Welter abstained from voting on the action approving the Developer's Agreement, the transaction with Welter Enterprise, LLC may represent a conflict of interest. The City should consult legal counsel to determine the disposition of this.

The remaining transactions exceeding \$1,500 may represent conflicts of interest.

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

Response – The City will consult legal counsel regarding this matter.

Conclusion – Response accepted.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds – The provisions of the water and sewer revenue and sewer refunding bonds require water and sewer user rates be established at a level which produces and maintains net revenues at a level not less than 125% of the amount of principal and interest on the bonds falling due in the same year. Also, the provisions of the water and sewer revenue and sewer refunding bonds require the City pay for its utility usage from its General Fund.

During the year ended June 30, 2009, the City was not in compliance with the net revenue requirement for the sewer revenue bonds as required by the bond resolution. The City does not currently pay for its usage of City utilities.

Recommendation – The City should ensure sewer user rates are established at a level which produces net revenues of 125% of the annual principal and interest payments on the bonds. Also the City should ensure usage of City utilities are paid as required by the bond provisions from its General Fund.

Response – The City is working with the City's investment advisor/financial planner to establish the rates necessary to come into full compliance. Sewer rate adjustments will be presented to the City Council for review and proposed enactment in January

City of Monticello

Schedule of Findings

Year ended June 30, 2009

or February of 2010. This comment and recommendation has not been made in past audits and City staff were not aware of this obligation. No City owned facility has ever paid for City water/sewer. All City departments, whether utilities or General Fund, have always been looked at and perceived as one “team” with a common goal. There seems to be little point, other than the language of the bonds, to spend the time and effort to process utility accounts related to City facilities. The City will review its’ ordinance with regard to the payment for water and sewer services by City owned facilities to establish a fair and appropriate means by which to meet its’ obligations under the bonding documents.

Conclusion – Response accepted.

City of Monticello

Staff

This audit was performed by:

K. David Voy, CPA, Manager  
Daniel L. Grady, Senior Auditor  
Gelu Sherpa, Staff Auditor  
Justin M. Scherrman, Auditor Intern

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