



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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Des Moines, Iowa 50319-0004

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NEWS RELEASE

FOR RELEASE

June 18, 2010

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$606,354 for the year ended June 30, 2009. The receipts included \$106,663 in property tax, \$85,742 from local option sales tax, \$257,095 from charges for service, \$150,946 from operating grants, contributions and restricted interest, \$2,662 from unrestricted interest on investments and \$3,246 from other general receipts.

Disbursements for the year totaled \$560,863, and included \$116,363 for public works, \$103,819 for culture and recreation and \$83,419 for public safety. Also, disbursements for business type activities totaled \$183,071.

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

JUNE 30, 2009

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City of Montrose

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-----------------------|-----------------|---------------------|
| Greg Ruth | Mayor | Jan 2010 |
| John Geyer | Council Member | Jan 2010 |
| Mark Conlee | Council Member | Jan 2010 |
| Mary Van Pelt | Council Member | Jan 2010 |
| David Hawk | Council Member | Jan 2012 |
| Melody Slater | Council Member | Jan 2012 |
| Celeste Cirinna | Clerk/Treasurer | Indefinite |
| Theresa Baird | Deputy Clerk | Indefinite |
| Robert N. Johnson III | Attorney | Indefinite |

City of Montrose



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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 Montrose, 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 Montrose'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. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008.

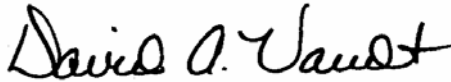
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2008, as discussed in the preceding paragraph, the financial statements referred to above present 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 Montrose 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 April 26, 2010 on our consideration of the City of Montrose'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 12 and 24 through 26 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 Montrose's basic financial statements. Other supplementary information included in Schedule 1 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

April 26, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Montrose 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.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2009 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased approximately \$16,000, due primarily to a decrease in public works function disbursements.
- The cash basis net assets of the City's business type activities increased approximately \$29,000.

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 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 and general government. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two 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, Road Use Tax Fund and 3) the Permanent, Cemetery Fund. 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.

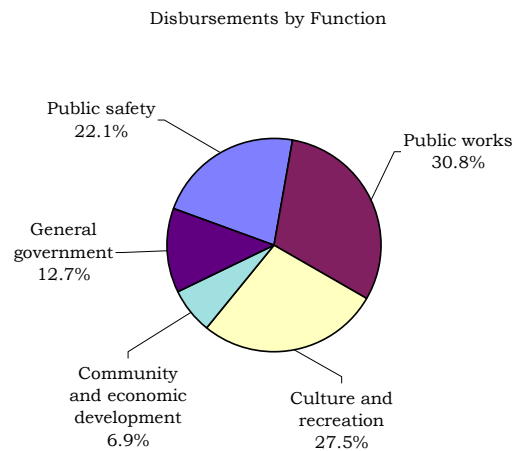
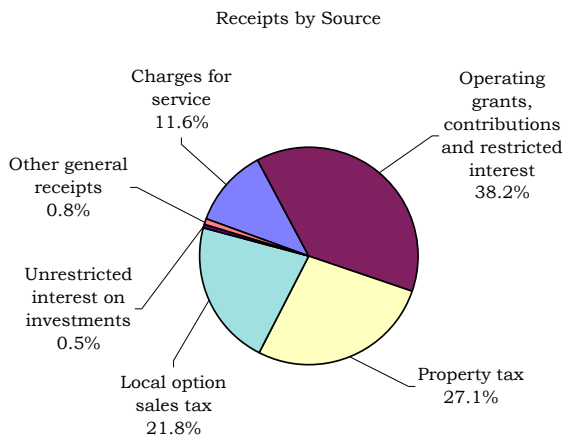
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds. The Water and Sewer Funds are considered to be major funds of the City.

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

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 a year ago, from \$330,499 to \$346,880. 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 |
| Program receipts: | |
| Charges for service | \$ 45,527 |
| Operating grants, contributions and restricted interest | 150,946 |
| General receipts: | |
| Property tax | 106,663 |
| Local option sales tax | 85,742 |
| Unrestricted interest on investments | 2,049 |
| Other general receipts | 3,246 |
| Total receipts | <u>394,173</u> |
| Disbursements: | |
| Public safety | 83,419 |
| Public works | 116,363 |
| Culture and recreation | 103,819 |
| Community and economic development | 26,255 |
| General government | 47,936 |
| Total disbursements | <u>377,792</u> |
| Increase in cash basis net assets | 16,381 |
| Cash basis net assets beginning of year | <u>330,499</u> |
| Cash basis net assets end of year | <u>\$ 346,880</u> |



The cash basis net assets of the City's governmental activities increased approximately \$16,000, or 5.0%, due primarily to an overall decrease in disbursements.

| <u>Changes in Cash Basis Net Assets of Business Type Activities</u> | |
|---|-------------------------------------|
| | <u>Year ended June 30, 2009</u> |
| Receipts: | |
| Program receipts: | |
| Charges for service: | |
| Water | \$ 107,078 |
| Sewer | 104,490 |
| General receipts: | |
| Unrestricted interest on investments | 613 |
| Total receipts | <u>212,181</u> |
| Disbursements: | |
| Water | 74,806 |
| Sewer | 108,265 |
| Total disbursements | <u>183,071</u> |
| Increase in cash basis net assets | 29,110 |
| Cash basis net assets beginning of year | <u>155,692</u> |
| Cash basis net assets end of year | <u>\$ 184,802</u> |

Total business type activities cash basis net assets increased from a year ago, from \$155,692 to \$184,802.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Montrose completed the year, its governmental funds reported a combined fund balance of \$346,880, an increase of \$16,381 over last year's total of \$330,499. 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 \$9,481 to \$241,035 during the fiscal year. This decrease was attributed to a decrease in property tax.
- The Special Revenue, Road Use Tax Fund cash balance increased \$22,528 over the prior year to \$59,324 at the end of the fiscal year. This increase was attributed to a decrease in the number of employees in the Public Works Department.
- The Permanent, Cemetery Fund cash balance increased \$3,334 over the prior year to \$46,521 at the end of the fiscal year. This increase was attributed to charges for service.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$32,543 to \$91,973, due primarily to an increase in water rates.
- The Sewer Fund cash balance decreased \$3,433 to \$93,029.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 7, 2009 and resulted in a net increase of \$200,931 in disbursements. The increase was primarily for public works and business type activities.

The City's receipts were \$996,621 less than budgeted. This is due to the City amending the budget for charges for service of \$914,319 in anticipation of the upcoming water project and the related community development block grant and debt revenue which did not occur in fiscal year 2009.

With the amendment, total disbursements were \$1,042,112 less than the amended budget. Actual disbursements for the business type activities, public works and community and economic development functions were \$948,349, \$63,063 and \$12,795, respectively, less than the amended budget. The business type activities function was under budget because the City budgeted for an upcoming water project which did not occur in fiscal year 2009. The public works function was under budget because the City budgeted for a street repair project not paid until fiscal year 2010. The community and economic development function was under budget because the City spent less from the Scenic Byways Grant than expected.

DEBT ADMINISTRATION

At June 30, 2009, the City had \$340,000 in general obligation sewer improvement bonds outstanding, compared to \$370,000 in the prior year.

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 debt of \$340,000 is significantly below its constitutional debt limit of \$1,249,000.

More detailed information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget. The City's total assessed valuations have increased \$494,273.

The fiscal year 2010 budget contains total receipts of \$1,049,199 and disbursements of \$1,049,199. Total budgeted receipts are lower than the prior year final budget of \$1,602,975 due to a decrease in the budgeted receipts for charges for service. Total budgeted disbursements are lower than the prior year final budget of \$1,602,975 due to a decrease in the budgeted disbursements for business type activities.

The fiscal year 2010 levy is \$7.92397 per \$1,000 of taxable valuation, a decrease from \$8.07436 per \$1,000 of taxable valuation in fiscal year 2009.

These parameters were taken into account when adopting the budget for fiscal year 2010.

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 Celeste Cirinna, City Clerk, 102 South 2nd Street, Montrose, Iowa 52639.

Basic Financial Statements

City of Montrose

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 |
| Functions/Programs: | | | |
| Governmental activities: | | | |
| Public safety | \$ 83,419 | 275 | 33,301 |
| Public works | 116,363 | 30,147 | 90,116 |
| Culture and recreation | 103,819 | 13,295 | 27,529 |
| Community and economic development | 26,255 | - | - |
| General government | 47,936 | 1,810 | - |
| Total governmental activities | <u>377,792</u> | <u>45,527</u> | <u>150,946</u> |
| Business type activities: | | | |
| Water | 74,806 | 107,078 | - |
| Sewer | 108,265 | 104,490 | - |
| Total business type activities | <u>183,071</u> | <u>211,568</u> | <u>-</u> |
| Total | <u>\$ 560,863</u> | <u>257,095</u> | <u>150,946</u> |
| General Receipts: | | | |
| Property tax levied for general purposes | | | |
| Local option sales tax | | | |
| Unrestricted interest on investments | | | |
| Miscellaneous | | | |
| Total general receipts | | | |
| Change in cash basis net assets | | | |
| Cash basis net assets beginning of year | | | |
| Cash basis net assets end of year | | | |
| Cash Basis Net Assets | | | |
| Restricted: | | | |
| Nonexpendable: | | | |
| Permanent fund | | | |
| Expendable: | | | |
| Streets | | | |
| Unrestricted | | | |
| Total cash basis net assets | | | |

See notes to financial statements.

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

| Governmental Activities | Business Type Activities | Total |
|----------------------------|-----------------------------|-----------|
| (49,843) | - | (49,843) |
| 3,900 | - | 3,900 |
| (62,995) | - | (62,995) |
| (26,255) | - | (26,255) |
| (46,126) | - | (46,126) |
| (181,319) | - | (181,319) |

| | | |
|-----------|---------|-----------|
| - | 32,272 | 32,272 |
| - | (3,775) | (3,775) |
| - | 28,497 | 28,497 |
| (181,319) | 28,497 | (152,822) |

| | | |
|---------|-----|---------|
| 106,663 | - | 106,663 |
| 85,742 | - | 85,742 |
| 2,049 | 613 | 2,662 |
| 3,246 | - | 3,246 |

| | | |
|---------|-----|---------|
| 197,700 | 613 | 198,313 |
|---------|-----|---------|

| | | |
|------------|---------|---------|
| 16,381 | 29,110 | 45,491 |
| 330,499 | 155,692 | 486,191 |
| \$ 346,880 | 184,802 | 531,682 |

| | | |
|-----------|---|--------|
| \$ 46,521 | - | 46,521 |
|-----------|---|--------|

| | | |
|------------|---------|---------|
| 59,324 | - | 59,324 |
| 241,035 | 184,802 | 425,837 |
| \$ 346,880 | 184,802 | 531,682 |

Exhibit B

City of Montrose

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 Road Use Tax | Nonmajor Permanent Cemetery | Total |
|------------------------------------|------------|---------------------------------|-----------------------------------|---------|
| Receipts: | | | | |
| Property tax | \$ 106,663 | - | - | 106,663 |
| Other city tax | 85,742 | - | - | 85,742 |
| Licenses and permits | 6,398 | - | - | 6,398 |
| Use of money and property | 2,049 | - | - | 2,049 |
| Intergovernmental | 46,956 | 89,783 | - | 136,739 |
| Charges for service | 34,893 | - | 3,334 | 38,227 |
| Miscellaneous | 18,023 | 332 | - | 18,355 |
| Total receipts | 300,724 | 90,115 | 3,334 | 394,173 |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | 83,419 | - | - | 83,419 |
| Public works | 48,776 | 67,587 | - | 116,363 |
| Culture and recreation | 103,819 | - | - | 103,819 |
| Community and economic development | 26,255 | - | - | 26,255 |
| General government | 47,936 | - | - | 47,936 |
| Total disbursements | 310,205 | 67,587 | - | 377,792 |
| Net change in cash balances | (9,481) | 22,528 | 3,334 | 16,381 |
| Cash balances beginning of year | 250,516 | 36,796 | 43,187 | 330,499 |
| Cash balances end of year | \$ 241,035 | 59,324 | 46,521 | 346,880 |
| Cash Basis Fund Balances | | | | |
| Unreserved: | | | | |
| General fund | \$ 241,035 | - | - | 241,035 |
| Special revenue fund | - | 59,324 | - | 59,324 |
| Permanent fund | - | - | 46,521 | 46,521 |
| Total cash basis fund balances | \$ 241,035 | 59,324 | 46,521 | 346,880 |

See notes to financial statements.

City of Montrose

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

As of and for the year ended June 30, 2009

| | Enterprise Funds | | |
|--|------------------|----------|----------|
| | Water | Sewer | Total |
| Operating receipts: | | | |
| Charges for service | \$ 107,078 | 104,490 | 211,568 |
| Operating disbursements: | | | |
| Business type activities | 74,806 | 63,327 | 138,133 |
| Excess of operating receipts over operating disbursements | 32,272 | 41,163 | 73,435 |
| Non-operating receipts (disbursements): | | | |
| Interest on investments | 271 | 342 | 613 |
| Debt service | - | (44,938) | (44,938) |
| Net non-operating receipts (disbursements) | 271 | (44,596) | (44,325) |
| Net change in cash balances | 32,543 | (3,433) | 29,110 |
| Cash balances beginning of year | 59,230 | 96,462 | 155,692 |
| Cash balances end of year | \$ 91,773 | 93,029 | 184,802 |
| Cash Basis Fund Balances | | | |
| Unreserved | \$ 91,773 | 93,029 | 184,802 |

See notes to financial statements.

City of Montrose

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies

The City of Montrose is a political subdivision of the State of Iowa located in Lee County. It was first incorporated in 1857 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 and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Montrose 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. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Lee County Assessor's Conference Board, Lee County E911 Board and the Lee County Emergency Management Commission. The City also participates in the Montrose Fire Association (Association), 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 services.

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

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

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

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

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

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

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.

Special Revenue, Road Use Tax Fund is used to account for road construction and maintenance.

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.

C. Measurement Focus and Basis of Accounting

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

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

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) Bonds Payable

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

| Year Ending June 30, | Interest Rate | Principal | Interest | Total |
|----------------------------|------------------|------------|----------|---------|
| 2010 | 3.20% | \$ 30,000 | 13,453 | 43,453 |
| 2011 | 3.40 | 30,000 | 12,493 | 42,493 |
| 2012 | 3.60 | 30,000 | 11,473 | 41,473 |
| 2013 | 3.70 | 30,000 | 10,393 | 40,393 |
| 2014 | 3.85 | 35,000 | 9,283 | 44,283 |
| 2015 - 2019 | 4.00-4.50 | 185,000 | 24,895 | 209,895 |
| Total | | \$ 340,000 | 81,990 | 421,990 |

During the year ended June 30, 2009, \$30,000 of general obligation sewer improvement bonds were retired.

(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 contribution to IPERS for the year ended June 30, 2009 was \$7,617, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation hours payable to employees at June 30, 2009, primarily relating to the General Fund, is approximately \$2,400. 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 limits. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Subsequent Event

In March 2010, the City issued \$600,000 of general obligation water improvement bonds for the purpose of paying the cost of constructing improvements and extensions to the City's waterworks system.

City of Montrose

Required Supplementary Information

City of Montrose
 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 | Total |
|--|---------------------------------|--------------------------------|----------------|
| Receipts: | | | |
| Property tax | \$ 106,663 | - | 106,663 |
| Other city tax | 85,742 | - | 85,742 |
| Licenses and permits | 6,398 | - | 6,398 |
| Use of money and property | 2,049 | 613 | 2,662 |
| Intergovernmental | 136,739 | - | 136,739 |
| Charges for service | 38,227 | 211,568 | 249,795 |
| Miscellaneous | 18,355 | - | 18,355 |
| Other financing sources | - | - | - |
| Total receipts | <u>394,173</u> | <u>212,181</u> | <u>606,354</u> |
| Disbursements: | | | |
| Public safety | 83,419 | - | 83,419 |
| Public works | 116,363 | - | 116,363 |
| Culture and recreation | 103,819 | - | 103,819 |
| Community and economic development | 26,255 | - | 26,255 |
| General government | 47,936 | - | 47,936 |
| Business type activities | - | 183,071 | 183,071 |
| Total disbursements | <u>377,792</u> | <u>183,071</u> | <u>560,863</u> |
| Excess of receipts over disbursements | 16,381 | 29,110 | 45,491 |
| Balances beginning of year | <u>330,499</u> | <u>155,692</u> | <u>486,191</u> |
| Balances end of year | <u>\$ 346,880</u> | <u>184,802</u> | <u>531,682</u> |

See accompanying independent auditor's report.

| Budgeted Amounts | | Final to |
|------------------|------------------|------------------|
| Original | Final | Total |
| | | Variance |
| 100,134 | 106,434 | 229 |
| 86,300 | 83,700 | 2,042 |
| 500 | 500 | 5,898 |
| 13,700 | 10,000 | (7,338) |
| 360,916 | 132,380 | 4,359 |
| 833,294 | 1,164,114 | (914,319) |
| 7,200 | 8,450 | 9,905 |
| - | 97,397 | (97,397) |
| <u>1,402,044</u> | <u>1,602,975</u> | <u>(996,621)</u> |
| 76,367 | 87,012 | 3,593 |
| 114,202 | 179,426 | 63,063 |
| 84,826 | 112,316 | 8,497 |
| 26,550 | 39,050 | 12,795 |
| 53,751 | 53,751 | 5,815 |
| 1,046,348 | 1,131,420 | 948,349 |
| <u>1,402,044</u> | <u>1,602,975</u> | <u>1,042,112</u> |
| - | - | 45,491 |
| <u>1,745,327</u> | <u>951,025</u> | <u>(464,834)</u> |
| <u>1,745,327</u> | <u>951,025</u> | <u>(419,343)</u> |

City of Montrose

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. 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 Fund, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$200,931. The budget amendment is 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 Montrose
Schedule of Indebtedness
Year ended June 30, 2009

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|--|------------------|-------------------|--------------------------------|
| General obligation sewer improvement bonds | Mar 1, 2004 | 2.95-4.5% | \$ 470,000 |

See accompanying independent auditor's report.

| Balance Beginning of Year | Redeemed During Year | Balance End of Year | Interest Paid |
|---------------------------------|----------------------------|---------------------------|------------------|
| 370,000 | 30,000 | 340,000 | 14,338 |

City of Montrose



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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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 Montrose, 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 April 26, 2010. Our report expressed qualified opinions on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008. Except as noted in the Independent Auditors Report, 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 Montrose'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 Montrose's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Montrose'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 we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

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 Montrose'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 Montrose's financial statements that is more than inconsequential will not be prevented or detected by the City of Montrose'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 Montrose'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 items (A) and (B) are material weaknesses.

Compliance and Other Matters

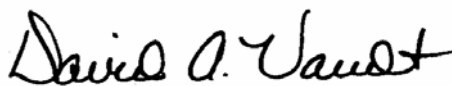
As part of obtaining reasonable assurance about whether the City of Montrose's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material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

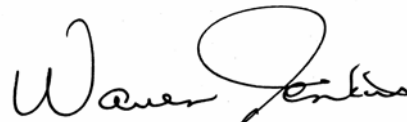
The City of Montrose's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Montrose's responses and, accordingly, we express no opinion on them.

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 Montrose and other parties to whom the City of Montrose 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 Montrose 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

April 26, 2010

City of Montrose
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. When duties are properly segregated, the activities of one employee act as a check on those of another. One person had control over each of the following areas for the City:
- (1) Cash – initiating cash receipt and disbursement transactions, handling and recording cash and reconciling bank accounts.
 - (2) Investments – detailed recording keeping, custody of investments and reconciling earnings.
 - (3) Receipts – collecting, depositing, journalizing and recording.
 - (4) Utility receipts – billing, collecting, depositing, recording and reconciling.
 - (5) Disbursements – preparing, recording and reconciling.
 - (6) Payroll – preparing and distributing.
 - (7) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

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

Response – The City will continue to review operating procedures and segregate employee duties to the extent financially feasible to maximize internal control.

Conclusion – Response accepted.

- (B) Electronic Data Processing Systems – During our review of internal control, the existing control activities in the City’s computer-based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City’s computer-based systems were noted:

The City does not have written policies for:

- Requiring password changes every 60 to 90 days to maintain password privacy and confidentiality.
- Restricting access to computer systems through the use of unique user IDs.
- Requiring password length to be at least 8 characters.
- Requiring computers to have a log off function when not in use.

City of Montrose

Schedule of Findings

Year ended June 30, 2009

- A computer lockout function if passwords are incorrectly entered more than three times.
- Requiring back-up tapes to be stored at a secure off-site location.
- Developing a disaster recovery plan.

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

Response – The City will create a written policy regarding passwords, changes and the lockout functions. The computers are turned off at the end of the business day. We will review using unique user IDs. We will set aside money for back-up systems of the host computer and secondary computer and the tapes will be stored off-site. We will develop a disaster recovery plan.

Conclusion – Response accepted.

- (C) Financial Reporting – The City utilizes an automated accounting system to account for the City’s financial activity. During our review, we identified various receipts and disbursements which were not correctly recorded in the automated accounting system, including utility collections for the months of February and May 2009. In addition, City bank accounts were not reconciled to monthly cash balances recorded in the automated accounting system. Adjustments were subsequently made to properly record these amounts in the automated accounting system.

Recommendation – The City should implement procedures to ensure all receipts and disbursements are properly classified and recorded in the City’s automated accounting system. In addition, bank accounts should be reconciled to cash balances recorded in the accounting system monthly.

Response – The City will review and compare the checkbook register spreadsheet with the accounting system and ensure bank accounts are reconciled monthly to cash balances recorded in the accounting system.

Conclusion – Response accepted.

- (D) Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a policy to regulate the use of the credit cards.

Recommendation – The City should adopt a written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges.

Response – The City will review procedures and guidelines and establish a written policy.

Conclusion – Response accepted.

City of Montrose
Schedule of Findings
Year ended June 30, 2009

(E) Time Sheets – Time sheets are not maintained for all City employees.

Recommendation – Time sheets should be maintained to support hours worked and leave time taken and should be approved and initialed by the employee's supervisor.

Response – The City will comply.

Conclusion – Response accepted.

(F) Supporting Documentation – The City paid Hy-Vee \$787 to cover food expenses for the police chief while he was attending the Iowa Law Enforcement Academy. The invoice and supporting documentation were not available for review.

Recommendation – The City should ensure supporting documentation is maintained for all disbursements.

Response – This invoice was inadvertently misplaced; however the City will develop a written procedure to ensure all invoices have supporting documentation.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Montrose
 Schedule of Findings
 Year ended June 30, 2009

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 |
|--|----------------------------|--------|
| Karl Judd, Police Chief, Owner of Hill Printing | Montrose brochures | \$ 700 |

In accordance with Chapter 362.5(11) of the Code of Iowa, this transaction does not appear to represent a conflict of interest since the total transaction is less than \$2,500 per individual during the fiscal year.

- (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.

Minutes of three Council meetings were not properly signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with Chapter 380 of the Code of Iowa and ensure minutes are properly signed.

Response – The minutes of the three meetings held during March 2009 have been signed by the City Clerk. The City will establish a written policy to ensure all minutes are properly signed.

Conclusion – Response accepted.

- (7) Deposits and Investments – Deposits and investments were in compliance with Chapters 12B and 12C of the Code of Iowa and the City’s investment policy. However, a resolution naming official depositories and a maximum amount which may be kept on deposit in each depository has not been approved by the City.

City of Montrose

Schedule of Findings

Year ended June 30, 2009

Recommendation – The City should adopt a depository resolution naming official depositories and a maximum amount which may be kept on deposit in each depository as required by Chapter 12C.2 of the Code of Iowa.

Response – The City will adopt a resolution naming the official depository and the maximum amount that may be kept on deposit.

Conclusion – Response accepted.

- (8) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Response – The City has contacted the bank. Every month the bank will give the City a compact disc including the bank statement as well as the front and back of checks.

Conclusion – Response accepted.

- (9) Payment of General Obligation Sewer Improvement Bonds – General obligation sewer improvement bonds were paid from the Enterprise, Sewer Fund. Chapter 384.4 of the Code of Iowa states in part “Moneys pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the debt service fund.”

Recommendation – The City should establish a debt service fund to be used for the payment of principal and interest on the general obligation sewer improvement bonds as they become due.

Response – The City will comply.

Conclusion – Response accepted.

- (10) Transfers – The City periodically transferred money to and from various funds and accounts. However, these transfers were not approved by the Council prior to the actual transfer.

Recommendation – The City should approve all fund/account transfers prior to the actual transfer and document approval and amount(s) as part of the minutes record.

Response – The City complied with these transfer approvals beginning March 4, 2010.

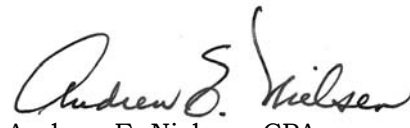
Conclusion – Response accepted.

City of Montrose

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Brian P. Schenkelberg, CPA, Staff Auditor
Jessica P.V. Green, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State