



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

March 31, 2011

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

The City's receipts totaled \$6,493,106 for the year ended June 30, 2010, a 32 percent decrease from the prior year. The receipts included \$2,017,012 from charges for service, \$607,348 from operating grants, contributions and restricted interest, \$58,471 from capital grants, contributions and restricted interest, \$1,103,879 in property tax, \$812,590 from tax increment financing, \$290,831 from local option sales tax, \$210,059 from utility franchise tax, \$65,199 from unrestricted interest on investments, \$1,304,760 from bond proceeds and \$22,957 from other general receipts.

Disbursements for the year totaled \$9,209,007, a 25 percent increase over the prior year, and included \$2,782,615 for capital projects, \$1,134,151 for public safety and \$1,074,569 for debt service. Also, disbursements for business type activities totaled \$2,810,707.

The significant decrease in receipts is due primarily to receiving more bond proceeds in the prior year. The significant increase in disbursements is due primarily to an increase in disbursements for capital projects.

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/1020-0495-B00F.pdf>.

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CITY OF MONTICELLO

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

JUNE 30, 2010

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City of Monticello

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2010)		
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
(After January 2010)		
Don Ho Miyagawa	Mayor	Jan 2012
John Sauser	Mayor Pro Tem	Jan 2014
Russell Hodge	Council Member	(Resigned)
Chris Lux (Elected)	Council Member	Jan 2012
Gregg Merfeld	Council Member	Jan 2012
Gerald Muller	Council Member	Jan 2012
Dave Goedken	Council Member	Jan 2014
Tom Yeoman	Council Member	Jan 2014
Douglas Herman	City Administrator	Indefinite
Sally Hinrichsen	City Clerk/Treasurer	Indefinite
Cheryl Clark	Deputy City Clerk	Indefinite
Anne E. Loomis	Attorney	Indefinite

City of Monticello



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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, 2010, 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.

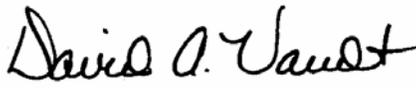
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

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, 2010, 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 March 8, 2011 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 13 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 four years ended June 30, 2009 (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

March 8, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Monticello provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 53.2%, or approximately \$4,376,000, from fiscal year 2009 to fiscal year 2010. The total cost of all governmental activities programs and services increased 4.9%, or approximately \$298,000. The decrease in receipts was primarily the result of bond proceeds received in fiscal year 2009 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 capital projects as a result of the public safety building and 2009 South Cedar Street reconstruction projects.
- The cost of all City governmental activities this year was approximately \$6,398,000, compared to approximately \$6,101,000 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 \$5,008,000 because some of the cost was paid by those directly benefited from the programs \$(724,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest \$(666,000).

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 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.

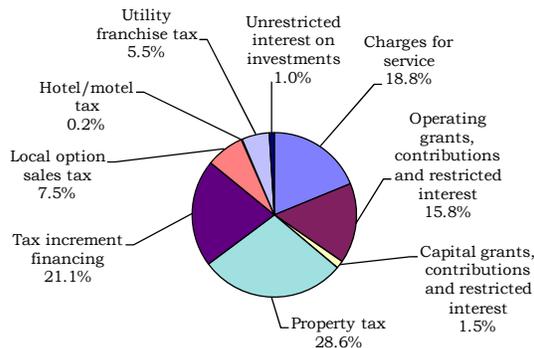
The required financial statement for the Fiduciary Fund is a statement of changes in fiduciary assets and liabilities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

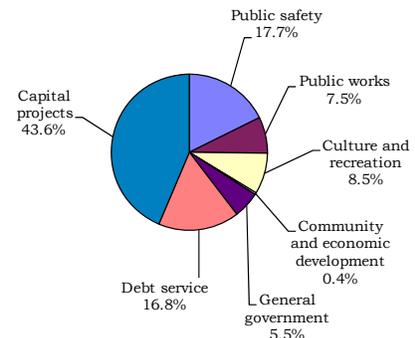
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from approximately \$5.046 million to approximately \$2.636 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service	\$ 724,398	744,360
Operating grants, contributions and restricted interest	607,348	545,047
Capital grants, contributions and restricted interest	58,471	72,514
General receipts:		
Property tax	1,103,879	1,087,785
Tax increment financing	812,590	776,551
Local option sales tax	290,831	262,413
Hotel/motel tax	7,290	10,621
Utility franchise tax	210,059	229,470
Unrestricted interest on investments	39,795	69,235
Bond proceeds	-	4,432,543
Total receipts	<u>3,854,661</u>	<u>8,230,539</u>
Disbursements:		
Public safety	1,134,151	1,402,547
Public works	482,589	509,023
Culture and recreation	543,433	584,973
Community and economic development	26,100	4,739
General government	354,843	348,426
Debt service	1,074,569	2,062,841
Capital projects	2,782,615	1,188,083
Total disbursements	<u>6,398,300</u>	<u>6,100,632</u>
Increase (decrease) in cash basis net assets before transfers	(2,543,639)	2,129,907
Transfers, net	133,960	124,922
Change in cash basis net assets	<u>(2,409,679)</u>	<u>2,254,829</u>
Cash basis net assets beginning of year	5,045,929	2,791,100
Cash basis net assets end of year	<u>\$ 2,636,250</u>	<u>5,045,929</u>

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities decreased 53.2%, or approximately \$4,376,000. The total cost of all governmental programs and services increased approximately \$298,000, or 4.9%, primarily due to an increase in capital projects as a result of the public safety building and 2009 South Cedar Street reconstruction projects. The major changes in receipts were a \$4,432,543 decrease 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 in fiscal year 2009, offset by a \$62,301 increase in operating grants, contributions and restricted interest and a \$36,039 increase in tax increment financing.

The cost of all governmental activities this year was approximately \$6,398,000 compared to approximately \$6,101,000 last year. However, as shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only approximately \$5,008,000 because some of the cost was paid by those directly benefited from the programs (\$724,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$666,000).

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 383,665	381,658
Sewer	527,049	557,516
Sanitation	381,900	370,121
Capital grants, contributions and restricted interest	-	32,985
General receipts:		
Unrestricted interest on investments	25,404	31,585
Bond proceeds	1,304,760	-
Miscellaneous	15,667	7,129
Total receipts	<u>2,638,445</u>	<u>1,380,994</u>
Disbursements:		
Water	1,154,858	324,686
Sewer	1,279,333	579,456
Sanitation	376,516	381,129
Total disbursements	<u>2,810,707</u>	<u>1,285,271</u>
Increase (decrease) in cash basis net assets before transfers	(172,262)	95,723
Transfers, net	(133,960)	(124,922)
Change in cash basis net assets	(306,222)	(29,199)
Cash basis net assets beginning of year	1,340,922	1,370,121
Cash basis net assets end of year	<u>\$ 1,034,700</u>	<u>1,340,922</u>

Total business type activities receipts for the fiscal year were approximately \$2,638,000 compared to approximately \$1,381,000 last year. Total disbursements for the fiscal year increased to a total of \$2,810,707 compared to \$1,285,271 last year. The increase in receipts was due primarily to bond proceeds received as a result of issuance of \$1,310,000 of refunding bonds. The increase in disbursements was primarily due to the refunding of water and sewer revenue bonds.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Monticello completed the year, its governmental funds reported a combined fund balance of \$2,636,250, a decrease of approximately \$2,410,000 from last year's total of \$5,045,929. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased approximately \$120,000 from the prior year to \$516,354. The increase was the cumulative effect of changes in receipts, disbursements and net transfers for fiscal year 2010. Intergovernmental receipts decreased \$49,897 as a result of decreased grant receipts. Charges for service increased \$1,181. Public safety function disbursements decreased \$311,148 due to a decrease in police vehicle, fire truck and ambulance purchases. Culture and recreation function disbursements decreased \$48,726 due to a decrease in Berndes Center and playground equipment purchases. Net transfers to/from the General Fund decreased \$471,726 to \$14,985 for fiscal year 2010.
- The Special Revenue, Tax Increment Financing Fund cash balance increased \$45,748 from the prior year to \$428,650.
- The Debt Service Fund cash balance decreased \$2,296 from the previous year to \$28,895.
- The Capital Projects Fund cash balance decreased \$2,600,216 from the prior year to \$763,797. The decrease was primarily the cumulative effect of changes in disbursements and other financing sources/uses for fiscal year 2010. Capital projects function disbursements increased \$1,594,532 due to construction contract payments for the public safety building and 2009 South Cedar Street reconstruction projects. Total other financing sources (uses) decreased \$3,916,609 to \$42,560, primarily due to a \$3,616,267 decrease in bond proceeds.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$59,422 to \$336,087, due primarily to refunding water revenue bonds.
- The Sewer Fund cash balance decreased \$243,794 to \$582,101, due primarily to refunding sewer revenue bonds.
- The Sanitation Fund cash balance decreased \$3,006 to \$116,512.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City of Monticello amended its budget one time. The amendment was done on June 21, 2010. The amendment was needed to adjust receipts and disbursements.

Adjustments to receipts included an increase to bond proceeds and a decrease to intergovernmental receipts. Adjustments to disbursements included an increase in business type activities to call the 2008 water and sewer revenue bonds.

The City's receipts were \$317,693 less than budgeted. This was primarily due to the cumulative effect of the City overestimating use of money and property and miscellaneous receipts and underestimating other city tax receipts.

Total disbursements were \$641,455 less than the amended budget. Actual disbursements for capital projects, public safety and business type activities were \$169,802, \$155,127 and \$123,628, respectively, less than the amended budget. This was primarily due to anticipating more project activity than actually occurred.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$7,298,770 in bonds, notes and other long-term debt outstanding, compared to \$8,527,419 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2010	2009
General obligation bonds	\$ 5,790,000	5,145,000
General obligation capital loan notes	465,000	670,000
Revenue bonds	1,015,000	2,675,000
Capital lease purchase agreement	28,770	37,419
Total	\$ 7,298,770	8,527,419

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 \$6,284,000 is significantly below its constitutional debt limit of approximately \$8.7 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. One exception to the above "general rule" is the library budget, which is prepared by the Library Director in consultation with the Library Board. 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 and the ability of the General Fund to meet requests for appropriations whether from the Library or for other purposes. 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 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 a great 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 implementing practices and procedures to realize same. In addition to the efforts of city administration to cut costs, any and all other cost cutting options the Council may propose from time to time also receive careful study and analysis.

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, Ambulance, as necessary, and other miscellaneous categories. This is not to say that 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 largely pre-determined by the amount of debt payments to be made by the City during the coming year. The City has seen its debt service levy drop in the past years, due largely to the early payment of and/or refinancing of higher interest rate debt. If and when a debt issuance becomes callable, a careful analysis of the possibility and appropriateness of satisfying the debt in advance of its scheduled maturity is undertaken.

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, with the City choosing to self-insure a portion of our obligations to employees, as outlined in the Collective Bargaining Agreement, to maintain as much consistency in costs as is possible.

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

The City's General Fund levy for fiscal year 2011 remains unchanged from past year's rate of \$8.10 per \$1,000 of taxable valuation. It is anticipated the City will continue to prepare the annual budget with the plan or intention of collecting the amount of \$8.10 per \$1,000 of taxable valuation.

The South Cedar Street Reconstruction and Monticello Public Safety Building projects will close out in fiscal year 2011. Projects that may or may not be finalized during fiscal year 2011 include the re-roofing and replacement of an HVAC system at the Community Building.

Projects to be commenced or finished in fiscal year 2012 include 2nd Street Reconstruction, from North Main to Maple Street, the Sewage Treatment Plant Levee, a section of Hardscrabble Road from the intersection of 11th Street and Birch Street to the city limits near the intersection of Stonebridge Road and the Maquoketa Heights subdivision, the Monticello Regional Airport Terminal Building and other smaller scale street repair projects.

The City, with a goal of limiting increases in insurance premiums related to worker's compensation, health and property/casualty insurance, has taken an approach of limiting claims against those policies when possible. The City weighs all claims and makes an informed decision on which claims should be handled as a self-insured event as opposed to an insurance reimbursement submittal.

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. 1st Street, Monticello, Iowa, 52310.

City of Monticello

Basic Financial Statements

City of Monticello

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2010

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,134,151	391,519	176,942	4,940
Public works	482,589	97,822	328,397	-
Culture and recreation	543,433	167,051	38,558	-
Community and economic development	26,100	-	-	-
General government	354,843	43,814	-	-
Debt service	1,074,569	-	1,333	-
Capital projects	2,782,615	24,192	62,118	53,531
Total governmental activities	6,398,300	724,398	607,348	58,471
Business type activities:				
Water	1,154,858	383,665	-	-
Sewer	1,279,333	527,049	-	-
Sanitation	376,516	381,900	-	-
Total business type activities	2,810,707	1,292,614	-	-
Total	\$ 9,209,007	2,017,012	607,348	58,471
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Utility franchise tax				
Unrestricted interest on investments				
Bond proceeds, net of \$5,240 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				
Cash Basis Net Assets				
Restricted:				
Nonexpendable:				
Permanent fund purposes				
Expendable:				
Urban renewal purposes				
Debt service				
Capital projects				
Other purposes				
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
(560,750)	-	(560,750)
(56,370)	-	(56,370)
(337,824)	-	(337,824)
(26,100)	-	(26,100)
(311,029)	-	(311,029)
(1,073,236)	-	(1,073,236)
(2,642,774)	-	(2,642,774)
(5,008,083)	-	(5,008,083)
-	(771,193)	(771,193)
-	(752,284)	(752,284)
-	5,384	5,384
-	(1,518,093)	(1,518,093)
(5,008,083)	(1,518,093)	(6,526,176)
858,501	-	858,501
245,378	-	245,378
812,590	-	812,590
290,831	-	290,831
7,290	-	7,290
210,059	-	210,059
39,795	25,404	65,199
-	1,304,760	1,304,760
-	15,667	15,667
133,960	(133,960)	-
2,598,404	1,211,871	3,810,275
(2,409,679)	(306,222)	(2,715,901)
5,045,929	1,340,922	6,386,851
\$ 2,636,250	1,034,700	3,670,950
\$ 245,785	-	245,785
428,650	-	428,650
28,895	205,103	233,998
763,797	123,540	887,337
652,769	-	652,769
516,354	706,057	1,222,411
\$ 2,636,250	1,034,700	3,670,950

City of Monticello

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

As of and for the year ended June 30, 2010

	General	Special Revenue Tax Increment Financing
Receipts:		
Property tax	\$ 580,165	-
Tax increment financing	-	812,590
Other city tax	532,635	-
Licenses and permits	16,337	-
Use of money and property	114,200	7,867
Intergovernmental	94,730	-
Charges for service	518,312	-
Special assessments	-	-
Miscellaneous	68,344	-
Total receipts	<u>1,924,723</u>	<u>820,457</u>
Disbursements:		
Operating:		
Public safety	924,923	-
Public works	105,606	-
Culture and recreation	467,897	-
Community and economic development	-	26,100
General government	321,173	-
Debt service	-	-
Capital projects	-	-
Total disbursements	<u>1,819,599</u>	<u>26,100</u>
Excess (deficiency) of receipts over (under) disbursements	<u>105,124</u>	<u>794,357</u>
Other financing sources (uses):		
Operating transfers in	25,000	-
Operating transfers out	(10,015)	(748,609)
Total other financing sources (uses)	<u>14,985</u>	<u>(748,609)</u>
Net change in cash balances	120,109	45,748
Cash balances beginning of year	396,245	382,902
Cash balances end of year	<u>\$ 516,354</u>	<u>428,650</u>
Cash Basis Fund Balances		
Reserved for debt service	\$ -	-
Unreserved:		
General fund	516,354	-
Special revenue funds	-	428,650
Capital projects fund	-	-
Permanent funds	-	-
Total cash basis fund balances	<u>\$ 516,354</u>	<u>428,650</u>

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
245,378	-	242,995	1,068,538
-	-	-	812,590
538	-	10,349	543,522
-	-	-	16,337
1,333	24,336	18,327	166,063
-	91,312	347,662	533,704
-	15,966	-	534,278
-	8,225	-	8,225
-	-	103,060	171,404
<u>247,249</u>	<u>139,839</u>	<u>722,393</u>	<u>3,854,661</u>
-	-	209,228	1,134,151
-	-	376,983	482,589
-	-	75,536	543,433
-	-	-	26,100
-	-	33,670	354,843
1,074,569	-	-	1,074,569
-	2,782,615	-	2,782,615
<u>1,074,569</u>	<u>2,782,615</u>	<u>695,417</u>	<u>6,398,300</u>
<u>(827,320)</u>	<u>(2,642,776)</u>	<u>26,976</u>	<u>(2,543,639)</u>
825,024	60,000	-	910,024
-	(17,440)	-	(776,064)
<u>825,024</u>	<u>42,560</u>	<u>-</u>	<u>133,960</u>
(2,296)	(2,600,216)	26,976	(2,409,679)
<u>31,191</u>	<u>3,364,013</u>	<u>871,578</u>	<u>5,045,929</u>
<u>28,895</u>	<u>763,797</u>	<u>898,554</u>	<u>2,636,250</u>
28,895	-	-	28,895
-	-	-	516,354
-	-	652,769	1,081,419
-	763,797	-	763,797
-	-	245,785	245,785
<u>28,895</u>	<u>763,797</u>	<u>898,554</u>	<u>2,636,250</u>

City of Monticello

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

As of and for the year ended June 30, 2010

	Enterprise				Internal Service
	Water	Sewer	Sanitation	Total	Self Insurance
Operating receipts:					
Charges for service	\$ 372,142	518,510	334,996	1,225,648	13,950
Miscellaneous	11,523	8,539	46,904	66,966	-
Total operating receipts	383,665	527,049	381,900	1,292,614	13,950
Operating disbursements:					
Governmental activities:					
Public safety	-	-	-	-	4,580
Public works	-	-	-	-	1,084
Culture and recreation	-	-	-	-	1,422
General government	-	-	-	-	3,559
Business type activities	232,345	380,558	376,516	989,419	3,305
Total operating disbursements	232,345	380,558	376,516	989,419	13,950
Excess of operating receipts over operating disbursements	151,320	146,491	5,384	303,195	-
Non-operating receipts (disbursements):					
Interest on investments	7,648	16,146	1,610	25,404	-
Bond proceeds, net of \$5,240 discount	743,713	561,047	-	1,304,760	-
Capital improvements	-	(45,240)	-	(45,240)	-
Debt service	(922,513)	(853,535)	-	(1,776,048)	-
Miscellaneous	-	15,667	-	15,667	-
Total non-operating receipts (disbursements)	(171,152)	(305,915)	1,610	(475,457)	-
Excess (deficiency) of receipts over (under) disbursements	(19,832)	(159,424)	6,994	(172,262)	-
Other financing sources (uses):					
Operating transfers in	8,824	8,616	-	17,440	-
Operating transfers out	(48,414)	(92,986)	(10,000)	(151,400)	-
Total other financing sources (uses)	(39,590)	(84,370)	(10,000)	(133,960)	-
Net change in cash balances	(59,422)	(243,794)	(3,006)	(306,222)	-
Cash balances beginning of year	395,509	825,895	119,518	1,340,922	-
Cash balances end of year	\$ 336,087	582,101	116,512	1,034,700	-
Cash Basis Fund Balances					
Reserved for:					
Debt service	\$ -	205,103	-	205,103	-
Capital improvements	9,774	113,766	-	123,540	-
Unreserved	326,313	263,232	116,512	706,057	-
Total cash basis fund balances	\$ 336,087	582,101	116,512	1,034,700	-

See notes to financial statements.

City of Monticello

Statement of Changes in Fiduciary Assets and Liabilities
Fiduciary Fund

As of and for the year ended June 30, 2010

	<u>Agency</u> <u>Flexible</u> <u>Benefits</u>
Additions:	
Employee contributions	\$ 14,000
Deductions:	
Medical reimbursements	5,741
Child care reimbursements	10,409
Total deductions	<u>16,150</u>
Net change in cash balance	(2,150)
Cash balance beginning of year	<u>2,408</u>
Cash balance end of year	<u>\$ 258</u>

See notes to financial statements.

City of Monticello

Notes to Financial Statements

June 30, 2010

(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/components:

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, 2010, disbursements did not exceed the amounts budgeted. However, disbursements exceeded the amounts budgeted in the community and economic development and business type activities functions prior to adoption of a budget amendment.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2010 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
2011	\$ 715,000	194,659	210,000	14,760	100,000	36,628	1,025,000	246,047
2012	660,000	175,002	255,000	8,160	100,000	33,628	1,015,000	216,790
2013	675,000	155,830	-	-	105,000	30,478	780,000	186,308
2014	690,000	134,760	-	-	110,000	27,013	800,000	161,773
2015	645,000	111,927	-	-	110,000	23,218	755,000	135,145
2016 - 2020	2,265,000	242,220	-	-	490,000	49,733	2,755,000	291,953
2021	140,000	5,040	-	-	-	-	140,000	5,040
Total	\$ 5,790,000	1,019,438	465,000	22,920	1,015,000	200,698	7,270,000	1,243,056

On June 1, 2010, the City issued \$1,310,000 of general obligation refunding bonds, series 2010, with interest rates ranging from 1.00% to 3.60% per annum. The bonds were issued as a current refunding to retire the remaining \$880,000 of the \$1,210,000 of water revenue bonds issued March 15, 2002 and the \$685,000 of the \$935,000 sewer revenue bonds issued March 15, 2002. The City also used reserve funds to complete the refunding.

The City obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$320,650.

Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,195,000 of sewer refunding bonds issued in May 2008. Proceeds from the bonds refunded the City's outstanding Series 1998B sewer revenue bonds. The bonds are payable solely from sewer customer net receipts and are payable through 2019. Annual principal and interest payments on the bonds are expected to require less than 92 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,215,698. For the current year, principal and interest paid and total customer net receipts were \$134,382 and \$146,491, respectively.

The resolution providing for the issuance of the 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 sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (c) Monthly transfers shall be made to a separate sewer reserve account until a specified required balance has been accumulated. This account is restricted for paying principal at maturity or interest on the bonds in the event the sinking account is unable to make the payments.
- (d) Monthly transfers of \$400 shall be made to a sewer improvement account until the required balance of \$75,000 is accumulated. This account is restricted for paying principal or interest on the bonds when there is insufficient money in the sinking or reserve accounts, for extraordinary maintenance expenses or repair, renewals and replacements not included in the annual budget of revenues and current expenses, payment of rentals on any part of the system and for capital improvements to the system.
- (e) User rates shall be established at a level which produces and maintains net revenues at a level not less than 125% of the amount of principal and interest on the bonds falling due in the same year.
- (f) In the event the City or any department, agency, or instrumentality thereof in any way uses or is served by the Utility, the rates or charges provided for shall be paid by the City from its General Fund.

The City's sewer net revenues for the year ended June 30, 2010 are less than the required 125% of principal and interest on bonds falling due during the year.

For the year ended June 30, 2010, 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, 2010 is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 10,614
2012	10,614
2013	10,614
2014	1
Total minimum lease payments	<u>31,843</u>
Less amount representing interest	<u>(3,073)</u>
Present value of net minimum lease payments	<u>\$ 28,770</u>

Payments under the lease purchase agreement for the year ended June 30, 2010 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 4.30% of their annual covered salary and the City is required to contribute 6.65% 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, 2010, 2009 and 2008 were \$96,784, \$85,114, and \$74,631, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 28 active and no retired members in the plan.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 would pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$345 for single coverage and \$1,058 for family coverage. The same monthly premiums would apply to retirees. For the year ended June 30, 2010, the City contributed \$115,383 and plan members eligible for benefits contributed \$0 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. Sick leave is payable upon termination, retirement or death for certain employees who were employed by the City at least eight years as of 1998. These employees will receive a payout of one-half the total accumulated sick leave hours, not to exceed 360 hours, 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, 2010, primarily relating to the General and Enterprise Funds, is as follows:

Type of Benefit	Amount
Compensatory time	\$ 300
Vacation	31,700
Sick leave	1,400
Holiday	<u>2,300</u>
Total	<u>\$ 35,700</u>

This liability has been computed based on rates of pay in effect at June 30, 2010.

(7) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The City has a group insurance policy which provides comprehensive medical coverage for eligible employees and, if elected, their spouses and dependents. The City's group insurance is a partially self-funded health plan. Under the partially self-funded plan, the City will reimburse an eligible employee for a portion of the deductible. The amount of the deductible for employees and the City are as follows:

	<u>Single</u>	<u>Family</u>
Employee	\$ 500	1,000
City	2,500	5,000

In addition to the deductible, the City also self-funds a portion of office visits and prescription co-pays. Employees are charged \$25 per office visit, while the employee agreements (City employees union, policy manual and police) state employees are responsible for 10% of the actual cost if a network provider is used and 20% if the provider is outside the network. Therefore, the City reimburses the employees for the difference, if any.

For prescriptions, the City reimburses employees for the entire deductible (\$100 single deductible and \$200 family deductible) as well as the difference between the co-pay (ranges from \$8 to \$50) paid by the employee and the amounts the employee agreements state the employee is responsible for (\$10 for generic or \$20 for name brand).

The City also partially self-funds dental insurance for major dental work and orthodontics. The employee agreements state insurance shall cover 80% of major dental work and 50% of orthodontics, with no limitation stated. The City's dental insurance pays 50% of major dental work and orthodontics with a lifetime maximum of \$1,000 for orthodontics. The

City is responsible for the difference between the amount covered by insurance and the amount of coverage stated in the employee agreements.

(8) Construction Commitment

The City has entered into a construction contract totaling approximately \$2,207,000 for the public safety building and 2009 South Cedar Street reconstruction projects. As of June 30, 2010, approximately \$2,090,000 had been paid on the contract. The remaining \$117,000 will be paid as work on the project progresses.

(9) 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 property tax paid by the participating companies with respect to the improvements set forth in the urban renewal plan. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the participating 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, 2010 was \$4,650. The total cumulative amount rebated since inception of the agreements is \$18,112. The outstanding principal balance on the rebate agreements at June 30, 2010 is \$16,439.

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 \$588,926. The total amount paid during the year ended June 30, 2010 was \$358,926. The outstanding balance on the development agreement at June 30, 2010 is \$0.

The City has entered into various tax increment financing development agreements for urban renewal projects. The agreements require the City to provide incremental property tax payments to the developer in exchange for infrastructure improvements and development of commercial projects by the developer. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the participating company will be rebated for a period of 5 to 10 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 2021. The total to be paid by the City under the agreements is not to exceed \$835,000. Certain agreements include payment of a series of grants, subject to timing and performance requirements as set forth in the agreements, as part of the total payments.

(10) Economic Development Loans

The City has awarded six 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, 2010, the balance on the loans was \$19,364 and the City received repayments totaling \$15,067 during the year.

(11) Library Trusts

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

(12) Interfund Loans

In a prior year, 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. During the year, \$25,000 was repaid to the General Fund, leaving balances owed of \$247,902 and \$11,202 respectively.

(13) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Enterprise:	
	Water	\$ 10,000
	Sewer	5,000
	Sanitation	10,000
		<u>25,000</u>
Debt Service	General	10,015
	Special Revenue:	
	Tax Increment Financing	748,609
	Enterprise:	
	Water	38,414
	Sewer	27,986
		<u>825,024</u>
Capital Projects	Enterprise:	
	Sewer	<u>60,000</u>
Enterprise:		
Water	Capital Projects	<u>8,824</u>
Sewer	Capital Projects	<u>8,616</u>
Total		<u>\$ 927,464</u>

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

(14) 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, 2010 were \$13,950.

(15) Subsequent Events

In August 2010, the City entered into a tax increment financing development agreement for the renovation and construction of a commercial building with incremental property tax payments not to exceed \$500,000.

In November 2010, the City approved a revolving loan agreement for \$15,000 for improvements to property located at 408 E. Oak Street.

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, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 1,068,538	-	-
Tax increment financing	812,590	-	-
Other city tax	543,522	-	-
Licenses and permits	16,337	-	-
Use of money and property	166,063	25,404	1,593
Intergovernmental	533,704	-	-
Charges for service	534,278	1,225,648	-
Special assessments	8,225	15,667	-
Miscellaneous	171,404	66,966	84,571
Total receipts	3,854,661	1,333,685	86,164
Disbursements:			
Public safety	1,134,151	-	81,690
Public works	482,589	-	-
Culture and recreation	543,433	-	4,622
Community and economic development	26,100	-	-
General government	354,843	-	-
Debt service	1,074,569	-	-
Capital projects	2,782,615	-	-
Business type activities	-	2,810,707	-
Total disbursements	6,398,300	2,810,707	86,312
Excess (deficiency) of receipts over (under) disbursements	(2,543,639)	(1,477,022)	(148)
Other financing sources (uses)	133,960	1,170,800	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(2,409,679)	(306,222)	(148)
Balances beginning of year	5,045,929	1,340,922	93,998
Balances end of year	\$ 2,636,250	1,034,700	93,850

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Net Variance
	Original	Final	
1,068,538	1,066,760	1,066,760	1,778
812,590	795,036	795,036	17,554
543,522	324,198	364,189	179,333
16,337	9,020	13,854	2,483
189,874	587,886	596,490	(406,616)
533,704	1,539,212	521,929	11,775
1,759,926	1,806,900	1,814,795	(54,869)
23,892	-	-	23,892
153,799	422,053	246,822	(93,023)
5,102,182	6,551,065	5,419,875	(317,693)
1,052,461	1,207,055	1,207,588	155,127
482,589	480,176	558,292	75,703
538,811	530,495	595,778	56,967
26,100	6,000	49,193	23,093
354,843	391,573	391,785	36,942
1,074,569	1,074,370	1,074,762	193
2,782,615	3,910,000	2,952,417	169,802
2,810,707	1,339,139	2,934,335	123,628
9,122,695	8,938,808	9,764,150	641,455
(4,020,513)	(2,387,743)	(4,344,275)	323,762
1,304,760	-	1,285,000	19,760
(2,715,753)	(2,387,743)	(3,059,275)	343,522
6,292,853	5,418,362	6,295,261	(2,408)
3,577,100	3,030,619	3,235,986	341,114

City of Monticello

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

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, one budget amendment increased budgeted disbursements by \$825,342. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements did not exceed the amounts budgeted. However, disbursements exceeded the amounts budgeted in the community and economic development and business-type activities functions prior to a budget amendment.

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, 2010

	Special							
	Road Use Tax	CEBA and Other Grants	Park Improvements	Ambulance Improvements	Employee Benefits	Library Improvements	Earl F. Lehmann	Cemetery Improvements
Receipts:								
Property tax	\$ -	-	-	-	242,995	-	-	-
Other city tax	-	-	-	-	10,349	-	-	-
Use of money and property	-	-	101	113	971	976	1	4,642
Intergovernmental	319,544	-	-	21,693	-	6,425	-	-
Miscellaneous	-	-	-	8,645	-	4,180	-	-
Total receipts	319,544	-	101	30,451	254,315	11,581	1	4,642
Disbursements:								
Operating:								
Public safety	-	-	-	6,768	120,770	-	-	-
Public works	344,359	-	-	-	32,624	-	-	-
Culture and recreation	-	-	-	-	40,837	14,502	-	-
General government	-	-	-	-	33,670	-	-	-
Total disbursements	344,359	-	-	6,768	227,901	14,502	-	-
Excess (deficiency) of receipts over (under) disbursements	(24,815)	-	101	23,683	26,414	(2,921)	1	4,642
Cash balances beginning of year	86,548	2,704	7,571	-	76,811	46,965	231	48,538
Cash balances end of year	\$ 61,733	2,704	7,672	23,683	103,225	44,044	232	53,180
Cash Basis Fund Balances								
Unreserved:								
Special revenue funds	61,733	2,704	7,672	23,683	103,225	44,044	232	53,180
Permanent funds	-	-	-	-	-	-	-	-
Total cash basis fund balances	\$ 61,733	2,704	7,672	23,683	103,225	44,044	232	53,180

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		
-	-	-	-	-	-	-	-	-	-	-	242,995		
-	-	-	-	-	-	-	-	-	-	-	10,349		
5,167	262	66	437	401	1,125	17	50	-	1,903	2,095	18,327		
-	-	-	-	-	-	-	-	-	-	-	347,662		
-	-	-	2,586	3,646	45,520	30,130	5,275	3,078	-	-	103,060		
5,167	262	66	3,023	4,047	46,645	30,147	5,325	3,078	1,903	2,095	722,393		
-	-	-	-	-	47,251	34,439	-	-	-	-	209,228		
-	-	-	-	-	-	-	-	-	-	-	376,983		
-	-	-	-	3,673	-	-	949	-	9,074	6,501	75,536		
-	-	-	-	-	-	-	-	-	-	-	33,670		
-	-	-	-	3,673	47,251	34,439	949	-	9,074	6,501	695,417		
5,167	262	66	3,023	374	(606)	(4,292)	4,376	3,078	(7,171)	(4,406)	26,976		
195,659	19,762	4,973	33,534	18,741	49,433	18,619	7,205	125,709	45,057	83,518	871,578		
200,826	20,024	5,039	36,557	19,115	48,827	14,327	11,581	128,787	37,886	79,112	898,554		
200,826	20,024	5,039	36,557	19,115	48,827	14,327	11,581	-	-	-	652,769		
-	-	-	-	-	-	-	-	128,787	37,886	79,112	245,785		
200,826	20,024	5,039	36,557	19,115	48,827	14,327	11,581	128,787	37,886	79,112	898,554		

City of Monticello
Schedule of Indebtedness
Year ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Urban renewal	Aug 1, 2001	3.90-4.80%	\$ 995,000
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
Refunding	Jun 1, 2010	1.00-3.60	1,310,000
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
70,000	-	70,000	-	2,940
700,000	-	100,000	600,000	25,300
340,000	-	40,000	300,000	13,244
890,000	-	190,000	700,000	29,800
3,145,000	-	265,000	2,880,000	109,865
-	1,310,000	-	1,310,000	-
<u>\$ 5,145,000</u>	<u>1,310,000</u>	<u>665,000</u>	<u>5,790,000</u>	<u>181,149</u>
670,000	-	205,000	465,000	20,820
880,000	-	880,000	-	41,838
685,000	-	685,000	-	33,078
1,110,000	-	95,000	1,015,000	39,382
<u>\$ 2,675,000</u>	<u>-</u>	<u>1,660,000</u>	<u>1,015,000</u>	<u>114,298</u>
37,419	-	8,649	28,770	1,965

City of Monticello
 Bond and Note Maturities
 June 30, 2010

Year Ending June 30,	General Obligation Bonds							
	Urban Renewal		General Corporate Purpose		General Corporate Purpose		Corporate Purpose and Refunding	
	Issued May 1, 2004		Issued Apr 3, 2006		Issued Sep 25, 2008		Issued Oct 15, 2008	
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2011	3.25%	\$ 100,000	3.875%	\$ 45,000	3.150%	\$ 195,000	2.80%	\$ 270,000
2012	3.50	100,000	3.875	50,000	3.300	120,000	3.00	280,000
2013	3.70	100,000	3.875	50,000	3.450	125,000	3.20	295,000
2014	3.85	100,000	3.875	50,000	3.600	130,000	3.40	305,000
2015	4.00	100,000	3.875	50,000	3.800	65,000	3.60	315,000
2016	4.00	100,000	4.000	55,000	3.900	65,000	3.80	330,000
2017	-	-	-	-	-	-	4.00	345,000
2018	-	-	-	-	-	-	4.00	360,000
2019	-	-	-	-	-	-	4.05	380,000
2020	-	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-	-
Total		<u>\$ 600,000</u>		<u>\$ 300,000</u>		<u>\$ 700,000</u>		<u>\$ 2,880,000</u>

See accompanying independent auditor's report.

Refunding			General Obligation Capital Loan Notes		Revenue Bonds	
Issued June 1, 2010			Corporate Purpose and Refunding		Sewer Refunding	
Issued June 1, 2010			Issued Mar 1, 2005		Issued May 12, 2008	
Interest			Interest		Interest	
Rates	Amount	Total	Rates	Amount	Rates	Amount
1.00%	\$ 105,000	715,000	3.10%	\$ 210,000	3.00%	\$ 100,000
1.25	110,000	660,000	3.20	255,000	3.15	100,000
1.60	105,000	675,000	-	-	3.30	105,000
1.90	105,000	690,000	-	-	3.45	110,000
2.20	115,000	645,000	-	-	3.60	110,000
2.60	120,000	670,000	-	-	3.75	115,000
2.90	120,000	465,000	-	-	3.90	120,000
3.20	125,000	485,000	-	-	4.00	125,000
3.40	130,000	510,000	-	-	4.05	130,000
3.50	135,000	135,000	-	-	-	-
3.60	140,000	140,000	-	-	-	-
	<u>\$ 1,310,000</u>	<u>5,790,000</u>		<u>\$ 465,000</u>		<u>\$ 1,015,000</u>

City of Monticello

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

For the Last Eight Years

	2010	2009	2008	2007	2006	2005
Receipts:						
Property tax	\$ 1,068,538	1,052,215	1,031,036	1,018,093	970,967	974,046
Tax increment financing	812,590	776,551	736,987	737,067	611,546	553,027
Other city tax	543,522	538,075	550,145	534,957	483,068	374,781
Licenses and permits	16,337	14,183	13,726	9,280	13,198	10,604
Use of money and property	164,893	165,836	253,147	266,114	235,079	195,023
Intergovernmental	533,704	538,671	845,758	842,157	717,539	982,672
Charges for service	534,278	532,065	476,301	415,499	353,670	310,984
Special assessments	8,225	12,883	7,383	14,647	102,812	8,444
Miscellaneous	172,524	155,072	281,784	475,685	1,036,729	530,563
Total	\$ 3,854,611	3,785,551	4,196,267	4,313,499	4,524,608	3,940,144
Disbursements:						
Operating:						
Public safety	\$ 1,134,151	1,395,211	1,248,907	1,200,750	937,287	839,798
Public works	482,589	507,485	459,982	676,486	443,983	396,103
Culture and recreation	543,433	582,056	549,814	473,385	467,947	469,241
Community and economic development	26,100	4,739	-	-	60,002	59,686
General government	354,843	347,772	368,391	383,815	374,420	318,686
Debt service	1,074,569	2,062,841	1,329,544	826,855	767,225	1,946,432
Capital projects	2,782,615	1,188,083	532,482	648,952	3,575,064	1,236,174
Total	\$ 6,398,300	6,088,187	4,489,120	4,210,243	6,625,928	5,266,120

See accompanying independent auditor's report.

2004	2003
975,086	1,055,907
486,288	344,043
313,289	283,326
14,209	16,339
126,753	152,068
629,557	668,673
271,306	304,434
36,266	35,616
1,127,155	758,828
<u>3,979,909</u>	<u>3,619,234</u>

897,445	987,995
424,924	416,198
407,367	482,741
140,512	75,215
280,442	290,933
621,260	788,965
2,182,544	1,186,191
<u>4,954,494</u>	<u>4,228,238</u>

City of Monticello



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

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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, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 8, 2011. 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 an opinion on the effectiveness of the City of Monticello's internal control over 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 and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Monticello's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item (A) to be a material weakness.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Monticello's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance 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, 2010 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

March 8, 2011

City of Monticello

Schedule of Findings

Year ended June 30, 2010

Findings Related to the Financial Statements:

INTERNAL CONTROL 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 – Processes have been implemented since last year's audit to address the segregation of duties audit comment. The City Clerk now performs spot checks of our receivables clerk's entries and records. As a result of the last audit the City Administrator now reviews and initials investment and bank reconciliations and supporting documents, and on various occasions, like a spot review, reviews and participates in the opening of the daily mail, which includes utility account and other receivables. The City Clerk has also responded to last year's audit by reviewing and initialing monthly utility reconciliations prepared by the Deputy City Clerk.

Other procedures will continue to be considered to address the issue of Segregation of Duties comment when appropriate and feasible.

Conclusion – Response accepted.

(B) 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 – City staff will forward this recommendation to the Soldier's Memorial Board for renewed consideration and will offer to allow the integration of the maintenance account receipts and disbursements with the City's accounting records. City staff currently integrates the Soldier's Memorial Board receipts and checks into the City accounting records monthly, when reconciling to their checking account. Their receipts and checks are reflected in the City's monthly reports and are budgeted annually.

City of Monticello

Schedule of Findings

Year ended June 30, 2010

Conclusion – Response acknowledged. Internal controls could be strengthened by fully integrating this account with the City.

- (C) Property Purchase – During the years ended June 30, 2008 and June 30, 2010, 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 properties. 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 – An agreement was prepared and proposed to the Council for consideration during the last fiscal year. However, the Council at that time did not approve it as one or two of the Council members did not believe the City should have been involved with the house purchase when it originally happened. Staff will again present the Agreement to the City Council for review and consideration and re-emphasize to them whether they believe the property should or should not have been purchased, it was purchased and the City is a one-half owner and, therefore, the written agreement related to said ownership should be reduced to writing.

Conclusion – Response accepted.

- (D) 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 is working with the City's accounting software provider to implement the Uniform Chart of Accounts as soon as is possible, with a projected completion date of October 1, 2011.

Conclusion – Response accepted.

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

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

Response – The City will begin working on policies related to password privacy and confidentiality and internet usage, with a goal of having policies in place by no later than July 1, 2011.

Conclusion – Response accepted.

City of Monticello

Schedule of Findings

Year ended June 30, 2010

- (F) 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 has taken steps to ensure all taxable allowances paid to City employees will be appropriately disclosed on employee W-2's.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

City of Monticello

Schedule of Findings

Year ended June 30, 2010

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2010 did not exceed the amounts budgeted. However, disbursements exceeded the amounts budgeted in the community and economic development and business type activities functions prior to adoption of a budget amendment. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response –The budget was amended later than planned due to an error in the original Notice of Public Hearing on the budget amendment, same published in the Monticello Express, necessitating the publication of an amended notice which pushed the public hearing and eventual amendment past the desired timeframe. Additional steps will be taken to ensure notices are accurately prepared and amendments will be pursued further in advance of the state mandated deadline.

Conclusion – Response accepted.

- (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	\$ 690
Dennis Gray, Soldiers Memorial Board Member, Owner of Lock Shop	Services	190
Todd Lambert, Park and Recreation Board Member, Employee of Monticello Sports	Supplies	6,144
Doug Monck, Ambulance Advisory Board Member, Employee of Monticello Machine Shop	Services and supplies	2,992
Billy Norton, Fire Department Employee, Owner/Operator of Lawn Care Services	Services	1,409
Jerry Pasker, Board of Adjustment Member, Member/Owner of Netconnect	Services	1,205

City of Monticello

Schedule of Findings

Year ended June 30, 2010

Name, Title, and Business Connection	Transaction Description	Amount
Cliff Payne, Tree Board Member, Owner of Cliff's Radio & TV	Services	14
Nick Sauser, Jr., Planning and Zoning Board Member, Owner of Sauser's Gas and Repair Shop	Services and supplies	924
Jerry Welter, Council Member, Brother owns Welter Storage Company, Inc.	Services	349
Jerry Welter, Council Member, Brother owns Welter Enterprise LLC	Infrastructure improvements, per Developer's Agreement	358,927
Dave Savage and Steve Edwards, Airport Board and Fire Board Member, respectively, Owner and Employee, respectively, of Insurance Associates, Inc.	Insurance, per bid	103,063
Alison Bergman, Library Board Member Employee of Kramer Bros. Dairy Supply	Supplies	77
Kim Brooks, Library Board Member Employee of Monticello Express	Services and Supplies	9,225

The transactions with Bard Concrete Inc. and Bard Materials, Lock Shop, Lawn Care Services, Netconnect, Cliff's Radio & TV, Sauser's Gas and Repair Shop, Welter Storage Company, Inc. and Kramer Bros. Dairy Supply do not represent conflicts of interest in accordance with Chapter 362.5(10) of the Code of Iowa because the cumulative totals with each during the fiscal year were less than \$1,500.

In accordance with Chapter 362.5 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 which exceeded a cumulative total of \$1,500 during the fiscal year may represent conflicts of interest.

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

Response – Legal counsel has been consulted and based thereon, Councilman Jerry Welter was advised to refrain from voting on the issues. The fact Jerry Welter has no involvement in or ownership of Welter Enterprises or any of their properties, businesses, or other companies, was a decisive factor in the advice of counsel. The only objective connection was the relationship between Jerry and Lloyd as brothers and Jerry and Lloyd's children as their uncle.

Conclusion – Response accepted.

City of Monticello

Schedule of Findings

Year ended June 30, 2010

- (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 sewer refunding bonds require 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 sewer refunding bonds require the City pay for its utility usage from its General Fund.

During the year ended June 30, 2010, the City was not in compliance with the net revenue requirement for the sewer revenue bonds as required by the bond resolution. In addition, 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 will work with our Financial Advisor and bond counsel, if necessary, to review our utility rates and obligations under the Bonds and will take steps, thereafter, to comply.

Conclusion – Response accepted.

- (9) Tax Increment Financing – Chapter 403.19(5) of the Code of Iowa allows a city to certify its qualifying tax increment financing debts. For the fiscal year ended June 30, 2010, the City certified more TIF debt than was allowed per its agreements.

Recommendation – The City should consult legal counsel as well as the Jones County Auditor to determine the disposition of this matter, including corrective action.

Also, the City should ensure all future certifications are in accordance with Chapter 403.19(5) of the Code of Iowa.

Response – The amount was certified in error. However, the increment collected was within the gross amount the City was entitled to collect based upon the City's overall TIF obligations. Corrected certifications have been made in concert with a review of the City's TIF funds and obligations with the Jones County Auditor.

Conclusion – Response accepted.

City of Monticello

Staff

This audit was performed by:

Ernest H. Ruben Jr., CPA, Manager
Gelu Sherpa, CPA, Staff Auditor
Stephanie A. Sissel, Staff Auditor
Shawn R. Bowers, Auditor Intern

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

Andrew E. Nielsen, CPA
Deputy Auditor of State