

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

CITY OF MONTICELLO
WHITE COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED
09/17/2013

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Elizabeth J. Oilar	01-01-12 to 12-31-15
Mayor	Kenneth P. Houston	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	Grace Oilar	01-01-12 to 12-31-13
President of the Common Council	Philip L. Vogel	01-01-12 to 12-31-13
Superintendent of Water Utility	Rodney Pool	01-01-12 to 12-31-13
Superintendent of Wastewater Utility	Joseph Mowrer	01-01-12 to 12-31-13



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE CITY OF MONTICELLO, WHITE COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the City of Monticello (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, the City prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the City for the year ended December 31, 2012.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the City for the year ended December 31, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated August 13, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Accompanying Information

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.



Bruce Hartman
State Examiner

August 13, 2013



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE CITY OF MONTICELLO, WHITE COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statement of the City of Monticello (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated August 13, 2013, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1 to be significant deficiencies.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

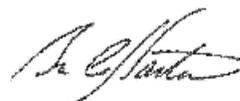
As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Monticello's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bruce Hartman
State Examiner

August 13, 2013

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FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the City. The financial statement and notes are presented as intended by the City.

CITY OF MONTICELLO
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2012

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
GENERAL	\$ 2,055,133	\$ 5,780,932	\$ 5,378,249	\$ 2,457,816
MOTOR VEHICLE HIGHWAY	603,349	397,319	304,264	696,404
LOCAL ROADS AND STREETS	26,582	21,769	12,567	35,784
PARK NON-REVERTING	68,283	40,647	41,711	67,219
ABANDONED VEHICLES	150	-	-	150
LAW ENFORCEMENT CONT ED	19,796	5,531	656	24,671
WILLIAM L. ALTHERR PARK	371,429	570	42,876	329,123
RAINY DAY FUND	299,792	2,629	29,530	272,891
POLICE K-9	7,271	1,000	-	8,271
CO ECONOMIC DEV INCOME TX	97,963	298,311	183,267	213,007
LEVY EXCESS	-	39,093	-	39,093
CUM'L CAP DEVELOPMENT	270,252	67,169	50,578	286,843
CUM'L CAP IMPROVEMENT	34,249	14,264	188	48,325
TIF ALLOCATION	1,716,923	438,030	61,725	2,093,228
INSURANCE CLAIM PAYMENTS	6,307	508,998	511,215	4,090
POLICE PENSION	385,299	129,155	129,688	384,766
FIRE PENSION	601,720	146,764	153,566	594,918
MONTICELLO REDEVELOPMENT COMMISSION	1,049	1,126	-	2,175
MONTICELLO ECONOMIC DEVELOPMENT COMMISSION	5,312	-	-	5,312
SIDEWALK AND CURB	84,635	46,747	15,382	116,000
PARKING LOT MAINTENANCE	33,114	-	-	33,114
NON REV - MAYOR'S YOUTH C	366	-	-	366
FIRE REPORTS	1,431	518	-	1,949
FIRE DEPT TRAINING	28,719	41,193	55,817	14,095
DUIIP POLICE FUND	181	-	-	181
OPERATION PULLOVER	579	2,950	3,438	91
PARK GIFT	3,884	1,717	140	5,461
FIRE GIFT	3,634	972	2,232	2,374
POLICE GIFT	6,294	1,100	1,155	6,239
DRUG NON-REVERTING	11,106	330	-	11,436
POLICE VENDING ACCOUNT	652	398	466	584
EDIT BND RESERVE 04 & 06	204,727	1,580	-	206,307
EDIT BND P&I 04	210	163,022	163,022	210
EDIT BND P&I 06	-	20,245	20,245	-
URBAN FORESTRY GRANT	1,438	-	-	1,438
TIF BND RESERVE	64,408	530	-	64,938
TIF BND P&I	-	61,725	61,725	-
TOTAL MONIES ON DEPOSIT	250,000	26,633	276,633	-
PAYROLL	673	3,579,057	3,571,000	8,730
SEWAGE CASH OPERATING	358,233	2,537,445	2,720,778	174,900
SEWAGE CAP IMPROVEMENTS	159,041	451,368	-	610,409
SEWAGE ACCOUNTS PAYABLE	70,666	1,763,444	1,734,329	99,781
09 SEWER BND CONSTRUC ACC	443,200	139	346,142	97,197
SEWAGE EQUIP REPLACEMENT	30,511	-	-	30,511
SEWAGE BND P&I 09	15,716	94,644	94,644	15,716
SEWAGE BND P&I 06	43,990	92,538	82,963	53,565
SEWAGE BND P&I 98	227,721	388,701	389,605	226,817
SEWAGE BND RESV	522,544	19,608	-	542,152
WATER OPERATING	332,392	1,577,171	1,778,113	131,450
WATER RENT DEPOSITS	219,899	39,675	32,878	226,696
WATER IMPROVEMENT	214,293	640,498	-	854,791
09 WATER BND CONSTRUC ACC	5	-	5	-
2006 WATER WORKS REV BND	177,514	-	123,088	54,426
WATER BND P&I 09	-	42,425	42,425	-
WATER BND P&I 06	-	28,005	28,005	-
WATER BND P&I 01	-	262,950	262,950	-
WATER BND RESV	375,128	8,424	-	383,552
Totals	<u>\$ 10,457,763</u>	<u>\$ 19,789,059</u>	<u>\$ 18,707,260</u>	<u>\$ 11,539,562</u>

The notes to the financial statement are an integral part of this statement.

CITY OF MONTICELLO
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, electric, gas, storm water, trash, aviation, and urban redevelopment and housing.

The accompanying financial statement presents the financial information for the City.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the City.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state,

CITY OF MONTICELLO
NOTES TO FINANCIAL STATEMENT
(Continued)

local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the City. It includes all expenditures for the reduction of the principal and interest of the City's general obligation indebtedness.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

CITY OF MONTICELLO
NOTES TO FINANCIAL STATEMENT
(Continued)

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The City may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the City. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the City. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the City in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the City submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the City in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

CITY OF MONTICELLO
NOTES TO FINANCIAL STATEMENT
(Continued)

State statutes authorize the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. Risk Management

The City may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the City to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

Note 6. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

CITY OF MONTICELLO
NOTES TO FINANCIAL STATEMENT
(Continued)

B. 1925 Police Officers' Pension Plan

Plan Description

The 1925 Police Officers' Pension Plan is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

On Behalf Payments

The 1925 Police Officers' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

C. 1937 Firefighters' Pension Plan

Plan Description

The 1937 Firefighters' Pension Plan is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute.

On Behalf Payments

The 1937 Firefighters' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

D. 1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The 1977 Police Officers' and Firefighters' Pension and Disability Fund is a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Retirement System (INPRS) for all police officers and firefighters hired after April 30, 1977.

CITY OF MONTICELLO
NOTES TO FINANCIAL STATEMENT
(Continued)

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting, and requirements for contributions by employers and by employees. Covered employees may retire at age 52 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 52. The plan also provides for death and disability benefits.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy

The contribution requirements of plan members and the City are established by the Board of Trustees of INPRS.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the City's Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Report of the City which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the City. It is presented as intended by the City.

CITY OF MONTICELLO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012

	GENERAL	MOTOR VEHICLE HIGHWAY	LOCAL ROADS AND STREETS	PARK NON-REVERTING	ABANDONED VEHICLES	LAW ENFORCEMENT CONT ED	WILLIAM L. ALTHERR PARK	RAINY DAY FUND
Cash and investments - beginning	\$ 2,055,133	\$ 603,349	\$ 26,582	\$ 68,283	\$ 150	\$ 19,796	\$ 371,429	\$ 299,792
Receipts:								
Taxes	2,220,370	231,774	-	-	-	-	-	-
Licenses and permits	1,000	-	-	-	-	1,905	-	-
Intergovernmental	1,179,331	161,972	21,769	-	-	-	-	-
Charges for services	1,708,003	-	-	35,465	-	2,865	-	-
Fines and forfeits	1,740	-	-	-	-	761	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	670,488	3,573	-	5,182	-	-	570	2,629
Total receipts	5,780,932	397,319	21,769	40,647	-	5,531	570	2,629
Disbursements:								
Personal services	3,920,084	8,255	-	-	-	-	-	-
Supplies	251,609	72,921	12,567	31,711	-	656	-	-
Other services and charges	913,067	182,274	-	200	-	-	42,876	29,530
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	215,303	40,814	-	9,800	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	78,186	-	-	-	-	-	-	-
Total disbursements	5,378,249	304,264	12,567	41,711	-	656	42,876	29,530
Excess (deficiency) of receipts over disbursements	402,683	93,055	9,202	(1,064)	-	4,875	(42,306)	(26,901)
Cash and investments - ending	\$ 2,457,816	\$ 696,404	\$ 35,784	\$ 67,219	\$ 150	\$ 24,671	\$ 329,123	\$ 272,891

CITY OF MONTICELLO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	POLICE K-9	CO ECONOMIC DEV INCOME TX	LEVY EXCESS	CUM'L CAP DEVELOPMENT	CUM'L CAP IMPROVEMENT	TIF ALLOCATION	INSURANCE CLAIM PAYMENTS	POLICE PENSION
Cash and investments - beginning	\$ 7,271	\$ 97,963	\$ -	\$ 270,252	\$ 34,249	\$ 1,716,923	\$ 6,307	\$ 385,299
Receipts:								
Taxes	-	-	-	60,969	-	436,096	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	298,311	-	6,200	14,264	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Other receipts	1,000	-	39,093	-	-	1,934	508,998	129,155
Total receipts	1,000	298,311	39,093	67,169	14,264	438,030	508,998	129,155
Disbursements:								
Personal services	-	-	-	-	-	-	-	1,000
Supplies	-	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	2,217	128,688
Debt service - principal and interest	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	50,578	188	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	183,267	-	-	-	61,725	508,998	-
Total disbursements	-	183,267	-	50,578	188	61,725	511,215	129,688
Excess (deficiency) of receipts over disbursements	1,000	115,044	39,093	16,591	14,076	376,305	(2,217)	(533)
Cash and investments - ending	\$ 8,271	\$ 213,007	\$ 39,093	\$ 286,843	\$ 48,325	\$ 2,093,228	\$ 4,090	\$ 384,766

CITY OF MONTICELLO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	FIRE PENSION	MONTICELLO REDEVELOPMENT COMMISSION	MONTICELLO ECONOMIC DEVELOPMENT COMMISSION	SIDEWALK AND CURB	PARKING LOT MAINTENANCE	NON REV - MAYOR'S YOUTH C	FIRE REPORTS
Cash and investments - beginning	\$ 601,720	\$ 1,049	\$ 5,312	\$ 84,635	\$ 33,114	\$ 366	\$ 1,431
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	518
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	146,764	1,126	-	46,747	-	-	-
Total receipts	146,764	1,126	-	46,747	-	-	518
Disbursements:							
Personal services	1,400	-	-	-	-	-	-
Supplies	90	-	-	-	-	-	-
Other services and charges	152,076	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	15,382	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	153,566	-	-	15,382	-	-	-
Excess (deficiency) of receipts over disbursements	(6,802)	1,126	-	31,365	-	-	518
Cash and investments - ending	\$ 594,918	\$ 2,175	\$ 5,312	\$ 116,000	\$ 33,114	\$ 366	\$ 1,949

CITY OF MONTICELLO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	FIRE DEPT TRAINING	DUIP POLICE FUND	OPERATION PULLOVER	PARK GIFT	FIRE GIFT	POLICE GIFT	DRUG NON-REVERTING
Cash and investments - beginning	\$ 28,719	\$ 181	\$ 579	\$ 3,884	\$ 3,634	\$ 6,294	\$ 11,106
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	2,950	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	41,193	-	-	1,717	972	1,100	330
Total receipts	41,193	-	2,950	1,717	972	1,100	330
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	10,602	-	3,438	140	2,232	1,155	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	45,215	-	-	-	-	-	-
Total disbursements	55,817	-	3,438	140	2,232	1,155	-
Excess (deficiency) of receipts over disbursements	(14,624)	-	(488)	1,577	(1,260)	(55)	330
Cash and investments - ending	\$ 14,095	\$ 181	\$ 91	\$ 5,461	\$ 2,374	\$ 6,239	\$ 11,436

CITY OF MONTICELLO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	POLICE VENDING ACCOUNT	EDIT BND RESERVE 04 & 06	EDIT BND P&I 04	EDIT BND P&I 06	URBAN FORESTRY GRANT	TIF BND RESERVE	TIF BND P&I
Cash and investments - beginning	\$ 652	\$ 204,727	\$ 210	\$ -	\$ 1,438	\$ 64,408	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	398	1,580	163,022	20,245	-	530	61,725
Total receipts	398	1,580	163,022	20,245	-	530	61,725
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	466	-	-	300	-	-	350
Debt service - principal and interest	-	-	163,022	19,945	-	-	61,375
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	466	-	163,022	20,245	-	-	61,725
Excess (deficiency) of receipts over disbursements	(68)	1,580	-	-	-	530	-
Cash and investments - ending	\$ 584	\$ 206,307	\$ 210	\$ -	\$ 1,438	\$ 64,938	\$ -

CITY OF MONTICELLO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	TOTAL MONIES ON DEPOSIT	PAYROLL	SEWAGE CASH OPERATING	SEWAGE CAP IMPROVEMENTS	SEWAGE ACCOUNTS PAYABLE	09 SEWER BND CONSTRUC ACC	SEWAGE EQUIP REPLACEMENT
Cash and investments - beginning	\$ 250,000	\$ 673	\$ 358,233	\$ 159,041	\$ 70,666	\$ 443,200	\$ 30,511
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	1,956,152	-	-	-	-
Other receipts	26,633	3,579,057	581,293	451,368	1,763,444	139	-
Total receipts	26,633	3,579,057	2,537,445	451,368	1,763,444	139	-
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	51,763	346,142	-
Utility operating expenses	-	-	358,919	-	1,682,566	-	-
Other disbursements	276,633	3,571,000	2,361,859	-	-	-	-
Total disbursements	276,633	3,571,000	2,720,778	-	1,734,329	346,142	-
Excess (deficiency) of receipts over disbursements	(250,000)	8,057	(183,333)	451,368	29,115	(346,003)	-
Cash and investments - ending	\$ -	\$ 8,730	\$ 174,900	\$ 610,409	\$ 99,781	\$ 97,197	\$ 30,511

CITY OF MONTICELLO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	SEWAGE BND P&I 09	SEWAGE BND P&I 06	SEWAGE BND P&I 98	SEWAGE BND RESV	WATER OPERATING	WATER RENT DEPOSITS	WATER IMPROVEMENT
Cash and investments - beginning	\$ 15,716	\$ 43,990	\$ 227,721	\$ 522,544	\$ 332,392	\$ 219,899	\$ 214,293
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	1,566,258	-	-
Other receipts	94,644	92,538	388,701	19,608	10,913	39,675	640,498
Total receipts	94,644	92,538	388,701	19,608	1,577,171	39,675	640,498
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	45,115	-	-
Utility operating expenses	350	300	-	-	775,805	32,878	-
Other disbursements	94,294	82,663	389,605	-	957,193	-	-
Total disbursements	94,644	82,963	389,605	-	1,778,113	32,878	-
Excess (deficiency) of receipts over disbursements	-	9,575	(904)	19,608	(200,942)	6,797	640,498
Cash and investments - ending	\$ 15,716	\$ 53,565	\$ 226,817	\$ 542,152	\$ 131,450	\$ 226,696	\$ 854,791

CITY OF MONTICELLO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	09 WATER BND CONSTRUC ACC	2006 WATER WORKS REV BND	WATER BND P&I 09	WATER BND P&I 06	WATER BND P&I 01	WATER BND RESV	Totals
Cash and investments - beginning	\$ 5	\$ 177,514	\$ -	\$ -	\$ -	\$ 375,128	\$ 10,457,763
Receipts:							
Taxes	-	-	-	-	-	-	2,949,209
Licenses and permits	-	-	-	-	-	-	2,905
Intergovernmental	-	-	-	-	-	-	1,684,797
Charges for services	-	-	-	-	-	-	1,746,851
Fines and forfeits	-	-	-	-	-	-	2,501
Utility fees	-	-	-	-	-	-	3,522,410
Other receipts	-	-	42,425	28,005	262,950	8,424	9,880,386
Total receipts	-	-	42,425	28,005	262,950	8,424	19,789,059
Disbursements:							
Personal services	-	-	-	-	-	-	3,930,739
Supplies	-	-	-	-	-	-	369,554
Other services and charges	-	-	-	-	-	-	1,469,611
Debt service - principal and interest	-	-	-	-	-	-	244,342
Capital outlay	5	-	-	-	-	-	775,090
Utility operating expenses	-	-	350	300	-	-	2,851,468
Other disbursements	-	123,088	42,075	27,705	262,950	-	9,066,456
Total disbursements	5	123,088	42,425	28,005	262,950	-	18,707,260
Excess (deficiency) of receipts over disbursements	(5)	(123,088)	-	-	-	8,424	1,081,799
Cash and investments - ending	\$ -	\$ 54,426	\$ -	\$ -	\$ -	\$ 383,552	\$ 11,539,562

CITY OF MONTICELLO
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2012

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Governmental activities	\$ 13,891	\$ 1,230
Wastewater	11,039	117,792
Water	<u>12,923</u>	<u>87,293</u>
Totals	<u>\$ 37,853</u>	<u>\$ 206,315</u>

CITY OF MONTICELLO
SCHEDULE OF LEASES AND DEBT
December 31, 2012

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities: SunTrust Equipment Finance & Leasing Corp	2009 Aerial Ladder Fire Truck	\$ 99,673	07-15-09	01-15-14
Total of annual lease payments		<u>\$ 99,673</u>		

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
Revenue bonds	Edit Bond 2004 - Infrastructure	\$ 456,000	\$ 163,220
Revenue bonds	Edit Bond 2006 - Infrastructure	435,000	19,945
Revenue bonds	TIF Bond 2003 - Infrastructure	<u>395,000</u>	<u>59,485</u>
Total governmental activities		<u>1,286,000</u>	<u>242,650</u>
Wastewater:			
Revenue bonds	1998 Bond - Sewage Plant Upgrade	2,100,000	381,188
Revenue bonds	2006 Bond - Sewage Works Project	490,000	94,794
Revenue bonds	2009 Bond - Sewage Works National Homes Project	<u>2,050,000</u>	<u>94,294</u>
Total Wastewater		<u>4,640,000</u>	<u>570,276</u>
Water:			
Revenue bonds	2001 Bond - Water Plant Upgrade	1,853,638	262,950
Revenue bonds	2006 Bond - Water Works Project	610,000	92,705
Revenue bonds	2009 Bond - Water Works National Homes Project	<u>825,000</u>	<u>42,075</u>
Total Water		<u>3,288,638</u>	<u>397,730</u>
Totals		<u>\$ 9,214,638</u>	<u>\$ 1,210,656</u>

CITY OF MONTICELLO
SCHEDULE OF CAPITAL ASSETS
December 31, 2012

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

	Ending Balance
Governmental activities:	
Land	\$ 1,311,210
Infrastructure	6,531,232
Buildings	3,187,196
Improvements other than buildings	626,532
Machinery, equipment, and vehicles	4,287,530
Construction in progress	135,527
Total governmental activities	16,079,227
Wastewater:	
Land	402,884
Infrastructure	4,190,294
Buildings	8,995,394
Improvements other than buildings	10,487,961
Machinery, equipment, and vehicles	992,107
Total Wastewater	25,068,640
Water:	
Land	63,500
Infrastructure	2,928,648
Buildings	2,727,550
Improvements other than buildings	2,324,075
Machinery, equipment, and vehicles	1,063,761
Construction in progress	46,000
Total Water	9,153,534
Total capital assets	\$ 50,301,401

CITY OF MONTICELLO
AUDIT RESULTS AND COMMENTS

DEFICIENCY IN INTERNAL CONTROL - INTERNAL CONTROL OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We noted deficiencies in the internal control system of the City related to the preparation of the schedule of expenditures of federal awards.

1. Preparing the Schedule of Expenditures of Federal Awards (SEFA): Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the City's SEFA and then determining how those identified risks should be managed. The City has not identified risks to the preparation of a reliable SEFA and as a result has failed to design effective controls over the preparation of the SEFA to prevent or detect material misstatements.
2. Monitoring of Controls: Effective internal control over financial reporting requires the City Council to monitor and assess the quality of the City's system of internal control. The City Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the City at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the City has no process to identify or communicate corrective actions to improve controls.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for cities and Towns, Chapter 7)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE CITY OF MONTICELLO, WHITE COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the City of Monticello's (City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2012. The City's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the type of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-2 to be material weaknesses.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bruce Hartman
State Examiner

August 13, 2013

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying note presented were prepared by management of the City. The schedule and note are presented as intended by the City.

CITY OF MONTICELLO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2012

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>Department of Housing and Urban Development</u>				
CDBG - State-Administered CDBG Cluster				
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii Bryan's Lift Station	Indiana Office of Community and Rural Affairs	14.228	DR2-09-163	\$ 1,000,000
Total - Department of Housing and Urban Development				<u>1,000,000</u>
<u>Department of Justice</u>				
JAG Program Cluster				
Edward Byrne Memorial Justice Assistance Grant Program Police Radios	Indiana Criminal Justice Institute	16.738	2010-DJ-BX-0254	<u>2,625</u>
Total - JAG Program Cluster				<u>2,625</u>
Bullet Proof Vest Partnership Program Police Bulletproof Vests	Indiana Criminal Justice Institute	16.607	2009BUBX08043368	<u>3,489</u>
Total - Department of Justice				<u>6,114</u>
<u>Department of Transportation</u>				
Highway Safety Cluster				
Safety Belt Performance Grants Operation Pull Over	Indiana Criminal Justice Institute	20.609	OP-12-04-02-18	<u>2,950</u>
Total - Highway Safety Cluster				<u>2,950</u>
Total - Department of Transportation				<u>2,950</u>
Total federal awards expended				<u>\$ 1,009,064</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF MONTICELLO
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Monticello and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

CITY OF MONTICELLO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Section III – Federal Award Findings and Questioned Costs

FINDING 2012-2 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's program and
Non-Entitlement Grants in Hawaii
CFDA Number: 14.228
Federal Award Number and Year: 2012 DR2-09-163
Pass-Through Entity: Indiana Office of Community and Rural Affairs

Management of the City of Monticello has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and all of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: Allowable Activities/Allowable Costs, Cash Management, Davis-Bacon, Procurement, Equipment and Real Property Management, Matching, Level of Effort, Period of Availability, Real Property Acquisition/Relocation Assistance, Reporting, and Special Tests and Provisions. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a type of compliance requirement of a federal program will be prevented or detected and corrected on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect to the program.



City of Monticello

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Patricia Golden, CMC Deputy Clerk Treasurer

Sarah Baunach 2nd Deputy Clerk Treasurer

August 13, 2013

City of Monticello Corrective Action Plan

FINDING 2012-1, DEFICIENCY IN INTERNAL CONTROL - INTERNAL CONTROL OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS

Contact Person: Elizabeth Oilar

The City of Monticello is in the process of establishing effective internal controls for the reporting of federal grant expenditures.

FINDING 2012-2 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program: Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii

CFDA Number: 14.228

Federal Award Number: DR2-09-163

Pass-Through Agency: Indiana Office of Community and Rural Affairs

Auditee Contact Person: Liz Oilar

Title of Contact Person: City Clerk-Treasurer

Phone Number: (574)-583-5712

Expected Completion Date: Fall 2013

The City of Monticello has contracted with the Kankakee Iroquois Regional Planning Commission for grant administration services. The City Clerk-Treasurer's Office will work with the grant administrator to develop procedures to establish effective internal controls for compliance with federal grant requirements.

Elizabeth Oilar, IAMC, CMC
City of Monticello Clerk-Treasurer

CITY OF MONTICELLO
EXIT CONFERENCE

The contents of this report were discussed on August 13, 2013, with Elizabeth J. Oilar, Clerk-Treasurer; Kenneth P. Houston, Mayor; and Philip L. Vogel, President of the Common Council.