

CITY OF FONTANELLE

Fontanelle, Iowa

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

June 30, 2004

With Independent Auditor's Reports

CITY OF FONTANELLE
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CITY OF FONTANELLE

City Officials
June 30, 2004

<u>Name</u>	<u>Prior to January 1, 2004</u> <u>Title</u>	<u>Term Expires</u>
R. Scott Homan	Mayor	December 31, 2003
Charles Cummins	Mayor Pro Tem	December 31, 2003
Chris Baudler	Council Member	December 31, 2005
Rodney Dukes	Council Member	December 31, 2005
Cathy Jaschke	Council Member	December 31, 2003
David Sickles	Council Member	December 31, 2003
Susan Newton	City Clerk	Indefinite
Joy Grantham	Deputy City Clerk	Indefinite
Craig Ford	Superintendent of Utilities	Indefinite

Subsequent to December 31, 2003

R. Scott Homan	Mayor	December 31, 2005
Patricia Glassell	Mayor Pro Tem	December 31, 2007
Chris Baudler	Council Member	December 31, 2005
Rodney Dukes	Council Member	December 31, 2005
Brad Newton	Council Member	December 31, 2007
David Sickels	Council Member	December 31, 2007
Susan Newton	City Clerk	Indefinite
Joy Grantham	Deputy City Clerk	Indefinite
Craig Ford	Superintendent of Utilities	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Fontanelle, Iowa

I 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 Fontanelle, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents of this report. These financial statements are the responsibility of the City of Fontanelle's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I 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. I believe that my audit provides a reasonable basis for my opinion.

As described more fully in Note 1, the financial statements referred to above have been prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

As described in Note 10, during the year ended June 30, 2004, the City of Fontanelle adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Prospective Differences.

In my 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 Fontanelle, Iowa as of June 30, 2004, 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, I have also issued my report dated July 20, 2004 on my consideration of the City of Fontanelle's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 21 through 22 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Fontanelle's basic financial statements. I 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, 2003 (none of which are presented herein) and expressed a qualified opinion on those financial statements due to the absence of a record of fixed assets. Other supplementary information included on pages 23 through 27 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 my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

S/ Stanley E. Siebke

Urbandale, Iowa
July 20, 2004

**CITY OF FONTANELLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004**

The City of Fontanelle 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, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 49.1%, or \$190,113, from fiscal 2003 to fiscal 2004. Property tax increased \$18,714 and revenue from FEMA grants for the fire department and housing rehabilitation grants increased by \$141,141.
- Disbursements increased 46.0%, or \$144,162, in fiscal 2004 from fiscal 2003. Public Safety increased to \$103,945 from \$70,860 due to the fire department grant funds being spent. This increase was somewhat offset by the police chief leaving in November and being replaced by part-time officers, which saved \$10,884. Public Works increased to \$92,045 from \$68,245 due to streets being asphalted. Community and economic development spending was increased to \$133,511 from \$41,535 last year, primarily because of the use of housing rehabilitation grant funds.
- The City's total cash basis net assets increased 5.1%, or \$47,773, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the government activities increased \$120,070, and the assets of the business type activities decreased by \$72,297.

USING THIS ANNUAL REPORT

The annual reports 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 for 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 non-major governmental funds.

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, the reader 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, electric department and the landfill department. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

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

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

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The city maintains four Enterprise Funds to provide separate information for the water, sewer, electric, and landfill funds, considered to be major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$201,764 to \$321,384. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	Year ended June 30, <u>2004</u>	Year ended June 30, <u>2003</u>
Receipts:		
Property taxes	\$ 164,027	145,313
TIF revenues	19,274	14,922
Other city taxes	950	1,063
Licenses and Permits	645	653
Use of money and property	2,529	4,205
Intergovernmental	259,104	131,811
Charges for service	1,053	10,800
Miscellaneous	20,669	18,683
Library donations	<u>109,312</u>	<u>60,000</u>
Total Receipts	<u>577,563</u>	<u>387,450</u>
Disbursements		
Operating:		
Public safety	103,945	70,860
Public works	92,045	52,945
Culture and recreation	31,355	37,786
General government	16,247	16,480
Capital Outlay:		
Public works	0	15,300
Community and economic development	133,511	41,535
Debt Service	<u>80,390</u>	<u>78,425</u>
Total Disbursements	<u>457,493</u>	<u>313,331</u>
Net Change in Cash Balances	120,070	74,119
Cash Balances at Beginning of Year	<u>201,764</u>	<u>127,645</u>
Cash Balances at End of Year	<u>\$ 321,834</u>	<u>201,764</u>

Reserved:		
Debt service	\$ 37,448	38,974
Unreserved:		
General fund	257,137	138,819
Special revenue funds	25,298	21,821
Capital projects fund	(1,701)	(486)
Permanent fund	<u>3,652</u>	<u>2,636</u>
Total Cash Basis Fund Balances	<u>\$ 321,834</u>	<u>201,764</u>

The City's total receipts for governmental activities increased by 49%, or \$190,113. The significant increase in receipts was primarily due to library donations increasing from \$60,000 to \$109,000, the housing rehabilitation and fire department grants increasing from \$130,000 to \$190,000.

The cost of governmental activities this year increased by \$144,162 or 46%. This was mainly due to a large street asphaltting project which increased Public Works disbursements from \$52,000 to \$92,000 and housing rehabilitation and fire department grant funds being spent.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30, <u>2004</u>	Year ended June 30, <u>2003</u>
Operating Receipts:		
Charges for service:		
Water	\$ 125,427	91,270
Sewer	74,470	68,934
Electric	369,715	352,115
Landfill	<u>6,974</u>	<u>0</u>
Total Operating Receipts	<u>576,586</u>	<u>512,319</u>
Operating Disbursements:		
Business type activities:		
Water	199,485	76,567
Sewer	66,197	48,451
Electric	379,616	295,484
Landfill	<u>7,483</u>	<u>0</u>
Total Operating Disbursements	<u>652,781</u>	<u>420,502</u>
Excess (Deficit) of Operating Receipts over (under) Operating Disbursements	(76,195)	91,817
Total Non-Operating Receipts (Disbursements)	<u>3,898</u>	<u>(49,898)</u>
Net Change in Cash Balances	(72,297)	41,919
Cash Basis Net Assets Beginning of Year	<u>728,058</u>	<u>686,139</u>
Cash Basis Net Assets End of Year	<u>\$ 655,761</u>	<u>728,058</u>

Total business type activities receipts for the fiscal year were \$547,516 compared to \$512,319 last year. This increase was due primarily to water customers along the rural water line being connected. Total disbursements decreased from \$737,912 to \$664,046. Last year's costs were higher due to construction costs of the water line from Greenfield to Fontanelle.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fontanelle completed the year, its governmental funds reported a combined fund balance of \$321,834, an increase of \$120,070 above last year's total of \$201,764. The major reason for the change in fund balance is a library donation of \$109,312.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$74,058 due to construction costs of the new water line. Water rates will be raised to correct this deficit.
- The Electric Fund had a deficit of \$9,901 due to a transformer going down at the substation and expensive repairs needed. Costs of purchasing electricity for resale have also increased. Electric rates have been raised to compensate.
- The Landfill Fund had a deficit of \$509 due to rates being too low. This has been corrected.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. The first amendment was approved on September 8, 2003 and was necessary due to the fire department being awarded grant funds for purchasing equipment in January, 2003. The previous year's budget was amended to account for these grant funds to be received and spent, but the equipment did not arrive in time. Therefore, this year's budget had to be amended. The second amendment was approved on May 10, 2004 to provide for additional housing rehabilitation grant funds being spent, and for additional disbursements in certain City departments. The City had grant funds available for the housing rehabilitation costs, and sufficient cash balances to absorb the other additional costs.

DEBT ADMINISTRATION

At June 30, 2004, the City had \$315,000 in bonds and other long-term debt, compared to \$385,000 last year, as shown below.

Outstanding Debt at Year-End

	June 30, <u>2004</u>	June 30, <u>2003</u>
General obligation bonds	\$ 305,000	365,000
Revenue notes	<u>10,000</u>	<u>20,000</u>
Total	<u>\$ 315,000</u>	<u>385,000</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$305,000 is significantly below its constitutional debt limit of \$763,833.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Fontanelle's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy.

Inflation in the State continues to be somewhat lower than the National Consumer Price Index increase. The state's CPI increase was 3.2 percent for fiscal year 2004 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slowing of the residential housing market and modest increases in energy prices in 2003-2004.

These indicators were taken into account when adopting the budget for fiscal year 2005. No new programs have been added to the 2005 budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Susan Newton, City Clerk, 313 Washington Street, Fontanelle, Iowa.

CITY OF FONTANELLE
Statement of Activities and Net Assets - Cash Basis
As of and For the Year Ended June 30, 2004

	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Program Receipts Operating Grants, Contributions, and Restricted Interest</u>
Function / Programs:			
Governmental activities:			
Public safety	\$ 103,945	0	64,877
Public works	92,045	0	57,635
Culture and recreation	31,355	1,053	116,717
Community and economic development	133,511	0	0
General government	16,247	0	330
Debt service	80,390	0	0
Total Governmental Activities	457,493	1,053	239,559
Business type activities:			
Water	199,485	102,642	423
Sewer	77,462	68,605	524
Electric	379,616	369,295	14,216
Garbage	7,483	6,974	0
Total Business Type Activities	664,046	547,516	15,163
Total	\$ 1,121,539	548,569	254,722

General Receipts:
Property tax levied for:
 General purposes
 Tax increment financing
 Debt service
Utility excise tax
Grants and contributions not restricted to specific purpose
Unrestricted interest on investments
Miscellaneous

Total General Receipts

Change in Cash Basis Net Assets

Cash Basis Net Assets at Beginning of Year

Cash Basis Net Assets at End of Year

Cash Basis Net Assets:
Restricted:
 Streets
 Urban renewal purposes
 Debt service
 Other
Unrestricted

Total Cash Basis Net Assets

The accompanying notes are an integral part of these financial statements.

CITY OF FONTANELLE
Statement of Activities and Net Assets - Cash Basis
As of and For the Year Ended June 30, 2004

Capital Grants, Contributions, and Restricted <u>Interest</u>	<u>Net (Disbursements) Receipts and Changes in Cash Basis Net Assets</u>		
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
0	(39,068)	0	(39,068)
0	(34,410)	0	(34,410)
0	86,415	0	86,415
129,141	(4,370)	0	(4,370)
0	(15,917)	0	(15,917)
0	(80,390)	0	(80,390)
<u>129,141</u>	<u>(87,740)</u>	<u>0</u>	<u>(87,740)</u>
0	0	(96,420)	(96,420)
0	0	(8,333)	(8,333)
0	0	3,895	3,895
0	0	(509)	(509)
<u>0</u>	<u>0</u>	<u>(101,367)</u>	<u>(101,367)</u>
<u>129,141</u>	<u>(87,740)</u>	<u>(101,367)</u>	<u>(189,107)</u>
	85,286	0	85,286
	19,274	0	19,274
	78,741	0	78,741
	950	0	950
	2,614	0	2,614
	2,529	0	2,529
	18,416	29,070	47,486
	<u>207,810</u>	<u>29,070</u>	<u>236,880</u>
	120,070	(72,297)	47,773
	201,764	728,058	929,822
	<u>321,834</u>	<u>655,761</u>	<u>977,595</u>
\$ 74,784	0	0	74,784
(59,241)	0	0	(59,241)
37,448	43,802	0	81,250
9,754	0	0	9,754
259,089	611,959	0	871,048
<u>\$ 321,834</u>	<u>655,761</u>	<u>0</u>	<u>977,595</u>

CITY OF FONTANELLE
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and For the Year Ended June 30, 2004

	<u>General</u>	<u>Special Revenue Road Use Tax</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Receipts:				
Property tax	\$ 68,916	0	78,741	0
TIF revenues	0	0	0	0
Other city taxes	950	0	0	0
Licenses and permits	645	0	0	0
Use of money and property	2,385	0	123	0
Intergovernmental	72,328	57,635	0	129,141
Charges for services	1,053	0	0	0
Miscellaneous	127,931	0	0	0
	<u>274,208</u>	<u>57,635</u>	<u>78,864</u>	<u>129,141</u>
Total Receipts				
Disbursements:				
Operating:				
Public safety	99,255	0	0	0
Public works	11,316	80,032	0	0
Culture and recreation	30,967	0	0	0
General government	14,352	0	0	0
Capital outlay:				
Community and economic development	0	0	0	130,356
Debt service	0	0	80,390	0
	<u>155,890</u>	<u>80,032</u>	<u>80,390</u>	<u>130,356</u>
Total Disbursements				
Net Change in Cash Balances	118,318	(22,397)	(1,526)	(1,215)
Cash Balances at Beginning of Year	138,819	97,181	38,974	(486)
Cash Balances at End of Year	<u>\$ 257,137</u>	<u>74,784</u>	<u>37,448</u>	<u>(1,701)</u>
Cash Basis Fund Balances:				
Reserved:				
Debt service	0	0	37,448	0
Unreserved:				
General fund	257,137	0	0	0
Special revenue funds	0	74,784	0	0
Capital projects fund	0	0	0	(1,701)
Permanent fund	0	0	0	0
	<u>\$ 257,137</u>	<u>74,784</u>	<u>37,448</u>	<u>(1,701)</u>
Total Cash Basis Fund Balances				

The accompanying notes are an integral part of these financial statements.

CITY OF FONTANELLE
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and For the Year Ended June 30, 2004

Other Nonmajor Governmental Funds	<u>Total</u>
16,370	164,027
19,274	19,274
0	950
0	645
21	2,529
0	259,104
0	1,053
2,050	129,981
<u>37,715</u>	<u>577,563</u>
4,690	103,945
697	92,045
388	31,355
1,895	16,247
3,155	133,511
0	80,390
<u>10,825</u>	<u>457,493</u>
26,890	120,070
(72,724)	201,764
<u>(45,834)</u>	<u>321,834</u>
0	37,448
0	257,137
(49,486)	25,298
0	(1,701)
3,652	3,652
<u>(45,834)</u>	<u>321,834</u>

CITY OF FONTANELLE
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Proprietary Funds
As of and For the Year Ended June 30, 2004

	<u>Water</u>	<u>Enterprise Funds</u>		<u>Garbage</u>
		<u>Sewer</u>	<u>Electric</u>	
Operating Receipts:				
Charges for services	\$ 102,642	68,605	369,295	6,974
Miscellaneous	22,785	5,865	420	0
Total Operating Receipts	<u>125,427</u>	<u>74,470</u>	<u>369,715</u>	<u>6,974</u>
Operating Disbursements:				
Business type activities	199,485	66,197	379,616	7,483
Total Operating Disbursements	<u>199,485</u>	<u>66,197</u>	<u>379,616</u>	<u>7,483</u>
Excess (Deficit) of Operating Receipts over (under) Operating Disbursements	<u>(74,058)</u>	<u>8,273</u>	<u>(9,901)</u>	<u>(509)</u>
Non-Operating Receipts (Disbursements):				
Use of money and property	423	524	14,216	0
Debt service	0	(11,265)	0	0
Total Non-Operating Receipts (Disbursements)	<u>423</u>	<u>(10,741)</u>	<u>14,216</u>	<u>0</u>
Net Change in Cash Balances	(73,635)	(2,468)	4,315	(509)
Cash Balances at Beginning of Year	<u>37,784</u>	<u>112,613</u>	<u>577,661</u>	<u>0</u>
Cash Balances at End of Year	<u>\$ (35,851)</u>	<u>110,145</u>	<u>581,976</u>	<u>(509)</u>
Cash Basis Fund Balances:				
Unrestricted:				
Reserved for debt service	\$ 0	43,802	0	0
Unreserved	(35,851)	66,343	581,976	(509)
Total Cash Basis Fund Balances	<u>\$ (35,851)</u>	<u>110,145</u>	<u>581,976</u>	<u>(509)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FONTANELLE
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Proprietary Funds
As of and For the Year Ended June 30, 2004

<u>Total</u>
547,516
29,070
<u>576,586</u>
652,781
<u>652,781</u>
<u>(76,195)</u>
15,163
(11,265)
<u>3,898</u>
(72,297)
<u>728,058</u>
<u>655,761</u>
43,802
611,959
<u>655,761</u>

CITY OF FONTANELLE
Notes to the Financial Statements
June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Fontanelle is a political subdivision of the State of Iowa located in Adair County. The City operates under the Mayor-Council form of government with the mayor and council members elected on a non-partisan basis.

Reporting Entity

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

The City of Fontanelle has no component units.

Basis of Presentation

Government-wide Financial Statements

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

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

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 consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

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

Fund Financial Statements

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

CITY OF FONTANELLE
Notes to the Financial Statements - Continued

The City reports the following major governmental funds:

General Fund – 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 that are not paid from other funds.

Special Revenue Funds:

The Road Use Tax Fund is used to account for road construction and maintenance.

Debt Service Fund – The Debt Service Fund is utilized to account for the payment of principal and interest on the City's general long-term debt.

Capital Projects Fund – 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 that are financed through enterprise funds.

The City reports the following major proprietary funds:

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

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

Electric Fund – The Electric Fund accounts for the operation and maintenance of the City's electric utility system.

Measurement Focus and Basis of Accounting

The City of Fontanelle 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.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services 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.

Budgets and Budgetary Accounting

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

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These 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.

CITY OF FONATANELLE
Notes to the Financial Statements – Continued

During the year ended June 30, 2004, the budget was amended under the statutorily prescribed procedures.

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the debt service function.

(2) Pooled Deposits and Investments

The City's deposits at June 30, 2004 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.

Funds that have deficit cash in bank balances are considered to have borrowed cash from other 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 and the Treasurer of the State of Iowa; 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.

(3) Bonded Indebtedness

A summary of the City's June 30, 2004 long-term debt is as follows:

Year Ending June 30,	Interest Rates	General Obligation Bonds		Sewer Revenue Notes		Total
		Principal	Interest	Principal	Interest	
2005	5.35 - 6.40%	\$ 60,000	17,010	10,000	640	87,650
2006	5.40	35,000	13,575	0	0	48,575
2007	5.45	40,000	11,685	0	0	51,685
2008	5.50	40,000	9,505	0	0	49,505
2009	5.50	40,000	7,305	0	0	47,305
		<u>215,000</u>	<u>59,080</u>	<u>10,000</u>	<u>640</u>	<u>284,720</u>
2010-2011	5.65 - 5.70	90,000	7,650	0	0	97,650
		<u>\$305,000</u>	<u>66,730</u>	<u>10,000</u>	<u>640</u>	<u>382,370</u>

Interest paid on General Obligation Bonds amounted to \$20,390 and interest paid on Sewer Revenue Notes amounted to \$1,265 for the year ended June 30, 2004. All of these amounts were expensed.

Cash restricted for the bonds and notes at June 30, 2004 are as follows:

<u>Type of Indebtedness</u>	<u>Amount</u>
General Obligation Bonds	\$37,448
Sewer Revenue Notes	43,802
	<u>\$81,250</u>

CITY OF FONTANELLE
Notes to the Financial Statements – Continued

(3) Bonded Indebtedness - continued

The Sewer Revenue Notes provide for annual transfers to the Sewer Sinking Fund from the Sewer Revenue Fund, sufficient to cover the annual principal and interest payments on the Sewer Revenue Notes. Minimum annual sinking fund requirements are as follows:

Year Ending June 30, 2005	Amount
	\$ 10,640
	\$ 10,640

(4) Retirement System - IPERS

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.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$8,247, \$9,482, and \$9,560, respectively, equal to the required contributions for each year.

(5) General Long-Term Debt

Changes in general long-term debt during the year ended June 30, 2004 are summarized as follows:

General obligation bonds payable at beginning of year	\$365,000
Bond principal payments during year	60,000
General obligation bonds payable at end of year	\$305,000

(6) Compensated Absences

City employees accumulate vacation and sick leave hours for subsequent use or sick leave may be paid upon termination, retirement or death. These accumulations are not recognized as expenditures by the City until used or paid. The City's approximate maximum liability for unrecognized accrued employee benefits at June 30, 2004 is as follows:

Type of Benefit	Amount
Sick leave	\$ 20,821
Vacation	3,418
	\$ 24,239

The liability has been computed based on rates of pay as of June 30, 2004.

CITY OF FONTANELLE
Notes to the Financial Statements – Continued

(7) Risk Management

The City of Fontanelle 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 the liability for insurance deductibles and claims in excess of insurance coverage. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Property Tax Calendar

Property taxes are collected and remitted to the City by the county government. Taxes are levied annually on July 1 based on an assessment as of January 1. Taxes are due one-half on September 30 in the year following the levy and one-half on the subsequent March 31. The lien date is July 1. Current and delinquent tax payments are recognized as receipts by the City when received.

(9) Deficit Fund Balances

The Special Revenue Fund – TIF had a deficit fund balance of \$59,241 at June 30, 2004 as a result of disbursements exceeding receipts during the years ended June 30, 2002, 2001 and 2000. The deficit will be eliminated through future receipts of TIF revenues.

The Capital Projects Fund had a deficit fund balance of \$1,701 at June 30, 2004 as a result of disbursements exceeding receipts during the years ended June 30, 2004 and 2003. The deficit will be eliminated through future receipts of government grants.

(10) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement reports the City’s governmental and business type activities.

CITY OF FONTANELLE
 Budgetary Comparison Schedule of Receipts, Disbursements
 and Changes in Cash Balances - Budget and Actual (Cash Basis)
 All Governmental Funds and Proprietary Funds
 Year Ended June 30, 2004

	Governmental <u>Funds</u>	Proprietary <u>Funds</u>	<u>Total</u>
Receipts:			
Property tax	\$ 164,027	0	164,027
TIF revenues	19,274	0	19,274
Other city taxes	950	0	950
Licenses and permits	645	0	645
Use of money and property	2,529	15,163	17,692
Intergovernmental	259,104	0	259,104
Charges for service	1,053	547,516	548,569
Miscellaneous	129,981	29,070	159,051
	<u>577,563</u>	<u>591,749</u>	<u>1,169,312</u>
Disbursements:			
Public safety	103,945	0	103,945
Public works	92,045	0	92,045
Culture and recreation	31,355	0	31,355
Community and economic development	133,511	0	133,511
General government	16,247	0	16,247
Debt service	80,390	0	80,390
Business type activities	0	664,046	664,046
	<u>457,493</u>	<u>664,046</u>	<u>1,121,539</u>
Excess (Deficit) of Receipts over (under) Disbursements	120,070	(72,297)	47,773
Balances at Beginning of Year	201,764	728,058	929,822
Balances at End of Year	<u>\$ 321,834</u>	<u>655,761</u>	<u>977,595</u>

CITY OF FONTANELLE
 Budgetary Comparison Schedule of Receipts, Disbursements
 and Changes in Cash Balances - Budget and Actual (Cash Basis)
 All Governmental Funds and Proprietary Funds
 Year Ended June 30, 2004

<u>Budgeted Amounts</u>		<u>Variance to Final</u>
<u>Original</u>	<u>Amended</u>	
163,740	163,740	287
17,000	17,000	2,274
2,691	2,691	(1,741)
633	633	12
1,500	1,500	16,192
220,198	401,094	(141,990)
597,834	597,834	(49,265)
5,200	5,200	153,851
<u>1,008,796</u>	<u>1,189,692</u>	<u>(20,380)</u>
83,172	137,501	33,556
105,873	135,873	43,828
37,372	38,972	7,617
120,000	255,200	121,689
19,665	19,665	3,418
79,313	80,241	(149)
762,639	762,639	98,593
<u>1,208,034</u>	<u>1,430,091</u>	<u>308,552</u>
(199,238)	(240,399)	288,172
673,490	673,490	256,332
<u>474,252</u>	<u>433,091</u>	<u>544,504</u>

CITY OF FONTANELLE
Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances -
Nonmajor Governmental Funds
As of and For the Year Ended June 30, 2004

	<u>Special Revenue</u>		<u>Fiduciary</u>	
	<u>Employee</u>		<u>Trust and</u>	
	<u>Benefits</u>	<u>TIF</u>	<u>Agency</u>	<u>Total</u>
Receipts:				
Property tax	\$ 16,370	0	0	16,370
TIF revenues	0	19,274	0	19,274
Use of money and property - interest	0	0	21	21
Miscellaneous - meter deposits	0	0	2,050	2,050
	<u>16,370</u>	<u>19,274</u>	<u>2,071</u>	<u>37,715</u>
Total Receipts				
Disbursements:				
Operating:				
Public safety	4,690	0	0	4,690
Public works	697	0	0	697
Culture and recreation	388	0	0	388
Community and economic development	0	3,155	0	3,155
General government	840	0	1,055	1,895
	<u>6,615</u>	<u>3,155</u>	<u>1,055</u>	<u>10,825</u>
Total Disbursements				
Net Change in Cash Balances	9,755	16,119	1,016	26,890
Cash Balances at Beginning of Year	0	(75,360)	2,636	(72,724)
Cash Balances at End of Year	<u>\$ 9,755</u>	<u>(59,241)</u>	<u>3,652</u>	<u>(45,834)</u>
Cash Basis Fund Balances:				
Unreserved:				
Special revenue funds	\$ 9,755	(59,241)	0	(49,486)
Permanent fund	0	0	3,652	3,652
	<u>\$ 9,755</u>	<u>(59,241)</u>	<u>3,652</u>	<u>(45,834)</u>

CITY OF FONTANELLE
Schedule of Long-Term Debt and Interest
June 30, 2004

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Bonds: Sewer Project	September 1, 1992	4.15, 4.30, 4.50, 4.70, 4.90, 5.20, 5.30, 5.50, 5.70, 5.90, 6.10, 6.25	\$ 190,000
Sewer Project	September 1, 2000	5.10, 5.20, 5.30, 5.35, 5.40, 5.45, 5.50, 5.55, 5.60, 5.70	375,000
Total General Obligation Bonds			
Revenue Bonds: Sewer	September 1, 1992	4.00, 4.25, 4.50, 4.70, 4.90, 5.10, 5.30, 5.50, 5.70, 5.90, 6.10, 6.25, 6.40	100,000
Grand Total			

CITY OF FONTANELLE
Schedule of Long-Term Debt and Interest
June 30, 2004

<u>Balance</u> <u>June 30, 2003</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Interest</u> <u>Paid</u>
\$ 50,000	0	25,000	25,000	3,088
315,000	0	35,000	280,000	17,302
<u>365,000</u>	<u>0</u>	<u>60,000</u>	<u>305,000</u>	<u>20,390</u>
<u>20,000</u>	<u>0</u>	<u>10,000</u>	<u>10,000</u>	<u>1,265</u>
<u>\$ 385,000</u>	<u>0</u>	<u>70,000</u>	<u>315,000</u>	<u>21,655</u>

CITY OF FONTANELLE

Bond Maturities

June 30, 2004

General Obligation Bonds

<u>Year Ending June 30</u>	<u>Sewer Project Issued 9-1-92</u>		<u>Sewer Project Issued 9-1-00</u>		<u>Total</u>
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	
2005	6.25%	\$ 25,000	5.35%	35,000	60,000
2006	--	--	5.40	35,000	35,000
2007	--	--	5.45	40,000	40,000
2008	--	--	5.50	40,000	40,000
2009	--	--	5.55	40,000	40,000
2010	--	--	5.60	45,000	45,000
2011	--	--	5.70	45,000	45,000
		<u>\$ 25,000</u>		<u>280,000</u>	<u>305,000</u>

Sewer Revenue Notes

<u>Year Ending June 30</u>	<u>Issued 9-1-92</u>	
	<u>Interest Rates</u>	<u>Amount</u>
2005	6.40%	<u>\$ 10,000</u>

CITY OF FONTANELLE
Schedule of Receipts by Source and Disbursements by Function
All Governmental Funds

	<u>Years Ended June 30,</u>			
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Receipts:				
Property tax	\$ 164,027	145,313	165,626	97,971
TIF revenues	19,274	14,922	327	0
Other city taxes	950	1,063	0	0
Licenses and permits	645	653	639	629
Use of money and property	2,529	4,205	11,137	8,784
Intergovernmental	259,104	131,811	95,310	96,613
Charges for services	1,053	10,800	10,683	15,864
Miscellaneous	129,981	78,683	44,769	6,009
 Total Receipts	 <u>\$ 577,563</u>	 <u>387,450</u>	 <u>328,491</u>	 <u>225,870</u>
Disbursements:				
Public safety	\$ 103,945	114,829	62,972	51,320
Public works	92,045	24,276	119,632	57,701
Culture and recreation	31,355	37,786	28,297	25,490
Community and economic development	133,511	41,535	86,840	34,706
General government	16,247	14,380	15,820	22,181
Debt service	80,390	78,425	81,380	47,657
 Total Disbursements	 <u>\$ 457,493</u>	 <u>311,231</u>	 <u>394,941</u>	 <u>239,055</u>

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Honorable Mayor and
Members of the City Council
City of Fontanelle, Iowa

I have audited the financial statements of the City of Fontanelle, Iowa, as of and for the year ended June 30, 2004 and have issued my report thereon dated July 20, 2004. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Fontanelle's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my 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. Prior year statutory comments have been resolved except for item 04-III-J.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Fontanelle's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions

involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Fontanelle's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe none of the items are material weaknesses. Prior year reportable conditions have been resolved except for item 04-II-A.

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 Fontanelle and other parties to whom the City of Fontanelle may report. This report is not intended to be and should not be used by anyone other than those specified parties.

S/ Stanley E. Siebke

Urbandale, Iowa
July 20, 2004

CITY OF FONTANELLE
Schedule of Findings
Year Ended June 30, 2004

Part I: Summary of Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements which 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.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF FONTANELLE
Schedule of Findings
Year Ended June 30, 2004

Part II: Findings Related to the Financial Statements

Instances of Non-compliance

No matters were noted.

Reportable Conditions

04-II-A Segregation of Duties

One important aspect of the internal control over financial reporting is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that one employee is involved in utility billings, cash receipts, bank deposits and bank reconciliations.

I realize that with the limited number of employees, improvement of these controls is not economically feasible. However, I believe management of the City should be aware of the situation.

Response: The Council is aware of the situation.

Conclusion: Response accepted.

CITY OF FONTANELLE
Schedule of Findings
Year Ended June 30, 2004

Part III: Other Findings Related to Statutory Reporting

04-III-A Official Depositories

A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

04-III-B Certified Budget

City expenditures during the year ended June 30, 2004 exceeded amounts budgeted therefore in the debt service program. Chapter 384 of the Code of Iowa prohibits such budget overruns. City officials should carefully monitor expenditures and prepare budget amendments when necessary.

Response: We will carefully monitor expenditures to avoid budget overruns.

Conclusion: Response accepted.

04-III-C Questionable Disbursements

I noted no expenditures for parties, banquets, or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

04-III-D Travel Expense

No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.

04-III-E Business Transactions

During the year ended June 30, 2004, the City purchased goods and services from the following city officials:

Underground Specialty	Rodney Dukes	\$ 1,762
Cummins Construction	Charles Cummins	517

Since these payments are less than \$2,500 and were obtained in the normal course of business, they do not appear to violate the provisions of Chapter 362.5(11) of the Code of Iowa.

04-III-F Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions.

04-III-G Council Minutes

No transactions were found that I believe should have been approved in the Council minutes but were not.

04-III-H Sewer Revenue Bonds

The provisions of the resolution for the issuance of the revenue bonds relating to funding of the sinking fund were followed.

04-III-I Deposits and Investments

I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

CITY OF FONTANELLE
Schedule of Findings
Year Ended June 30, 2004

04-III-J Deficit Fund Balances

The special revenue fund for Tax Increment Financing had a deficit balance of \$59,241 at June 30, 2004. This deficit is to be eliminated through future Tax Increment Financing receipts. The capital projects fund had a deficit fund balance of \$1,701 at June 30, 2004. This deficit is to be eliminated through future Community Development Block Grant receipts. The City should carefully monitor these funds to be certain these deficits are eliminated.

Response: We will monitor the deficits to be certain they are eliminated.

Conclusion: Response accepted