

CITY OF FONTANELLE

Fontanelle, Iowa

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

June 30, 2005

With Independent Auditor's Reports

CITY OF FONTANELLE
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CITY OF FONTANELLE

City Officials
June 30, 2005

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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
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, 2005, 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 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 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 were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In 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, 2005, 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, 2005 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, 2004 (none of which are presented herein) and expressed a qualified opinion on the financial statements for the years ended June 30, 2003 and 2002 due to the absence of a record of fixed assets. My opinion on the financial statements for the year ended June 30, 2004 was unqualified. 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, 2005

**CITY OF FONTANELLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 34%, or \$194,587, from fiscal 2004 to fiscal year 2005. Property tax decreased \$9,931 and revenue from grants decreased by \$72,087. There were no large library donations this year as occurred last fiscal year.
- Disbursements decreased 25%, or \$113,690, in fiscal 2005 from fiscal 2004. Public Safety decreased to \$34,119 from \$103,945 due to no fire department grant funds being spent. No major street or utility projects were scheduled for this fiscal year.
- The City's total cash basis net assets increased 5.8%, or \$57,234, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the government activities increased \$39,173, and the assets of the business type activities increased by \$18,061.

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 \$321,384 to \$361,007. 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>2005</u>	Year ended June 30, <u>2004</u>
Receipts:		
Property taxes	\$ 154,096	164,027
TIF revenues	19,160	19,274
Other city taxes	2,437	950
Licenses and permits	639	645
Use of money and property	4,088	2,529
Intergovernmental	189,722	259,104
Charges for service	3,293	1,053
Miscellaneous	9,541	20,669
Library donations	<u>0</u>	<u>109,312</u>
Total Receipts	<u>382,976</u>	<u>577,563</u>
Disbursements		
Operating:		
Public safety	34,119	103,945
Public works	73,825	92,045
Culture and recreation	29,225	31,355
Community and economic development	1,617	0
General government	14,621	16,247
Capital Outlay:		
Public works	3,667	0
Community and economic development	109,719	133,511
Debt Service	<u>77,010</u>	<u>80,390</u>
Total Disbursements	<u>343,803</u>	<u>457,493</u>
Net Change in Cash Balances	39,173	120,070
Cash Balances at Beginning of Year	<u>321,834</u>	<u>201,764</u>
Cash Balances at End of Year	<u>\$ 361,007</u>	<u>321,834</u>

Debt service	\$ 36,771	37,448
Unreserved:		
General fund	285,648	257,137
Special revenue funds	35,228	25,298
Capital projects fund	(1,317)	(1,701)
Permanent fund	<u>4,677</u>	<u>3,652</u>
Total Cash Basis Fund Balances	<u>\$ 361,007</u>	<u>321,834</u>

The City's total receipts for governmental activities decreased by 34%, or \$194,587. The decrease in receipts was primarily due to no significant library donations or fire department grant funds being received this fiscal year.

The cost of governmental activities this year decreased by \$113,690 or 25%. This was mainly due to no major street or utility projects being planned and reduction in grant funds being spent by the fire department.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30, <u>2005</u>	Year ended June 30, <u>2004</u>
Operating Receipts:		
Charges for service:		
Water	\$ 111,549	125,427
Sewer	66,576	74,470
Electric	406,055	369,715
Landfill	<u>9,664</u>	<u>6,974</u>
Total Operating Receipts	<u>593,844</u>	<u>576,586</u>
Operating Disbursements:		
Business type activities:		
Water	135,457	199,485
Sewer	54,885	66,197
Electric	374,427	379,616
Landfill	<u>7,764</u>	<u>7,483</u>
Total Operating Disbursements	<u>572,533</u>	<u>652,781</u>
Excess (Deficit) of Operating Receipts over (under) Operating Disbursements	21,311	(76,195)
Total Non-Operating Receipts (Disbursements)	<u>(3,250)</u>	<u>3,898</u>
Net Change in Cash Balances	18,061	(72,297)
Cash Basis Net Assets Beginning of Year	<u>655,761</u>	<u>728,058</u>
Cash Basis Net Assets End of Year	<u>\$ 673,822</u>	<u>655,761</u>

Total business type activities receipts for the fiscal year were \$593,844 compared to \$547,516 last year. This increase was due primarily to water rates being increased. Total disbursements decreased from \$664,046 to \$583,173. There were some delayed construction costs from the water line project from Greenfield in this year's expenses.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fontanelle completed the year, its governmental funds reported a combined fund balance of \$361,007, an increase of \$39,173 above last year's total of \$321,834. The major reason for the change in fund balance is no major projects scheduled.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance is improved with the transfer of \$70,000 from the electric fund. It is hoped that with the higher water rates that the water fund will be self-sustaining without additional rate increases.
- The Electric Fund cash balance had a decrease of \$31,816 this fiscal year. Expenditures were higher, mainly due to higher costs of purchasing electricity; but increased revenues offset this.
- The Landfill Fund had a net increase of \$1,900 this fiscal year.

BUDGETARY HIGHLIGHTS

It was not necessary to amend the City's budget this year. A local option sales tax was passed November 30, 2005. Projected revenues from this tax are \$26,442. This money will be used for Capital Improvement Projects as determined by the Council (streets, buildings, capital improvement, including debt retirement).

DEBT ADMINISTRATION

At June 30, 2005, the City had \$245,000 in bonds and other long-term debt, compared to \$315,000 last year, as shown below.

Outstanding Debt at Year-End	June 30, <u>2005</u>	June 30, <u>2004</u>
General obligation bonds	\$ 245,000	305,000
Revenue notes	<u>0</u>	<u>10,000</u>
Total	<u>\$ 245,000</u>	<u>315,000</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 \$245,000 is significantly below its constitutional debt limit of \$818,389.

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. The unemployment rate continues to be lower in Adair County. The national rate is 4.9 percent and the state's rate is 4.6 percent. Adair County's

unemployment rate fell from 4.6 percent in June 2004 to 3.2 percent in June 2005.

Inflation in the State continues to be somewhat lower than the National Consumer Price Index increase. The state's CPI increase was 2.5 percent for fiscal year 2005 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 increases in energy prices.

These indicators were taken into account when adopting the budget for fiscal year 2006. No new programs have been added to the 2006 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, 2005

	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Program Receipts Operating Grants, Contributions, and Restricted Interest</u>
Function / Programs:			
Governmental activities:			
Public safety	\$ 34,119	0	11,565
Public works	77,492	0	57,537
Culture and recreation	29,225	3,293	7,906
Community and economic development	111,336	0	0
General government	14,621	0	0
Debt service	77,010	0	0
Total Governmental Activities	343,803	3,293	77,008
Business type activities:			
Water	135,457	111,549	279
Sewer	65,525	66,576	555
Electric	374,427	406,055	6,556
Garbage	7,764	9,664	0
Total Business Type Activities	583,173	593,844	7,390
Total	\$ 926,976	597,137	84,398

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, 2005

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	(22,554)	0	(22,554)
0	(19,955)	0	(19,955)
0	(18,026)	0	(18,026)
110,103	(1,233)	0	(1,233)
0	(14,621)	0	(14,621)
0	(77,010)	0	(77,010)
<u>110,103</u>	<u>(153,399)</u>	<u>0</u>	<u>(153,399)</u>
0	0	(23,629)	(23,629)
0	0	1,606	1,606
0	0	38,184	38,184
0	0	1,900	1,900
<u>0</u>	<u>0</u>	<u>18,061</u>	<u>18,061</u>
<u>110,103</u>	<u>(153,399)</u>	<u>18,061</u>	<u>(135,338)</u>
	77,855	0	77,855
	19,160	0	19,160
	76,240	0	76,240
	887	0	887
	400	0	400
	4,088	0	4,088
	13,942	0	13,942
	<u>192,572</u>	<u>0</u>	<u>192,572</u>
	39,173	18,061	57,234
	321,834	655,761	977,595
	<u>361,007</u>	<u>673,822</u>	<u>1,034,829</u>
\$	71,803	0	71,803
	(41,698)	0	(41,698)
	36,771	0	36,771
	5,123	0	5,123
	289,008	673,822	962,830
<u>\$</u>	<u>361,007</u>	<u>673,822</u>	<u>1,034,829</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, 2005

	<u>General</u>	<u>Special Revenue Road Use Tax</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Receipts:				
Property tax	\$ 77,682	0	76,241	0
TIF revenues	0	0	0	0
Other city taxes	2,437	0	0	0
Licenses and permits	639	0	0	0
Use of money and property	3,963	0	92	0
Intergovernmental	22,082	57,537	0	110,103
Charges for services	3,293	0	0	0
Miscellaneous	6,591	0	0	0
Total Receipts	<u>116,687</u>	<u>57,537</u>	<u>76,333</u>	<u>110,103</u>
Disbursements:				
Operating:				
Public safety	31,323	0	0	0
Public works	14,303	56,852	0	0
Culture and recreation	28,791	0	0	0
Community and economic development	0	0	0	0
General government	13,759	0	0	0
Capital outlay:				
Public works	0	3,667	0	0
Community and economic development	0	0	0	109,719
Debt service	0	0	77,010	0
Total Disbursements	<u>88,176</u>	<u>60,519</u>	<u>77,010</u>	<u>109,719</u>
Net Change in Cash Balances	28,511	(2,982)	(677)	384
Cash Balances at Beginning of Year	257,137	74,785	37,448	(1,701)
Cash Balances at End of Year	<u>\$ 285,648</u>	<u>71,803</u>	<u>36,771</u>	<u>(1,317)</u>
Cash Basis Fund Balances:				
Reserved:				
Debt service	\$ 0	0	36,771	0
Unreserved:				
General fund	285,648	0	0	0
Special revenue funds	0	71,803	0	0
Capital projects fund	0	0	0	(1,317)
Permanent fund	0	0	0	0
Total Cash Basis Fund Balances	<u>\$ 285,648</u>	<u>71,803</u>	<u>36,771</u>	<u>(1,317)</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 - Governmental Funds
As of and For the Year Ended June 30, 2005

Other Nonmajor Governmental Funds	<u>Total</u>
173	154,096
19,160	19,160
0	2,437
0	639
33	4,088
0	189,722
0	3,293
2,950	9,541
<u>22,316</u>	<u>382,976</u>
2,796	34,119
2,670	73,825
434	29,225
1,617	1,617
862	14,621
0	3,667
0	109,719
0	77,010
<u>8,379</u>	<u>343,803</u>
13,937	39,173
(45,835)	321,834
<u>(31,898)</u>	<u>361,007</u>
0	36,771
0	285,648
(36,575)	35,228
0	(1,317)
4,677	4,677
<u>(31,898)</u>	<u>361,007</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, 2005

	<u>Enterprise Funds</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Garbage</u>
Operating Receipts:				
Charges for services	\$ 111,549	66,576	406,055	9,664
Total Operating Receipts	<u>111,549</u>	<u>66,576</u>	<u>406,055</u>	<u>9,664</u>
Operating Disbursements:				
Business type activities	135,457	54,885	374,427	7,764
Total Operating Disbursements	<u>135,457</u>	<u>54,885</u>	<u>374,427</u>	<u>7,764</u>
Excess (Deficit) of Operating Receipts over (under) Operating Disbursements	<u>(23,908)</u>	<u>11,691</u>	<u>31,628</u>	<u>1,900</u>
Non-Operating Receipts (Disbursements)				
Use of money and property	279	555	6,556	0
Debt service	0	(10,640)	0	0
Transfers	70,000	0	(70,000)	0
Total Non-Operating Receipts (Disbursements)	<u>70,279</u>	<u>(10,085)</u>	<u>(63,444)</u>	<u>0</u>
Net Change in Cash Balances	46,371	1,606	(31,816)	1,900
Cash Balances at Beginning of Year	<u>(35,851)</u>	<u>110,145</u>	<u>581,976</u>	<u>(509)</u>
Cash Balances at End of Year	<u>\$ 10,520</u>	<u>111,751</u>	<u>550,160</u>	<u>1,391</u>
Cash Basis Fund Balances:				
Unrestricted:				
Unreserved	<u>\$ 10,520</u>	<u>111,751</u>	<u>550,160</u>	<u>1,391</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, 2005

<u>Total</u>
593,844
<u>593,844</u>
572,533
<u>572,533</u>
<u>21,311</u>
7,390
(10,640)
0
<u>(3,250)</u>
18,061
<u>655,761</u>
<u>673,822</u>
<u>673,822</u>

CITY OF FONTANELLE
Notes to the Financial Statements
June 30, 2005

(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

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the debt service function.

(2) Pooled Deposits and Investments

The City's deposits at June 30, 2005 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; 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, 2005 long-term debt is as follows:

Year Ending June 30,	Interest Rates	General Obligation Bonds		
		Principal	Interest	Total
2006	5.40%	\$ 35,000	13,575	48,575
2007	5.45	40,000	11,685	51,685
2008	5.50	40,000	9,505	49,505
2009	5.55	40,000	7,305	47,305
2010	5.65	45,000	5,085	50,085
		<u>200,000</u>	<u>47,155</u>	<u>247,155</u>
2011	5.70	45,000	2,565	47,565
		<u>\$245,000</u>	<u>49,720</u>	<u>294,720</u>

Interest paid on General Obligation Bonds amounted to \$17,010 and interest paid on Sewer Revenue Notes amounted to \$640 for the year ended June 30, 2005. All of these amounts were expensed.

Cash restricted for the bonds at June 30, 2005 is as follows:

<u>Type of Indebtedness</u>	<u>Amount</u>
General Obligation Bonds	<u>\$36,771</u>

CITY OF FONTANELLE
Notes to the Financial Statements – Continued

(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 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.90%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$8,067, \$8,247, and \$9,482, 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, 2005 are summarized as follows:

General obligation bonds payable at beginning of year	\$305,000	
Bond principal payments during year	60,000	
General obligation bonds payable at end of year	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-top: 1px solid black; border-bottom: 3px double black;">\$245,000</td> </tr> </table>	\$245,000
\$245,000		

(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, 2005 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>	
Sick leave	\$ 24,480	
Vacation	3,560	
	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 28,040</td> </tr> </table>	\$ 28,040
\$ 28,040		

The liability has been computed based on rates of pay as of June 30, 2005.

(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.

CITY OF FONTANELLE

Notes to the Financial Statements – Continued

(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 \$41,698 at June 30, 2005 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 \$1,317 at June 30, 2005 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) Related Party Transactions

During the year ended June 30, 2005, the City purchased goods and services from a business owned by a city official totaling \$6,270.

(11) Commitments

The City has committed to construction projects under the housing rehabilitation program totaling \$69,000.

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, 2005

	Governmental <u>Funds</u>	Proprietary <u>Funds</u>	<u>Total</u>
Receipts:			
Property tax	\$ 154,096	0	154,096
TIF revenues	19,160	0	19,160
Other city taxes	2,437	0	2,437
Licenses and permits	639	0	639
Use of money and property	4,088	7,390	11,478
Intergovernmental	189,722	0	189,722
Charges for service	3,293	593,844	597,137
Miscellaneous	9,541	0	9,541
 Total Receipts	 <u>382,976</u>	 <u>601,234</u>	 <u>984,210</u>
Disbursements:			
Public safety	34,119	0	34,119
Public works	77,492	0	77,492
Culture and recreation	29,225	0	29,225
Community and economic development	111,336	0	111,336
General government	14,621	0	14,621
Debt service	77,010	0	77,010
Business type activities	0	583,173	583,173
 Total Disbursements	 <u>343,803</u>	 <u>583,173</u>	 <u>926,976</u>
 Excess (Deficit) of Receipts over (under) Disbursements	 39,173	 18,061	 57,234
 Balances at Beginning of Year	 321,834	 655,761	 977,595
 Balances at End of Year	 <u>\$ 361,007</u>	 <u>673,822</u>	 <u>1,034,829</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, 2005

<u>Budgeted Amount</u>	<u>Variance to Final</u>
153,847	249
17,000	2,160
2,276	161
655	(16)
1,020	10,458
201,566	(11,844)
585,507	11,630
4,000	5,541
<u>965,871</u>	<u>18,339</u>
46,699	12,580
109,695	32,203
33,990	4,765
120,000	8,664
20,661	6,040
76,861	(149)
640,999	57,826
<u>1,048,905</u>	<u>121,929</u>
(83,034)	140,268
802,092	175,503
<u>719,058</u>	<u>315,771</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, 2005

	<u>Special Revenue</u>				<u>Total</u>
	<u>Employee Benefits</u>	<u>Emergency Management</u>	<u>TIF</u>	<u>Permanent Fund</u>	
Receipts:					
Property tax	\$ 173	0	0	0	173
TIF revenues	0	0	19,160	0	19,160
Use of money and property - interest	0	0	0	33	33
Miscellaneous - meter deposits	0	0	0	2,950	2,950
Total Receipts	<u>173</u>	<u>0</u>	<u>19,160</u>	<u>2,983</u>	<u>22,316</u>
Disbursements:					
Operating:					
Public safety	2,104	692	0	0	2,796
Public works	712	0	0	1,958	2,670
Culture and recreation	434	0	0	0	434
Community and economic development	0	0	1,617	0	1,617
General government	862	0	0	0	862
Total Disbursements	<u>4,112</u>	<u>692</u>	<u>1,617</u>	<u>1,958</u>	<u>8,379</u>
Net Change in Cash Balances	(3,939)	(692)	17,543	1,025	13,937
Cash Balances at Beginning of Year	9,754	0	(59,241)	3,652	(45,835)
Cash Balances at End of Year	<u>\$ 5,815</u>	<u>(692)</u>	<u>(41,698)</u>	<u>4,677</u>	<u>(31,898)</u>
Cash Basis Fund Balances:					
Unreserved:					
Special revenue funds	\$ 5,815	(692)	(41,698)	0	(36,575)
Permanent fund	0	0	0	4,677	4,677
	<u>\$ 5,815</u>	<u>(692)</u>	<u>(41,698)</u>	<u>4,677</u>	<u>(31,898)</u>

CITY OF FONTANELLE
 Schedule of Long-Term Debt and Interest
 June 30, 2005

<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, 2005

<u>Balance</u> <u>June 30, 2004</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Interest</u> <u>Paid</u>
\$ 25,000	0	25,000	0	1,562
280,000	0	35,000	245,000	15,448
<u>305,000</u>	<u>0</u>	<u>60,000</u>	<u>245,000</u>	<u>17,010</u>
<u>10,000</u>	<u>0</u>	<u>10,000</u>	<u>0</u>	<u>640</u>
<u>\$ 315,000</u>	<u>0</u>	<u>70,000</u>	<u>245,000</u>	<u>17,650</u>

CITY OF FONTANELLE

Bond Maturities

June 30, 2005

General Obligation Bonds

Sewer Project

Issued 9-1-00

<u>Year</u> <u>Ending</u> <u>June 30</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
2006	5.40%	\$ 35,000
2007	5.45	40,000
2008	5.50	40,000
2009	5.55	40,000
2010	5.60	45,000
2011	5.70	45,000
		<u>\$ 245,000</u>

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

	<u>Years Ended June 30,</u>			
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Receipts:				
Property tax	\$ 154,096	164,027	145,313	165,626
TIF revenues	19,160	19,274	14,922	327
Other city taxes	2,437	950	1,063	0
Licenses and permits	639	645	653	639
Use of money and property	4,088	2,529	4,205	11,137
Intergovernmental	189,722	259,104	131,811	95,310
Charges for services	3,293	1,053	10,800	10,683
Miscellaneous	9,541	129,981	78,683	44,769
Total Receipts	<u>\$ 382,976</u>	<u>577,563</u>	<u>387,450</u>	<u>328,491</u>
Disbursements:				
Public safety	\$ 34,119	103,945	114,829	62,972
Public works	77,492	92,045	24,276	119,632
Culture and recreation	29,225	31,355	37,786	28,297
Community and economic development	111,336	133,511	41,535	86,840
General government	14,621	16,247	14,380	15,820
Debt service	77,010	80,390	78,425	81,380
Total Disbursements	<u>\$ 343,803</u>	<u>457,493</u>	<u>311,231</u>	<u>394,941</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, 2005 and have issued my report thereon dated July 20, 2005. 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 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, 2005 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 items 05-III-B and 05-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 05-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, 2005

CITY OF FONTANELLE
Schedule of Findings
Year Ended June 30, 2005

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, 2005

Part II: Findings Related to the Financial Statements

Instances of Non-compliance

No matters were noted.

Reportable Conditions

05-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, cash disbursements, 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, 2005

Part III: Other Findings Related to Statutory Reporting

05-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, 2005.

05-III-B Certified Budget

City expenditures during the year ended June 30, 2005 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.

05-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.

05-III-D Travel Expense

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

05-III-E Business Transactions

During the year ended June 30, 2005, the City purchased goods and services from the following city officials:

Underground Specialty	Rodney Dukes	\$ 6,270
-----------------------	--------------	----------

Since these payments are in excess of \$2,500 they appear to violate the provisions of Chapter 362.5(11) of the Code of Iowa.

Response: The business was awarded using a competitive bidding process.

Conclusion: Response accepted.

05-III-F Bond Coverage

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

05-III-G Council Minutes

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

05-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.

CITY OF FONTANELLE
Schedule of Findings
Year Ended June 30, 2005

05-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.

04-III-J Deficit Fund Balances

The special revenue fund for Tax Increment Financing had a deficit balance of \$41,698 at June 30, 2005. This deficit is to be eliminated through future Tax Increment Financing receipts. The capital projects fund had a deficit fund balance of \$1,317 at June 30, 2005. 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