

**CITY OF FONTANELLE**

Fontanelle, Iowa

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

June 30, 2006

With Independent Auditor's Reports

**CITY OF FONTANELLE**  
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**CITY OF FONTANELLE**

City Officials  
June 30, 2006

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Prior to January 1, 2006</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
<u>Subsequent to December 31, 2005</u>		
R. Scott Homan	Mayor	December 31, 2007
Patricia Glassell	Mayor Pro Tem	December 31, 2007
Brad Newton	Council Member	December 31, 2007
Ron Reed	Council Member	December 31, 2009
David Sickels	Council Member	December 31, 2007
Jim Warrior	Council Member	December 31, 2009
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, 2006, 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 opinions 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 opinions.

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, 2006, 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 13, 2006 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 grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of 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 have applied certain 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 conducted 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, 2005 (none of which are presented herein) and expressed a qualified opinion on the financial statements for the year ended June 30, 2003 due to the absence of a record of fixed assets. My opinions on the financial statements for the years ended June 30, 2005 and 2004 were unqualified. Other supplementary information included on pages 24 through 28 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 13, 2006

**CITY OF FONTANELLE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2006**

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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

**2006 FINANCIAL HIGHLIGHTS**

- Revenues of the City's governmental activities decreased 6%, or \$23,028, from fiscal 2005 to fiscal year 2006. Property tax decreased \$31,592, but this was offset by the collection of \$39,304 in local option sales tax.
- Disbursements decreased 4%, or \$14,312, in fiscal 2006 from fiscal 2005. No major street or utility projects were scheduled for this fiscal year.
- The City's total cash basis net assets increased 16%, or \$165,167, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the government activities increased \$30,457, and the assets of the business type activities increased by \$134,710.

**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, Local Option Sales 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 \$361,007 to \$391,464. 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>2006</u>	Year ended June 30, <u>2005</u>
Receipts:		
Property taxes	\$ 122,504	154,096
TIF revenues	19,453	19,160
Other city taxes	39,612	2,437
Licenses and permits	941	639
Use of money and property	5,934	4,088
Intergovernmental	148,036	189,722
Charges for service	3,468	3,293
Miscellaneous	<u>20,000</u>	<u>9,541</u>
<b>Total Receipts</b>	<b><u>359,948</u></b>	<b><u>382,976</u></b>
Disbursements:		
Operating:		
Public safety	39,958	34,119
Public works	70,774	73,825
Culture and recreation	36,709	29,225
Community and economic development	0	1,617
General government	21,370	14,621
Capital Outlay:		
Public works	16,439	3,667
Community and economic development	95,666	109,719
Debt Service	<u>48,575</u>	<u>77,010</u>
<b>Total Disbursements</b>	<b><u>329,491</u></b>	<b><u>343,803</u></b>
Net Change in Cash Balances	30,457	39,173
Cash Balances at Beginning of Year	<u>361,007</u>	<u>321,834</u>
Cash Balances at End of Year	<b><u>\$ 391,464</u></b>	<b><u>361,007</u></b>

Debt service	\$ 31,915	36,771
Unreserved:		
General fund	298,180	285,648
Special revenue funds	59,093	35,228
Capital projects fund	(2,036)	(1,317)
Permanent fund	<u>4,312</u>	<u>4,677</u>
Total Cash Basis Fund Balances	<b><u>\$ 391,464</u></b>	<b><u>361,007</u></b>

The City's total receipts for governmental activities decreased by 6%, or \$23,028.

The cost of governmental activities this year decreased by \$14,312 or 4%.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30, <u>2006</u>	Year ended June 30, <u>2005</u>
Operating Receipts:		
Charges for service:		
Water	\$ 123,856	111,549
Sewer	69,363	66,576
Electric	457,142	406,055
Landfill	<u>10,351</u>	<u>9,664</u>
<b>Total Operating Receipts</b>	<b><u>660,712</u></b>	<b><u>593,844</u></b>
Operating Disbursements:		
Business type activities:		
Water	105,470	135,457
Sewer	46,665	54,885
Electric	380,126	374,427
Landfill	<u>7,351</u>	<u>7,764</u>
<b>Total Operating Disbursements</b>	<b><u>539,612</u></b>	<b><u>572,533</u></b>
Excess of Operating Receipts over Operating Disbursements	121,100	21,311
Total Non-Operating Receipts (Disbursements)	<u>13,610</u>	<u>(3,250)</u>
Net Change in Cash Balances	134,710	18,061
Cash Basis Net Assets Beginning of Year	<u>673,822</u>	<u>655,761</u>
Cash Basis Net Assets End of Year	<b><u>\$ 808,532</u></b>	<b><u>673,822</u></b>

Total business type activities receipts for the fiscal year were \$660,712 compared to \$593,844 last year. Total disbursements decreased from \$583,173 to \$539,612.

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fontanelle completed the year, its governmental funds reported a combined fund balance of \$391,464, an increase of \$30,457 above last year's total of \$361,007.

- The General Fund had an increase of \$12,532 this fiscal year.
- This was the first year for the local option sales tax with revenues of \$39,304, and expenditures of \$22,000 to tear down the old fire station in preparation for a library addition. This resulted in a net gain of \$17,304.
- The Road Use Fund had a decrease of \$7,457 this fiscal year.
- The Debt Service Fund had expenditures of \$48,575 and revenues of \$43,719. We have a balance of \$31,915, which we are going to use to help offset the amount levied from property taxes by approximately \$5,000 each year until the surplus is gone.
- The Capital Projects Fund has a deficit balance of \$2,036 after the completion of the housing rehab program.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance had an increase of \$18,691 this fiscal year.
- The Sewer Fund cash balance had an increase of \$23,608 this fiscal year.
- The Electric Fund cash balance had an increase of \$89,411 this fiscal year.
- The Landfill Fund had a net increase of \$3,000 this fiscal year.

## BUDGETARY HIGHLIGHTS

During the year, the budget was amended once to provide for additional disbursements in the general government program.

## DEBT ADMINISTRATION

At June 30, 2006, the City had \$210,000 in bonds and other long-term debt, compared to \$245,000 last year, as shown below.

Outstanding Debt at Year-End

	June 30, <u>2006</u>	June 30, <u>2005</u>
General obligation bonds	<u>\$ 210,000</u>	<u>245,000</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 \$210,000 is significantly below its constitutional debt limit of \$868,049.

## **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 2007 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 3.9 percent and the state's rate is 3.4 percent. Adair County's unemployment rate fell from 3.2 percent in June 2005 to 2.7 percent in June 2006.

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 2006 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 2007. No new programs have been added to the 2007 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, 2006

	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Program Receipts Operating Grants, Contributions, and Restricted Interest</u>
Function / Programs:			
Governmental activities:			
Public safety	\$ 39,958	0	11,405
Public works	87,213	0	57,938
Culture and recreation	36,709	3,468	18,476
Community and economic development	95,666	0	0
General government	21,370	0	0
Debt service	48,575	0	154
Total Governmental Activities	329,491	3,468	87,973
Business type activities:			
Water	105,470	123,856	305
Sewer	46,665	69,363	910
Electric	380,126	457,142	12,395
Garbage	7,351	10,351	0
Total Business Type Activities	539,612	660,712	13,610
Total	\$ 869,103	664,180	101,583

General Receipts:  
Property tax levied for:  
    General purposes  
    Tax increment financing  
    Debt service  
Local option sales 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, 2006

Capital Grants, Contributions, and Restricted <u>Interest</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
0	(28,553)	0	(28,553)
0	(29,275)	0	(29,275)
0	(14,765)	0	(14,765)
72,947	(22,719)	0	(22,719)
0	(21,370)	0	(21,370)
0	(48,421)	0	(48,421)
<u>72,947</u>	<u>(165,103)</u>	<u>0</u>	<u>(165,103)</u>
0	0	18,691	18,691
0	0	23,608	23,608
0	0	89,411	89,411
0	0	3,000	3,000
<u>0</u>	<u>0</u>	<u>134,710</u>	<u>134,710</u>
<u>72,947</u>	<u>(165,103)</u>	<u>134,710</u>	<u>(30,393)</u>
	78,939	0	78,939
	19,453	0	19,453
	43,565	0	43,565
	39,304	0	39,304
	300	0	300
	1,927	0	1,927
	12,072	0	12,072
	<u>195,560</u>	<u>0</u>	<u>195,560</u>
	30,457	134,710	165,167
	361,007	673,822	1,034,829
	<u>391,464</u>	<u>808,532</u>	<u>1,199,996</u>
\$	64,346	0	64,346
	(22,245)	0	(22,245)
	31,915	0	31,915
	16,992	0	16,992
	300,456	808,532	1,108,988
<u>\$</u>	<u>391,464</u>	<u>808,532</u>	<u>1,199,996</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, 2006

	<u>General</u>	<u>Road Use Tax</u>	<u>Special Revenue Local Option Sales Tax</u>	<u>Debt Service</u>
Receipts:				
Property tax	\$ 78,939	0	0	43,565
TIF revenues	0	0	0	0
Other city taxes	308	0	39,304	0
Licenses and permits	941	0	0	0
Use of money and property	5,744	0	0	154
Intergovernmental	17,151	57,938	0	0
Charges for services	3,468	0	0	0
Miscellaneous	17,925	0	0	0
Total Receipts	<u>124,476</u>	<u>57,938</u>	<u>39,304</u>	<u>43,719</u>
Disbursements:				
Operating:				
Public safety	37,310	0	0	0
Public works	18,151	48,956	0	0
Culture and recreation	36,046	0	0	0
General government	20,437	0	0	0
Capital outlay:				
Public works	0	16,439	0	0
Community and economic development	0	0	22,000	0
Debt service	0	0	0	48,575
Total Disbursements	<u>111,944</u>	<u>65,395</u>	<u>22,000</u>	<u>48,575</u>
Net Change in Cash Balances	12,532	(7,457)	17,304	(4,856)
Cash Balances at Beginning of Year	285,648	71,803	0	36,771
Cash Balances at End of Year	<u>\$ 298,180</u>	<u>64,346</u>	<u>17,304</u>	<u>31,915</u>
Cash Basis Fund Balances:				
Reserved:				
Debt service	\$ 0	0	0	31,915
Unreserved:				
General fund	298,180	0	0	0
Special revenue funds	0	64,346	17,304	0
Capital projects fund	0	0	0	0
Permanent fund	0	0	0	0
Total Cash Basis Fund Balances	<u>\$ 298,180</u>	<u>64,346</u>	<u>17,304</u>	<u>31,915</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, 2006

<u>Capital Projects</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
0	0	122,504
0	19,453	19,453
0	0	39,612
0	0	941
0	36	5,934
72,947	0	148,036
0	0	3,468
0	2,075	20,000
<u>72,947</u>	<u>21,564</u>	<u>359,948</u>
0	2,648	39,958
0	3,667	70,774
0	663	36,709
0	933	21,370
0	0	16,439
73,666	0	95,666
0	0	48,575
<u>73,666</u>	<u>7,911</u>	<u>329,491</u>
(719)	13,653	30,457
(1,317)	(31,898)	361,007
<u>(2,036)</u>	<u>(18,245)</u>	<u>391,464</u>
0	0	31,915
0	0	298,180
0	(22,557)	59,093
(2,036)	0	(2,036)
0	4,312	4,312
<u>(2,036)</u>	<u>(18,245)</u>	<u>391,464</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, 2006

	<u>Water</u>	<u>Enterprise Funds</u>		<u>Garbage</u>
		<u>Sewer</u>	<u>Electric</u>	
Operating Receipts:				
Charges for services	\$ 123,856	69,363	457,142	10,351
Total Operating Receipts	<u>123,856</u>	<u>69,363</u>	<u>457,142</u>	<u>10,351</u>
Operating Disbursements:				
Business type activities	105,470	46,665	380,126	7,351
Total Operating Disbursements	<u>105,470</u>	<u>46,665</u>	<u>380,126</u>	<u>7,351</u>
Excess of Operating Receipts over Operating Disbursements	<u>18,386</u>	<u>22,698</u>	<u>77,016</u>	<u>3,000</u>
Non-Operating Receipts:				
Use of money and property	305	910	12,395	0
Total Non-Operating Receipts	<u>305</u>	<u>910</u>	<u>12,395</u>	<u>0</u>
Net Change in Cash Balances	18,691	23,608	89,411	3,000
Cash Balances at Beginning of Year	<u>10,520</u>	<u>111,751</u>	<u>550,160</u>	<u>1,391</u>
Cash Balances at End of Year	<u>\$ 29,211</u>	<u>135,359</u>	<u>639,571</u>	<u>4,391</u>
Cash Basis Fund Balances:				
Unrestricted:				
Unreserved	<u>\$ 29,211</u>	<u>135,359</u>	<u>639,571</u>	<u>4,391</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, 2006

<u>Total</u>
660,712
<u>660,712</u>
539,612
<u>539,612</u>
121,100
<u>121,100</u>
13,610
<u>13,610</u>
134,710
<u>673,822</u>
<u>808,532</u>
<u><u>808,532</u></u>

**CITY OF FONTANELLE**  
Notes to the Financial Statements  
June 30, 2006

(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. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, electric and garbage collection utilities for its citizens.

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.

**CITY OF FONTANELLE**  
Notes to the Financial Statements - Continued

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.

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.

The Local Option Sales Tax Fund is used to account for local option sales tax collections which are restricted for use on capital improvement projects.

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.

**CITY OF FONATANELLE**  
Notes to the Financial Statements – Continued

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the culture and recreation function.

(2) Pooled Deposits and Investments

The City's deposits at June 30, 2006 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, 2006 long-term debt is as follows:

Year Ending June 30,	Interest Rates	General Obligation Bonds		
		Principal	Interest	Total
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	5.60	45,000	5,085	50,085
2011	5.70	45,000	2,565	47,565
		<u>\$210,000</u>	<u>36,145</u>	<u>246,145</u>

Interest paid on General Obligation Bonds amounted to \$13,575 for the year ended June 30, 2006. All of this amount was expensed.

Cash restricted for the bonds at June 30, 2006 is as follows:

<u>Type of Indebtedness</u>	<u>Amount</u>
General Obligation Bonds	<u>\$31,915</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. The City's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$9,057, \$8,067, and \$8,247, 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, 2006 are summarized as follows:

General obligation bonds payable at beginning of year	\$245,000	
Bond principal payments during year	35,000	
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;">\$210,000</td> </tr> </table>	\$210,000
\$210,000		

(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, 2006 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Sick leave	\$ 29,813
Vacation	3,914
	\$ 33,727

The liability has been computed based on rates of pay as of June 30, 2006.

(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 \$22,245 at June 30, 2006 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 \$2,036 at June 30, 2006 as a result of disbursements exceeding receipts during the years ended June 30, 2006, 2004 and 2003. The deficit will be eliminated through transfers from other funds.

The Emergency Management Fund had a deficit fund balance of \$692 at June 30, 2006 as a result of disbursements exceeding receipts during the year ended June 30, 2005. The deficit will be eliminated through transfers from other funds.

**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, 2006

	Governmental <u>Funds</u>	Proprietary <u>Funds</u>	<u>Total</u>
Receipts:			
Property tax	\$ 122,504	0	122,504
TIF revenues	19,453	0	19,453
Other city taxes	39,612	0	39,612
Licenses and permits	941	0	941
Use of money and property	5,934	13,610	19,544
Intergovernmental	148,036	0	148,036
Charges for service	3,468	660,712	664,180
Miscellaneous	20,000	0	20,000
	<u>359,948</u>	<u>674,322</u>	<u>1,034,270</u>
Disbursements:			
Public safety	39,958	0	39,958
Public works	87,213	0	87,213
Culture and recreation	36,709	0	36,709
Community and economic development	95,666	0	95,666
General government	21,370	0	21,370
Debt service	48,575	0	48,575
Business type activities	0	539,612	539,612
	<u>329,491</u>	<u>539,612</u>	<u>869,103</u>
Excess (Deficit) of Receipts over (under) Disbursements	30,457	134,710	165,167
Balances at Beginning of Year	361,007	673,822	1,034,829
Balances at End of Year	<u>\$ 391,464</u>	<u>808,532</u>	<u>1,199,996</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, 2006

<u>Budgeted Amount</u>		<u>Variance to Final</u>
<u>Original</u>	<u>Amended</u>	
122,320	122,320	184
20,000	20,000	(547)
27,950	27,950	11,662
661	661	280
1,020	1,020	18,524
174,281	174,281	(26,245)
601,080	601,080	63,100
3,000	3,000	17,000
<u>950,312</u>	<u>950,312</u>	<u>83,958</u>
45,969	45,969	6,011
109,109	109,109	21,896
34,530	34,530	(2,179)
96,000	96,000	334
23,320	51,320	29,950
48,575	48,575	0
624,319	624,319	84,707
<u>981,822</u>	<u>1,009,822</u>	<u>140,719</u>
(31,510)	(59,510)	224,677
973,783	973,783	61,046
<u>942,273</u>	<u>914,273</u>	<u>285,723</u>

**CITY OF FONTANELLE**  
Notes to Required Supplementary Information  
June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These 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. During the year, one budget amendment increased budgeted disbursements by \$28,000. The budget amendment is reflected in the final budgeted figures.

During the year ended June 30, 2006, disbursements exceeded amounts budgeted in the culture and recreation function.

**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, 2006

	<u>Special Revenue</u>				<u>Total</u>
	<u>Employee Benefits</u>	<u>Emergency Management</u>	<u>TIF</u>	<u>Permanent Fund</u>	
Receipts:					
TIF revenues	\$ 0	0	19,453	0	19,453
Use of money and property - interest	0	0	0	36	36
Miscellaneous - meter deposits	0	0	0	2,075	2,075
Total Receipts	<u>0</u>	<u>0</u>	<u>19,453</u>	<u>2,111</u>	<u>21,564</u>
Disbursements:					
Operating:					
Public safety	2,648	0	0	0	2,648
Public works	1,191	0	0	2,476	3,667
Culture and recreation	663	0	0	0	663
General government	933	0	0	0	933
Total Disbursements	<u>5,435</u>	<u>0</u>	<u>0</u>	<u>2,476</u>	<u>7,911</u>
Net Change in Cash Balances	(5,435)	0	19,453	(365)	13,653
Cash Balances at Beginning of Year	5,815	(692)	(41,698)	4,677	(31,898)
Cash Balances at End of Year	<u>\$ 380</u>	<u>(692)</u>	<u>(22,245)</u>	<u>4,312</u>	<u>(18,245)</u>
Cash Basis Fund Balances:					
Unreserved:					
Special revenue funds	\$ 380	(692)	(22,245)	0	(22,557)
Permanent fund	0	0	0	4,312	4,312
	<u>\$ 380</u>	<u>(692)</u>	<u>(22,245)</u>	<u>4,312</u>	<u>(18,245)</u>

**CITY OF FONTANELLE**  
 Schedule of Long-Term Debt and Interest  
 June 30, 2006

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Bonds: 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			

**CITY OF FONTANELLE**  
Schedule of Long-Term Debt and Interest  
June 30, 2006

<u>Balance</u> <u>June 30, 2005</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Interest</u> <u>Paid</u>
\$ 245,000	0	35,000	210,000	13,575
<u>\$ 245,000</u>	<u>0</u>	<u>35,000</u>	<u>210,000</u>	<u>13,575</u>

**CITY OF FONTANELLE**

Bond Maturities

June 30, 2006

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>
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>\$ 210,000</u>

**CITY OF FONTANELLE**

Schedule of Receipts by Source and Disbursements by Function  
All Governmental Funds

	<u>Years Ended June 30,</u>			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:				
Property tax	\$ 122,504	154,096	164,027	145,313
TIF revenues	19,453	19,160	19,274	14,922
Other city taxes	39,612	2,437	950	1,063
Licenses and permits	941	639	645	653
Use of money and property	5,934	4,088	2,529	4,205
Intergovernmental	148,036	189,722	259,104	131,811
Charges for services	3,468	3,293	1,053	10,800
Miscellaneous	20,000	9,541	129,981	78,683
 Total Receipts	 <u><u>\$ 359,948</u></u>	 <u><u>382,976</u></u>	 <u><u>577,563</u></u>	 <u><u>387,450</u></u>
Disbursements:				
Public safety	\$ 39,958	34,119	103,945	114,829
Public works	87,213	77,492	92,045	24,276
Culture and recreation	36,709	29,225	31,355	37,786
Community and economic development	95,666	111,336	133,511	41,535
General government	21,370	14,621	16,247	14,380
Debt service	48,575	77,010	80,390	78,425
 Total Disbursements	 <u><u>\$ 329,491</u></u>	 <u><u>343,803</u></u>	 <u><u>457,493</u></u>	 <u><u>311,231</u></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 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, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued my report thereon dated July 13, 2006. 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.

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 opinions 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by an error or fraud 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 06-II-A.

### Compliance and Other Matters

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 grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters 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, 2006 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 06-III-A and 06-III-H.

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 13, 2006

**CITY OF FONTANELLE**  
Schedule of Findings  
Year Ended June 30, 2006

Part I: Summary of Independent Auditor's Results

- (a) Unqualified opinions were 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, 2006

Part II: Findings Related to the Financial Statements

Instances of Non-compliance

No matters were noted.

Reportable Conditions

06-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, 2006

Part III: Other Findings Related to Statutory Reporting

06-III-A Certified Budget

City expenditures during the year ended June 30, 2006 exceeded amounts budgeted therefore in the culture and recreation function. 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.

06-III-B 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.

06-III-C Travel Expense

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

06-III-D Business Transactions

During the year ended June 30, 2006, there were no business transactions between the City and City officials.

06-III-E Bond Coverage

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

06-III-F Council Minutes

No transactions were found that I believe should have been approved in the Council minutes but were not. I did note one occasion when the Council minutes were not published within 15 days of the Council meeting as required by Chapter 372.13(6) of the Code of Iowa. City officials should have the minutes published in a timely manner as required.

Response: We will attempt to do this.

Conclusion: Response accepted.

06-III-G Deposits and Investments

I noted instances where the City purchased certificates of deposit at interest rates less than the rates established by the State of Iowa Rate Setting Committee. As a result of this audit finding, City officials contacted the bank where the certificates of deposit were purchased and subsequently received additional interest amounting to \$1,742. City officials should monitor the minimum interest rates allowed and only purchase certificates of deposit at a rate meeting the minimum interest rate.

Response: We will do this.

Conclusion: Response accepted.

**CITY OF FONTANELLE**  
Schedule of Findings  
Year Ended June 30, 2006

06-III-H Deficit Fund Balances

The special revenue fund for Tax Increment Financing had a deficit balance of \$22,245 at June 30, 2006. This deficit is to be eliminated through future Tax Increment Financing receipts. The capital projects fund had a deficit fund balance of \$2,036 at June 30, 2006. This deficit is to be eliminated through transfers from other funds. The emergency management fund had a deficit fund balance of \$692 at June 30, 2006. This deficit is to be eliminated through transfers from other funds. 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