

CITY OF FONTANELLE

Fontanelle, Iowa

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

June 30, 2007

With Independent Auditor's Reports

CITY OF FONTANELLE
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CITY OF FONTANELLE

City Officials
June 30, 2007

<u>Name</u>	<u>Title</u>	<u>Term Expires</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 Sickles	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, 2007, 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, 2007, 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, 2007 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, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. 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 20, 2007

**CITY OF FONTANELLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

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, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 11%, or \$41,173, from fiscal 2006 to fiscal year 2007. Property tax increased \$12,107, but this was offset by the decrease of \$66,267 in intergovernmental revenue.
- Disbursements decreased 17%, or \$56,594, in fiscal 2007 from fiscal 2006. No major street or utility projects were scheduled for this fiscal year.
- The City's total cash basis net assets increased 13%, or \$159,706, from June 30, 2006 to June 30, 2007. Of this amount, the assets of the government activities increased \$45,878, and the assets of the business type activities increased by \$113,828.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the city as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential 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 \$391,464 to \$437,342. 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>2007</u>	Year ended June 30, <u>2006</u>
Receipts:		
Property taxes	\$ 134,611	122,504
TIF revenues	18,807	19,453
Other city taxes	43,934	39,612
Licenses and permits	774	941
Use of money and property	12,259	5,934
Intergovernmental	81,769	148,036
Charges for service	3,023	3,468
Miscellaneous	<u>23,598</u>	<u>20,000</u>
Total Receipts	<u>318,775</u>	<u>359,948</u>
Disbursements:		
Operating:		
Public safety	44,473	39,958
Public works	83,880	70,774
Culture and recreation	33,043	36,709
Community and economic development	10,935	0
General government	20,761	21,370
Capital Outlay:		
Public safety	23,755	0
Public works	4,365	16,439
Community and economic development	0	95,666
Debt Service	<u>51,685</u>	<u>48,575</u>
Total Disbursements	<u>272,897</u>	<u>329,491</u>
Net Change in Cash Balances	45,878	30,457
Cash Balances at Beginning of Year	<u>391,464</u>	<u>361,007</u>
Cash Balances at End of Year	<u>\$ 437,342</u>	<u>391,464</u>

Cash Basis Fund Balances:		
Debt service	\$ 27,907	31,915
Unreserved:		
General fund	301,532	298,180
Special revenue funds	102,494	59,093
Capital projects fund	(2,036)	(2,036)
Permanent fund	<u>7,445</u>	<u>4,312</u>
Total Cash Basis Fund Balances	<u>\$ 437,342</u>	<u>391,464</u>

The City's total receipts for governmental activities decreased by 11%, or \$41,173.

The cost of governmental activities this year decreased by \$56,594 or 17%.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30, <u>2007</u>	Year ended June 30, <u>2006</u>
Operating Receipts:		
Charges for service:		
Water	\$ 121,328	123,856
Sewer	68,261	69,363
Electric	478,859	457,142
Landfill	<u>9,986</u>	<u>10,351</u>
Total Operating Receipts	<u>678,434</u>	<u>660,712</u>
Operating Disbursements:		
Business type activities:		
Water	100,966	105,470
Sewer	53,078	46,665
Electric	424,177	380,126
Landfill	<u>7,009</u>	<u>7,351</u>
Total Operating Disbursements	<u>585,230</u>	<u>539,612</u>
Excess of Operating Receipts over Operating Disbursements	93,204	121,100
Total Non-Operating Receipts	<u>20,624</u>	<u>13,610</u>
Net Change in Cash Balances	113,828	134,710
Cash Basis Net Assets at Beginning of Year	<u>808,532</u>	<u>673,822</u>
Cash Basis Net Assets at End of Year	<u>\$ 922,360</u>	<u>808,532</u>

Total business type activities receipts for the fiscal year were \$678,434 compared to \$660,712 last year. Total disbursements increased from \$539,612 to \$585,230.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fontanelle completed the year, its governmental funds reported a combined fund balance of \$437,342, an increase of \$45,878 above last year's total of \$391,464. The major reason for the change in fund balance is no major projects were scheduled.

- Revenues of \$43,218 were received from the local option sales tax with no expenditures this year.
- The Road Use Fund had a decrease of \$5,217 this fiscal year.
- The Debt Service Fund had expenditures of \$51,685 and revenues of \$47,677. We have a balance of \$27,907, 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 General Fund had an increase of \$3,352 this fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance had an increase of \$20,917 this fiscal year.
- The Sewer Fund cash balance had an increase of \$16,543 this fiscal year.
- The Electric Fund cash balance had an increase of \$73,391 this fiscal year.
- The Landfill Fund had a net increase of \$2,977 this fiscal year.

BUDGETARY HIGHLIGHTS

It was necessary to amend the City's budget this year due to unforeseen expenditures for fire and police department equipment, architect fees for the proposed library addition, reimbursement of TIF taxes for low income citizens residing in Summerset Estates, and incidental expenditures from the general fund. Cash on hand was used to cover these expenses.

DEBT ADMINISTRATION

At June 30, 2007, the City had \$170,000 in bonds and other long-term debt, compared to \$210,000 last year, as shown below.

Outstanding Debt at Year-End

	June 30, <u>2007</u>	June 30, <u>2006</u>
General obligation bonds	<u>\$ 170,000</u>	<u>210,000</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 \$170,000 is significantly below its constitutional debt limit of \$898,813.

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 2008 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 4.7 percent and the state's rate is 3.8 percent. Adair County's unemployment rate remained at 2.9 percent from July 2006 to July 2007.

Inflation in the State continues to be somewhat lower than the National Consumer Price Index increase. The state's CPI increase was 2.4 percent for fiscal year 2007 compared with the national rate of 2.7 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 2008. No new programs have been added to the 2008 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, 2007

	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Program Receipts Operating Grants, Contributions, and Restricted Interest</u>
Function / Programs:			
Governmental activities:			
Public safety	\$ 68,228	0	11,354
Public works	88,245	0	57,675
Culture and recreation	33,043	3,023	8,205
Community and economic development	10,935	0	0
General government	20,761	0	0
Debt service	51,685	0	231
Total Governmental Activities	272,897	3,023	77,465
Business type activities:			
Water	100,966	121,328	555
Sewer	53,078	68,261	1,360
Electric	424,177	478,859	18,709
Garbage	7,009	9,986	0
Total Business Type Activities	585,230	678,434	20,624
Total	\$ 858,127	681,457	98,089

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, 2007

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>
6,995	(49,879)	0	(49,879)
0	(30,570)	0	(30,570)
0	(21,815)	0	(21,815)
0	(10,935)	0	(10,935)
0	(20,761)	0	(20,761)
0	(51,454)	0	(51,454)
<u>6,995</u>	<u>(185,414)</u>	<u>0</u>	<u>(185,414)</u>
0	0	20,917	20,917
0	0	16,543	16,543
0	0	73,391	73,391
0	0	2,977	2,977
<u>0</u>	<u>0</u>	<u>113,828</u>	<u>113,828</u>
<u>6,995</u>	<u>(185,414)</u>	<u>113,828</u>	<u>(71,586)</u>
	87,880	0	87,880
	18,807	0	18,807
	47,446	0	47,446
	43,218	0	43,218
	150	0	150
	12,028	0	12,028
	21,763	0	21,763
	<u>231,292</u>	<u>0</u>	<u>231,292</u>
	45,878	113,828	159,706
	391,464	808,532	1,199,996
	<u>437,342</u>	<u>922,360</u>	<u>1,359,702</u>
\$	59,129	0	59,129
	(14,373)	0	(14,373)
	27,907	0	27,907
	57,738	0	57,738
	306,941	922,360	1,229,301
<u>\$</u>	<u>437,342</u>	<u>922,360</u>	<u>1,359,702</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, 2007

	<u>General</u>	<u>Road Use Tax</u>	<u>Special Revenue Local Option Sales Tax</u>	<u>Debt Service</u>
Receipts:				
Property tax	\$ 82,936	0	0	47,446
TIF revenues	0	0	0	0
Other city taxes	716	0	43,218	0
Licenses and permits	774	0	0	0
Use of money and property	11,988	0	0	231
Intergovernmental	24,094	57,675	0	0
Charges for services	3,023	0	0	0
Miscellaneous	17,948	0	0	0
Total Receipts	<u>141,479</u>	<u>57,675</u>	<u>43,218</u>	<u>47,677</u>
Disbursements:				
Operating:				
Public safety	41,799	0	0	0
Public works	20,617	58,527	0	0
Culture and recreation	32,257	0	0	0
Community and economic development	0	0	0	0
General government	19,699	0	0	0
Capital outlay:				
Public safety	23,755	0	0	0
Public works	0	4,365	0	0
Debt service	0	0	0	51,685
Total Disbursements	<u>138,127</u>	<u>62,892</u>	<u>0</u>	<u>51,685</u>
Net Change in Cash Balances	3,352	(5,217)	43,218	(4,008)
Cash Balances at Beginning of Year	298,180	64,346	17,304	31,915
Cash Balances at End of Year	<u>\$ 301,532</u>	<u>59,129</u>	<u>60,522</u>	<u>27,907</u>
Cash Basis Fund Balances:				
Reserved:				
Debt service	\$ 0	0	0	27,907
Unreserved:				
General fund	301,532	0	0	0
Special revenue funds	0	59,129	60,522	0
Capital projects fund	0	0	0	0
Permanent fund	0	0	0	0
Total Cash Basis Fund Balances	<u>\$ 301,532</u>	<u>59,129</u>	<u>60,522</u>	<u>27,907</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, 2007

Other Nonmajor Governmental Funds	<u>Total</u>
4,229	134,611
18,807	18,807
0	43,934
0	774
40	12,259
0	81,769
0	3,023
5,650	23,598
<u>28,726</u>	<u>318,775</u>
2,674	44,473
4,736	83,880
786	33,043
10,935	10,935
1,062	20,761
0	23,755
0	4,365
0	51,685
<u>20,193</u>	<u>272,897</u>
8,533	45,878
(20,281)	391,464
<u>(11,748)</u>	<u>437,342</u>
0	27,907
0	301,532
(17,157)	102,494
(2,036)	(2,036)
7,445	7,445
<u>(11,748)</u>	<u>437,342</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, 2007

	<u>Water</u>	<u>Enterprise Funds</u>		<u>Garbage</u>
		<u>Sewer</u>	<u>Electric</u>	
Operating Receipts:				
Charges for services	\$ 121,328	68,261	478,859	9,986
Total Operating Receipts	<u>121,328</u>	<u>68,261</u>	<u>478,859</u>	<u>9,986</u>
Operating Disbursements:				
Business type activities	100,966	53,078	424,177	7,009
Total Operating Disbursements	<u>100,966</u>	<u>53,078</u>	<u>424,177</u>	<u>7,009</u>
Excess of Operating Receipts over Operating Disbursements	<u>20,362</u>	<u>15,183</u>	<u>54,682</u>	<u>2,977</u>
Non-Operating Receipts:				
Use of money and property	555	1,360	18,709	0
Total Non-Operating Receipts	<u>555</u>	<u>1,360</u>	<u>18,709</u>	<u>0</u>
Net Change in Cash Balances	20,917	16,543	73,391	2,977
Cash Balances at Beginning of Year	<u>29,211</u>	<u>135,359</u>	<u>639,571</u>	<u>4,391</u>
Cash Balances at End of Year	<u>\$ 50,128</u>	<u>151,902</u>	<u>712,962</u>	<u>7,368</u>
Cash Basis Fund Balances:				
Unrestricted:				
Unreserved	<u>\$ 50,128</u>	<u>151,902</u>	<u>712,962</u>	<u>7,368</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, 2007

<u>Total</u>
678,434
<u>678,434</u>
585,230
<u>585,230</u>
<u>93,204</u>
20,624
<u>20,624</u>
113,828
<u>808,532</u>
<u>922,360</u>
<u><u>922,360</u></u>

CITY OF FONTANELLE
Notes to the Financial Statements
June 30, 2007

(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.

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.

(2) Pooled Deposits and Investments

The City's deposits at June 30, 2007 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, 2007 long-term debt is as follows:

Year Ending June 30,	Interest Rates	General Obligation Bonds		
		Principal	Interest	Total
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>\$170,000</u>	<u>24,460</u>	<u>194,460</u>

Interest paid on General Obligation Bonds amounted to \$11,685 for the year ended June 30, 2007. All of this amount was expensed.

Cash restricted for the bonds at June 30, 2007 is as follows:

<u>Type of Indebtedness</u>	<u>Amount</u>
General Obligation Bonds	<u>\$27,907</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 6.08% and 9.12%, respectively. For the years ended June 30, 2006 and 2005, the contribution rates for police employees and the City were 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, 2007, 2006, and 2005 were \$9,417, \$9,057, and \$8,067, 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, 2007 are summarized as follows:

General obligation bonds payable at beginning of year	\$210,000	
Bond principal payments during year	40,000	
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;">\$170,000</td> </tr> </table>	\$170,000
\$170,000		

(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, 2007 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Sick leave	\$ 33,387
Vacation	4,606
	\$ 37,993

The liability has been computed based on rates of pay as of June 30, 2007.

(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 Employee Benefits Fund had a deficit balance of \$2,092 at June 30, 2007 as a result of disbursements exceeding receipts during the year ended June 30, 2007. The deficit will be eliminated through future property tax collections.

The Special Revenue Fund – TIF had a deficit fund balance of \$14,373 at June 30, 2007 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, 2007 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, 2007 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, 2007

	Governmental <u>Funds</u>	Proprietary <u>Funds</u>	<u>Total</u>
Receipts:			
Property tax	\$ 134,611	0	134,611
TIF revenues	18,807	0	18,807
Other city taxes	43,934	0	43,934
Licenses and permits	774	0	774
Use of money and property	12,259	20,624	32,883
Intergovernmental	81,769	0	81,769
Charges for service	3,023	678,434	681,457
Miscellaneous	23,598	0	23,598
 Total Receipts	 <u>318,775</u>	 <u>699,058</u>	 <u>1,017,833</u>
Disbursements:			
Public safety	68,228	0	68,228
Public works	88,245	0	88,245
Culture and recreation	33,043	0	33,043
Community and economic development	10,935	0	10,935
General government	20,761	0	20,761
Debt service	51,685	0	51,685
Business type activities	0	585,230	585,230
 Total Disbursements	 <u>272,897</u>	 <u>585,230</u>	 <u>858,127</u>
 Excess (Deficit) of Receipts over (under) Disbursements	 45,878	 113,828	 159,706
 Balances at Beginning of Year	 391,464	 808,532	 1,199,996
 Balances at End of Year	 <u>\$ 437,342</u>	 <u>922,360</u>	 <u>1,359,702</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, 2007

<u>Budgeted Amount</u>		<u>Variance to Final</u>
<u>Original</u>	<u>Amended</u>	
131,501	131,501	3,110
17,651	17,651	1,156
27,532	27,532	16,402
651	651	123
1,030	1,030	31,853
85,226	92,221	(10,452)
645,466	645,466	35,991
2,000	2,000	21,598
<u>911,057</u>	<u>918,052</u>	<u>99,781</u>
60,197	76,697	8,469
108,321	108,321	20,076
37,232	44,232	11,189
6,000	11,000	65
21,256	23,856	3,095
51,685	51,685	0
684,186	684,186	98,956
<u>968,877</u>	<u>999,977</u>	<u>141,850</u>
(57,820)	(81,925)	241,631
1,017,400	1,017,400	182,596
<u>959,580</u>	<u>935,475</u>	<u>424,227</u>
<u>959,580</u>	<u>935,475</u>	<u>424,227</u>

CITY OF FONTANELLE
Notes to Required Supplementary Information
June 30, 2007

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 receipts by \$6,995 and budgeted disbursements by \$31,100. The budget amendment is reflected in the final budgeted figures.

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, 2007

	<u>Special Revenue</u>			<u>Capital Projects</u>	<u>Permanent Fund</u>	<u>Total</u>
	<u>Employee Benefits</u>	<u>Emergency Management</u>	<u>TIF</u>			
Receipts:						
Property tax	\$ 4,229	0	0	0	0	4,229
TIF revenues	0	0	18,807	0	0	18,807
Use of money and property - interest	0	0	0	0	40	40
Miscellaneous - meter deposits	0	0	0	0	5,650	5,650
Total Receipts	<u>4,229</u>	<u>0</u>	<u>18,807</u>	<u>0</u>	<u>5,690</u>	<u>28,726</u>
Disbursements:						
Operating:						
Public safety	2,674	0	0	0	0	2,674
Public works	2,179	0	0	0	2,557	4,736
Culture and recreation	786	0	0	0	0	786
Community and economic development	0	0	10,935	0	0	10,935
General government	1,062	0	0	0	0	1,062
Total Disbursements	<u>6,701</u>	<u>0</u>	<u>10,935</u>	<u>0</u>	<u>2,557</u>	<u>20,193</u>
Net Change in Cash Balances	(2,472)	0	7,872	0	3,133	8,533
Cash Balances at Beginning of Year	380	(692)	(22,245)	(2,036)	4,312	(20,281)
Cash Balances at End of Year	<u>\$ (2,092)</u>	<u>(692)</u>	<u>(14,373)</u>	<u>(2,036)</u>	<u>7,445</u>	<u>(11,748)</u>
Cash Basis Fund Balances:						
Unreserved:						
Special revenue funds	\$ (2,092)	(692)	(14,373)	0	0	(17,157)
Capital projects fund	0	0	0	(2,036)	0	(2,036)
Permanent fund	0	0	0	0	7,445	7,445
	<u>\$ (2,092)</u>	<u>(692)</u>	<u>(14,373)</u>	<u>(2,036)</u>	<u>7,445</u>	<u>(11,748)</u>

CITY OF FONTANELLE
 Schedule of Long-Term Debt and Interest
 June 30, 2007

<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, 2007

<u>Balance</u> <u>June 30, 2006</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Interest</u> <u>Paid</u>
\$ 210,000	0	40,000	170,000	11,685
<u>\$ 210,000</u>	<u>0</u>	<u>40,000</u>	<u>170,000</u>	<u>11,685</u>

CITY OF FONTANELLE

Bond Maturities

June 30, 2007

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>
2008	5.50%	\$ 40,000
2009	5.55	40,000
2010	5.60	45,000
2011	5.70	45,000
		<u>\$ 170,000</u>

CITY OF FONTANELLE

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

	<u>Years Ended June 30,</u>			
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Receipts:				
Property tax	\$ 134,611	122,504	154,096	164,027
TIF revenues	18,807	19,453	19,160	19,274
Other city taxes	43,934	39,612	2,437	950
Licenses and permits	774	941	639	645
Use of money and property	12,259	5,934	4,088	2,529
Intergovernmental	81,769	148,036	189,722	259,104
Charges for services	3,023	3,468	3,293	1,053
Miscellaneous	23,598	20,000	9,541	129,981
 Total Receipts	 <u><u>\$ 318,775</u></u>	 <u><u>359,948</u></u>	 <u><u>382,976</u></u>	 <u><u>577,563</u></u>
Disbursements:				
Public safety	\$ 68,228	39,958	34,119	103,945
Public works	88,245	87,213	77,492	92,045
Culture and recreation	33,043	36,709	29,225	31,355
Community and economic development	10,935	95,666	111,336	133,511
General government	20,761	21,370	14,621	16,247
Debt service	51,585	48,575	77,010	80,390
 Total Disbursements	 <u><u>\$ 272,797</u></u>	 <u><u>329,491</u></u>	 <u><u>343,803</u></u>	 <u><u>457,493</u></u>

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

To the Honorable Mayor and
Members of the City Council
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, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued my report thereon dated July 20, 2007. 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 as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the City of Fontanelle's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Fontanelle's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies but none that I consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Fontanelle's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement in the City of Fontanelle's financial statements that is more than inconsequential will not be prevented or detected by the City of Fontanelle's internal control. I consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Fontanelle's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I believe none of the items are material weaknesses. Prior year significant deficiencies have been resolved except for item 07-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, 2007 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 07-III-F and 07-III-H.

The City of Fontanelle's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City's responses, I did not audit the City of Fontanelle's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of 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.

/ Stanley E. Siebke

Urbandale, Iowa
July 20, 2007

CITY OF FONTANELLE
Schedule of Findings
Year Ended June 30, 2007

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 significant deficiency 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, 2007

Part II: Findings Related to the Financial Statements

Instances of Non-compliance

No matters were noted.

Significant Deficiencies

07-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, 2007

Part III: Other Findings Related to Statutory Reporting

07-III-A Certified Budget

The City properly approved a certified budget for the year ended June 30, 2007 and subsequently amended that budget. The budgeted amounts were not exceeded during the year.

07-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.

07-III-C Travel Expense

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

07-III-D Business Transactions

During the year ended June 30, 2007, there were no business transactions between the City and City officials.

07-III-E Bond Coverage

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

07-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 occasions 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.

07-III-G 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.

07-III-H Deficit Fund Balances

The Employee Benefits Fund had a deficit balance of \$2,092 at June 30, 2007. This deficit is to be eliminated through future property tax collections. The special revenue fund for Tax Increment Financing had a deficit balance of \$14,373 at June 30, 2007. 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, 2007. 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, 2007. 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