

CITY OF FONTANELLE

Fontanelle, Iowa

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

June 30, 2008

With Independent Auditor's Reports

CITY OF FONTANELLE
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CITY OF FONTANELLE

City Officials
June 30, 2008

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
R. Scott Homan	Mayor	December 31, 2009
Patricia Glassell	Mayor Pro Tem	December 31, 2011
Brad Newton*	Council Member	December 31, 2011
Ron Reed	Council Member	December 31, 2009
David Sickles	Council Member	December 31, 2011
Jim Warrior	Council Member	December 31, 2009
Susan Newton	City Clerk	Indefinite
Craig Ford	Superintendent of Utilities	Indefinite

*Brad Newton resigned effective May 12, 2008 and Linda Shafer was appointed to replace him.

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, 2008, 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, 2008, 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 September 16, 2008 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, 2007 (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
September 16, 2008

**CITY OF FONTANELLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

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, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 1%, or \$3,441, from fiscal 2007 to fiscal year 2008. Local Option Sales Tax increased \$8,021, but this was offset by the decrease of \$5,044 in intergovernmental revenue.
- Governmental disbursements decreased 7%, or \$18,154, in fiscal 2008 from fiscal 2007.
- A major project this year was the water main replacement project from the water tower to the Good Samaritan Center.
- The City's total cash basis net assets decreased 3%, or \$44,411, from June 30, 2007 to June 30, 2008. Of this amount, the assets of the government activities increased \$67,473, and the assets of the business type activities decreased by \$111,884 due to the water main replacement project.

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 \$437,342 to \$504,815. 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>2008</u>	Year ended June 30, <u>2007</u>
Receipts:		
Property taxes	\$ 131,482	134,611
TIF revenues	18,437	18,807
Other city taxes	52,260	43,934
Licenses and permits	1,191	774
Use of money and property	10,007	12,259
Intergovernmental	76,725	81,769
Charges for service	4,361	3,023
Miscellaneous	<u>27,753</u>	<u>23,598</u>
Total Receipts	<u>322,216</u>	<u>318,775</u>
Disbursements:		
Operating:		
Public safety	41,016	44,473
Public works	92,327	83,880
Culture and recreation	42,170	33,043
Community and economic development	4,015	10,935
General government	25,710	20,761
Capital Outlay:		
Public safety	0	23,755
Public works	0	4,365
Debt Service	<u>49,505</u>	<u>51,685</u>
Total Disbursements	<u>254,743</u>	<u>272,897</u>
Net Change in Cash Balances	67,473	45,878
Cash Balances at Beginning of Year	<u>437,342</u>	<u>391,464</u>
Cash Balances at End of Year	<u>\$ 504,815</u>	<u>437,342</u>

Cash Basis Fund Balances:		
Debt service	\$ 22,739	27,907
Unreserved:		
General fund	304,013	301,532
Special revenue funds	161,186	102,494
Capital projects fund	9,716	(2,036)
Permanent fund	<u>7,161</u>	<u>7,445</u>
Total Cash Basis Fund Balances	<u>\$ 504,815</u>	<u>437,342</u>

The City's total receipts for governmental activities increased by 1%, or \$3,441.

The cost of governmental activities this year decreased by \$18,154 or 7%.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30, <u>2008</u>	Year ended June 30, <u>2007</u>
Operating Receipts:		
Charges for service:		
Water	\$ 133,521	121,328
Sewer	68,382	68,261
Electric	501,538	478,859
Landfill	<u>10,003</u>	<u>9,986</u>
Total Operating Receipts	<u>713,444</u>	<u>678,434</u>
Operating Disbursements:		
Business type activities:		
Water	285,803	100,966
Sewer	51,808	53,078
Electric	503,822	424,177
Landfill	<u>7,739</u>	<u>7,009</u>
Total Operating Disbursements	<u>849,172</u>	<u>585,230</u>
Excess (Deficit) of Operating Receipts over (under) Operating Disbursements	(135,728)	93,204
Total Non-Operating Receipts	<u>23,844</u>	<u>20,624</u>
Net Change in Cash Balances	(111,884)	113,828
Cash Basis Net Assets Beginning of Year	<u>922,360</u>	<u>808,532</u>
Cash Basis Net Assets End of Year	<u>\$ 810,476</u>	<u>922,360</u>

Total business type activities receipts for the fiscal year were \$713,444 compared to \$678,434 last year. Total disbursements increased from \$585,230 to \$849,172.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fontanelle completed the year, its governmental funds reported a combined fund balance of \$504,815, an increase of \$67,473 above last year's total of \$437,342. The major reason for the change in fund balance is local option sales tax was collected, but not spent. The city hall roof project was not completed before the fiscal year ended.

- Revenues of \$51,239 were received from the local option sales tax with expenditures of \$3,240 to replace the furnace and air conditioner at city hall this year.
- The Road Use Fund had a decrease of \$4,046 this fiscal year.
- The Debt Service Fund had expenditures of \$49,505 and revenues of \$44,337. We have a balance of \$22,739, 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 \$2,481 this fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance had a decrease of \$151,678 this fiscal year due to the water main replacement project. We will borrow \$150,000 from electric fund to pay for the construction costs. We have raised the water rates to allow us to repay the loan over the next 10 years.
- The Sewer Fund cash balance had an increase of \$18,980 this fiscal year.
- The Electric Fund cash balance had an increase of \$18,550 this fiscal year. This increase is much lower than usual this year due to significant costs incurred in replacing worn electric lines.
- The Landfill Fund had a net increase of \$2,264 this fiscal year.

BUDGETARY HIGHLIGHTS

It was necessary to amend the City's budget this year due to unforeseen expenditures for architect fees for the proposed library addition and incidental expenditures from the general fund. Cash on hand was used to cover these expenses. Local option sales tax funds were budgeted to pay for the city hall roof project, but due to inclement weather the project was not completed this fiscal year.

DEBT ADMINISTRATION

At June 30, 2008, the City had \$130,000 in bonds and other long-term debt, compared to \$170,000 last year, as shown below.

Outstanding Debt at Year-End

	June 30, <u>2008</u>	June 30, <u>2007</u>
General obligation bonds	<u>\$ 130,000</u>	<u>170,000</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 \$130,000 is significantly below its constitutional debt limit of \$922,100.

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 2009 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 5.7 percent and the state's rate is 4.3 percent. Adair County's unemployment rate increased to 3.6 percent from 2.9 percent in July 2007 to July 2008.

Inflation in the State continues to be somewhat lower than the National Consumer Price Index increase of 5 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 2009. No new programs have been added to the 2009 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, 2008

	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Program Receipts Operating Grants, Contributions, and Restricted Interest</u>
Function / Programs:			
Governmental activities:			
Public safety	\$ 41,016	1,130	11,351
Public works	92,327	0	59,285
Culture and recreation	42,170	2,874	10,931
Community and economic development	4,015	11,752	0
General government	25,710	0	0
Debt service	49,505	0	246
Total Governmental Activities	<u>254,743</u>	<u>15,756</u>	<u>81,813</u>
Business type activities:			
Water	285,803	133,521	604
Sewer	51,808	68,382	2,406
Electric	503,822	501,538	20,834
Garbage	7,739	10,003	0
Total Business Type Activities	<u>849,172</u>	<u>713,444</u>	<u>23,844</u>
Total	<u>\$ 1,103,915</u>	<u>729,200</u>	<u>105,657</u>

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, 2008

Capital Grants, Contributions, and Restricted <u>Interest</u>	<u>Governmental</u> <u>Activities</u>	<u>Business Type</u> <u>Activities</u>	<u>Total</u>
0	(28,535)	0	(28,535)
0	(33,042)	0	(33,042)
0	(28,365)	0	(28,365)
0	7,737	0	7,737
0	(25,710)	0	(25,710)
0	(49,259)	0	(49,259)
<u>0</u>	<u>(157,174)</u>	<u>0</u>	<u>(157,174)</u>
0	0	(151,678)	(151,678)
0	0	18,980	18,980
0	0	18,550	18,550
0	0	2,264	2,264
<u>0</u>	<u>0</u>	<u>(111,884)</u>	<u>(111,884)</u>
<u>0</u>	<u>(157,174)</u>	<u>(111,884)</u>	<u>(269,058)</u>
	88,240	0	88,240
	18,437	0	18,437
	44,091	0	44,091
	51,239	0	51,239
	405	0	405
	9,762	0	9,762
	12,473	0	12,473
	<u>224,647</u>	<u>0</u>	<u>224,647</u>
	67,473	(111,884)	(44,411)
	437,342	922,360	1,359,702
	<u>504,815</u>	<u>810,476</u>	<u>1,315,291</u>
\$	55,083	0	55,083
	49	0	49
	22,739	0	22,739
	106,054	0	106,054
	320,890	810,476	1,131,366
	<u>\$ 504,815</u>	<u>810,476</u>	<u>1,315,291</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, 2008

	<u>General</u>	<u>Road Use Tax</u>	<u>Special Revenue Local Option Sales Tax</u>	<u>Debt Service</u>
Receipts:				
Property tax	\$ 80,939	0	0	44,091
TIF revenues	0	0	0	0
Other city taxes	1,021	0	51,239	0
Licenses and permits	1,191	0	0	0
Use of money and property	9,685	0	0	246
Intergovernmental	17,440	59,285	0	0
Charges for services	4,361	0	0	0
Miscellaneous	12,651	0	0	0
Total Receipts	<u>127,288</u>	<u>59,285</u>	<u>51,239</u>	<u>44,337</u>
Disbursements:				
Operating:				
Public safety	38,217	0	0	0
Public works	23,832	63,331	0	0
Culture and recreation	41,363	0	0	0
Community and economic development	0	0	0	0
General government	21,395	0	3,240	0
Debt service	0	0	0	49,505
Total Disbursements	<u>124,807</u>	<u>63,331</u>	<u>3,240</u>	<u>49,505</u>
Net Change in Cash Balances	2,481	(4,046)	47,999	(5,168)
Cash Balances at Beginning of Year	301,532	59,129	60,522	27,907
Cash Balances at End of Year	<u>\$ 304,013</u>	<u>55,083</u>	<u>108,521</u>	<u>22,739</u>
Cash Basis Fund Balances:				
Reserved:				
Debt service	\$ 0	0	0	22,739
Unreserved:				
General fund	304,013	0	0	0
Special revenue funds	0	55,083	108,521	0
Capital projects fund	0	0	0	0
Permanent fund	0	0	0	0
Total Cash Basis Fund Balances	<u>\$ 304,013</u>	<u>55,083</u>	<u>108,521</u>	<u>22,739</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, 2008

Other Nonmajor Governmental Funds	<u>Total</u>
6,452	131,482
18,437	18,437
0	52,260
0	1,191
76	10,007
0	76,725
0	4,361
15,102	27,753
<u>40,067</u>	<u>322,216</u>
2,799	41,016
5,164	92,327
807	42,170
4,015	4,015
1,075	25,710
0	49,505
<u>13,860</u>	<u>254,743</u>
26,207	67,473
(11,748)	437,342
<u>14,459</u>	<u>504,815</u>
0	22,739
0	304,013
(2,418)	161,186
9,716	9,716
7,161	7,161
<u>14,459</u>	<u>504,815</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, 2008

	<u>Water</u>	<u>Enterprise Funds</u>		
		<u>Sewer</u>	<u>Electric</u>	<u>Garbage</u>
Operating Receipts:				
Charges for services	\$ 133,521	68,382	501,538	10,003
Total Operating Receipts	<u>133,521</u>	<u>68,382</u>	<u>501,538</u>	<u>10,003</u>
Disbursements:				
Operating:				
Business type activities	100,838	51,808	503,822	7,739
Capital Outlay:				
Business type activities	184,965	0	0	0
Total Operating Disbursements	<u>285,803</u>	<u>51,808</u>	<u>503,822</u>	<u>7,739</u>
Excess (Deficit) of Operating Receipts over (under) Operating Disbursements	<u>(152,282)</u>	<u>16,574</u>	<u>(2,284)</u>	<u>2,264</u>
Non-Operating Receipts:				
Use of money and property	604	2,406	20,834	0
Total Non-Operating Receipts	<u>604</u>	<u>2,406</u>	<u>20,834</u>	<u>0</u>
Net Change in Cash Balances	(151,678)	18,980	18,550	2,264
Cash Balances at Beginning of Year	<u>50,128</u>	<u>151,902</u>	<u>712,962</u>	<u>7,368</u>
Cash Balances at End of Year	<u><u>\$ (101,550)</u></u>	<u><u>170,882</u></u>	<u><u>731,512</u></u>	<u><u>9,632</u></u>
Cash Basis Fund Balances:				
Unrestricted:				
Unreserved	<u><u>\$ (101,550)</u></u>	<u><u>170,882</u></u>	<u><u>731,512</u></u>	<u><u>9,632</u></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, 2008

<u>Total</u>
713,444
<u>713,444</u>
664,207
184,965
<u>849,172</u>
<u>(135,728)</u>
23,844
<u>23,844</u>
(111,884)
<u>922,360</u>
<u>810,476</u>
<u>810,476</u>

CITY OF FONTANELLE
Notes to the Financial Statements
June 30, 2008

(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, 2008 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, 2008 long-term debt is as follows:

Year Ending <u>June 30,</u>	Interest <u>Rates</u>	<u>General Obligation Bonds</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$130,000</u>	<u>14,955</u>	<u>144,955</u>

Interest paid on General Obligation Bonds amounted to \$9,505 for the year ended June 30, 2008. All of this amount was expensed.

Cash restricted for the bonds at June 30, 2008 is as follows:

<u>Type of Indebtedness</u>	<u>Amount</u>
General Obligation Bonds	<u>\$22,739</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 3.90% of their annual salary and the City is required to contribute 6.05% of annual covered payroll except for police employees, in which case the percentages are actuarially determined. The City's contribution to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$10,787, \$9,417, and \$9,057, 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, 2008 are summarized as follows:

General obligation bonds payable at beginning of year	\$170,000
Bond principal payments during year	40,000
General obligation bonds payable at end of year	\$130,000

(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, 2008 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Sick leave	\$ 38,907
Vacation	4,167
	\$ 43,074

The liability has been computed based on rates of pay as of June 30, 2008.

(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 \$1,775 at June 30, 2008 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 Emergency Management Fund had a deficit fund balance of \$692 at June 30, 2008 as a result of disbursements exceeding receipts during the year ended June 30, 2005. The deficit will be eliminated through transfers from other funds.

The Enterprise Fund – Water had a deficit fund balance of \$101,550 at June 30, 2008 as a result of disbursements exceeding receipts during the year ended June 30, 2008. The deficit will be eliminated by borrowing 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, 2008

	Governmental <u>Funds</u>	Proprietary <u>Funds</u>	<u>Total</u>
Receipts:			
Property tax	\$ 131,482	0	131,482
TIF revenues	18,437	0	18,437
Other city taxes	52,260	0	52,260
Licenses and permits	1,191	0	1,191
Use of money and property	10,007	23,844	33,851
Intergovernmental	76,725	0	76,725
Charges for service	4,361	713,444	717,805
Miscellaneous	27,753	0	27,753
 Total Receipts	 <u>322,216</u>	 <u>737,288</u>	 <u>1,059,504</u>
Disbursements:			
Public safety	41,016	0	41,016
Public works	92,327	0	92,327
Culture and recreation	42,170	0	42,170
Community and economic development	4,015	0	4,015
General government	25,710	0	25,710
Debt service	49,505	0	49,505
Capital projects	0	0	0
Business type activities	0	849,172	849,172
 Total Disbursements	 <u>254,743</u>	 <u>849,172</u>	 <u>1,103,915</u>
 Excess (Deficit) of Receipts over (under) Disbursements	 67,473	 (111,884)	 (44,411)
 Balances at Beginning of Year	 437,342	 922,360	 1,359,702
 Balances at End of Year	 <u>\$ 504,815</u>	 <u>810,476</u>	 <u>1,315,291</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, 2008

<u>Budgeted Amount</u>		<u>Variance to Final</u>
<u>Original</u>	<u>Amended</u>	
132,271	132,271	(789)
18,693	18,693	(256)
47,095	47,095	5,165
1,192	1,192	(1)
1,700	1,700	32,151
81,866	81,866	(5,141)
713,343	713,343	4,462
2,000	2,000	25,753
<u>998,160</u>	<u>998,160</u>	<u>61,344</u>
51,442	51,442	10,426
103,410	103,410	11,083
40,043	52,043	9,873
8,000	8,000	3,985
23,528	27,028	1,318
49,505	49,505	0
0	35,000	35,000
700,458	900,458	51,286
<u>976,386</u>	<u>1,226,886</u>	<u>122,971</u>
21,774	(228,726)	184,315
0	0	1,359,702
<u>21,774</u>	<u>(228,726)</u>	<u>1,544,017</u>

CITY OF FONTANELLE
Notes to Required Supplementary Information
June 30, 2008

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 \$250,500. 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, 2008

	<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	\$ 6,452	0	0	0	0	6,452
TIF revenues	0	0	18,437	0	0	18,437
Use of money and property - interest	0	0	0	0	76	76
Miscellaneous	0	0	0	11,752	3,350	15,102
Total Receipts	<u>6,452</u>	<u>0</u>	<u>18,437</u>	<u>11,752</u>	<u>3,426</u>	<u>40,067</u>
Disbursements:						
Operating:						
Public safety	2,799	0	0	0	0	2,799
Public works	1,454	0	0	0	3,710	5,164
Culture and recreation	807	0	0	0	0	807
Community and economic development	0	0	4,015	0	0	4,015
General government	1,075	0	0	0	0	1,075
Total Disbursements	<u>6,135</u>	<u>0</u>	<u>4,015</u>	<u>0</u>	<u>3,710</u>	<u>13,860</u>
Net Change in Cash Balances	317	0	14,422	11,752	(284)	26,207
Cash Balances at Beginning of Year	(2,092)	(692)	(14,373)	(2,036)	7,445	(11,748)
Cash Balances at End of Year	<u>\$ (1,775)</u>	<u>(692)</u>	<u>49</u>	<u>9,716</u>	<u>7,161</u>	<u>14,459</u>
Cash Basis Fund Balances:						
Unreserved:						
Special revenue funds	\$ (1,775)	(692)	49	0	0	(2,418)
Capital projects fund	0	0	0	9,716	0	9,716
Permanent fund	0	0	0	0	7,161	7,161
	<u>\$ (1,775)</u>	<u>(692)</u>	<u>49</u>	<u>9,716</u>	<u>7,161</u>	<u>14,459</u>

CITY OF FONTANELLE
 Schedule of Long-Term Debt and Interest
 June 30, 2008

<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, 2008

<u>Balance</u> <u>June 30, 2007</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Interest</u> <u>Paid</u>
\$ 170,000	0	40,000	130,000	9,505
<u>\$ 170,000</u>	<u>0</u>	<u>40,000</u>	<u>130,000</u>	<u>9,505</u>

CITY OF FONTANELLE

Bond Maturities

June 30, 2008

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>
2009	5.55%	\$ 40,000
2010	5.60	45,000
2011	5.70	45,000
		<u>\$ 130,000</u>

CITY OF FONTANELLE

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

		<u>Years Ended June 30,</u>			
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	
Receipts:					
Property tax	\$ 131,482	134,611	122,504	154,096	
TIF revenues	18,437	18,807	19,453	19,160	
Other city taxes	52,260	43,934	39,612	2,437	
Licenses and permits	1,191	774	941	639	
Use of money and property	10,007	12,259	5,934	4,088	
Intergovernmental	76,725	81,769	148,036	189,722	
Charges for services	4,361	3,023	3,468	3,293	
Miscellaneous	27,753	23,598	20,000	9,541	
	<u>\$ 322,216</u>	<u>318,775</u>	<u>359,948</u>	<u>382,976</u>	
Disbursements:					
Public safety	\$ 41,016	68,228	39,958	34,119	
Public works	92,327	88,245	87,213	77,492	
Culture and recreation	42,170	33,043	36,709	29,225	
Community and economic development	4,015	10,935	95,666	111,336	
General government	25,710	20,761	21,370	14,621	
Debt service	49,505	51,585	48,575	77,010	
	<u>\$ 254,743</u>	<u>272,797</u>	<u>329,491</u>	<u>343,803</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, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued my report thereon dated September 16, 2008. My report expressed unqualified opinions 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 08-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, 2008 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 08-III-F and 08-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.

S/ Stanley E. Siebke

Urbandale, Iowa
September 16, 2008

CITY OF FONTANELLE
Schedule of Findings
Year Ended June 30, 2008

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, 2008

Part II: Findings Related to the Financial Statements

Instances of Non-compliance

No matters were noted.

Significant Deficiencies

08-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, 2008

Part III: Other Findings Related to Statutory Reporting

08-III-A Certified Budget

The City properly approved a certified budget for the year ended June 30, 2008 and subsequently amended that budget. The budgeted amounts were not exceeded during the year.

08-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.

08-III-C Travel Expense

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

08-III-D Business Transactions

During the year ended June 30, 2008, there were no business transactions between the City and City officials.

08-III-E Bond Coverage

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

08-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.

08-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.

08-III-H Deficit Fund Balances

The Employee Benefits Fund had a deficit balance of \$1,775 at June 30, 2008. This deficit is to be eliminated through future property tax collections. The emergency management fund had a deficit fund balance of \$692 at June 30, 2008. This deficit is to be eliminated through transfers from other funds. The Enterprise Fund – Water had a deficit fund balance of \$101,550 at June 30, 2008. This deficit is to be eliminated by borrowing 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