

CITY OF FONTANELLE

Fontanelle, Iowa

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

June 30, 2009

With Independent Auditor's Reports

CITY OF FONTANELLE
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CITY OF FONTANELLE

City Officials
June 30, 2009

<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
Ron Reed	Council Member	December 31, 2009
Linda Shafer	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

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, 2009, 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, 2009, 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 August 14, 2009 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 over financial reporting and compliance and the results of that testing 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 eight years ended June 30, 2008 (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 29 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
August 14, 2009

**CITY OF FONTANELLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

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, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 18%, or \$57,697, from fiscal 2008 to fiscal year 2009. Local Option Sales Tax increased \$7,735, and due to higher assessments, property taxes collected increased by \$11,232.
- Governmental disbursements increased 23%, or \$58,546, in fiscal 2009 from fiscal 2008. This was mainly due to the capital improvements to city hall in the amount of \$39,348.
- A major purchase this year was the new tractor, blade and mower in the amount of \$65,279.
- The City's total cash basis net assets increased 5%, or \$65,899, from June 30, 2008 to June 30, 2009. Of this amount, the assets of the government activities increased \$66,624, and the assets of the business type activities decreased by \$725 due to electric line replacement project, increased costs from our electricity providers, and paying remainder of 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 \$504,813 to \$571,437. 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>2009</u>	Year ended June 30, <u>2008</u>
Receipts:		
Property taxes	\$ 142,714	131,482
TIF revenues	7,873	18,437
Other city taxes	58,974	52,260
Licenses and Permits	1,189	1,191
Use of money and property	12,818	10,007
Intergovernmental	75,557	76,725
Charges for service	2,654	4,361
Miscellaneous	<u>78,134</u>	<u>27,753</u>
Total Receipts	<u>379,913</u>	<u>322,216</u>
Disbursements:		
Operating:		
Public safety	34,848	41,016
Public works	90,796	92,327
Culture and recreation	40,676	42,170
Community and economic development	4,252	4,015
General government	21,044	25,710
Capital Outlay:		
Public works	35,020	0
Debt Service	47,305	49,505
Capital projects	<u>39,348</u>	<u>0</u>
Total Disbursements	<u>313,289</u>	<u>254,743</u>
Net Change in Cash Balances	66,624	67,473
Cash Balances at Beginning of Year	<u>504,813</u>	<u>437,340</u>
Cash Balances at End of Year	<u>\$ 571,437</u>	<u>504,813</u>

Debt service	\$ 17,715	22,739
Unreserved:		
General fund	381,947	304,012
Special revenue funds	150,826	161,136
TIF	3,670	49
Capital projects fund	9,716	9,716
Permanent fund	<u>7,563</u>	<u>7,161</u>
Total Cash Basis Fund Balances	<u>\$ 571,437</u>	<u>504,813</u>

The City's total receipts for governmental activities increased by 18%, or \$57,697.

The cost of governmental activities this year increased by \$58,546 or 23%.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30, <u>2009</u>	Year ended June 30, <u>2008</u>
Operating Receipts:		
Charges for service:		
Water	\$ 130,022	133,521
Sewer	67,162	68,382
Electric	556,256	501,538
Landfill	<u>10,142</u>	<u>10,003</u>
Total Operating Receipts	<u>763,582</u>	<u>713,444</u>
Operating Disbursements:		
Business type activities:		
Water	154,006	285,803
Sewer	63,883	51,808
Electric	556,387	503,822
Landfill	<u>9,568</u>	<u>7,739</u>
Total Operating Disbursements	<u>783,844</u>	<u>849,172</u>
Excess of Operating Receipts over Operating Disbursements	(20,262)	(135,728)
Total Non-Operating Receipts	<u>19,537</u>	<u>23,844</u>
Net Change in Cash Balances	(725)	(111,884)
Cash Basis Net Assets Beginning of Year	<u>810,476</u>	<u>922,360</u>
Cash Basis Net Assets End of Year	<u>\$ 809,751</u>	<u>810,476</u>

Total business type activities receipts for the fiscal year were \$763,582 compared to \$713,444 last year. Total disbursements decreased from \$849,172 to \$783,844.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fontanelle completed the year, its governmental funds reported a combined fund balance of \$571,437, an increase of \$66,624 above last year's total of \$504,813.

- Revenues of \$58,974 were received from the local option sales tax with expenditures of \$39,348 to replace the city hall roof this year.
- The Road Use Fund had a decrease of \$30,510 this fiscal year due to major expenditure of purchasing a tractor.
- The Debt Service Fund had expenditures of \$47,305 and revenues of \$42,281. We have a balance of \$17,715, 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 \$77,935, which was due in large part to a \$45,000 grant and \$12,962 in donations received by the library this fiscal year for their building project.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance started the fiscal year at (\$101,550) due to water main project. We also had additional expenditures for the project in the amount of \$56,874. The loan from the electric fund resulted in an end of the year balance of \$14,170.
- The Sewer Fund cash balance had an increase of \$4,780 this fiscal year.
- The Electric Fund cash balance had a decrease of \$121,799 this fiscal year. This decrease is due to the loan to the water fund which will be paid back with interest over the next 10 years. The electric rates were raised this year to offset higher purchase costs.
- The Landfill Fund had a net increase of \$574 this fiscal year.

BUDGETARY HIGHLIGHTS

Local option sales tax funds were budgeted last year to pay for the city hall roof project, but due to inclement weather the project was not completed until this fiscal year. Consequently, the budget was amended. Higher than anticipated electric line repairs and electricity costs necessitated the amendment of the electric fund budget as well. Electric rates were raised to compensate for this.

DEBT ADMINISTRATION

At June 30, 2009, the City had \$90,000 in bonds and other long-term debt, compared to \$130,000 last year, as shown below.

Outstanding Debt at Year-End

	June 30, <u>2009</u>	June 30, <u>2008</u>
General obligation bonds	<u>\$ 90,000</u>	<u>130,000</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 \$90,000 is significantly below its constitutional debt limit of \$1,022,437.

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 2010 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 9.7 percent and the state's rate is 6.8 percent. Adair County's unemployment rate increased to 4.9 percent from 3.6 percent in August 2008 to August 2009.

Inflation in the State continues to be similar to the National Consumer Price Index which showed no change during the past year. Inflation has been modest here due in part to the slowing of the residential housing market and decreases in energy prices.

These indicators were taken into account when adopting the budget for fiscal year 2010. No new programs have been added to the 2010 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, 2009

	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Program Receipts Operating Grants, Contributions, and Restricted Interest</u>
Function / Programs:			
Governmental activities:			
Public safety	\$ 34,848	1,328	11,699
Public works	125,816	0	57,497
Culture and recreation	40,676	2,654	31,378
Community and economic development	4,252	0	0
General government	21,044	0	0
Debt service	47,305	0	153
Capital projects	39,348	0	0
Total Governmental Activities	<u>313,289</u>	<u>3,982</u>	<u>100,727</u>
Business type activities:			
Water	154,006	130,022	479
Sewer	63,883	67,162	1,501
Electric	556,387	556,256	17,557
Garbage	9,568	10,142	0
Total Business Type Activities	<u>783,844</u>	<u>763,582</u>	<u>19,537</u>
Total	<u>\$ 1,097,133</u>	<u>767,564</u>	<u>120,264</u>

General Receipts:

Property tax levied for:
 General purposes
 Tax increment financing
 Debt service
Local option sales tax
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, 2009

Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
0	(21,821)	0	(21,821)
0	(68,319)	0	(68,319)
45,000	38,356	0	38,356
0	(4,252)	0	(4,252)
0	(21,044)	0	(21,044)
0	(47,152)	0	(47,152)
0	(39,348)	0	(39,348)
<u>45,000</u>	<u>(163,580)</u>	<u>0</u>	<u>(163,580)</u>
0	0	(23,505)	(23,505)
0	0	4,780	4,780
0	0	17,426	17,426
0	0	574	574
<u>0</u>	<u>0</u>	<u>(725)</u>	<u>(725)</u>
<u>45,000</u>	<u>(163,580)</u>	<u>(725)</u>	<u>(164,305)</u>
	100,586	0	100,586
	7,873	0	7,873
	42,128	0	42,128
	58,974	0	58,974
	2,727	0	2,727
	17,916	0	17,916
	<u>230,204</u>	<u>0</u>	<u>230,204</u>
	66,624	(725)	65,899
	504,813	810,476	1,315,289
	<u>571,437</u>	<u>809,751</u>	<u>1,381,188</u>
\$	24,572	0	24,572
	3,670	0	3,670
	17,715	0	17,715
	126,254	0	126,254
	399,226	809,751	1,208,977
<u>\$</u>	<u>571,437</u>	<u>809,751</u>	<u>1,381,188</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, 2009

	<u>General</u>	<u>Road Use Tax</u>	<u>Special Revenue Local Option Sales Tax</u>	<u>Debt Service</u>
Receipts:				
Property tax	\$ 92,775	0	0	42,128
TIF revenues	0	0	0	0
Other city taxes	0	0	58,974	0
Licenses and permits	1,189	0	0	0
Use of money and property	12,583	0	0	153
Intergovernmental	18,142	57,415	0	0
Charges for services	2,654	0	0	0
Miscellaneous	69,453	4,131	0	0
Total Receipts	196,796	61,546	58,974	42,281
Disbursements:				
Operating:				
Public safety	32,672	0	0	0
Public works	25,362	59,036	0	0
Culture and recreation	39,065	0	0	0
Community and economic development	0	0	0	0
General government	19,762	0	0	0
Capital Outlay:				
Public works	2,000	33,020	0	0
Debt service	0	0	0	47,305
Capital projects	0	0	39,348	0
Total Disbursements	118,861	92,056	39,348	47,305
Net Change in Cash Balances	77,935	(30,510)	19,626	(5,024)
Cash Balances at Beginning of Year	304,012	55,082	108,521	22,739
Cash Balances at End of Year	\$ 381,947	24,572	128,147	17,715
Cash Basis Fund Balances:				
Reserved:				
Debt service	\$ 0	0	0	17,715
Unreserved:				
General fund	381,947	0	0	0
Special revenue funds	0	24,572	128,147	0
Capital projects fund	0	0	0	0
Permanent fund	0	0	0	0
Total Cash Basis Fund Balances	\$ 381,947	24,572	128,147	17,715

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, 2009

Other Nonmajor Governmental Funds	<u>Total</u>
7,811	142,714
7,873	7,873
0	58,974
0	1,189
82	12,818
0	75,557
0	2,654
4,550	78,134
<u>20,316</u>	<u>379,913</u>
2,176	34,848
6,398	90,796
1,611	40,676
4,252	4,252
1,282	21,044
0	35,020
0	47,305
0	39,348
<u>15,719</u>	<u>313,289</u>
4,597	66,624
14,459	504,813
<u>19,056</u>	<u>571,437</u>
0	17,715
0	381,947
1,777	154,496
9,716	9,716
7,563	7,563
<u>19,056</u>	<u>571,437</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, 2009

	<u>Water</u>	<u>Enterprise Funds</u>		
		<u>Sewer</u>	<u>Electric</u>	<u>Garbage</u>
Operating Receipts:				
Charges for services	\$ 130,022	67,162	556,256	10,142
Total Operating Receipts	<u>130,022</u>	<u>67,162</u>	<u>556,256</u>	<u>10,142</u>
Disbursements:				
Operating:				
Business type activities	97,132	57,397	511,975	9,568
Capital Outlay:				
Business type activities	56,874	6,486	44,412	0
Total Operating Disbursements	<u>154,006</u>	<u>63,883</u>	<u>556,387</u>	<u>9,568</u>
Excess (Deficit) of Operating Receipts over (under) Operating Disbursements	<u>(23,984)</u>	<u>3,279</u>	<u>(131)</u>	<u>574</u>
Non-Operating Receipts:				
Use of money and property	479	1,501	17,557	0
Transfers	139,225	0	(139,225)	0
Total Non-Operating Receipts (Disbursements)	<u>139,704</u>	<u>1,501</u>	<u>(121,668)</u>	<u>0</u>
Net Change in Cash Balances	115,720	4,780	(121,799)	574
Cash Balances at Beginning of Year	<u>(101,550)</u>	<u>170,882</u>	<u>731,512</u>	<u>9,632</u>
Cash Balances at End of Year	<u>\$ 14,170</u>	<u>175,662</u>	<u>609,713</u>	<u>10,206</u>
Cash Basis Fund Balances:				
Unrestricted:				
Unreserved	<u>\$ 14,170</u>	<u>175,662</u>	<u>609,713</u>	<u>10,206</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, 2009

<u>Total</u>
763,582
<u>763,582</u>
676,072
107,772
<u>783,844</u>
<u>(20,262)</u>
19,537
0
<u>19,537</u>
(725)
<u>810,476</u>
<u>809,751</u>
<u>809,751</u>

CITY OF FONTANELLE
Notes to the Financial Statements
June 30, 2009

(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, 2009 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, 2009 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>
2010	5.60%	\$ 45,000	5,085	50,085
2011	5.70	45,000	2,565	47,565
		<u>\$ 90,000</u>	<u>7,650</u>	<u>97,650</u>

Interest paid on General Obligation Bonds amounted to \$7,305 for the year ended June 30, 2009. All of this amount was expensed.

Cash restricted for the bonds at June 30, 2009 is as follows:

<u>Type of Indebtedness</u>	<u>Amount</u>
General Obligation Bonds	<u>\$17,715</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.

Most regular plan members are required to contribute 4.10% of their annual salary and the City is required to contribute 6.35% of annual covered payroll except for police employees, in which case the percentages are actuarially determined. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2009, 2008, and 2007 were \$10,421, \$10,787, and \$9,417, 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, 2009 are summarized as follows:

General obligation bonds payable at beginning of year	\$130,000
Bond principal payments during year	40,000
General obligation bonds payable at end of year	\$ 90,000

(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, 2009 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Sick leave	\$ 31,958
Vacation	5,028
	\$ 36,986

The liability has been computed based on rates of pay as of June 30, 2009.

(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 \$1,201 at June 30, 2009 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, 2009 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, 2009

	Governmental <u>Funds</u>	Proprietary <u>Funds</u>	<u>Total</u>
Receipts:			
Property tax	\$ 142,714	0	142,714
TIF revenues	7,873	0	7,873
Other city taxes	58,974	0	58,974
Licenses and permits	1,189	0	1,189
Use of money and property	12,818	19,537	32,355
Intergovernmental	75,557	0	75,557
Charges for service	2,654	763,582	766,236
Miscellaneous	78,134	0	78,134
 Total Receipts	 <u>379,913</u>	 <u>783,119</u>	 <u>1,163,032</u>
Disbursements:			
Public safety	34,848	0	34,848
Public works	125,816	0	125,816
Culture and recreation	40,676	0	40,676
Community and economic development	4,252	0	4,252
General government	21,044	0	21,044
Debt service	47,305	0	47,305
Capital projects	39,348	0	39,348
Business type activities	0	783,844	783,844
 Total Disbursements	 <u>313,289</u>	 <u>783,844</u>	 <u>1,097,133</u>
 Excess (Deficit) of Receipts over (under) Disbursements	 66,624	 (725)	 65,899
 Balances at Beginning of Year	 504,813	 810,476	 1,315,289
 Balances at End of Year	 <u>\$ 571,437</u>	 <u>809,751</u>	 <u>1,381,188</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, 2009

<u>Budgeted Amount</u>		<u>Variance to Final</u>
<u>Original</u>	<u>Amended</u>	
142,285	142,285	429
8,000	8,000	(127)
46,189	62,189	(3,215)
1,117	1,117	72
2,745	2,745	29,610
83,319	83,319	(7,762)
696,922	771,922	(5,686)
3,000	3,000	75,134
<u>983,577</u>	<u>1,074,577</u>	<u>88,455</u>
52,563	52,563	17,715
128,551	128,551	2,735
42,997	43,797	3,121
8,000	8,000	3,748
27,403	27,403	6,359
47,305	47,305	0
0	45,000	5,652
737,810	832,810	48,966
<u>1,044,629</u>	<u>1,185,429</u>	<u>88,296</u>
(61,052)	(110,852)	176,751
1,384,767	1,384,767	(69,478)
<u>1,323,715</u>	<u>1,273,915</u>	<u>107,273</u>

CITY OF FONTANELLE
Notes to Required Supplementary Information
June 30, 2009

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. Function disbursements required to be budgeted include disbursements for the General Fund, The Special Revenue Funds, The Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts by \$91,000 and budgeted disbursements by \$140,800. 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, 2009

	<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	\$ 7,811	0	0	0	0	7,811
TIF revenues	0	0	7,873	0	0	7,873
Use of money and property - interest	0	0	0	0	82	82
Miscellaneous	0	0	0	0	4,550	4,550
Total Receipts	<u>7,811</u>	<u>0</u>	<u>7,873</u>	<u>0</u>	<u>4,632</u>	<u>20,316</u>
Disbursements:						
Operating:						
Public safety	2,176	0	0	0	0	2,176
Public works	2,168	0	0	0	4,230	6,398
Culture and recreation	1,611	0	0	0	0	1,611
Community and economic development	0	0	4,252	0	0	4,252
General government	1,282	0	0	0	0	1,282
Total Disbursements	<u>7,237</u>	<u>0</u>	<u>4,252</u>	<u>0</u>	<u>4,230</u>	<u>15,719</u>
Net Change in Cash Balances	574	0	3,621	0	402	4,597
Cash Balances at Beginning of Year	(1,775)	(692)	49	9,716	7,161	14,459
Cash Balances at End of Year	<u>\$ (1,201)</u>	<u>(692)</u>	<u>3,670</u>	<u>9,716</u>	<u>7,563</u>	<u>19,056</u>
Cash Basis Fund Balances:						
Unreserved:						
Special revenue funds	\$ (1,201)	(692)	3,670	0	0	1,777
Capital projects fund	0	0	0	9,716	0	9,716
Permanent fund	0	0	0	0	7,563	7,563
	<u>\$ (1,201)</u>	<u>(692)</u>	<u>3,670</u>	<u>9,716</u>	<u>7,563</u>	<u>19,056</u>

CITY OF FONTANELLE
 Schedule of Long-Term Debt and Interest
 June 30, 2009

<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, 2009

<u>Balance</u> <u>June 30, 2008</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance</u> <u>June 30, 2009</u>	<u>Interest</u> <u>Paid</u>
\$ 130,000	0	40,000	90,000	7,305
<u>\$ 130,000</u>	<u>0</u>	<u>40,000</u>	<u>90,000</u>	<u>7,305</u>

CITY OF FONTANELLE

Bond Maturities

June 30, 2009

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>
2010	5.60%	\$ 45,000
2011	5.70	45,000
		<u>\$ 90,000</u>

CITY OF FONTANELLE

Schedule of Receipts by Source and Disbursements by Function
All Governmental Funds
Years Ended June 30

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Receipts:				
Property tax	\$ 142,714	131,482	134,611	122,504
TIF revenues	7,873	18,437	18,807	19,453
Other city taxes	58,974	52,260	43,934	39,612
Licenses and permits	1,189	1,191	774	941
Use of money and property	12,818	10,007	12,259	5,934
Intergovernmental	75,557	76,725	81,769	148,036
Charges for services	2,654	4,361	3,023	3,468
Miscellaneous	78,134	27,753	23,598	20,000
Total Receipts	<u>\$ 379,913</u>	<u>322,216</u>	<u>318,775</u>	<u>359,948</u>
Disbursements:				
Public safety	\$ 34,848	41,016	68,228	39,958
Public works	125,816	92,327	88,245	87,213
Culture and recreation	40,676	42,170	33,043	36,709
Community and economic development	4,252	4,015	10,935	95,666
General government	21,044	25,710	20,761	21,370
Debt service	47,305	49,505	51,585	48,575
Capital projects	39,348	0	0	0
Total Disbursements	<u>\$ 313,289</u>	<u>254,743</u>	<u>272,797</u>	<u>329,491</u>

CITY OF FONTANELLE
Schedule of Receipts by Source and Disbursements by Function
All Governmental Funds
Years Ended June 30

<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
154,096	164,027	145,313	165,626	97,971
19,160	19,274	14,922	327	0
2,437	950	1,063	0	0
639	645	653	639	629
4,088	2,529	4,205	11,137	8,784
189,722	259,104	131,811	95,310	96,613
3,293	1,053	10,800	10,683	15,864
9,541	129,981	78,683	44,769	6,009
<u>382,976</u>	<u>577,563</u>	<u>387,450</u>	<u>328,491</u>	<u>225,870</u>
34,119	103,945	114,829	62,972	51,320
77,492	92,045	24,276	119,632	57,701
29,225	31,355	37,786	28,297	25,490
111,336	133,511	41,535	86,840	34,706
14,621	16,247	14,380	15,820	22,181
77,010	80,390	78,425	81,380	47,657
0	0	0	0	0
<u>343,803</u>	<u>457,493</u>	<u>311,231</u>	<u>394,941</u>	<u>239,055</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, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued my report thereon dated August 14, 2009. 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 09-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, 2009 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for item 09-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
August 14, 2009

CITY OF FONTANELLE
Schedule of Findings
Year Ended June 30, 2009

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, 2009

Part II: Findings Related to the Financial Statements

Instances of Non-compliance

No matters were noted.

Significant Deficiencies

09-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, bank reconciliations and general ledger accounting.

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, 2009

Part III: Other Findings Related to Statutory Reporting

09-III-A Certified Budget

The City properly approved a certified budget for the year ended June 30, 2009 and subsequently amended that budget. The budgeted amounts were not exceeded during the year.

09-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.

09-III-C Travel Expense

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

09-III-D Business Transactions

During the year ended June 30, 2009, there were no business transactions between the City and City officials.

09-III-E Bond Coverage

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

09-III-F Council Minutes

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

09-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.

09-III-H Deficit Fund Balances

The Employee Benefits Fund had a deficit balance of \$1,201 at June 30, 2009. 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, 2009. 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