

**CITY OF FONTANELLE**

Fontanelle, Iowa

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

June 30, 2010

With Independent Auditor's Reports

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

City Officials  
June 30, 2010

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Prior to January 1, 2010</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
<u>Subsequent to December 31, 2009</u>		
R. Scott Homan	Mayor	December 31, 2011
Patricia Glassell	Mayor Pro Tem	December 31, 2011
Ron Reed	Council Member	December 31, 2013
Linda Shafer	Council Member	December 31, 2011
David Sickles	Council Member	December 31, 2011
Jim Warrior	Council Member	December 31, 2013
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, 2010, 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, 2010, 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 5, 2010 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 nine years ended June 30, 2009 (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 5, 2010

**CITY OF FONTANELLE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

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, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

**2010 FINANCIAL HIGHLIGHTS**

- Revenues of the City's governmental activities decreased 5.6%, or \$21,190, from fiscal 2009 to fiscal year 2010. Local Option Sales Tax decreased \$13,521 due to the economy, and property taxes collected increased by \$8,171.
- Governmental disbursements decreased 17.5%, or \$54,822, in fiscal 2010 from fiscal 2009. There were no major projects undertaken this year.
- Major purchases this year were a replacement basket truck in the amount of \$29,000, and a sewer main pump in the amount of \$20,426.
- The City's total cash basis net assets increased 15.5%, or \$214,714, from June 30, 2009 to June 30, 2010. Of this amount, the assets of the government activities increased \$100,257, and the assets of the business type activities increased by \$114,457.

**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 \$571,438 to \$671,694. 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>2010</u>	Year ended June 30, <u>2009</u>
Receipts:		
Property taxes	\$ 150,885	142,714
TIF revenues	303	7,873
Other city taxes	45,624	58,974
Licenses and Permits	787	1,189
Use of money and property	13,528	12,818
Intergovernmental	87,083	75,557
Charges for service	205	2,654
Miscellaneous	<u>60,308</u>	<u>78,134</u>
<b>Total Receipts</b>	<b><u>358,723</u></b>	<b><u>379,913</u></b>
Disbursements:		
Operating:		
Public safety	39,593	34,848
Public works	93,478	90,796
Culture and recreation	47,731	40,676
Community and economic development	4,127	4,252
General government	23,373	21,044
Capital Outlay:		
Public works	0	35,020
Debt service	50,085	47,305
Capital projects	<u>80</u>	<u>39,348</u>
<b>Total Disbursements</b>	<b><u>258,467</u></b>	<b><u>313,289</u></b>
Net Change in Cash Balances	105,256	66,624
Cash Balances at Beginning of Year	<u>571,438</u>	<u>504,814</u>
Cash Balances at End of Year	<b><u>\$ 671,694</u></b>	<b><u>571,438</u></b>

Debt service	\$ 12,408	17,715
Unreserved:		
General fund	409,878	381,947
Special revenue funds	211,807	150,826
TIF	(154)	3,670
Capital projects fund	29,637	9,717
Permanent fund	<u>8,118</u>	<u>7,563</u>
Total Cash Basis Fund Balances	<b><u>\$ 671,694</u></b>	<b><u>571,438</u></b>

The City's total receipts for governmental activities decreased by 5.6%, or \$21,190.

The cost of governmental activities this year decreased by \$54,822 or 17.5%.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30, <u>2010</u>	Year ended June 30, <u>2009</u>
Operating Receipts:		
Charges for service:		
Water	\$ 127,053	130,022
Sewer	66,838	67,162
Electric	718,860	556,256
Landfill	<u>10,080</u>	<u>10,142</u>
<b>Total Operating Receipts</b>	<b><u>\$ 922,831</u></b>	<b><u>763,582</u></b>
Operating Disbursements:		
Business type activities:		
Water	100,694	154,006
Sewer	85,795	63,883
Electric	633,632	556,387
Landfill	<u>8,920</u>	<u>9,568</u>
<b>Total Operating Disbursements</b>	<b><u>829,041</u></b>	<b><u>783,844</u></b>
Excess (Deficit) of Operating Receipts over (under) Operating Disbursements	93,790	(20,262)
Total Non-Operating Receipts	<u>20,667</u>	<u>19,537</u>
Net Change in Cash Balances	114,457	(725)
Cash Basis Net Assets Beginning of Year	<u>809,751</u>	<u>810,476</u>
Cash Basis Net Assets End of Year	<b><u>\$ 924,208</u></b>	<b><u>\$809,751</u></b>

Total business type activities receipts for the fiscal year were \$922,831 compared to \$763,582 last year. Total disbursements increased from \$783,844 to \$829,041.

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fontanelle completed the year, its governmental funds reported a combined fund balance of \$671,694, an increase of \$100,256 above last year's total of \$571,438.

- Revenues of \$45,453 were received from the local option sales tax with a transfer of \$5,000 to the library addition construction fund.
- The Road Use Fund had an increase of \$18,205 this fiscal year.
- The Debt Service Fund had expenditures of \$50,085 and revenues of \$44,778. We have a balance of \$12,408, 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 \$27,931, which was due in large part to the library donations received.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance had an increase of \$14,766 this fiscal year.
- The Sewer Fund cash balance had a decrease of \$17,813 this fiscal year due to the major expenditure of purchasing a sewer main pump.
- The Electric Fund cash balance had a increase of \$116,344 this fiscal year.
- The Landfill Fund had a net increase of \$1,160 this fiscal year.

## BUDGETARY HIGHLIGHTS

The budget was amended in April to allow for additional expenditures in the culture and recreation category due to unanticipated expenditures due to RAGBRAI passing through Fontanelle. The business type/enterprises category was also amended due to a sewer main replacement project scheduled for June. This project was delayed until next fiscal year due to inclement weather. We had anticipated some expenses due to the library expansion construction project, which were delayed until next fiscal year also.

## DEBT ADMINISTRATION

At June 30, 2010, the City had \$45,000 in bonds and other long-term debt, compared to \$90,000 last year, as shown below.

Outstanding Debt at Year-End

	June 30, <u>2010</u>	June 30, <u>2009</u>
General obligation bonds	<u>\$ 45,000</u>	<u>90,000</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 \$45,000 is significantly below its constitutional debt limit of \$1,042,020.

## **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 2011 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 9.5 percent and the state's rate is 6.8 percent. Adair County's unemployment rate increased to 5.6 percent from 4.9 percent in August 2009 to August 2010.

Inflation in the State continues to be similar to the National Consumer Price Index which showed an increase of 2.8% 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 2011. No new programs have been added to the 2011 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, 2010

	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Program Receipts Operating Grants, Contributions, and Restricted Interest</u>
Function / Programs:			
Governmental activities:			
Public safety	\$ 39,593	445	16,110
Public works	93,478	0	61,169
Culture and recreation	47,731	205	8,552
Community and economic development	4,127	0	0
General government	23,373	0	0
Debt service	50,085	0	0
Capital projects	80	0	0
Total Governmental Activities	<u>258,467</u>	<u>650</u>	<u>85,831</u>
Business type activities:			
Water	100,694	127,053	4,569
Sewer	85,795	66,838	1,144
Electric	633,632	718,860	14,954
Garbage	8,920	10,080	0
Total Business Type Activities	<u>829,041</u>	<u>922,831</u>	<u>20,667</u>
Total	<u>\$ 1,087,508</u>	<u>923,481</u>	<u>106,498</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  
    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, 2010

Capital Grants, Contributions, and Restricted Interest	<u>Net (Disbursements) Receipts and Changes in Cash Basis Net Assets</u>		
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
0	(23,038)	0	(23,038)
0	(32,309)	0	(32,309)
37,064	(1,910)	0	(1,910)
0	(4,127)	0	(4,127)
0	(23,373)	0	(23,373)
0	(50,085)	0	(50,085)
15,000	14,920	0	14,920
<u>52,064</u>	<u>(119,922)</u>	<u>0</u>	<u>(119,922)</u>
0	0	30,928	30,928
0	0	(17,813)	(17,813)
0	0	100,182	100,182
0	0	1,160	1,160
<u>0</u>	<u>0</u>	<u>114,457</u>	<u>114,457</u>
<u>52,064</u>	<u>(119,922)</u>	<u>114,457</u>	<u>(5,465)</u>
	106,244	0	106,244
	303	0	303
	44,640	0	44,640
	45,453	0	45,453
	3,798	0	3,798
	19,741	0	19,741
	<u>220,179</u>	<u>0</u>	<u>220,179</u>
	100,257	114,457	214,714
	571,437	809,751	1,381,188
	<u>671,694</u>	<u>924,208</u>	<u>1,595,902</u>
\$	42,777	0	42,777
	12,408	0	12,408
	206,631	0	206,631
	409,878	924,208	1,334,086
	<u>\$ 671,694</u>	<u>924,208</u>	<u>1,595,902</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, 2010

	<u>General</u>	<u>Road Use Tax</u>	<u>Special Revenue Local Option Sales Tax</u>	<u>Debt Service</u>
Receipts:				
Property tax	\$ 97,285	0	0	44,640
TIF revenues	0	0	0	0
Other city taxes	171	0	45,453	0
Licenses and permits	787	0	0	0
Use of money and property	13,348	0	0	138
Intergovernmental	25,914	61,169	0	0
Charges for services	205	0	0	0
Miscellaneous	41,008	0	0	0
Total Receipts	178,718	61,169	45,453	44,778
Disbursements:				
Operating:				
Public safety	37,369	0	0	0
Public works	48,854	42,964	0	0
Culture and recreation	46,335	0	0	0
Community and economic development	0	0	0	0
General government	18,229	0	0	0
Debt service	0	0	0	50,085
Capital projects	0	0	0	0
Total Disbursements	150,787	42,964	0	50,085
Excess (Deficit) of Receipts over (under) Disbursements	27,931	18,205	45,453	(5,307)
Other Financing Sources (Uses) - Transfers	0	0	(5,000)	0
Net Change in Cash Balances	27,931	18,205	40,453	(5,307)
Cash Balances at Beginning of Year	381,947	24,572	128,147	17,715
Cash Balances at End of Year	\$ 409,878	42,777	168,600	12,408
Cash Basis Fund Balances:				
Reserved:				
Debt service	\$ 0	0	0	12,408
Unreserved:				
General fund	409,878	0	0	0
Special revenue funds	0	42,777	168,600	0
Capital projects fund	0	0	0	0
Permanent fund	0	0	0	0
Total Cash Basis Fund Balances	\$ 409,878	42,777	168,600	12,408

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, 2010

Other Nonmajor Governmental Funds	<u>Total</u>
8,960	150,885
303	303
0	45,624
0	787
42	13,528
0	87,083
0	205
19,300	60,308
<u>28,605</u>	<u>358,723</u>
2,224	39,593
1,660	93,478
1,396	47,731
4,127	4,127
5,144	23,373
0	50,085
80	80
<u>14,631</u>	<u>258,467</u>
13,974	100,256
<u>5,000</u>	<u>0</u>
18,974	100,256
19,057	571,438
<u>38,031</u>	<u>671,694</u>
0	12,408
0	409,878
276	211,653
29,637	29,637
8,118	8,118
<u>38,031</u>	<u>671,694</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, 2010

	<u>Water</u>	<u>Enterprise Funds</u>		<u>Garbage</u>
		<u>Sewer</u>	<u>Electric</u>	
Operating Receipts:				
Charges for services	\$ 127,053	66,838	718,860	10,080
Total Operating Receipts	<u>127,053</u>	<u>66,838</u>	<u>718,860</u>	<u>10,080</u>
Disbursements:				
Operating:				
Business type activities	100,694	85,795	530,544	8,920
Capital Outlay:				
Business type activities	0	0	103,088	0
Total Operating Disbursements	<u>100,694</u>	<u>85,795</u>	<u>633,632</u>	<u>8,920</u>
Excess (Deficit) of Operating Receipts over (under) Operating Disbursements	<u>26,359</u>	<u>(18,957)</u>	<u>85,228</u>	<u>1,160</u>
Non-Operating Receipts:				
Use of money and property	4,569	1,144	14,954	0
Transfers	(16,162)	0	16,162	0
Total Non-Operating Receipts (Disbursements)	<u>(11,593)</u>	<u>1,144</u>	<u>31,116</u>	<u>0</u>
Net Change in Cash Balances	14,766	(17,813)	116,344	1,160
Cash Balances at Beginning of Year	<u>14,170</u>	<u>175,662</u>	<u>609,713</u>	<u>10,206</u>
Cash Balances at End of Year	<u>\$ 28,936</u>	<u>157,849</u>	<u>726,057</u>	<u>11,366</u>
Cash Basis Fund Balances:				
Unrestricted:				
Unreserved	<u>\$ 28,936</u>	<u>157,849</u>	<u>726,057</u>	<u>11,366</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, 2010

<u>Total</u>
922,831
<u>922,831</u>
725,953
103,088
<u>829,041</u>
<u>93,790</u>
20,667
0
<u>20,667</u>
114,457
<u>809,751</u>
<u>924,208</u>
<u>924,208</u>

**CITY OF FONTANELLE**  
Notes to the Financial Statements  
June 30, 2010

(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, 2010 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, 2010 long-term debt is as follows:

Year Ending <u>June 30,</u>	Interest <u>Rates</u>	<u>General Obligation Bonds</u>		
2011	5.70%	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
		\$ 45,000	2,565	47,565

Interest paid on General Obligation Bonds amounted to \$5,085 for the year ended June 30, 2010. All of this amount was expensed.

Cash restricted for the bonds at June 30, 2010 is as follows:

<u>Type of Indebtedness</u>	<u>Amount</u>
General Obligation Bonds	<u>\$12,408</u>

(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 4.30% of their annual salary and the City is required to contribute 6.65% 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, 2010, 2009, and 2008 were \$10,993, \$10,421, and \$10,787, respectively, equal to the required contributions for each year.

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

(5) General Long-Term Debt

Changes in general long-term debt during the year ended June 30, 2010 are summarized as follows:

General obligation bonds payable at beginning of year	\$ 90,000
Bond principal payments during year	45,000
General obligation bonds payable at end of year	<u>\$ 45,000</u>

(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, 2010 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Sick leave	\$ 26,206
Vacation	4,468
	<u>\$ 30,674</u>

The liability has been computed based on rates of pay as of June 30, 2010.

(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.

(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 TIF Fund had a deficit balance of \$154 at June 30, 2010 as a result of disbursements exceeding receipts during the year ended June 30, 2010. The deficit will be eliminated through future TIF revenue collections.

The Emergency Management Fund had a deficit fund balance of \$692 at June 30, 2010 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**  
Notes to the Financial Statements – Continued

(10) Interfund Transfers

The detail of interfund transfers during the year ended June 30, 2010 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	
Capital Projects	Special Revenue Fund - Local Option Sales Tax	\$ 5,000
Enterprise Fund - Electric	Enterprise Fund - Water	16,162
		\$ 21,162

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(11) Commitments

At June 30, 2010, the City has a commitment on an open construction contract in the amount of \$35,200.

**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, 2010

	Governmental <u>Funds</u>	Proprietary <u>Funds</u>	<u>Total</u>
Receipts:			
Property tax	\$ 150,885	0	150,885
TIF revenues	303	0	303
Other city taxes	45,624	0	45,624
Licenses and permits	787	0	787
Use of money and property	13,528	20,667	34,195
Intergovernmental	87,083	0	87,083
Charges for service	205	922,831	923,036
Miscellaneous	60,308	0	60,308
 Total Receipts	 <u>358,723</u>	 <u>943,498</u>	 <u>1,302,221</u>
Disbursements:			
Public safety	39,593	0	39,593
Public works	93,478	0	93,478
Culture and recreation	47,731	0	47,731
Community and economic development	4,127	0	4,127
General government	23,373	0	23,373
Debt service	50,085	0	50,085
Capital projects	80	0	80
Business type activities	0	829,041	829,041
 Total Disbursements	 <u>258,467</u>	 <u>829,041</u>	 <u>1,087,508</u>
 Excess (Deficit) of Receipts over (under) Disbursements	 100,256	 114,457	 214,713
 Balances at Beginning of Year	 571,438	 809,751	 1,381,189
 Balances at End of Year	 <u>\$ 671,694</u>	 <u>924,208</u>	 <u>1,595,902</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, 2010

<u>Budgeted Amount</u>		<u>Variance to Final</u>
<u>Original</u>	<u>Amended</u>	
150,776	150,776	109
0	0	303
47,144	47,144	(1,520)
790	790	(3)
2,970	2,970	31,225
186,062	186,062	(98,979)
887,660	887,660	35,376
2,500	2,500	57,808
<u>1,277,902</u>	<u>1,277,902</u>	<u>24,319</u>
52,713	52,713	13,120
103,791	103,791	10,313
46,342	56,342	8,611
109,300	109,300	105,173
27,688	27,688	4,315
50,085	50,085	0
0	25,000	24,920
874,850	974,850	145,809
<u>1,264,769</u>	<u>1,399,769</u>	<u>312,261</u>
13,133	(121,867)	336,580
0	0	1,381,189
<u>13,133</u>	<u>(121,867)</u>	<u>1,717,769</u>

**CITY OF FONTANELLE**  
Notes to Required Supplementary Information  
June 30, 2010

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 disbursements by \$135,000. 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, 2010

	<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>			
<b>Receipts:</b>						
Property tax	\$ 8,960	0	0	0	0	8,960
TIF revenues	0	0	303	0	0	303
Use of money and property - interest	0	0	0	0	42	42
Miscellaneous	0	0	0	15,000	4,300	19,300
<b>Total Receipts</b>	<u>8,960</u>	<u>0</u>	<u>303</u>	<u>15,000</u>	<u>4,342</u>	<u>28,605</u>
<b>Disbursements:</b>						
Operating:						
Public safety	2,224	0	0	0	0	2,224
Public works	1,660	0	0	0	0	1,660
Culture and recreation	1,396	0	0	0	0	1,396
Community and economic development	0	0	4,127	0	0	4,127
General government	1,357	0	0	0	3,787	5,144
Capital projects	0	0	0	80	0	80
<b>Total Disbursements</b>	<u>6,637</u>	<u>0</u>	<u>4,127</u>	<u>80</u>	<u>3,787</u>	<u>14,631</u>
Excess (Deficit) of Receipts over (under) Disbursements	2,323	0	(3,824)	14,920	555	13,974
Other Financing Sources - Transfers	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,000</u>	<u>0</u>	<u>5,000</u>
<b>Net Change in Cash Balances</b>	2,323	0	(3,824)	19,920	555	18,974
Cash Balances at Beginning of Year	(1,201)	(692)	3,670	9,717	7,563	19,057
<b>Cash Balances at End of Year</b>	<u>\$ 1,122</u>	<u>(692)</u>	<u>(154)</u>	<u>29,637</u>	<u>8,118</u>	<u>38,031</u>
<b>Cash Basis Fund Balances:</b>						
Unreserved:						
Special revenue funds	\$ 1,122	(692)	(154)	0	0	276
Capital projects fund	0	0	0	29,637	0	29,637
Permanent fund	0	0	0	0	8,118	8,118
	<u>\$ 1,122</u>	<u>(692)</u>	<u>(154)</u>	<u>29,637</u>	<u>8,118</u>	<u>38,031</u>

**CITY OF FONTANELLE**  
 Schedule of Long-Term Debt and Interest  
 June 30, 2010

<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, 2010

<u>Balance</u> <u>June 30, 2009</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Interest</u> <u>Paid</u>
\$ 90,000	0	45,000	45,000	5,085
<u>\$ 90,000</u>	<u>0</u>	<u>45,000</u>	<u>45,000</u>	<u>5,085</u>

**CITY OF FONTANELLE**

Bond Maturities

June 30, 2010

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

**CITY OF FONTANELLE**

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Receipts:				
Property tax	\$ 150,885	142,714	131,482	134,611
TIF revenues	303	7,873	18,437	18,807
Other city taxes	45,624	58,974	52,260	43,934
Licenses and permits	787	1,189	1,191	774
Use of money and property	13,528	12,818	10,007	12,259
Intergovernmental	87,083	75,557	76,725	81,769
Charges for services	205	2,654	4,361	3,023
Miscellaneous	60,308	78,134	27,753	23,598
Total Receipts	<u>\$ 358,723</u>	<u>379,913</u>	<u>322,216</u>	<u>318,775</u>
Disbursements:				
Public safety	\$ 39,593	34,848	41,016	68,228
Public works	97,266	125,816	92,327	88,245
Culture and recreation	47,731	40,676	42,170	33,043
Community and economic development	4,127	4,252	4,015	10,935
General government	19,586	21,044	25,710	20,761
Debt service	50,085	47,305	49,505	51,585
Capital projects	80	39,348	0	0
Total Disbursements	<u>\$ 258,468</u>	<u>313,289</u>	<u>254,743</u>	<u>272,797</u>

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

<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
122,504	154,096	164,027	145,313	165,626	97,971
19,453	19,160	19,274	14,922	327	0
39,612	2,437	950	1,063	0	0
941	639	645	653	639	629
5,934	4,088	2,529	4,205	11,137	8,784
148,036	189,722	259,104	131,811	95,310	96,613
3,468	3,293	1,053	10,800	10,683	15,864
20,000	9,541	129,981	78,683	44,769	6,009
<u>359,948</u>	<u>382,976</u>	<u>577,563</u>	<u>387,450</u>	<u>328,491</u>	<u>225,870</u>
39,958	34,119	103,945	114,829	62,972	51,320
87,213	77,492	92,045	24,276	119,632	57,701
36,709	29,225	31,355	37,786	28,297	25,490
95,666	111,336	133,511	41,535	86,840	34,706
21,370	14,621	16,247	14,380	15,820	22,181
48,575	77,010	80,390	78,425	81,380	47,657
0	0	0	0	0	0
<u>329,491</u>	<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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued my report thereon dated August 5, 2010. 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, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, 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 deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Fontanelle's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of significant deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiency described in Part II of the accompanying Schedule of Findings to be a significant deficiency.

#### 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, 2010 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 10-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 5, 2010

**CITY OF FONTANELLE**  
Schedule of Findings  
Year Ended June 30, 2010

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, 2010

Part II: Findings Related to the Financial Statements

Instances of Non-compliance

No matters were noted.

Significant Deficiencies

10-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, 2010

Part III: Other Findings Related to Statutory Reporting

10-III-A Certified Budget

The City properly approved a certified budget for the year ended June 30, 2010 and subsequently amended that budget. The budgeted amounts were not exceeded during the year.

10-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.

10-III-C Travel Expense

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

10-III-D Business Transactions

During the year ended June 30, 2010, there were no business transactions between the City and City officials.

10-III-E Bond Coverage

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

10-III-F Council Minutes

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

10-III-G Deposits and Investments

The City has adopted an appropriate resolution regarding the deposit of public funds in an approved financial institution. During the year ended June 30, 2010, the maximum deposit amount specified in the resolution was exceeded. I noted no other instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa.

Response: There is a temporarily high level of deposits in anticipation of a large construction project. It is anticipated that these funds will be used during the fiscal year ending June 30, 2011 to bring the balances to approved levels.

Conclusion: Response accepted.

10-III-H Deficit Fund Balances

The TIF Fund had a deficit balance of \$154 at June 30, 2010. This deficit is to be eliminated through future TIF revenue collections. The Emergency Management Fund had a deficit fund balance of \$692 at June 30, 2010. 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