

CITY OF FONTANELLE

Fontanelle, Iowa

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

June 30, 2012

With Independent Auditor's Reports

CITY OF FONTANELLE
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CITY OF FONTANELLE
City Officials
June 30, 2012

<u>Name</u>	<u>Prior to January 1, 2012</u> <u>Title</u>	<u>Term Expires</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
Clint Hight	City Attorney	Indefinite

<u>Subsequent to December 31, 2011</u>		
<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
R. Scott Homan	Mayor	December 31, 2013
Patricia Glassell*	Mayor Pro Tem	December 31, 2015
Dixie Dukes	Council Member	December 31, 2013
Ron Reed	Council Member	December 31, 2013
Linda Shafer	Council Member	December 31, 2015
Jim Warrior	Council Member	December 31, 2013
Susan Newton	City Clerk	Indefinite
Craig Ford	Superintendent of Utilities	Indefinite
Clint Hight	City Attorney	Indefinite

Patricia Glassell resigned effective May 30, 2012 and Amanda Sickles was appointed to replace her.

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, 2012, 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, 2012, 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 24, 2012 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 on 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. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance 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, 2011 (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 26 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in my audit of the basic financial statements and certain additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information 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 24, 2012

**CITY OF FONTANELLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

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, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 22.0%, or \$107,168, from fiscal 2011 to fiscal year 2012. Local Option Sales Tax decreased \$3,042, and property taxes collected decreased by \$40,694. The elimination of debt resulted in a significant decrease in property taxes collected.
- Governmental disbursements decreased 55.6%, or \$388,406, in fiscal 2012 from fiscal 2011. The dramatic decrease was due to library project being completed.
- The City replaced a section of sewer main on Main Street this fiscal year. The project was completed in fall of 2011.
- The City's total cash basis net assets increased 5.8%, or \$86,358, from June 30, 2011 to June 30, 2012. Of this amount, the assets of the government activities increased \$69,298, and the assets of the business type activities increased by \$17,060.

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, 4) the Capital Projects Fund and 5) 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 \$459,754 to \$529,052. 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, 2012	Year ended June 30, 2011
Receipts:		
Property taxes	\$114,177	\$154,871
TIF revenues	4,355	4,425
Other city taxes	56,231	59,273
Licenses and permits	833	1,176
Use of money and property	1,713	5,705
Intergovernmental	148,575	230,576
Charges for service	3,255	3,895
Miscellaneous	<u>49,872</u>	<u>26,258</u>
Total Receipts	<u>379,011</u>	<u>486,179</u>
Disbursements:		
Operating:		
Public safety	45,550	32,130
Public works	87,887	91,125
Culture and recreation	65,157	61,585
Community and economic development	6,160	5,765
General government	26,329	26,130
Debt service	0	47,565
Capital projects	<u>78,630</u>	<u>433,819</u>
Total Disbursements	<u>309,713</u>	<u>698,119</u>
Net Change in Cash Balances	69,298	(211,940)
Cash Balances at Beginning of Year	<u>459,754</u>	<u>671,694</u>
Cash Balances at End of Year	<u>\$529,052</u>	<u>\$459,754</u>

Debt service	\$ 11,507	\$ 10,098
Unreserved:		
General fund	174,976	134,337
Special revenue funds	322,762	271,838
Capital projects fund	9,717	35,151
Permanent fund	<u>10,090</u>	<u>8,330</u>
Total Cash Basis Fund Balances	<u>\$ 529,052</u>	<u>\$459,754</u>

The City's total receipts for governmental activities decreased by 22.0%, or \$107,168.

The cost of governmental activities this year decreased by \$388,406 or 55.6%.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30, <u>2012</u>	Year ended June 30, <u>2011</u>
Operating Receipts:		
Charges for service:		
Water	\$130,841	\$130,181
Sewer	66,163	66,587
Electric	728,609	746,206
Landfill	<u>9,319</u>	<u>9,854</u>
Total Operating Receipts	<u>934,932</u>	<u>952,828</u>
Operating Disbursements:		
Business type activities:		
Water	103,757	111,452
Sewer	139,326	77,098
Electric	693,357	678,543
Wind Turbine	83,793	0
Landfill	<u>10,114</u>	<u>7,325</u>
Total Operating Disbursements	<u>1,030,347</u>	<u>874,418</u>
Excess (Deficit) of Receipts over (under) Disbursements	(94,415)	78,410
Total Non-Operating Receipts	<u>112,475</u>	<u>19,389</u>
Net Change in Cash Balances	17,060	97,799
Cash Basis Net Assets Beginning of Year	<u>1,022,007</u>	<u>924,208</u>
Cash Basis Net Assets End of Year	<u>\$1,039,067</u>	<u>\$1,022,007</u>

Total business type activities receipts for the fiscal year were \$934,932 compared to \$952,828 last year. Total disbursements increased from \$874,418 to \$1,030,347.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fontanelle completed the year, its governmental funds reported a combined fund balance of \$529,052, an increase of \$69,298 from last year's total of \$459,754.

- Revenues of \$56,231 were received from the local option sales tax.
- The Road Use Fund had an increase of \$10,797 this fiscal year.
- The General Fund had a increase of \$40,639.
- The Capital Projects Fund decreased by \$25,434 as the library project was completed.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance had an increase of \$15,627 this fiscal year.
- The Sewer Fund cash balance had a decrease of \$72,576 this fiscal year due to expenses with replacement of sewer main on Main Street.
- The Electric Fund cash balance had an increase of \$58,597 this fiscal year.
- The Landfill Fund had a net decrease of \$795 this fiscal year.
- Wind Turbine Fund was created with deposit of \$100,000 from Forward Fontanelle to be used for city expenses. There were \$83,793 of expenditures, with \$16,207 remaining.

BUDGETARY HIGHLIGHTS

The budget was amended in May to allow for additional expenditures in the culture and recreation category due to finalization of library project. The business type/enterprises category was amended due to unforeseen wind turbine expenses, which are reimbursed.

DEBT ADMINISTRATION

At June 30, 2012, the City had no long term debt.

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 constitutional debt limit is \$1,044,755.

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 2013 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 8.3 percent and the state's rate is 5.2 percent. Adair County's unemployment rate decreased to 4.3 percent from 4.6 percent in June 2011 to June 2012.

Inflation in the State continues to be similar to the National Consumer Price Index which showed an increase of 1.7% 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 2013. No new programs have been added to the 2013 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, 2012

	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Program Receipts Operating Grants, Contributions, and Restricted Interest</u>	<u>Capital Grants, Contributions, and Restricted Interest</u>
Function / Programs:				
Governmental activities:				
Public safety	\$ 45,550	0	17,995	0
Public works	87,887	0	63,740	0
Culture and recreation	65,157	3,255	12,003	0
Community and economic development	6,160	0	0	0
General government	26,329	0	15,259	0
Capital projects	78,630	0	0	59,969
Total Governmental Activities	309,713	3,255	108,997	59,969
Business type activities:				
Water	103,757	130,841	4,705	0
Sewer	139,326	66,163	587	0
Electric	777,150	728,609	7,183	100,000
Garbage	10,114	9,319	0	0
Total Business Type Activities	1,030,347	934,932	12,475	100,000
Total	\$ 1,340,060	938,187	121,472	159,969

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:
Nonexpendible - Permanent Fund
Expendible:
Streets
Debt service
Other purposes
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, 2012

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Business Type</u> <u>Activities</u>	<u>Total</u>
(27,555)	0	(27,555)
(24,147)	0	(24,147)
(49,899)	0	(49,899)
(6,160)	0	(6,160)
(11,070)	0	(11,070)
(18,661)	0	(18,661)
<u>(137,492)</u>	<u>0</u>	<u>(137,492)</u>
0	31,789	31,789
0	(72,576)	(72,576)
0	58,642	58,642
0	(795)	(795)
<u>0</u>	<u>17,060</u>	<u>17,060</u>
<u>(137,492)</u>	<u>17,060</u>	<u>(120,432)</u>
112,820	0	112,820
4,355	0	4,355
1,357	0	1,357
56,231	0	56,231
1,520	0	1,520
30,507	0	30,507
<u>206,790</u>	<u>0</u>	<u>206,790</u>
69,298	17,060	86,358
459,754	1,022,007	1,481,761
<u>529,052</u>	<u>1,039,067</u>	<u>1,568,119</u>
\$ 10,090	0	10,090
57,315	0	57,315
11,507	0	11,507
268,746	0	268,746
181,394	1,039,067	1,220,461
<u>\$ 529,052</u>	<u>1,039,067</u>	<u>1,568,119</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, 2012

	<u>General</u>	<u>Road Use Tax</u>	<u>Special Revenue Local Option Sales Tax</u>	<u>Capital Projects</u>
Receipts:				
Property tax	\$ 103,540	0	0	0
TIF revenues	0	0	0	0
Other city taxes	0	0	56,231	0
Licenses and permits	833	0	0	0
Use of money and property	1,649	0	0	0
Intergovernmental	24,866	63,740	0	59,969
Charges for services	3,255	0	0	0
Miscellaneous	28,293	0	0	15,079
Total Receipts	<u>162,436</u>	<u>63,740</u>	<u>56,231</u>	<u>75,048</u>
Disbursements:				
Operating:				
Public safety	42,025	0	0	0
Public works	29,189	52,943	0	0
Culture and recreation	63,954	0	0	0
Community and economic development	0	0	0	0
General government	23,531	0	1,382	0
Capital projects	0	0	15,742	62,888
Total Disbursements	<u>158,699</u>	<u>52,943</u>	<u>17,124</u>	<u>62,888</u>
Excess of Receipts over Disbursements	3,737	10,797	39,107	12,160
Other Financing Sources (Uses) - Transfers	<u>36,902</u>	<u>0</u>	<u>0</u>	<u>(37,594)</u>
Net Change in Cash Balances	40,639	10,797	39,107	(25,434)
Cash Balances at Beginning of Year	134,337	46,518	221,806	35,151
Cash Balances at End of Year	<u>\$ 174,976</u>	<u>57,315</u>	<u>260,913</u>	<u>9,717</u>
Cash Basis Fund Balances:				
Nonspendable - Permanent Fund	\$ 0	0	0	0
Restricted for:				
Debt service	0	0	0	0
Streets	0	57,315	0	0
Other purposes	0	0	260,913	0
Unassigned	174,976	0	0	9,717
Total Cash Basis Fund Balances	<u>\$ 174,976</u>	<u>57,315</u>	<u>260,913</u>	<u>9,717</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FONTANELLE
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and For the Year Ended June 30, 2012

Other Nonmajor Governmental Funds	<u>Total</u>
10,637	114,177
4,355	4,355
0	56,231
0	833
64	1,713
0	148,575
0	3,255
6,500	49,872
<u>21,556</u>	<u>379,011</u>
3,525	45,550
5,755	87,887
1,203	65,157
6,160	6,160
1,416	26,329
0	78,630
<u>18,059</u>	<u>309,713</u>
3,497	69,298
<u>692</u>	<u>0</u>
4,189	69,298
21,942	459,754
<u>26,131</u>	<u>529,052</u>
10,090	10,090
11,507	11,507
0	57,315
7,833	268,746
(3,299)	181,394
<u>26,131</u>	<u>529,052</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, 2012

	<u>Enterprise Funds</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Wind Turbine Construction</u>
Operating Receipts:				
Charges for services	\$ 130,841	66,163	728,609	0
Total Operating Receipts	<u>130,841</u>	<u>66,163</u>	<u>728,609</u>	<u>0</u>
Disbursements:				
Operating:				
Business type activities	103,757	76,616	693,357	0
Capital Outlay:				
Business type activities	0	62,710	0	83,793
Total Operating Disbursements	<u>103,757</u>	<u>139,326</u>	<u>693,357</u>	<u>83,793</u>
Excess (Deficit) of Operating Receipts over (under) Operating Disbursements	<u>27,084</u>	<u>(73,163)</u>	<u>35,252</u>	<u>(83,793)</u>
Non-Operating Receipts:				
Use of money and property	4,705	587	7,183	0
Miscellaneous	0	0	0	100,000
Transfers	(16,162)	0	16,162	0
Total Non-Operating Receipts (Disbursements)	<u>(11,457)</u>	<u>587</u>	<u>23,345</u>	<u>100,000</u>
Net Change in Cash Balances	15,627	(72,576)	58,597	16,207
Cash Balances at Beginning of Year	<u>35,594</u>	<u>148,233</u>	<u>824,285</u>	<u>0</u>
Cash Balances at End of Year	<u>\$ 51,221</u>	<u>75,657</u>	<u>882,882</u>	<u>16,207</u>
Cash Basis Fund Balances:				
Unrestricted:	<u>\$ 51,221</u>	<u>75,657</u>	<u>882,882</u>	<u>16,207</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, 2012

<u>Garbage</u>	<u>Total</u>
9,319	934,932
<u>9,319</u>	<u>934,932</u>
10,114	883,844
0	146,503
<u>10,114</u>	<u>1,030,347</u>
<u>(795)</u>	<u>(95,415)</u>
0	12,475
0	100,000
0	0
<u>0</u>	<u>112,475</u>
(795)	17,060
<u>13,895</u>	<u>1,022,007</u>
<u>13,100</u>	<u>1,039,067</u>
<u>13,100</u>	<u>1,039,067</u>

CITY OF FONTANELLE
Notes to the Financial Statements
June 30, 2012

(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, 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 which meet the Governmental Accounting Standards Board criteria.

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 the following categories:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable 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 categories. 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.

Capital Projects Fund – The Capital Projects Fund is used to account for all resources used for the acquisition or construction of capital facilities.

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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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

Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

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, 2012 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

At June 30, 2012, the city has no outstanding bonded indebtedness.

Cash restricted for future bond payments at June 30, 2012 is as follows:

<u>Type of Indebtedness</u>	<u>Amount</u>
General Obligation Bonds	<u>\$11,507</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 5.38% of their annual covered salary and the City is required to contribute 8.07% 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, 2012, 2011, and 2010 were \$15,035, \$11,766, and \$10,993, respectively, equal to the required contributions for each year.

(5) 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, 2012 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Sick leave	\$ 33,117
Vacation	5,932
	<u>\$ 39,049</u>

The liability has been computed based on rates of pay as of June 30, 2012.

(6) 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.

(7) 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.

(8) Deficit Fund Balances

The TIF Fund had a deficit balance of \$3,299 at June 30, 2012 as a result of disbursements exceeding receipts during the years ended June 30, 2012, 2011 and 2010. The deficit will be eliminated through future TIF revenue collections.

CITY OF FONTANELLE
Notes to the Financial Statements – Continued

(9) Interfund Transfers

The detail of interfund transfers during the year ended June 30, 2012 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	
General Fund	Capital Projects Fund	\$ 37,594
Emergency Management Fund	General Fund	692
Enterprise Fund - Electric	Enterprise Fund - Water	16,162
		\$ 54,448

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

(10) Contingent Liability

At June 30, 2012, the City was defending a lawsuit alleging breach of contract, breach of implied-in-fact contract, breach of good faith and fair dealing, negligent misrepresentation and negligence. Subsequent to June 30, 2102, the case was heard and the City was found to have no liability.

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, 2012

	Governmental <u>Funds</u>	Proprietary <u>Funds</u>	<u>Total</u>
Receipts:			
Property tax	\$ 114,177	0	114,177
TIF revenues	4,355	0	4,355
Other city taxes	56,231	0	56,231
Licenses and permits	833	0	833
Use of money and property	1,713	12,475	14,188
Intergovernmental	148,575	0	148,575
Charges for service	3,255	934,932	938,187
Miscellaneous	49,872	100,000	149,872
	<u>379,011</u>	<u>1,047,407</u>	<u>1,426,418</u>
Disbursements:			
Public safety	45,550	0	45,550
Public works	87,887	0	87,887
Culture and recreation	65,157	0	65,157
Community and economic development	6,160	0	6,160
General government	26,329	0	26,329
Capital projects	78,630	0	78,630
Business type activities	0	1,030,347	1,030,347
	<u>309,713</u>	<u>1,030,347</u>	<u>1,340,060</u>
Excess (Deficit) of Receipts over (under) Disbursements	69,298	17,060	86,358
Balances at Beginning of Year	459,754	1,022,007	1,481,761
Balances at End of Year	<u>\$ 529,052</u>	<u>1,039,067</u>	<u>1,568,119</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, 2012

<u>Budgeted Amount</u>		<u>Variance to Final</u>
<u>Original</u>	<u>Amended</u>	
112,860	112,860	1,317
4,350	4,350	5
56,955	56,955	(724)
1,255	1,255	(422)
2,920	2,920	11,268
90,685	163,536	(14,961)
995,482	1,145,482	(207,295)
2,500	2,500	147,372
<u>1,267,007</u>	<u>1,489,858</u>	<u>(63,440)</u>
49,954	49,954	4,404
107,276	107,276	19,389
53,048	74,248	9,091
4,350	6,161	1
27,709	27,709	1,380
0	98,287	19,657
1,019,202	1,169,202	138,855
<u>1,261,539</u>	<u>1,532,837</u>	<u>192,777</u>
5,468	(42,979)	129,337
1,365,281	1,365,281	116,480
<u>1,370,749</u>	<u>1,322,302</u>	<u>245,817</u>

CITY OF FONTANELLE
Notes to Required Supplementary Information
June 30, 2012

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 \$222,851 and budgeted disbursements by \$271,298. 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, 2012

	<u>Special Revenue</u>			<u>Debt Service</u>	<u>Permanent Fund</u>	<u>Total</u>
	<u>Employee Benefits</u>	<u>Emergency Management</u>	<u>TIF</u>			
Receipts:						
Property tax	\$ 9,280	0	0	1,357	0	10,637
TIF revenues	0	0	4,355	0	0	4,355
Use of money and property - interest	0	0	0	52	12	64
Miscellaneous	0	0	0	0	6,500	6,500
Total Receipts	<u>9,280</u>	<u>0</u>	<u>4,355</u>	<u>1,409</u>	<u>6,512</u>	<u>21,556</u>
Disbursements:						
Operating:						
Public safety	3,525	0	0	0	0	3,525
Public works	1,003	0	0	0	4,752	5,755
Culture and recreation	1,203	0	0	0	0	1,203
Community and economic development	0	0	6,160	0	0	6,160
General government	1,416	0	0	0	0	1,416
Total Disbursements	<u>7,147</u>	<u>0</u>	<u>6,160</u>	<u>0</u>	<u>4,752</u>	<u>18,059</u>
Excess (Deficit) of Receipts over (under) Disbursements	<u>2,133</u>	<u>0</u>	<u>(1,805)</u>	<u>1,409</u>	<u>1,760</u>	<u>3,497</u>
Other Financing Sources - Transfers	<u>0</u>	<u>692</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>692</u>
Net Change in Cash Balances	<u>2,133</u>	<u>692</u>	<u>(1,805)</u>	<u>1,409</u>	<u>1,760</u>	<u>4,189</u>
Cash Balances at Beginning of Year	<u>5,700</u>	<u>(692)</u>	<u>(1,494)</u>	<u>10,098</u>	<u>8,330</u>	<u>21,942</u>
Cash Balances at End of Year	<u>\$ 7,833</u>	<u>0</u>	<u>(3,299)</u>	<u>11,507</u>	<u>10,090</u>	<u>26,131</u>
Cash Basis Fund Balances:						
Nonspendable - Permanent Fund	\$ 0	0	0	0	10,090	10,090
Restricted for other purposes	7,833	0	0	11,507	0	19,340
Unassigned	0	0	(3,299)	0	0	(3,299)
	<u>\$ 7,833</u>	<u>0</u>	<u>(3,299)</u>	<u>11,507</u>	<u>10,090</u>	<u>26,131</u>

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Receipts:				
Property tax	\$ 114,177	154,871	150,885	142,714
TIF revenues	4,355	4,425	303	7,873
Other city taxes	56,231	59,273	45,624	58,974
Licenses and permits	833	1,176	787	1,189
Use of money and property	1,713	5,705	13,528	12,818
Intergovernmental	148,575	230,576	87,083	75,557
Charges for services	3,255	3,895	205	2,654
Miscellaneous	49,872	26,258	60,308	78,134
Total Receipts	<u>\$ 379,011</u>	<u>486,179</u>	<u>358,723</u>	<u>379,913</u>
Disbursements:				
Public safety	\$ 45,550	32,130	39,593	34,848
Public works	87,887	91,125	97,266	125,816
Culture and recreation	65,157	61,585	47,731	40,676
Community and economic development	6,160	5,765	4,127	4,252
General government	26,329	26,130	19,586	21,044
Debt service	0	47,565	50,085	47,305
Capital projects	78,630	433,819	80	39,348
Total Disbursements	<u>\$ 309,713</u>	<u>698,119</u>	<u>258,468</u>	<u>313,289</u>

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

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
131,482	134,611	122,504	154,096	164,027	145,313
18,437	18,807	19,453	19,160	19,274	14,922
52,260	43,934	39,612	2,437	950	1,063
1,191	774	941	639	645	653
10,007	12,259	5,934	4,088	2,529	4,205
76,725	81,769	148,036	189,722	259,104	131,811
4,361	3,023	3,468	3,293	1,053	10,800
27,753	23,598	20,000	9,541	129,981	78,683
<u>322,216</u>	<u>318,775</u>	<u>359,948</u>	<u>382,976</u>	<u>577,563</u>	<u>387,450</u>
41,016	68,228	39,958	34,119	103,945	114,829
92,327	88,245	87,213	77,492	92,045	24,276
42,170	33,043	36,709	29,225	31,355	37,786
4,015	10,935	95,666	111,336	133,511	41,535
25,710	20,761	21,370	14,621	16,247	14,380
49,505	51,585	48,575	77,010	80,390	78,425
0	0	0	0	0	0
<u>254,743</u>	<u>272,797</u>	<u>329,491</u>	<u>343,803</u>	<u>457,493</u>	<u>311,231</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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued my report thereon dated August 24, 2012. 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

The management of the City of Fontanelle is responsible for establishing and maintaining effective internal controls 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 and correct 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 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, 2012 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items 12-III-G and 12-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 24, 2012

CITY OF FONTANELLE
Schedule of Findings
Year Ended June 30, 2012

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, 2012

Part II: Findings Related to the Financial Statements

Instances of Non-compliance

No matters were noted.

Significant Deficiencies

12-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, 2012

Part III: Other Findings Related to Statutory Reporting

12-III-A Certified Budget

The City properly approved a certified budget for the year ended June 30, 2012 and subsequently amended that budget. The budgeted amounts were not exceeded during the year.

12-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.

12-III-C Travel Expense

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

12-III-D Business Transactions

During the year ended June 30, 2012, there were no business transactions between the City and City officials.

12-III-E Bond Coverage

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

12-III-F Council Minutes

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

12-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, 2012, 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: The maximum deposit amount authorized was increased during the year in response to this prior audit finding. It is anticipated that the current maximum deposit amount will be adequate.

Conclusion: Response accepted.

12-III-H Deficit Fund Balance

The TIF Fund had a deficit balance of \$3,299 at June 30, 2012. This deficit is to be eliminated through future TIF revenue collections. The City should carefully monitor this fund to be certain the deficit is eliminated.

Response: We will monitor the deficit to be certain it is eliminated.

Conclusion: Response accepted