

CITY OF FONTANELLE

Fontanelle, Iowa

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

June 30, 2013

With Independent Auditor's Reports

CITY OF FONTANELLE
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CITY OF FONTANELLE

City Officials
June 30, 2013

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
R. Scott Homan	Mayor	December 31, 2013
Amanda Sickles	Mayor Pro Tem	December 31, 2013
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

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Fontanelle, Iowa

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents of this report.

Management Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of the accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

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, 2013, 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.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. My opinion is not modified with respect to this matter.

Other Matters

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 third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included on pages 23 through 25 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other 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.

The other information, Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 20 through 21 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated August 27, 2013 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 in considering the City of Fontanelle's internal control over financial reporting and compliance.

S/Stanley E. Siebke

Urbandale, Iowa
August 27, 2013

**CITY OF FONTANELLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

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, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 9.5%, or \$35,928, from fiscal 2012 to fiscal year 2013. Local Option Sales Tax increased \$19,739, however, no federal grants were collected this year.
- Governmental disbursements decreased 10.3%, or \$31,746, in fiscal 2013 from fiscal 2012.
- The City's total cash basis net position increased 8.1%, or \$126,397, from June 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the government activities increased \$65,116, and the cash basis net position of the business type activities increased by \$61,281.

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.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

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 Position reports information, which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the city's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position 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 Position 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 \$529,052 to \$594,168. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities

	Year ended June 30, <u>2013</u>	Year ended June 30, <u>2012</u>
Receipts:		
Property taxes	\$121,679	114,177
TIF revenues	10,631	4,355
Other city taxes	75,970	56,231
Licenses and permits	823	833
Use of money and property	1,043	1,713
Intergovernmental	91,946	148,575
Charges for service	3,574	3,255
Miscellaneous	<u>37,417</u>	<u>49,872</u>
Total Receipts	<u>343,083</u>	<u>379,011</u>
Disbursements:		
Operating:		
Public safety	43,963	45,550
Public works	105,323	87,887
Culture and recreation	98,828	65,157
Community and economic development	7,332	6,160
General government	22,521	26,329
Capital projects	<u>0</u>	<u>78,630</u>
Total Disbursements	<u>277,967</u>	<u>309,713</u>
Net Change in Cash Balances	65,116	69,298
Cash Balances at Beginning of Year	<u>529,052</u>	<u>459,754</u>
Cash Balances at End of Year	<u>\$594,168</u>	<u>529,052</u>

Nonspendable – Permanent fund	\$ 11,249	10,090
Restricted for:		
Special revenue funds	369,908	322,762
Debt service	11,547	11,507
Capital projects fund	9,717	9,717
Unrestricted – General fund	<u>191,747</u>	<u>174,976</u>
Total Cash Basis Fund Balances	<u>\$ 594,168</u>	<u>529,052</u>

Total governmental activities receipts for the fiscal year were \$343,083 compared to \$379,011 last year. Total disbursements decreased from \$309,713 to \$277,967.

Changes in Cash Basis Net Position of Business Type Activities

	Year ended June 30, <u>2013</u>	Year ended June 30, <u>2012</u>
Operating Receipts:		
Charges for service:		
Water	\$ 134,048	130,841
Sewer	65,404	66,163
Electric	750,266	728,609
Landfill	<u>9,258</u>	<u>9,319</u>
Total Operating Receipts	<u>958,976</u>	<u>934,932</u>
Operating Disbursements:		
Business type activities:		
Water	138,230	103,757
Sewer	65,667	139,326
Electric	642,070	693,357
Wind Turbine	66,398	83,793
Landfill	<u>9,591</u>	<u>10,114</u>
Total Operating Disbursements	<u>921,956</u>	<u>1,030,347</u>
Excess (Deficit) of Disbursements over (under) Receipts	37,020	(94,415)
Total Non-Operating Receipts	<u>24,261</u>	<u>112,475</u>
Net Change in Cash Balances	61,281	17,060
Cash Balances at Beginning of Year	<u>1,038,067</u>	<u>1,021,007</u>
Cash Balances at End of Year	<u>\$1,099,348</u>	<u>1,038,067</u>

Total business type activities receipts for the fiscal year were \$958,976 compared to \$934,932 last year. Total disbursements decreased from \$1,030,347 to \$921,956.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fontanelle completed the year, its governmental funds reported a combined fund balance of \$594,168, a increase of \$65,116 from last year's total of \$529,052.

- Revenues of \$75,816 were received from the local option sales tax.
- The Road Use Fund had an increase of \$4,107 this fiscal year.
- The General Fund had a increase of \$16,771.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance had an loss of \$15,563 this fiscal year. Water rates have been raised.
- The Sewer Fund cash balance had a increase of \$70 this fiscal year. Sewer rates have been raised.
- The Electric Fund cash balance had an increase of \$129,005 this fiscal year.
- The Landfill Fund had a net decrease of \$333 this fiscal year.
- Wind Turbine Fund had \$66,398 of expenditures, and \$14,500 was reimbursed from Forward Fontanelle Power, LLC. This leaves the fund with a (\$35,691) balance, which will be eliminated with repayment from Forward Fontanelle Power, LLC.

BUDGETARY HIGHLIGHTS

The budget was amended in April to allow for additional expenditures in the culture and recreation category due to street light project around the square. The business type/enterprises category was amended due to unforeseen wind turbine and electric fund expenses.

DEBT ADMINISTRATION

At June 30, 2013, 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 \$1,067,377.

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 2014 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 7.6 percent and the state's rate is 4.6 percent. Adair County's unemployment rate decreased to 3.8 percent from 4.3 percent in June 2012 to June 2013.

Inflation in the State continues to be similar to the National Consumer Price Index which showed an increase of 1.75% 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 2014. No new programs have been added to the 2014 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
Cash Basis Statement of Activities and Net Position
As of and For the Year Ended June 30, 2013

	<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	\$ 43,963	0	20,193	0
Public works	105,323	0	64,355	0
Culture and recreation	98,828	3,574	10,333	0
Community and economic development	7,332	0	0	0
General government	22,521	207	0	0
Total Governmental Activities	277,967	3,781	94,881	0
Business type activities:				
Water	138,230	138,668	161	0
Sewer	65,667	65,404	333	0
Electric	708,468	750,266	4,647	14,500
Garbage	9,591	9,258	0	0
Total Business Type Activities	921,956	963,596	5,141	14,500
Total	\$ 1,199,923	967,377	100,022	14,500
General Receipts:				
Property tax levied for general purposes				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Total General Receipts				
Change in Cash Basis Net Position				
Cash Basis Net Position at Beginning of Year				
Cash Basis Net Position at End of Year				
Cash Basis Net Position				
Restricted:				
Nonexpendible - Permanent Fund				
Expendible:				
Streets				
Debt service				
Other purposes				
Unrestricted				
Total Cash Basis Net Position				

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

CITY OF FONTANELLE
Cash Basis Statement of Activities and Net Position
As of and For the Year Ended June 30, 2013

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

Governmental Activities	Business Type Activities	Total
(23,770)	0	(23,770)
(40,968)	0	(40,968)
(84,921)	0	(84,921)
(7,332)	0	(7,332)
(22,314)	0	(22,314)
<u>(179,305)</u>	<u>0</u>	<u>(179,305)</u>
0	599	599
0	70	70
0	60,945	60,945
0	(333)	(333)
<u>0</u>	<u>61,281</u>	<u>61,281</u>
<u>(179,305)</u>	<u>61,281</u>	<u>(118,024)</u>
121,679	0	121,679
10,631	0	10,631
75,816	0	75,816
975	0	975
35,320	0	35,320
<u>244,421</u>	<u>0</u>	<u>244,421</u>
65,116	61,281	126,397
529,052	1,038,067	1,567,119
<u>594,168</u>	<u>1,099,348</u>	<u>1,693,516</u>
\$ 11,249	0	11,249
61,422	0	61,422
11,547	0	11,547
308,486	0	308,486
201,464	1,099,348	1,300,812
<u>\$ 594,168</u>	<u>1,099,348</u>	<u>1,693,516</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, 2013

	General	Special Revenue		Other Nonmajor Governmental Funds
		Road Use Tax	Local Option Sales Tax	
Receipts:				
Property tax	\$ 111,767	0	0	9,912
TIF revenues	0	0	0	10,631
Other city taxes	154	0	75,816	0
Licenses and permits	823	0	0	0
Use of money and property	991	0	0	52
Intergovernmental	27,591	64,355	0	0
Charges for services	3,574	0	0	0
Miscellaneous	30,067	0	0	7,350
Total Receipts	<u>174,967</u>	<u>64,355</u>	<u>75,816</u>	<u>27,945</u>
Disbursements:				
Operating:				
Public safety	40,232	0	0	3,731
Public works	35,955	60,248	0	9,120
Culture and recreation	61,011	0	36,323	1,494
Community and economic development	0	0	0	7,332
General government	20,998	0	0	1,523
Total Disbursements	<u>158,196</u>	<u>60,248</u>	<u>36,323</u>	<u>23,200</u>
Excess of Receipts over Disbursements	16,771	4,107	39,493	4,745
Cash Balances at Beginning of Year	174,976	57,315	260,913	35,848
Cash Balances at End of Year	<u>\$ 191,747</u>	<u>61,422</u>	<u>300,406</u>	<u>40,593</u>
Cash Basis Fund Balances:				
Nonspendable - Permanent Fund	\$ 0	0	0	11,249
Restricted for:				
Debt service	0	0	0	11,547
Streets	0	61,422	0	0
Other purposes	0	0	300,406	8,080
Unassigned	191,747	0	0	9,717
Total Cash Basis Fund Balances	<u>\$ 191,747</u>	<u>61,422</u>	<u>300,406</u>	<u>40,593</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, 2013

Total

121,679
10,631
75,970
823
1,043
91,946
3,574
37,417

343,083

43,963
105,323
98,828
7,332
22,521

277,967

65,116

529,052

594,168

11,249

11,547
61,422
308,486
201,464

594,168

CITY OF FONTANELLE
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Proprietary Funds
As of and For the Year Ended June 30, 2013

	<u>Enterprise Funds</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Wind Turbine Construction</u>
Operating Receipts:				
Charges for services	\$ 134,048	65,404	750,266	0
Total Operating Receipts	<u>134,048</u>	<u>65,404</u>	<u>750,266</u>	<u>0</u>
Disbursements:				
Operating:				
Business type activities	138,230	65,667	642,070	0
Capital Outlay:				
Business type activities	0	0	0	66,398
Total Operating Disbursements	<u>138,230</u>	<u>65,667</u>	<u>642,070</u>	<u>66,398</u>
Excess (Deficit) of Operating Receipts over (under) Operating Disbursements	<u>(4,182)</u>	<u>(263)</u>	<u>108,196</u>	<u>(66,398)</u>
Non-Operating Receipts:				
Use of money and property	161	333	4,647	0
Miscellaneous	4,620	0	0	14,500
Transfers	(16,162)	0	16,162	0
Total Non-Operating Receipts (Disbursements)	<u>(11,381)</u>	<u>333</u>	<u>20,809</u>	<u>14,500</u>
Net Change in Cash Balances	(15,563)	70	129,005	(51,898)
Cash Balances at Beginning of Year	<u>51,221</u>	<u>75,657</u>	<u>881,882</u>	<u>16,207</u>
Cash Balances at End of Year	<u>\$ 35,658</u>	<u>75,727</u>	<u>1,010,887</u>	<u>(35,691)</u>
Cash Basis Fund Balances:				
Unrestricted:	<u>\$ 35,658</u>	<u>75,727</u>	<u>1,010,887</u>	<u>(35,691)</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, 2013

<u>Garbage</u>	<u>Total</u>
9,258	958,976
<u>9,258</u>	<u>958,976</u>
9,591	855,558
0	66,398
<u>9,591</u>	<u>921,956</u>
<u>(333)</u>	<u>37,020</u>
0	5,141
0	19,120
0	0
<u>0</u>	<u>24,261</u>
(333)	61,281
<u>13,100</u>	<u>1,038,067</u>
<u>12,767</u>	<u>1,099,348</u>
<u>12,767</u>	<u>1,099,348</u>

CITY OF FONTANELLE
Notes to the Financial Statements
June 30, 2013

(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 Cash Basis Statement of Activities and Net Position (previously referred to as 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 Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on cash balances imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position 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.

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 Other Information. During the year ended June 30, 2103, disbursements exceeded the amount budgeted in the public works and community and economic development programs.

(2) Pooled Deposits and Investments

The City's deposits at June 30, 2013 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.

Interest Rate Risk – The City's policy is to generally limit investments to maturities of three years or less, with most investments maturing in a period of one year.

(3) Bonded Indebtedness

At June 30, 2013, the city has no outstanding bonded indebtedness.

Cash restricted for future bond payments at June 30, 2013 is as follows:

<u>Type of Indebtedness</u>	<u>Amount</u>
General Obligation Bonds	<u>\$11,547</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 5.78% of their annual covered salary and the City is required to contribute 8.67% 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, 2013, 2012, and 2011 were \$16,129, \$15,035, and \$11,766, 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, 2013 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Sick leave	\$ 32,544
Vacation	4,703
	<u>\$ 37,247</u>

The liability has been computed based on rates of pay as of June 30, 2013.

(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 Balance

The Wind Turbine Construction Fund had a deficit balance of \$35,691 at June 30, 2013 as a result of disbursements exceeding receipts during the year ended June 30, 2013. The deficit will be eliminated through future collections from the wind turbine developer.

CITY OF FONTANELLE
Notes to the Financial Statements – Continued

(9) Interfund Transfers

The detail of interfund transfers during the year ended June 30, 2013 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	
Enterprise Fund - Electric	Enterprise Fund - Water	\$ 16,162

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

CITY OF FONTANELLE
 Budgetary Comparison Schedule of Receipts, Disbursements
 and Changes in Cash - Budget and Actual (Cash Basis)
 All Governmental Funds and Proprietary Funds
 Year Ended June 30, 2013

	Governmental <u>Funds</u>	Proprietary <u>Funds</u>	<u>Total</u>
Receipts:			
Property tax	\$ 121,679	0	121,679
TIF revenues	10,631	0	10,631
Other city taxes	75,970	0	75,970
Licenses and permits	823	0	823
Use of money and property	1,043	5,141	6,184
Intergovernmental	91,946	0	91,946
Charges for service	3,574	958,976	962,550
Miscellaneous	37,417	19,120	56,537
	<u>343,083</u>	<u>983,237</u>	<u>1,326,320</u>
Total Receipts			
Disbursements:			
Public safety	43,963	0	43,963
Public works	105,323	0	105,323
Culture and recreation	98,828	0	98,828
Community and economic development	7,332	0	7,332
General government	22,521	0	22,521
Business type activities	0	921,956	921,956
	<u>277,967</u>	<u>921,956</u>	<u>1,199,923</u>
Total Disbursements			
Excess of Receipts over Disbursements	65,116	61,281	126,397
Balances at Beginning of Year	529,052	1,038,067	1,567,119
Balances at End of Year	<u>\$ 594,168</u>	<u>1,099,348</u>	<u>1,693,516</u>

CITY OF FONTANELLE
 Budgetary Comparison Schedule of Receipts, Disbursements
 and Changes in Cash - Budget and Actual (Cash Basis)
 All Governmental Funds and Proprietary Funds
 Year Ended June 30, 2013

<u>Budgeted Amount</u>		<u>Variance to Final</u>
<u>Original</u>	<u>Amended</u>	
119,378	119,378	2,301
11,000	11,000	(369)
57,001	57,001	18,969
1,255	1,255	(432)
2,185	2,185	3,999
103,174	103,174	(11,228)
1,012,694	1,099,094	(136,544)
2,500	2,500	54,037
<u>1,309,187</u>	<u>1,395,587</u>	<u>(69,267)</u>
53,909	53,909	9,946
104,209	104,209	(1,114)
56,491	107,031	8,203
7,000	7,000	(332)
31,162	31,162	8,641
998,622	1,065,022	143,066
<u>1,251,393</u>	<u>1,368,333</u>	<u>168,410</u>
57,794	27,254	99,143
1,484,420	1,484,420	82,699
<u>1,542,214</u>	<u>1,511,674</u>	<u>181,842</u>

CITY OF FONTANELLE
Notes to Other Information
June 30, 2013

The budgetary comparison is presented 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 nine 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 \$86,400 and budgeted disbursements by \$116,940. The budget amendment is reflected in the final budgeted figures.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the public works and community and economic development functions.

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, 2013

	<u>Special Revenue</u>					<u>Total</u>
	<u>Employee Benefits</u>	<u>TIF</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Permanent Fund</u>	
Receipts:						
Property tax	\$ 9,912	0	0	0	0	9,912
TIF revenues	0	10,631	0	0	0	10,631
Use of money and property - interest	0	0	40	0	12	52
Miscellaneous	0	0	0	0	7,350	7,350
Total Receipts	<u>9,912</u>	<u>10,631</u>	<u>40</u>	<u>0</u>	<u>7,362</u>	<u>27,945</u>
Disbursements:						
Operating:						
Public safety	3,731	0	0	0	0	3,731
Public works	2,917	0	0	0	6,203	9,120
Culture and recreation	1,494	0	0	0	0	1,494
Community and economic development	0	7,332	0	0	0	7,332
General government	1,523	0	0	0	0	1,523
Total Disbursements	<u>9,665</u>	<u>7,332</u>	<u>0</u>	<u>0</u>	<u>6,203</u>	<u>23,200</u>
Excess of Receipts over Disbursements	247	3,299	40	0	1,159	4,745
Cash Balances at Beginning of Year	7,833	(3,299)	11,507	9,717	10,090	35,848
Cash Balances at End of Year	<u>\$ 8,080</u>	<u>0</u>	<u>11,547</u>	<u>9,717</u>	<u>11,249</u>	<u>40,593</u>
Cash Basis Fund Balances:						
Nonspendable - Permanent Fund	\$ 0	0	0	0	11,249	11,249
Restricted for other purposes	8,080	0	11,547	0	0	19,627
Unassigned	0	0	0	9,717	0	9,717
	<u>\$ 8,080</u>	<u>0</u>	<u>11,547</u>	<u>9,717</u>	<u>11,249</u>	<u>40,593</u>

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Receipts:				
Property tax	\$ 121,679	114,177	154,871	150,885
TIF revenues	10,631	4,355	4,425	303
Other city taxes	75,970	56,231	59,273	45,624
Licenses and permits	823	833	1,176	787
Use of money and property	1,043	1,713	5,705	13,528
Intergovernmental	91,946	148,575	230,576	87,083
Charges for services	3,574	3,255	3,895	205
Miscellaneous	37,417	49,872	26,258	60,308
Total Receipts	<u>\$ 343,083</u>	<u>379,011</u>	<u>486,179</u>	<u>358,723</u>
Disbursements:				
Public safety	\$ 43,963	45,550	32,130	39,593
Public works	105,323	87,887	91,125	97,266
Culture and recreation	98,828	65,157	61,585	47,731
Community and economic development	7,332	6,160	5,765	4,127
General government	22,521	26,329	26,130	19,586
Debt service	0	0	47,565	50,085
Capital projects	0	78,630	433,819	80
Total Disbursements	<u>\$ 277,967</u>	<u>309,713</u>	<u>698,119</u>	<u>258,468</u>

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

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
142,714	131,482	134,611	122,504	154,096	164,027
7,873	18,437	18,807	19,453	19,160	19,274
58,974	52,260	43,934	39,612	2,437	950
1,189	1,191	774	941	639	645
12,818	10,007	12,259	5,934	4,088	2,529
75,557	76,725	81,769	148,036	189,722	259,104
2,654	4,361	3,023	3,468	3,293	1,053
78,134	27,753	23,598	20,000	9,541	129,981
<u>379,913</u>	<u>322,216</u>	<u>318,775</u>	<u>359,948</u>	<u>382,976</u>	<u>577,563</u>
34,848	41,016	68,228	39,958	34,119	103,945
125,816	92,327	88,245	87,213	77,492	92,045
40,676	42,170	33,043	36,709	29,225	31,355
4,252	4,015	10,935	95,666	111,336	133,511
21,044	25,710	20,761	21,370	14,621	16,247
47,305	49,505	51,585	48,575	77,010	80,390
39,348	0	0	0	0	0
<u>313,289</u>	<u>254,743</u>	<u>272,797</u>	<u>329,491</u>	<u>343,803</u>	<u>457,493</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 in accordance with U.S. generally accepted auditing standards and the standards applicable to financial statement audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, 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, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated August 27, 2013. My report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Fontanelle's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fontanelle's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of Fontanelle's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, I identified deficiencies in internal control 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, 2013 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 13-III-H.

City of Fontanelle's Responses to Findings

The City of Fontanelle's responses to findings identified in my audit are described in the accompanying Schedule of Findings. The City of Fontanelle's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

S/Stanley E. Siebke

Urbandale, Iowa
August 27, 2013

CITY OF FONTANELLE
Schedule of Findings
Year Ended June 30, 2013

Part I: Summary of Independent Auditor's Results

- (a) Unmodified 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, 2013

Part II: Findings Related to the Financial Statements

Instances of Non-compliance

No matters were noted.

Significant Deficiencies

13-II-A Segregation of Duties

One important aspect of the internal control 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, 2013

Part III: Other Findings Related to Statutory Reporting

13-III-A Certified Budget

Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the public works and community and economic development functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation." The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response: The disbursements in question were highly unusual and unexpectedly occurred near the end of the year without time for a budget amendment.

Conclusion: Response accepted.

13-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.

13-III-C Travel Expense

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

13-III-D Business Transactions

During the year ended June 30, 2013, there were no business transactions between the City and City officials.

13-III-E Bond Coverage

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

13-III-F Council Minutes

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

13-III-G Deposits and Investments

No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

13-III-H Deficit Fund Balance

The Wind Turbine Construction Fund had a deficit balance of \$35,691 at June 30, 2013. This deficit is to be eliminated through future collections from the wind turbine developer. 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