



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE _____ March 8, 2004 _____ Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt released an audit report on the City of Fairfield, Iowa, for the year ended June 30, 2003.

The City's receipts totaled \$10,249,782 for the year ended June 30, 2003, a 20 percent increase from 2002. The receipts included \$3,088,534 in property tax, \$316,671 in tax increment financing collections, \$2,351,102 from other governments, \$650,297 in local option sales tax and \$21,220 in interest on investments. The City also received construction warrant proceeds of \$3,200,000 and anticipatory loan proceeds of \$5,387,977 that are reported as other financing sources.

Disbursements for the year totaled \$15,766,045, a 53 percent increase from 2002, and included \$7,587,901 for capital projects, \$2,436,673 for business type activities and \$2,006,603 for public safety.

The increase in receipts is due in part to airport improvement grants. The increase in disbursements is due primarily to water and airport improvement capital project activity.

This report contains recommendations to the City Council and other City officials. For example, the City should review its internal control procedures, segregate duties to the extent possible, and establish policies and procedures regarding the use and operation of its computer system. The City has responded to each item in the report and stated that corrective action is being taken.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

###

CITY OF FAIRFIELD

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2003

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Financial Statements:	<u>Exhibit</u>	
Combined Statement of Cash Transactions – All Fund Types	A	8-9
Comparison of Receipts, Disbursements and Changes in Balances – Actual to Budget	B	10
Statement of Indebtedness	C	12-13
Notes to Financial Statements		14-23
Supplemental Information:	<u>Schedule</u>	
Combining and Individual Schedules of Cash Transactions:		
General Fund	1	26-29
Special Revenue Funds	2	30-35
Debt Service Fund	3	37
Capital Projects Funds	4	38-39
Enterprise Funds	5	40-43
Internal Service Fund	6	44
Trust Funds	7	46-47
Bond and Note Maturities	8	48
Comparison of Taxes and Intergovernmental Receipts	9	49
Schedule of Expenditures of Federal Awards	10	50
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		51-52
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance		55-56
Schedule of Findings and Questioned Costs		57-65
Staff		66

City of Fairfield

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Edward Malloy	Mayor	Jan 2004
Myron Gookin	Council Member/Mayor Pro tem	Jan 2006
Dick Reed	Council Member	Resigned
Rodger Gillaspie (Appointed)	Council Member	Jan 2004
Tom Thompson	Council Member	Jan 2004
Matt Patton	Council Member	Resigned
Daryn Hamilton (Appointed)	Council Member	Jan 2004
Tom Stanley	Council Member	Resigned
Connie Boyer (Appointed)	Council Member	Jan 2004
Pauline Reeder	Council Member	Jan 2006
John Revolinski	Council Member	Jan 2006
John Brown	City Administrator/City Clerk	Indefinite
Joy Messer	Deputy City Clerk	Indefinite
John Morrissey	City Attorney	Indefinite

City of Fairfield



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the City of Fairfield, Iowa, as of and for the year ended June 30, 2003. These financial statements are the responsibility of the City of Fairfield's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we 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. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these 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 our opinion, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Fairfield as of and for the year ended June 30, 2003, and its indebtedness at June 30, 2003, on the basis of accounting described in note 1.

As discussed in note 17, the City of Fairfield intends to implement Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures, for the year ending June 30, 2004. The effects of these statements are expected to significantly impact the presentation of the City's financial statements and related notes in the year of implementation. The revised requirements include an analytical overview of the City's financial activities in the Management's Discussion and Analysis introduction to the financial statements.

In accordance with Government Auditing Standards, we have also issued our reports dated December 11, 2003 on our consideration of the City of Fairfield's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2002 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 10, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 11, 2003

Financial Statements

City of Fairfield
 Combined Statement of Cash Transactions

All Fund Types

Year ended June 30, 2003

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Receipts:			
Property tax	\$ 1,769,032	468,463	712,909
Tax increment financing collections	-	316,671	-
Other city tax	240,353	675,306	36,445
Licenses and permits	14,960	-	-
Use of money and property	4,902	197	-
Intergovernmental	309,797	777,155	-
Charges for service	310,895	-	-
Special assessments	-	-	51,290
Miscellaneous	68,626	4,677	-
Total receipts	<u>2,718,565</u>	<u>2,242,469</u>	<u>800,644</u>
Disbursements:			
Public safety	1,140,501	866,102	-
Public works	86,668	785,138	-
Health and social services	6,683	-	-
Culture and recreation	1,103,884	148,836	-
Community and economic development	64,723	14,428	-
General government	279,950	27,043	-
Debt service	-	-	1,100,734
Capital projects	-	-	-
Business type activities	-	-	-
Non-program	-	-	-
Total disbursements	<u>2,682,409</u>	<u>1,841,547</u>	<u>1,100,734</u>
Excess (deficiency) of receipts over (under) disbursements	<u>36,156</u>	<u>400,922</u>	<u>(300,090)</u>
Other financing sources (uses):			
Water revenue capital loan note proceeds (net of \$59,000 initiation fee)	-	-	-
Construction warrant proceeds	-	-	-
Construction warrants redeemed	-	-	-
Operating transfers in	175,760	-	315,774
Operating transfers out	(90,760)	(385,774)	-
Total other financing sources (uses)	<u>85,000</u>	<u>(385,774)</u>	<u>315,774</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	121,156	15,148	15,684
Balance beginning of year, as restated (note 16)	<u>116,986</u>	<u>247,741</u>	<u>734</u>
Balance end of year	<u>\$ 238,142</u>	<u>262,889</u>	<u>16,418</u>

See notes to financial statements.

Capital Projects	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Internal Service	Trust	
138,130	-	-	-	3,088,534
-	-	-	-	316,671
7,358	-	-	-	959,462
-	-	-	-	14,960
-	127,206	-	33,595	165,900
1,162,645	95,583	2,006	3,916	2,351,102
-	2,616,182	-	11,000	2,938,077
-	-	-	-	51,290
17,234	184,558	18,561	70,130	363,786
<u>1,325,367</u>	<u>3,023,529</u>	<u>20,567</u>	<u>118,641</u>	<u>10,249,782</u>
-	-	-	-	2,006,603
-	-	-	-	871,806
-	-	-	-	6,683
-	-	-	53,199	1,305,919
-	-	-	22,684	101,835
-	-	-	-	306,993
-	-	-	4,176	1,104,910
7,587,901	-	-	-	7,587,901
-	2,436,673	-	-	2,436,673
-	-	36,722	-	36,722
<u>7,587,901</u>	<u>2,436,673</u>	<u>36,722</u>	<u>80,059</u>	<u>15,766,045</u>
<u>(6,262,534)</u>	<u>586,856</u>	<u>(16,155)</u>	<u>38,582</u>	<u>(5,516,263)</u>
5,387,977	-	-	-	5,387,977
3,200,000	-	-	-	3,200,000
(2,800,000)	-	-	-	(2,800,000)
195,843	228,125	-	-	915,502
(843)	(438,125)	-	-	(915,502)
<u>5,982,977</u>	<u>(210,000)</u>	<u>-</u>	<u>-</u>	<u>5,787,977</u>
(279,557)	376,856	(16,155)	38,582	271,714
<u>(1,950,534)</u>	<u>1,218,666</u>	<u>(70,257)</u>	<u>914,283</u>	<u>477,619</u>
<u>(2,230,091)</u>	<u>1,595,522</u>	<u>(86,412)</u>	<u>952,865</u>	<u>749,333</u>

Exhibit B

City of Fairfield

Comparison of Receipts, Disbursements and Changes in Balances -

Actual to Budget

Year ended June 30, 2003

	Actual	Less Funds not Required to be Budgeted	Net	Amended Budget	Variance Favorable (Unfavorable)	Net as % of Amended Budget
Receipts:						
Property tax	\$ 3,088,534	-	3,088,534	3,146,329	(57,795)	98%
Tax increment financing collections	316,671	-	316,671	325,625	(8,954)	97%
Other city tax	959,462	-	959,462	882,434	77,028	109%
Licenses and permits	14,960	-	14,960	27,450	(12,490)	54%
Use of money and property	165,900	7,798	158,102	142,700	15,402	111%
Intergovernmental	2,351,102	2,006	2,349,096	2,082,824	266,272	113%
Charges for service	2,938,077	-	2,938,077	3,434,550	(496,473)	86%
Special assessments	51,290	-	51,290	51,918	(628)	99%
Miscellaneous	363,786	55,848	307,938	36,500	271,438	844%
Total receipts	<u>10,249,782</u>	<u>65,652</u>	<u>10,184,130</u>	<u>10,130,330</u>	<u>53,800</u>	<u>101%</u>
Disbursements:						
Public safety	2,006,603	-	2,006,603	2,074,545	67,942	97%
Public works	871,806	-	871,806	921,336	49,530	95%
Health and social services	6,683	-	6,683	8,000	1,317	84%
Culture and recreation	1,305,919	4,350	1,301,569	1,389,077	87,508	94%
Community and economic development	101,835	-	101,835	115,261	13,426	88%
General government	306,993	-	306,993	337,483	30,490	91%
Debt service	1,104,910	4,176	1,100,734	1,100,735	1	100%
Capital projects	7,587,901	-	7,587,901	9,986,600	2,398,699	76%
Business type activities	2,436,673	-	2,436,673	2,679,948	243,275	91%
Non-program	36,722	36,722	-	-	-	-
Total disbursements	<u>15,766,045</u>	<u>45,248</u>	<u>15,720,797</u>	<u>18,612,985</u>	<u>2,892,188</u>	<u>84%</u>
Excess (deficiency) of receipts over (under) disbursements	(5,516,263)	20,404	(5,536,667)	(8,482,655)		
Other financing sources, net	<u>5,787,977</u>	-	<u>5,787,977</u>	<u>8,580,000</u>		
Excess of receipts and other financing sources over disbursements and other financing uses	271,714	20,404	251,310	97,345		
Balance beginning of year	<u>477,619</u>	<u>341,450</u>	<u>136,169</u>	<u>824,608</u>		
Balance end of year	<u>\$ 749,333</u>	<u>361,854</u>	<u>387,479</u>	<u>921,953</u>		

See notes to financial statements.

City of Fairfield

City of Fairfield
Statement of Indebtedness
Year ended June 30, 2003

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Street construction	Jan 2, 1958	2.600%	\$ 85,000
Capital projects	Jun 1, 1993	4.20-4.375	810,000
Policemen's and firemen's pension	Jun 1, 1993	6.25-6.500	595,000
Library and street construction	May 1, 1995	5.00-5.600	3,300,000
Total			
General obligation capital loan notes:			
General corporate purpose - series 2001A	May 1, 2001	4.20-4.85%	\$ 4,330,000
Urban renewal project - series 2001B	May 1, 2001	5.40-6.20	325,000
Total			
Revenue bonds:			
Water	Jun 1, 1977	4.90-5.70%	\$ 1,500,000
Water	May 1, 1995	4.60-5.75	1,165,000
Total			
State Revolving Fund - water revenue capital loan notes	Feb 23, 2000	3.00%	\$ 5,900,000
Interim financing:			
Water construction warrant	Jul 12, 2002	4.00-5.00%	\$ 500,000
Airport apron construction warrant	Jul 30, 2002	4.00-4.50	750,000
Water construction warrant	Aug 22, 2002	4.00-5.00	750,000
Water construction warrant	Sep 11, 2002	5.00	800,000
Airport improvement construction warrant	May 12, 2003	3.75	400,000
Total			
Mortgage note (note 6):			
Logan Apartments	Jun 1, 1977	8.75%	\$ 960,000
Lease-purchase agreements (note 7):			
Water generator	Dec 31, 1999	6.85%	\$ 105,180
Tractor/mower	Jul 25, 2002	7.90	17,935
Total			
Bank loan (note 14):			
Library	Mar 17, 2000	5.00%	\$ 44,000

See notes to financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Principal and Interest Due and Unpaid
5,000	-	-	5,000	-	5,520
110,000	-	110,000	-	4,813	-
85,000	-	85,000	-	5,525	-
2,065,000	-	230,000	1,835,000	109,242	-
\$ 2,265,000	-	425,000	1,840,000	119,580	5,520
4,005,000	-	335,000	3,670,000	177,351	-
300,000	-	25,000	275,000	18,803	-
\$ 4,305,000	-	360,000	3,945,000	196,154	-
25,000	-	-	25,000	-	32,838
810,000	-	80,000	730,000	44,182	-
\$ 835,000	-	80,000	755,000	44,182	32,838
-	5,446,977	-	5,446,977	52,058	-
-	500,000	500,000	-	14,562	-
-	750,000	750,000	-	9,904	-
-	750,000	750,000	-	27,288	-
-	800,000	800,000	-	17,096	-
-	400,000	-	400,000	-	-
\$ -	3,200,000	2,800,000	400,000	68,850	-
295,389	-	67,445	227,944	23,184	-
70,705	-	14,346	56,359	4,450	-
-	17,935	5,026	12,909	-	-
\$ 70,705	17,935	19,372	69,268	4,450	-
39,308	-	2,262	37,046	1,914	-

City of Fairfield

Notes to Financial Statements

June 30, 2003

(1) Summary of Significant Accounting Policies

The City of Fairfield is a political subdivision of the State of Iowa located in Jefferson County. It was first incorporated in 1847 and operates under the Home Rule provisions of the Constitution of Iowa. 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, general government and business type services.

A. Reporting Entity

For financial reporting purposes, the City of Fairfield 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.

These financial statements present the City of Fairfield (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of the operational or financial relationship with the City.

Blended Component Units

The Friends of the Fairfield Library and Fairfield Library Foundation were established as non-profit corporations in accordance with Chapter 504A of the Code of Iowa. These non-profit corporations are legally separate from the City but are so intertwined with the City that they are, in substance, the same as the City. The funds of these components units, including the Fairfield Public Library House, are reported as part of the City and blended into the Special Revenue and Trust Funds. Although the Friends of the Fairfield Library and Fairfield Library Foundation are legally separate from the City, their purpose is to benefit the City of Fairfield (the primary government) by soliciting contributions and managing those funds.

Jointly Governed Organizations

The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following boards and commissions: Jefferson County Assessor's Conference Board, Jefferson County E911 Joint Service Board and Jefferson County Emergency Management Agency. The City also participates in the Jefferson County Regional Service Agency, a jointly governed organization established pursuant to Chapter 28E of the Code of Iowa.

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and balances. The various funds and their designated purposes are as follows:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are 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 through other funds.

Special Revenue Funds - The Special Revenue Funds are utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

Debt Service Fund - The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation, long-term debt.

Capital Projects Funds - The Capital Projects Funds are utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through Enterprise Funds.

Proprietary Funds

Enterprise Funds - The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

Internal Service Fund - The Internal Service Fund is utilized to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis.

Fiduciary Funds

Trust Funds - The Trust Funds are utilized to account for monies and properties received and held by the City in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These include Expendable and Non-Expendable Trust Funds.

C. Basis of Accounting

The City of Fairfield 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.

D. Budgets and Budgetary Accounting

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, except for the blended component units, the Internal Service Fund and the Non-expendable Trust Fund. 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.

E. Total (Memorandum Only)

The total column on the combined statement of cash transactions is captioned "Memorandum Only" to indicate it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2003 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.

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.

In addition, the City had investments in the Iowa Public Agency Investment Trust (IPAIT) which are valued at an amortized cost of \$1,849 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, general obligation capital loan notes and revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds		General Obligation Capital Loan Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 245,000	97,742	380,000	182,963	85,000	40,102	710,000	320,807
2005	255,000	85,370	395,000	166,058	90,000	35,683	740,000	287,111
2006	265,000	72,238	415,000	148,287	100,000	30,913	780,000	251,438
2007	285,000	58,458	435,000	130,185	105,000	25,513	825,000	214,156
2008	140,000	43,495	310,000	110,537	110,000	19,790	560,000	173,822
2009	150,000	35,970	325,000	96,080	115,000	13,685	590,000	145,735
2010	155,000	27,720	335,000	80,622	125,000	7,187	615,000	115,529
2011	165,000	19,040	250,000	64,445	-	-	415,000	83,485
2012	175,000	9,800	200,000	52,095	-	-	375,000	61,895
2013	-	-	210,000	42,895	-	-	210,000	42,895
2014	-	-	220,000	33,130	-	-	220,000	33,130
2015	-	-	230,000	22,680	-	-	230,000	22,680
2016	-	-	240,000	11,640	-	-	240,000	11,640
Total	\$ 1,835,000	449,833	3,945,000	1,141,617	730,000	172,873	6,510,000	1,764,323

Revenue Bonds

The resolution providing for the issuance of the revenue bonds includes the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to the water bond and interest sinking account. At June 30, 2003, the balance in this fund was \$76,065.
- (c) Additional monthly transfers of 25 percent of the amount required to be deposited in the water revenue bond and interest sinking account shall be made to the water reserve account until \$132,187 is accumulated and maintained. At June 30, 2003, the balance in this account was \$165,025.
- (d) Monthly transfers of \$500 shall be made to the water improvement account until such account reaches a balance of \$50,000. At June 30, 2003, the balance in this account was \$52,437.
- (e) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to retire any subordinate obligations and then can be used for any lawful purpose.
- (f) Bonds maturing after June 1, 2005 may be called for redemption and paid before maturity on June 1, 2005 or any interest payment date thereafter.

Water Revenue Capital Loan Notes

On February 23, 2000, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, N.A. for the issuance of \$5,900,000 of water revenue capital loan notes with interest at 3.00% per annum. The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the costs of construction improvement and extensions to the municipal waterworks system. The City will receive disbursements from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2003, the City had drawn \$5,446,977 of the \$5,900,000 authorized. Wells Fargo Bank Iowa, N.A. has the remaining \$453,023 held in trust which the City will request as the project progresses. An initiation fee of 1% of the authorized borrowing for the water revenue capital loan notes was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee was withheld by the bank from the first proceeds of the water revenue capital loan notes drawn by the City during the year ended June 30, 2003. Since the City is still drawing funds on the water revenue capital loan notes, a formal repayment schedule has not yet been adopted for that debt.

Construction Warrants

During the year ended June 30, 2003, the City entered into several agreements with First National Bank, Fairfield, Iowa to provide for the issuance of construction warrants in connection with the water state revolving, the airport apron, and the airport improvements projects. The warrants were issued to First National Bank in amounts ranging from \$400,000 to \$800,000 with interest rates ranging from 3.75% to 5.00% per annum. The warrants were to be payable from the fund from which payment for work may be made. During the year ended June 30, 2003, all warrants were redeemed, except for the \$400,000 warrant issued May 12, 2003 for the airport improvements project.

(4) Sewer Utility Replacement Account

Ordinance number 733, dated December 1, 1986, established a user charge system to provide funds for all costs associated with the City's wastewater treatment works and provides for the creation of a Sewer Utility Replacement Account. The purpose of this account is to provide for replacement needs over the useful life of the wastewater treatment works. Quarterly deposits of \$31,250 are to be made to the Sewer Utility Replacement Account from the revenues of the Sewer Utility Account. At June 30, 2003, the balance of the Sewer Utility Replacement Account was \$(436,293). The deficit is due to the sewer distribution and digester improvement projects.

(5) Water Capital Improvement Reserve Sinking Account

Resolution number 1395, dated August 24, 1992, provides for the creation of a Water Capital Improvement Reserve Sinking Account. The purpose of this account is to provide for anticipated capital improvements to the water utility system. Monthly deposits of \$8,350 are to be made to this account from the revenues of the Water Utility Account. At June 30, 2003, the balance in the Water Capital Improvement Reserve Sinking Account was \$(367,626). The deficit is due to a water distribution project.

(6) Mortgage Note Payable – Logan Apartments

The land and buildings for the Logan Apartments are secured by a first mortgage note to MDS Loan Services, L. P. The note, with a balance of \$227,944 at June 30, 2003, bears interest at 8.75% per annum and is due in monthly installments of \$7,552. Final payment on the note is scheduled for April, 2006.

The mortgage is due as follows:

Year Ending June 30,	Principal Amount
2004	\$ 73,587
2005	80,290
2006	<u>74,067</u>
Total	<u>\$ 227,944</u>

(7) Lease-Purchase Agreements

The City has entered into agreements to lease certain equipment under non-cancelable capital leases. The following is a schedule of the future minimum lease payments, including interest at rates ranging from 6.85% to 7.90% per annum, and the present value of net minimum lease payments under agreements in effect at June 30, 2003:

Year ending June 30,	Water Generator	Tractor/ Mower	Total
2004	\$ 18,796	5,026	23,822
2005	18,796	5,027	23,823
2006	18,796	5,027	23,823
2007	<u>7,831</u>	-	<u>7,831</u>
Total minimum lease payments	64,219	15,080	79,299
Less amount representing interest	<u>(7,860)</u>	<u>(2,171)</u>	<u>(10,031)</u>
Present value of net minimum lease payments	<u>\$ 56,359</u>	<u>12,909</u>	<u>69,268</u>

(8) Pension and Retirement Benefits

Iowa Public Employees' Retirement System – The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2003, 2002 and 2001 were \$100,521, \$100,026 and \$95,480, respectively, equal to the required contributions for each year.

Municipal Fire and Police Retirement System of Iowa – The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by State statute to plan members and beneficiaries. The police department and the full time employees of the fire department for the City participate in this Plan. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 104th St., Urbandale, Iowa 50322.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2003, 2002, and 2001 were \$110,265, \$115,291, and \$114,577, respectively, which met the required minimum contribution for each year.

(9) Compensated Absences

City employees accumulate unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2003, primarily relating to the General Fund, was \$73,500. This liability has been computed based on rates of pay in effect at June 30, 2003.

(10) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 475 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contribution to the Pool for the year ended June 30, 2003 was \$134,086.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in the aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks, including automobile physical damage, are also reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2003, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation, and other property and liability. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Contractual Commitments

The City has entered into various construction contracts totaling \$7,956,196. The unpaid contract balances at June 30, 2003 totaled \$550,192. These balances will be paid as work on the projects progresses. These construction contracts will be funded with local sources and possible bond or note sales in fiscal year 2004.

(12) Deficit Balances

The Capital Projects Fund, Recreation Trails, Civic Center, Walton Lake Subdivision, Airport Improvements, Airport Apron, 2000 RISE Project, Water – State Revolving, Sewer Utility Replacement, and Capital Improvement Replacement Accounts had deficit balances of \$9,271, \$401,209, \$559,701, \$290,163, \$83,464, \$69,266, \$274,980, \$436,293, and \$116,269, respectively, at June 30, 2003. These deficit balances were a result of project costs incurred prior to availability of funds. The deficit balances will be eliminated by local sources, grants and future bond or note issues.

The Enterprise Fund, Water Capital Improvement Reserve Sinking, Sewer Utility, Airport Hanger Development and Yard Waste Accounts had deficit balances of \$367,626, \$21,265, \$18,903 and \$7,178, respectively, at June 30, 2003. The deficits will be eliminated by local sources, grants, bond or note sales and transfers from other accounts.

The Internal Service Fund, Revolving Account had a deficit balance of \$86,412 at June 30, 2003. This account is reimbursed for advances made and, as a result, normally has a deficit balance.

(13) Southeast Iowa Small Cities and Counties Health Care Plan

The City, in conjunction with Jefferson County, entered into an agreement authorized by Chapter 28E of the Code of Iowa for health and related insurance which is funded through employer and employee contributions. The City and County are contingently liable with respect to medical claims made by the participants in the plan. The plan is self-insured up to a stop loss amount, including aggregate coverage of 120% of established covered claims and specific coverage with a \$25,000 specific deductible. Coverage from an independent insurer is maintained for losses in excess of both the individual and aggregate stop loss amounts. Claims based on occurrences prior to April 1, 2000 remain insured under previous insurance policies. An independent claims administrator performs all claims handling procedures. Settled claims have not exceeded the plan coverage during any of the past three years.

The unaudited cash balance of the Southeast Iowa Small Cities and Counties Health Care Plan was \$42,601 at June 30, 2003. The plan had unaudited claims expense, after reinsurance reimbursement, of \$831,287 for the plan year ended June 30, 2003. The plan had an unaudited reserve for incurred but unpaid claims of \$124,698 at June 30, 2003.

On June 10, 2003, the City approved Resolution Number 2241 dissolving the 28E agreement between the City of Fairfield and Jefferson County relating to health and related insurance. This will be effective after all outstanding claims and obligations of the program are paid for health, dental and vision claims incurred on or before June 30, 2003.

(14) Library Bank Loan

On March 17, 2000, the Fairfield Public Library entered into a bank loan totaling \$44,000 to purchase a home and property adjacent to the existing library. The loan bears 5.00% per annum interest and requires monthly payments of \$348 from April 17, 2000 through February 17, 2005, with a final payment of \$33,028 due on March 17, 2005. The balance outstanding totaled \$37,046 at June 30, 2003.

(15) Litigation

The City is involved in several legal matters at June 30, 2003. The probability of loss, if any, is undeterminable.

(16) Restatement

The Water - State Revolving and Sewer Utility Replacement accounts previously reported as Enterprise Funds, are now reported in the Capital Projects Fund to better reflect the nature and activity of these accounts. As a result, the beginning balance in the Enterprise Fund increased by \$746,512 and the beginning balance in the Capital Projects Fund decreased by \$746,512.

(17) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures. These statements will be implemented for year ending June 30, 2004. The effects are expected to significantly impact the presentation of governmental financial statements in the year of implementation. The revised requirements include Management’s Discussion and Analysis to introduce the financial statements and to provide an analytical overview of the City’s financial activities.

(18) Subsequent Events

On July 5, 2003, the City approved entering into a lease/purchase agreement to purchase a tractor/mower at a total cost of \$8,438. The agreement includes interest at 7.90% per annum and three annual installments of \$3,033 beginning July 5, 2003 and ending July 5, 2005.

On July 28, 2003, the City approved the issuance of a \$500,000 digester improvements construction warrant. The interest rate on the warrant is 3.50% per annum. The warrant will be repaid from future bond/note proceeds.

On August 11, 2003, the City approved a water distribution project bid at a total cost of \$112,950.

City of Fairfield

Supplemental Information

Schedule 1

City of Fairfield
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

	General	Park, Recreation and Pool	Hotel/ Motel Tax	Total
Receipts:				
Property tax	\$ 1,769,032	-	-	1,769,032
Other city tax:				
Mobile home tax	13,955	-	-	13,955
Utility tax replacement excise tax	80,228	-	-	80,228
Hotel/motel tax	90,760	-	-	90,760
Cable franchise tax	55,410	-	-	55,410
	<u>240,353</u>	-	-	<u>240,353</u>
Licenses and permits	14,960	-	-	14,960
Use of money and property:				
Interest on investments	4,174	303	-	4,477
Rent	425	-	-	425
	<u>4,599</u>	<u>303</u>	-	<u>4,902</u>
Intergovernmental:				
State allocation	139,213	-	-	139,213
Bank franchise tax	30,881	-	-	30,881
County library allocation	68,250	-	-	68,250
City library allocation	850	-	-	850
Library open access	3,182	-	-	3,182
Enrich Iowa	3,051	-	-	3,051
Township fire protection	64,370	-	-	64,370
	<u>309,797</u>	-	-	<u>309,797</u>
Charges for service:				
Park and recreation fees	97,327	3,502	-	100,829
Pool fees	102,468	-	-	102,468
Inspection fees	1,445	-	-	1,445
Library fines and book charges	32,120	-	-	32,120
Security service	1,000	-	-	1,000
Parking fines and fees	56,858	-	-	56,858
Animal control fees	2,710	-	-	2,710
Nuisance charges	9,847	-	-	9,847
Public access TV	3,053	-	-	3,053
Miscellaneous	565	-	-	565
	<u>307,393</u>	<u>3,502</u>	-	<u>310,895</u>

City of Fairfield
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

	General	Park, Recreation and Pool	Hotel/ Motel Tax	Total
Receipts (continued):				
Miscellaneous:				
Court fines	24,386	-	-	24,386
Contributions, gifts, and bequests	-	12,920	-	12,920
Library, pool, and recreation concessions	10,369	-	-	10,369
Refunds and reimbursements	13,455	-	-	13,455
Miscellaneous	7,496	-	-	7,496
	55,706	12,920	-	68,626
Total receipts	2,701,840	16,725	-	2,718,565
Disbursements:				
Public safety:				
Police:				
Personal services	687,446	-	-	687,446
Services and commodities	136,270	-	-	136,270
Capital outlay	20,888	-	-	20,888
	844,604	-	-	844,604
Civil defense:				
Services and commodities	9,509	-	-	9,509
Fire department:				
Personal services	211,925	-	-	211,925
Services and commodities	44,794	-	-	44,794
Capital outlay	13,364	-	-	13,364
	270,083	-	-	270,083
Ambulance:				
Services and commodities	10,000	-	-	10,000
Animal control:				
Services and commodities	6,305	-	-	6,305
	1,140,501	-	-	1,140,501
Public works:				
Parking meter and off-street:				
Personal services	17,636	-	-	17,636
Capital outlay	192	-	-	192
	17,828	-	-	17,828
Airport:				
Services and commodities	68,840	-	-	68,840
	86,668	-	-	86,668

Schedule 1

City of Fairfield
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

	General	Park, Recreation and Pool	Hotel/ Motel Tax	Total
Disbursements (continued):				
Health and social services:				
Other social services:				
Services and commodities	6,683	-	-	6,683
Culture and recreation:				
Library services:				
Personal services	227,009	-	-	227,009
Services and commodities	126,357	-	-	126,357
	353,366	-	-	353,366
Museum, band, and theater:				
Services and commodities	4,500	-	-	4,500
Parks:				
Personal services	96,927	-	-	96,927
Services and commodities	42,311	-	-	42,311
Capital outlay	21,829	-	-	21,829
Debt service:				
Principal redeemed	5,026	-	-	5,026
	166,093	-	-	166,093
Recreation:				
Personal services	286,100	-	-	286,100
Services and commodities	231,806	5,410	-	237,216
Capital outlay	17,139	-	-	17,139
	535,045	5,410	-	540,455
Cemetery:				
Services and commodities	9,000	-	-	9,000
Other culture and recreation:				
Personal services	21,979	-	-	21,979
Services and commodities	8,491	-	-	8,491
	30,470	-	-	30,470
	1,098,474	5,410	-	1,103,884
Community and economic development:				
Planning and zoning:				
Personal services	48,790	-	-	48,790
Services and commodities	15,191	-	-	15,191
Capital outlay	742	-	-	742
	64,723	-	-	64,723

City of Fairfield
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

	General	Park, Recreation and Pool	Hotel/ Motel Tax	Total
Disbursements (continued):				
General government:				
Mayor and council members:				
Personal services	18,400	-	-	18,400
Services and commodities	1,555	-	-	1,555
	<u>19,955</u>	<u>-</u>	<u>-</u>	<u>19,955</u>
Clerk and Treasurer:				
Personal services	60,827	-	-	60,827
Services and commodities	199,168	-	-	199,168
	<u>259,995</u>	<u>-</u>	<u>-</u>	<u>259,995</u>
	<u>279,950</u>	<u>-</u>	<u>-</u>	<u>279,950</u>
Total disbursements	<u>2,676,999</u>	<u>5,410</u>	<u>-</u>	<u>2,682,409</u>
Excess of receipts over disbursements	<u>24,841</u>	<u>11,315</u>	<u>-</u>	<u>36,156</u>
Other financing sources (uses):				
Operating transfers in (out):				
General:				
General	-	-	90,760	90,760
Hotel/Motel Tax	(90,760)	-	-	(90,760)
Enterprise:				
Logan Apartments	85,000	-	-	85,000
Total other financing sources (uses)	<u>(5,760)</u>	<u>-</u>	<u>90,760</u>	<u>85,000</u>
Excess of receipts and other financing sources over disbursements and other financing uses	19,081	11,315	90,760	121,156
Balance beginning of year	<u>105,247</u>	<u>(4,270)</u>	<u>16,009</u>	<u>116,986</u>
Balance end of year	<u>\$ 124,328</u>	<u>7,045</u>	<u>106,769</u>	<u>238,142</u>

See accompanying independent auditor's report.

City of Fairfield
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2003

	Road Use Tax	Friends of the Library
Receipts:		
Property tax	\$ -	-
Tax increment financing collections	-	-
Other city tax:		
Mobile home tax	-	-
Utility tax replacement excise tax	-	-
Local option sales tax	-	-
Use of money and property:		
Interest on investments	-	197
Intergovernmental:		
Road use tax allocation	777,155	-
Miscellaneous:		
Dues and memberships	-	4,677
Total receipts	777,155	4,874
Disbursements:		
Public safety:		
Police:		
Personal services	-	-
Jail:		
Services and commodities	-	-
Fire department:		
Personal services	-	-
Capital outlay	-	-
Ambulance:		
Services and commodities	-	-
Public works:		
Roads, bridges, and sidewalks:		
Personal services	450,271	-
Services and commodities	196,612	-
Capital outlay	28,232	-
	675,115	-

Employee Benefits	Urban Renewal Tax Increment Financing	Local Option Sales Tax	Total
468,463	-	-	468,463
-	316,671	-	316,671
3,688	-	-	3,688
21,321	-	-	21,321
-	-	650,297	650,297
25,009	-	650,297	675,306
-	-	-	197
-	-	-	777,155
-	-	-	4,677
493,472	316,671	650,297	2,242,469
251,981	-	-	251,981
-	-	520,238	520,238
60,483	-	-	60,483
-	-	21,400	21,400
60,483	-	21,400	81,883
-	-	12,000	12,000
312,464	-	553,638	866,102
-	-	-	450,271
-	-	-	196,612
-	-	-	28,232
-	-	-	675,115

City of Fairfield
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2003

	Road Use Tax	Friends of the Library
Disbursements (continued):		
Public works:		
Parking meter and off-street:		
Personal services	-	-
Street lighting:		
Services and commodities	84,498	-
Traffic control and safety:		
Services and commodities	17,056	-
	776,669	-
Culture and recreation:		
Library services:		
Personal services	-	-
Services and commodities	-	1,378
	-	1,378
Parks:		
Personal services	-	-
Services and commodities	-	-
	-	-
Recreation:		
Personal services	-	-
Capital outlay	-	-
	-	-
Other culture and recreation:		
Personal services	-	-
Capital outlay	-	-
	-	-
	-	1,378
Community and economic development:		
Planning and zoning:		
Personal services	-	-
	-	-
General government:		
Clerk, Treasurer, and finance administration:		
Personal services	-	-
Services and commodities	-	-
	-	-
Total disbursements	776,669	1,378

Employee Benefits	Urban Renewal Tax Increment Financing	Local Option Sales Tax	Total
8,469	-	-	8,469
-	-	-	84,498
-	-	-	17,056
8,469	-	-	785,138
63,238	-	-	63,238
-	-	-	1,378
63,238	-	-	64,616
21,244	-	-	21,244
-	-	3,335	3,335
21,244	-	3,335	24,579
40,122	-	-	40,122
-	-	14,000	14,000
40,122	-	14,000	54,122
1,568	-	-	1,568
-	-	3,951	3,951
1,568	-	3,951	5,519
126,172	-	21,286	148,836
14,428	-	-	14,428
19,948	-	-	19,948
-	-	7,095	7,095
19,948	-	7,095	27,043
481,481	-	582,019	1,841,547

City of Fairfield
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2003

	Road Use Tax	Friends of the Library
Excess of receipts over disbursements	486	3,496
Other financing uses:		
Operating transfers out:		
Debt Service:		
General Obligations Bonds	-	-
Capital Projects:		
Capital Improvement Replacement	-	-
Total other financing uses	-	-
Excess (deficiency) of receipts over (under) disbursements and other financing uses	486	3,496
Balance beginning of year	107,606	11,546
Balance end of year	\$ 108,092	15,042

See accompanying independent auditor's report.

Employee Benefits	Urban Renewal Tax Increment Financing	Local Option Sales Tax	Total
11,991	316,671	68,278	400,922
-	(315,774)	-	(315,774)
-	-	(70,000)	(70,000)
-	(315,774)	(70,000)	(385,774)
11,991	897	(1,722)	15,148
19,618	70,627	38,344	247,741
31,609	71,524	36,622	262,889

City of Fairfield

City of Fairfield
 Schedule of Cash Transactions
 Debt Service Fund
 Year ended June 30, 2003

	General Obligation Bonds
Receipts:	
Property tax	\$ 712,909
Other city tax:	
Mobile home tax	5,329
Utility tax replacement excise tax	31,116
	36,445
Special assessments	51,290
Total receipts	800,644
Disbursements:	
Debt service:	
Principal redemption	785,000
Interest payments	315,734
Total disbursements	1,100,734
Deficiency of receipts under disbursements	(300,090)
Other financing sources:	
Operating transfers in:	
Special Revenue:	
Urban Renewal Tax Increment Financing	315,774
Excess of receipts and other financing sources over disbursements	15,684
Balance beginning of year	734
Balance end of year	\$ 16,418

See accompanying independent auditor's report.

City of Fairfield
Combining Schedule of Cash Transactions
Capital Projects Funds
Year ended June 30, 2003

	Recreation Trails	Civic Center	Jackson Place	2nd & Broadway	Carrington Pointe
Receipts:					
Property tax	\$ -	-	-	-	-
Other city tax:					
Mobile home tax	-	-	-	-	-
Utility tax replacement excise tax	-	-	-	-	-
Intergovernmental:					
Surface transportation program grant	-	-	-	-	-
Airport improvement grant	-	-	-	-	-
Miscellaneous					
Sales tax refund	-	-	-	-	-
Miscellaneous	-	3,051	-	-	-
Total receipts	-	3,051	-	-	-
Disbursements:					
Capital projects:					
Services and commodities	7,625	16,290	-	-	-
Capital outlay	-	387,970	-	-	78,647
Interest	-	-	-	-	-
Total disbursements	7,625	404,260	-	-	78,647
Excess (deficiency) of receipts over (under) disbursements	(7,625)	(401,209)	-	-	(78,647)
Other financing sources (uses):					
Water revenue capital loan note proceeds (net of \$59,000 initiation fee)	-	-	-	-	-
Construction warrants proceeds	-	-	-	-	-
Construction warrants redeemed	-	-	-	-	-
Operating transfers in (out):					
Special Revenue:					
Local Option Sales Tax	-	-	-	-	-
Capital Projects:					
Walton Lake Subdivision	-	-	-	843	-
2nd and Broadway	-	-	-	-	-
Enterprise:					
Sewer Utility	-	-	-	-	-
Total other financing sources (uses)	-	-	-	843	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(7,625)	(401,209)	-	843	(78,647)
Balance beginning of year, as restated (note 16)	(1,646)	-	10,481	(843)	78,691
Balance end of year	\$ (9,271)	(401,209)	10,481	-	44

See accompanying independent auditor's report.

Walton Lake Subdivision	Airport Improvements	Airport Apron	2000 RISE Project	Water - State Revolving	Sewer Utility Replacement	Capital Improvement Replacement	Total
-	-	-	-	-	-	138,130	138,130
-	-	-	-	-	-	1,091	1,091
-	-	-	-	-	-	6,267	6,267
-	-	-	-	-	-	7,358	7,358
-	-	-	-	-	-	130,519	130,519
-	659,696	372,430	-	-	-	-	1,032,126
-	659,696	372,430	-	-	-	130,519	1,162,645
-	-	-	-	5,835	-	5,145	10,980
-	-	-	-	3,203	-	-	6,254
-	-	-	-	9,038	-	5,145	17,234
-	659,696	372,430	-	9,038	-	281,152	1,325,367
4,963	45,766	48,400	-	286,009	746,675	187,599	1,343,327
62,797	847,523	403,641	-	4,324,088	19,000	-	6,123,666
-	6,051	3,853	-	111,004	-	-	120,908
67,760	899,340	455,894	-	4,721,101	765,675	187,599	7,587,901
(67,760)	(239,644)	(83,464)	-	(4,712,063)	(765,675)	93,553	(6,262,534)
-	-	-	-	5,387,977	-	-	5,387,977
-	400,000	750,000	-	2,050,000	-	-	3,200,000
-	-	(750,000)	-	(2,050,000)	-	-	(2,800,000)
-	-	-	-	-	-	70,000	70,000
-	-	-	-	-	-	-	843
(843)	-	-	-	-	-	-	(843)
-	-	-	-	-	125,000	-	125,000
(843)	400,000	-	-	5,387,977	125,000	70,000	5,982,977
(68,603)	160,356	(83,464)	-	675,914	(640,675)	163,553	(279,557)
(491,098)	(450,519)	-	(69,266)	(950,894)	204,382	(279,822)	(1,950,534)
(559,701)	(290,163)	(83,464)	(69,266)	(274,980)	(436,293)	(116,269)	(2,230,091)

City of Fairfield
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2003

	Water Utility	Water Meter Deposits	Water Bond and Interest Sinking	Water Reserve
Receipts:				
Use of money and property:				
Interest on investments	\$ 11	-	-	-
Rent	-	-	-	-
	<u>11</u>	<u>-</u>	<u>-</u>	<u>-</u>
Intergovernmental:				
Housing and Urban				
Development rental subsidy	-	-	-	-
United States Department of Agriculture loan deficiency payments	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Charges for service:				
Sale of water	1,648,466	-	-	-
Sewer rental fees	-	-	-	-
Garbage collection	-	-	-	-
Recycling	-	-	-	-
Main extension, hook-up and tapping fees	14,819	-	-	-
	<u>1,663,285</u>	<u>-</u>	<u>-</u>	<u>-</u>
Miscellaneous:				
Refunds and reimbursements	325	-	-	-
Merchandise sales and service	12,121	-	-	-
Sales tax collected	79,700	-	-	-
Tenant security deposits	-	-	-	-
Customer deposits	-	21,942	-	-
Late charges	18,560	-	-	-
Miscellaneous	2,733	-	-	-
	<u>113,439</u>	<u>21,942</u>	<u>-</u>	<u>-</u>
Total receipts	<u>1,776,735</u>	<u>21,942</u>	<u>-</u>	<u>-</u>
Disbursements:				
Business type activities:				
Personal services	513,765	-	-	-
Services and commodities	440,527	17,341	-	-
Capital outlay	171,671	-	-	-
Debt service:				
Principal redeemed	14,346	-	80,000	-
Interest paid	4,450	-	44,182	-
Miscellaneous	78	-	-	-
Total disbursements	<u>1,144,837</u>	<u>17,341</u>	<u>124,182</u>	<u>-</u>

Water Improvement	Water Capital Improvement Reserve Sinking	Sewer Utility	Logan Apartments	Logan Apartments Deposit	Airport Hangar Development	Yard Waste	Total
-	-	-	-	451	-	-	462
-	-	-	99,074	-	27,670	-	126,744
-	-	-	99,074	451	27,670	-	127,206
-	-	-	95,145	-	-	-	95,145
-	-	-	-	-	438	-	438
-	-	-	95,145	-	438	-	95,583
-	-	-	-	-	-	-	1,648,466
-	-	655,435	-	-	-	-	655,435
-	-	-	-	-	-	220,866	220,866
-	-	-	-	-	-	76,596	76,596
-	-	-	-	-	-	-	14,819
-	-	655,435	-	-	-	297,462	2,616,182
-	-	26,945	-	-	-	-	27,270
-	-	-	-	-	3,727	4,960	20,808
-	-	-	-	-	-	-	79,700
-	-	-	-	2,779	-	-	2,779
-	-	-	-	-	-	-	21,942
-	-	-	-	-	-	-	18,560
-	-	-	1,530	247	8,613	376	13,499
-	-	26,945	1,530	3,026	12,340	5,336	184,558
-	-	682,380	195,749	3,477	40,448	302,798	3,023,529
-	-	254,827	40,438	-	-	-	809,030
-	-	310,122	103,774	2,480	13,502	308,998	1,196,744
-	-	16,990	7,053	-	1,500	-	197,214
-	-	-	67,445	-	-	-	161,791
-	-	-	23,184	-	-	-	71,816
-	-	-	-	-	-	-	78
-	-	581,939	241,894	2,480	15,002	308,998	2,436,673

City of Fairfield
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2003

	Water Utility	Water Meter Deposits	Water Bond and Interest Sinking	Water Reserve
Excess (deficiency) of receipts over (under) disbursements	631,898	4,601	(124,182)	-
Other financing sources (uses):				
Operating transfers in (out):				
General:				
General	-	-	-	-
Capital Projects:				
Sewer Utility Replacement	-	-	-	-
Enterprise:				
Water Utility	-	(7,588)	127,925	-
Water Meter Deposits	7,588	-	-	-
Water Bond and Interest Sinking	(127,925)	-	-	-
Water Capital Improvement Reserve Sinking	(100,200)	-	-	-
Total other financing sources (uses)	(220,537)	(7,588)	127,925	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	411,361	(2,987)	3,743	-
Balance beginning of year, as restated (note 16)	904,319	85,216	72,322	165,025
Balance end of year	\$1,315,680	82,229	76,065	165,025

See accompanying independent auditor's report.

Water Improvement	Water Capital Improvement Reserve Sinking	Sewer Utility	Logan Apartments	Logan Apartments Deposit	Airport Hangar Development	Yard Waste	Total
-	-	100,441	(46,145)	997	25,446	(6,200)	586,856
-	-	-	(85,000)	-	-	-	(85,000)
-	-	(125,000)	-	-	-	-	(125,000)
-	100,200	-	-	-	-	-	220,537
-	-	-	-	-	-	-	7,588
-	-	-	-	-	-	-	(127,925)
-	-	-	-	-	-	-	(100,200)
-	100,200	(125,000)	(85,000)	-	-	-	(210,000)
-	100,200	(24,559)	(131,145)	997	25,446	(6,200)	376,856
52,437	(467,826)	3,294	435,036	14,170	(44,349)	(978)	1,218,666
52,437	(367,626)	(21,265)	303,891	15,167	(18,903)	(7,178)	1,595,522

Schedule 6

City of Fairfield
Schedule of Cash Transactions
Internal Service Fund
Year ended June 30, 2003

	<u>Revolving</u>
Receipts:	
Intergovernmental:	
Trees Forever grant	\$ 2,006
Miscellaneous:	
Sales tax collections	461
Reimbursements	<u>18,100</u>
Total receipts	<u>18,561</u>
Total receipts	<u>20,567</u>
Disbursements:	
Non-program:	
Services and commodities	<u>36,722</u>
Deficiency of receipts under disbursements	(16,155)
Balance beginning of year	<u>(70,257)</u>
Balance end of year	<u>\$ (86,412)</u>

See accompanying independent auditor's report.

City of Fairfield

City of Fairfield
Combining Schedule of Cash Transactions
Trust Funds
Year ended June 30, 2003

	Library Memorial	Library Building Trust
Receipts:		
Use of money and property:		
Interest on investments	\$ 10,138	4,964
Dividends	39	-
Gain on investments	-	-
Rent	-	-
Loan repayments	-	-
	10,177	4,964
Intergovernmental:		
Iowa infrastructure grant	3,916	-
Charges for service:		
Developer fees	-	-
Miscellaneous:		
Contributions, gifts, and bequests	30,383	200
Sale of books and records	2,473	-
Refund and reimbursements	-	-
Miscellaneous	1,539	-
	34,395	200
Total receipts	48,488	5,164
Disbursements:		
Culture and recreation:		
Library services:		
Services and commodities	37,681	2,738
Capital outlay	1,112	8,696
	38,793	11,434
Community and economic development:		
Economic development:		
Services and commodities	-	-
Debt service:		
Principal redeemed	-	-
Interest paid	-	-
	-	-
Total disbursements	38,793	11,434
Excess (deficiency) of receipts over (under) disbursements	9,695	(6,270)
Balance beginning of year	5,658	195,872
Balance end of year	\$ 15,353	189,602

See accompanying independent auditor's report.

<u>Expendable Trusts</u>					
	<u>Friends of the Library</u>	UDAG-	Indian	Non-	
Fairfield	Fairfield	FALCO	Creek	Expendable	
Library	Public	Project	Escrow	Trust	
Foundation	Library	Fund		Library	Total
	House			Endowment	
750	-	120	10	102	16,084
-	-	-	-	-	39
-	-	-	-	-	-
-	6,749	-	-	-	6,749
-	-	10,723	-	-	10,723
750	6,749	10,843	10	102	33,595
-	-	-	-	-	3,916
-	-	-	11,000	-	11,000
27,158	-	-	-	4,875	62,616
-	-	-	-	-	2,473
-	-	2,925	-	-	2,925
-	577	-	-	-	2,116
27,158	577	2,925	-	4,875	70,130
27,908	7,326	13,768	11,010	4,977	118,641
-	2,972	-	-	-	43,391
-	-	-	-	-	9,808
-	2,972	-	-	-	53,199
-	-	22,684	-	-	22,684
-	2,262	-	-	-	2,262
-	1,914	-	-	-	1,914
-	4,176	-	-	-	4,176
-	7,148	22,684	-	-	80,059
27,908	178	(8,916)	11,010	4,977	38,582
56,186	1,855	312,592	-	342,120	914,283
84,094	2,033	303,676	11,010	347,097	952,865

Schedule 8

City of Fairfield
Bond and Note Maturities
June 30, 2003

Year Ending June 30,	<u>General Obligation Bonds</u>		<u>General Obligation Capital Loan Notes</u>				Total	<u>Revenue Bonds</u>	
	Library and Street Construction		General Corporate Purpose - Series 2001A		Urban Renewal Project - Series 2001B			Water	
	Issued May 1, 1995		Issued May 1, 2001		Issued May 1, 2001			Issued May 1, 1995	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		Interest Rates	Amount
2004	5.050%	\$ 245,000	4.000%	\$ 350,000	6.10%	\$ 30,000	380,000	5.20%	\$ 85,000
2005	5.150	255,000	4.250	365,000	6.15	30,000	395,000	5.30	90,000
2006	5.200	265,000	4.375	385,000	6.20	30,000	415,000	5.40	100,000
2007	5.250	285,000	4.500	400,000	6.25	35,000	435,000	5.45	105,000
2008	5.375	140,000	4.500	275,000	6.30	35,000	310,000	5.55	110,000
2009	5.500	150,000	4.500	290,000	6.35	35,000	325,000	5.65	115,000
2010	5.600	155,000	4.500	295,000	6.40	40,000	335,000	5.75	125,000
2011	5.600	165,000	4.500	210,000	6.45	40,000	250,000		-
2012	5.600	175,000	4.500	200,000		-	200,000		-
2013		-	4.600	210,000		-	210,000		-
2014		-	4.700	220,000		-	220,000		-
2015		-	4.750	230,000		-	230,000		-
2016		-	4.800	240,000		-	240,000		-
Total		<u>\$ 1,835,000</u>		<u>\$ 3,670,000</u>		<u>\$ 275,000</u>	<u>3,945,000</u>		<u>\$ 730,000</u>

See accompanying independent auditor's report.

City of Fairfield

Comparison of Taxes and Intergovernmental Receipts

	Years ended June 30,			
	2003	2002	2001	2000
Property tax	\$ 3,088,534	2,903,831	2,789,922	2,938,138
Tax increment financing collections	316,671	284,252	173,345	128,944
Other city tax:				
Mobile home tax	24,063	24,115	23,608	26,204
Utility tax replacement excise tax	138,932	118,914	113,972	-
Hotel/motel tax	90,760	16,009	-	-
Local option sales tax	650,297	683,505	511,239	888,690
Cable franchise tax	55,410	50,086	48,365	56,923
	<u>959,462</u>	<u>892,629</u>	<u>697,184</u>	<u>971,817</u>
Intergovernmental:				
State allocation	139,213	146,773	160,176	160,647
Bank franchise tax	30,881	27,403	26,747	23,745
Library allocations and open access	72,282	71,154	71,885	71,328
Township fire protection	64,370	40,959	48,703	41,970
Road use tax	777,155	761,829	779,293	792,332
Surface Transportation Program grant	130,519	-	-	-
Airport Improvement Program grant	1,032,126	-	297,177	-
Recreational infrastructure grant	-	-	-	15,960
Resource Enhancement and Protection	-	-	100,000	-
Revitalize Iowa's Sound Economy	-	24,801	70,298	-
Tree's Forever grant	2,006	-	-	-
Iowa Infrastructure grant	3,916	-	-	-
Housing and Urban Development rental subsidy	95,145	105,976	151,510	128,538
United States Department of Agriculture loan deficiency payments	438	2,789	2,572	-
Underground storage tank	-	-	-	1,400
Enrich Iowa	3,051	7,501	3,367	2,475
Jefferson County reimbursements	-	823	5,217	136,214
	<u>2,351,102</u>	<u>1,190,008</u>	<u>1,716,945</u>	<u>1,374,609</u>
Total	\$ <u>6,715,769</u>	<u>5,270,720</u>	<u>5,377,396</u>	<u>5,413,508</u>

See accompanying independent auditor's report.

Schedule 10

City of Fairfield

Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expendi- tures
Direct:			
U.S. Department of Transportation:			
Federal Aviation Administration:			
Airport Improvement Program	20.106	3-19-0333-06-2002	\$ 629,940
Airport Improvement Program	20.106	3-19-0333-06-2003	<u>198,975</u>
			828,915
U.S. Department of Housing and Urban Development -			
Office of Housing:			
Tenant Assistance Program	14.182	IA050008008	<u>95,145</u>
Total direct			924,060
Indirect:			
Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Capitalization Grants for Drinking			
Water - State Revolving Fund	66.468	FS-51-00-DWSRF-011	<u>3,801,308</u>
Total			<u>\$ 4,725,368</u>

Basis of presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Fairfield and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

See accompanying independent auditor's report.



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Fairfield, Iowa, as of and for the year ended June 30, 2003, and have issued our report thereon dated December 11, 2003. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Fairfield's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City of Fairfield's operations for the year ended June 30, 2003 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our 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 IV-C-03, IV-G-03, IV-I-03, IV-J-03, and IV-K-03.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Fairfield's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Fairfield's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-03 and II-B-03 are material weaknesses. Prior year reportable conditions have been resolved except for items II-A-03, II-B-03 and II-C-03.

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 Fairfield and other parties to whom the City of Fairfield may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Fairfield during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 11, 2003

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance**

City of Fairfield



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Fairfield, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2003. The City of Fairfield's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Fairfield's management. Our responsibility is to express an opinion on the City of Fairfield's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Fairfield's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Fairfield's compliance with those requirements.

In our opinion, the City of Fairfield complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the City of Fairfield is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Fairfield's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described as item III-A-03 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item III-A-03 is a material weakness.

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 Fairfield and other parties to whom the City of Fairfield may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 11, 2003

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was 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) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over the major program was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The City's major program was CFDA Number 66.468 – Capitalization Grants for Drinking Water – State Revolving Fund.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Fairfield did not qualify as a low-risk auditee.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-03 Segregation of Duties – One important element in designing internal control that safeguards assets and reasonably ensures the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another. We noted that the collection, deposit preparation, reconciliation, and recording of cash receipts are all performed by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available personnel.

Response – We try to segregate duties as much as possible. With the small number of staff assigned to accounting and collecting it is very difficult to completely segregate duties but we try to rotate duties to the extent that is practical.

Conclusion – Response accepted.

II-B-03 Separately Maintained Records – The bookkeeping and custody of the Expendable Trust Funds, Library Memorial and Library Building Trust accounts and the Non-Expendable Trust Fund, Library Endowment account were under the control of the Director of the Library in a location separate from the Clerk's office. These accounts were not reflected in the City's accounting system, monthly fund balances or annual budget. The Library lacked segregation of duties over cash as the bank account reconciler also had access to cash. In addition, receipts were not deposited timely.

The bookkeeping and custody of the Enterprise Fund, Logan Apartments Deposit account was under the control of the Manager of the Logan Apartments in a location separate from the Clerk's office. This account was not reflected in the City's accounting system or monthly fund balances. Duties are not segregated, as the Logan Apartments Manager prepares tenant certifications, prepares housing assistance payment requests, collects rent, reconciles rent receivable each month, collects and refunds security deposits, and performs other accounting duties for the apartments. Additionally, receipts issued were not pre-numbered.

Recommendation – Chapter 384.20 of the Code of Iowa states in part that a City shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any City purpose. Internal control could be strengthened and operating efficiency could be increased by integrating the Library and Logan Apartments Deposit accounts receipts and disbursements with the City accounting records in the Clerk's office.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

If the Library accounting records are not integrated with the City accounting records in the Clerk's office, then duties should be properly segregated and receipts should be deposited timely.

If the Logan Apartments accounting records are not integrated with the City accounting records in the Clerk's office, then control activities should be reviewed to obtain the maximum internal control possible under the circumstances. Additionally, receipts issued for collections should be prenumbered.

Response – The Library Board of Trustees maintains that they are allowed by law to retain control over their Endowment and other trust funds. The City Administrator does not believe that he can “force” the Board to turn over these assets.

The City Administrator has encouraged the Library Director to implement as many controls as possible for these funds and to deposit funds more than once a month. The Library Director has indicated that he will consider additional controls as practical.

The Logan Apartments Deposit account will be integrated into the City accounting system by the end of FY2003-04. As there is only one part time employee in the Logan Apartments office it will be impossible to segregate duties any further than they are. The Manager of Logan Apartments has been given receipts books with prenumbered receipts and has been instructed to begin using them effective February 2, 2004.

Conclusion – Response acknowledged. Chapter 392.5 of the Code of Iowa states in part “A library board may accept and control the expenditure of all gifts, devices and bequests to the library.” The Library Board would not relinquish control over these funds by integrating the Library records with the City's records. The City would be facilitating the record-keeping and reporting requirements of Chapter 384.20 of the Code of Iowa and providing an internal control mechanism not currently in place at the Library.

II-C-03 Electronic Data Processing Systems – During our review of internal control, the existing control activities in the City's computer-based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the City's computer-based systems were noted:

The City does not have written policies for:

- requiring password changes because software does not require the user to change logins/passwords periodically.
- maintaining password privacy and confidentiality.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over computer-based systems.

Response – Appropriate policies will be drafted and presented for adoption.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

II-D-03 Imprest Cash – Petty cash funds on hand at City Hall did not appear to be maintained on an imprest basis and receipts were not retained for all purchases.

Recommendation – The petty cash funds should be maintained on an imprest basis to provide additional control over the funds, receipts should be retained for all petty cash purchases and the cash on hand should be included in the appropriate fund balance. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits.

Response – The petty cash account for City Hall has been eliminated effective February 2, 2004.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

**CFDA Number 66.468 – Capitalization Grants for Drinking Water State Revolving Fund
Pass-through Agency Number: FS-51-00-DWSRF-011
Federal Award Year: 2003
Environmental Protection Agency
Passed through the Iowa Department of Natural Resources**

III-A-03 Segregation of Duties – The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-03.

Part IV: Other Findings Related to Statutory Reporting:

IV-A-03 Official Depositories – A resolution naming official depositories has been approved by the Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2003.

IV-B-03 Certified Budget – Disbursements during the year ended June 30, 2003 did not exceed the amounts budgeted.

IV-C-03 Questionable Disbursements –A disbursement was noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits derived have not been clearly documented. This disbursement is detailed as follows:

Paid to	Purpose	Amount
Hy-Vee	Flowers for ill employee	\$ 29

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by this disbursement before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation.

Response – This purchase was authorized by a department head that is no longer with the City of Fairfield. All department heads have been reminded that certain expenses are not allowed by state law. In addition, staff in the Finance Department have been alerted to bring any questionable charges to the attention of the City Administrator prior to paying such a claim.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

- IV-D-03 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-E-03 Business Transactions – No business transactions between the City and City officials or employees were noted for the year ended June 30, 2003.
- IV-F-03 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- IV-G-03 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa for the year ended June 30, 2003.

Library Board minutes were not always signed.

The City Council went into closed session several times throughout the year to discuss land acquisition, pending litigation, and items relating to an employee. The minutes did not document the specific provision for the closed meeting in accordance with Chapter 21.5 of the Code of Iowa.

Recommendation – The City should publish minutes as required. Also, Library minutes should be signed to authenticate the record and support approval of actions approved by the Library Board.

In addition, closed meetings should be held in compliance with Chapter 21.5 of the Code of Iowa and the minutes should state the purpose for which the meeting is being closed.

Response – The City Clerk will send the minutes of the City Council meetings to the local paper within one week of the meeting date.

The Library Director was given a copy of this audit comment and asked to instruct the Secretary of his Board of Trustee to sign all minutes that they record.

The City Clerk has been instructed to specify in the minutes which section of Chapter 21.5 is being utilized to close a session of the City Council.

Conclusion – Response accepted.

- IV-H-03 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

IV-I-03 Financial Condition – At June 30, 2003, the City had deficit balances in the following accounts:

Fund/Account	Amount
Capital Projects:	
Recreation Trails	\$ (9,271)
Civic Center	(401,209)
Walton Lake Subdivision	(559,701)
Airport Improvements	(290,163)
Airport Apron	(83,464)
2002 RISE Project	(69,266)
Water - State Revolving	(274,980)
Sewer Utility Replacement	(436,293)
Capital Improvement Replacement	(116,269)
Enterprise:	
Water Capital Improvement Reserve	
Sinking	(367,626)
Sewer Utility	(21,265)
Airport Hanger Development	(18,903)
Yard Waste	(7,178)
Internal Service:	
Revolving	(86,412)

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial condition.

Response – Appropriate transfers or pending bond issues will finance these deficits.

Conclusion – Response accepted.

IV-J-03 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. Logan Apartments retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – Logan Apartments should obtain and retain an image of both the front and back of each cancelled check as required.

Response – The Manager of Logan Apartments has requested that the bank provide copies of both sides of cancelled checks in electronic format.

Conclusion – Response accepted.

IV-K-03 Garbage Rates – On January 14, 2003, the City approved Resolution No. 2143 establishing new garbage rates effective March 1, 2003. Chapter 384.84 of the Code of Iowa requires that rates be established by ordinance of the City Council.

Recommendation – The City should establish garbage rates in accordance with Chapter 384.84 of the Code of Iowa.

Response – The City Council will be considering the first reading of an Ordinance establishing garbage rates at their meeting of February 9, 2004.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

IV-L-03 Chart of Accounts – In January 2003, the City adopted the revised Uniform City Chart of Accounts for reporting purposes. However, as of June 30, 2003, the computer system has not been converted to the new Chart of Accounts.

Recommendation – The City should convert the computer system to the new Chart of Accounts that was adopted in January 2003.

Response – Conversion of the Chart of Accounts for the computer system requires a major program revision. We will submit a request to appropriate funds for FY2004-05 to accomplish the conversion. However, the Finance Department must compete for General Fund dollars when requesting budget funding. Since the State of Iowa eliminated approximately \$160,000 in funds allocated to the City of Fairfield in the current fiscal year and plans to eliminate even more funding for next fiscal year, it is doubtful that money for software changes will be appropriated. The City Council is struggling to minimize reductions in personnel, especially in public safety areas, and this will probably be low in their priority for budgeting funds.

Conclusion – Response acknowledged. The City should convert the computer system to the new Chart of Accounts as soon as possible.

IV-M-03 Other Information Required by Bond Resolutions

Account Requirements – The City complied with the account requirements in accordance with the revenue bond provisions.

Insurance – The following insurance policies were in force at June 30, 2003:

Insurer	Description	Amount	Expiration Dates
Iowa Communities Assurance Pool	Property	\$26,756,452	Nov 1, 2003
Cincinnati Insurance Company	General Liability – Logan Apartments Each Occurrence Aggregate	2,000,000	Jun 1, 2004
Iowa Communities Assurance Pool	General Liability Officials Liability Automobile Liability Law Enforcement Liability	5,000,000 5,000,000 5,000,000 5,000,000	Nov 1, 2003
Iowa Municipalities Workers Compensation Association	Workers Compensation	1,000,000	Jul 1, 2003
EMC Insurance Co.	Surety Bond Coverage - Blanket	300,000	Jan 1, 2004
Old Republic Insurance Co.	Airport Bodily Injury	5,000,000	Mar 13, 2004
Owners Insurance Co.	Business Liability & Medical Tenants Fire Legal Employee Dishonesty	1,000,000 50,000 10,000	Jun 1, 2004

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Statistical Information:

Number of customers at June 30, 2003: 4576

	<u>Rate Per Cubic Foot</u>
Water Rate Schedule – Monthly	
Monthly account fee(all meter sizes)	\$ 7.00
0 –1,500 Cubic Feet / month	0.0245
1,500 - 10,000 Cubic Feet / month	.02205
10,000 – 50,000 Cubic Feet / month	.0196
above 50,000 Cubic Feet / month	.01715

City of Fairfield

Staff

This audit was performed by:

Joe T. Marturello, CIA, Manager
John G. Vanis, CGFM, Senior Auditor
Kathleen S. Caggiano, Staff Auditor
Elvir Alicic, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State