



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

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

Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

June 25, 2014

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the City of Fairfield, Iowa.

The City's receipts totaled \$17,994,341 for the year ended June 30, 2013, a less than 1% increase over the prior year. The receipts included \$4,389,250 in property tax, \$189,020 from tax increment financing, \$6,039,385 from charges for service, \$1,893,310 from operating grants, contributions and restricted interest, \$403,033 from capital grants, contributions and restricted interest, \$825,393 from local option sales tax, \$131,492 from hotel/motel tax, \$41,553 from unrestricted interest on investments, \$1,900,000 of general obligation anticipation note proceeds, \$1,610,530 of revenue note proceeds and \$571,375 from other general receipts.

Disbursements for the year ended June 30, 2013 totaled \$14,950,939, a 23% decrease from the prior year, and included \$2,246,585 for culture and recreation, \$2,005,343 for public safety and \$1,582,824 for debt service. Also, disbursements for business type activities totaled \$6,295,760.

A copy of the audit report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1320-0476-B00F.pdf>.

CITY OF FAIRFIELD

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2013

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City of Fairfield

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Edward Malloy	Mayor	Jan 2014
John F. Revolinski	Mayor Pro tem	Jan 2014
Jessica Ledger-Kalen (Appointed)	Council Member	Nov 2013
Connie Boyer	Council Member	Jan 2014
Michael Halley	Council Member	Jan 2014
Susan Silvers	Council Member	(Resigned)
Daryn Hamilton	Council Member	Jan 2016
Tony Hammes	Council Member	Jan 2016
Martha Rasmussen	Council Member	Jan 2016
Kevin Flanagan	City Administrator	(Resigned April 2014)
Joy Messer	City Clerk	Indefinite
John Morrissey	City Attorney	Indefinite

City of Fairfield



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Fairfield, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Fairfield as of June 30, 2013, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairfield's basic financial statements. The financial statements for the two years ended June 30, 2012 (which are not presented herein) were audited by another auditor who expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 32 through 34, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 4, 2014 on our consideration of the City of Fairfield's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Fairfield's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 4, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Fairfield provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 22%, or approximately \$1,825,000, from fiscal year 2012 to fiscal year 2013. The City issued \$1,900,000 of general obligation anticipation notes during the current fiscal year.
- Disbursements of the City's governmental activities decreased 15%, or approximately \$1,527,000, in fiscal year 2013 from fiscal year 2012. Capital projects disbursements decreased approximately \$1,977,000.
- The City's total cash basis net position increased 103%, or approximately \$3,044,000 from June 30, 2012 to June 30, 2013. Of this amount, the net position of the governmental activities increased approximately \$1,308,000 and the net position of the business type activities increased approximately \$1,736,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

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

Supplementary Information provides detailed information about the nonmajor governmental and enterprise funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

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

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system, solid waste collection, airport and Logan Apartments. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains five Enterprise Funds to provide separate information for the Water and Sewer Funds, major funds of the City, and the Solid Waste, Airport and Logan Apartments operations.

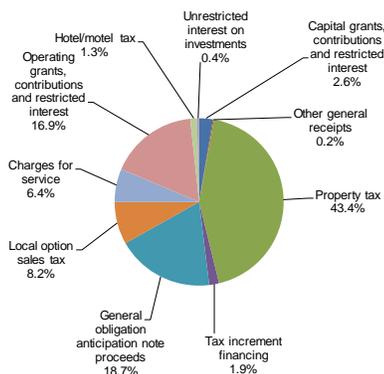
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

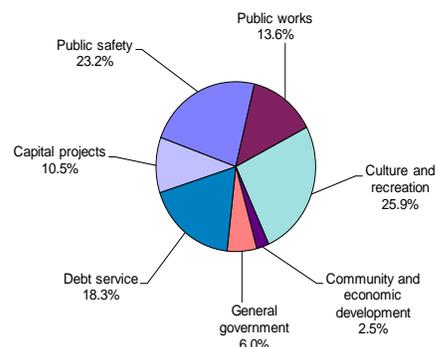
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$1,187,000 to approximately \$2,495,000. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service	\$ 644	610
Operating grants, contributions and restricted interest	1,708	1,132
Capital grants, contributions and restricted interest	265	1,093
General receipts:		
Property tax	4,389	4,306
Tax increment financing	189	168
Local option sales tax	825	834
Hotel/motel tax	131	115
Unrestricted interest on investments	42	12
General obligation anticipation note proceeds	1,900	-
Other general receipts	18	16
Total receipts	10,111	8,286
Disbursements:		
Public safety	2,005	1,705
Public works	1,173	789
Health and social services	-	24
Culture and recreation	2,247	1,933
Community and economic development	220	127
General government	515	691
Debt service	1,583	2,024
Capital projects	912	2,889
Total disbursements	8,655	10,182
Change in cash basis net position before transfers	1,456	(1,896)
Transfers, net	(148)	291
Change in cash basis net position	1,308	(1,605)
Cash basis net position beginning of year, as restated	1,187	2,792
Cash basis net position end of year	\$ 2,495	1,187

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 22%, or approximately \$1,825,000. The total cost of all programs and services decreased approximately \$1,527,000, or 15%, with no new programs added this year. The significant increase in receipts was due to proceeds received from the issuance of general obligation anticipation notes.

The City's property tax rates for fiscal year 2013 remained consistent compared to fiscal year 2012. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase \$241,000 next year.

The cost of governmental activities this year was approximately \$8,655,000 compared to approximately \$10,182,000 last year. However, as shown in the Cash Basis Statement of Activities and Net Position, the amount taxpayers ultimately financed for these activities was approximately \$6,038,000 because some of the cost was paid by those directly benefited from the programs (approximately \$644,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$1,973,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2013 from approximately \$2,835,000 to approximately \$2,617,000. The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and other receipts, such as interest, note proceeds and other general receipts.

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 2,327	2,394
Sewer	2,325	2,747
Solid Waste	568	526
Operating grants, contributions and restricted interest	186	476
Capital grants, contributions, and restricted interest	138	241
General receipts:		
Revenue note proceeds	1,611	2,986
Other general receipts	729	228
Total receipts	<u>7,884</u>	<u>9,598</u>
Disbursements:		
Water	2,398	1,297
Sewer	2,844	6,667
Solid Waste	519	515
Airport	337	384
Logan Apartments	198	165
Total disbursements	<u>6,296</u>	<u>9,028</u>
Change in cash basis net position before transfers	1,588	570
Transfers, net	148	(291)
Change in cash basis net position	<u>1,736</u>	<u>279</u>
Cash basis net position beginning of year, as restated	1,761	1,482
Cash basis net position end of year	<u>\$ 3,497</u>	<u>1,761</u>

Total business type activities receipts for the fiscal year were approximately \$7,884,000 compared to approximately \$9,598,000 last year. This decrease was primarily due to the City receiving \$1,375,000 less in sewer revenue capital loan note proceeds as projects were completed. The cash balance increased approximately \$1,736,000 from the prior year. Total disbursements for the fiscal year decreased 30.3%, from approximately \$9.0 million in fiscal year 2012 to approximately \$6.3 million in fiscal year 2013.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fairfield completed the year, its governmental funds reported a combined fund balance of \$2,495,250, an increase of \$1,308,116 from last year's total of \$1,187,134. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$189,329 from the prior year to \$341,189. Receipts decreased \$445,039, primarily a result of the City receiving less intergovernmental receipts.
- The Special Revenue, Road Use Tax Fund cash balance increased \$41,311 to \$215,591. This was primarily due to an increase in road use tax receipts.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$56,720 to \$203,714. Receipts decreased \$8,313.
- The Special Revenue, Employee Benefits Fund cash balance remained consistent, increasing \$41,931 to \$361,482.
- The Debt Service Fund cash balance decreased \$197,725 to \$(126,945), primarily due to a decrease in transfers in.
- The Capital Projects Fund cash balance increased \$1,299,822 to \$457,186. Receipts increased \$116,174 while disbursements decreased \$1,887,182. The City issued general obligation anticipation note proceeds of \$1,900,000 to eliminate the deficit balance.
- The Permanent, Library Endowment Fund cash balance increased \$2,642 from the prior year to \$479,990.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$384,378 to \$663,971, primarily due to an increase in receipts. The City received a lawsuit settlement of \$304,715.
- The Enterprise, Sewer Fund cash balance increased \$1,312,269 to \$2,591,117. Disbursements decreased \$3,402,135 as improvements to the sewer system were completed during the fiscal year. The City received \$1,610,530 of revenue capital loan note proceeds for completion of improvements to the sewer system.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 28, 2013 and resulted in increases in budgeted disbursements for the culture and recreation, general government and capital projects functions. The City had sufficient cash balances to absorb these additional costs. Even with the budget amendment, total disbursements were \$977,839 more than the amended budget.

The City's receipts were \$273,122 less than budgeted. This was primarily due to the City receiving less in charges for service than anticipated.

The City exceeded the amount budgeted in the public safety, culture and recreation, debt service, capital projects and business type activities functions for the year ended June 30, 2013, due primarily to various disbursements which were not budgeted.

DEBT ADMINISTRATION

At June 30, 2013, the City had approximately \$19,770,000 of bonds and other long-term debt outstanding, compared to approximately \$18,003,000 last year, as shown below.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2013	2012
General obligation bonds	\$ 8,465	9,420
General obligation capital loan notes	690	915
Revenue bonds	485	550
Revenue capital loan notes	8,230	7,100
Lease purchase agreements	-	18
General obligation anticipation notes	1,900	-
Total	\$ 19,770	18,003

Debt increased as a result of issuing general obligation bond anticipation project notes and sewer revenue capital loan notes.

The City carries a general obligation bond rating of Baa2 assigned by national rating agencies to the City's debt. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of approximately \$11.1 million, including approximately \$70,000 appropriated for a development agreement, is significantly below its constitutional debt limit of approximately \$13.8 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The elected and appointed officials of the City of Fairfield considered many factors when setting the fiscal year 2014 budget, tax rates and fees for various City services. One of those factors is the economy. Average unemployment for 2013 in Jefferson County was 5.6% versus 6.3% a year ago. This compares with the State's unemployment rate of 4.6% and the national rate of 6.7%.

These indicators were taken into account when adopting the budget for fiscal year 2014. Amounts available for appropriation in the operating budget are approximately \$21.5 million, an increase of 46.4% from the final fiscal year 2013 budget. Budgeted disbursements are expected to increase approximately \$4,100,000. This increase is primarily due to increase in capital projects. The City has added no new programs to the fiscal year 2014 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$2,200,000 by the close of fiscal year 2014.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Joy Messer, City Clerk, 118 South Main Street, Fairfield, Iowa 52556-0850.

Basic Financial Statements

City of Fairfield

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2013

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 2,005,343	51,444	216,713	-
Public works	1,173,014	5,152	1,276,663	-
Culture and recreation	2,246,585	451,452	174,883	-
Community and economic development	220,509	12,465	21,714	-
General government	514,862	123,825	14,886	-
Debt service	1,582,824	-	-	-
Capital projects	912,042	-	3,000	264,778
Total governmental activities	8,655,179	644,338	1,707,859	264,778
Business type activities:				
Water	2,397,665	2,326,644	-	-
Sewer	2,844,356	2,324,942	-	-
Solid waste	519,257	568,032	-	-
Airport	336,959	14,093	75,621	138,255
Logan apartments	197,523	161,336	109,830	-
Total business type activities	6,295,760	5,395,047	185,451	138,255
Total Primary Government	\$ 14,950,939	6,039,385	1,893,310	403,033
Component Unit:				
Fairfield Public Library Foundation	\$ 66,389	-	29,107	-
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Unrestricted interest on investments				
General obligation anticipation note proceeds				
Revenue note proceeds, net of \$3,000 initiation fee				
Lawsuit settlement				
Farm rent				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year, as restated				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Nonexpendable:				
Permanent Fund				
Expendable:				
Streets				
Urban renewal purposes				
Debt service				
Health plan trustee				
Other purposes				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			Component Unit
Governmental Activities	Business Type Activities	Total	Fairfield Public Library Foundation
(1,737,186)	-	(1,737,186)	
108,801	-	108,801	
(1,620,250)	-	(1,620,250)	
(186,330)	-	(186,330)	
(376,151)	-	(376,151)	
(1,582,824)	-	(1,582,824)	
(644,264)	-	(644,264)	
(6,038,204)	-	(6,038,204)	
-	(71,021)	(71,021)	
-	(519,414)	(519,414)	
-	48,775	48,775	
-	(108,990)	(108,990)	
-	73,643	73,643	
-	(577,007)	(577,007)	
(6,038,204)	(577,007)	(6,615,211)	
			(37,282)
3,430,266	-	3,430,266	-
958,984	-	958,984	-
189,020	-	189,020	-
825,393	-	825,393	-
131,492	-	131,492	-
41,553	-	41,553	-
1,900,000	-	1,900,000	-
-	1,610,530	1,610,530	-
-	304,715	304,715	-
-	66,071	66,071	-
17,597	182,992	200,589	-
(147,985)	147,985	-	-
7,346,320	2,312,293	9,658,613	-
1,308,116	1,735,286	3,043,402	(37,282)
1,187,134	1,761,491	2,948,625	881,980
\$ 2,495,250	3,496,777	5,992,027	844,698
\$ 479,990	-	479,990	-
189,029	-	189,029	-
227,089	-	227,089	-
128,880	511,666	640,546	-
142,454	69,378	211,832	-
1,288,373	-	1,288,373	-
39,435	2,915,733	2,955,168	844,698
\$ 2,495,250	3,496,777	5,992,027	844,698

City of Fairfield

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2013

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Employee Benefits
Receipts:				
Property tax	\$ 2,279,760	-	-	1,021,467
Tax increment financing	-	-	-	-
Other city tax	131,492	-	825,393	-
Licenses and permits	131,114	-	-	-
Use of money and property	48,003	-	-	-
Intergovernmental	546,976	924,283	-	-
Charges for service	436,945	-	-	-
Special assessments	-	-	-	-
Miscellaneous	131,379	-	-	-
Total receipts	3,705,669	924,283	825,393	1,021,467
Disbursements:				
Operating:				
Public safety	1,976,901	-	2,000	-
Public works	256,936	882,972	33,106	-
Culture and recreation	2,107,356	-	43,708	-
Community and economic development	171,029	-	11,879	-
General government	514,862	-	-	-
Debt service	-	-	84,024	-
Capital projects	-	-	-	-
Total disbursements	5,027,084	882,972	174,717	-
Excess (deficiency) of receipts over (under) disbursements	(1,321,415)	41,311	650,676	1,021,467
Other financing sources (uses):				
General obligation anticipation note proceeds	-	-	-	-
Operating transfers in	1,132,086	-	-	-
Operating transfers out	-	-	(593,956)	(979,536)
Total other financing sources (uses)	1,132,086	-	(593,956)	(979,536)
Change in cash balances	(189,329)	41,311	56,720	41,931
Cash balances beginning of year, as restated	530,518	174,280	146,994	319,551
Cash balances end of year	\$ 341,189	215,591	203,714	361,482
Cash Basis Fund Balances				
Nonspendable - Library endowment	\$ -	-	-	-
Restricted for:				
Streets	-	189,029	-	-
Urban renewal purposes	-	-	-	-
Debt service	-	-	128,880	-
Health plan trustee	115,892	26,562	-	-
Other purposes	58,917	-	74,834	361,482
Unassigned	166,380	-	-	-
Total cash basis fund balances	\$ 341,189	215,591	203,714	361,482

See notes to financial statements.

Debt Service	Capital Projects	Permanent Library Endowment	Nonmajor	Total
958,984	129,039	-	-	4,389,250
-	-	-	189,020	189,020
-	-	-	-	956,885
-	-	-	-	131,114
-	-	2,642	13,892	64,537
-	214,249	-	-	1,685,508
-	-	-	64,564	501,509
-	53,529	-	-	53,529
-	17,597	-	90,952	239,928
958,984	414,414	2,642	358,428	8,211,280
-	-	-	26,442	2,005,343
-	-	-	-	1,173,014
-	-	-	95,521	2,246,585
-	-	-	37,601	220,509
-	-	-	-	514,862
1,498,800	-	-	-	1,582,824
-	912,042	-	-	912,042
1,498,800	912,042	-	159,564	8,655,179
(539,816)	(497,628)	2,642	198,864	(443,899)
-	1,900,000	-	-	1,900,000
510,483	-	-	168,892	1,811,461
(168,392)	(102,550)	-	(115,012)	(1,959,446)
342,091	1,797,450	-	53,880	1,752,015
(197,725)	1,299,822	2,642	252,744	1,308,116
70,780	(842,636)	477,348	310,299	1,187,134
(126,945)	457,186	479,990	563,043	2,495,250
-	-	479,990	-	479,990
-	-	-	-	189,029
-	-	-	227,089	227,089
-	-	-	-	128,880
-	-	-	-	142,454
-	457,186	-	335,954	1,288,373
(126,945)	-	-	-	39,435
(126,945)	457,186	479,990	563,043	2,495,250

Exhibit C

City of Fairfield

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2013

	Enterprise			Total
	Water	Sewer	Nonmajor	
Operating receipts:				
Use of money and property	\$ -	-	175,429	175,429
Charges for service	2,326,644	2,324,942	568,032	5,219,618
Intergovernmental	-	-	109,830	109,830
Miscellaneous	150,684	23,168	9,140	182,992
Total operating receipts	2,477,328	2,348,110	862,431	5,687,869
Operating disbursements:				
Business type activities	1,830,789	1,406,883	933,541	4,171,213
Excess (deficiency) of operating receipts over (under) operating disbursements	646,539	941,227	(71,110)	1,516,656
Non-operating receipts (disbursements):				
Revenue note proceeds, net of \$3,000 initiation fee	-	1,610,530	-	1,610,530
Lawsuit settlement	304,715	-	-	304,715
Farm rent	-	-	66,071	66,071
Intergovernmental	-	-	213,876	213,876
Capital projects and equipment	(116,171)	(1,143,490)	(120,198)	(1,379,859)
Debt service	(450,705)	(293,983)	-	(744,688)
Net non-operating receipts (disbursements)	(262,161)	173,057	159,749	70,645
Excess of receipts over disbursements	384,378	1,114,284	88,639	1,587,301
Other financing sources (uses):				
Operating transfers in	-	197,985	-	197,985
Operating transfers out	-	-	(50,000)	(50,000)
Total other financing sources (uses)	-	197,985	(50,000)	147,985
Change in cash balances	384,378	1,312,269	38,639	1,735,286
Cash balances beginning of year, as restated	279,593	1,278,848	203,050	1,761,491
Cash balances end of year	\$ 663,971	2,591,117	241,689	3,496,777
Cash Basis Fund Balances				
Restricted for:				
Debt service	\$ 486,852	24,814	-	511,666
Health plan trustee	38,763	28,730	1,885	69,378
Unrestricted	138,356	2,537,573	239,804	2,915,733
Total cash basis fund balances	\$ 663,971	2,591,117	241,689	3,496,777

See notes to financial statements.

City of Fairfield

Notes to Financial Statements

June 30, 2013

(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, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

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 their operational or financial relationship with the City.

Blended Component Units

Friends of the Fairfield Public Library and Fairfield Parks and Recreation 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 they are, in substance, the same as the City. Their purpose is to benefit the City of Fairfield (the primary government) by soliciting contributions and managing those funds. In accordance with criteria set forth by the Governmental Accounting Standards Board, Friends of the Fairfield Public Library and Fairfield Parks and Recreation Foundation meet the definition of component units which should be blended. The financial activity of the components units has been blended as Special Revenue Funds of the City.

Discretely Presented Component Unit

Fairfield Public Library Foundation was established as a non-profit corporation in accordance with Chapter 504A of the Code of Iowa. Its purpose is to benefit the City of Fairfield (the primary government) by soliciting contributions and managing those funds. In accordance with criteria set forth by the Governmental Accounting Standards Board, Fairfield Public Library Foundation meets the definition of a component unit which should be discretely presented. Based on

these criteria, the economic resources received or held by Fairfield Public Library Foundation are substantially for the direct benefit of the City of Fairfield Library.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Jefferson County Assessor's Conference Board, Jefferson County Emergency Management Agency and Jefferson County E911 Joint Service Board. 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. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the nonfiduciary activities of the City and its component units. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

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

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

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

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

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds and all remaining proprietary funds are aggregated and reported as nonmajor proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the collection and use of local option sales tax.

The Employee Benefits Fund is used to account for the collection and use of property tax for pension, retirement and insurance benefits.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities with the exception of those financed through enterprise funds.

The Permanent, Library Endowment Fund is used to account for the collection and use of funds given to the library for endowment purposes.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer systems.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

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

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

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, debt service, capital projects and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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.

At June 30, 2013, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Mutual Funds	\$ 5,182	10,582	N/A
Stocks	509	1,043	N/A

At June 30, 2013, the City's discretely presented component unit had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Mutual Funds	\$ 749,629	1,012,746	N/A
Taxable Municipal Bonds	10,000	10,033	Oct 1, 2016

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Credit risk – The taxable municipal bonds carry a rating of A+. The investments in mutual funds are unrated.

Concentration of Credit Risk – The City and the Fairfield Library Foundation place no limit on the amount that may be invested in any one issuer. However, the City's policy requires the City to diversify its investments to eliminate the risk of loss resulting from the over concentration of assets in a specific maturity, issuer or class of securities.

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation				Local Option Sales and Services Tax Revenue Bonds	
	Bonds		Capital Loan Notes		Principal	Interest
	Principal	Interest	Principal	Interest		
2014	\$ 985,000	280,443	225,000	10,957	65,000	16,899
2015	1,010,000	254,150	230,000	8,145	65,000	15,063
2016	1,045,000	225,195	235,000	4,465	65,000	12,999
2017	1,085,000	193,755	-	-	70,000	10,598
2018	1,125,000	158,980	-	-	70,000	7,867
2019-2023	3,210,000	311,182	-	-	150,000	6,525
2024-2028	-	-	-	-	-	-
2029-2032	-	-	-	-	-	-
Total	\$ 8,460,000	1,423,705	690,000	23,567	485,000	69,951

Year Ending June 30,	Revenue Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest
2014	499,000	239,676	1,774,000	547,975
2015	516,000	224,980	1,821,000	502,338
2016	533,000	209,788	1,878,000	452,447
2017	550,000	194,098	1,705,000	398,451
2018	568,000	177,910	1,763,000	344,757
2019-2023	3,130,000	627,612	6,490,000	945,319
2024-2028	1,265,000	275,724	1,265,000	275,724
2029-2032	1,169,000	84,208	1,169,000	84,208
Total	8,230,000	2,033,996	17,865,000	3,551,219

Local Option Sales and Services Tax Revenue Bonds

The City has pledged future local option sales tax receipts to repay \$550,000 of local option sales and service tax revenue bonds issued in June 2010. Proceeds from the bonds provided financing for the purchase of the Fairfield Arts and Convention Center. The bonds are payable through 2020. For the year ended June 30, 2013, annual principal and interest payments on the notes required approximately 10% of net receipts. The total principal and interest remaining to be paid on the bonds is \$554,951. For the current year, principal and interest paid and total local option sales tax receipts were \$83,524 and \$825,393, respectively.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) The bonds will only be redeemed from future local option sales and services tax revenues and the bond holders hold a lien on the future local option tax revenues received by the City.
- b) Sufficient monthly transfers shall be made to a separate local option sales tax sinking account for the purpose of making the bond principal and interest payments when due.
- c) A local option sales tax reserve account shall be established and maintained in the amount of \$55,000.

At June 30, 2013, the City has not established the required sinking or reserve accounts.

Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$5,797,000 of water revenue capital loan notes issued in February 2003. Proceeds from the notes provided financing for the construction of water main improvements and extensions. The notes are payable solely from water customer net receipts and are payable through 2023. Annual principal and interest payments on the notes required approximately 68% of net receipts. The total principal and interest remaining to be paid on the notes is \$4,453,700. For the current year, principal and interest paid and total customer net receipts were \$440,420 and \$646,539, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$4,000,000 and \$600,000 of sewer revenue capital loan notes issued in October 2011 and November 2012, respectively. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2032. Annual principal and interest payments on the notes required approximately 30% of net receipts. The total principal and interest remaining to be paid on the notes is \$5,810,296. For the current year, principal and interest paid and total customer net receipts were \$283,763 and \$941,227, respectively.

The resolutions providing for the issuance of the water and sewer revenue capital loan notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to a water revenue note sinking account and a sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) A water reserve account shall be established and maintained in the amount of \$450,110. No reserve accounts are required to be established for the sewer notes.

- (d) User rates shall be established and charged to customers of the utility, including the City, to produce and maintain net operating receipts at a level not less than 110% of the principal and interest coming due in the next succeeding year.

At June 30, 2013, the City had not established the required water and sewer sinking accounts or the water reserve account.

(4) General Obligation Bond Anticipation Project Note

On June 28, 2013, the City issued a \$1,900,000 general obligation bond anticipation project note to eliminate the deficit balance in the Capital Projects Fund. The note bears interest at 2.4% per annum and is due on June 1, 2016. The note is to be repaid through the issuance of long-term general obligation debt.

(5) 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.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$194,902, \$188,177 and \$155,562, 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 established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report including financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, Suite 201, West Des Moines, IA 50266.

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, is 26.12% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2013, 2012 and 2011 were \$209,052, \$182,282 and \$145,705 respectively, which met the required minimum contributions for each year.

(6) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 66 active and 6 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a partially self-funded plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members range from \$360 to \$422 for single coverage and from \$865 to \$982 for family coverage. For the year ended June 30, 2013, the City contributed \$432,804 and plan members eligible for benefits contributed \$138,738 to the plan.

(7) Compensated Absences

City employees accumulate unused vacation and sick leave 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 and sick leave payable to employees at June 30, 2013, primarily relating to the General and Enterprise Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 89,000
Sick Leave	93,000
Total	<u>\$ 182,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2013. Sick leave is payable when used or, after an employment period of twenty years, upon termination, retirement or death. Accumulated sick leave hours are paid at the rate of one-half upon retirement or death and one-fourth upon termination.

(8) Interfund Transfers

Transfer To	Transfer From	Amount
General	Special Revenue:	
	Employee Benefits	\$ 979,536
	Capital Projects	102,550
	Enterprise:	
	Logan Apartments	50,000
		<u>1,132,086</u>
Special Revenue:		
Library Building Trust	Special Revenue:	
	Fairfield Public Library House	500
Urban Renewal		
Tax Increment Financing	Debt Service	168,392
Debt Service	Special Revenue:	
	Local Option Sales Tax	395,971
	Urban Renewal	
	Tax Increment Financing	114,512
		<u>510,483</u>
Enterprise:		
Sewer	Special Revenue:	
	Local Option Sales Tax	197,985
Total		<u>\$ 2,009,446</u>

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

(9) Risk Management

The City is a member of 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 679 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 at a level determined by the Board not to exceed 300% of 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 contribution to the Pool for the year ended June 30, 2013 was \$228,849.

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 \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by Lexington Insurance Company.

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 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, 2013, 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 casualty claims and claim 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 casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by the amount

of capital distributions previously received by the withdrawing member and an amount equal to the annual casualty 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 employee blanket bond in the amount of \$1,000,000 and \$50,000. 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.

(10) Employee Health Insurance Plan

The City self-funds a portion of health insurance deductibles for its employees. The plan is funded by both employee and City contributions and is administered by Employee Benefit Systems (EBS) under an agreement which is subject to automatic renewal. The City self-funds up to \$500 per individual or \$1,000 per family, with employees contributing the first \$50 to \$500, respectively. Administrative service fees and premiums are paid monthly from the City's operating funds to a separate account administered by EBS. During the year ended June 30, 2013, the City paid \$571,542 to the account. At June 30, 2013, the account balance was \$211,832. The activity in this account is recorded in the City's General, Special Revenue, Road Use Tax and Enterprise, Water, Sewer and Logan Apartment Funds.

(11) Deficit Balances

The Debt Service Fund had a deficit balance of \$126,945 at June 30, 2013. The Enterprise, Solid Waste Fund had a deficit balance of \$97,316 at June 30, 2013. The City is exploring alternatives to resolve the deficit balances.

(12) Lessor Operating Leases

The City leases unused land around the Airport. The following is a schedule by year of minimum future rentals on this lease as of June 30, 2013:

Year ending June 30,	Amount
2014	\$ 66,100
2015	66,100
2016	33,050
Total	<u>\$ 165,250</u>

(13) Development Agreement

The City has entered into a development agreement with Pale Moon Investments (developer) for the construction of a hotel with a minimum assessed value of \$3,000,000. The City agreed to pay the developer an amount not to exceed \$750,000 subject to annual appropriation by the City Council. The agreement requires up to ten annual payments, provided the developer is in compliance with the terms of the agreement. As of June 30, 2013, no payments have been made on the agreement. The amount appropriated to be paid during the year ended June 30, 2014 is \$70,200.

(14) Litigation

The City is involved in several lawsuits and other potential litigation as of June 30, 2013. The probability of loss, if any, is undeterminable.

(15) Subsequent Events

In July 2013, the City issued \$500,000 of sewer revenue capital loan notes. In March 2014, the City issued \$3,000,000 of general obligation capital loan notes. In April 2014, the City issued \$1,585,000 and \$1,075,000 of sewer revenue capital loan notes.

(16) Restatements

For the year ended June 30, 2013, the beginning cash balances on the Cash Basis Statement of Activities and Net Position and the Statement of Cash Receipts, Disbursements and Changes in Cash Balances increased for cash held by the Health Plan Trustee not previously reported and decreased for the component unit now discretely presented. The beginning cash balances were also restated to reflect corrections made between funds for previous years. The restatements are as follows:

	Balances at July 1, 2012, as previously reported	Restatements	Cash held by Health Plan Trustee	Reclassify blended component unit as discretely presented	Balances July 1, 2012, as restated
Governmental activities net position	\$ 2,398,173	(479,938)	150,879	(881,980)	1,187,134
Business type activities net position	1,238,452	449,558	73,481	-	1,761,491
General Fund	(1,290,888)	1,698,660	122,746	-	530,518
Special Revenue Funds:					
Road Use Tax	224,115	(77,968)	28,133	-	174,280
Local Option Sales Tax	1,596,987	(1,449,993)	-	-	146,994
Employee Benefits	520,630	(201,079)	-	-	319,551
Energy Efficiency	512,125	(512,125)	-	-	-
Iowa Power	(62,337)	62,337	-	-	-
Fairfield Public Library Foundation	881,980	-	-	(881,980)	-
Debt Service Fund	520,338	(449,558)	-	-	70,780
Capital Projects Fund	(1,292,424)	449,788	-	-	(842,636)
Enterprise Funds:					
Water	239,663	(1,125)	41,055	-	279,593
Sewer	797,736	450,683	30,429	-	1,278,848
Logan Apartments	191,246		1,997	-	193,243
Discretely presented component unit:					
Fairfield Public Library Foundation	-	-	-	881,980	881,980

City of Fairfield

Other Information

City of Fairfield
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 4,389,250	-	-
Tax increment financing	189,020	-	-
Other city tax	956,885	-	-
Licenses and permits	131,114	-	-
Use of money and property	64,537	241,500	123
Intergovernmental	1,685,508	323,706	-
Charges for service	501,509	5,219,618	-
Special assessments	53,529	-	-
Miscellaneous	239,928	487,707	70,013
Total receipts	<u>8,211,280</u>	<u>6,272,531</u>	<u>70,136</u>
Disbursements:			
Public safety	2,005,343	-	-
Public works	1,173,014	-	-
Health and social services	-	-	-
Culture and recreation	2,246,585	-	69,588
Community and economic development	220,509	-	-
General government	514,862	-	-
Debt service	1,582,824	-	-
Capital projects	912,042	-	-
Business type activities	-	6,295,760	-
Total disbursements	<u>8,655,179</u>	<u>6,295,760</u>	<u>69,588</u>
Excess (deficiency) of receipts over (under) disbursements	(443,899)	(23,229)	548
Other financing sources, net	1,752,015	1,758,515	-
Excess of receipts and other financing sources over disbursements and other financing uses	1,308,116	1,735,286	548
Balances beginning of year, as restated	1,187,134	1,761,491	66,838
Balances end of year	<u>\$ 2,495,250</u>	<u>3,496,777</u>	<u>67,386</u>

See accompanying independent auditor's report.

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Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
4,389,250	4,198,294	4,202,922	186,328
189,020	155,546	190,000	(980)
956,885	1,155,095	1,154,979	(198,094)
131,114	41,750	41,750	89,364
305,914	17,600	17,600	288,314
2,009,214	1,189,546	1,189,546	819,668
5,721,127	6,523,600	7,075,000	(1,353,873)
53,529	-	-	53,529
657,622	47,900	815,000	(157,378)
14,413,675	13,329,331	14,686,797	(273,122)
2,005,343	1,916,041	1,916,041	(89,302)
1,173,014	1,265,000	1,265,000	91,986
-	11,000	11,000	11,000
2,176,997	1,664,627	1,865,820	(311,177)
220,509	267,700	267,700	47,191
514,862	673,760	1,016,171	501,309
1,582,824	1,494,019	1,494,019	(88,805)
912,042	100,000	226,661	(685,381)
6,295,760	5,841,100	5,841,100	(454,660)
14,881,351	13,233,247	13,903,512	(977,839)
(467,676)	96,084	783,285	(1,250,961)
3,510,530	-	226,869	3,283,661
3,042,854	96,084	1,010,154	2,032,700
2,881,787	523,183	523,183	2,358,604
5,924,641	619,267	1,533,337	4,391,304

City of Fairfield

Notes to Other Information – Budgetary Reporting

June 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component units. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the one budget amendment increased disbursements by \$670,265. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, debt service, capital projects and business type activities functions.

Supplementary Information

City of Fairfield

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2013

	Urban Renewal Tax Increment Financing	Police Specialty	UDAG- FALCO Project	Live on The Square
Receipts:				
Tax increment financing	\$ 189,020	-	-	-
Use of money and property	-	-	6,313	-
Charges for service	-	64,564	-	-
Miscellaneous	-	4,224	-	3,169
Total receipts	189,020	68,788	6,313	3,169
Disbursements:				
Operating:				
Public safety	-	26,442	-	-
Culture and recreation	-	-	-	4,408
Community and economic development	37,514	-	87	-
Total disbursements	37,514	26,442	87	4,408
Excess (deficiency) of receipts over (under) disbursements	151,506	42,346	6,226	(1,239)
Other financing sources (uses):				
Operating transfers in	168,392	-	-	-
Operating transfers out	(114,512)	-	-	-
Total other financing sources (uses)	53,880	-	-	-
Change in cash balances	205,386	42,346	6,226	(1,239)
Cash balances beginning of year	21,703	-	187,640	6,842
Cash balances end of year	\$ 227,089	42,346	193,866	5,603
Cash Basis Fund Balances				
Restricted for:				
Urban renewal purposes	\$ 227,089	-	-	-
Other purposes	-	42,346	193,866	5,603
Total cash basis fund balances	\$ 227,089	42,346	193,866	5,603

See accompanying independent auditor's report.

Special Revenue							
Indian Creek Escrow	Library Memorial	Library Building Trust	Fairfield Public Library House	Friends of the Fairfield Library	Fairfield Parks and Recreation Foundation		Total
-	-	-	-	-	-		189,020
14	27	-	7,415	-	123		13,892
-	-	-	-	-	-		64,564
-	13,546	-	-	10,553	59,460		90,952
14	13,573	-	7,415	10,553	59,583		358,428
-	-	-	-	-	-		26,442
-	15,171	322	6,032	5,164	64,424		95,521
-	-	-	-	-	-		37,601
-	15,171	322	6,032	5,164	64,424		159,564
14	(1,598)	(322)	1,383	5,389	(4,841)		198,864
-	-	500	-	-	-		168,892
-	-	-	(500)	-	-		(115,012)
-	-	500	(500)	-	-		53,880
14	(1,598)	178	883	5,389	(4,841)		252,744
16,674	6,548	153	3,901	994	65,844		310,299
16,688	4,950	331	4,784	6,383	61,003		563,043
-	-	-	-	-	-		227,089
16,688	4,950	331	4,784	6,383	61,003		335,954
16,688	4,950	331	4,784	6,383	61,003		563,043

Schedule 2

City of Fairfield

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2013

	Enterprise			Total
	Airport	Logan Apartments	Solid Waste	
Operating receipts:				
Use of money and property	\$ 14,093	161,336	-	175,429
Charges for service	-	-	568,032	568,032
Intergovernmental	-	109,830	-	109,830
Miscellaneous	7,813	1,327	-	9,140
Total operating receipts	21,906	272,493	568,032	862,431
Operating disbursements:				
Business type activities	216,761	197,523	519,257	933,541
Excess (deficiency) of operating receipts over (under) operating disbursements	(194,855)	74,970	48,775	(71,110)
Non-operating receipts (disbursements):				
Farm rent	66,071	-	-	66,071
Intergovernmental	213,876	-	-	213,876
Capital projects and equipment	(120,198)	-	-	(120,198)
Net non-operating receipts (disbursements)	159,749	-	-	159,749
Excess (deficiency) of receipts over (under) disbursements	(35,106)	74,970	48,775	88,639
Transfers out	-	(50,000)	-	(50,000)
Change in cash balances	(35,106)	24,970	48,775	38,639
Cash balances beginning of year, as restated	155,898	193,243	(146,091)	203,050
Cash balances end of year	\$ 120,792	218,213	(97,316)	241,689
Cash Basis Fund Balances				
Restricted for health plan trustee	-	1,885	-	1,885
Unrestricted	120,792	216,328	(97,316)	239,804
Total cash basis fund balances	120,792	218,213	(97,316)	241,689

See notes to financial statements.

City of Fairfield

City of Fairfield
Schedule of Indebtedness
Year ended June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Street construction	Jan 2, 1958	2.60%	\$ 85,000
Essential corporate purpose	Sep 1, 2006	4.00	6,925,000
Essential corporate purpose	Jul 1, 2010	1.55-3.40	4,915,000
Total			
General obligation capital loan notes:			
General obligation refunding - series 2011	Apr 1, 2011	1.25-1.90%	\$ 1,135,000
Revenue bonds:			
Local option sales and services tax	Jun 29, 2010	2.65-4.40%	\$ 550,000
Revenue capital loan notes:			
Water	Feb 13, 2003 *	3.00%	\$ 5,797,000
Sewer	Oct 5, 2011 *	3.00	4,000,000
Sewer	Nov 9, 2012 *	1.75	600,000
Total			
Capital lease purchase agreement:			
2010 Freightliner dump truck	Oct 12, 2009	6.01%	\$ 77,958
General obligation bond anticipation project note	Jun 28, 2013	2.40%	\$ 1,900,000

* The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

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
5,240,000	-	430,000	4,810,000	209,600	-
4,175,000	-	525,000	3,650,000	94,605	-
\$ 9,420,000	-	955,000	8,465,000	304,205	5,520
915,000	-	225,000	690,000	13,095	-
550,000	-	65,000	485,000	18,524	-
4,114,000	-	317,000	3,797,000	123,420	-
2,986,470	1,013,530	145,000	3,855,000	115,225	-
-	600,000	22,000	578,000	1,538	-
\$ 7,100,470	1,613,530	484,000	8,230,000	240,183	-
18,384	-	18,384	-	1,105	-
-	1,900,000	-	1,900,000	-	-

City of Fairfield
Bond and Note Maturities
June 30, 2013

Year Ending June 30,	General Obligation Bonds					Total	General Obligation Capital Loan Notes	
	Essential Corporate Purpose		Essential Corporate Purpose		Interest		General Obligation Refunding, Series 2011	
	Issued Sep 1, 2006		Issued July 1, 2010				Issued April 1, 2011	
	Rates	Amount	Rates	Amount			Rates	Amount
2014	4.00%	\$ 450,000	1.55%	535,000	985,000	1.25%	\$ 225,000	
2015	4.00	465,000	1.90	545,000	1,010,000	1.60	230,000	
2016	4.00	485,000	2.15	560,000	1,045,000	1.90	235,000	
2017	4.00	510,000	2.50	575,000	1,085,000		-	
2018	4.00	530,000	2.75	595,000	1,125,000		-	
2019	4.00	555,000	3.00	200,000	755,000		-	
2020	4.00	580,000	3.00	205,000	785,000		-	
2021	4.00	605,000	3.25	215,000	820,000		-	
2022	4.00	630,000	3.40	220,000	850,000		-	
2023		-		-	-		-	
2024		-		-	-		-	
2025		-		-	-		-	
2026		-		-	-		-	
2027		-		-	-		-	
2028		-		-	-		-	
2029		-		-	-		-	
2030		-		-	-		-	
2031		-		-	-		-	
2032		-		-	-		-	
Total		<u>\$ 4,810,000</u>		<u>\$ 3,650,000</u>	<u>8,460,000</u>		<u>\$ 690,000</u>	

* The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Revenue Bonds		Revenue Notes							
Local Option Sales and Services Tax		Water		Sewer		Sewer		Total	
Issued June 29, 2010		Issued Feb 13, 2003		Issued Oct 5, 2011		Issued Nov 9, 2012			
Interest		Interest		Interest		Interest			
Rates	Amount	Rates *	Amount	Rates *	Amount	Rates *	Amount		
2.65%	\$ 65,000	3.00%	\$ 327,000	3.00%	\$ 150,000	1.75%	\$ 22,000	499,000	
3.00	65,000	3.00	338,000	3.00	155,000	1.75	23,000	516,000	
3.35	65,000	3.00	349,000	3.00	160,000	1.75	24,000	533,000	
3.75	70,000	3.00	360,000	3.00	165,000	1.75	25,000	550,000	
4.05	70,000	3.00	372,000	3.00	170,000	1.75	26,000	568,000	
4.20	75,000	3.00	384,000	3.00	176,000	1.75	26,000	586,000	
4.40	75,000	3.00	397,000	3.00	182,000	1.75	27,000	606,000	
-	-	3.00	410,000	3.00	187,000	1.75	28,000	625,000	
-	-	3.00	423,000	3.00	194,000	1.75	29,000	646,000	
-	-	3.00	437,000	3.00	200,000	1.75	30,000	667,000	
-	-			3.00	206,000	1.75	31,000	237,000	
-	-			3.00	213,000	1.75	32,000	245,000	
-	-			3.00	220,000	1.75	33,000	253,000	
-	-			3.00	227,000	1.75	34,000	261,000	
-	-			3.00	234,000	1.75	35,000	269,000	
-	-			3.00	242,000	1.75	36,000	278,000	
-	-			3.00	250,000	1.75	38,000	288,000	
-	-			3.00	258,000	1.75	39,000	297,000	
-	-			3.00	266,000	1.75	40,000	306,000	
	<u>\$ 485,000</u>		<u>\$ 3,797,000</u>		<u>\$ 3,855,000</u>		<u>\$ 578,000</u>	<u>8,230,000</u>	

City of Fairfield

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Ten Years

	2013	2012	2011	2010	2009
Receipts:					
Property tax	\$ 4,389,250	4,305,856	4,205,134	4,076,420	3,949,455
Tax increment financing	189,020	168,392	253,181	429,971	332,517
Other city tax	956,885	1,030,554	966,858	960,005	1,027,994
Licenses and permits	131,114	21,927	23,588	25,681	22,741
Use of money and property	64,537	16,151	24,366	43,279	89,382
Intergovernmental	1,685,508	2,122,051	2,270,294	2,179,131	1,463,822
Charges for service	501,509	533,266	480,915	350,499	303,182
Special assessments	53,529	-	71,947	64,130	75,582
Miscellaneous	239,928	88,337	569,010	263,644	507,741
Total	\$ 8,211,280	8,286,534	8,865,293	8,392,760	7,772,416
Disbursements:					
Operating:					
Public safety	\$ 2,005,343	1,773,322	1,857,711	1,705,256	1,761,035
Public works	1,173,014	788,506	120,088	1,060,704	906,095
Health and social services	-	24,042	39,585	13,000	13,081
Culture and recreation	2,246,585	1,968,927	1,491,155	1,641,994	1,626,771
Community and economic development	220,509	134,867	1,263,995	300,665	199,972
General government	514,862	700,625	815,111	1,155,196	405,982
Debt service	1,582,824	1,574,018	2,787,905	1,235,630	1,245,752
Capital projects	912,042	2,889,145	3,444,543	2,143,000	1,913,794
Total	\$ 8,655,179	9,853,452	11,820,093	9,255,445	8,072,482

See accompanying independent auditor's report.

2008	2007	2006	2005	2004
3,639,821	3,350,952	3,236,344	3,037,373	2,852,293
232,613	210,355	229,701	230,189	411,499
991,721	968,336	911,782	914,871	1,037,115
29,359	21,441	27,043	24,228	15,800
88,133	104,655	45,527	107,630	80,340
3,217,212	4,965,682	2,635,955	2,758,221	1,012,520
292,480	323,930	346,434	337,963	316,174
44,482	51,081	27,614	33,834	59,290
248,944	284,838	197,893	192,099	317,859
<u>8,784,765</u>	<u>10,281,270</u>	<u>7,658,293</u>	<u>7,636,408</u>	<u>6,102,890</u>
1,626,961	1,570,831	1,589,215	1,751,741	2,035,789
997,862	942,597	977,938	898,017	900,369
12,786	17,801	9,720	12,220	9,720
1,490,126	1,591,083	1,536,035	1,444,278	1,289,611
116,881	100,958	107,223	85,867	163,464
387,699	374,948	397,803	342,499	346,384
1,016,258	1,116,957	901,491	901,981	942,223
3,796,689	7,085,671	3,845,328	2,527,712	783,568
<u>9,445,262</u>	<u>12,800,846</u>	<u>9,364,753</u>	<u>7,964,315</u>	<u>6,471,128</u>

City of Fairfield



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, 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 Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Fairfield, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 4, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Fairfield's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A) through (F) to be material weaknesses.

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

Compliance and Other Matters

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 grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during 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.

The City of Fairfield's Responses to the Findings

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

Purpose of this Report

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

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.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 4, 2014

City of Fairfield

Schedule of Findings

Year ended June 30, 2013

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check of those of another. During the audit, we identified the following incompatible duties:
- (1) Bank reconciliations are not performed by an individual who does not handle or record cash.
 - (2) While a monthly bank reconciliation is performed, the reconciliation is not reviewed and approved by an independent person.
 - (3) Investments – detailed record keeping, custody and reconciling. In addition, an investment register was not maintained.
 - (4) Receipts – opening mail, collecting, depositing, journalizing and posting.
 - (5) Utility receipts – opening mail, billing, collecting, depositing, posting, reconciling and maintaining detailed accounts receivable records.
 - (6) An initial listing of mail receipts is not prepared by the mail openers.
 - (7) Journal entries are not reviewed and approved.
 - (8) All accounting staff have the ability to void receipts. No report is maintained or review performed over void receipts.
 - (9) Accounting system – performing all general accounting functions and having custody of City assets.

For the Fairfield Parks and Recreation Foundation, one individual had control over each of the following areas:

- (1) Receipts – handling, recording and reconciling. Prenumbered receipts are issued only upon request of the payee.
- (2) Disbursements – preparing, recording and reconciling.
- (3) Cash – preparing bank reconciliations, approving disbursement transactions and handling and recording cash. The bank reconciliations were not approved by an independent person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City and the Fairfield Parks and Recreation Foundation should review their control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

City of Fairfield

Schedule of Findings

Year ended June 30, 2013

Responses –

City – We will do the best we can but are limited on staff. We will have an independent person review the bank reconciliations and document the review.

Fairfield Parks and Recreation Foundation – We are limited in staff, but we will try to segregate duties.

Conclusions – Responses accepted.

(B) Financial Reporting – During the audit, we identified the following items requiring corrections. Adjustments were subsequently made by the City to properly record these amounts in the financial statements.

- 1) Certain receipts were recorded as negative disbursements.
- 2) Certain disbursements were reported in an incorrect function.
- 3) Amounts held by the employee health plan trustee were not recorded in the City's cash balances.
- 4) Certain transfers between funds were erroneous.
- 5) The City transferred \$1,000,000 of general obligation bond anticipation project note proceeds from the Capital Projects Fund to the General Fund. Only \$100,000 of the proceeds should have been credited to the General Fund.
- 6) Various adjustments to the beginning fund balances were required to correct prior year errors.

Recommendations – The City should establish procedures to ensure accurate financial reporting.

Response – We have addressed this issue and it will not happen again in the future.

Conclusion – Response accepted.

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. The City Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – We will start the process of reconciling utility billings immediately.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings

Year ended June 30, 2013

(D) Logan Apartments – The City owns an apartment complex with forty-seven units. The following deficiencies were noted:

- 1) The bookkeeping and custody of the Enterprise, Logan Apartments certificate of deposit which contains renter deposits is under the control of the Manager of Logan Apartments in a location separate from the City Clerk's office. This account is not reflected in the City's books. This matter was resolved for audit purposes.
- 2) Duties are not segregated as the Apartments' Manager prepares the tenant certifications, prepares housing assistance payment requests, collects rent, reconciles the rent receivable each month, collects and refunds security deposits and performs other accounting duties for the apartments.
- 3) Prenumbered receipts were not issued for collections. In addition, rent billings, collections and delinquent accounts were not reconciled throughout the year.
- 4) A current listing of security and pet deposits by tenant is not prepared and maintained.

Recommendation – Control activities for Logan Apartments should be reviewed to obtain the maximum internal control possible under the circumstances. A listing of rent receipts should be prepared. Also, prenumbered receipts should be issued for all collections. The receipt listing and prenumbered receipts should be reconciled to rent deposits per the City's records each month and rent receivables should be reviewed by an independent person. In addition, a log of security and pet deposits by apartment should be maintained and reconciled to the City's records periodically by an independent person. Also, rent owed each month should be reconciled to rent collected and rent receivables monthly and the reconciliations should be reviewed by an independent person.

Response – Logan Apartments is in the process of being sold and will no longer be a part of the City of Fairfield.

Conclusion – Response accepted.

(E) Parks and Recreation Receipts – The City's Parks and Recreation Department has weaknesses in segregation of duties for the collection of receipts, as follows:

- 1) A receipt log of all Parks and Recreation receipts is prepared in the Department. However, an independent reconciliation is not performed to ensure all receipts per the receipt log were deposited by the City.
- 2) Certain locations use a cash register for admissions and concession sales. The cash registers are not reconciled to the receipts log maintained at the Parks and Recreation Department by an independent person.
- 3) Prenumbered receipts are issued only upon request of the payee or when a credit card is used.
- 4) One employee is responsible for collecting, depositing and reconciling receipts.

City of Fairfield

Schedule of Findings

Year ended June 30, 2013

Recommendation - The City should develop procedures for the following:

- 1) On a periodic basis, an independent person should reconcile the receipt log/deposit listing to the City Hall receipt confirmation and document the review by signing or initialing and dating the reconciliation.
- 2) An independent person should reconcile the cash register tapes to the log and document the reconciliation by signing or initialing and dating the log.
- 3) Prenumbered receipts should be issued for all collections which are not recorded through a cash register. On a periodic basis, a person independent of the receipt process should reconcile prenumbered receipts issued to deposits.
- 4) The City should review its internal control procedures to obtain the maximum internal control possible under the circumstances.

Response - The City will review its procedures and try to address these segregation of duties concerns.

Conclusion - Response accepted.

- (F) Federal Grant Records - The City does not maintain adequate records, including grant agreements, invoices for grant disbursements and grant reimbursement requests, to summarize a schedule of all of the City's federal grants.

Recommendation - The City should maintain adequate grant records in order to summarize a schedule of all of the City's federal grants.

Response - We will work on maintaining better records.

Conclusion - Response accepted.

- (G) Computer System - The City's computer system does not identify who processed transactions. In addition, the City does not have a written disaster recovery plan.

Recommendation - The City's computer system should identify who processes transactions. The City should adopt a written disaster recovery plan.

Response - We are in the process of working with Incode for identity. We are also working on a disaster recovery plan.

Conclusion - Response accepted.

- (H) Credit Cards - The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation - The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response - We will work on adopting a policy.

Conclusion - Response accepted.

City of Fairfield

Schedule of Findings

Year ended June 30, 2013

- (I) Compensated Absences – Compensatory time, including vacation and sick leave, are maintained in the City’s payroll records for all departments except the library and fire departments. In addition, eight employees had negative leave balances because the City is not adequately monitoring the balances.

Recommendation – All payroll records should be maintained on a consistent and uniform basis to document potential liabilities of the City. The City should monitor balances recorded in the payroll system.

Response – We are trying to make sure there are no negative balances. We will work with the library and fire departments to include these leave balances in the City’s payroll system.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Fairfield

Schedule of Findings

Year ended June 30, 2013

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the public safety, culture and recreation, debt service, capital projects and business type activities functions. Chapter 384.20 of the Code of Iowa states in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - In the future, we will amend the budget before it is exceeded.

Conclusion - Response accepted.

- (2) Questionable Disbursements - Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Revelation's Cafe	Lunch meeting	\$ 45
Lands End	Clothing with "City of Fairfield" logo	1,687
Wayne Swafford	Reimbursement for sweatshirt	50
Hy-Vee	Food for Safety Committee meetings	131

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 these disbursements before authorizing any further payments. If this practice is continued, the City Council should establish written policies and procedures, including the requirements for proper documentation.

Response - Money was budgeted for all of these disbursements.

Conclusion - Response acknowledged. The City Council should document how a public purpose is served by these disbursements.

- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- (4) Business Transactions - No business transactions between the City and City officials or employees were noted.

City of Fairfield

Schedule of Findings

Year ended June 30, 2013

- (5) 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.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

Although minutes of City Council proceedings were published, they were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Disbursements made for electronic debt payments had no evidence of City Council approval.

Recommendation – The City should publish minutes as required and the City Council should approve disbursements made electronically.

Response – We will make an attempt to have the minutes published within 15 days. We will include electronic debt payments on the list of claims for City Council approval.

Conclusion – Response accepted.

- (7) Deposits and Investments – No instances of non-compliance with the investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted. However, a resolution naming official depositories could not be located by the City.

Recommendation – The City should adopt a depository resolution which establishes maximum deposit amounts for each bank as required by Chapter 12C.2 of the Code of Iowa.

Response – We will adopt a depository resolution.

Conclusion – Response accepted.

- (8) Revenue Bonds and Notes – The City has complied with the revenue note and bond resolutions, except as follows:

The water revenue note resolution requires the City to establish water sinking and reserve accounts. The City has not established these accounts or made the required transfers to these accounts.

The sewer revenue note resolutions require the City to establish a sewer sinking account. The City has not established this account or made the required transfers to the account.

The local option sales and services tax (LOST) revenue bond resolution requires the City to establish LOST sinking and reserve accounts. The City has not established these accounts or made the required transfers to these accounts.

Recommendation – The City should establish the required sinking and reserve accounts. The City should make the necessary transfers as required by the sewer and water note and LOST bond resolutions.

Response – We will set up the required sinking and reserve accounts.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings

Year ended June 30, 2013

- (9) Financial Condition – At June 30, 2013, the City had deficit balances in the following funds:

<u>Fund</u>	<u>Amount</u>
Debt Service	\$ 126,945
Enterprise, Solid Waste	97,316

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

Response – We are trying to eliminate deficits.

Conclusion – Response accepted.

- (10) Separately Maintained Records – The City maintains separate bank accounts or investments for the Indian Creek Escrow, Library Memorial, Library Building Trust, Fairfield Public Library House, Library Endowment, Live on the Square and Logan Apartment certificate of deposit. These accounts and investments were not reflected in the City’s accounting system or monthly fund balances.

Recommendation – Chapter 384.20 of the Code of Iowa requires a City to keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any City purpose. The financial activity of the separately maintained accounts and investments should be reflected in the City’s monthly financial statements.

Response – We will work to include these separately maintained records in the City’s monthly financial reports.

Conclusion – Response accepted.

- (11) Capital Improvements Levy – Chapter 384.7 of the Code of Iowa allows cities to levy property tax for a capital improvement reserve fund, subject to approval by the voters at an election. The City previously established this levy, but the levy expired in the fiscal year ended June 30, 2009. For fiscal year 2013, the City levied \$100,000 without holding an election. The City levied \$164,380, \$174,067 and \$178,492 for the fiscal years ended June 30, 2010, June 30, 2011 and June 30, 2012, respectively, without holding an election.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – We will consult legal counsel to determine disposition of this matter.

Conclusion – Response accepted.

- (12) Emergency Levy – Chapter 384.8 of the Code of Iowa provides a City may establish an Emergency Fund and transfers may be made from the Special Revenue, Emergency Fund to the General Fund. The City levied property tax for the Special Revenue, Emergency Fund, but recorded the property tax in the Capital Projects Fund rather than establishing a separate Special Revenue Fund.

Recommendation – The City should establish a Special Revenue, Emergency Fund and credit proceeds from the emergency levy to the Emergency Fund.

City of Fairfield

Schedule of Findings

Year ended June 30, 2013

Response – The City will establish an Emergency Fund and record receipts from the emergency levy in this fund.

Conclusion – Response accepted.

- (13) Allowances – The City provides certain employees with an annual clothing allowance. The amount allowed is \$200 for water plant employees and \$450 for water distribution, waste water and street employees. In addition, the City Administrator is paid a \$3,000 annual travel allowance. These payments were not processed through payroll and, accordingly, the proper tax withholdings were not applied.

Recommendation – The City should report clothing and travel allowances provided to employees on the employees' W-2s.

Response – We will report on W-2s.

Conclusion – Response accepted.

- (14) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures....". The City's Annual Financial Report reported fund balances which did not materially agree with City records.

Recommendation – The City should ensure the Annual Financial Report materially agrees with the City's records.

Response – In the future, the Annual Financial Report will agree with City records.

Conclusion – Response accepted.

- (15) Urban Renewal Tax Increment Financing (TIF) Fund – The City has certified TIF obligations in five urban renewal areas. The TIF receipts for all five urban renewal areas are included in the Special Revenue, Urban Renewal Tax Increment Financing Fund. The City does not maintain the receipts and disbursements of each urban renewal area separately.

Recommendation – The City should establish subaccounts for the Special Revenue, Urban Renewal Tax Increment Financing Fund to record receipts, disbursements and fund balance separately for each urban renewal area to match TIF collections with the TIF obligations paid for each urban renewal area.

Response – The City is willing to set up subaccounts for each TIF district to track all receipts and disbursements.

Conclusion – Response accepted.

- (16) Tax Increment Financing (TIF) Debt Certification – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness, and bonds (indebtedness) to the County Auditor which qualify for reimbursement from the fund as provided in Chapter 403.19 of the Code of Iowa. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness and, as such, the County Auditor shall provide available TIF incremental

City of Fairfield

Schedule of Findings

Year ended June 30, 2013

property tax in subsequent fiscal years without further certification until the amount of certified indebtedness is paid to the City. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(5)(b) of the Code of Iowa requires the city to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

The following relate to the City's TIF debt certifications:

- The certification includes \$702,000 of payments pertaining to the Pale Moon rebate agreement which includes an annual appropriation clause. Until appropriated, these payments do not represent debt and, accordingly, should not have been certified as debt.
- The City's general obligation capital loan note, Series 2001A, proceeds were split between three urban renewal areas and a portion was not TIF related. When the City included the TIF portions on the City's TIF Indebtedness Certification, the allocation between the three urban renewal areas and the portion which was not TIF was miscalculated, which resulted in too much TIF debt being included on the City's TIF Indebtedness Certification for each of the three TIF districts by \$118,270, \$16,340 and \$60,667, or a total of \$195,277. The series 2001A capital loan notes were refunded in April 2011 by the general obligation refunding capital loan notes, Series 2011.
- The City did not certify a reduction in TIF indebtedness of for each of the three TIF districts by \$17,082, \$2,666 and \$11,832, or a total of \$31,580, as a result of refunding the Series 2001A capital loan notes in April 2011.
- Because the City has not decertified the amounts discussed related to the series 2001A and series 2011 capital loan notes to the County Auditor, the City received TIF receipts in excess of the TIF indebtedness for the South Gate TIF District. In addition, the City will receive TIF receipts in excess of the TIF indebtedness for the Carrington Pointe TIF District in the fiscal year ended June 30, 2014.
- The City has made transfers from the Special Revenue, Urban Renewal Tax Increment Financing Fund (TIF) to the Debt Service Fund in excess of the TIF portion of the general obligation debt. As a result, the City has used TIF revenues to pay general obligation debt not eligible to be paid from TIF. In prior years, the City transferred \$335,351 from the Special Revenue, Urban Renewal Tax Increment Financing Fund (TIF) to the Debt Service Fund in excess of the TIF portion of the general obligation debt. For the year ended June 30, 2013, the TIF portion of the general obligation note principal and interest paid was \$104,201 but the City transferred \$114,512 from the Special Revenue, Urban Renewal Tax Increment Financing Fund to the Debt Service Fund, or \$10,311 more than was required. During the year ended June 30, 2013, the City made a corrective transfer of \$168,392 from the Debt Service Fund to the Special Revenue, Urban Renewal Tax Increment Financing Fund. At June 30, 2013, the balance of excess transfers made is \$177,270.

City of Fairfield

Schedule of Findings

Year ended June 30, 2013

Recommendation – The City should consult bond counsel to determine the disposition of these issues. Proper disposition should include:

- The City should complete and send Form 3, the TIF Indebtedness Certification, to the County Auditor to reduce the TIF indebtedness outstanding for the amounts overcertified.
- The City should determine if TIF received in excess of TIF indebtedness should be returned to the County Treasurer as required by Chapter 24.21 of the Code of Iowa.
- The City should limit transfers from the Special Revenue, Urban Renewal Tax Increment Financing Fund to the Debt Service Fund to the TIF debt coming due in the fiscal year. Also, the City should transfer \$177,270 from the Debt Service Fund to the Special Revenue, Urban Renewal Tax Increment Financing Fund for the excess amounts transferred.

Response – We will talk to bond counsel.

Conclusion – Response accepted.

- (17) Annual Urban Renewal Report – The Annual Urban Renewal Report was not properly approved and certified to the Iowa Department of Management on or before December 1. In addition, the City overstated the amount reported as TIF debt outstanding by \$193,436. The Levy Authority Summary also included disbursements and ending cash balances which did not reconcile to the City’s Special Revenue, Urban Renewal Tax

Recommendation – The City should ensure the annual urban renewal report is certified on or before December 1. The City should ensure the amounts reported on the Levy Authority Summary agree with the City’s records.

Response – This will be done by December 1. We will ensure correct amounts are reported and balances agree to City records.

Conclusion – Response accepted.

- (18) Tax Increment Financing (TIF) Disbursements – Chapter 403.19(2)(a) of the Code of Iowa states property tax collected for TIF “be paid into a special fund of the municipality to pay the principal and interest on the loans, money advanced to, or indebtedness, whether funded, refunded, assumed, or otherwise...” The City paid \$26,000 in memberships and associated fees related to an Economic Development Association and \$6,699 in legal fees which have not been certified as TIF debt.

Recommendation – The City should limit disbursements from the Special Revenue, Urban Renewal Tax Increment Financing Fund to obligations which have been previously certified to the County Auditor. The City should contact bond counsel to resolve this matter.

Response –We will contact bond counsel to resolve this issue.

Conclusion – Response accepted

City of Fairfield

Schedule of Findings

Year ended June 30, 2013

- (19) Debt Service Fund – The Debt Service fund had a deficit balance of \$126,945 at June 30, 2013. This balance is partially attributable to a budget error made during the year ended June 30, 2013 related to the series 2011 general obligation refunding capital loan notes. The City received tax increment financing (TIF) receipts for partial payment of the series 2011 refunding notes, which were transferred from the Special Revenue, Urban Renewal Tax Increment Financing Fund to the Debt Service Fund. The City overstated the amount of TIF to be used for the series 2011 notes, which created a deficiency in the debt service levy, as shown below:

	Debt Service Levy	TIF Transfer	Principal, Interest and Fees
City budgeted	\$ 82,549	155,546	238,095
Correct amount	133,894	104,201	238,095
Difference	\$ (51,345)	51,345	-

Recommendation – The City should review the Debt Service Fund activity and determine whether an addition to the debt service property tax levy is appropriate to increase the fund balance.

Response – We will work with financial advisors.

Conclusion – Response accepted.

- (20) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City to report and remit obligations, including checks and unrepresented bonds/coupons, outstanding for more than two years to the Office of Treasurer of State annually. The City did not remit these obligations as required.

Recommendation – The outstanding checks and bonds/coupons should be reviewed annually and items over two years old should be remitted to the Office of Treasurer of State as required.

Response – We will try to do this in the future.

Conclusion – Response accepted.

City of Fairfield

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
Selina V. Johnson, CPA, Senior Auditor II
Justin M. Scherrman, Senior Auditor
Lucas D. Bernhard, Assistant Auditor
Brandon A. Soda, Assistant Auditor
Beth A. Shaw, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, looped initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State