



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

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Auditor of State

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**NEWS RELEASE**

FOR RELEASE

March 31, 2017

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 \$22,833,898 for the year ended June 30, 2016, a 1.2% decrease from the prior year. The receipts included \$5,095,809 in property tax, \$108,146 from tax increment financing, \$7,114,915 from charges for service, \$1,485,413 from operating grants, contributions and restricted interest, \$2,212,489 from capital grants, contributions and restricted interest, \$914,736 from local option sales tax, \$174,197 from hotel/motel tax, \$5,414 from unrestricted interest on investments, \$5,444,606 of note proceeds and \$278,173 from other general receipts.

Disbursements for the year ended June 30, 2016 totaled \$23,967,531, a 24.2% increase over the prior year, and included \$4,834,725 for capital projects, \$2,165,383 for public safety \$3,410,000 for payment to refunding bond agent, \$1,900,000 for bond anticipation note redeemed and \$1,802,052 for debt service. Also, disbursements for business type activities totaled \$6,073,321.

The significant increase in disbursements is primarily due to the current year refunding of \$3.4 million of general obligation bonds and the redemption of a general obligation bond anticipation note.

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 <https://auditor.iowa.gov/reports/1620-0476-B00F>.

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**CITY OF FAIRFIELD**

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

**JUNE 30, 2016**

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**City of Fairfield**

**Officials**

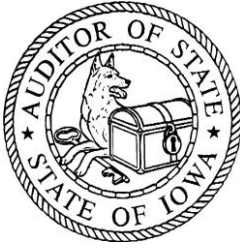
**(Before January 2016)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Edward Malloy	Mayor	Jan 2016
John F. Revolinski	Mayor Pro tem	Jan 2018
Daryn Hamilton	Council Member	Jan 2016
Tony Hammes	Council Member	Jan 2016
Jessica Ledger-Kalen	Council Member	Jan 2016
Martha Rasmussen	Council Member	Jan 2016
Doug Flournoy	Council Member	Jan 2018
Michael Halley	Council Member	Jan 2018
Mike Harmon	City Administrator	Indefinite
Joy Messer	City Clerk	Indefinite
John Morrissey	City Attorney	Indefinite

**(After January 2016)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Edward Malloy	Mayor	Jan 2018
John F. Revolinski	Mayor Pro tem	Jan 2018
Doug Flournoy	Council Member	Jan 2018
Michael Halley	Council Member	Jan 2018
Katy Anderson	Council Member	Jan 2020
Daryn Hamilton	Council Member	Jan 2020
Martha Rasmussen	Council Member	Jan 2020
Tom Thompson	Council Member	Jan 2020
Mike Harmon	City Administrator	Indefinite
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, 2016, 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, 2016, 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 discussed 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. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2015 and the four years ended June 30, 2011 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the two years ended June 30, 2012 (which are not presented herein) were audited by another auditor who expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), 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, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 7 through 13 and 42 through 49, 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 March 10, 2017 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

March 10, 2017



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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2016 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities increased 7.4%, or approximately \$1,091,000, from fiscal year 2015 to fiscal year 2016.
- Disbursements of the City's governmental activities increased 36.2%, or approximately \$4,753,000, from fiscal year 2015 to fiscal year 2016. Refunding bond agent payment and bond anticipation note redemption disbursements totaled \$5,310,000 during the current year.
- The City's total cash basis net position decreased 12%, or approximately \$1,133,000, from June 30, 2015 to June 30, 2016. Of this amount, the net position of the governmental activities decreased approximately \$2,352,000 and the net position of the business type activities increased approximately \$1,219,000.

### **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 financial 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 and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the nonmajor governmental and enterprise funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

## **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, 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, the airport, the solid waste collection system and the 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, Local Option Sales Tax and Employee Benefits, 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, Sewer and Airport Funds, major funds of the City, and the Logan Apartments and Solid Waste Funds.

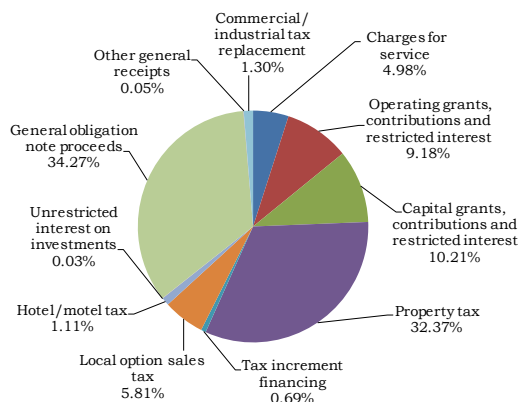
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

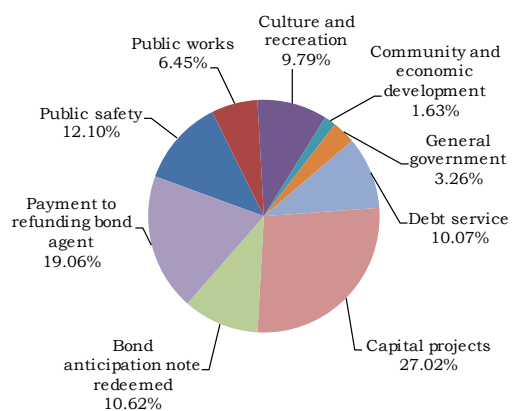
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$4,375,000 to approximately \$2,023,000. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service	\$ 784	714
Operating grants, contributions and restricted interest	1,445	1,326
Capital grants, contributions and restricted interest	1,607	2,352
General receipts:		
Property tax	5,096	5,205
Tax increment financing	108	155
Local option sales tax	915	837
Hotel/motel tax	174	168
Commercial/industrial tax replacement	204	98
Unrestricted interest on investments	5	5
General obligation note proceeds	5,395	3,775
Other general receipts	8	15
Total receipts	15,741	14,650
Disbursements:		
Public safety	2,165	2,061
Public works	1,155	971
Health and social services	-	4
Culture and recreation	1,752	2,074
Community and economic development	292	267
General government	583	828
Debt service	1,802	1,914
Capital projects	4,835	5,022
Bond anticipation note redeemed	1,900	-
Payment to refunding bond agent	3,410	-
Total disbursements	17,894	13,141
Change in cash basis net position before transfers	(2,153)	1,509
Transfers, net	(199)	962
Change in cash basis net position	(2,352)	2,471
Cash basis net position beginning of year	4,375	1,904
Cash basis net position end of year	\$ 2,023	4,375

**Receipts by Source**



**Disbursements by Function**



The City's total receipts for governmental activities increased 7.4%, or approximately \$1,091,000, over the prior year. The total cost of all programs and services increased approximately \$4,753,000, or 36.2%. The significant increase in disbursements was due to the payment to refunding bond agent and bond anticipation note redemption during the current year.

The City's property tax rates for fiscal year 2016 decreased \$0.41846 per \$1,000 of assessed valuation compared to fiscal year 2015. Property tax is budgeted to increase approximately \$507,000 in fiscal year 2017 due to an increase in property valuations.

The cost of governmental activities this year was approximately \$17,894,000 compared to approximately \$13,141,000 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 \$8,748,000 because some of the cost was paid by those directly benefited from the programs (approximately \$784,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$3,052,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2016 from approximately \$4,392,000 to approximately \$3,836,000. 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, local option sales tax and other general receipts.

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 2,864	2,456
Sewer	2,871	2,728
Solid waste	573	565
Airport	23	40
Logan Apartments	-	160
Operating grants, contributions and restricted interest	41	123
Capital grants, contributions, and restricted interest	605	22
General receipts:		
Revenue note proceeds	50	1,067
Sale of capital assets	-	1,175
Other general receipts	66	132
Total receipts	<u>7,093</u>	<u>8,468</u>
Disbursements:		
Water	2,432	2,388
Sewer	2,078	2,908
Solid waste	516	523
Airport	945	137
Logan Apartments	102	204
Total disbursements	<u>6,073</u>	<u>6,160</u>
Change in cash basis net position before transfers	1,020	2,308
Transfers, net	199	(962)
Change in cash basis net position	1,219	1,346
Cash basis net position beginning of year	5,068	3,722
Cash basis net position end of year	<u>\$ 6,287</u>	<u>5,068</u>

Total business type activities receipts for the fiscal year were approximately \$7,093,000 compared to approximately \$8,468,000 last year. This decrease was primarily due to approximately \$1,017,000 of sewer revenue note proceeds and \$1,175,000 of proceeds from selling the Logan Apartments received in the prior year offset by an increase in airport capital grants of approximately \$583,000. The cash balance increased approximately \$1,219,000 over the prior year. Total disbursements for the fiscal year decreased 1.4%, from approximately \$6.2 million in fiscal year 2015 to approximately \$6.1 million in fiscal year 2016.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Fairfield completed the year, its governmental funds reported a combined fund balance of \$2,023,118, a decrease of \$2,352,329 from last year's total of \$4,375,447. 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 increased \$484,725 from the prior year to \$1,373,958. Disbursements decreased \$521,290. This was primarily due to fewer disbursements for the indoor pool during the year and a decrease in general government disbursements. In addition, receipts increased approximately \$86,000, or 2.2%.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$33,743 to \$368,617. The decrease was primarily due to an increase in public works function disbursements for paving projects during the year.
- The Special Revenue, Local Option Sales Tax Fund cash balance decreased \$63,601 to \$67,858. The decrease is due to an increase in transfers out.
- The Special Revenue, Employee Benefits Fund cash balance increased \$131,775 over the prior year to \$485,079, primarily because receipts exceeded disbursements during the year. The City has lowered the tax levy rate in fiscal year 2017 to reduce the balance.
- The Debt Service Fund cash balance increased \$281,801 to \$279,379. The City issued \$5.3 million of general obligation capital loan notes to refund \$3.4 million of general obligation bonds issued in 2006 and to redeem a \$1.9 million general obligation bond anticipation note.
- The Capital Projects Fund cash balance decreased \$2,959,404 to \$(1,403,989). The decrease is primarily due to the pool facility project disbursements. The City expects to receive donations in future years to eliminate the deficit balances.
- The Permanent, Library Endowment Fund cash balance decreased \$9,569 from the prior year to \$474,056.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Water Fund cash balance increased \$432,009 to \$1,203,105. The City received an insurance reimbursement for a well repair during the year and disbursed approximately \$150,000 less for capital improvements.
- The Enterprise, Sewer Fund cash balance increased \$1,042,576 to \$4,981,007. The increase is primarily due to disbursing approximately \$825,000 less for capital improvements in the current year.
- The Enterprise, Airport Fund cash balance decreased \$251,206 to \$53,110. The decrease is primarily due to disbursements for capital improvements.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on June 27, 2016 and resulted in increases in budgeted disbursements for the public works and debt service functions and increases in budgeted miscellaneous receipts.

The City's receipts were \$6,920,847 less than budgeted. This was primarily due to the City budgeting for general obligation note proceeds as miscellaneous receipts rather than other financing sources.

The City exceeded the amounts budgeted in the public safety, public works and capital projects functions for the year ended June 30, 2016. The City was under budget in the debt service function by \$5.3 million because the City budgeted the debt refunding as a debt service disbursement rather than an other financing use.

## DEBT ADMINISTRATION

At June 30, 2016, the City had approximately \$19,607,000 of bonds and other long-term debt outstanding, compared to approximately \$21,495,000 last year, as shown below.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2016	2015
General obligation bonds	\$ 2,015	6,470
General obligation capital loan notes	8,785	3,770
Revenue bonds	290	355
Revenue capital loan notes	6,682	7,215
General obligation anticipation notes	-	1,900
Interim sewer revenue project notes	1,785	1,785
Sewer revenue anticipation note	50	-
Total	\$ 19,607	21,495

During the year, the City issued \$5.3 million of general obligation notes to refund \$3.4 million of general obligation bonds issued in 2006 and to redeem a \$1.9 million general obligation bond anticipation note. Debt outstanding decreased compared to the prior year as a result of making scheduled principal and interest payments.

The City carries a general obligation bond rating of Baa3 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 \$10.8 million, including \$93,976 appropriated for a tax increment financing rebate agreement, is significantly below its constitutional debt limit of approximately \$23.8 million. Additional information about the City's long term debt is presented in Note 3 to the financial statements.

## 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 2017 budget, tax rates and fees for various City services. One of those factors is the economy. Average unemployment for 2016 in Jefferson County was 3.9% versus 3.5% a year ago. This compares with the State's unemployment rate of 4.0% and the national rate of 4.9%.

These indicators were taken into account when adopting the budget for fiscal year 2017. Disbursements are budgeted to increase approximately \$8.7 million. This increase is primarily due to an increase in the business type activities function offset by a decrease in the capital projects function. The City has added no new programs to the fiscal year 2017 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase \$448,243 by the close of fiscal year 2017.

#### **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.

**City of Fairfield**



## **Basic Financial Statements**

City of Fairfield

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2016

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 2,165,383	43,243	137,848	-
Public works	1,155,388	33,558	1,147,254	-
Culture and recreation	1,752,530	474,231	113,610	1,577,711
Community and economic development	291,600	25,377	15,925	-
General government	582,532	170,045	-	-
Debt service	1,802,052	-	-	-
Capital projects	4,834,725	37,800	29,994	29,474
Total governmental activities	12,584,210	784,254	1,444,631	1,607,185
Business type activities:				
Water	2,432,062	2,864,071	-	-
Sewer	2,077,882	2,871,288	-	-
Airport	945,297	22,687	-	605,304
Solid Waste	516,490	572,615	-	-
Logan Apartments	101,590	-	40,782	-
Total business type activities	6,073,321	6,330,661	40,782	605,304
<b>Total Primary Government</b>	<b>\$ 18,657,531</b>	<b>7,114,915</b>	<b>1,485,413</b>	<b>2,212,489</b>
<b>Component Unit:</b>				
Fairfield Public Library Foundation	\$ 78,912	-	138,337	-
<b>General Receipts and Transfers:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Commercial/industrial tax replacement				
Unrestricted interest on investments				
Note proceeds				
Farm rent				
Miscellaneous				
Bond anticipation note redeemed				
Payment to refunding bond agent				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
<b>Cash Basis Net Position</b>				
Restricted:				
Nonexpendable:				
Permanent Fund				
Expendable:				
Streets				
Debt service				
Health plan trustee				
Other purposes				
Unrestricted				
<b>Total cash basis net position</b>				

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
(1,984,292)	-	(1,984,292)	
25,424	-	25,424	
413,022	-	413,022	
(250,298)	-	(250,298)	
(412,487)	-	(412,487)	
(1,802,052)	-	(1,802,052)	
(4,737,457)	-	(4,737,457)	
(8,748,140)	-	(8,748,140)	
-	432,009	432,009	
-	793,406	793,406	
-	(317,306)	(317,306)	
-	56,125	56,125	
-	(60,808)	(60,808)	
-	903,426	903,426	
(8,748,140)	903,426	(7,844,714)	
			59,425
3,830,942	-	3,830,942	-
1,264,867	-	1,264,867	-
108,146	-	108,146	-
914,736	-	914,736	-
174,197	-	174,197	-
204,062	-	204,062	-
5,414	-	5,414	-
5,394,605	50,001	5,444,606	-
-	66,100	66,100	-
8,011	-	8,011	-
(1,900,000)	-	(1,900,000)	-
(3,410,000)	-	(3,410,000)	-
(199,169)	199,169	-	-
6,395,811	315,270	6,711,081	-
(2,352,329)	1,218,696	(1,133,633)	59,425
4,375,447	5,068,276	9,443,723	995,322
\$ 2,023,118	6,286,972	8,310,090	1,054,747
\$ 474,056	-	474,056	-
335,680	-	335,680	-
504,879	503,758	1,008,637	-
178,312	98,763	277,075	-
694,354	-	694,354	-
(164,163)	5,684,451	5,520,288	1,054,747
\$ 2,023,118	6,286,972	8,310,090	1,054,747

City of Fairfield

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

As of and for the year ended June 30, 2016

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Employee Benefits
Receipts:				
Property tax	\$ 2,783,565	-	-	846,591
Tax increment financing	-	-	-	-
Other city tax	174,197	-	914,736	-
Licenses and permits	143,622	-	-	-
Use of money and property	5,414	-	-	-
Intergovernmental	309,350	1,147,254	-	32,091
Charges for service	448,747	-	-	-
Special assessments	3,256	-	-	-
Miscellaneous	156,653	-	-	482
Total receipts	4,024,804	1,147,254	914,736	879,164
Disbursements:				
Operating:				
Public safety	1,675,231	-	37,653	421,501
Public works	4,766	1,150,622	-	-
Culture and recreation	1,467,403	-	33,709	108,607
Community and economic development	121,173	-	9,490	1,346
General government	507,933	-	16,161	58,438
Debt service	-	-	78,499	-
Capital projects	-	-	-	-
Total disbursements	3,776,506	1,150,622	175,512	589,892
Excess (deficiency) of receipts over (under) disbursements	248,298	(3,368)	739,224	289,272
Other financing sources (uses):				
General obligation note proceeds plus \$94,605 premium	-	-	-	-
Bond anticipation note redeemed	-	-	-	-
Payment to refunding bond agent	-	-	-	-
Transfers in	243,427	-	-	-
Transfers out	(7,000)	(30,375)	(802,825)	(157,497)
Total other financing sources (uses)	236,427	(30,375)	(802,825)	(157,497)
Change in cash balances	484,725	(33,743)	(63,601)	131,775
Cash balances beginning of year	889,233	402,360	131,459	353,304
Cash balances end of year	\$ 1,373,958	368,617	67,858	485,079
<b>Cash Basis Fund Balances</b>				
Nonspendable - Library endowment	\$ -	-	-	-
Restricted for:				
Streets	-	335,680	-	-
Debt service	-	-	67,858	-
Health plan trustee	-	32,937	-	145,375
Other purposes	134,132	-	-	339,704
Assigned for downtown façade project	100,000	-	-	-
Unassigned	1,139,826	-	-	-
Total cash basis fund balances	\$ 1,373,958	368,617	67,858	485,079

See notes to financial statements.

Debt Service	Capital Projects	Permanent Library Endowment	Nonmajor	Total
1,264,867	200,786	-	-	5,095,809
-	-	-	108,146	108,146
-	-	-	-	1,088,933
-	-	-	-	143,622
-	-	-	26,703	32,117
48,683	639,212	-	9,781	2,186,371
-	-	-	15,838	464,585
-	29,474	-	-	32,730
-	968,474	-	68,523	1,194,132
1,313,550	1,837,946	-	228,991	10,346,445
-	-	-	30,998	2,165,383
-	-	-	-	1,155,388
-	-	9,569	133,242	1,752,530
-	-	-	159,591	291,600
-	-	-	-	582,532
1,723,553	-	-	-	1,802,052
-	4,834,725	-	-	4,834,725
1,723,553	4,834,725	9,569	323,831	12,584,210
(410,003)	(2,996,779)	(9,569)	(94,840)	(2,237,765)
5,394,605	-	-	-	5,394,605
(1,900,000)	-	-	-	(1,900,000)
(3,410,000)	-	-	-	(3,410,000)
607,199	37,375	-	12,898	900,899
-	-	-	(102,371)	(1,100,068)
691,804	37,375	-	(89,473)	(114,564)
281,801	(2,959,404)	(9,569)	(184,313)	(2,352,329)
(2,422)	1,555,415	483,625	562,473	4,375,447
279,379	(1,403,989)	474,056	378,160	2,023,118
-	-	474,056	-	474,056
-	-	-	-	335,680
279,379	-	-	157,642	504,879
-	-	-	-	178,312
-	-	-	220,518	694,354
-	-	-	-	100,000
-	(1,403,989)	-	-	(264,163)
279,379	(1,403,989)	474,056	378,160	2,023,118

**City of Fairfield**

City of Fairfield

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

As of and for the year ended June 30, 2016

	Enterprise				
	Water	Sewer	Airport	Nonmajor	Total
Operating receipts:					
Use of money and property	\$ -	-	17,898	-	17,898
Charges for service	2,610,256	2,843,398	-	572,615	6,026,269
Miscellaneous	253,815	27,890	4,789	-	286,494
Total operating receipts	2,864,071	2,871,288	22,687	572,615	6,330,661
Operating disbursements:					
Business type activities	1,834,991	1,177,170	115,743	618,080	3,745,984
Excess (deficiency) of operating receipts over (under) operating disbursements	1,029,080	1,694,118	(93,056)	(45,465)	2,584,677
Non-operating receipts (disbursements):					
Revenue note proceeds	-	50,001	-	-	50,001
Farm rent	-	-	66,100	-	66,100
Intergovernmental	-	-	605,304	40,782	646,086
Capital projects and equipment	(185,431)	(590,677)	(829,554)	-	(1,605,662)
Debt service	(411,640)	(310,035)	-	-	(721,675)
Net non-operating receipts (disbursements)	(597,071)	(850,711)	(158,150)	40,782	(1,565,150)
Excess (deficiency) of receipts over (under) disbursements	432,009	843,407	(251,206)	(4,683)	1,019,527
Transfers in	-	199,169	-	-	199,169
Change in cash balances	432,009	1,042,576	(251,206)	(4,683)	1,218,696
Cash balances beginning of year	771,096	3,938,431	304,316	54,433	5,068,276
Cash balances end of year	\$ 1,203,105	4,981,007	53,110	49,750	6,286,972
<b>Cash Basis Fund Balances</b>					
Restricted for:					
Debt service	\$ 478,707	25,051	-	-	503,758
Health plan trustee	56,969	41,794	-	-	98,763
Unrestricted	667,429	4,914,162	53,110	49,750	5,684,451
Total cash basis fund balances	\$ 1,203,105	4,981,007	53,110	49,750	6,286,972

See notes to financial statements.

**City of Fairfield**



City of Fairfield

Notes to Financial Statements

June 30, 2016

**(1) Summary of Significant Accounting Policies**

The City of Fairfield is a political subdivision of the State of Iowa located in Jefferson County. It was first incorporated in 1847 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development 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, the Friends of the Fairfield Public Library and the Fairfield Parks and Recreation Foundation meet the definition of component units which should be blended. The financial activity of the component units has been blended as Special Revenue Funds of the City.

Discretely Presented Component Unit

The 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, the 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 the 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 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 receipts, 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. Enabling legislation did not result in any restricted net position.

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.

The Enterprise, Airport Fund accounts for the operation and maintenance of the City's airport.

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 statement, 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.

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

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, 2016, disbursements exceeded the amounts budgeted in the public safety, public works and capital projects functions. In addition, disbursements in the public works and debt service functions exceeded the amount budgeted prior to the budget amendment.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2016 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 ensure 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, 2016, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Mutual funds	\$6,557	16,211	N/A
Stocks	5,630	11,506	N/A

The City uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, Level 3 inputs are significant unobservable inputs.

The recurring fair value of the stocks and mutual funds were determined using quoted market prices. (Level 1 inputs)

At June 30, 2016, the Fairfield Public Library Foundation (Foundation), a discretely presented component unit, had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Mutual funds	\$ 964,523	1,294,294	N/A
Taxable municipal bonds	10,000	10,003	Oct 1, 2016

The Foundation uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, Level 3 inputs are significant unobservable inputs.

The recurring fair value of the Foundation's mutual funds were determined using quoted market prices. (Level 1 inputs) The fair value of the Foundation's municipal bonds were determined using other observable inputs. (Level 2 inputs)

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 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 tax 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		
2017	\$ 575,000	57,355	983,000	246,630	70,000	10,598
2018	595,000	42,980	891,000	228,170	70,000	7,867
2019	200,000	26,617	866,000	210,110	75,000	4,875
2020	205,000	20,617	828,000	186,125	75,000	1,650
2021	215,000	14,468	768,000	161,845	-	-
2022-2026	220,000	7,480	2,567,000	520,485	-	-
2027-2031	-	-	1,147,000	248,920	-	-
2032-2035	-	-	735,000	52,010	-	-
Total	\$2,010,000	169,517	8,785,000	1,854,295	290,000	24,990

Year Ending June 30,	Revenue Capital			
	Loan Notes		Total	
	Principal	Interest	Principal	Interest
2017	\$ 550,000	159,311	2,178,000	473,894
2018	568,000	147,623	2,124,000	426,640
2019	586,000	135,558	1,727,000	377,160
2020	606,000	123,102	1,714,000	331,494
2021	625,000	110,223	1,608,000	286,536
2022-2026	2,048,000	366,903	4,835,000	894,868
2027-2031	1,393,000	164,514	2,540,000	413,434
2032-2035	306,000	8,680	1,041,000	60,690
Total	\$ 6,682,000	1,215,914	17,767,000	3,264,716

### 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 services 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, 2016, annual principal and interest payments on the bonds required approximately 9% of net receipts. The total principal and interest remaining to be paid on the bonds is \$314,990. For the current year, principal and interest paid and total local option sales tax receipts were \$77,999 and \$914,736, 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 receipts and the bond holders hold a lien on the future local option tax receipts 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, 2016, the City has not established the required reserve account or made sufficient transfers to the sinking account.

### Revenue Capital Loan 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. During the year ended June 30, 2014, the Iowa Finance Authority reduced the interest rate from 3.0% to 1.75% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. Annual principal and interest payments on the notes required approximately 39% of net receipts. The total principal and interest remaining to be paid on the notes is \$2,984,092. For the current year, principal and interest paid and total customer net receipts were \$403,810 and \$1,029,080, 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. The interest rates on the October 2011 and November 2012 issues are 3.0% and 1.75% per annum, respectively. The agreements also require the City to annually pay a .25% servicing fee on the outstanding principal balance. Annual principal and interest payments on the notes required approximately 18% of net receipts. The total principal and interest remaining to be paid on the notes is \$4,913,822. For the current year, principal and interest paid and total customer net receipts were \$299,828 and \$1,694,118, 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 \$444,648. 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, 2016, the City had not established the water reserve account or made sufficient transfers to the water sinking account.

#### Interim Revenue Project Notes

On August 12, 2013, the City entered into an interest free interim revenue project note agreement with the Iowa Finance Authority for up to \$500,000 to be used for the purpose of paying costs of planning, designing and constructing improvements and extensions to the sanitary sewer system. During the year ended June 30, 2016, the City did not draw any funds on the note.

On April 14, 2014, the City entered into two interest free interim revenue project note agreements with the Iowa Finance Authority for up to \$1,075,000 and \$1,585,000, respectively, to be used for the purpose of paying costs of planning, designing and constructing improvements and extensions to the sanitary sewer system. During the year ended June 30, 2016, the City did not draw any funds on the notes.

The notes were issued pursuant to Chapters 76.13 and 384.24A of the Code of Iowa in anticipation of the receipt of and are payable from the proceeds of an authorized loan agreement and the corresponding issuance of sewer revenue bonds. The interim revenue project notes each have a term of three years.

#### General Obligation Refunding Notes

On May 31, 2016, the City issued \$3,315,000 of general obligation refunding capital loan notes Series 2016A. The bonds were issued to refund \$3,410,000 of general obligation bonds issued September 1, 2006.

The City reduced its total debt service payments by \$285,023 and obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$273,886 on the refunding.

**(4) Sewer Revenue Capital Loan Anticipation Project Note**

On June 8, 2016, the City entered into a loan anticipation project note agreement with MidWest One Bank to borrow up to \$4,282,000 for sewer improvements. The proceeds for the loan will be made available to the City beginning with an initial draw of \$50,001 upon entering into the agreement. Subsequent draws in denominations of \$1,000, or multiples thereof will be made by the City as the project progresses. The note bears interest of 2.1% per annum and is payable on December 1, 2016 and semiannually thereafter. The note matures on June 1, 2018.

**(5) Pension Plans**

**Iowa Public Employees' Retirement System**

Plan Description – IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.



If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%

The City's contributions to IPERS for the year ended June 30, 2016 were \$219,267.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$1,673,139 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.033866%, which was a decrease of 0.000334% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$145,853, \$336,107 and \$413,260, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 2,992,313	1,673,139	559,735

IPERS' Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

**Municipal Fire and Police Retirement System of Iowa (MFPRSI)**

Plan Description – MFPRSI membership is mandatory for fire fighters and police officers covered by the provisions of Chapter 411 of the Code of Iowa. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by MFPRSI. MFPRSI issues a stand-alone financial report which is available to the public by mail at 7155 Lake Drive, Suite #201, West Des Moines, Iowa 50266 or at [www.mfprsi.org](http://www.mfprsi.org).

MFPRSI benefits are established under Chapter 411 of the Code of Iowa and the administrative rules thereunder. Chapter 411 of the Code of Iowa and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – Members with 4 or more years of service are entitled to pension benefits beginning at age 55. Full service retirement benefits are granted to members with 22 years of service, while partial benefits are available to those members with 4 to 22 years of service based on the ratio of years completed to years required (i.e., 22 years). Members with less than 4 years of service are entitled to a refund of their contribution only, with interest, for the period of employment.

Benefits are calculated based upon the member's highest 3 years of compensation. The average of these 3 years becomes the member's average final compensation. The base benefit is 66% of the member's average final compensation. Members who perform more than 22 years of service receive an additional 2% of the member's average final compensation for each additional year of service, up to a maximum of 8 years. Survivor benefits are available to the beneficiary of a retired member according to the provisions of the benefit option chosen, plus an additional benefit for each child. Survivor benefits are subject to a minimum benefit for those members who chose the basic benefit with a 50% surviving spouse benefit.

Active members at least 55 years of age with 22 or more years of service have the option to participate in the Deferred Retirement Option Program (DROP). The DROP is an arrangement whereby a member who is otherwise eligible to retire and commence benefits opts to continue to work. A member can elect a 3, 4 or 5 year DROP period. When electing to participate in DROP, the member signs a contract stating the member will retire at the end of the selected DROP period. During the DROP period, the member's retirement benefit is frozen and a DROP benefit is credited to a DROP account established for the member. Assuming the member completes the DROP period, the DROP benefit is equal to 52% of the

member's retirement benefit at the member's earliest date eligible and 100% if the member delays enrollment for 24 months. At the member's actual date of retirement, the member's DROP account will be distributed to the member in the form of a lump sum or rollover to an eligible plan.

Disability and Death Benefits – Disability benefits may be either accidental or ordinary. Accidental disability is defined as a permanent disability incurred in the line of duty, with benefits equivalent to the greater of 60% of the member's average final compensation or the member's service retirement benefit calculation amount. Ordinary disability occurs outside the call of duty and pays benefits equivalent to the greater of 50% of the member's average final compensation for those with 5 or more years of service or the member's service retirement benefit calculation amount and 25% of average final compensation for those with less than 5 years of service.

Death benefits are similar to disability benefits. Benefits for accidental death are 50% of the average final compensation of the member plus an additional amount for each child, or the provisions for ordinary death. Ordinary death benefits consist of a pension equal to 40% of the average final compensation of the member plus an additional amount for each child, or a lump-sum distribution to the designated beneficiary equal to 50% of the previous year's earnable compensation of the member or equal to the amount of the member's total contributions plus interest.

Benefits are increased annually in accordance with Chapter 411.6 of the Code of Iowa, which provides a standard formula for the increases.

The surviving spouse or dependents of an active member who dies due to a traumatic personal injury incurred in the line of duty receives a \$100,000 lump-sum payment.

Contributions – Member contribution rates are set by state statute. In accordance with Chapter 411 of the Code of Iowa, the contribution rate was 9.40% of earnable compensation for the year ended June 30, 2016.

Employer contribution rates are based upon an actuarially determined normal contribution rate and are set by state statute. The required actuarially determined contributions are calculated on the basis of the entry age normal method as adopted by the Board of Trustees as permitted under Chapter 411 of the Code of Iowa. The normal contribution rate is provided by State statute to be the actuarial liabilities of the plan less current plan assets, with the total divided by 1% of the actuarially determined present value of prospective future compensation of all members, further reduced by member contributions and State appropriations. Under the Code of Iowa, the City's contribution rate cannot be less than 17.00% of earnable compensation. The contribution rate was 30.41% for the year ended June 30, 2016.

The City's contributions to MFPRSI for the year ended June 30, 2016 was \$257,682.

If approved by the State Legislature, state appropriations may further reduce the City's contribution rate, but not below the minimum statutory contribution rate of 17.00% of earnable compensation. The State of Iowa, therefore, is considered to be a nonemployer contributing entity in accordance with the provisions of Governmental Accounting Standards Board Statement No. 67, Financial Reporting for Pension Plans.

There were no State appropriations to MFPRSI for the year ended June 30, 2016.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$1,566,850 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to MFPRSI relative to the contributions of all MFPRSI participating employers. At June 30, 2015, the City's proportion was 0.333504%, which was an increase of 0.012270% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$145,455, \$424,951 and \$428,897, respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Rate of Inflation	3.00%.
Salary increases	4.50 to 15.00%, including inflation.
Investment rate of return	7.50%, net of investment expense, including inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2002 to June 30, 2012.

Mortality rates were based weighting 1/12 of the 1971 GAM table and 11/12 of the 1994 GAM table with no projection of future mortality improvement.

The long-term expected rate of return on MFPRSI investments was determined using a building-block method in which best-estimate ranges of expected future real rates (i.e., expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	7.0%	3.8%
Emerging markets debt	3.0	6.5
Domestic equities	12.5	6.0
Master limited partnerships (MLP)	5.0	8.5
International equities	12.5	7.0
core investments	40.0%	
Tactical asset allocation	35.0	6.0
Private equity	15.0	9.8
Private non-core real estate	5.0	9.3
Private core real estate	5.0	6.8
Real estate	10.0	
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed contributions will be made at 9.40% of covered payroll and the City’s contributions will be made at rates equal to the difference between actuarially determined rates and the member rate. Based on those assumptions, MFPRSI’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on MFPRSI’s investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease 6.50%	Discount Rate 7.50%	1% Increase 8.50%
City's proportionate share of the net pension liability	\$ 2,727,933	1,566,850	602,126

MFPRSI’s Fiduciary Net Position – Detailed information about MFPRSI’s fiduciary net position is available in the separately issued MFPRSI financial report which is available on MFPRSI’s website at [www.mfprsi.org](http://www.mfprsi.org).

**(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 58 active members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured 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 \$405 for single coverage and from \$980 for family coverage. For the year ended June 30, 2016, the City contributed \$379,108 and plan members eligible for benefits contributed \$189,529 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, 2016, primarily relating to the General and Enterprise Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 121,000
Sick leave	86,000
Total	<u>\$ 207,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2016. 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**

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 50,404
	Employee Benefits	157,497
	Fairfield Parks and Recreation Foundation	35,526
		<u>243,427</u>
Special Revenue:	Special Revenue:	
Library Capital Improvements	Fairfield Public Library House	5,000
Special Revenue:	Special Revenue:	
Library Book Sale	Friends of the Fairfield Public Library	7,898
Debt Service	Special Revenue:	
	Local Option Sales Tax	553,252
	Urban Renewal Tax Increment Financing	53,947
		<u>607,199</u>
Capital Projects	General	7,000
	Special Revenue:	
	Road Use Tax	30,375
		<u>37,375</u>
Enterprise:	Special Revenue:	
Sewer	Local Option Sales Tax	199,169
Total		<u>\$ 1,100,068</u>

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

**(9) Related Party Transactions**

The City had business transactions between the City and City officials/employees totaling \$22,100.

**(10) 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 746 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 casualty 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 estimated for the fiscal 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 basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal 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 Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The City's contributions to the Pool for the year ended June 30, 2016 were \$247,192.

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 through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.



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 claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$5,000,000 and \$300,000, respectively. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(11) 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 \$250 per individual or \$500 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, 2016, the City paid \$568,637 into the account. At June 30, 2016, the account balance was \$277,075. The activity for this account is recorded in the City's Special Revenue, Road Use Tax and Employee Benefits Funds and the Enterprise, Water and Sewer Funds.

**(12) Deficit Balance**

At June 30, 2016, the Capital Projects Funds had a deficit balance of \$1,403,989. The City is exploring alternatives to eliminate the deficit balance.

**(13) 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, 2016:

Year ending June 30,	Amount
2017	\$ 66,100
2018	66,100
2019	33,050
Total	<u>\$ 165,250</u>

**(14) 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 \$500,000, 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. During the year ended June 30, 2016, the City rebated \$73,591 of incremental property tax to the developer. At June 30, 2016, the remaining balance to be paid on the agreement was \$344,453.

**(15) Construction Commitment**

The City entered into a contract totaling \$3,519,566 for the construction of an indoor recreation center. Change orders to the contract revised the total to \$3,801,862. As of June 30, 2016, costs of \$3,628,716 have been paid on the contract. The \$173,146 remaining balance on the contract will be paid as work on the project progresses.

**(16) Special Investigation**

The City requested the Office of Auditor of State perform a special investigation of the City as a result of concerns identified with the Parks and Recreation Department. A separate report will be issued upon completion of the special investigation.

**(17) New Accounting Pronouncement**

The City of Fairfield adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

## **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, 2016

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 5,095,809	-	-
Tax increment financing	108,146	-	-
Other city tax	1,088,933	-	-
Licenses and permits	143,622	-	-
Use of money and property	32,117	83,998	289
Intergovernmental	2,186,371	646,086	-
Charges for service	464,585	6,026,269	-
Special assessments	32,730	-	-
Miscellaneous	1,194,132	286,494	48,606
Total receipts	10,346,445	7,042,847	48,895
Disbursements:			
Public safety	2,165,383	-	-
Public works	1,155,388	-	-
Culture and recreation	1,752,530	-	76,067
Community and economic development	291,600	-	-
General government	582,532	-	-
Debt service	1,802,052	-	-
Capital projects	4,834,725	-	-
Business type activities	-	6,073,321	-
Total disbursements	12,584,210	6,073,321	76,067
Excess (deficiency) of receipts over (under) disbursements	(2,237,765)	969,526	(27,172)
Other financing sources, net	(114,564)	249,170	(43,424)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(2,352,329)	1,218,696	(70,596)
Balances beginning of year	4,375,447	5,068,276	104,625
Balances end of year	\$ 2,023,118	6,286,972	34,029

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
5,095,809	4,956,511	4,956,511	139,298
108,146	112,351	112,351	(4,205)
1,088,933	1,151,744	1,151,744	(62,811)
143,622	809,647	809,647	(666,025)
115,826	4,200	4,200	111,626
2,832,457	1,144,423	1,144,423	1,688,034
6,490,854	7,687,764	7,687,764	(1,196,910)
32,730	-	-	32,730
1,432,020	3,000,000	8,394,604	(6,962,584)
17,340,397	18,866,640	24,261,244	(6,920,847)
2,165,383	1,768,472	1,768,472	(396,911)
1,155,388	941,668	1,048,668	(106,720)
1,676,463	1,766,210	1,766,210	89,747
291,600	459,051	459,051	167,451
582,532	1,235,195	1,235,195	652,663
1,802,052	1,735,098	7,129,702	5,327,650
4,834,725	3,199,943	3,199,943	(1,634,782)
6,073,321	7,069,766	7,069,766	996,445
18,581,464	18,175,403	23,677,007	5,095,543
(1,241,067)	691,237	584,237	(1,825,304)
178,030	-	-	178,030
(1,063,037)	691,237	584,237	(1,647,274)
9,339,098	3,461,996	3,461,996	5,877,102
8,276,061	4,153,233	4,046,233	4,229,828

City of Fairfield

Notes to Other Information – Budgetary Reporting

June 30, 2016

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 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, one budget amendment increased budgeted disbursements by \$5,501,604. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the public safety, public works and capital projects functions. Additionally, disbursements in the public works and debt service functions exceeded the budget prior to the budget amendment.

City of Fairfield

Schedule of the City's Proportionate Share of the Net Pension Liability

For the Last Two Years\*  
(In Thousands)

Other Information

<u>Iowa Public Employees' Retirement System</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.033866%	0.034200%
City's proportionate share of the net pension liability	\$ 1,673	1,356
City's covered-employee payroll	\$ 2,441	2,377
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	68.54%	57.05%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%
<u>Municipal Fire and Police Retirement System of Iowa</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.333504%	0.321234 %
City's proportionate share of the net pension liability	\$ 1,567	1,164
City's covered-employee payroll	\$ 871	820
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	179.91%	141.95%
IPERS' net position as a percentage of the total pension liability	83.04%	86.27%

\* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Fairfield  
Schedule of City Contributions

For the Last Ten Years  
(In Thousands)

Other Information

Iowa Public Employees' Retirement System

	2016	2015	2014	2013
Statutorily required contribution	\$ 219	219	213	195
Contributions in relation to the statutorily required contribution	(219)	(219)	(213)	(195)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered-employee payroll	\$ 2,443	2,441	2,377	2,232
Contributions as a percentage of covered-employee payroll	8.96%	8.97%	8.96%	8.74%

Municipal Fire and Police Retirement System of Iowa

	2016	2015	2014	2013
Statutorily required contribution	\$ 258	266	247	209
Contributions in relation to the statutorily required contribution	(258)	(266)	(247)	(209)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered-employee payroll	\$ 875	871	820	800
Contributions as a percentage of covered-employee payroll	29.49%	30.54%	30.12%	26.12%

See accompanying independent auditor's report.



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2012	2011	2010	2009	2008	2007
182	151	140	127	116	108
(182)	(151)	(140)	(127)	(116)	(108)
-	-	-	-	-	-
2,234	2,140	2,060	1,971	1,912	1,836
8.15%	7.06%	6.80%	6.44%	6.07%	5.88%

2012	2011	2010	2009	2008	2007
182	146	120	128	178	190
(182)	(146)	(120)	(128)	(178)	(190)
-	-	-	-	-	-
735	732	706	683	699	684
24.76%	19.90%	17.00%	18.75%	25.48%	27.75%

City of Fairfield

Notes to Other Information – Pension Liability

Year ended June 30, 2016

**Iowa Public Employee's Retirement System**

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

## **Municipal Fire and Police Retirement System of Iowa**

### Changes of benefit terms:

There were no significant changes of benefit terms.

### Changes of assumptions:

One additional step was taken to phase in the 1994 Group Annuity Mortality Table for post-retirement mortality. The one additional step results in a weighting of 1/12 of the 1971 Group Annuity Mortality Table and 11/12 of the 1994 Group Annuity Mortality Table.

**City of Fairfield**

## **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, 2016

	Urban Renewal Tax Increment Financing	Police Specialty	UDAG- FALCO Project	Live on The Square	Indian Creek Escrow
<b>Receipts:</b>					
Tax increment financing	\$ 108,146	-	-	-	-
Use of money and property	-	-	12,625	-	14
Intergovernmental	9,781	-	-	-	-
Charges for service	-	15,838	-	-	-
Miscellaneous	-	-	2,300	500	-
Total receipts	117,927	15,838	14,925	500	14
<b>Disbursements:</b>					
<b>Operating:</b>					
Public safety	-	30,998	-	-	-
Culture and recreation	-	-	-	1,750	-
Community and economic development	73,591	-	86,000	-	-
Total disbursements	73,591	30,998	86,000	1,750	-
Excess (deficiency) of receipts over (under) disbursements	44,336	(15,160)	(71,075)	(1,250)	14
<b>Other financing sources (uses):</b>					
Transfers in	-	-	-	-	-
Transfers out	(53,947)	-	-	-	-
Total other financing sources (uses)	(53,947)	-	-	-	-
Change in cash balances	(9,611)	(15,160)	(71,075)	(1,250)	14
Cash balances beginning of year	167,253	59,772	167,278	2,607	26,709
Cash balances end of year	\$ 157,642	44,612	96,203	1,357	26,723
<b>Cash Basis Fund Balances</b>					
<b>Restricted for:</b>					
Debt service	\$ 157,642	-	-	-	-
Other purposes	-	44,612	96,203	1,357	26,723
Total cash basis fund balances	\$ 157,642	44,612	96,203	1,357	26,723

See accompanying independent auditor's report.

Special Revenue						
Library Memorial	Library Capital Improvements	Fairfield Public Library House	Friends of the Fairfield Public Library	Library Book Sale	Fairfield Parks and Recreation Foundation	Total
-	-	-	-	-	-	108,146
4,875	-	8,900	-	-	289	26,703
-	-	-	-	-	-	9,781
-	-	-	-	-	-	15,838
7,896	6,487	-	3,173	2,734	45,433	68,523
12,771	6,487	8,900	3,173	2,734	45,722	228,991
-	-	-	-	-	-	30,998
15,652	32,633	5,040	1,445	2,100	74,622	133,242
-	-	-	-	-	-	159,591
15,652	32,633	5,040	1,445	2,100	74,622	323,831
(2,881)	(26,146)	3,860	1,728	634	(28,900)	(94,840)
-	5,000	-	-	7,898	-	12,898
-	-	(5,000)	(7,898)	-	(35,526)	(102,371)
-	5,000	(5,000)	(7,898)	7,898	(35,526)	(89,473)
(2,881)	(21,146)	(1,140)	(6,170)	8,532	(64,426)	(184,313)
6,652	21,277	6,300	6,170	-	98,455	562,473
3,771	131	5,160	-	8,532	34,029	378,160
-	-	-	-	-	-	157,642
3,771	131	5,160	-	8,532	34,029	220,518
3,771	131	5,160	-	8,532	34,029	378,160

**City of Fairfield**



## 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, 2016

	Enterprise		Total
	Logan Apartments	Solid Waste	
Operating receipts:			
Charges for service	\$ -	572,615	572,615
Operating disbursements:			
Business type activities	101,590	516,490	618,080
Excess (deficiency) of operating receipts over (under) operating disbursements	(101,590)	56,125	(45,465)
Non-operating receipts:			
Intergovernmental	40,782	-	40,782
Change in cash balances	(60,808)	56,125	(4,683)
Cash balances beginning of year	60,808	(6,375)	54,433
Cash balances end of year	\$ -	49,750	49,750
<b>Cash Basis Fund Balances</b>			
Unrestricted	\$ -	49,750	49,750

See notes to financial statements.

City of Fairfield  
Schedule of Indebtedness  
Year ended June 30, 2016

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
General obligation capital loan note - series 2015	Feb 5, 2015	3.50	3,775,000
General obligation refunding - series 2016A	May 31, 2016	2.00-3.00	3,315,000
General obligation - series 2016B	May 31, 2016	1.10-2.80	1,985,000
Total			
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 *	1.75%	\$ 5,797,000
Sewer	Oct 5, 2011 *	3.00	4,000,000
Sewer	Nov 9, 2012 *	1.75	600,000
Total			
General obligation bond anticipation project note	Jun 28, 2013	2.40%	\$ 1,900,000
Interim revenue project notes:			
Sewer	Aug 12, 2013	0.00%	\$ 500,000
Sewer	Apr 14, 2014	0.00	1,075,000
Sewer	Apr 14, 2014	0.00	1,585,000
Total			
Sewer revenue capital loan anticipation project note	Jun 8, 2016	2.10%	\$ 4,282,000

\* 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
3,895,000	-	3,895,000	-	156,558	-
2,570,000	-	560,000	2,010,000	69,395	-
<b>\$ 6,470,000</b>	-	<b>4,455,000</b>	<b>2,015,000</b>	<b>225,953</b>	<b>5,520</b>
235,000	-	235,000	-	4,465	-
3,535,000	-	50,000	3,485,000	123,725	-
-	3,315,000	-	3,315,000	-	-
-	1,985,000	-	1,985,000	-	-
<b>\$ 3,770,000</b>	<b>5,300,000</b>	<b>285,000</b>	<b>8,785,000</b>	<b>128,190</b>	<b>-</b>
355,000	-	65,000	290,000	12,999	-
3,132,000	-	349,000	2,783,000	54,810	-
3,550,000	-	160,000	3,390,000	106,500	-
533,000	-	24,000	509,000	9,328	-
<b>\$ 7,215,000</b>	-	<b>533,000</b>	<b>6,682,000</b>	<b>170,638</b>	<b>-</b>
1,900,000	-	1,900,000	-	45,600	-
412,238	-	-	412,238	-	-
551,531	-	-	551,531	-	-
821,539	-	-	821,539	-	-
<b>\$ 1,785,308</b>	-	-	<b>1,785,308</b>	-	-
-	50,001	-	50,001	-	-

City of Fairfield  
Bond and Note Maturities  
June 30, 2016

Year Ending June 30,	General Obligation Bonds		General Obligation Capital Loan Notes							Total
	Essential Corporate Purpose		Series 2015		Refunding Series 2016A		Series 2016B			
	Issued July 1, 2010		Issued Feb 5, 2015		Issued May 31, 2016		Issued May 31, 2016			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2017	2.50%	\$ 575,000	3.50%	\$ 113,000	2.00%	\$ 510,000	1.10%	\$ 360,000	983,000	
2018	2.75	595,000	3.50	116,000	2.00	525,000	1.40	250,000	891,000	
2019	3.00	200,000	3.50	121,000	3.00	545,000	1.70	200,000	866,000	
2020	3.00	205,000	3.50	138,000	3.00	565,000	2.00	125,000	828,000	
2021	3.25	215,000	3.50	143,000	3.00	575,000	2.25	50,000	768,000	
2022	3.40	220,000	3.50	149,000	2.00	595,000	2.25	-	744,000	
2023	-	-	3.50	195,000			2.70	500,000	695,000	
2024	-	-	3.50	202,000			2.80	325,000	527,000	
2025	-	-	3.50	209,000			2.00	175,000	384,000	
2026	-	-	3.50	217,000				-	217,000	
2027	-	-	3.50	225,000				-	225,000	
2028	-	-	3.50	232,000				-	232,000	
2029	-	-	3.50	241,000				-	241,000	
2030	-	-	3.50	220,000				-	220,000	
2031	-	-	3.50	229,000				-	229,000	
2032	-	-	3.50	237,000				-	237,000	
2033	-	-	3.50	245,000				-	245,000	
2034	-	-	3.50	253,000				-	253,000	
Total		<u>\$ 2,010,000</u>		<u>\$ 3,485,000</u>		<u>\$ 3,315,000</u>		<u>\$ 1,985,000</u>	<u>8,785,000</u>	

See accompanying independent auditor's report.

Revenue Bonds		Revenue Capital Loan Notes						
Local Option Sales and Services Tax		Water		Sewer		Sewer		
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	Total
3.75%	\$ 70,000	1.75%	\$ 360,000	3.00%	\$ 165,000	1.75%	\$ 25,000	550,000
4.05	70,000	1.75	372,000	3.00	170,000	1.75	26,000	568,000
4.20	75,000	1.75	384,000	3.00	176,000	1.75	26,000	586,000
4.40	75,000	1.75	397,000	3.00	182,000	1.75	27,000	606,000
-	-	1.75	410,000	3.00	187,000	1.75	28,000	625,000
-	-	1.75	423,000	3.00	194,000	1.75	29,000	646,000
-	-	1.75	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>\$ 290,000</u>		<u>\$ 2,783,000</u>		<u>\$ 3,390,000</u>		<u>\$ 509,000</u>	<u>6,682,000</u>

City of Fairfield

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

For the Last Ten Years

	2016	2015	2014	2013
<b>Receipts:</b>				
Property tax	\$ 5,095,809	5,205,442	4,567,137	4,389,250
Tax increment financing	108,146	154,982	105,228	189,020
Other city tax	1,088,933	1,006,128	891,960	956,885
Licenses and permits	143,622	153,548	138,796	131,114
Use of money and property	32,117	26,321	41,523	64,537
Intergovernmental	2,186,371	1,750,849	1,204,178	1,685,508
Charges for service	464,585	474,450	469,719	501,509
Special assessments	32,730	43,963	43,870	53,529
Miscellaneous	1,194,132	2,059,959	300,996	239,928
<b>Total</b>	<b>\$ 10,346,445</b>	<b>10,875,642</b>	<b>7,763,407</b>	<b>8,211,280</b>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	2,165,383	2,061,445	2,083,750	2,005,343
Public works	1,155,388	970,765	919,575	1,173,014
Health and social services	-	4,450	-	-
Culture and recreation	1,752,530	2,073,533	2,075,406	2,246,585
Community and economic development	291,600	267,377	211,799	220,509
General government	582,532	828,026	796,394	514,862
Debt service	1,802,052	1,913,530	1,627,479	1,582,824
Capital projects	4,834,725	5,021,949	573,037	912,042
<b>Total</b>	<b>\$ 12,584,210</b>	<b>13,141,075</b>	<b>8,287,440</b>	<b>8,655,179</b>

See accompanying independent auditor's report.

2012	2011	2010	2009	2008	2007
4,305,856	4,205,134	4,076,420	3,949,455	3,639,821	3,350,952
168,392	253,181	429,971	332,517	232,613	210,355
1,030,554	966,858	960,005	1,027,994	991,721	968,336
21,927	23,588	25,681	22,741	29,359	21,441
16,151	24,366	43,279	89,382	88,133	104,655
2,122,051	2,270,294	2,179,131	1,463,822	3,217,212	4,965,682
533,266	480,915	350,499	303,182	292,480	323,930
-	71,947	64,130	75,582	44,482	51,081
88,337	569,010	263,644	507,741	248,944	284,838
8,286,534	8,865,293	8,392,760	7,772,416	8,784,765	10,281,270
1,773,322	1,857,711	1,705,256	1,761,035	1,626,961	1,570,831
788,506	120,088	1,060,704	906,095	997,862	942,597
24,042	39,585	13,000	13,081	12,786	17,801
1,968,927	1,491,155	1,641,994	1,626,771	1,490,126	1,591,083
134,867	1,263,995	300,665	199,972	116,881	100,958
700,625	815,111	1,155,196	405,982	387,699	374,948
1,574,018	2,787,905	1,235,630	1,245,752	1,016,258	1,116,957
2,889,145	3,444,543	2,143,000	1,913,794	3,796,689	7,085,671
9,853,452	11,820,093	9,255,445	8,072,482	9,445,262	12,800,846

**Schedule 6**

## City of Fairfield

## Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Transportation:			
Airport Improvement Program	20.106	3-19-0033-014	\$ 479,580
U.S. Department of Agriculture:			
Water and Waste Disposal Systems for Rural Communities	10.760		717,030
Total direct			1,196,610
Indirect:			
U.S Department of Housing and Urban Development:			
Iowa Economic Development Authority:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	14-DTR-001	31,609
Total			\$ 1,228,219

**Basis of Presentation** – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the City of Fairfield under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Fairfield, it is not intended to and does not present the financial position, changes in financial position or cash flows of the City of Fairfield.

**Summary of Significant Accounting Policies** – Expenditures reported in the Schedule are reported on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City of Fairfield has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor's report.





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

Mary Mosiman, CPA  
Auditor of State

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Des Moines, Iowa 50319-0004

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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, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 10, 2017. 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 and Questioned Costs, 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 Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-16 through II-D-16 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 and Questioned Costs as items II-E-16 through II-G-16 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 Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 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 and Questioned Costs. 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.

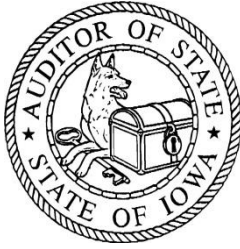
#### Purpose of this Report

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

March 10, 2017



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

Mary Mosiman, CPA  
Auditor of State

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Independent Auditor's Report on Compliance  
for Each Major Federal Program and on Internal Control over Compliance  
Required by the Uniform Guidance

To the Honorable Mayor and Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Fairfield, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the City of Fairfield's major federal program for the year ended June 30, 2016. The City of Fairfield's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for City of Fairfield's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Fairfield's compliance with those requirements and performing such other procedures we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of City of Fairfield's compliance.

Opinion on the Major Federal Program

In our opinion, the City of Fairfield complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.


## Report on Internal Control Over Compliance

The management of the City of Fairfield is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Fairfield's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Fairfield's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

  
MARY MOSIMAN, CPA  
Auditor of State

March 10, 2017

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

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

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with the Uniform Guidance, Section 200.515.
- (g) The major program was CFDA Number 10.760 – Water and Waste Disposal Systems for Rural Communities.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) The City of Fairfield did not qualify as a low-risk auditee.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

II-A-16 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 on those of another. During the audit, we identified the following incompatible duties:

- (1) Bank reconciliations are not reviewed and approved by an independent person.
- (2) Utility receipts – opening mail, billing, collecting, posting and maintaining detailed accounts receivable records.
- (3) An initial listing of mail receipts is not prepared by the mail openers.
- (4) Disbursements – check writing, signing and posting.
- (5) Journal entries are not reviewed and approved.
- (6) A report of voided receipts is not reviewed by an independent person.
- (7) Accounting system – performing all general accounting functions and having custody of City assets.
- (8) Payroll – Independent reviews of electric remittances of payroll taxes are not performed.
- (9) Financial reporting – Preparing and reconciling. In addition, the monthly City Treasurer's Reports are not reviewed by an independent person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations, journal entries, voided receipt reports and monthly financial reports should be documented by the signature of the reviewer and the date of the review.

Response – The City has made attempts to correct several of the segregation of duties issues. The City will continue to make improvements as practical for staffing.

Conclusion – Response accepted.

II-B-16 Financial Reporting – During the audit, we identified the following material items requiring corrections. Adjustments were subsequently made by the City to properly record these amounts in the financial statements.

- 1) Two disbursements were recorded in an incorrect fund.
- 2) Amounts held by the employee health plan trustee were not recorded in the City's cash balances.
- 3) Transfers from the Special Revenue, Urban Renewal Tax Increment Financing (TIF) Fund to the Debt Service Fund to cover principal and interest on qualifying TIF obligations were not made.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

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

Response – These corrections have been made and approved by the City Council.

Conclusion – Response accepted.

II-C-16 Reconciliation of Utility Billings, Collections and Delinquent Accounts – Although utility billings, collections and delinquent accounts were reconciled throughout the year, the delinquent listing was not compared to the reconciled amount and unresolved variances existed between the delinquent account listing generated through the computer system and the reconciled amount. Additionally, there is no independent review of the reconciliation.

Recommendation - Procedures should be established to reconcile computer generated delinquent account listings to calculated amounts. Variances should be reviewed and resolved timely.

Response – Personnel have started the process of reconciling utility accounts and billings.

Conclusion – Response accepted.

II-D-16 Credit Cards - Supporting documentation was not always available to support credit card charges. In addition, meal receipts were not always itemized and did not indicate the individuals for whom the meals were purchased.

Recommendation – Credit card payments should be supported by itemized receipts or other detailed documentation to substantiate charges, including the identity of those for whom meals were purchased.

Response – The City has implemented a policy to require an itemized receipt for all charges.

Conclusion – Response accepted.

II-E-16 Computer System – The City does not update user profiles periodically and the City has former employees with access rights to the system. Also, computer passwords are not required to be changed and computer backups of the system are not maintained off site.

In addition, the City does not have a written disaster recovery plan.

Recommendation – The City should periodically review user profiles and update the profiles timely to ensure only current employees have appropriate access. To improve computer system security, all user passwords should be changed periodically.

The City should adopt a written disaster recovery plan which includes the requirement for system backups to be stored offsite.

Response – The City will update user profiles. The City will move backups offsite and look into creating a disaster recovery plan.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Conclusion – Response accepted.

- II-F-16 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 Department. Also, two employees had negative leave balances because the City is not adequately monitoring the balances.

In addition, the wage rates used to calculate the liability were not the rates in effect at June 30, 2016.

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. Proper rates should be used to calculate balances.

Response – All compensated absences are now maintained at City Hall. The leave balances will be monitored and correct rates will be used to calculate the City's liability.

Conclusion – Response accepted.

- II-G-16 Park and Recreation Receipts – For the City's Park and Recreation Department, one employee is responsible for collecting and reconciling receipts and another is responsible for collecting and recording receipts. Also, the mail opener is not independent.

Recommendation – The Park and Recreation Department should review its internal control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff.

Response –

- 1) We will keep a log of receipts received in the mail and match it with what is entered into the system.
- 2) We have fixed the process of handling, recording and accounting functions.
- 3) We have fixed the process of collecting and reconciling receipts as well as collecting and recording receipts.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.



City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

**Part III: Findings and Questioned Costs for Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCY:**

No material weaknesses in internal control over the major program were noted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

**Other Findings Related to Required Statutory Reporting:**

IV-A-16 Certified Budget - Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public safety, public works and capital projects functions. Additionally, disbursements in the public works and debt service functions were exceeded prior to the Council's budget amendment. 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 - The City will work on amendments prior to exceeding the budget.

Conclusion - Response accepted.

IV-B-16 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:

Paid to	Purpose	Amount
Amazon	Media Center gift card	\$ 25
Hyvee	Lunch for City employees	737
Visa	Interest charges for the Police, Media Center and Park and Recreation Departments	178
Visa	Media Center cash advance	53
Walmart	Media Center gift card	40

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 - The City has implemented a policy that prohibits the purchase of gift cards and cash advances. The City will ensure interest charges are eliminated. The employee appreciation celebration is paid from the portion local option sales tax allocated for any lawful purpose and was approved by the City Council.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Conclusion – Response acknowledged. The City Council should document the public purpose served by the City employee lunch prior to approving such disbursements in the future.

IV-C-16 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-16 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Denise Estle, Administrative Assistant, husband owns Estle Construction	Various services (rock and building construction)	\$ 1,200
Rebecca Johnson, Librarian, husband is Dennis Johnson	Various services for the Library (lawn and sidewalk)	50
Mark Brown, Fire Department employee, owns Brown Tree Service	Tree removal	20,850

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with Estle Construction and Dennis Johnson do not appear to represent a conflict of interest since total transactions were less than \$1,500 during the fiscal year.

In accordance with Chapters 362.5(3)(d) and (j) of the Code of Iowa, the transactions with Brown Tree Service may represent a conflict of interest since total transactions were more than \$1,500 during the fiscal year and the contracts were not entered into through competitive bidding. Although the City took action to obtain bids, those bids were not completed until after June 30, 2016.

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

Response – The City has implemented a policy to take bids for all future projects in excess of \$1,500.

Conclusion – Response accepted.

IV-E-16 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-16 City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not except as follows:

Disbursements made for electronic debt payments and remittances of payroll withholdings were not approved by the City Council.

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.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Recommendation – The City Council should approve all disbursements, including disbursements made electronically. The City should publish minutes as required.

Response – The City will publish the minutes in accordance with State law and will approve disbursements made electronically.

Conclusion – Response accepted.

IV-G-16 Deposits and Investments – Except as noted below, no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

Interest income from the investment of note proceeds was not credited to the Capital Projects Fund. In addition, interest earned on the Special Revenue, Urban Renewal Tax Increment Financing Fund balance is not credited to the fund. In accordance with Chapter 12C.9 of the Code of Iowa, such interest shall be used to pay the principal or interest of the indebtedness or be credited to the Capital Projects Fund for which the indebtedness was issued.

Additionally, a resolution naming official depositories could not be located by the City.

The Permanent, Library Endowment Fund has an investment in common stock which does not appear to be an investment permitted by Article VIII of the Constitution of the State of Iowa and Chapter 12B.10 of the Code of Iowa. Since the stock was originally donated to the Library, the Library Board believes it was in the best interest of this fund to continue owning this stock.

Recommendation – The City should credit interest to the proper funds in accordance with Chapter 12C.9 of the Code of Iowa. In addition, 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 – The City will credit interest to the proper funds. The City will work toward adopting a depository resolution to establish maximum deposits amounts.

Conclusion – Response accepted.

IV-H-16 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions, except as follows:

The water and sewer revenue note resolutions require the City to establish water and sewer sinking accounts and a water reserve account. Although the City transferred funds to the sinking accounts, the transfers were not sufficient and a water reserve account has not been established.

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 the required reserve account or made sufficient transfers to the sinking accounts.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Recommendation – The City should establish the required reserve accounts and should make the required transfers to the sinking and reserve account to comply with the water, sewer and LOST note/bond resolutions.

Response – The City is completing these transfers each month.

Conclusion – Response accepted.

IV-I-16 Financial Condition – At June 30, 2016, the City had a deficit balance of \$1,403,989 in the Capital Projects Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit to return the fund to a sound financial condition.

Response – The City has reduced this deficit by \$750,000 and plans to eliminate the deficit as soon as private donations are received.

Conclusion – Response accepted.

IV-J-16 Separately Maintained Records – The City maintains separate bank accounts or investments for the Special Revenue, Indian Creek Escrow, Library Memorial, Library Capital Improvements, Fairfield Public Library House and Live on the Square Funds and the Permanent, Library Endowment Fund. 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 bank accounts and investments should be reflected in the City’s monthly financial statements.

Response – The City will work to include all public funds accounts in the City’s monthly financial statements.

Conclusion – Response accepted.

IV-K-16 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. The City levied \$164,380, \$174,067, \$178,492 and \$100,000 for the fiscal years ended June 30, 2010, June 30, 2011, June 30, 2012 and June 30, 2013, respectively, without holding an election.

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

Response – We are waiting for an opinion from legal counsel that these funds were spent for legal purposes.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

IV-L-16 Taxable Fringe Benefits – The City provides certain employees with an annual clothing allowance. The amount allowed is \$200 for water plant employees and \$450 for water distribution, wastewater and street employees. These payments were not processed through payroll and, accordingly, the proper tax withholdings were not applied.

Also, meal reimbursements provided by the City when employees are not in travel status are not included on the employees' W-2s.

In addition, employee use of City vehicles for commuting is not included on the employees' W-2s.

Recommendation – The City should report clothing allowances, taxable meal reimbursements provided to employees and use of City vehicles for employee commuting on the employees' W-2s.

Response – The City has changed its procedure to include allowances and reimbursements on payroll with taxes applied. Taxable commuting will be added to the employees W-2 wages.

Conclusion – Response accepted.

IV-M-16 Annual Urban Renewal Report – The City overstated the amount reported as TIF debt outstanding by \$52,510 on the Levy Authority Summary. The Levy Authority Summary also included transfers, beginning and ending cash balances which did not reconcile to the City's Special Revenue, Urban Renewal Tax Increment Financing Fund .

Recommendation – The City should ensure the amounts reported on the Levy Authority Summary agree with the City's records.

Response – The City will try to report the correct amounts on the annual urban renewal report.

Conclusion – Response accepted.

IV-N-16 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. The City canceled \$3,700 of old outstanding checks, leaving the corresponding receipts in the City's accounts.

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 – The City will review for and remit unclaimed property.

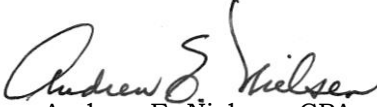
Conclusion – Response accepted.

City of Fairfield

Staff

This audit was performed by:

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