

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

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NEWS RELEASE

FOR RELEASE

March 5, 2018

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

The City's receipts totaled \$21,729,925 for the year ended June 30, 2017, a 4.8% decrease from the prior year. The receipts included \$5,568,341 in property tax, \$215,247 from tax increment financing, \$6,858,871 from charges for service, \$1,531,835 from operating grants, contributions and restricted interest, \$1,896,198 from capital grants, contributions and restricted interest, \$949,434 from local option sales tax, \$194,713 from hotel/motel tax, \$5,178 from unrestricted interest on investments, \$4,231,999 of note proceeds and \$278,109 from other general receipts.

Disbursements for the year ended June 30, 2017 totaled \$19,470,773, an 18.8% decrease from the prior year, and included \$2,371,519 for public safety, \$1,963,281 for debt service and \$1,672,525 for culture and recreation. Also, disbursements for business type activities totaled \$10,153,325.

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

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/1720-0476-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, 2017

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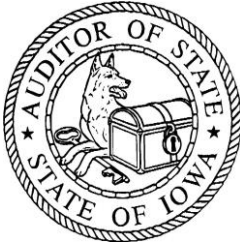
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City of Fairfield

Officials

| <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 | Resigned Aug 2017 |
| Aaron Kooiker (Appointed Nov 2017) | City Administrator | Indefinite |
| Joy Messer | City Clerk | Retired Oct 2017 |
| Rebekah Loper (Appointed Oct 2017) | 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, 2017, 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, 2017, 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 four years ended June 30, 2016 and the three years ended June 30, 2010 (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 48, 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 February 20, 2018 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 solely 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 effectiveness of the City's 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

February 20, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Fairfield provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2017. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2017 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 29.1%, or approximately \$4,576,000, from fiscal year 2016 to fiscal year 2017, primarily due to general obligation note proceeds received in fiscal year 2016 of \$5,395,000.
- Disbursements of the City's governmental activities decreased 47.9%, or approximately \$8,577,000, from fiscal year 2016 to fiscal year 2017. Payment to refunding bond agent and bond anticipation note redemption disbursements totaled \$5,310,000 during the prior year. Additionally, capital project disbursements decreased approximately \$3,652,000 in fiscal year 2017 due to the completion of the pool and recreation center project.
- The City's total cash basis net position increased 27.2%, or approximately \$2,259,000, from June 30, 2016 to June 30, 2017. Of this amount, the net position of the governmental activities increased approximately \$1,829,000 and the net position of the business type activities increased approximately \$430,000.

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 and the solid waste collection system. 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.

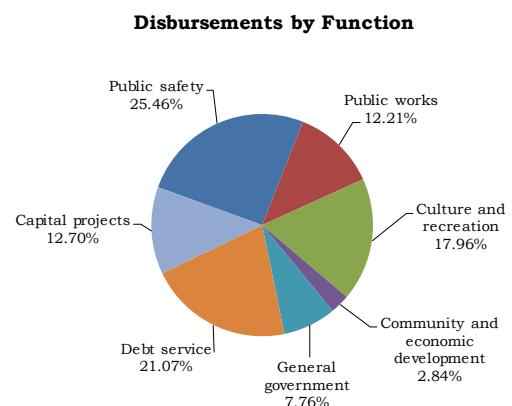
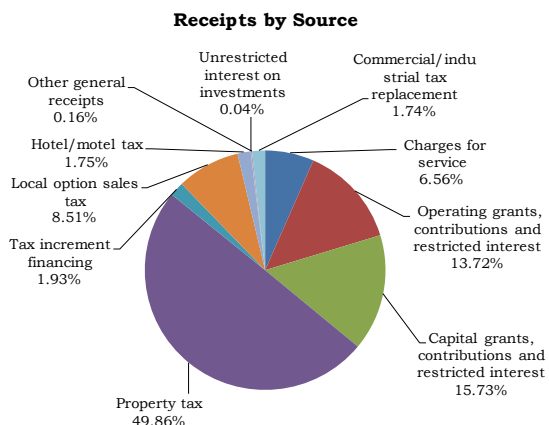
- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the Water and Sewer Funds, major funds of the City, and the Airport and Solid Waste Funds.

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 increased from a year ago, increasing from approximately \$2,023,000 to approximately \$3,852,000. 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, | |
| | 2017 | 2016 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service | \$ 732 | 784 |
| Operating grants, contributions and restricted interest | 1,532 | 1,445 |
| Capital grants, contributions and restricted interest | 1,756 | 1,607 |
| General receipts: | | |
| Property tax | 5,568 | 5,096 |
| Tax increment financing | 215 | 108 |
| Local option sales tax | 950 | 915 |
| Hotel/motel tax | 195 | 174 |
| Commercial/industrial tax replacement | 194 | 204 |
| Unrestricted interest on investments | 5 | 5 |
| General obligation note proceeds | - | 5,395 |
| Other general receipts | 18 | 8 |
| Total receipts | 11,165 | 15,741 |
| Disbursements: | | |
| Public safety | 2,372 | 2,165 |
| Public works | 1,138 | 1,155 |
| Culture and recreation | 1,673 | 1,752 |
| Community and economic development | 265 | 292 |
| General government | 723 | 583 |
| Debt service | 1,963 | 1,802 |
| Capital projects | 1,183 | 4,835 |
| Bond anticipation note redeemed | - | 1,900 |
| Payment to refunding bond agent | - | 3,410 |
| Total disbursements | 9,317 | 17,894 |
| Change in cash basis net position before transfers | 1,848 | (2,153) |
| Transfers, net | (19) | (199) |
| Change in cash basis net position | 1,829 | (2,352) |
| Cash basis net position beginning of year | 2,023 | 4,375 |
| Cash basis net position end of year | \$ 3,852 | 2,023 |



The City's total receipts for governmental activities decreased 29.1%, or approximately \$4,576,000, from the prior year. The total cost of all programs and services decreased approximately \$8,577,000, or 47.9%. The significant decrease in disbursements was due to the payment to refunding bond agent and bond anticipation note redemption and the completion of pool and recreation center capital project during the prior year.

The City's property tax rates for fiscal year 2017 decreased \$0.92605 per \$1,000 of assessed valuation compared to fiscal year 2016. Property tax is budgeted to increase approximately \$21,000 in fiscal year 2018 due to an increase in property valuations and a decrease in tax levies.

The cost of governmental activities this year was approximately \$9,317,000 compared to approximately \$17,894,000 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 \$5,297,000 because some of the cost was paid by those directly benefiting from the programs (approximately \$732,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$3,288,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2017 from approximately \$3,836,000 to approximately \$4,020,000. 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, | |
| | 2017 | 2016 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service: | | |
| Water | \$ 2,668 | 2,864 |
| Sewer | 2,869 | 2,871 |
| Airport | 19 | 23 |
| Solid waste | 571 | 573 |
| Operating grants, contributions and restricted interest | - | 41 |
| Capital grants, contributions, and restricted interest | 140 | 605 |
| General receipts: | | |
| Note proceeds | 4,232 | 50 |
| Other general receipts | 66 | 66 |
| Total receipts | <u>10,565</u> | <u>7,093</u> |
| Disbursements: | | |
| Water | 2,400 | 2,432 |
| Sewer | 6,994 | 2,078 |
| Airport | 244 | 945 |
| Solid waste | 516 | 516 |
| Logan Apartments | - | 102 |
| Total disbursements | <u>10,154</u> | <u>6,073</u> |
| Change in cash basis net position before transfers | 411 | 1,020 |
| Transfers, net | 19 | 199 |
| Change in cash basis net position | 430 | 1,219 |
| Cash basis net position beginning of year | <u>6,287</u> | <u>5,068</u> |
| Cash basis net position end of year | <u>\$ 6,717</u> | <u>6,287</u> |

Total business type activities receipts for the fiscal year were approximately \$10,565,000 compared to approximately \$7,093,000 last year. This increase was primarily due to approximately \$4,232,000 of sewer revenue note proceeds received in the current year. The cash balance increased approximately \$430,000 over the prior year. Total disbursements for the fiscal year increased 67.2%, from approximately \$6.1 million in fiscal year 2016 to approximately \$10.2 million in fiscal year 2017 due to a sewer construction project.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fairfield completed the year, its governmental funds reported a combined fund balance of \$3,851,880, an increase of \$1,828,762 over last year's total of \$2,023,118. 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 \$695,508 over the prior year to \$2,069,466. Disbursements increased \$130,979. This was primarily due to the creation of a Civil Defense Department during the current year. In addition, receipts increased approximately \$286,000, primarily due to an increase in property taxes which resulted from an increase in assessed valuation.
- The Special Revenue, Road Use Tax Fund cash balance increased \$71,149 to \$439,766. The increase was primarily due to a decrease in public works function disbursements for paving projects completed in the prior year.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$26,533 to \$94,391. The increase is due to an increase in local option sales tax revenue.
- The Special Revenue, Employee Benefits Fund cash balance decreased \$211,836 from the prior year to \$273,243, primarily due to the timing of the payment of workers compensation insurance and utilizing the levy to pay benefits for public works employees.
- The Debt Service Fund cash balance increased \$112,427 to \$391,806, primarily due to increased property tax receipts.
- The Capital Projects Fund cash balance increased \$968,669 to \$(435,320). The increase is primarily due to collection of pledges for the pool facility. The City expects to continue to receive donations in future years to eliminate the deficit balance.
- The Permanent, Library Endowment Fund cash balance did not change during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$267,715 to \$1,470,820, primarily the result of receipts exceeding disbursements during the fiscal year.
- The Enterprise, Sewer Fund cash balance increased \$107,499 to \$5,088,506. The City received \$4,181,998 more in revenue note proceeds than the prior year and capital improvement disbursements increased \$5,065,307.

BUDGETARY HIGHLIGHTS

The City's receipts were \$10,271,015 less than budgeted. This was primarily due to the City budgeting for sewer revenue bond proceeds as charges for service receipts rather than other financing sources.

The City exceeded the amounts budgeted in the culture and recreation and capital projects functions for the year ended June 30, 2017. The City was under budget in the business type activities function by approximately \$8.2 million because the City budgeted for additional payments on the sewer construction project.

DEBT ADMINISTRATION

At June 30, 2017, the City had approximately \$21,661,000 of bonds and other long-term debt outstanding, compared to approximately \$19,607,000 last year, as shown below.

| Outstanding Debt at Year-End (Expressed in Thousands) | | |
|--|------------------|---------------|
| | June 30, | |
| | 2017 | 2016 |
| General obligation bonds | \$ 1,440 | 2,015 |
| General obligation capital loan notes | 7,802 | 8,785 |
| Revenue bonds | 220 | 290 |
| Revenue capital loan notes | 6,132 | 6,682 |
| Interim sewer revenue project notes | 1,785 | 1,785 |
| Sewer revenue capital loan anticipation note | 4,282 | 50 |
| Total | <u>\$ 21,661</u> | <u>19,607</u> |

During the year, the City issued \$4.2 million of sewer revenue anticipation notes for a sewer construction project. Debt outstanding increased compared to the prior year as a result of the additional debt issued.

The City's general obligation bond rating of was upgraded to A by Standard & Poor's rating services. 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 \$9.3 million, including \$93,976 appropriated for a tax increment financing rebate agreement, is significantly below its constitutional debt limit of approximately \$27.9 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 2018 budget, tax rates and fees for various City services. One of those factors is the economy. Average unemployment for 2017 in Jefferson County was 3.1% versus 3.9% a year ago. This compares with the State's unemployment rate of 3.2% and the national rate of 4.4%.

These indicators were taken into account when adopting the budget for fiscal year 2018. Disbursements are budgeted to increase approximately \$5.9 million over fiscal year 2017. This increase is primarily due to an increase in the business type activities function. The City has added no new programs to the fiscal year 2018 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$589,000 by the close of fiscal year 2018.

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 Rebekka Loper, 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, 2017

| | Disbursements | Program Receipts | | |
|---|----------------------|---------------------|---|---|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Functions/Programs: | | | | |
| Primary Government: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 2,371,519 | 77,827 | 129,472 | - |
| Public works | 1,138,220 | 12,113 | 1,174,896 | - |
| Culture and recreation | 1,672,525 | 508,301 | 215,894 | 1,200,000 |
| Community and economic development | 265,265 | 47,443 | 11,573 | - |
| General government | 723,472 | 86,576 | - | - |
| Debt service | 1,963,281 | - | - | - |
| Capital projects | 1,183,166 | - | - | 555,920 |
| Total governmental activities | 9,317,448 | 732,260 | 1,531,835 | 1,755,920 |
| Business type activities: | | | | |
| Water | 2,400,246 | 2,667,961 | - | - |
| Sewer | 6,993,559 | 2,869,059 | - | - |
| Airport | 243,592 | 18,532 | - | 140,278 |
| Solid waste | 515,928 | 571,059 | - | - |
| Total business type activities | 10,153,325 | 6,126,611 | - | 140,278 |
| Total Primary Government | \$ 19,470,773 | 6,858,871 | 1,531,835 | 1,896,198 |
| Component Unit: | | | | |
| Fairfield Public Library Foundation | \$ 107,998 | - | 124,209 | - |
| General Receipts and Transfers: | | | | |
| Property and other city tax levied for: | | | | |
| General purposes | | | | |
| Debt service | | | | |
| Tax increment financing | | | | |
| Local option sales tax | | | | |
| Hotel/motel tax | | | | |
| Commercial/industrial tax replacement | | | | |
| Unrestricted interest on investments | | | | |
| Note proceeds | | | | |
| Farm rent | | | | |
| Miscellaneous | | | | |
| 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 | | | | |
| Cash Basis Net Position | | | | |
| Restricted: | | | | |
| Nonexpendable: | | | | |
| Permanent Fund | | | | |
| Expendable: | | | | |
| Streets | | | | |
| Debt service | | | | |
| Health plan trustee | | | | |
| Other purposes | | | | |
| Unrestricted | | | | |
| Total cash basis net position | | | | |

See notes to financial statements.

| Net (Disbursements) Receipts and Changes in Cash Basis Net Position | | | |
|--|-----------------------------|-------------|---|
| Primary Government | | | Component Unit |
| Governmental Activities | Business Type Activities | Total | Fairfield Public Library Foundation |
| (2,164,220) | - | (2,164,220) | |
| 48,789 | - | 48,789 | |
| 251,670 | - | 251,670 | |
| (206,249) | - | (206,249) | |
| (636,896) | - | (636,896) | |
| (1,963,281) | - | (1,963,281) | |
| (627,246) | - | (627,246) | |
| (5,297,433) | - | (5,297,433) | |
| - | 267,715 | 267,715 | |
| - | (4,124,500) | (4,124,500) | |
| - | (84,782) | (84,782) | |
| - | 55,131 | 55,131 | |
| - | (3,886,436) | (3,886,436) | |
| (5,297,433) | (3,886,436) | (9,183,869) | |
| | | | 16,211 |
| 4,108,178 | - | 4,108,178 | - |
| 1,460,163 | - | 1,460,163 | - |
| 215,247 | - | 215,247 | - |
| 949,434 | - | 949,434 | - |
| 194,713 | - | 194,713 | - |
| 193,669 | - | 193,669 | - |
| 5,178 | - | 5,178 | - |
| - | 4,231,999 | 4,231,999 | - |
| - | 66,100 | 66,100 | - |
| 18,340 | - | 18,340 | - |
| (18,727) | 18,727 | - | - |
| 7,126,195 | 4,316,826 | 11,443,021 | - |
| 1,828,762 | 430,390 | 2,259,152 | 16,211 |
| 2,023,118 | 6,286,972 | 8,310,090 | 1,054,747 |
| \$ 3,851,880 | 6,717,362 | 10,569,242 | 1,070,958 |
| \$ 474,056 | - | 474,056 | - |
| 439,766 | - | 439,766 | - |
| 790,152 | 506,809 | 1,296,961 | - |
| 128,823 | 65,499 | 194,322 | - |
| 532,283 | - | 532,283 | - |
| 1,486,800 | 6,145,054 | 7,631,854 | 1,070,958 |
| \$ 3,851,880 | 6,717,362 | 10,569,242 | 1,070,958 |

City of Fairfield

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

As of and for the year ended June 30, 2017

| | Special Revenue | | | |
|--|-----------------|--------------|------------------------|-------------------|
| | General | Road Use Tax | Local Option Sales Tax | Employee Benefits |
| Receipts: | | | | |
| Property tax | \$ 3,069,631 | - | - | 807,224 |
| Tax increment financing | - | - | - | - |
| Other city tax | 194,713 | - | 949,434 | - |
| Licenses and permits | 134,150 | - | - | - |
| Use of money and property | 5,178 | - | - | - |
| Intergovernmental | 305,292 | 1,174,896 | - | 26,434 |
| Charges for service | 470,276 | - | - | - |
| Special assessments | - | - | - | - |
| Miscellaneous | 132,053 | - | - | 347 |
| Total receipts | 4,311,293 | 1,174,896 | 949,434 | 834,005 |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | 1,847,658 | - | 61,560 | 450,302 |
| Public works | 910 | 1,073,276 | 7,000 | 57,034 |
| Culture and recreation | 1,425,219 | - | 33,700 | 115,515 |
| Community and economic development | 137,789 | - | 8,421 | 3,547 |
| General government | 495,909 | - | 1,303 | 226,260 |
| Debt service | - | - | 81,098 | - |
| Capital projects | - | - | - | - |
| Total disbursements | 3,907,485 | 1,073,276 | 193,082 | 852,658 |
| Excess (deficiency) of receipts over (under) disbursements | 403,808 | 101,620 | 756,352 | (18,653) |
| Other financing sources (uses): | | | | |
| Transfers in | 428,506 | 26,529 | - | - |
| Transfers out | (136,806) | (57,000) | (729,819) | (193,183) |
| Total other financing sources (uses) | 291,700 | (30,471) | (729,819) | (193,183) |
| Change in cash balances | 695,508 | 71,149 | 26,533 | (211,836) |
| Cash balances beginning of year | 1,373,958 | 368,617 | 67,858 | 485,079 |
| Cash balances end of year | \$ 2,069,466 | 439,766 | 94,391 | 273,243 |
| Cash Basis Fund Balances | | | | |
| Nonspendable - Library endowment | \$ - | - | - | - |
| Restricted for: | | | | |
| Streets | - | 439,766 | - | - |
| Debt service | - | - | 94,391 | - |
| Health plan trustee | - | - | - | 128,823 |
| Other purposes | 147,346 | - | - | 144,420 |
| Assigned for civil defense | 22,786 | - | - | - |
| Unassigned | 1,899,334 | - | - | - |
| Total cash basis fund balances | \$ 2,069,466 | 439,766 | 94,391 | 273,243 |

See notes to financial statements.

| Debt Service | Capital Projects | Permanent Library Endowment | Nonmajor | Total |
|--------------|------------------|-----------------------------|----------|-------------|
| 1,460,163 | 231,323 | - | - | 5,568,341 |
| - | - | - | 215,247 | 215,247 |
| - | - | - | - | 1,144,147 |
| - | - | - | - | 134,150 |
| - | - | - | 28,745 | 33,923 |
| 48,401 | 382,574 | - | 10,574 | 1,948,171 |
| - | - | - | 3,118 | 473,394 |
| - | 36,206 | - | - | 36,206 |
| - | 1,344,732 | - | 134,226 | 1,611,358 |
| 1,508,564 | 1,994,835 | - | 391,910 | 11,164,937 |
| - | - | - | 11,999 | 2,371,519 |
| - | - | - | - | 1,138,220 |
| - | - | - | 98,091 | 1,672,525 |
| - | - | - | 115,508 | 265,265 |
| - | - | - | - | 723,472 |
| 1,882,183 | - | - | - | 1,963,281 |
| - | 1,183,166 | - | - | 1,183,166 |
| 1,882,183 | 1,183,166 | - | 225,598 | 9,317,448 |
| (373,619) | 811,669 | - | 166,312 | 1,847,489 |
| 486,046 | 157,000 | - | 5,000 | 1,103,081 |
| - | - | - | (5,000) | (1,121,808) |
| 486,046 | 157,000 | - | - | (18,727) |
| 112,427 | 968,669 | - | 166,312 | 1,828,762 |
| 279,379 | (1,403,989) | 474,056 | 378,160 | 2,023,118 |
| 391,806 | (435,320) | 474,056 | 544,472 | 3,851,880 |
| - | - | 474,056 | - | 474,056 |
| - | - | - | - | 439,766 |
| 391,806 | - | - | 303,955 | 790,152 |
| - | - | - | - | 128,823 |
| - | - | - | 240,517 | 532,283 |
| - | - | - | - | 22,786 |
| - | (435,320) | - | - | 1,464,014 |
| 391,806 | (435,320) | 474,056 | 544,472 | 3,851,880 |

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, 2017

| | Enterprise | | | |
|---|--------------|-------------|-----------|-------------|
| | Water | Sewer | Nonmajor | Total |
| Operating receipts: | | | | |
| Use of money and property | \$ - | - | 15,555 | 15,555 |
| Charges for service | 2,574,066 | 2,844,805 | 572,856 | 5,991,727 |
| Miscellaneous | 93,895 | 24,254 | 1,180 | 119,329 |
| Total operating receipts | 2,667,961 | 2,869,059 | 589,591 | 6,126,611 |
| Operating disbursements: | | | | |
| Business type activities | 1,711,569 | 1,014,755 | 628,266 | 3,354,590 |
| Excess (deficiency) of operating receipts over (under) operating disbursements | 956,392 | 1,854,304 | (38,675) | 2,772,021 |
| Non-operating receipts (disbursements): | | | | |
| Revenue note proceeds | - | 4,231,999 | - | 4,231,999 |
| Farm rent | - | - | 66,100 | 66,100 |
| Intergovernmental | - | - | 140,278 | 140,278 |
| Capital projects and equipment | (273,017) | (5,655,984) | (131,254) | (6,060,255) |
| Debt service | (415,660) | (322,820) | - | (738,480) |
| Net non-operating receipts (disbursements) | (688,677) | (1,746,805) | 75,124 | (2,360,358) |
| Excess of receipts over disbursements | 267,715 | 107,499 | 36,449 | 411,663 |
| Transfers in | - | - | 18,727 | 18,727 |
| Change in cash balances | 267,715 | 107,499 | 55,176 | 430,390 |
| Cash balances beginning of year | 1,203,105 | 4,981,007 | 102,860 | 6,286,972 |
| Cash balances end of year | \$ 1,470,820 | 5,088,506 | 158,036 | 6,717,362 |
| Cash Basis Fund Balances | | | | |
| Restricted for: | | | | |
| Debt service | \$ 481,706 | 25,103 | - | 506,809 |
| Health plan trustee | 38,302 | 27,197 | - | 65,499 |
| Unrestricted | 950,812 | 5,036,206 | 158,036 | 6,145,054 |
| Total cash basis fund balances | \$ 1,470,820 | 5,088,506 | 158,036 | 6,717,362 |

See notes to financial statements.

City of Fairfield

City of Fairfield

Notes to Financial Statements

June 30, 2017

(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, sewer, solid waste and airport services 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

The Fairfield Parks and Recreation Foundation was established as a non-profit corporation in accordance with Chapter 504A of the Code of Iowa. This non-profit corporation is legally separate from the City but is so intertwined with the City it is, 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 Fairfield Parks and Recreation Foundation meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund 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.

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, 2017, disbursements exceeded the amounts budgeted in the culture and recreation and capital projects functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2017 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, 2017, the City had the following investments:

| Type | Carrying Amount | Fair Value | Maturity |
|--------------|-----------------|------------|----------|
| Mutual funds | \$5,182 | 16,091 | N/A |
| Stocks | 509 | 1,851 | 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, 2017, the Fairfield Public Library Foundation (Foundation), a discretely presented component unit, had the following investments:

| Type | Carrying Amount | Fair Value | Maturity |
|--------------|-----------------|------------|----------|
| Mutual funds | \$ 1,031,376 | 1,485,780 | N/A |

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)

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 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 | | |
| 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 | 220,000 | 7,480 | 744,000 | 138,465 | - | - |
| 2023-2027 | - | - | 2,048,000 | 447,890 | - | - |
| 2028-2032 | - | - | 1,159,000 | 208,775 | - | - |
| 2033-2036 | - | - | 498,000 | 26,285 | - | - |
| Total | \$ 1,435,000 | 112,162 | 7,802,000 | 1,607,665 | 220,000 | 14,392 |

| Year Ending June 30, | Revenue Capital | | | |
|----------------------------|-----------------|-----------|------------|-----------|
| | Loan Notes | | Total | |
| | Principal | Interest | Principal | Interest |
| 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 | 646,000 | 96,948 | 1,610,000 | 242,893 |
| 2023-2027 | 1,663,000 | 318,151 | 3,711,000 | 766,041 |
| 2028-2032 | 1,438,000 | 124,998 | 2,597,000 | 333,773 |
| 2033-2036 | - | - | 498,000 | 26,285 |
| Total | \$ 6,132,000 | 1,056,603 | 15,589,000 | 2,790,822 |

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, 2017, annual principal and interest payments on the bonds required approximately 8.5% of net receipts. The total principal and interest remaining to be paid on the bonds is \$234,392. For the current year, principal and interest paid and total local option sales tax receipts were \$80,598 and \$949,434, respectively.

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

- a) The bonds will only be redeemed from future local option sales 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, 2017, 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 43% of net receipts. The total principal and interest remaining to be paid on the notes is \$2,575,389. For the current year, principal and interest paid and total customer net receipts were \$408,703 and \$956,392, 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 16% of net receipts. The total principal and interest remaining to be paid on the notes is \$4,613,214. For the current year, principal and interest paid and total customer net receipts were \$300,608 and \$1,854,304, 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 account is 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.

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, 2017, the City did not draw any funds on the note. On July 25, 2016 the City amended this agreement to extend the maturity date to August 23, 2019.

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, 2017, the City did not draw any funds on the notes. On July 25, 2016, the City amended these agreements to extend the maturity dates to May 2, 2020.

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.

(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. During the year ended June 30, 2017, the City received the remaining proceeds of \$4,231,999. The note bears interest of 2.1% per annum. For the year ending June 30, 2017, interest paid by the City totaled \$12,465. 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.

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 2017, 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, 2017 were \$228,901.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2017, the City reported a liability of \$2,045,267 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 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, 2016, the City's proportion was 0.032499%, which was a decrease of 0.001367% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$251,811, \$356,540 and \$87,172, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2016 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, 2016 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 arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------|-------------------------|---|
| Core plus fixed income | 28% | 1.90% |
| Domestic equity | 24 | 5.85 |
| International equity | 16 | 6.32 |
| Private equity/debt | 11 | 10.31 |
| Real estate | 8 | 3.87 |
| Credit opportunities | 5 | 4.48 |
| U.S. TIPS | 5 | 1.36 |
| Other real assets | 2 | 6.42 |
| Cash | 1 | (0.26) |
| Total | <u>100%</u> | |

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 | \$ 3,368,349 | 2,045,267 | 928,645 |

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.

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.

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, 2017.

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 25.92% for the year ended June 30, 2017.

The City's contributions to MFPRSI for the year ended June 30, 2017 was \$256,169.

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, 2017.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the City reported a liability of \$2,140,975 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 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, 2016, the City’s proportion was 0.342413%, which was an increase of 0.008909% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$292,988, \$524,223 and \$31,312, respectively.

Actuarial Assumptions – The total pension liability in the June 30, 2016 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, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2002 to June 30, 2012.

Postretirement mortality rates were based on the RP-2000 Blue Collar Combined Healthy Mortality Table with males set-back two years, females set-forward one year and disabled individuals set-forward one year (male only rates), 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 | Long-Term Expected Real Rate of Return |
|---|--|
| Large cap | 6.0% |
| Small cap | 5.8 |
| International large cap | 7.0 |
| Emerging markets | 8.8 |
| Emerging markets debt | 6.5 |
| Private non-core real estate | 9.3 |
| Master limited partnerships | 8.5 |
| Private equity | 9.8 |
| Core plus fixed income | 3.8 |
| Private core real estate | 6.8 |
| Treasury inflation protected securities | 2.8 |
| Tactical asset allocation | 6.0 |

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 | \$ 3,360,152 | 2,140,975 | 1,125,661 |

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.

(6) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 66 active 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 \$445 for single coverage and from \$1,078 for family coverage. For the year ended June 30, 2017, the City contributed \$397,817 and plan members eligible for benefits contributed \$190,603 to the plan.

(7) Compensated Absences

City employees accumulate unused vacation, sick leave and compensatory time 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, sick leave and compensatory time payable to employees at June 30, 2017, primarily relating to the General and Enterprise Funds, is as follows:

| Type of Benefit | Amount |
|-------------------|-------------------|
| Vacation | \$ 122,000 |
| Sick leave | 65,000 |
| Compensatory time | 18,000 |
| Total | <u>\$ 205,000</u> |

This liability has been computed based on rates of pay in effect at June 30, 2017. 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, 2017 is as follows:

| Transfer To | Transfer From | Amount |
|--|--|---------------------|
| General | Special Revenue: | |
| | Local Option Sales Tax | \$ 243,773 |
| | Employee Benefits | <u>184,733</u> |
| | | <u>428,506</u> |
| Special Revenue: Road Use Tax | General | 18,079 |
| | Special Revenue: | |
| | Employee Benefits | <u>8,450</u> |
| | | <u>26,529</u> |
| Special Revenue: Library Capital Improvements | Special Revenue: Fairfield Public Library House | <u>5,000</u> |
| Debt Service | Special Revenue: Local Option Sales Tax | <u>486,046</u> |
| Capital Projects | General | 100,000 |
| | Special Revenue: | |
| | Road Use Tax | <u>57,000</u> |
| | | <u>157,000</u> |
| Enterprise: Airport | General | <u>18,727</u> |
| Total | | <u>\$ 1,121,808</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 \$25,832.

(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 753 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, 2017 were \$251,680.

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 \$500,000 per claim. Claims exceeding \$500,000 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 \$4,000 per individual or \$8,000 per family, with employees contributing the first \$500 to \$2,000, 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, 2017, the City paid \$588,420 into the account. At June 30, 2017, the account balance was \$194,322. 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, 2017, the Capital Projects Funds had a deficit balance of \$435,320. The deficit will be eliminated through the collection of donation pledges.

(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, 2017:

| Year ending June 30, | Amount |
|-------------------------|------------------|
| 2018 | \$ 66,100 |
| 2019 | 33,050 |
| Total | <u>\$ 99,150</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, 2017, the City rebated \$79,508 of incremental property tax to the developer. At June 30, 2017, the remaining balance to be paid on the agreement was \$198,377.

(15) Tax Abatements

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax receipts to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

City Tax Abatements

The City provides tax abatements for urban renewal and economic development projects with tax increment financing as provided for in Chapters 15A and 403 of the Code of Iowa. For these types of projects, the City enters into agreements with developers which require the City, after developers meet the terms of the agreements, to rebate a portion of the property tax paid by the developers, to pay the developers an economic development grant or to pay the developers a predetermined dollar amount. No other commitments were made by the City as part of these agreements.

For the year ended June 30, 2017, the City abated \$31,377 of property tax under the urban renewal and economic development projects.

(16) Construction Commitment

The City entered into construction contracts totaling \$5,073,921 for sanitary sewer improvements. As of June 30, 2017, approximately \$4,813,557 has been paid on the contracts. The remaining \$260,364 balance will be paid as work on the projects progresses.

(17) New Accounting Pronouncement

The City adopted the tax abatement disclosure guidance set forth in Governmental Accounting Standards Board Statement No. 77, Tax Abatement Disclosures. The Statement sets forth guidance for the disclosure of information about the nature and magnitude of tax abatements which will make these transactions more transparent to financial statement users. Adoption of the guidance did not have an impact on amounts reported in the financial statements. The Notes to Financial Statements include information about the City's tax abatements.

(18) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement will be implemented for the fiscal year ending June 30, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with postemployment benefits other than pensions, including additional note disclosures and required supplementary information.

(19) Subsequent Event

On July 24, 2017, the City authorized the issuance of \$4,282,000 of sewer revenue capital loan notes to pay for acquisition and improvements to the wastewater treatment plant and system. The notes bear interest at 2.0% per annum for a term of 40 years. The final payment is due on August 2057.

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, 2017

| | Governmental Funds Actual | Proprietary Funds Actual | Less Funds not Required to be Budgeted |
|--|---------------------------------|--------------------------------|---|
| Receipts: | | | |
| Property tax | \$ 5,568,341 | - | - |
| Tax increment financing | 215,247 | - | - |
| Other city tax | 1,144,147 | - | - |
| Licenses and permits | 134,150 | - | - |
| Use of money and property | 33,923 | 81,655 | 333 |
| Intergovernmental | 1,948,171 | 140,278 | - |
| Charges for service | 473,394 | 5,991,727 | - |
| Special assessments | 36,206 | - | - |
| Miscellaneous | 1,611,358 | 119,329 | 59,158 |
| Total receipts | 11,164,937 | 6,332,989 | 59,491 |
| Disbursements: | | | |
| Public safety | 2,371,519 | - | - |
| Public works | 1,138,220 | - | - |
| Health and social services | - | - | - |
| Culture and recreation | 1,672,525 | - | 42,201 |
| Community and economic development | 265,265 | - | - |
| General government | 723,472 | - | - |
| Debt service | 1,963,281 | - | - |
| Capital projects | 1,183,166 | - | - |
| Business type activities | - | 10,153,325 | - |
| Total disbursements | 9,317,448 | 10,153,325 | 42,201 |
| Excess (deficiency) of receipts over (under) disbursements | 1,847,489 | (3,820,336) | 17,290 |
| Other financing sources, net | (18,727) | 4,250,726 | - |
| Excess of receipts and other financing sources over disbursements and other financing uses | 1,828,762 | 430,390 | 17,290 |
| Balances beginning of year | 2,023,118 | 6,286,972 | 34,029 |
| Balances end of year | \$ 3,851,880 | 6,717,362 | 51,319 |

See accompanying independent auditor's report.

| Total | Budgeted | Final to Total Variance |
|-------------|-----------------------|-------------------------------|
| | Amounts | |
| | Original and Final | |
| 5,568,341 | 5,465,718 | 102,623 |
| 215,247 | 222,238 | (6,991) |
| 1,144,147 | 1,224,191 | (80,044) |
| 134,150 | 58,400 | 75,750 |
| 115,245 | 4,700 | 110,545 |
| 2,088,449 | 1,337,067 | 751,382 |
| 6,465,121 | 19,169,136 | (12,704,015) |
| 36,206 | - | 36,206 |
| 1,671,529 | 228,000 | 1,443,529 |
| 17,438,435 | 27,709,450 | (10,271,015) |
| 2,371,519 | 2,379,274 | 7,755 |
| 1,138,220 | 1,199,307 | 61,087 |
| - | 14,000 | 14,000 |
| 1,630,324 | 1,581,631 | (48,693) |
| 265,265 | 387,917 | 122,652 |
| 723,472 | 755,854 | 32,382 |
| 1,963,281 | 2,000,503 | 37,222 |
| 1,183,166 | 610,922 | (572,244) |
| 10,153,325 | 18,331,799 | 8,178,474 |
| 19,428,572 | 27,261,207 | 7,832,635 |
| (1,990,137) | 448,243 | (2,438,380) |
| 4,231,999 | - | 4,231,999 |
| 2,241,862 | 448,243 | 1,793,619 |
| 8,276,061 | 16,948,975 | (8,672,914) |
| 10,517,923 | 17,397,218 | (6,879,295) |

City of Fairfield

Notes to Other Information – Budgetary Reporting

June 30, 2017

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, there were no budget amendments.

During the year ended June 30, 2017, disbursements exceeded the amounts budgeted in the culture and recreation and capital projects functions.

City of Fairfield

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

For the Last Three Years*
(In Thousands)

Other Information

Iowa Public Employees' Retirement System

| | 2017 | 2016 | 2015 |
|---|-----------|-----------|-----------|
| City's proportion of the net pension liability | 0.032499% | 0.033866% | 0.034200% |
| City's proportionate share of the net pension liability | \$ 2,045 | 1,673 | 1,356 |
| City's covered-employee payroll | \$ 2,443 | 2,441 | 2,377 |
| City's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 83.71% | 68.54% | 57.05% |
| IPERS' net position as a percentage of the total pension liability | 81.82% | 85.19% | 87.61% |

Municipal Fire and Police Retirement System of Iowa

| | 2017 | 2016 | 2015 |
|---|-----------|-----------|-----------|
| City's proportion of the net pension liability | 0.342413% | 0.333504% | 0.321234% |
| City's proportionate share of the net pension liability | \$ 2,141 | 1,567 | 1,164 |
| City's covered-employee payroll | \$ 875 | 871 | 820 |
| City's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 244.69% | 179.91% | 141.95% |
| MFPRSI's net position as a percentage of the total pension liability | 78.20% | 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

| | 2017 | 2016 | 2015 | 2014 |
|---|----------|-------|-------|-------|
| Statutorily required contribution | \$ 229 | 219 | 219 | 213 |
| Contributions in relation to the statutorily required contribution | (229) | (219) | (219) | (213) |
| Contribution deficiency (excess) | \$ - | - | - | - |
| City's covered-employee payroll | \$ 2,553 | 2,443 | 2,441 | 2,377 |
| Contributions as a percentage of covered-employee payroll | 8.97% | 8.96% | 8.97% | 8.96% |

Municipal Fire and Police Retirement System of Iowa

| | 2017 | 2016 | 2015 | 2014 |
|---|--------|--------|--------|--------|
| Statutorily required contribution | \$ 256 | 258 | 266 | 247 |
| Contributions in relation to the statutorily required contribution | (256) | (258) | (266) | (247) |
| Contribution deficiency (excess) | \$ - | - | - | - |
| City's covered-employee payroll | \$ 927 | 875 | 871 | 820 |
| Contributions as a percentage of covered-employee payroll | 27.62% | 29.49% | 30.54% | 30.12% |

See accompanying independent auditor's report.

| 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|-------|-------|-------|-------|-------|-------|
| 195 | 182 | 151 | 140 | 127 | 116 |
| (195) | (182) | (151) | (140) | (127) | (116) |
| - | - | - | - | - | - |
| 2,232 | 2,234 | 2,140 | 2,060 | 1,971 | 1,912 |
| 8.74% | 8.15% | 7.06% | 6.80% | 6.44% | 6.07% |

| 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|--------|--------|--------|--------|--------|--------|
| 209 | 182 | 146 | 120 | 128 | 178 |
| (209) | (182) | (146) | (120) | (128) | (178) |
| - | - | - | - | - | - |
| 800 | 735 | 732 | 706 | 683 | 699 |
| 26.12% | 24.76% | 19.90% | 17.00% | 18.75% | 25.48% |

City of Fairfield

Notes to Other Information – Pension Liability

Year ended June 30, 2017

Iowa Public Employee’s Retirement System

Changes of benefit terms:

Legislation enacted 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 (unfunded actuarial liability) 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.

Municipal Fire and Police Retirement System of Iowa

Changes of benefit terms:

There were no significant changes of benefit terms.

Changes of assumptions:

Postretirement mortality changed to the RP-2000 Blue Collar combined Healthy Mortality Table with males set-back two years, females set-forward one year and disableds set-forward one year (male only rates), with no projection of future mortality improvement.

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, 2017

| | Urban Renewal Tax Increment Financing | Police Specialty | UDAG- FALCO Project | Live on The Square | Indian Creek Escrow |
|---|---|---------------------|---------------------------|--------------------------|---------------------------|
| Receipts: | | | | | |
| Tax increment financing | \$ 215,247 | - | - | - | - |
| Use of money and property | - | - | 11,573 | - | 14 |
| Intergovernmental | 10,574 | - | - | - | - |
| Charges for service | - | 3,118 | - | - | - |
| Miscellaneous | - | - | 10,000 | 1,900 | 6,320 |
| Total receipts | 225,821 | 3,118 | 21,573 | 1,900 | 6,334 |
| Disbursements: | | | | | |
| Operating: | | | | | |
| Public safety | - | 11,999 | - | - | - |
| Culture and recreation | - | - | - | 640 | - |
| Community and economic development | 79,508 | - | 36,000 | - | - |
| Total disbursements | 79,508 | 11,999 | 36,000 | 640 | - |
| Excess (deficiency) of receipts over (under) disbursements | 146,313 | (8,881) | (14,427) | 1,260 | 6,334 |
| Other financing sources (uses): | | | | | |
| Transfers in | - | - | - | - | - |
| Transfers out | - | - | - | - | - |
| Total other financing sources (uses) | - | - | - | - | - |
| Change in cash balances | 146,313 | (8,881) | (14,427) | 1,260 | 6,334 |
| Cash balances beginning of year | 157,642 | 44,612 | 96,203 | 1,357 | 26,723 |
| Cash balances end of year | \$ 303,955 | 35,731 | 81,776 | 2,617 | 33,057 |
| Cash Basis Fund Balances | | | | | |
| Restricted for: | | | | | |
| Debt service | \$ 303,955 | - | - | - | - |
| Other purposes | - | 35,731 | 81,776 | 2,617 | 33,057 |
| Total cash basis fund balances | \$ 303,955 | 35,731 | 81,776 | 2,617 | 33,057 |

See accompanying independent auditor's report.

| Special Revenue | | | | | |
|---------------------|------------------------------------|---|----------------------|--|---------|
| Library Memorial | Library Capital Improvements | Fairfield Public Library House | Library Book Sale | Fairfield Parks and Recreation Foundation | Total |
| - | - | - | - | - | 215,247 |
| 7,825 | - | 9,000 | - | 333 | 28,745 |
| - | - | - | - | - | 10,574 |
| - | - | - | - | - | 3,118 |
| 39,804 | 6,652 | - | 10,392 | 59,158 | 134,226 |
| 47,629 | 6,652 | 9,000 | 10,392 | 59,491 | 391,910 |
| - | - | - | - | - | 11,999 |
| 38,979 | 6,782 | 3,969 | 5,520 | 42,201 | 98,091 |
| - | - | - | - | - | 115,508 |
| 38,979 | 6,782 | 3,969 | 5,520 | 42,201 | 225,598 |
| 8,650 | (130) | 5,031 | 4,872 | 17,290 | 166,312 |
| - | 5,000 | - | - | - | 5,000 |
| - | - | (5,000) | - | - | (5,000) |
| - | 5,000 | (5,000) | - | - | - |
| 8,650 | 4,870 | 31 | 4,872 | 17,290 | 166,312 |
| 3,771 | 131 | 5,160 | 8,532 | 34,029 | 378,160 |
| 12,421 | 5,001 | 5,191 | 13,404 | 51,319 | 544,472 |
| - | - | - | - | - | 303,955 |
| 12,421 | 5,001 | 5,191 | 13,404 | 51,319 | 240,517 |
| 12,421 | 5,001 | 5,191 | 13,404 | 51,319 | 544,472 |

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, 2017

| | Enterprise | | |
|---|------------|----------------|-----------|
| | Airport | Solid Waste | Total |
| Operating receipts: | | | |
| Use of money and property | \$ 15,555 | - | 15,555 |
| Charges for service | 1,797 | 571,059 | 572,856 |
| Miscellaneous | 1,180 | - | 1,180 |
| Total operating receipts | 18,532 | 571,059 | 589,591 |
| Operating disbursements: | | | |
| Business type activities | 112,338 | 515,928 | 628,266 |
| Excess (deficiency) of operating receipts over (under) operating disbursements | (93,806) | 55,131 | (38,675) |
| Non-operating receipts (disbursements): | | | |
| Farm rent | 66,100 | - | 66,100 |
| Intergovernmental | 140,278 | - | 140,278 |
| Capital projects and equipment | (131,254) | - | (131,254) |
| Net non-operating receipts (disbursements) | 75,124 | - | 75,124 |
| Excess (deficiency) of receipts over (under) disbursements | (18,682) | 55,131 | 36,449 |
| Transfers in | 18,727 | - | 18,727 |
| Change in cash balances | 45 | 55,131 | 55,176 |
| Cash balances beginning of year | 53,110 | 49,750 | 102,860 |
| Cash balances end of year | \$ 53,155 | 104,881 | 158,036 |
| Cash Basis Fund Balances | | | |
| Unrestricted | \$ 53,155 | 104,881 | 158,036 |

See accompanying independent auditor's report.

City of Fairfield
Schedule of Indebtedness
Year ended June 30, 2017

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|--|----------------|----------------|--------------------------|
| General obligation bonds: | | | |
| Street construction | Jan 2, 1958 | 2.60% | \$ 85,000 |
| Essential corporate purpose | Jul 1, 2010 | 1.55-3.40 | 4,915,000 |
| Total | | | |
| General obligation capital loan notes: | | | |
| 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 | | | |
| 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 |
| 2,010,000 | - | 575,000 | 1,435,000 | 57,355 | - |
| \$ 2,015,000 | - | 575,000 | 1,440,000 | 57,355 | 5,520 |
| 3,485,000 | - | 113,000 | 3,372,000 | 121,975 | - |
| 3,315,000 | - | 510,000 | 2,805,000 | 83,381 | - |
| 1,985,000 | - | 360,000 | 1,625,000 | 41,274 | - |
| \$ 8,785,000 | - | 983,000 | 7,802,000 | 246,630 | - |
| 290,000 | - | 70,000 | 220,000 | 10,598 | - |
| 2,783,000 | - | 360,000 | 2,423,000 | 48,703 | - |
| 3,390,000 | - | 165,000 | 3,225,000 | 101,700 | - |
| 509,000 | - | 25,000 | 484,000 | 8,908 | - |
| \$ 6,682,000 | - | 550,000 | 6,132,000 | 159,311 | - |
| 412,238 | - | - | 412,238 | - | - |
| 551,531 | - | - | 551,531 | - | - |
| 821,539 | - | - | 821,539 | - | - |
| \$ 1,785,308 | - | - | 1,785,308 | - | - |
| \$ 50,001 | 4,231,999 | - | 4,282,000 | 12,465 | - |

City of Fairfield
Bond and Note Maturities
June 30, 2017

| 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 | | |
| 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>\$ 1,435,000</u> | | <u>\$ 3,372,000</u> | | <u>\$ 2,805,000</u> | | <u>\$ 1,625,000</u> | <u>7,802,000</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 |
| 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>\$ 220,000</u> | | <u>\$ 2,423,000</u> | | <u>\$ 3,225,000</u> | | <u>\$ 484,000</u> | <u>6,132,000</u> |

City of Fairfield

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

For the Last Ten Years

| | 2017 | 2016 | 2015 | 2014 |
|------------------------------------|----------------------|-------------------|-------------------|------------------|
| Receipts: | | | | |
| Property tax | \$ 5,568,341 | 5,095,809 | 5,205,442 | 4,567,137 |
| Tax increment financing | 215,247 | 108,146 | 154,982 | 105,228 |
| Other city tax | 1,144,147 | 1,088,933 | 1,006,128 | 891,960 |
| Licenses and permits | 134,150 | 143,622 | 153,548 | 138,796 |
| Use of money and property | 33,923 | 32,117 | 26,321 | 41,523 |
| Intergovernmental | 1,948,171 | 2,186,371 | 1,750,849 | 1,204,178 |
| Charges for service | 473,394 | 464,585 | 474,450 | 469,719 |
| Special assessments | 36,206 | 32,730 | 43,963 | 43,870 |
| Miscellaneous | 1,611,358 | 1,194,132 | 2,059,959 | 300,996 |
| Total | \$ 11,164,937 | 10,346,445 | 10,875,642 | 7,763,407 |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | \$ 2,371,519 | 2,165,383 | 2,061,445 | 2,083,750 |
| Public works | 1,138,220 | 1,155,388 | 970,765 | 919,575 |
| Health and social services | - | - | 4,450 | - |
| Culture and recreation | 1,672,525 | 1,752,530 | 2,073,533 | 2,075,406 |
| Community and economic development | 265,265 | 291,600 | 267,377 | 211,799 |
| General government | 723,472 | 582,532 | 828,026 | 796,394 |
| Debt service | 1,963,281 | 1,802,052 | 1,913,530 | 1,627,479 |
| Capital projects | 1,183,166 | 4,834,725 | 5,021,949 | 573,037 |
| Total | \$ 9,317,448 | 12,584,210 | 13,141,075 | 8,287,440 |

See accompanying independent auditor's report.

| 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|------------------|------------------|-------------------|------------------|------------------|------------------|
| 4,389,250 | 4,305,856 | 4,205,134 | 4,076,420 | 3,949,455 | 3,639,821 |
| 189,020 | 168,392 | 253,181 | 429,971 | 332,517 | 232,613 |
| 956,885 | 1,030,554 | 966,858 | 960,005 | 1,027,994 | 991,721 |
| 131,114 | 21,927 | 23,588 | 25,681 | 22,741 | 29,359 |
| 64,537 | 16,151 | 24,366 | 43,279 | 89,382 | 88,133 |
| 1,685,508 | 2,122,051 | 2,270,294 | 2,179,131 | 1,463,822 | 3,217,212 |
| 501,509 | 533,266 | 480,915 | 350,499 | 303,182 | 292,480 |
| 53,529 | - | 71,947 | 64,130 | 75,582 | 44,482 |
| 239,928 | 88,337 | 569,010 | 263,644 | 507,741 | 248,944 |
| <u>8,211,280</u> | <u>8,286,534</u> | <u>8,865,293</u> | <u>8,392,760</u> | <u>7,772,416</u> | <u>8,784,765</u> |
| 2,005,343 | 1,773,322 | 1,857,711 | 1,705,256 | 1,761,035 | 1,626,961 |
| 1,173,014 | 788,506 | 120,088 | 1,060,704 | 906,095 | 997,862 |
| - | 24,042 | 39,585 | 13,000 | 13,081 | 12,786 |
| 2,246,585 | 1,968,927 | 1,491,155 | 1,641,994 | 1,626,771 | 1,490,126 |
| 220,509 | 134,867 | 1,263,995 | 300,665 | 199,972 | 116,881 |
| 514,862 | 700,625 | 815,111 | 1,155,196 | 405,982 | 387,699 |
| 1,582,824 | 1,574,018 | 2,787,905 | 1,235,630 | 1,245,752 | 1,016,258 |
| 912,042 | 2,889,145 | 3,444,543 | 2,143,000 | 1,913,794 | 3,796,689 |
| <u>8,655,179</u> | <u>9,853,452</u> | <u>11,820,093</u> | <u>9,255,445</u> | <u>8,072,482</u> | <u>9,445,262</u> |

Schedule 6

City of Fairfield

Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

| Grantor/Program | CFDA Number | Pass-Through Entity Identifying Number | Program Expenditures |
|--|----------------|---|-------------------------|
| Direct: | | | |
| U.S. Department of Transportation: | | | |
| Airport Improvement Program | 20.106 | 3-19-0033-014 | \$ 17,347 |
| Airport Improvement Program | 20.106 | 3-19-0033-015 | <u>84,166</u> |
| | | | <u>101,513</u> |
| U.S. Department of Agriculture: | | | |
| Water and Waste Disposal Systems for Rural Communities | 10.760 | FY2017 | <u>6,925,476</u> |
| Total direct | | | <u>7,026,989</u> |
| 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 | <u>265,799</u> |
| U.S. Department of Transportation: | | | |
| Iowa Department of Transportation: | | | |
| Highway Planning and Construction | 20.205 | 05-15-STPU-025 | <u>170,664</u> |
| Total | | | <u>\$ 7,463,452</u> |

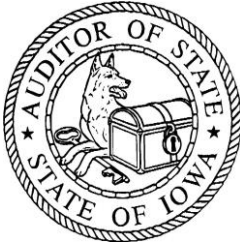
Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the City of Fairfield under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements 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.

The Schedule of Expenditures of Federal Awards includes \$1,485,113 of CFDA number 10.760 program expenditures from prior fiscal years since the project was approved during June 30, 2017 with allowable costs from interim financing from previous fiscal years.

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.

Indirect Cost Rate – 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

State Capitol Building
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, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 20, 2018. 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 have not been 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-17 through II-D-17 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-17 through II-G-17 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, 2017 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.

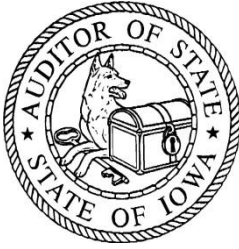
Purpose of this Report

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

February 20, 2018



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

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

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

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, 2017. 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, 2017.


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

February 20, 2018

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

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

- (a) Unmodified opinions were issued on the financial statements 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 200.516.
- (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, 2017

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-17 Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements.

Condition – Generally, one or two individuals may have control over the following areas for which no compensating controls exist:

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

Cause – The City has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the City’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports. Reviews should be performed by independent persons to the extent possible and should be documented by the signature or initials of the reviewer and the date of the review.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

Response – We will continue in our efforts to segregate the duties listed in 1 – 9 above, utilizing available staff and elected officials.

Conclusion – Response accepted.

II-B-17 Financial Reporting

Criteria - A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City's financial statements.

Condition – Amounts held by the employee health plan were not properly recorded in the City's financial statements. Adjustments were subsequently made by the City to properly record these amounts in the financial statements.

Cause – City policies do not require and procedures have not been established to require independent review of transactions to ensure the City's financial statements are accurate and reliable.

Effect – Lack of policies and procedures resulted in City employees not detecting the errors in the normal course of performing their assigned functions. As a result, material adjustments to the City's financial statements were necessary.

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

Response – We will review employee health plan reports provided by the agent in an attempt to resolve any potential inaccuracies.

Conclusion – Response accepted.

II-C-17 Reconciliation of Utility Billings, Collections and Delinquent Accounts

Criteria – An effective internal control system provides for internal controls related to maintaining delinquent account listings, reconciling utility billings, collections and delinquent accounts and comparing utility collections to deposits to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances.

Condition – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. Also, utility collections were not reconciled to deposits. In addition, shut-off policies were not strictly enforced and delinquent accounts written off were not approved by the City Council.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

Cause – Policies have not been established and procedures have not been implemented to maintain delinquent account listings, to reconcile utility billings, collections and delinquent accounts and to reconcile utility collections to deposits or to ensure shut-off policies are enforced and delinquent account write-offs are properly approved.

Effect – This condition could result in unrecorded or misstated utility receipts, improper or unauthorized adjustments and write-offs and/or misstated delinquent account balances.

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. The City Council or a Council-designated independent person should review the reconciliations and monitor delinquencies. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of review. Established shut-off policies and procedures should be followed and delinquent accounts written off should be approved by the City Council.

Response – The City has established policies and procedures regarding delinquent accounts, but will confirm with the City Council the current policies in place. We will proceed with existing reconciliation measures while trying to create additional procedures to better identify any inconsistencies. Established shut off policies will be followed and delinquent account write-offs will be approved.

Conclusion – Response accepted.

II-D-17 Bank Reconciliations

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by reconciling bank and book balances.

Condition – The City’s monthly bank reconciliations are not compared to book balances in the City Clerk’s reports and the reconciliations do not include evidence they are independently reviewed. In addition, amounts reported as reconciling items at June 30, 2017 included \$5,185 of uncleared transactions which do not represent deposits in transit or outstanding checks. These amounts appear to be corrections which have not been properly recorded in the general ledger.

Cause – Procedures have not been designed and implemented to ensure all accounts are properly reconciled to book balances, reconciling items are identified and supported and the reconciliations are independently reviewed.

Effect – The lack of a complete bank to book reconciliation can result in unrecorded transactions, undetected errors and opportunity for misappropriation.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

Recommendation – The City’s monthly bank reconciliations should include a comparison to the book balances and the variances between book and bank balances should be investigated and resolved in a timely manner. All reconciling items should be identified and properly supported. In addition, the reconciliation should be reviewed by an independent person, including independent verification of reconciling items, and the review should be documented by the signature or initials of the independent reviewer and the date of the review.

Response – The City will examine variances between book and bank balances to resolve any discrepancies. We will also have an independent person review, sign and date reconciliations.

Conclusion – Response accepted.

II-E-17 Credit Cards

Criteria – Internal controls over safeguarding assets constitute a process, effected by an entity’s governing body, management and other personnel designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from error or misappropriations. Such processes include establishing policies addressing proper asset use and proper supporting documentation.

Condition – The City has credit cards for use by various employees while on City business that are not kept in a secure location. In addition, one of the ten transactions tested did not have itemized receipts available to support the charges.

Cause – Lack of the City enforcing its policy requiring itemized meal receipts accompany charges and lack of physical controls over the credit cards.

Effect – The lack of procedures can result in unauthorized and unsupported transactions and the opportunity for misappropriation errors.

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. Also, credit cards shall be stored in a secure location.

Response – The City has implemented a policy to require an itemized receipt for all charges, we will make an effort to ensure the policies are met.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

II-F-17 Computer System

Criteria – Properly designed policies and procedures pertaining to control activities over the City’s computer system and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable.

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

Cause – The City has not periodically reviewed user profiles and applied timely updates to ensure only current employees have appropriate access. Also, management has not adhered to password requirements or required offsite storage of system backups. In addition, the City has not required a written disaster recovery plan.

Effect – Lack of adherence to written policies for computer based systems could result in a loss of data or compromised data, resulting in unreliable financial information. The failure to have a formal disaster recovery plan could result in the City’s inability to function in the event of a disaster or continue City business without interruption. Backing up the computer system regularly helps ensure financial and other information is readily available in the case of a disaster or emergency.

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 contact IT to update the user profiles, aid in storing system backups offsite and to request assistance with a written disaster recovery plan.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

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, 2017

Other Findings Related to Required Statutory Reporting:

IV-A-17 Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the culture and recreation and capital projects functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City will make every effort to amend the budget before disbursements exceed the budget.

Conclusion – Response accepted.

IV-B-17 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 |
|-------------------------------|---|--------|
| Sweet n Saucy | Catering for City employee appreciation lunch | \$ 654 |
| Fairfield Chamber of Commerce | Chamber Bucks - retirement gift | 250 |
| Staats Awards Apparel | Retirement plaque | 36 |

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 employee appreciation celebration is paid from local option sales tax allocated for any lawful purpose and was approved by the City Council. The City Council has adopted written policies for employee recognition.

Conclusion – Response acknowledged. The City’s written policy for employee recognition does not include documentation of public purpose (i.e., how the public benefits). The City Council should document the public purpose served for employee recognition disbursements and the City employee appreciation lunch prior to approving such disbursements in the future.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

IV-C-17 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-17 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

| Name, Title and Business Connection | Transaction Description | Amount |
|--|----------------------------|-----------|
| Mark Brown, Fire Department employee, owns Brown Tree Service | Tree removal/trimming | \$ 25,832 |

In accordance with Chapter 362.5(3)(d) of the Code of Iowa, the City obtained competitive bids and awarded the bid to Brown Tree Service. However, we were unable to determine if the rates paid for the tree removal and trimming services agreed with the bid/approved rates, and therefore whether a conflict of interest exists, since the invoices from Brown Tree Services were not itemized.

Recommendation – To determine and document compliance with Chapter 362.5 of the Code of Iowa, the City should request itemized invoices for fiscal year 2017 from Brown Tree Service. The itemized invoices should be reviewed to determine the rates established by bid were used in the calculating the amounts billed to and paid by the City.

Response – The City will request the business submit itemized invoices showing the rates for services.

Conclusion – Response accepted.

IV-E-17 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-17 City Council Minutes – Except as noted below, no transactions were found that we believe should have been approved in the City Council minutes but were not.

Disbursements for remittances of payroll withholdings were not approved by the Council.

Although minutes of City Council proceedings were published, they were not always published within fifteen days and the publications did not include a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City Council should approve all disbursements, including disbursements made electronically. The City should publish minutes timely, including a summary of receipts, as required.

Response – We will attempt to be more diligent in publishing the minutes in accordance with State law, including a summary of receipts. Payroll remittances made electronically will be approved by the City Council.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

- IV-G-17 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 work toward adopting a depository resolution to establish maximum deposit amounts and aim to credit interest to the proper funds.

Conclusion – Response accepted.

- IV-H-17 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions, except as follows:

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 account.

Recommendation – The City should establish the required reserve account and should make the required transfers to the sinking and reserve accounts to comply with the LOST bond resolution.

Response – The City understands the recommendation; however, since the local option sales and services tax revenue bond will expire July 1, 2019, we do not intend to make changes at this time.

Conclusion – Response acknowledged. The City should comply with the LOST revenue bond resolution and establish the required accounts.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

IV-I-17 Financial Condition – At June 30, 2017, the City had a deficit balance of \$435,320 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 – Declared private donations are received annually and will eliminate this deficit.

Conclusion – Response accepted.

IV-J-17 Separately Maintained Records – The City maintains separate bank accounts and 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 these separately maintained records in the City’s monthly financial reports.

Conclusion – Response accepted.

IV-K-17 Annual Urban Renewal Report – The Annual Urban Renewal Report (AURR) was not approved by the City Council. In addition, the amount reported as TIF debt outstanding was understated by \$456,950, in part by not including the Pilot Grove and City Recreation Center obligations. In addition, the Levy Authority Summary included transfers, receipts and beginning cash balances which did not reconcile to the City’s Special Revenue, Urban Renewal Tax Increment Financing Fund.

Recommendation – The City should ensure the AURR is approved by the City Council and the amounts reported on the Levy Authority Summary agree with the City’s records.

Response – We will make an attempt to complete the AURR correctly and acquire City Council approval.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

IV-L-17 Tax Increment Financing (TIF) Debt Certification – As of June 30, 2017, the debt obligations associated with the Wagon Wheel and West Jackson Urban Renewal Areas were fully paid. However the Wagon Wheel and the West Jackson Urban Renewal accounts have balances of \$84,316 and \$16,464, respectively, at June 30, 2017, which represents TIF collections in excess of the TIF debt certified.

Recommendation – The City should consult TIF legal counsel to determine the appropriate resolution for the excess TIF collections in the Wagon Wheel and West Jackson Urban Renewal accounts, including returning the funds to the County Treasurer to be allocated to the respective taxing bodies in accordance with Chapter 24.21 of the Code of Iowa.

Response – The City will work with legal counsel to determine an appropriate use of balances in Wagon Wheel Urban Renewal Area and West Jackson Urban Renewal Area.

Conclusion – Response accepted.

IV-M-17 Payment of General Obligation Bonds – In November 2015, the City certified \$751,818 of TIF debt to the County Auditor, a portion of the 2015 General Obligation bonds. Although TIF increment taxes were collected during fiscal year 2017, the City did not transfer from the Special Revenue, Tax Increment Financing Fund to the Debt Service Fund for payment on the City’s 2015 general obligation bonds.

Recommendation – The City should transfer TIF increment tax funds from the Special Revenue, Tax Increment Financing Fund to the Debt Service Fund in accordance with the debt payment schedule.

Response – The City will transfer funds in accordance with payment schedule.

Conclusion – Response accepted.

IV-N-17 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. At June 30, 2017, outstanding checks totaling approximately \$1,500 had been outstanding greater than two years.

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 work on this process.

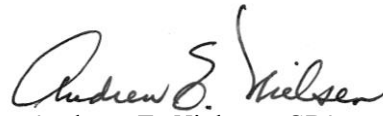
Conclusion – Response accepted.

City of Fairfield

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
Katherine L. Rupp, CPA, Manager
Jonathan M. Mader, CPA, Staff Auditor
Robert Q. Barrett, Assistant Auditor
Nicholas J. Gassman, Assistant Auditor
Sarah M. Schwind, Auditor Intern

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

Andrew E. Nielsen, CPA
Deputy Auditor of State