



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

Rob Sand  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

**NEWS RELEASE**

FOR RELEASE

March 31, 2020

Contact: Marlys Gaston  
515/281-5834

Auditor of State Rob Sand today released an audit report on the City of Fairfax, Iowa.

**FINANCIAL HIGHLIGHTS:**

The City's receipts totaled \$6,060,447 for the year ended June 30, 2019, a 63.8% increase over the prior year. Disbursements for the year ended June 30, 2019 totaled \$5,468,175, a 29.9% increase over the prior year. The significant increase in receipts and disbursements is due primarily to the issuance of general obligation bonds and the associated refunding of debt.

**AUDIT FINDINGS:**

Sand reported six findings related to the receipt and disbursement of taxpayer funds. They are found on pages 46 through 51 of this report. The findings address issues such as a lack of segregation of duties, the lack of timely review of utility reconciliations and disbursements which may not meet the requirements of a public purpose. Sand provided the City with recommendations to address each of the findings.

Four of the six findings discussed above are repeated from the prior year. The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the audit report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

###

**CITY OF FAIRFAX**

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

**JUNE 30, 2019**

**City of Fairfax**



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Rob Sand  
Auditor of State

March 27, 2020

Officials of the City of Fairfax  
Fairfax, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the financial and compliance audit report for the City of Fairfax, Iowa, for the year ended June 30, 2019. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Fairfax throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand". The signature is stylized and cursive.

Rob Sand  
Auditor of State

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**City of Fairfax**

**Officials**

| <u>Name</u>         | <u>Title</u>           | <u>Term Expires</u> |
|---------------------|------------------------|---------------------|
| Bernie Frieden      | Mayor                  | Jan 2020            |
| Marianne Wainwright | Mayor Pro tem          | Jan 2022            |
| Michael Daly        | Council Member         | Jan 2020            |
| Joe Kell            | Council Member         | Jan 2020            |
| Travis Otto         | Council Member         | Jan 2022            |
| Nick Volk           | Council Member         | Jan 2022            |
| Cynthia Stimson     | City Clerk             | Indefinite          |
| Kim Donaldson       | Deputy Clerk/Treasurer | Indefinite          |
| Kathy Everett       | Deputy Clerk/Utilities | Indefinite          |
| Randy Scholer       | Attorney               | Indefinite          |

**City of Fairfax**



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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, each major fund and the aggregate remaining fund information of the City of Fairfax, Iowa, as of and for the year ended June 30, 2019, 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, each major fund and the aggregate remaining fund information of the City of Fairfax as of June 30, 2019, 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*

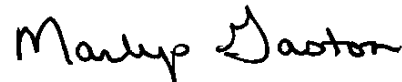
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairfax's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2018 (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 six years ended June 30, 2015 (which are not presented herein) were audited by other auditors 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 4 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, 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 28 through 34, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 27, 2020 on our consideration of the City of Fairfax'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 Fairfax's internal control over financial reporting and compliance.



Marlys K. Gaston, CPA  
Deputy Auditor of State

March 27, 2020

**City of Fairfax**

## **Basic Financial Statements**

City of Fairfax

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2019

|   | Disbursements | Program Receipts    |   |
|---|---------------|---------------------|---|
|   |               | Charges for Service | Operating Grants, Contributions and Restricted Interest |
| <b>Functions/Programs:</b>                              |               |                     |   |
| Governmental activities:                                |               |                     |   |
| Public safety   | \$ 416,330    | 203,912             | 26,138  |
| Public works  | 439,807       | -                   | 315,327   |
| Culture and recreation                                  | 433,195       | 2,054               | 43,448  |
| Community and economic development                      | 8,665         | 250                 | -   |
| General government                                      | 360,387       | 30,224              | -   |
| Debt service  | 1,067,754     | -                   | -   |
| Total governmental activities                           | 2,726,138     | 236,440             | 384,913   |
| Business type activities:                               |               |                     |   |
| Water   | 772,714       | 449,267             | -   |
| Sewer   | 1,777,286     | 550,533             | -   |
| Solid waste   | 192,037       | 176,124             | -   |
| Farm operations   | -             | 6,037               | -   |
| Total business type activities                          | 2,742,037     | 1,181,961           | -   |
| Total   | \$ 5,468,175  | 1,418,401           | 384,913   |
| <b>General Receipts and Transfers:</b>                  |               |                     |   |
| Property and other city tax levied for general purposes |               |                     |   |
| Tax increment financing                                 |               |                     |   |
| Local option sales tax                                  |               |                     |   |
| Commercial/industrial tax replacement                   |               |                     |   |
| Unrestricted interest on investments                    |               |                     |   |
| Bond proceeds, net of \$8,094 discount                  |               |                     |   |
| Sale of capital assets                                  |               |                     |   |
| 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                     |               |                     |   |
| <b>Cash Basis Net Position</b>                          |               |                     |   |
| Restricted:   |               |                     |   |
| Streets   |               |                     |   |
| Local option sales tax                                  |               |                     |   |
| Debt service  |               |                     |   |
| Capital improvements                                    |               |                     |   |
| Meter deposits  |               |                     |   |
| Unrestricted  |               |                     |   |
| <b>Total cash basis net position</b>                    |               |                     |   |
| See notes to financial statements.                      |               |                     |   |

| Net (Disbursements) Receipts and<br>Changes in Cash Basis Net Position |                             |             |
|--|-----------------------------|-------------|
| Governmental<br>Activities   | Business Type<br>Activities | Total       |
| (186,280)  | -                           | (186,280)   |
| (124,480)  | -                           | (124,480)   |
| (387,693)  | -                           | (387,693)   |
| (8,415)  | -                           | (8,415)     |
| (330,163)  | -                           | (330,163)   |
| (1,067,754)  | -                           | (1,067,754) |
| (2,104,785)  | -                           | (2,104,785) |
| -  | (323,447)                   | (323,447)   |
| -  | (1,226,753)                 | (1,226,753) |
| -  | (15,913)                    | (15,913)    |
| -  | 6,037                       | 6,037       |
| -  | (1,560,076)                 | (1,560,076) |
| (2,104,785)  | (1,560,076)                 | (3,664,861) |
| 776,221  | -                           | 776,221     |
| 973,767  | -                           | 973,767     |
| 264,406  | -                           | 264,406     |
| 13,950   | -                           | 13,950      |
| 12,249   | 673                         | 12,922      |
| 571,213  | 1,590,693                   | 2,161,906   |
| 2,800  | -                           | 2,800       |
| 32,202   | 18,959                      | 51,161      |
| (15,256)   | 15,256                      | -           |
| 2,631,552  | 1,625,581                   | 4,257,133   |
| 526,767  | 65,505                      | 592,272     |
| 807,518  | 455,713                     | 1,263,231   |
| \$ 1,334,285   | 521,218                     | 1,855,503   |
| \$ 39,465  | -                           | 39,465      |
| 107,088  | -                           | 107,088     |
| 153,526  | 93,953                      | 247,479     |
| 528,129  | 189,316                     | 717,445     |
| -  | 21,005                      | 21,005      |
| 506,077  | 216,944                     | 723,021     |
| \$ 1,334,285   | 521,218                     | 1,855,503   |

City of Fairfax

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

As of and for the year ended June 30, 2019

|   | Special             |                 |                           |
|---|---------------------|-----------------|---------------------------|
|   | General             | Road<br>Use Tax | Local Option<br>Sales Tax |
| <b>Receipts:</b>  |                     |                 |                           |
| Property tax  | \$ 760,397          | -               | -                         |
| Tax increment financing                                       | -                   | -               | -                         |
| Other city tax  | 15,824              | -               | 264,406                   |
| Licenses and permits  | 93,554              | -               | -                         |
| Use of money and property                                     | 35,054              | -               | -                         |
| Intergovernmental   | 169,772             | 274,261         | -                         |
| Charges for service   | 2,304               | -               | -                         |
| Miscellaneous   | 103,028             | -               | -                         |
| Total receipts  | <u>1,179,933</u>    | <u>274,261</u>  | <u>264,406</u>            |
| <b>Disbursements:</b>   |                     |                 |                           |
| Operating:  |                     |                 |                           |
| Public safety   | 353,391             | -               | 62,939                    |
| Public works  | 17,195              | 320,536         | 102,076                   |
| Culture and recreation  | 433,195             | -               | -                         |
| Community and economic development                            | 8,214               | -               | 451                       |
| General government  | 273,987             | -               | 86,400                    |
| Debt service  | -                   | -               | -                         |
| Total disbursements   | <u>1,085,982</u>    | <u>320,536</u>  | <u>251,866</u>            |
| Excess (deficiency) of receipts<br>over (under) disbursements | <u>93,951</u>       | <u>(46,275)</u> | <u>12,540</u>             |
| <b>Other financing sources (uses):</b>                        |                     |                 |                           |
| Bond proceeds, net of \$2,137 discount                        | -                   | -               | -                         |
| Sale of capital assets  | 2,800               | -               | -                         |
| Transfers in  | 522,800             | -               | -                         |
| Transfers out   | (60,529)            | -               | (9,693)                   |
| Total other financing sources (uses)                          | <u>465,071</u>      | <u>-</u>        | <u>(9,693)</u>            |
| Change in cash balances                                       | 559,022             | (46,275)        | 2,847                     |
| Cash balances beginning of year                               | 475,184             | 85,740          | 104,241                   |
| Cash balances end of year                                     | <u>\$ 1,034,206</u> | <u>39,465</u>   | <u>107,088</u>            |
| <b>Cash Basis Fund Balances</b>                               |                     |                 |                           |
| Restricted for:   |                     |                 |                           |
| Streets   | \$ -                | 39,465          | -                         |
| Local option sales tax  | -                   | -               | 107,088                   |
| Debt service  | -                   | -               | -                         |
| Capital improvements  | 528,129             | -               | -                         |
| Committed for:  |                     |                 |                           |
| Fire department   | 25,500              | -               | -                         |
| Fireworks   | 19,619              | -               | -                         |
| Library   | 291,607             | -               | -                         |
| Parks   | 38,488              | -               | -                         |
| Unassigned  | 130,863             | -               | -                         |
| Total cash basis fund balances                                | <u>\$ 1,034,206</u> | <u>39,465</u>   | <u>107,088</u>            |

See notes to financial statements.

| <u>Revenue</u>                 |                     |                    |
|--------------------------------|---------------------|--------------------|
| <u>Tax Increment Financing</u> | <u>Debt Service</u> | <u>Total</u>       |
| -                              | -                   | 760,397            |
| 973,767                        | -                   | 973,767            |
| -                              | -                   | 280,230            |
| -                              | -                   | 93,554             |
| 1,781                          | -                   | 36,835             |
| -                              | -                   | 444,033            |
| -                              | -                   | 2,304              |
| -                              | -                   | 103,028            |
| <u>975,548</u>                 | -                   | <u>2,694,148</u>   |
| -                              | -                   | 416,330            |
| -                              | -                   | 439,807            |
| -                              | -                   | 433,195            |
| -                              | -                   | 8,665              |
| -                              | -                   | 360,387            |
| -                              | 1,067,754           | 1,067,754          |
| -                              | 1,067,754           | 2,726,138          |
| <u>975,548</u>                 | <u>(1,067,754)</u>  | <u>(31,990)</u>    |
| -                              | 571,213             | 571,213            |
| -                              | -                   | 2,800              |
| -                              | 1,044,541           | 1,567,341          |
| <u>(964,375)</u>               | <u>(548,000)</u>    | <u>(1,582,597)</u> |
| <u>(964,375)</u>               | <u>1,067,754</u>    | <u>558,757</u>     |
| 11,173                         | -                   | 526,767            |
| <u>142,353</u>                 | -                   | <u>807,518</u>     |
| <u>153,526</u>                 | -                   | <u>1,334,285</u>   |
| -                              | -                   | 39,465             |
| -                              | -                   | 107,088            |
| 153,526                        | -                   | 153,526            |
| -                              | -                   | 528,129            |
| -                              | -                   | 25,500             |
| -                              | -                   | 19,619             |
| -                              | -                   | 291,607            |
| -                              | -                   | 38,488             |
| -                              | -                   | 130,863            |
| <u>153,526</u>                 | -                   | <u>1,334,285</u>   |



**City of Fairfax**

City of Fairfax

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

As of and for the year ended June 30, 2019

|   | Enterprise |             |          |             |
|---|------------|-------------|----------|-------------|
|   | Water      | Sewer       | Nonmajor | Total       |
| Operating receipts:   |            |             |          |             |
| Charges for service   | \$ 433,392 | 548,683     | 182,161  | 1,164,236   |
| Operating disbursements:  |            |             |          |             |
| Business type activities  | 265,245    | 334,526     | 192,037  | 791,808     |
| Excess (deficiency) of operating receipts over<br>(under) operating disbursements | 168,147    | 214,157     | (9,876)  | 372,428     |
| Non-operating receipts (disbursements):   |            |             |          |             |
| Licenses and permits  | 2,350      | 1,850       | -        | 4,200       |
| Interest on investments   | -          | 642         | 31       | 673         |
| Utility deposits/miscellaneous  | 13,525     | 18,959      | -        | 32,484      |
| Utility deposits refunded   | (10,905)   | -           | -        | (10,905)    |
| Bond proceeds, net of \$5,957 discount  | 405,187    | 1,185,506   | -        | 1,590,693   |
| Debt service  | (427,013)  | (1,442,262) | -        | (1,869,275) |
| Capital projects  | (69,551)   | (498)       | -        | (70,049)    |
| Net non-operating receipts (disbursements)  | (86,407)   | (235,803)   | 31       | (322,179)   |
| Excess (deficiency) of receipts<br>over (under) disbursements                     | 81,740     | (21,646)    | (9,845)  | 50,249      |
| Transfers in  | -          | 35,000      | -        | 35,000      |
| Transfers out   | (9,944)    | -           | (9,800)  | (19,744)    |
| Total transfers in (out)  | (9,944)    | 35,000      | (9,800)  | 15,256      |
| Change in cash balances   | 71,796     | 13,354      | (19,645) | 65,505      |
| Cash balances beginning of year   | 275,619    | 138,301     | 41,793   | 455,713     |
| Cash balances end of year   | \$ 347,415 | 151,655     | 22,148   | 521,218     |
| <b>Cash Basis Fund Balances</b>   |            |             |          |             |
| Restricted for:   |            |             |          |             |
| Debt service  | \$ -       | 93,953      | -        | 93,953      |
| Capital improvements  | 189,316    | -           | -        | 189,316     |
| Meter deposits  | 21,005     | -           | -        | 21,005      |
| Unrestricted  | 137,094    | 57,702      | 22,148   | 216,944     |
| Total cash basis fund balances  | \$ 347,415 | 151,655     | 22,148   | 521,218     |

See notes to financial statements.

City of Fairfax

Notes to Financial Statements

June 30, 2019

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

The City of Fairfax is a political subdivision of the State of Iowa located in Linn County. It was first incorporated in 1930 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer, solid waste utilities and farm operations for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Fairfax has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations for which the City is not financially accountable or the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following boards and commissions: Linn County Assessor's Conference Board, Linn County Emergency Management Commission, Linn County Joint 911 Service Board, and the Corridor Metropolitan Planning Organization.

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. 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:

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

Unrestricted net position consists of cash balances not meeting the definition of the preceding category. 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 enterprise funds are aggregated and reported as nonmajor enterprise funds.

The City reports the following major governmental funds:

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

The Tax Increment Financing Fund is used to account for tax increment financing collections and repayment of tax increment financing indebtedness.

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 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 system.

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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.

Committed – Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year-end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

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, 2019, disbursements exceeded the amount budgeted in the community and economic development function prior to the budget amendment.

## (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2019 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.

The City had no investments meeting the disclosure requirement of Governmental Accounting Standards Board Statement No. 72.

## (3) Long-Term Debt

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

| Year<br>Ending<br>June 30, | General Obligation<br>Bonds/Notes |           | Sewer Revenue Bonds |          | Total     |           |            |
|----------------------------|-----------------------------------|-----------|---------------------|----------|-----------|-----------|------------|
|                            | Principal                         | Interest  | Principal           | Interest | Principal | Interest  | Total      |
| 2020                       | \$ 971,000                        | 199,805   | 150,000             | 23,275   | 1,121,000 | 223,080   | 1,344,080  |
| 2021                       | 1,056,000                         | 181,058   | 154,000             | 20,650   | 1,210,000 | 201,708   | 1,411,708  |
| 2022                       | 1,056,000                         | 157,917   | 159,000             | 17,955   | 1,215,000 | 175,872   | 1,390,872  |
| 2023                       | 1,031,000                         | 132,805   | 163,000             | 15,173   | 1,194,000 | 147,978   | 1,341,978  |
| 2024                       | 1,047,000                         | 106,973   | 168,000             | 12,320   | 1,215,000 | 119,293   | 1,334,293  |
| 2025-2029                  | 2,516,000                         | 237,932   | 536,000             | 18,952   | 3,052,000 | 256,884   | 3,308,884  |
| 2030-2031                  | 350,000                           | 16,625    | -                   | -        | 350,000   | 16,625    | 366,625    |
| Total                      | \$ 8,027,000                      | 1,033,115 | 1,330,000           | 108,325  | 9,357,000 | 1,141,440 | 10,498,440 |

### General Obligation Bonds/Notes

On August 28, 2018, the City issued \$2,170,000 of general obligation corporate purpose and refunding bonds, with interest rates ranging from 2.5 to 3.2% per annum. The bonds were issued to fund the construction of street, bridge, sanitary sewer, city park, and trail improvements and to refund the Water Revenue Bond Anticipation Project Note issued September 1, 2016 and the Sewer Revenue Bond Anticipation Project Note issued September 1, 2016. The City refunded the \$1,615,900 outstanding anticipation project notes on August 29, 2018.

### Sewer Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,400,000 of sewer revenue bonds issued in November 2006. The agreement also requires the City to annually pay a 0.25% servicing fee on the outstanding principal balance. The bonds are payable solely from sewer customer net receipts and are payable through 2027. Annual principal and interest payments on the bonds required 80% of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,438,325. For the current year, principal and interest paid and total customer net receipts were \$170,812 and \$214,157, respectively.

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

- a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the fund.
- b) Sufficient monthly transfers shall be made to a sewer revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- c) User rates shall be established and charged to customers of the utility, including the City, to produce and maintain net receipts at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

The Iowa Finance Authority reduced the interest rate on the Series 2008 Sewer Revenue Bond from 3.00% to 1.75% effective with the payment due on December 1, 2017.

#### **(4) Operating Leases**

On April 14, 2016, the City entered into an operating lease for an excavator. The agreement requires five annual payments of \$15,151 and at the end of the lease, the City may purchase the equipment at a predetermined market value of \$38,010. During the year ended June 30, 2019, the City made lease payments totaling \$15,151.

In June 2016, the City entered into an operating lease for occupancy of a building for City Hall. The lease began July 1, 2016 and is for three years with two successive options to extend the lease, each for a one-year term. Annual rent is \$60,000 payable in two equal payments of \$30,000 on July 1 and January 1 and is subject to annual appropriation by the City Council. During the year ended June 30, 2019, the City made lease payments totaling \$60,000.

On April 10, 2018, the City entered into an operating lease for a skid loader. The agreement requires three annual payments of \$9,138 and at the end of the lease, the City may purchase the equipment at a predetermined market value of \$32,760. During the year ended June 30, 2019, the City made lease payments totaling \$9,138.

#### **(5) Pension Plan**

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 PO Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

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

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

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

Protection occupation members may retire at normal retirement age, which is generally at age 55. Protection occupation members may retire any time after reaching age 50 with 22 or more years of covered employment.

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 2019, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the City contributed 9.44% of covered payroll, for a total rate of 15.73%. Protection occupation members contributed 6.81% of covered payroll and the City contributed 10.21% of covered payroll, for a total rate of 17.02%.

The City’s contributions to IPERS for the year ended June 30, 2019 totaled \$53,030.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2019, the City reported a liability of \$454,168 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 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, 2018, the City’s proportion was 0.007177%, which was an increase of 0.000279% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$61,864, \$120,960, and \$76,200, respectively.

Actuarial Assumptions – The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

|  |   |
|--|---|
| Rate of inflation<br>(effective June 30, 2017)                   | 2.60% per annum.  |
| Rates of salary increase<br>(effective June 30, 2017)            | 3.25 to 16.25% average, including inflation.<br>Rates vary by membership group. |
| Long-term investment rate of return<br>(effective June 30, 2017) | 7.00% compounded annually, net of investment<br>expense, including inflation.   |
| Wage growth<br>(effective June 30, 2017)                         | 3.25% per annum, based on 2.60% inflation<br>and 0.65% real wage inflation.     |

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2018 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

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:

| Asset Class              | Asset Allocation | Long-Term Expected Real Rate of Return |
|--------------------------|------------------|--|
| Domestic equity          | 22.0%            | 6.01%                                  |
| International equity     | 15.0             | 6.48                                   |
| Global smart beta equity | 3.0              | 6.23                                   |
| Core plus fixed income   | 27.0             | 1.97                                   |
| Public credit            | 3.5              | 3.93                                   |
| Public real assets       | 7.0              | 2.91                                   |
| Cash                     | 1.0              | (0.25)                                 |
| Private equity           | 11.0             | 10.81                                  |
| Private real assets      | 7.5              | 4.14                                   |
| Private credit           | 3.0              | 3.11                                   |
| Total                    | <u>100.0%</u>    |  |

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. 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 7.00%, 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 (6.00%) or 1% higher (8.00%) than the current rate.

|   | 1%<br>Decrease<br>(6.00%) | Discount<br>Rate<br>(7.00%) | 1%<br>Increase<br>(8.00%) |
|---|---------------------------|-----------------------------|---------------------------|
| City's proportionate share of the net pension liability | \$ 772,987                | 454,168                     | 186,729                   |

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

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and compensatory time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City’s approximate liability for earned vacation and compensatory time to employees at June 30, 2019, primarily relating to the General Fund is as follows:

| Type of Benefit   | Amount           |
|-------------------|------------------|
| Vacation          | \$ 14,000        |
| Compensatory time | 17,000           |
| Total             | <u>\$ 31,000</u> |

This liability has been computed based on rates of pay in effect at June 30, 2019.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2019 is as follows:

| Transfer to          | Transfer from           | Amount              |
|----------------------|-------------------------|---------------------|
| General              | Debt Service            | \$ 513,000          |
|                      | Enterprise:             |                     |
|                      | Farm Operations         | <u>9,800</u>        |
|                      |                         | <u>522,800</u>      |
| Debt Service         | General                 | 60,529              |
|                      | Special Revenue:        |                     |
|                      | Tax Increment Financing | 964,375             |
|                      | Local Option Sales Tax  | 9,693               |
|                      | Enterprise:             |                     |
|                      | Water                   | <u>9,944</u>        |
|                      |                         | <u>1,044,541</u>    |
| Enterprise:<br>Sewer | Debt Service            | <u>35,000</u>       |
|                      |                         | <u>35,000</u>       |
| Total                |                         | <u>\$ 1,602,341</u> |

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

**(8) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Subsequent Events**

In January 2020, the City issued \$1,270,000 of general obligation corporate purpose and refunding bonds for the purposes of infrastructure and park improvements and the acquisition of a fire truck.

**(10) Prospective Accounting Change**

Governmental Accounting Standards Board has issued Statement No. 84, Fiduciary Activities. This statement will be implemented for the fiscal year ending June 30, 2020. The revised requirements of this statement will enhance the consistency and comparability of fiduciary activity reporting by state and local governments by establishing specific criteria for identifying fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities.

**City of Fairfax**

## **Other Information**

City of Fairfax  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements, and Changes in Balances –  
 Budget and Actual – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2019

|   | Governmental<br>Funds<br>Actual | Enterprise<br>Funds<br>Actual | Total            |
|---|---------------------------------|-------------------------------|------------------|
| Receipts:   |                                 |                               |                  |
| Property tax  | \$ 760,397                      | -                             | 760,397          |
| Tax increment financing   | 973,767                         | -                             | 973,767          |
| Other city tax  | 280,230                         | -                             | 280,230          |
| Licenses and permits  | 93,554                          | 4,200                         | 97,754           |
| Use of money and property   | 36,835                          | 673                           | 37,508           |
| Intergovernmental   | 444,033                         | -                             | 444,033          |
| Charges for service   | 2,304                           | 1,164,236                     | 1,166,540        |
| Miscellaneous   | 103,028                         | 32,484                        | 135,512          |
| Total receipts  | <u>2,694,148</u>                | <u>1,201,593</u>              | <u>3,895,741</u> |
| Disbursements:  |                                 |                               |                  |
| Public safety   | 416,330                         | -                             | 416,330          |
| Public works  | 439,807                         | -                             | 439,807          |
| Culture and recreation  | 433,195                         | -                             | 433,195          |
| Community and economic development  | 8,665                           | -                             | 8,665            |
| General government  | 360,387                         | -                             | 360,387          |
| Debt service  | 1,067,754                       | -                             | 1,067,754        |
| Business type activities  | -                               | 2,742,037                     | 2,742,037        |
| Total disbursements   | <u>2,726,138</u>                | <u>2,742,037</u>              | <u>5,468,175</u> |
| Excess (deficiency) of receipts<br>over (under) disbursements   | (31,990)                        | (1,540,444)                   | (1,572,434)      |
| Other financing sources (uses), net   | <u>558,757</u>                  | <u>1,605,949</u>              | <u>2,164,706</u> |
| Excess (deficiency) of receipts and other<br>financing sources over (under)<br>disbursements and other financing uses | 526,767                         | 65,505                        | 592,272          |
| Balances beginning of year  | <u>807,518</u>                  | <u>455,713</u>                | <u>1,263,231</u> |
| Balances end of year  | <u>\$ 1,334,285</u>             | <u>521,218</u>                | <u>1,855,503</u> |

See accompanying independent auditor's report.

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| Budgeted Amounts |                  | Final to         |
|------------------|------------------|------------------|
| Original         | Final            | Total            |
|                  |                  | Variance         |
| 772,168          | 772,168          | (11,771)         |
| 970,000          | 970,000          | 3,767            |
| 273,061          | 280,300          | (70)             |
| 91,500           | 97,000           | 754              |
| 28,086           | 40,200           | (2,692)          |
| 426,130          | 472,323          | (28,290)         |
| 1,271,180        | 1,261,012        | (94,472)         |
| 125,082          | 172,000          | (36,488)         |
| <u>3,957,207</u> | <u>4,065,003</u> | <u>(169,262)</u> |
| 423,928          | 471,343          | 55,013           |
| 459,730          | 541,730          | 101,923          |
| 1,066,555        | 1,011,182        | 577,987          |
| 141,200          | 33,200           | 24,535           |
| 371,810          | 371,810          | 11,423           |
| 1,141,692        | 1,068,032        | 278              |
| 3,297,566        | 3,226,174        | 484,137          |
| <u>6,902,481</u> | <u>6,723,471</u> | <u>1,255,296</u> |
| (2,945,274)      | (2,658,468)      | 1,086,034        |
| <u>4,170,000</u> | <u>2,161,907</u> | <u>2,799</u>     |
| 1,224,726        | (496,561)        | 1,088,833        |
| 1,263,231        | 1,263,231        | -                |
| <u>2,487,957</u> | <u>766,670</u>   | <u>1,088,833</u> |



City of Fairfax

Notes to Other Information – Budgetary Reporting

June 30, 2019

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund 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, three budget amendments decreased budgeted disbursements by \$179,010. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2019, disbursements exceeded the amount budgeted in the community and economic development function prior to amendment.

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City of Fairfax

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

Iowa Public Employees' Retirement System  
For the Last Five Years\*  
(In Thousands)

Other Information

|  | 2019      | 2018      | 2017      | 2016      | 2015      |
|--|-----------|-----------|-----------|-----------|-----------|
| City's proportion of the net pension liability   | 0.007177% | 0.006898% | 0.006238% | 0.005562% | 0.005829% |
| City's proportionate share of the net pension liability  | \$ 454    | 459       | 393       | 275       | 231       |
| City's covered payroll   | \$ 543    | 519       | 446       | 382       | 382       |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 83.61%    | 88.44%    | 88.12%    | 71.99%    | 60.47%    |
| IPERS' net position as a percentage of the total liability pension                             | 83.62%    | 82.21%    | 81.82%    | 85.19%    | 87.61%    |

\* 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.

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City of Fairfax

Schedule of City Contributions

Iowa Public Employees' Retirement System  
For the Last Ten Years  
(In Thousands)

Other Information

|   | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|-------------|-------------|-------------|-------------|
| Statutorily required contribution                                     | \$ 53       | 48          | 46          | 41          |
| Contributions in relation to the<br>statutorily required contribution | <u>(53)</u> | <u>(48)</u> | <u>(46)</u> | <u>(41)</u> |
| Contribution deficiency (excess)                                      | <u>\$ -</u> | <u>-</u>    | <u>-</u>    | <u>-</u>    |
| City's covered payroll  | \$ 561      | 543         | 519         | 446         |
| Contributions as a percentage of<br>covered payroll                   | 9.45%       | 8.84%       | 8.86%       | 9.19%       |

See accompanying independent auditor's report.

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| 2015  | 2014  | 2013  | 2012  | 2011  | 2010  |
|-------|-------|-------|-------|-------|-------|
| 34    | 34    | 30    | 26    | 21    | 20    |
| (34)  | (34)  | (30)  | (26)  | (21)  | (20)  |
| -     | -     | -     | -     | -     | -     |
| 382   | 382   | 342   | 321   | 308   | 302   |
| 8.90% | 8.90% | 8.77% | 8.10% | 6.82% | 6.62% |

City of Fairfax

Notes to Other Information – Pension Liability

Year ended June 30, 2019

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.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

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.

## **Supplementary Information**

**City of Fairfax**

## City of Fairfax

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

As of and for the year ended June 30, 2019

|   | Enterprise     |                    |          |
|---|----------------|--------------------|----------|
|   | Solid<br>Waste | Farm<br>Operations | Total    |
| Operating receipts:   |                |                    |          |
| Charges for service   | \$ 176,124     | 6,037              | 182,161  |
| Operating disbursements:  |                |                    |          |
| Business type activities  | 192,037        | -                  | 192,037  |
| Excess (deficiency) of operating receipts over<br>(under) operating disbursements | (15,913)       | 6,037              | (9,876)  |
| Non-operating receipts:   |                |                    |          |
| Interest on investments   | -              | 31                 | 31       |
| Excess (deficiency) of receipts<br>over (under) disbursements                     | (15,913)       | 6,068              | (9,845)  |
| Transfers out   | -              | (9,800)            | (9,800)  |
| Change in cash balances   | (15,913)       | (3,732)            | (19,645) |
| Cash balances beginning of year   | 32,918         | 8,875              | 41,793   |
| Cash balances end of year   | \$ 17,005      | 5,143              | 22,148   |
| <b>Cash Basis Fund Balances</b>   |                |                    |          |
| Unrestricted  | \$ 17,005      | 5,143              | 22,148   |

See accompanying independent auditor's report.



City of Fairfax  
Schedule of Indebtedness  
Year ended June 30, 2019

| Obligation  | Date of Issue  | Interest Rates | Amount Originally Issued |
|---|----------------|----------------|--------------------------|
| General obligation bonds:                                     |                |                |                          |
| Water improvement   | Feb 10, 2010 * | 3.00%          | \$ 118,000               |
| Water improvement   | May 12, 2011   | 1.35-3.65      | 540,000                  |
| Water main improvement and Fairfax Athletics and Park Complex | Nov 10, 2011   | 2.00-3.00      | 2,260,000                |
| Fire truck and refunding                                      | Jun 26, 2012   | 0.60-1.70      | 590,000                  |
| Corporate purpose and refunding                               | Sep 10, 2013   | 1.00-3.00      | 2,485,000                |
| Corporate purpose   | Apr 8, 2014    | 2.00-2.75      | 1,330,000                |
| Corporate purpose   | Jun 10, 2015   | 1.00-3.00      | 2,080,000                |
| Corporate purpose and refunding                               | Jun 27, 2017   | 1.00-2.60      | 955,000                  |
| Corporate purpose and refunding                               | Aug 28, 2018   | 2.50-3.20      | 2,170,000                |
| Total   |                |                |                          |
| Revenue bonds:  |                |                |                          |
| Sewer improvement   | Nov 2, 2006 *  | 1.75%          | \$ 2,400,000             |
| Revenue bond anticipation notes:                              |                |                |                          |
| Water improvement   | Sep 1, 2016    | 2.25%          | \$ 415,900               |
| Sewer improvement   | Sep 1, 2016    | 2.25           | 1,200,000                |
| Total   |                |                |                          |

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

See accompanying independent auditor's report.

| Balance<br>Beginning<br>of Year | Issued<br>During<br>Year | Redeemed<br>During<br>Year | Balance<br>End of<br>Year | Interest<br>Paid |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|
| 73,000                          | -                        | 6,000                      | 67,000                    | 2,190            |
| 235,000                         | -                        | 55,000                     | 180,000                   | 8,003            |
| 1,195,000                       | -                        | 185,000                    | 1,010,000                 | 30,090           |
| 115,000                         | -                        | 60,000                     | 55,000                    | 1,955            |
| 1,595,000                       | -                        | 170,000                    | 1,425,000                 | 39,878           |
| 1,030,000                       | -                        | 105,000                    | 925,000                   | 23,727           |
| 1,650,000                       | -                        | 165,000                    | 1,485,000                 | 34,785           |
| 870,000                         | -                        | 125,000                    | 745,000                   | 15,703           |
| -                               | 2,170,000                | 35,000                     | 2,135,000                 | 45,335           |
| <b>\$ 6,763,000</b>             | <b>2,170,000</b>         | <b>906,000</b>             | <b>8,027,000</b>          | <b>201,666</b>   |
| 1,475,000                       | -                        | 145,000                    | 1,330,000                 | 25,812           |
| 415,900                         | -                        | 415,900                    | -                         | 2,287            |
| 1,200,000                       | -                        | 1,200,000                  | -                         | 6,600            |
| <b>\$ 1,615,900</b>             | <b>-</b>                 | <b>1,615,900</b>           | <b>-</b>                  | <b>8,887</b>     |

City of Fairfax  
Bond Maturities  
June 30, 2019

| Year<br>Ending<br>June 30, | General Obligation  |                  |                     |                   |   |                     |
|----------------------------|---------------------|------------------|---------------------|-------------------|---|---------------------|
|                            | Water Improvement   |                  | Water Improvement   |                   | Water Main<br>Improvement and Fairfax<br>Athletics and Park Complex |                     |
|                            | Issued Feb 10, 2010 |                  | Issued May 12, 2011 |                   | Issued Nov 10, 2011   |                     |
|                            | Interest            |                  | Interest            |                   | Interest  |                     |
|                            | Rates               | Amount           | Rates               | Amount            | Rates   | Amount              |
| 2020                       | 3.00%               | \$ 6,000         | 3.15%               | \$ 60,000         | 2.20%   | \$ 190,000          |
| 2021                       | 3.00                | 6,000            | 3.65                | 60,000            | 2.40  | 195,000             |
| 2022                       | 3.00                | 6,000            | 3.65                | 60,000            | 2.60  | 200,000             |
| 2023                       | 3.00                | 6,000            | -                   | -                 | 2.80  | 210,000             |
| 2024                       | 3.00                | 7,000            | -                   | -                 | 3.00  | 215,000             |
| 2025                       | 3.00                | 7,000            | -                   | -                 | -   | -                   |
| 2026                       | 3.00                | 7,000            | -                   | -                 | -   | -                   |
| 2027                       | 3.00                | 7,000            | -                   | -                 | -   | -                   |
| 2028                       | 3.00                | 7,000            | -                   | -                 | -   | -                   |
| 2029                       | 3.00                | 8,000            | -                   | -                 | -   | -                   |
| 2030                       | -                   | -                | -                   | -                 | -   | -                   |
| 2031                       | -                   | -                | -                   | -                 | -   | -                   |
| Total                      |                     | <u>\$ 67,000</u> |                     | <u>\$ 180,000</u> |   | <u>\$ 1,010,000</u> |

| Year<br>Ending<br>June 30, | General Obligation  |                   |                     |                     |                                    |                   |
|----------------------------|---------------------|-------------------|---------------------|---------------------|------------------------------------|-------------------|
|                            | Corporate Purpose   |                   | Corporate Purpose   |                     | Corporate Purpose<br>and Refunding |                   |
|                            | Issued Apr, 8, 2014 |                   | Issued Jun 10, 2015 |                     | Issued Jun 27, 2017                |                   |
|                            | Interest            |                   | Interest            |                     | Interest                           |                   |
|                            | Rates               | Amount            | Rates               | Amount              | Rates                              | Amount            |
| 2020                       | 2.00%               | \$ 105,000        | 1.40%               | \$ 170,000          | 1.35%                              | \$ 145,000        |
| 2021                       | 2.00                | 105,000           | 1.80                | 170,000             | 1.45                               | 140,000           |
| 2022                       | 2.05                | 110,000           | 1.80                | 175,000             | 1.80                               | 50,000            |
| 2023                       | 2.25                | 115,000           | 2.15                | 180,000             | 1.80                               | 55,000            |
| 2024                       | 2.40                | 115,000           | 2.15                | 185,000             | 2.05                               | 55,000            |
| 2025                       | 2.50                | 120,000           | 2.35                | 190,000             | 2.05                               | 55,000            |
| 2026                       | 2.60                | 125,000           | 2.35                | 135,000             | 2.35                               | 60,000            |
| 2027                       | 2.75                | 130,000           | 3.00                | 135,000             | 2.35                               | 60,000            |
| 2028                       | -                   | -                 | 3.00                | 145,000             | 2.60                               | 60,000            |
| 2029                       | -                   | -                 | -                   | -                   | 2.60                               | 65,000            |
| 2030                       | -                   | -                 | -                   | -                   | -                                  | -                 |
| 2031                       | -                   | -                 | -                   | -                   | -                                  | -                 |
| Total                      |                     | <u>\$ 925,000</u> |                     | <u>\$ 1,485,000</u> |                                    | <u>\$ 745,000</u> |

See accompanying independent auditor's report.



City of Fairfax

Schedule of Receipts by Source and Disbursements By Function –  
All Governmental Funds

For the Last Ten Years

|                                    | 2019                | 2018             | 2017             | 2016             |
|------------------------------------|---------------------|------------------|------------------|------------------|
| Receipts:                          |                     |                  |                  |                  |
| Property tax                       | \$ 760,397          | 739,276          | 643,691          | 608,423          |
| Tax increment financing            | 973,767             | 946,788          | 1,006,816        | 985,032          |
| Other city tax                     | 280,230             | 278,969          | 306,757          | 292,270          |
| Licenses and permits               | 93,554              | 89,193           | 57,945           | 45,829           |
| Use of money and property          | 36,835              | 23,787           | 22,039           | 12,923           |
| Intergovernmental                  | 444,033             | 440,735          | 592,034          | 457,530          |
| Charges for service                | 2,304               | 3,528            | 3,433            | 3,428            |
| Miscellaneous                      | 103,028             | 109,162          | 147,030          | 51,941           |
| Total                              | <u>\$ 2,694,148</u> | <u>2,631,438</u> | <u>2,779,745</u> | <u>2,457,376</u> |
| Disbursements:                     |                     |                  |                  |                  |
| Operating:                         |                     |                  |                  |                  |
| Public safety                      | \$ 416,330          | 378,904          | 528,309          | 905,781          |
| Public works                       | 439,807             | 321,230          | 759,666          | 669,319          |
| Culture and recreation             | 433,195             | 398,799          | 388,288          | 381,983          |
| Community and economic development | 8,665               | 35,479           | 125,816          | 97,650           |
| General government                 | 360,387             | 339,788          | 483,322          | 275,804          |
| Debt service                       | 1,067,754           | 1,392,961        | 1,037,873        | 1,241,485        |
| Total                              | <u>\$ 2,726,138</u> | <u>2,867,161</u> | <u>3,323,274</u> | <u>3,572,022</u> |

See accompanying independent auditor's report.

| 2015             | 2014             | 2013             | 2012             | 2011             | 2010             |
|------------------|------------------|------------------|------------------|------------------|------------------|
| 597,563          | 580,825          | 520,387          | 540,087          | 452,537          | 425,909          |
| 860,078          | 706,060          | 717,125          | 450,269          | 589,491          | 585,576          |
| 262,334          | 262,490          | 247,776          | 261,920          | 213,898          | 210,814          |
| 33,156           | 43,567           | 26,452           | 30,703           | 35,626           | 33,250           |
| 9,373            | 10,956           | 13,876           | 29,960           | 24,692           | 33,586           |
| 781,113          | 443,071          | 347,783          | 334,696          | 288,938          | 288,017          |
| 3,453            | 3,832            | 5,105            | 10,240           | 4,425            | -                |
| 60,313           | 78,937           | 142,454          | 65,599           | 46,696           | 86,731           |
| <u>2,607,383</u> | <u>2,129,738</u> | <u>2,020,958</u> | <u>1,723,474</u> | <u>1,656,303</u> | <u>1,663,883</u> |
| 383,152          | 478,843          | 400,435          | 262,658          | 327,357          | 155,302          |
| 1,301,332        | 1,925,806        | 417,548          | 265,955          | 462,784          | 336,818          |
| 1,029,373        | 767,059          | 1,602,417        | 1,123,820        | 253,544          | 219,882          |
| 15,740           | 5,499            | 5,326            | 11,992           | -                | 5,064            |
| 253,202          | 270,829          | 198,952          | 240,765          | 189,052          | 206,012          |
| 1,146,467        | 1,597,450        | 1,468,724        | 805,257          | 917,470          | 661,240          |
| <u>4,129,266</u> | <u>5,045,486</u> | <u>4,093,402</u> | <u>2,710,447</u> | <u>2,150,207</u> | <u>1,584,318</u> |



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

Rob Sand  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

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, each major fund and the aggregate remaining fund information of the City of Fairfax, Iowa, as of and for the year ended June 30, 2019, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 27, 2020. 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 Fairfax'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 Fairfax's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Fairfax'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, 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 Fairfax's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in the accompanying Schedule of Findings as item (A) to be a material weakness.

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fairfax's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2019 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.

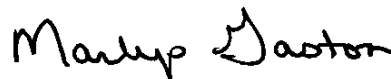
### The City of Fairfax's Responses to the Findings

The City of Fairfax's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Fairfax'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 Fairfax 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.



Marlys K. Gaston, CPA  
Deputy Auditor of State

March 27, 2020



City of Fairfax  
Schedule of Findings  
Year ended June 30, 2019

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

(A) 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) Accounting system – performing all accounting functions, including making journal entries and having custody of assets.
- (2) Cash – initiating cash receipt and disbursement functions, handling and recording cash and reconciling.
- (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing and posting.
- (7) Debt – recordkeeping, compliance and debt payment processing.
- (8) Investments – custodian and record keeping.

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 – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances. The City should utilize current personnel and officials to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons and should be documented by the signature or initials of the reviewer and the date of the review.

City of Fairfax

Schedule of Findings

Year ended June 30, 2019

Response – The City will try to segregate duties as much as possible going forward and will have Council Members and the Mayor help in this process.

Conclusion – Response accepted.

(B) Journal Entries

Criteria – An effective internal control system provides for internal controls related to preparation of journal entries by all employees. Supporting documentation for all journal entries supports the accuracy of the entries by the employees and an independent review helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements.

Condition – There was no evidence of independent review for two of ten journal entries tested.

Cause – The City has a limited number of employees and procedures have not been designed to ensure the review and approval of journal entries is clearly documented.

Effect – Lack of independent approval of transactions 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 – To strengthen controls, journal entries should be supported, and the support should be provided to the reviewer for approval by an independent person.

Response – The City will implement procedures to ensure all journal entries are approved and are reviewed by an independent person. The evidence of the review will be documented by the reviewer’s signature and date.

Conclusion – Response accepted.

(C) 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 deposit to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances.

Condition – The utility billings, collections and delinquent accounts reconciliations and delinquent account listings were independently reviewed; however, the review was not performed timely.

Cause – Policies have not been established and procedures have not been implemented to ensure reconciliations and delinquent accounts are independently reviewed in a timely manner for completeness and accuracy.

City of Fairfax

Schedule of Findings

Year ended June 30, 2019

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 – The City Council or a Council-designated independent person should review the reconciliations and monitor delinquencies timely. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of review.

Response – The City will perform independent reviews of the utility billings, collections and delinquent accounts reconciliations in a timely manner. The review will be evidenced by the reviewer's name and the date reviewed.

Conclusion – Response accepted.

(D) Disaster Recovery Plan

Criteria – A disaster recovery plan for financial continuity should include the following:

- Identification of critical applications.
- Identification of steps for recovery of any operating systems for City operations.
- Identification of computer equipment needed for temporary processing.
- Identification of business location(s) which could be used to process critical applications in the event of an emergency, including any applicable written agreements for the use of the locations.
- Requirement to keep a copy of the disaster recovery plan off site.
- Requirement to keep system backups current and off site.
- An inventory of all hardware and components.
- An inventory of all software applications.
- A requirement that copies of all user documentation and policy and procedures manual be located off site.
- A requirement for extra stock of paper supplies, such as checks, warrants, purchase orders, etc., be located off site.
- Requirement outlining the frequency of testing the disaster recovery plan to identify issues and document the results of testing.

Condition – The City does not have a written disaster recovery plan for its computer system.

Cause – Management has not required a written disaster recovery plan for its computer.

Effect – 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.

Recommendation – The City should develop a written disaster recovery plan.

City of Fairfax

Schedule of Findings

Year ended June 30, 2019

Response – The City will look into the development and implementation of a computer system disaster recovery plan.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Fairfax  
 Schedule of Findings  
 Year ended June 30, 2019

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

- (1) Certified Budget – Disbursements in the community and economic development function exceeded the amount budgeted prior to the budget amendment. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – We will try not to exceed the program totals before a budget amendment.

Conclusion – Response accepted.

- (2) Questionable Disbursements – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General’s opinion dated April 25, 1979, public funds may only be spent for public benefit. Certain disbursements were noted which we believe may not meet the requirements of public purpose as defined in the Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

| Paid to        | Purpose  | Amount |
|----------------|--|--------|
| Star Bar       | Meals for library trainings                                  | \$ 147 |
| Fairway Stores | Drinks purchased for staff, elected officials,<br>and guests | 132    |

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 should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper public purpose documentation.

Response – The City will make revisions to our public purpose resolution. The City Council will discuss and be fully informed about the purchases being made and make their determination.

Conclusion – Response acknowledged. The City should document the public benefit prior to authorizing further payments.

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

City of Fairfax

Schedule of Findings

Year ended June 30, 2019

- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

| Name, Title and<br>Business Connection   | Transaction<br>Description                   | Amount   |
|--|--|----------|
| Mike Sankot, Fire Chief,<br>Co-Owner of Sankot's Garage  | Miscellaneous parts, supplies<br>and service | \$ 5,918 |
| Joseph Kell, City Council Member,<br>President and Director of Fairfax<br>Youth Sports Association, Inc. | Concessions and park<br>rental               | 1,100    |

In accordance with Chapter 362.5(3)(h) of the Code of Iowa, the transactions with Sankot’s Garage do not appear to represent a conflict of interest.

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the Fairfax Youth Sports Association, Inc. do not appear to represent conflicts of interest since the total transactions were less than \$1,500 during the fiscal year.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- (8) Revenue Bonds – No instances of non-compliance with the revenue bond resolutions were noted.
- (9) Annual Urban Renewal Report – No instances of non-compliance with the Annual Urban Renewal Report requirements for the year ended June 30, 2019 were noted.
- (10) Payment of General Obligation Bonds – Principal and a portion of the interest for the 2018 general obligation bonds were paid from the Enterprise Water and Sewer Funds. Chapter 384.4 of the Code states in part that “Moneys pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the Debt Service Fund.”

Recommendation – The City should transfer from the Enterprise Water and Sewer Funds to the Debt Service Funds for future funding contributions. Payments of the bonds should be disbursed from the Debt Service Fund.

Response – We will transfer the funds from the Water and Sewer Funds to the Debt Service Fund and pay the debt out of the Debt Service Fund in the future.

Conclusion – Response accepted.

City of Fairfax

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy  
Lesley R. Geary, CPA, Manager  
Nicholas J. Gassman, Staff Auditor  
Adrian T. Duer, Senior Auditor  
Adam J Sverak, Assistant Auditor