



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

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NEWS RELEASE

FOR RELEASE

June 26, 2020

Contact: Marlys Gaston
515/281-5834

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

FINANCIAL HIGHLIGHTS:

The City's receipts totaled \$3,218,836 for the year ended June 30, 2019, a 3.8% decrease from the prior year. Disbursements for the year ended June 30, 2019 totaled \$2,931,287, a 3.7% decrease from the prior year.

AUDIT FINDINGS:

Sand reported nine findings related to the receipt and disbursement of taxpayer funds. They are found on pages 44 through 51 of this report. The findings address issues such as a lack of segregation of duties, lack of independent review of bank and utility reconciliations, lack of independent review of receipt coding to ensure posting to proper revenue source, and the City not meeting the net revenue requirement as specified in the bond covenants. Sand provided the City with recommendations to address each of the findings.

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/audit-reports>.

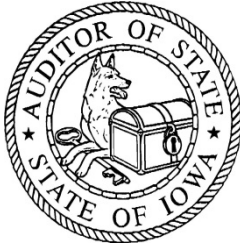
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CITY OF FAIRBANK

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

JUNE 30, 2019

City of Fairbank



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

June 9, 2020

Officials of the City of Fairbank
Fairbank, 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 Fairbank 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 Fairbank 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, appearing to read "Rob Sand". The signature is stylized and cursive.

Rob Sand
Auditor of State

Table of Contents

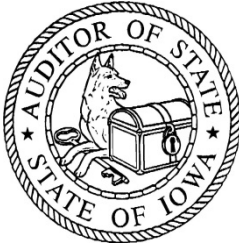
		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-7
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Cash Basis Statement of Activities and Net Position	A	10-11
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	12
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	13
Notes to Financial Statements		14-25
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual – All Governmental Funds and Proprietary Funds		28-29
Notes to Other Information – Budgetary Reporting		30
Schedule of the City’s Proportionate Share of the Net Pension Liability		31
Schedule of City Contributions		32-33
Notes to Other Information – Pension Liability		34
Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	36-37
Schedule of Indebtedness	2	38-39
Bond and Note Maturities	3	41
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 <u>Government Auditing Standards</u>		42-43
Schedule of Findings		44-51
Staff		52

City of Fairbank

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mike Harter	Mayor	Jan 2020
Ron Woods	Mayor Pro tem	Jan 2020
Ron Miller	Council Member	Jan 2020
Tammy Erickson	Council Member	Jan 2022
Tyler Woods	Council Member	Jan 2022
Ted Vorwald	Council Member	Jan 2022
Marlene Strepke	City Clerk	(Retired Sep 2019)
Brittany Fuller (Appointed Jul 2019)	City Clerk	Indefinite
Heather Prendergast	Attorney	Indefinite

City of Fairbank



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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 Fairbank, 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 qualified audit opinions.

Opinions

Basis for Qualified Opinion

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all the prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balances as of July 1, 2018.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2018, as discussed in the previous paragraph, 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 Fairbank 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

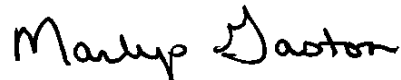
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairbank's basic financial statements. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required 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 June 9, 2020 on our consideration of the City of Fairbank'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 Fairbank's internal control over financial reporting and compliance.



Marlys K. Gaston, CPA
Deputy Auditor of State

June 9, 2020

City of Fairbank

Basic Financial Statements

City of Fairbank

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2019

	Program Receipts		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 260,667	64,625	246,332
Public works	175,220	1,547	152,255
Health and social services	1,575	-	-
Culture and recreation	194,988	50,328	61,787
General government	43,949	8,209	564
Debt service	118,579	-	-
Total governmental activities	794,978	124,709	460,938
Business type activities:			
Water	264,838	170,211	742
Sewer	426,424	379,212	-
Electric	961,314	943,367	3,708
Gas	411,059	412,509	500
Garbage	72,674	80,091	2,226
Total business type activities	2,136,309	1,985,390	7,176
Total	\$ 2,931,287	2,110,099	468,114
General Receipts and Transfers:			
Property and other city tax levied for:			
General purposes			
Tax increment financing			
Local option sales tax			
Commercial/industrial tax replacement			
Unrestricted interest on investments			
Miscellaneous			
Sale of capital assets			
Transfers			
Total general receipts and transfers			
Change in cash basis net position			
Cash basis net position beginning of year			
Cash basis net position end of year			
Cash Basis Net Position			
Nonexpendable:			
Permanent fund			
Restricted:			
Streets			
Local option sales tax			
Fire department			
Debt service			
Capital projects and equipment			
Other purposes			
Unrestricted			
Total cash basis net position			
See notes to financial statements.			

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
50,290	-	50,290
(21,418)	-	(21,418)
(1,575)	-	(1,575)
(82,873)	-	(82,873)
(35,176)	-	(35,176)
(118,579)	-	(118,579)
(209,331)	-	(209,331)
-	(93,885)	(93,885)
-	(47,212)	(47,212)
-	(14,239)	(14,239)
-	1,950	1,950
-	9,643	9,643
-	(143,743)	(143,743)
(209,331)	(143,743)	(353,074)
328,074	-	328,074
150,365	-	150,365
93,565	-	93,565
5,071	-	5,071
24,444	33,483	57,927
-	1,797	1,797
3,824	-	3,824
(15,373)	15,373	-
589,970	50,653	640,623
380,639	(93,090)	287,549
1,545,241	2,097,497	3,642,738
\$ 1,925,880	2,004,407	3,930,287
\$ 51,970	-	51,970
171,374	-	171,374
640,006	-	640,006
208,204	-	208,204
28,866	206,806	235,672
25,631	-	25,631
126,617	-	126,617
673,212	1,797,601	2,470,813
\$ 1,925,880	2,004,407	3,930,287

Exhibit B

City of Fairbank

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

As of and for the year ended June 30, 2019

	Special Revenue				Total
	General	Road Use Tax	Local Option Sales Tax	Nonmajor	
Receipts:					
Property tax	\$ 254,692	-	-	72,884	327,576
Tax increment financing	-	-	-	150,365	150,365
Other city tax	498	-	93,565	-	94,063
Licenses and permits	8,691	-	-	-	8,691
Use of money and property	14,549	-	9,463	1,310	25,322
Intergovernmental	92,500	143,784	-	1,133	237,417
Charges for service	95,333	-	-	-	95,333
Miscellaneous	47,855	-	-	200,544	248,399
Total receipts	514,118	143,784	103,028	426,236	1,187,166
Disbursements:					
Operating:					
Public safety	171,012	-	-	89,655	260,667
Public works	15,578	159,642	-	-	175,220
Health and social services	1,575	-	-	-	1,575
Culture and recreation	182,570	-	-	12,418	194,988
General government	41,250	-	-	2,699	43,949
Debt service	-	-	-	118,579	118,579
Total disbursements	411,985	159,642	-	223,351	794,978
Excess (deficiency) of receipts over (under) disbursements	102,133	(15,858)	103,028	202,885	392,188
Other financing sources (uses):					
Sale of capital assets	3,824	-	-	-	3,824
Transfers in	2,500	-	-	118,579	121,079
Transfers out	(15,373)	-	(2,500)	(118,579)	(136,452)
Total other financing sources (uses)	(9,049)	-	(2,500)	-	(11,549)
Change in cash balances	93,084	(15,858)	100,528	202,885	380,639
Cash balances beginning of year	580,128	187,232	539,478	238,403	1,545,241
Cash balances end of year	\$ 673,212	171,374	640,006	441,288	1,925,880
Cash Basis Fund Balances					
Nonspendable					
Cemetery Perpetual Care	\$ -	-	-	51,970	51,970
Restricted for:					
Streets	-	171,374	-	-	171,374
Fire purposes	-	-	-	208,204	208,204
Debt service	-	-	-	28,866	28,866
Capital projects	-	-	-	25,631	25,631
Local option sales tax purposes	-	-	640,006	-	640,006
Other purposes	-	-	-	126,617	126,617
Unassigned	673,212	-	-	-	673,212
Total cash basis fund balances	\$ 673,212	171,374	640,006	441,288	1,925,880

See notes to financial statements.

City of Fairbank

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

As of and for the year ended June 30, 2019

	Enterprise					Total
	Water	Sewer	Electric	Gas	Nonmajor Garbage	
Operating receipts:						
Charges for service	\$ 170,088	379,086	938,111	409,326	80,091	1,976,702
Miscellaneous	865	231	8,965	3,683	-	13,744
Total operating receipts	170,953	379,317	947,076	413,009	80,091	1,990,446
Operating disbursements:						
Business type activities	166,857	176,183	961,314	411,059	72,674	1,788,087
Excess (deficiency) of operating receipts over (under) operating disbursements	4,096	203,134	(14,238)	1,950	7,417	202,359
Non-operating receipts (disbursements):						
Intergovernmental	-	-	-	-	2,226	2,226
Interest on investments	1,274	5,377	13,385	12,750	697	33,483
Capital projects	(97,981)	-	-	-	-	(97,981)
Debt service	-	(250,241)	-	-	-	(250,241)
Miscellaneous	-	1,691	-	-	-	1,691
Net non-operating receipts (disbursements)	(96,707)	(243,173)	13,385	12,750	2,923	(310,822)
Excess (deficiency) of receipts over (under) disbursements	(92,611)	(40,039)	(853)	14,700	10,340	(108,463)
Transfers:						
Transfers in	72,681	-	7,686	7,687	-	88,054
Transfers out	-	-	(36,341)	(36,340)	-	(72,681)
Total transfers in (out)	72,681	-	(28,655)	(28,653)	-	15,373
Change in cash balances	(19,930)	(40,039)	(29,508)	(13,953)	10,340	(93,090)
Cash balances beginning of year	60,658	303,323	877,623	807,765	48,128	2,097,497
Cash balances end of year	\$ 40,728	263,284	848,115	793,812	58,468	2,004,407
Cash Basis Fund Balances						
Restricted for:						
Debt service	\$ -	206,806	-	-	-	206,806
Unrestricted	40,728	56,478	848,115	793,812	58,468	1,797,601
Total cash basis fund balances	\$ 40,728	263,284	848,115	793,812	58,468	2,004,407

See notes to financial statements.

Cash of Fairbank

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies

The City of Fairbank is a political subdivision of the State of Iowa located in Buchanan and Fayette Counties. It was first incorporated in 1891 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 and general government services. The City also provides water, sewer, gas, electric and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Fairbank has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Fairbank (the primary government) and its component unit, the Fairbank Firemen's Fund. The component unit is included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Blended Component Unit

The Fairbank Firemen's Fund was established as a non-profit corporation in accordance with 504A of the Code of Iowa. The purpose of this group is to preserve life and property and provide fire education. The Firemen's Fund is legally separate from the City, but is so intertwined with the City, it is in substance, the same as the City. The Firemen's Fund is reported as part of the City and blended into the special revenue fund. Although the Fairbank Firemen's Fund is legally separate from the City, their purpose is to benefit the City of Fairbank (the primary government) by raising funds and soliciting contributions and managing those funds.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Buchanan and Fayette County Assessor's Conference Board, Buchanan and Fayette County Emergency Management Commission, Buchanan and Fayette County Joint 911 Service Board, Buchanan and Fayette County Landfill Commission and City Assessor's Conference Board.

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 revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

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

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

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

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

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

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds and enterprise funds are aggregated and reported as nonmajor governmental funds and 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 from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for local option sales tax and related construction projects authorized by local option sales tax resolution.

The City reports the following major proprietary funds:

The Enterprise, Water, Sewer, Electric and Gas Funds account for the operation and maintenance of the City's utilities.

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2019, disbursements did not exceed the amounts budgeted.

(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.

At June 30, 2019, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$156,015. There were no limitations or restrictions on withdrawals for the IPAIT investments. The City’s investment in the Iowa Public Agency Investment Trust is unrated.

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

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Corporate Purpose Note		Revenue Bond		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 28,162	704	209,000	32,769	237,162	33,473
2021	-	-	211,000	30,888	211,000	30,888
2022	-	-	213,000	28,989	213,000	28,989
2023	-	-	216,000	27,072	216,000	27,072
2024	-	-	218,000	25,128	218,000	25,128
2025-2029	-	-	1,130,000	95,724	1,130,000	95,724
2030-2034	-	-	1,196,000	43,704	1,196,000	43,704
2035	-	-	248,000	2,232	248,000	2,232
Total	\$ 28,162	704	3,641,000	286,506	3,669,162	287,210

General Obligation Corporate Purpose Note

On October 1, 2014, the City entered into a general obligation corporate purpose note and borrowed money thereunder in a principal amount not to exceed \$500,000 at 2.50% interest pursuant to the provisions of Section 384.24A of the code of Iowa for the purpose of paying the cost, to that extent, of constructing street, gas and electric system improvements and funding economic development grants in the urban renewal area. The loan is payable solely from the TIF receipts generated by increased property values in the City’s TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100% of the debt service requirements over the life of the notes. The proceeds of the urban renewal tax increment financing revenue capital loan notes shall be expended only for purposes which are consistent with the plans of the City’s urban

renewal area. At June 30, 2019 the principal remaining on the notes is \$28,162, payable through June 2020. For the current year, principal of \$115,000 and interest of \$3,579 was paid on the note and total TIF receipts were \$150,365.

Revenue Bonds

On July 10, 2015, the City entered into a loan agreement with the Iowa Finance Authority for the issuance of sewer revenue bonds for the principal sum of \$4,145,000 with interest at 1.75% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa to pay the cost of planning, designing and constructing improvements and extensions to the Municipal Sanitary Sewer System. Annual principal and interest payments on the bonds are expected to require 100% of net receipts. The total principal and interest remaining to be paid on the notes is \$3,927,506. For the current year, principal and interest paid and total customer net receipts were \$240,623 and \$203,134, respectively.

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue bond sinking accounts within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) Sewer user rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the principal and interest on the bonds falling due in the same year.

(4) 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.

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

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

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

Protection occupation members may retire at normal retirement age, which is generally age 55 and 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 \$38,365.

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 \$255,917 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 0.004044%, which was an increase of 0.000586% over 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 \$38,346, \$76,262 and \$48,661 respectively.

There were no non-employer contributing entities to IPERS.

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, as follows:

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation 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	100.0%	

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 of 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 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 that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
City's proportionate share of the net pension liability	\$ 458,640	255,917	85,898

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.

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. The City currently finances the benefit plan on a pay-as-you-go basis. For the year ended June 30, 2019, the City contributed \$96,648 and plan members eligible for benefits contributed \$420 to the plan. At June 30, 2019, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits – Individuals who are employed by the City of Fairbank are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Retired participants must be age 55 or older at retirement, with the exception of special service participants who must be age 50 with 22 years of services. At June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	-
Active employees	<u>7</u>
Total	<u><u>7</u></u>

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. The City allows employees to accumulate compensatory time during the fiscal year in lieu of overtime pay. 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 payable to employees at June 30, 2019, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 10,000
Compensatory time	<u>18,000</u>
Total	<u><u>\$ 28,000</u></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	Special Revenue: Local Option Sales Tax	\$ 2,500
Debt Service	Special Revenue: Urban Renewal Tax Increment	118,579
Enterprise: Electric	General	7,686
Gas	General	7,687
	Total General	15,373
Enterprise: Water	Enterprise: Electric	36,341
Water	Gas	36,340
		72,681
Total		\$ 209,133

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 a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 778 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

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

The City's property and casualty contributions to the Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The City's contributions to the Pool for the year ended June 30, 2019 were \$33,768.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

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

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation in the amount of \$1,000,000 per incident. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Interfund Loans

On November 14, 2016, the City approved the purchase of a new fire truck. The purchase was financed partially with an advance of \$138,090 from the Enterprise, Gas and Electric Funds to the General Fund. This loan will be repaid through transfers over the next ten years from the General Fund to the Enterprise, Gas and Electric Funds, as funds become available. The interfund loan bears interest at 2% per annum. During the year ended June 30, 2019, the General Fund repaid \$7,686 to the Enterprise, Electric Fund and \$7,687 to the Enterprise, Gas Fund. The amount due to the Enterprise, Gas and Electric Funds at June 30, 2019 is \$125,479.

(10) Subsequent Event

The COVID-19 outbreak is disrupting business across a range of industries in the United States and financial markets have experienced a significant decline. As a result, local, regional and national economies, including that of the City of Fairbank, may be adversely impacted. The extent of the financial impact of COVID-19 will depend on future developments, including the duration and spread, which are uncertain and cannot be predicted. Due to the uncertainties surrounding the outbreak, management cannot presently estimate the potential impact to the City's operations and finances.

City of Fairbank

Other Information

City of Fairbank

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 Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 327,576	-	-
Tax increment financing	150,365	-	-
Other city tax	94,063	-	-
Licenses and permits	8,691	-	-
Use of money and property	25,322	33,483	78
Intergovernmental	237,417	2,226	-
Charges for service	95,333	1,976,702	-
Special assessments	-	-	-
Miscellaneous	248,399	15,435	200,294
Total receipts	1,187,166	2,027,846	200,372
Disbursements:			
Public safety	260,667	-	41,481
Public works	175,220	-	-
Health and social sciences	1,575	-	-
Culture and recreation	194,988	-	-
Community and economic development	-	-	-
General government	43,949	-	-
Debt service	118,579	-	-
Business type activities	-	2,136,309	-
Total disbursements	794,978	2,136,309	41,481
Excess (deficiency) of receipts over (under) disbursements	392,188	(108,463)	158,891
Other financing sources, net	(11,549)	15,373	-
Excess of receipts and other financing sources over disbursements and other financing uses	380,639	(93,090)	158,891
Balances beginning of year	1,545,241	2,097,497	49,313
Balances end of year	\$ 1,925,880	2,004,407	208,204

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
327,576	326,215	326,321	1,255
150,365	147,000	147,000	3,365
94,063	90,750	103,717	(9,654)
8,691	2,570	3,722	4,969
58,727	21,793	60,849	(2,122)
239,643	205,707	231,953	7,690
2,072,035	1,911,421	1,976,024	96,011
-	-	1,027	(1,027)
63,540	70,373	64,409	(869)
<u>3,014,640</u>	<u>2,775,829</u>	<u>2,915,022</u>	<u>99,618</u>
219,186	250,760	251,152	31,966
175,220	140,058	181,205	5,985
1,575	1,575	1,575	-
194,988	248,437	234,350	39,362
-	32,775	50,475	50,475
43,949	78,963	52,414	8,465
118,579	120,000	120,000	1,421
<u>2,136,309</u>	<u>2,170,080</u>	<u>2,237,557</u>	<u>101,248</u>
<u>2,889,806</u>	<u>3,042,648</u>	<u>3,128,728</u>	<u>238,922</u>
124,834	(266,819)	(213,706)	338,540
3,824	32,000	-	3,824
128,658	(234,819)	(213,706)	342,364
<u>3,593,425</u>	<u>3,147,987</u>	<u>3,147,987</u>	<u>445,438</u>
<u>3,722,083</u>	<u>2,913,168</u>	<u>2,934,281</u>	<u>787,802</u>

City of Fairbank

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 except the blended component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the City had two budget amendments increasing budgeted disbursements \$86,080.

During the year ended June 30, 2019, disbursements did not exceed the amounts budgeted.

City of Fairbank

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

Iowa Public Employees' Retirement System

For the Last Two Years*
(In Thousands)

Other Information

	2019	2018
City's proportion of the net pension liability	0.004044%	0.003458%
City's proportionate share of the net pension liability	\$ 256	230
City's covered payroll	\$ 344	291
City's proportionate share of the net pension liability as a percentage of its covered payroll	74.42%	79.04%
IPERS' net position as a percentage of the total percentage of the total pension liability	83.62%	82.21%

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

See accompanying independent auditor's report.

City of Fairbank
 Schedule of City Contributions
 Iowa Public Employees' Retirement System
 For the Last Nine Years
 (In Thousands)
 Other Information

	2019	2018	2017	2016
Statutorily required contribution	\$ 38	31	26	27
Contributions in relation to the statutorily required contribution	<u>(38)</u>	<u>(31)</u>	<u>(26)</u>	<u>(27)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered payroll	\$ 401	344	291	296
Contributions as a percentage of covered payroll	9.48%	9.01%	8.93%	9.12%

Note: City's contributions and covered payroll information for the year ended June 30, 2010 was not readily available.

See accompanying independent auditor's report.

2015	2014	2013	2012	2011
26	23	18	20	16
(26)	(23)	(18)	(20)	(16)
-	-	-	-	-
286	252	209	233	207
9.09%	9.13%	8.61%	8.58%	7.73%

City of Fairbank

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.
- 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 Fairbank

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

As of and for the year ended June 30, 2019

	Special Revenue			
	Employee Benefits	Fireman's Fund	Urban Renewal Tax Increment	Debt Service
Receipts:				
Property tax	\$ 72,884	-	-	-
Tax Increment financing	-	-	150,365	-
Use of money and property	372	78	129	-
Intergovernmental	1,133	-	-	-
Miscellaneous	-	200,294	-	-
Total receipts	74,389	200,372	150,494	-
Disbursements:				
Operating:				
Public safety	48,174	41,481	-	-
Culture and recreation	12,418	-	-	-
General government	2,699	-	-	-
Debt Service	-	-	-	118,579
Total disbursements	63,291	41,481	-	118,579
Excess (deficiency) of receipts over (under) disbursements	11,098	158,891	150,494	(118,579)
Other financing sources (uses):				
Transfers in	-	-	-	118,579
Transfers out	-	-	(118,579)	-
Total other financing sources (uses)	-	-	(118,579)	118,579
Change in cash balances	11,098	158,891	31,915	-
Cash balances beginning of year	23,535	49,313	88,935	-
Cash balances end of year	\$ 34,633	208,204	120,850	-
Cash Basis Fund Balances				
Nonspendable				
Cemetery perpetual care	\$ -	-	-	-
Restricted				
Fire purposes	-	208,204	-	-
Debt service	-	-	28,866	-
Capital projects	-	-	-	-
Other purposes	34,633	-	91,984	-
Total cash basis fund balances	\$ 34,633	208,204	120,850	-

See accompanying independent auditor's report.

Capital Projects	Permanent Cemetery Perpetual Care	Total
-	-	72,884
-	-	150,365
407	324	1,310
-	-	1,133
-	250	200,544
407	574	426,236
-	-	89,655
-	-	12,418
-	-	2,699
-	-	118,579
-	-	223,351
407	574	202,885
-	-	118,579
-	-	(118,579)
-	-	-
407	574	202,885
25,224	51,396	238,403
25,631	51,970	441,288
-	51,970	51,970
-	-	208,204
-	-	28,866
25,631	-	25,631
-	-	126,617
25,631	51,970	441,288

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Corporate purpose note	Oct 1, 2014	2.50%	\$ 500,000
Revenue bonds:			
Sewer	Jul 10, 2015	1.75%*	\$ 4,145,000

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

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
143,162	-	115,000	28,162	3,579
3,847,000	-	206,000	3,641,000	34,623

City of Fairbank

City of Fairbank
 Bond and Note Maturities
 June 30, 2019

General Obligation Note		
Corporate Purpose Note		
Issued October 1, 2014		
Year Ending June 30,	Interest Rates	Amount
2020	2.50%	\$ 28,162
Revenue Bond		
Series 2015A		
Sewer		
Issued July 10, 2015		
Year Ending June 30,	Interest Rates	Amount
2020	1.75%	\$ 209,000
2021	1.75	211,000
2022	1.75	213,000
2023	1.75	216,000
2024	1.75	218,000
2025	1.75	221,000
2026	1.75	223,000
2027	1.75	226,000
2028	1.75	229,000
2029	1.75	231,000
2030	1.75	234,000
2031	1.75	236,000
2032	1.75	239,000
2033	1.75	242,000
2034	1.75	245,000
2035	1.75	248,000
Total		\$ 3,641,000

See accompanying independent auditor's report.



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

Rob Sand
Auditor of State

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairbank, 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 June 9, 2020. The financial statements were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed modified opinions on the governmental activities, the business type activities, each major fund and the aggregate remaining fund information since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Fairbank'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 Fairbank's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Fairbank'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 Fairbank's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A) through (D) to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fairbank'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 which 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.

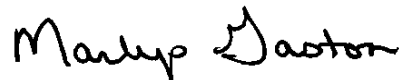
The City of Fairbank's Responses to the Findings

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

June 9, 2020

City of Fairbank

Schedule of Findings

Year ended June 30, 2019

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 identified may have control over the following areas for which no compensating controls exist.

- (1) Cash – handling, recording and reconciling.
- (2) Investments – recording, custody and record-keeping.
- (3) Receipts – opening mail, collecting, recording, depositing and reconciling receipts.
- (4) Utilities – billing, collecting, depositing and posting.
- (5) Long-term debt – recording and reconciling, including compensated absences.
- (6) Disbursements – purchasing, preparing disbursements, recording and reconciling.
- (7) Payroll – entering pay rates and deductions into the system.
- (8) Accounting system – performing general accounting functions, including journal entries and having custody of the City’s assets.

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 segregations 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, including elected 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 Fairbank

Schedule of Findings

Year ended June 30, 2019

Response – The City will create and pass a written policy to help with segregation of duties. The Mayor and Council Members will help with the policy and approve it. The written policy will designate the duties to be handled by the City Clerk, Deputy Clerk, City Treasurer, and Mayor, as well as elected officials, which will provide for duties during vacations and other leaves of absence. Controls will be reviewed to obtain the maximum control possible.

Conclusion – Response accepted.

(B) Financial Reporting

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City's financial statements.

Condition – Certain receipts in the General Fund were misclassified. Also, transfers from the general fund totaling \$15,373 were recorded as disbursements when they should have been recorded as transfers to the Enterprise, Gas and Electric Funds. Adjustments were subsequently made to properly report these amounts in the City's financial statements.

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

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

Recommendation – The City should implement procedures to ensure receipts, disbursements and transfers are properly recorded and classified in the City's financial records.

Response – The City will institute a process which will include both the City Clerk and Deputy Clerk reviewing general ledger postings to ensure accurate financial reporting.

Conclusion – Response accepted.

(C) Reconciliation of Utility Billings and Collections

Criteria – An effective internal control system provides for internal controls related to ensuring an independent review of the reconciliations of utility billings, collections and delinquent accounts and an independent comparison of utility collections to deposits to ensure proper recording of utility receipts, the propriety of adjustments and the propriety of delinquent account balances.

City of Fairbank

Schedule of Findings

Year ended June 30, 2019

Condition – Utility billings, collections and delinquent accounts were reconciled throughout the year; however, reconciliations were not reviewed by an independent person.

Cause – Policies have not been established and procedures have not been implemented to ensure an independent review of the reconciliations of utility billings, collections and delinquent accounts has been performed.

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

Recommendation – The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review should be documented by signing or initialing and dating the reconciliations.

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) Bank Reconciliations

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by maintaining appropriate accounting records and reconciling bank accounts and book balances. An independent review of bank reconciliations can help ensure the accuracy of recorded amounts.

Condition – Monthly bank statements are reconciled to the City's financial records. However, there is no evidence the monthly bank reconciliations are reviewed and approved by an independent person.

Cause – Procedures have not been designed and implemented to ensure bank reconciliations are independently reviewed for completeness and accuracy.

Effect – This lack of independent review of bank reconciliations can result in unrecorded transactions, undetected errors and opportunity for misappropriation.

Recommendation – An independent person should review the bank reconciliations and document their review by signing or initialing and dating the monthly reconciliations.

Response – The City will have the reconciliations independently reviewed. A Council Member with bank knowledge will review bank statements to Clerk report monthly and sign off on it.

Conclusion – Response accepted.

City of Fairbank

Schedule of Findings

Year ended June 30, 2019

(E) Computer System

Criteria – Properly designed policies and procedures pertaining to control activities over the City’s computer system and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable and helps ensure the effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Condition – The following weaknesses in the City’s computer system were noted:

The City does not have a written policy for requiring password changes.

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

Cause – Management has not required a written password policy or a complete written disaster recovery plan addressing financial continuity, storage of the plan, off site storage of copies of user documentation and policy and procedures manuals or documentation of whether the plan has been adequately tested.

Effect – Lack of written policies for computer-based systems could result in a loss of data or compromised data, resulting in unreliable financial information. The failure to have a formal disaster recovery plan could result in the City’s inability to function in the event of a disaster or continue City business without interruption.

Recommendation – The City should develop and adopt a written password policy and a comprehensive disaster recovery plan.

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

Conclusion – Response accepted.

(F) Journal Entries

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

Condition – There is no evidence journal entries are reviewed and approved by an independent person.

Cause – City policies do not require, and procedures have not been designed to document approval and independent review of journal entries.

Effect – The lack of independent review and approval may adversely affect the City’s ability to prevent or detect and correct misstatements or errors on a timely basis by employees in the normal course of performing their assigned functions.

City of Fairbank

Schedule of Findings

Year ended June 30, 2019

Recommendation – To strengthen controls, journal entries should be reviewed and approved 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.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

City of Fairbank

Schedule of Findings

Year ended June 30, 2019

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2019 did not exceed the amounts budgeted.
- (2) Questionable Disbursements – No disbursements we believe may not meet requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Woods Construction, owned by City Council Member, Ron Woods	Water main repair	\$ 250

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transaction with the City Council Member does not appear to be a conflict of interest since total transactions with the individual 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 Meeting Minutes – Except as noted below, no transactions were found that we believe should have been approved in the City Council meeting minutes but were not.

Interfund transfers were not approved by resolution including a statement of the reason or purpose of transfer, the name of the fund from which the transfer is originating, the name of the fund into which the transfer is being received and the dollar amount being transferred.

Recommendation – The City should ensure transfers resolutions are prepared and approved by the City Council. The resolutions should include a clear statement of the reason or purpose for the transfer, the name of the fund from which the transfer is originating, the name of the fund into which the transfer is being received and the dollar amount being transferred, in accordance with Iowa Administrative Code Section 545-2.1.

Response – The City will establish policies and procedures to ensure all transfers will be included in a transfer resolution in accordance with Iowa Administrative Code Section 545-2.1.

Conclusion – Response accepted.

City of Fairbank

Schedule of Findings

Year ended June 30, 2019

- (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) Annual Urban Renewal Report – The Annual Urban Renewal Report was properly approved and certified to the Department of Management on or before December 1 and no exceptions were noted.
- (9) Revenue Bonds – The note resolution requires sewer user rates be established at a level which produces and maintains net receipts at a level not less than 110% of the principal and interest due in such fiscal year. The June 30, 2019 net revenues for the Enterprise, Sewer Fund are \$203,134, which is less than 110% of the \$240,623 principal and interest due in fiscal year 2019.

Recommendation – The City should ensure sewer rates are set at an amount sufficient to comply with the requirements of the bond resolution.

Response – The City will work to ensure that operating revenues are not less than 110% of the amount of annual principal and interest.

Conclusion – Response accepted.

- (10) Unclaimed Property – Chapters 556.8 and 556.11 of the Code of Iowa require each City to report and remit obligations, including checks, outstanding for more than two years to the Office of Treasurer of State annually. The City did not remit these obligations as required.

Recommendation – Outstanding checks should be reviewed annually and items over two years old should be remitted to the Office of Treasurer of State as required.

Response – The City will establish an account with the Great Iowa Treasure Hunt. Internal policies will be updated to ensure necessary personal identifiable information is obtained as part of our utility account creation process so that unclaimed property can be successfully submitted to the Great Iowa Treasure Hunt.

Conclusion – Response accepted.

- (11) Interfund Loan – During the year ended June 30, 2019, the City transferred \$7,686 and \$7,687 from the General Fund to the Enterprise, Electric and Gas Funds, respectively. The transfers were payments on an interfund loan from the Enterprise Funds to the General Fund for the purchase of a new fire truck. However, the City was unable to provide supporting documentation of the formal approval of the interfund loans or the terms for repayment.

Recommendation – The City should ensure all future advances/interfund loans are properly approved by the Council and document terms for repayment.

City of Fairbank

Schedule of Findings

Year ended June 30, 2019

Response – The City Clerk and the City will ensure all future advances/interfund loans are properly approved by the Council and terms for repayment will be documented in form of a resolution with the attachments including the amortization tables.

Conclusion – Response accepted.

City of Fairbank

Staff

This audit was performed by:

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