



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

June 19, 2008

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Fairfield, Iowa.

The City's receipts totaled \$21,941,488 for the year ended June 30, 2007, an 83 percent increase over 2006. The receipts included \$3,350,952 in property tax, \$210,355 from tax increment financing, \$3,369,263 from charges for service, \$1,157,459 from operating grants, contributions and restricted interest, \$4,060,926 from capital grants, contributions and restricted interest, \$795,505 from local option sales tax, \$99,073 from unrestricted interest on investments, \$7,907,212 from bond proceeds, \$500,000 from construction warrant proceeds, \$153,873 from the sale of assets and \$336,874 from other general receipts.

Disbursements for the year totaled \$20,003,546, a 58 percent increase over 2006, and included \$9,864,840 for capital projects, \$1,591,083 for culture and recreation and \$1,570,831 for public safety. Also, disbursements for business type activities totaled \$4,423,531.

The increase in receipts is due primarily to the sale of general obligation bonds, local option sales and services tax revenue bonds and federal project reimbursements. Disbursements increased due to various capital projects.

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

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CITY OF FAIRFIELD

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

JUNE 30, 2007

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City of Fairfield

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Edward Malloy	Mayor	Jan 2009
Myron Gookin	Council Member/Mayor Pro tem	Jan 2010
Ron Adam	Council Member	Jan 2008
Connie Boyer	Council Member	Jan 2008
Daryn Hamilton	Council Member	Jan 2008
Christy Welty	Council Member	Jan 2008
John F. Revolinski	Council Member	Jan 2010
Jim Rubis	Council Member	Jan 2010
John Brown	City Administrator	Indefinite
Joy Messer	City Clerk	Indefinite
John Morrissey	City Attorney	Indefinite

City of Fairfield



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

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 Fairfield, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Fairfield's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

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 Fairfield as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 5, 2008 on our consideration of the City of Fairfield's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairfield's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 5, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Fairfield provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 88%, or approximately \$7,782,000, from fiscal 2006 to fiscal 2007. The increase is due to the sale of general obligation bonds and local option sales and services tax revenue bonds of \$5,707,212 and the receipt of approximately \$3,988,000 in grant funds.
- Governmental activities disbursements increased 66.4%, or approximately \$6,216,000, in fiscal 2007 over fiscal 2006. Capital projects disbursements increased approximately \$6,020,000.
- The City's total cash basis net assets increased approximately \$1,938,000 from June 30, 2006 to June 30, 2007. Of this amount, the net assets of the governmental activities increased approximately \$1,112,000 and the net assets of the business type activities increased approximately \$826,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

The Statement of Activities and Net Assets is divided into two kinds of activities:

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

Fund Financial Statements

The City has two kinds of funds:

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

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains five Enterprise Funds to provide separate information for the water, sewer, yard waste, airport hangar and Logan Apartments.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

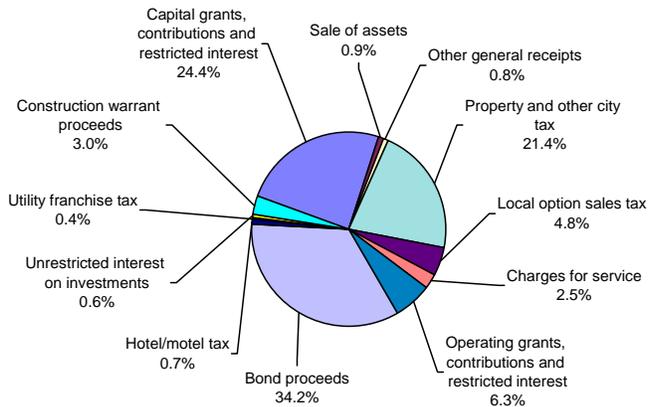
GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$(70,926) to \$1,040,914. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

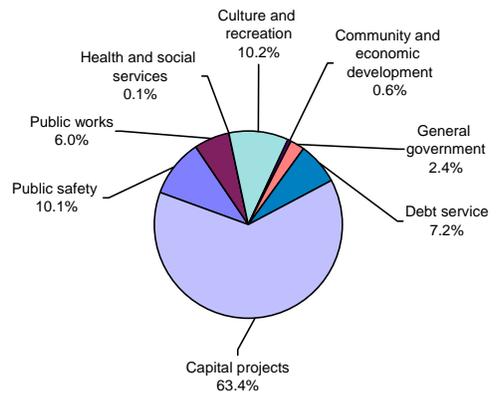
Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	Year ended June 30,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service	\$ 417	466
Operating grants, contributions and restricted interest	1,045	1,027
Capital grants, contributions and restricted interest	4,061	1,705
General receipts:		
Property and other city tax	3,562	3,466
Local option sales tax	796	749
Hotel/motel tax	113	103
Utility franchise tax	60	59
Unrestricted interest on investments	99	30
Bond proceeds	5,707	-
Construction warrant proceeds	500	1,200
Sale of assets	153	3
Other general receipts	129	52
Total receipts	<u>16,642</u>	<u>8,860</u>
Disbursements:		
Public safety	1,571	1,589
Public works	942	978
Health and social services	18	10
Culture and recreation	1,591	1,535
Community and economic development	101	107
General government	375	398
Debt service	1,117	902
Capital projects	9,865	3,845
Total disbursements	<u>15,580</u>	<u>9,364</u>
Change in cash basis net assets before transfers	1,062	(504)
Transfers, net	50	235
Change in cash basis net assets	1,112	(269)
Cash basis net assets beginning of year	(71)	198
Cash basis net assets end of year	<u>\$ 1,041</u>	<u>(71)</u>

Receipts by Source



Disbursements by Function



The City's total receipts and transfers for governmental activities were \$16,691,855. The total cost of all programs and services was \$15,580,015. The \$1,111,840 excess of receipts over disbursements was due, in part, to the sale of general obligation bonds and local option sales and services tax revenue bonds for various capital projects.

The cost of governmental activities this year was \$15,580,015. As shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was \$10,056,459 because some of the cost was paid by those directly benefited from the programs (\$417,204) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$5,106,352).

Changes in Cash Basis Net Assets of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 1,731	1,756
Sewer	698	631
Logan Apartments	110	129
Yard waste	344	337
Airport	69	47
Operating grants, contributions and restricted interest	112	155
General receipts:		
Bond proceeds	2,200	-
Other general receipts	36	88
Total receipts	<u>5,300</u>	<u>3,143</u>
Disbursements:		
Water	2,222	1,836
Sewer	1,713	829
Logan Apartments	143	252
Yard waste	326	323
Airport	19	65
Total disbursements	<u>4,423</u>	<u>3,305</u>
Change in cash basis net assets before transfers	877	(162)
Transfers, net	50	235
Change in cash basis net assets	827	(397)
Cash basis net assets beginning of year	731	1,128
Cash basis net assets end of year	<u>\$ 1,558</u>	<u>731</u>

Total business type activities receipts for the fiscal year were \$5,299,633 compared to \$3,142,854 last year. This increase was due primarily to the sale of \$2,200,000 in general obligation bonds for sewer capital projects. The cash balance increased approximately \$827,000 over the prior year. Total disbursements for the fiscal year increased 33.8%, from approximately \$3.3 million in fiscal year 2006 to approximately \$4.4 million in fiscal year 2007, due in part to increased capital project activity as a result of the bonds sold.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fairfield completed the year, its governmental funds reported a combined fund balance of \$1,040,914, an increase of approximately \$1,112,000 over last year's total of \$(70,926). The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$109,266 over the prior year to \$237,987. This increase was due, in part, to a transfer in from the Enterprise, Logan Apartments Fund made prior to June 30, 2007 in the amount of \$50,000.
- The Special Revenue, UDAG-FALCO Project Fund cash balance decreased \$15,977, or 4.3%, to \$358,191.
- The Special Revenue, Fairfield Library Foundation Fund cash balance increased \$26,584 to \$221,434, due primarily to no disbursements in FY07.
- The Capital Projects Fund cash balance increased \$1,311,390 to \$(306,273). This increase is primarily due to the receipt of federal grant funds and general obligation bond proceeds in FY07 to offset past and current project costs for the airport runway improvement and street improvement projects.
- The Permanent, Library Endowment Fund cash balance increased \$24,504 over the prior year to \$463,736. The increase was a result of a transfer in of \$20,000 from the Special Revenue, Library Memorial Fund.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$486,416 to \$532,600, due primarily to work performed on the water main project.
- The Sewer Fund cash balance increased \$1,208,848 to \$757,008, due primarily to the issuance of \$2,200,000 of bonds in FY 07 to offset past and current costs for sewer projects, including the greased lightning lift station project.

BUDGETARY HIGHLIGHTS

The City amended its budget one time during the year, increasing budgeted disbursements from \$16,713,742 to \$20,403,742, primarily due to capital projects activity.

The City's receipts were \$189,436 less than budgeted. This was primarily due to the City receiving less than budgeted in the Proprietary Funds.

Total disbursements were \$3,197,042 less than the amended budget. This was due in part to delays in capital project activity.

The City exceeded the amounts budgeted in the culture and recreation and business type activities functions for the year ended June 30, 2007 due to unanticipated costs in the month of June.

DEBT ADMINISTRATION

At June 30, 2007, the City had approximately \$16,480,000 in bonds and other long-term debt outstanding, compared to approximately \$12,250,000 last year, as shown below.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2007	2006
General obligation bonds	\$ 7,715	1,075
General obligation capital loan notes	2,320	2,755
Water revenue bonds	375	480
Water revenue capital loan notes	5,205	5,357
Local option sales and services tax revenue bonds	780	-
Construction warrants	-	2,500
Lease purchase agreements	85	83
Total	\$ 16,480	12,250

Debt increased due to the sale of \$6,925,000 in general obligation bonds and \$1,030,000 in local option sales and services tax revenue bonds in fiscal year 2007.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$10.9 million is significantly below its constitutional debt limit of \$16.9 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The elected and appointed officials of the City of Fairfield considered many factors when setting the FY2007 budget, tax rates and fees for various City services. The tax rate for fiscal year 2008 is \$16.62330 per thousand dollars of valuation. This compares to the tax rate for fiscal year 2007 of \$16.18037 per thousand dollars of valuation.

After the budget was certified, an error was discovered in the property valuations submitted by Jefferson County. This resulted in a decrease of approximately \$13,000,000 in the taxable value. As a response to this, the City Council chose not to fill two full-time positions.

The City did undertake the first phase of a three phase downtown improvement project involving streetscapes, additional parking areas and lighting improvements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

City of Fairfield

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2007

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,570,831	150,684	68,236	-
Public works	942,597	-	800,277	-
Health and social services	17,801	-	-	-
Culture and recreation	1,591,083	244,999	176,889	-
Community and economic development	100,958	11,511	24	-
General government	374,948	10,010	-	-
Debt service	1,116,957	-	-	45,176
Capital projects	9,864,840	-	-	4,015,750
Total governmental activities	15,580,015	417,204	1,045,426	4,060,926
Business type activities:				
Water	2,222,365	1,730,895	-	-
Sewer	1,713,284	698,694	-	-
Logan Apartments	142,697	109,855	91,103	-
Yard waste	326,069	343,753	-	-
Airport	19,116	68,862	20,930	-
Total business type activities	4,423,531	2,952,059	112,033	-
Total	\$ 20,003,546	3,369,263	1,157,459	4,060,926

General Receipts:

Property and other city tax levied for:
 General purposes
 Debt service
 Employee benefits
 Tax increment financing
 Local option sales tax
 Hotel/motel tax
 Utility franchise tax
 Unrestricted interest on investments
 Bond proceeds (net of \$47,788 discount)
 Construction warrant proceeds
 Sale of capital assets
 Miscellaneous
 Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Streets
 Urban renewal
 Debt service
 Permanent fund
 Other purposes
 Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(1,351,911)	-	(1,351,911)
(142,320)	-	(142,320)
(17,801)	-	(17,801)
(1,169,195)	-	(1,169,195)
(89,423)	-	(89,423)
(364,938)	-	(364,938)
(1,071,781)	-	(1,071,781)
(5,849,090)	-	(5,849,090)
(10,056,459)	-	(10,056,459)
-	(491,470)	(491,470)
-	(1,014,590)	(1,014,590)
-	58,261	58,261
-	17,684	17,684
-	70,676	70,676
-	(1,359,439)	(1,359,439)
(10,056,459)	(1,359,439)	(11,415,898)
2,050,831	-	2,050,831
656,162	-	656,162
643,959	-	643,959
210,355	-	210,355
795,505	-	795,505
113,269	-	113,269
59,562	-	59,562
99,018	55	99,073
5,707,212	2,200,000	7,907,212
500,000	-	500,000
153,373	500	153,873
129,053	34,986	164,039
50,000	(50,000)	-
11,168,299	2,185,541	13,353,840
1,111,840	826,102	1,937,942
(70,926)	731,438	660,512
\$ 1,040,914	1,557,540	2,598,454
\$ 1,330	-	1,330
8,858	-	8,858
-	548,695	548,695
463,736	-	463,736
837,803	-	837,803
(270,813)	1,008,845	738,032
\$ 1,040,914	1,557,540	2,598,454

City of Fairfield

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

As of and for the year ended June 30, 2007

	Special Revenue			
	General	UDAG- FALCO Project	Fairfield Library Foundation	Capital Projects
Receipts:				
Property tax	\$ 1,911,696	-	-	139,135
Tax increment financing	-	-	-	-
Other city tax	172,831	-	-	-
Licenses and permits	21,441	-	-	-
Use of money and property	67,505	23	11,727	-
Intergovernmental	152,816	-	-	3,987,938
Charges for service	323,930	-	-	-
Special assessments	-	-	-	25,141
Miscellaneous	194,908	-	12,407	2,670
Total receipts	2,845,127	23	24,134	4,154,884
Disbursements:				
Operating:				
Public safety	1,179,249	-	-	-
Public works	100,917	-	-	-
Health and social services	10,730	-	-	-
Culture and recreation	1,220,012	-	-	7,825
Community and economic development	75,362	16,000	-	-
General government	338,486	-	-	-
Debt service	-	-	-	-
Capital projects	619,644	-	-	6,466,027
Total disbursements	3,544,400	16,000	-	6,473,852
Excess (deficiency) of receipts over (under) disbursements	(699,273)	(15,977)	24,134	(2,318,968)
Other financing sources (uses):				
Construction warrant proceeds	-	-	-	500,000
Construction warrants redeemed	-	-	-	(2,500,000)
Debt service	-	-	-	(279,169)
General obligation bond proceeds, net of \$42,028 discount	625,000	-	-	4,057,972
Local option sales and services tax revenue bond proceeds, net of \$5,760 discount	-	-	-	1,024,240
Sale of capital assets	3,112	-	-	150,261
Operating transfers in	180,427	-	2,450	677,054
Operating transfers out	-	-	-	-
Total other financing sources (uses)	808,539	-	2,450	3,630,358
Net change in cash balances	109,266	(15,977)	26,584	1,311,390
Cash balances beginning of year	128,721	374,168	194,850	(1,617,663)
Cash balances end of year	\$ 237,987	358,191	221,434	(306,273)
Cash Basis Fund Balances				
Unreserved:				
General fund	\$ 237,987	-	-	-
Special revenue funds	-	358,191	221,434	-
Capital projects fund	-	-	-	(306,273)
Permanent fund	-	-	-	-
Debt service fund	-	-	-	-
Total cash basis fund balances	\$ 237,987	358,191	221,434	(306,273)

See notes to financial statements.

Permanent		
Library		
Endowment	Nonmajor	Total
-	1,300,121	3,350,952
-	210,355	210,355
-	795,505	968,336
-	-	21,441
-	25,400	104,655
-	824,928	4,965,682
-	-	323,930
-	25,940	51,081
4,745	70,108	284,838
4,745	3,252,357	10,281,270
-	391,582	1,570,831
-	841,680	942,597
-	7,071	17,801
241	363,005	1,591,083
-	9,596	100,958
-	36,462	374,948
-	1,116,957	1,116,957
-	-	7,085,671
241	2,766,353	12,800,846
4,504	486,004	(2,519,576)
-	-	500,000
-	-	(2,500,000)
-	-	(279,169)
-	-	4,682,972
-	-	1,024,240
-	-	153,373
20,000	210,353	1,090,284
-	(1,040,284)	(1,040,284)
20,000	(829,931)	3,631,416
24,504	(343,927)	1,111,840
439,232	409,766	(70,926)
463,736	65,839	1,040,914
-	-	237,987
-	268,366	847,991
-	-	(306,273)
463,736	-	463,736
-	(202,527)	(202,527)
463,736	65,839	1,040,914

Exhibit C

City of Fairfield

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

As of and for the year ended June 30, 2007

	Enterprise			Total
	Water	Sewer	Nonmajor	
Operating receipts:				
Use of money and property	\$ -	-	178,717	178,717
Charges for service	1,730,895	698,694	339,535	2,769,124
Intergovernmental	-	-	112,033	112,033
Miscellaneous	4,999	23,438	10,767	39,204
Total operating receipts	1,735,894	722,132	641,052	3,099,078
Operating disbursements:				
Business type activities	1,354,029	900,175	487,882	2,742,086
Excess (deficiency) of operating receipts over (under) operating disbursements	381,865	(178,043)	153,170	356,992
Non-operating receipts (disbursements):				
Interest on investments	55	-	-	55
Sale of capital assets	-	-	500	500
Bond proceeds	-	2,200,000	-	2,200,000
Capital projects	(403,208)	(306,513)	-	(709,721)
Debt service	(465,128)	-	-	(465,128)
Construction warrants redeemed	-	(506,596)	-	(506,596)
Net non-operating receipts (disbursements)	(868,281)	1,386,891	500	519,110
Excess (deficiency) of receipts over (under) disbursements	(486,416)	1,208,848	153,670	876,102
Operating transfers out	-	-	(50,000)	(50,000)
Net change in cash balances	(486,416)	1,208,848	103,670	826,102
Cash balances beginning of year	1,019,016	(451,840)	164,262	731,438
Cash balances end of year	\$ 532,600	757,008	267,932	1,557,540
Cash Basis Fund Balances				
Reserved for debt service	\$ 548,695	-	-	548,695
Unreserved	(16,095)	757,008	267,932	1,008,845
Total cash basis fund balances	\$ 532,600	757,008	267,932	1,557,540

See notes to financial statements.

City of Fairfield

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

The City of Fairfield is a political subdivision of the State of Iowa located in Jefferson County. It was first incorporated in 1847 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

These financial statements present the City of Fairfield (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Blended Component Units

The Friends of the Fairfield Library, Fairfield Library Foundation and the Fairfield Park and Recreation Foundation were established as non-profit corporations in accordance with Chapter 504A of the Code of Iowa. The Friends of the Fairfield Library includes the Fairfield Public Library House. These non-profit corporations are legally separate from the City but are so intertwined with the City that they are, in substance, the same as the City. Their purpose is to benefit the City of Fairfield (the primary government) by soliciting contributions and managing those funds. The funds of these components units are reported as part of the City and blended into the Special Revenue 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: Jefferson County Assessor's Conference Board, Jefferson County E911 Joint Service Board and Jefferson County Emergency Management Agency. The City also participates in the Jefferson County Regional Service Agency, a jointly governed organization established pursuant to Chapter 28E of the Code of Iowa.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets 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 Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

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

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts 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 UDAG-FALCO Project Fund is used to account for the grants/loans given by the City for economic development and/or improvements.

The Fairfield Library Foundation Fund is used to account for donations received and purchases made for the benefit of the Fairfield Public Library.

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

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

The City reports the following major proprietary funds:

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

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer systems

C. Measurement Focus and Basis of Accounting

The City of Fairfield 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 incurred, there are both restricted and unrestricted cash basis net assets 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.

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. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the culture and recreation and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences

of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the City and its component units had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Mutual Funds	\$ 156,493	182,125	N/A
Money Market	33,589	33,589	N/A
Stocks	1,486	1,486	N/A
Corporate Bonds	5,006	4,937	Dec. 15, 2007

Additionally, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,052 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

Credit risk – The Bank of America Corporate bonds carry a rating of AA-/Aa2. The City’s investments in the Iowa Public Agency Investment Trust, Mutual Funds and Money Market are unrated.

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

(3) Lease-Purchase Agreements

The City has entered into agreements to lease certain equipment under non-cancelable capital leases. The following is a schedule of the future minimum lease payments, including interest at rates ranging from 4.25% to 12.65% per annum, and the present value of net minimum lease payments under agreements in effect at June 30, 2007:

Year ending June 30,	Integrated			Total
	Financial Software	Tool Carrier	Dump Truck	
2008	\$ 1,881	25,647	11,973	39,501
2009	-	25,647	11,973	37,620
2010	-	-	11,972	11,972
2011	-	-	7,300	7,300
Total minimum lease payments	1,881	51,294	43,218	96,393
Less amount representing interest	(77)	(3,295)	(7,891)	(11,263)
Present value of net minimum lease payments	\$ 1,804	47,999	35,327	85,130

During the year ended June 30, 2007, the City made principal payments of \$45,059 and interest payments of \$3,865 on the above capital leases and a water generator capital lease which was paid off.

(4) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation			
	Bonds		Capital Loan Notes	
	Principal	Interest	Principal	Interest
2008	\$ 275,000	320,495	310,000	109,163
2009	515,000	307,570	325,000	94,583
2010	535,000	284,720	335,000	79,310
2011	560,000	260,840	250,000	63,475
2012	585,000	235,800	200,000	51,445
2013-2017	2,340,000	868,600	900,000	109,195
2018-2022	2,900,000	358,000	-	-
2022-2023	-	-	-	-
Total	\$ 7,710,000	2,636,025	2,320,000	507,171

Year Ending June 30,	Water Revenue				Local Option Sales and Services		Total	
	Bonds		Capital Loan Notes		Tax Revenue Bonds			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	110,000	19,790	158,000	159,270	380,000	29,250	1,233,000	637,968
2009	115,000	13,685	164,000	154,530	400,000	15,000	1,519,000	585,368
2010	125,000	7,187	166,000	149,610	-	-	1,161,000	520,827
2011	-	-	304,000	144,630	-	-	1,114,000	468,945
2012	-	-	314,000	135,510	-	-	1,099,000	422,755
2013-2017	-	-	1,728,000	530,100	-	-	4,968,000	1,507,895
2018-2022	-	-	2,029,000	253,410	-	-	4,929,000	611,410
2022-2023	-	-	342,320	13,380	-	-	342,320	13,380
Total	350,000	40,662	5,205,320	1,540,440	780,000	44,250	16,365,320	4,768,548

Water Revenue Bonds

The resolution providing for the issuance of the 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 funds.
- (b) Sufficient monthly transfers shall be made to a separate water revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers of 25 percent of the amount required to be deposited in the water revenue bond sinking account shall be made to a water reserve account until \$116,500 is accumulated. At June 30, 2007, the balance in this account was \$116,500.

- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to retire any subordinate obligations and then can be used for any lawful purpose.
- (e) Bonds maturing after June 1, 2005 may be called for redemption and paid before maturity on June 1, 2005 or any interest payment date thereafter.

Water Revenue Capital Loan Notes

On February 13, 2003, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, N.A. for the issuance of \$5,900,000 of water revenue capital loan notes with interest at 3.00% per annum. The agreement requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal waterworks system. The City will receive disbursements from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2007, the City had drawn \$5,796,320 of the \$5,900,000 authorized. Wells Fargo Bank Iowa, N.A. has the remaining \$103,680 held in trust which the City will request when the project has been finalized. An initiation fee of 1% of the authorized borrowing for the water revenue capital loan notes was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee was withheld by the bank from the first proceeds of the water revenue capital loan notes drawn by the City during the year ended June 30, 2004. The final drawdown of \$103,680 will be used to reduce the deficit balance of the SRF project.

The resolution providing for the issuance of the water revenue capital loan notes includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to a separate water revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers of 25 percent of the amount required to be deposited in the water revenue note sinking account shall be made to a water reserve account until \$458,340 is accumulated and maintained.
- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any notes and then can be used for any lawful purpose.

The City has made the transfers to the water sinking and reserve accounts as required by the water revenue capital loan note resolution.

Local Option Sales and Services Tax Revenue Bonds

On September 1, 2006, the City issued local option sales and services tax revenue bonds for the purpose of paying costs of land acquisition for the Fairfield Civic Center and providing grant funds to Jefferson County Civic Center, Inc. The bonds are payable solely from the proceeds of the local option sales tax received by the City in accordance with Chapter 422B.12(3) of the Code of Iowa. The bonds are not a general obligation of the City, but the debt is subject to the constitutional debt limitation of the City.

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

- (a) The bonds will only be redeemed from the local option sales tax received by the City and the bond holders hold a lien on the future revenues received.
- (b) Sufficient deposits shall be made to a separate sinking account for the purpose of making the bond principal and interest payments when due.

As of June 30, 2007, the City has not established the required sinking account.

Construction Warrants

The City entered into agreements with First National Bank, Fairfield, Iowa during the years ended June 30, 2003, 2004, 2006 and 2007 for the issuance of construction warrants to provide interim financing for the airport improvement, sewer digester improvement and street improvement projects. The warrants were issued to First National Bank for \$400,000, \$500,000, \$400,000 and \$500,000, respectively, with interest rates ranging from 3.50% to 5.00% per annum. In addition, the City issued warrants during the year ended June 30, 2006 to Iowa State Bank & Trust Company for \$900,000 and \$300,000, with interest rates of 4.75% and 5.08% per annum, respectively. These warrants were redeemed during the year.

(5) Pension and Retirement Benefits

Iowa Public Employees Retirement System – The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$107,639, 104,648 and \$97,804, respectively, equal to the required contributions for each year.

Municipal Fire and Police Retirement System of Iowa – The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing multiple employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by state statute to plan members and beneficiaries. The police department and the full time employees of the fire department for the City participate in this Plan. The Plan issues a publicly available financial report including financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, West Des Moines, IA 50263.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, can not be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2007, 2006 and 2005 were \$189,732, \$178,198 and \$155,787, respectively, which met the required minimum contribution for each year.

(6) Compensated Absences

City employees accumulate unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2007, primarily relating to the General and Enterprise Funds, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 74,000
Sick Leave	<u>44,000</u>
	<u>\$ 118,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2007. Sick leave is payable when used or, after an employment period of twenty years, upon termination, retirement or death. Accumulated sick leave hours are paid at the rate of one-half upon retirement or death and one-fourth upon termination.

(7) Risk Management

The City is a member in 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 556 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contribution to the Pool for the year ended June 30, 2007 was \$195,069.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in the aggregate per year. For members requiring specific coverage from \$3,000,000 to

\$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2007, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all 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. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation, and other property and liability. 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.

(8) Development Rebate Agreement

In November 2005, the City entered into a development rebate agreement to assist in an urban renewal project. The City agreed to rebate incremental taxes paid by the developer in exchange for the construction of Jefferson County Civic Center, Inc., (Civic Center) as set forth in the urban renewal plan. The agreement provides for the exclusion from taxation of the Civic Center for a period of two years during construction. The incremental taxes to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of thirty years beginning with the tax year in which the property taxes on the completed value of the Civic Center are first paid. No rebates were made during the year ended June 30, 2007.

(9) Deficit Balances

The General Fund, Revolving Account had a deficit balance of \$114,568 at June 30, 2007. The deficit will be eliminated by collections from Jefferson County and transfers from other funds.

The Debt Service Fund had a deficit balance of \$202,527 at June 30, 2007. The deficit will be eliminated by collection of property tax.

The Capital Projects Fund, Recreation Trails, Capital Improvement Replacement, Walton Lake Subdivision, Airport Apron, Bypass Forcemain Relocation, Bypass Cross Interceptor Relocation, Bypass Crow Creek Relocation, Bypass Water Main Relocation, Runway 18/36 Phase I, Runway 18/36 Phase II, Runway 18/36 Phase III and 2006 Street Project Accounts had deficit balances of \$25,773, \$61,684, \$277,931, \$88,493, \$199,800, \$323,255, \$162,631, \$292,422, \$160,349, \$427,569, \$61,078, and \$27,156, respectively, at June 30, 2007. These deficit balances were a result of project costs

incurred prior to availability of funds. The deficit balances will be eliminated by local sources, grants and bond or note issues after June 30, 2007.

The Enterprise Funds, Water-State Revolving Account had a deficit balance of \$278,130 at June 30, 2007. The deficit will be eliminated by local sources, grants, future bond or note sales and transfers from other accounts.

(10) Interfund Transfers

Transfer To	Transfer From	Amount
General	Special Revenue: Employee Benefits	\$ 130,427
	Enterprise: Logan Apartments	50,000
		180,427
Special Revenue: Fairfield Library Foundation	Special Revenue: Library Memorial	2,450
Debt Service	Special Revenue: Urban Renewal Tax Increment Financing	210,353
Capital Projects	Special Revenue: Local Option Sales Tax	677,054
Permanent: Library Endowment	Special Revenue: Library Memorial	20,000
Total		\$ 1,090,284

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

(11) Contractual Commitments

The City has entered into various construction contracts totaling \$6,299,344. The unpaid contract balances at June 30, 2007 totaled \$2,459,155. These balances will be paid as work on the projects progresses. These construction contracts will be funded with federal grants, local sources and bond or note sales in fiscal year 2008.

(12) Subsequent Events

In July 2007, the City accepted bids of \$65,906 and \$352,326 for water main extension and street improvements, respectively.

In October 2007, the City accepted a bid of \$136,069 for the safe routes to school project.

In March 2008, the City accepted bids of \$135,100 and \$381,278 for the 2008 sidewalk and 2008 streetscape projects, respectively.

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 3,350,952	-	-
Tax increment financing	210,355	-	-
Other city tax	968,336	-	-
Licenses and permits	21,441	-	-
Use of money and property	104,655	178,772	17,729
Intergovernmental	4,965,682	112,033	-
Charges for service	323,930	2,769,124	-
Special assessments	51,081	-	-
Miscellaneous	284,838	39,704	36,573
Total receipts	10,281,270	3,099,633	54,302
Disbursements:			
Public safety	1,570,831	-	-
Public works	942,597	-	-
Health and social services	17,801	-	-
Culture and recreation	1,591,083	-	17,677
Community and economic development	100,958	-	-
General government	374,948	-	-
Debt service	1,116,957	-	-
Capital projects	7,085,671	-	-
Business type activities	-	4,423,531	-
Total disbursements	12,800,846	4,423,531	17,677
Excess (deficiency) of receipts over (under) disbursements	(2,519,576)	(1,323,898)	36,625
Other financing sources, net	3,631,416	2,150,000	22,450
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,111,840	826,102	59,075
Balances beginning of year	(70,926)	731,438	675,351
Balances end of year	\$ 1,040,914	1,557,540	734,426

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
3,350,952	3,195,249	3,195,249	155,703
210,355	206,893	206,893	3,462
968,336	973,549	1,033,549	(65,213)
21,441	24,750	24,750	(3,309)
265,698	81,000	81,000	184,698
5,077,715	4,275,338	4,975,338	102,377
3,093,054	3,961,450	3,961,450	(868,396)
51,081	19,808	19,808	31,273
287,969	18,000	18,000	269,969
<u>13,326,601</u>	<u>12,756,037</u>	<u>13,516,037</u>	<u>(189,436)</u>
1,570,831	1,599,113	1,699,113	128,282
942,597	945,027	995,027	52,430
17,801	14,720	19,720	1,919
1,573,406	1,319,138	1,394,138	(179,268)
100,958	181,791	206,791	105,833
374,948	366,065	391,065	16,117
1,116,957	909,808	1,119,808	2,851
7,085,671	7,556,500	10,556,500	3,470,829
4,423,531	3,821,580	4,021,580	(401,951)
<u>17,206,700</u>	<u>16,713,742</u>	<u>20,403,742</u>	<u>3,197,042</u>
(3,880,099)	(3,957,705)	(6,887,705)	3,007,606
<u>5,758,966</u>	<u>1,500</u>	<u>7,956,500</u>	<u>(2,197,534)</u>
1,878,867	(3,956,205)	1,068,795	810,072
<u>(14,839)</u>	<u>4,967,463</u>	<u>472,174</u>	<u>(487,013)</u>
<u>1,864,028</u>	<u>1,011,258</u>	<u>1,540,969</u>	<u>323,059</u>

City of Fairfield

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

The budgetary comparison is presented as Required Supplementary Information 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 Permanent Fund and the component units. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Proprietary 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 budget was amended one time, increasing disbursements by \$3,690,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the culture and recreation and business type activities functions.

Other Supplementary Information

City of Fairfield

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

As of and for the year ended June 30, 2007

	Road Use Tax	Urban Renewal Tax Increment Financing	Local Option Sales Tax	Employee Benefits	Special Live on The Square
Receipts:					
Property tax	\$ -	-	-	643,959	-
Tax increment financing	-	210,355	-	-	-
Other city tax	-	-	795,505	-	-
Use of money and property	-	-	-	-	-
Intergovernmental	800,277	-	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	-	-	-	356	19,704
Total receipts	800,277	210,355	795,505	644,315	19,704
Disbursements:					
Operating:					
Public safety	-	-	33,871	357,711	-
Public works	832,036	-	-	9,644	-
Health and social services	-	-	7,071	-	-
Culture and recreation	-	-	75,111	108,325	15,475
Community and economic development	-	-	6,001	3,595	-
General government	-	-	4,500	31,962	-
Debt service	-	-	-	-	-
Total disbursements	832,036	-	126,554	511,237	15,475
Excess (deficiency) of receipts over (under) disbursements	(31,759)	210,355	668,951	133,078	4,229
Other financing sources (uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	-	(210,353)	(677,054)	(130,427)	-
Total other financing sources (uses)	-	(210,353)	(677,054)	(130,427)	-
Net change in cash balances	(31,759)	2	(8,103)	2,651	4,229
Cash balances beginning of year	33,089	8,856	58,982	118,312	
Cash balances end of year	\$ 1,330	8,858	50,879	120,963	4,229
Cash Basis Fund Balances					
Unreserved:					
Special revenue funds	\$ 1,330	8,858	50,879	120,963	4,229
Debt service fund	-	-	-	-	-
Total cash basis fund balances	\$ 1,330	8,858	50,879	120,963	4,229

See accompanying independent auditor's report.

Revenue							
Indian Creek Escrow	Library Memorial	Library Building Trust	Friends of the Library Fairfield Public Library House	Fairfield Park and Recreation Foundation	Debt Service		Total
-	-	-	-	-	656,162		1,300,121
-	-	-	-	-	-		210,355
-	-	-	-	-	-		795,505
162	24,651	-	5,625	377	19,236		50,051
-	-	-	-	-	-		800,277
-	-	-	-	-	25,940		25,940
-	15,627	15,000	-	19,421	-		70,108
162	40,278	15,000	5,625	19,798	701,338		3,252,357
-	-	-	-	-	-		391,582
-	-	-	-	-	-		841,680
-	-	-	-	-	-		7,071
-	17,426	129,232	2,502	14,934	-		363,005
-	-	-	-	-	-		9,596
-	-	-	-	-	-		36,462
-	-	-	-	-	1,116,957		1,116,957
-	17,426	129,232	2,502	14,934	1,116,957		2,766,353
162	22,852	(114,232)	3,123	4,864	(415,619)		486,004
-	-	-	-	-	210,353		210,353
-	(22,450)	-	-	-	-		(1,040,284)
-	(22,450)	-	-	-	210,353		(829,931)
162	402	(114,232)	3,123	4,864	(205,266)		(343,927)
16,237	2,336	127,946	4,847	36,422	2,739		409,766
16,399	2,738	13,714	7,970	41,286	(202,527)		65,839
16,399	2,738	13,714	7,970	41,286	-		268,366
-	-	-	-	-	(202,527)		(202,527)
16,399	2,738	13,714	7,970	41,286	(202,527)		65,839

City of Fairfield

City of Fairfield

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

As of and for the year ended June 30, 2007

	Enterprise			Total
	Logan Apartments	Yard Waste	Airport Hangar	
Operating receipts:				
Use of money and property	\$ 109,855	-	68,862	178,717
Charges for service	-	339,535	-	339,535
Intergovernmental	91,103	-	20,930	112,033
Miscellaneous	3,476	4,218	3,073	10,767
Total operating receipts	204,434	343,753	92,865	641,052
Operating disbursements:				
Business type activities	142,697	326,069	19,116	487,882
Excess of operating receipts over operating disbursements	61,737	17,684	73,749	153,170
Non-operating receipts:				
Sale of capital assets	500	-	-	500
Excess of receipts over disbursements	62,237	17,684	73,749	153,670
Operating transfers out	(50,000)	-	-	(50,000)
Net change in cash balances	12,237	35,368	147,498	103,670
Cash balances beginning of year	76,548	17,104	70,610	164,262
Cash balances end of year	\$ 88,785	52,472	218,108	267,932
Cash Basis Fund Balances				
Unreserved	\$ 88,785	34,788	144,359	267,932

See accompanying independent auditor's report.

City of Fairfield
Schedule of Indebtedness
Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Street construction	Jan 2, 1958	2.60%	\$ 85,000
Library and street construction	May 1, 1995	5.00-5.60	3,300,000
Essential corporate purpose	Sep 1, 2006	4.00	6,925,000
Total			
General obligation capital loan notes:			
General corporate purpose - series 2001 A	May 1, 2001	4.20-4.80%	\$ 4,330,000
Urban renewal project - series 2001B	May 1, 2001	5.40-6.45	325,000
Total			
Revenue bonds:			
Water	Jun 1, 1977	4.90-5.70%	\$ 1,500,000
Water	May 1, 1995	4.60-5.75	1,165,000
Total			
Water revenue capital loan notes:			
State revolving	Feb 13, 2003 *	3.00%	\$ 5,900,000
Local option sales and services tax revenue bonds	Sep 1, 2006	3.75%	\$ 1,030,000
Construction warrants:			
Airport improvement	May 12, 2003	3.75%	\$ 400,000
Sewer digester improvement	Jul 30, 2003	3.50	500,000
Airport improvement	Jun 28, 2004	3.50	400,000
Street improvement	Sep 15, 2005	4.75	900,000
Airport improvement	Mar 29, 2006	5.08	300,000
Street improvement	Sep 8, 2006	5.00	500,000
Total			
Capital lease-purchase agreements:			
Water generator	Dec 31, 1999	6.85%	\$ 105,180
Financial software	Feb 1, 2005	12.65	8,100
Integrated tool carrier	Sep 29, 2005	4.25	96,234
Dump truck	Dec 21, 2006	9.21	47,300
Total			

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

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Principal and Interest Due and Unpaid
5,000	-	-	5,000	-	5,520
1,070,000	-	285,000	785,000	58,458	-
-	6,925,000	-	6,925,000	207,750	-
\$ 1,075,000	6,925,000	285,000	7,715,000	266,208	5,520
2,570,000	-	400,000	2,170,000	117,595	-
185,000	-	35,000	150,000	11,755	-
\$ 2,755,000	-	435,000	2,320,000	129,350	-
25,000	-	-	25,000	-	32,838
455,000	-	105,000	350,000	25,512	-
\$ 480,000	-	105,000	375,000	25,512	32,838
5,357,320	-	152,000	5,205,320	163,830	-
-	1,030,000	250,000	780,000	28,969	-
400,000	-	400,000	-	5,277	-
500,000	-	500,000	-	6,596	-
400,000	-	400,000	-	5,277	-
900,000	-	900,000	-	21,551	-
300,000	-	300,000	-	7,682	-
-	500,000	500,000	-	1,438	-
\$ 2,500,000	500,000	3,000,000	-	47,821	-
7,699	-	7,699	-	132	-
4,603	-	2,799	1,804	424	-
70,587	-	22,588	47,999	3,059	-
-	47,300	11,973	35,327	250	-
\$ 82,889	47,300	45,059	85,130	3,865	-

City of Fairfield
Bond and Note Maturities
June 30, 2007

Year Ending June 30,	General Obligation Bonds					General Obligation Capital Loan Notes				
	Library and Street Construction		Essential Corporate Purpose			Total	General Corporate Purpose - Series 2001A		Urban Renewal Project - Series 2001B	
	Issued May 1, 1995		Issued Sep 1, 2006				Issued May 1, 2001		Issued May 1, 2001	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2008	5.375%	\$ 140,000	4.000%	\$ 135,000	275,000	4.500%	\$ 275,000	6.30%	\$ 35,000	
2009	5.500	150,000	4.000	365,000	515,000	4.500	290,000	6.35	35,000	
2010	5.600	155,000	4.000	380,000	535,000	4.500	295,000	6.40	40,000	
2011	5.600	165,000	4.000	395,000	560,000	4.500	210,000	6.45	40,000	
2012	5.600	175,000	4.000	410,000	585,000	4.500	200,000		-	
2013		-	4.000	430,000	430,000	4.600	210,000		-	
2014		-	4.000	450,000	450,000	4.700	220,000		-	
2015		-	4.000	465,000	465,000	4.750	230,000		-	
2016		-	4.000	485,000	485,000	4.800	240,000		-	
2017		-	4.000	510,000	510,000		-		-	
2018		-	4.000	530,000	530,000		-		-	
2019		-	4.000	555,000	555,000		-		-	
2020		-	4.000	580,000	580,000		-		-	
2021		-	4.000	605,000	605,000		-		-	
2022		-	4.000	630,000	630,000		-		-	
2023		-		-	-		-		-	
Total		<u>\$ 785,000</u>		<u>\$ 6,925,000</u>	<u>7,710,000</u>		<u>\$ 2,170,000</u>		<u>\$ 150,000</u>	

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

See accompanying independent auditor's report.

Water Revenue						
Total	Bonds		Capital Loan		Local Option Sales and Services Tax Revenue Bonds	
	Issued May 1, 1995		Notes - State Revolving		Issued Sep 1, 2006	
	Interest Rates	Amount	Interest Rates *	Amount	Interest Rates	Amount
310,000	5.55%	\$ 110,000	3.00%	\$ 158,000	3.75%	\$ 380,000
325,000	5.65	115,000	3.00	164,000	3.75	400,000
335,000	5.75	125,000	3.00	166,000		-
250,000		-	3.00	304,000		-
200,000		-	3.00	314,000		-
210,000		-	3.00	324,000		-
220,000		-	3.00	334,000		-
230,000		-	3.00	345,000		-
240,000		-	3.00	357,000		-
-		-	3.00	368,000		-
-		-	3.00	380,000		-
-		-	3.00	393,000		-
-		-	3.00	405,000		-
-		-	3.00	419,000		-
-		-	3.00	432,000		-
-		-	3.00	342,320		-
<u>2,320,000</u>		<u>\$ 350,000</u>		<u>\$ 5,205,320</u>		<u>\$ 780,000</u>

Schedule 5

City of Fairfield

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

For the Last Five Years

	2007	2006	2005	2004	2003
Receipts:					
Property tax	\$ 3,350,952	3,236,344	3,037,373	2,852,293	3,088,534
Tax increment financing	210,355	229,701	230,189	411,499	316,671
Other city tax	968,336	911,782	914,871	1,037,115	959,462
Licenses and permits	21,441	27,043	24,228	15,800	14,960
Use of money and property	104,655	45,527	107,630	80,340	38,694
Intergovernmental	4,965,682	2,635,955	2,758,221	1,012,520	2,255,519
Charges for service	323,930	346,434	337,963	316,174	321,895
Special assessments	51,081	27,614	33,834	59,290	51,290
Miscellaneous	284,838	197,893	192,099	317,859	170,190
Total	<u>\$ 10,281,270</u>	<u>7,658,293</u>	<u>7,636,408</u>	<u>6,102,890</u>	<u>7,217,215</u>
Disbursements:					
Operating:					
Public safety	\$ 1,570,831	1,589,215	1,751,741	2,035,789	2,006,603
Public works	942,597	977,938	898,017	900,369	871,806
Health and social services	17,801	9,720	12,220	9,720	6,683
Culture and recreation	1,591,083	1,536,035	1,444,278	1,289,611	1,305,919
Community and economic development	100,958	107,223	85,867	163,464	101,835
General government	374,948	397,803	342,499	346,384	306,993
Non-program	-	-	-	-	36,722
Debt service	1,116,957	901,491	901,981	942,223	1,104,910
Capital projects	7,085,671	3,845,328	2,527,712	783,568	2,101,125
Total	<u>\$ 12,800,846</u>	<u>9,364,753</u>	<u>7,964,315</u>	<u>6,471,128</u>	<u>7,842,596</u>

See accompanying independent auditor's report.

City of Fairfield
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2007

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Agriculture:			
Commodity Loans and Loan Deficiency Payments	10.051	ID 42 6004655	\$ 3,065
U.S. Department of Housing and Urban Development - Office of Housing:			
Section 8 Housing Assistance Payments Program - Special Allocations	14.195	IA050008008	91,103
U.S. Department of Transportation:			
Federal Aviation Administration:			
Airport Improvement Program	20.106	3-19-0033-07-2004	74,181
Airport Improvement Program	20.106	3-19-0033-08-2005	2,793,497
Airport Improvement Program	20.106	3-19-0033-09-2006	312,387
			<u>3,180,065</u>
Total direct			<u>3,274,233</u>
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program	14.228	05-HSG-002	15,283
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	NHSX-34-8(94,95)--3H-51 (Const)	125,551
Total indirect			<u>140,834</u>
Total			<u>\$ 3,415,067</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Fairfield and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

City of Fairfield



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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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 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 Fairfield, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated June 5, 2008. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Fairfield's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Fairfield's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Fairfield's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Fairfield's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Fairfield's financial statements that is more than inconsequential will not be prevented or detected by the City of Fairfield's internal control. We consider the deficiencies in the internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Fairfield's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

However, of the significant deficiencies described above, we believe items II-A-07 and II-B-07 are material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Fairfield's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Fairfield's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Fairfield and other parties to whom the City of Fairfield may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Fairfield during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 5, 2008

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133**

City of Fairfield



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Fairfield, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2007. The City of Fairfield's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Fairfield's management. Our responsibility is to express an opinion on the City of Fairfield's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Fairfield's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Fairfield's compliance with those requirements.

In our opinion, the City of Fairfield complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the City of Fairfield is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Fairfield's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Fairfield's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a significant deficiency.

A control deficiency in the City's internal control over compliance 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 non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. We do not consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

The City of Fairfield's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on the City's response, we did not audit the City of Fairfield's response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Fairfield and other parties to whom the City of Fairfield may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 5, 2008

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

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

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over the major program was disclosed by the audit of the financial statements, which is not considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program is as follows:
 - CFDA Number 20.106 – Airport Improvement Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Fairfield did not qualify as a low-risk auditee.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-07 Management Financial Information – Although the City prepares monthly financial reports which include City fund/account activity and are presented to the City Council for its review and approval, monthly reconciliations of the fund balances to the bank account balances were not prepared.

Recommendation – To improve financial accountability and control, the monthly financial report should include a reconciliation of fund balances to the bank balances.

Response – We have been working with the auditors to develop the appropriate document. When completed it will be included with the monthly report.

Conclusion – Response accepted.

II-B-07 Separately Maintained Records – The bookkeeping and custody of the Special Revenue, Library Memorial, Library Building Trust and Live on the Square Funds and the Permanent, Library Endowment Fund were under the control of the Director of the Library in a location separate from the Clerk's office and City Hall staff. These accounts were not reflected in the City's accounting system or monthly fund balances.

The bookkeeping and custody of the Enterprise, Logan Apartments Deposit account was under the control of the Manager of the Logan Apartments in a location separate from the Clerk's office. This account was not reflected in the City's annual budget. Duties are not segregated as the Logan Apartments Manager prepares tenant certifications, prepares housing assistance payment requests, collects rent, reconciles rent receivable each month, collects and refunds security deposits and performs other accounting duties for the apartments. Additionally, although receipts were issued, the receipts were not prenumbered but were numbered by Logan Apartment staff as issued, deposits were not made on a timely basis and receipt and disbursement journals were not maintained.

Recommendation – Chapter 384.20 of the Code of Iowa requires a City to keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any City purpose.

The Library, Live on the Square and Logan Apartments activity should be reflected in the City's monthly financial statements.

In addition, control activities at Logan Apartments should be reviewed to obtain the maximum internal control possible under the circumstances. Also, prenumbered receipts should be issued at the time of collection to provide additional control over collections and recording of receipts. Also, deposits should be made on a timely basis and receipt and disbursement journals should be maintained and reconciled to the bank each month.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Response – The Librarian does submit a monthly report of the activities of the funds separately maintained. This report is submitted to the City Council upon receipt.

The Live on the Square account will be reviewed to determine how to best include in our monthly reports.

Logan Apartments is currently in the process of hiring a new office manager. The new manager will be instructed to submit a report that can be included with the monthly finance report. In addition a pre-numbered receipt book will be purchased for their use.

Conclusion – Response acknowledged. The Library activity should be reflected in the monthly financial reports presented to the City Council. Also, control activities at Logan Apartment should be reviewed to obtain maximum internal control possible with available Loan Apartment and City staff.

II-C-07 Electronic Data Processing Systems – The City does not have a written policy for maintaining password privacy and confidentiality.

Recommendation – The City should develop a written policy addressing password privacy to improve the City's control over its computer-based systems.

Response – A written policy instructing personnel to maintain the confidentiality of their password is being developed. The policy will only allow the user and the systems administrator access to these passwords.

Conclusion – Response accepted.

II-D-07 Revolving Account – The City maintains a revolving account for miscellaneous receipt and disbursement recording. A true revolving account should have a balance of zero as only funds receipted in are then disbursed out. The City's revolving account has a deficit balance of \$114,568 at June 30, 2007.

Recommendation – The City should determine why the revolving account has a deficit balance and make corrective transfers to correctly reflect the fund balance as zero. The City should then close the fund and record the receipt and disbursement activity in the appropriate governmental fund.

Response – The revolving account has been an ongoing matter we are attempting to resolve. Several accounts were discovered in the current fiscal year that had not been billed. Invoices were sent out and the amount of the deficit has been reduced. This will be a continuing project for our bookkeeper.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

A special investigation is being performed relating to potential undeposited City park and recreation collections.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

**CFDA Number 20.106: Airport Improvement Program
Federal Award Year: 2004, 2005, 2006
U.S. Department of Transportation**

III-A-07 Airport Improvement Program Reports – Although the City has obtained reimbursement for the various phases of the Airport Improvement Projects through the use of the federal Electronic Clearing House Operation system, the City has not filed the required SF 271 reports, “Outlay Report and Request for Reimbursement for Construction Programs” for Phases I, II and III.

Recommendation – The City should contact the Federal Aviation Administration to determine the submission requirement of the SF271 report and develop procedures to ensure these requirements are met.

Response – The FAA has indicated that these only need to be submitted at the end of each grant project. Phase One has been completed and the form sent. Two other grant projects are still open.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-07 Certified Budget – Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the culture and recreation and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The business type activities function was overspent because some of the expenditures reported by the auditors was budgeted for under the capital expenditures activity. Since the expenses involved were capital type projects that is where the original budget reflected those expenses.

We try very hard to make an accurate estimate of the required budget adjustment. Future amendments will be adjusted accordingly.

Conclusion – Response acknowledged. The original budget document does not provide for proprietary fund projects to be budgeted in the capital projects function. The budget amendment does not clearly identify a portion of the amended capital projects function should be allocated to the proprietary fund. For future periods, proprietary fund projects should be budgeted in the business type activities function.

IV-B-07 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

IV-C-07 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-07 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-E-07 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-07 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

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

Recommendation – The City should publish minutes as required.

Response – The local paper only published legal notices twice a week. We will try to get the minutes over to them early enough to meet their deadline.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

IV-G-07 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

IV-H-07 Financial Condition – At June 30, 2007, the City had deficit balances in the following accounts:

Fund/Account	Amount
General:	
Revolving	\$ (114,568)
Debt Service	(202,527)
Capital Projects:	
Recreation Trails	(25,773)
Capital Improvement Replacement	(61,684)
Walton Lake Subdivision	(277,931)
Airport Apron	(88,493)
Bypass Forcemain Relocation	(199,800)
Bypass Cross Interceptor Relocation	(323,255)
Bypass Crow Creek Relocation	(162,631)
Bypass Water Main Relocation	(292,422)
Runway 18/36 Phase I	(160,349)
Runway 18/36 Phase II	(427,569)
Runway 18/36 Phase III	(61,078)
2006 Street Project	(27,156)
Enterprise:	
Water-State Revolving	(278,130)

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

Response – Some of these project funds have grant receipts still pending. After all activity has been completed, either bonds will be issued or appropriate transfers made to balance these accounts.

Conclusion – Response acknowledged. In addition, the City should consider requesting grant receipts as the projects progress.

IV-I-07 Chart of Accounts – In January 2003, the City adopted the revised Uniform City Chart of Accounts for reporting purposes. However, as of June 30, 2007, the computer system has not been converted to the new Chart of Accounts.

Recommendation – The City should convert the computer system to the new Chart of Accounts adopted in January 2003.

Response – Updating the system with conversion software is in process.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

IV-J-06 Local Option Sales and Services Tax Revenue Bonds – The City has not established the sinking account for the local option sales and services tax revenue bonds required by resolution. Additionally, accrued interest on the sale of these revenue bonds was not credited to the sinking account as required.

Recommendation – The City should establish the required sinking account and credit the accrued interest on the sale of the bonds as required.

Response – The required funds will be set up as sub-funds in the Civic Center Fund. The amount of interest will be determined and transferred.

Conclusion – Response accepted.

IV-L-07 Other Information Required by Bond Resolutions –

Account Requirements – The City complied with the account requirements in accordance with the water revenue bond and capital loan note provisions.

Insurance – The following insurance policies were in force at June 30, 2007:

Insurer	Description	Amount	Expiration Dates
Iowa Communities Assurance Pool	Property	\$ 38,213,355	Nov 1, 2007
Iowa Communities Assurance Pool	General Liability	10,000,000	Nov 1, 2007
	General Liability - Logan Apartments	10,000,000	
	Officials Liability	10,000,000	
	Automobile Liability	10,000,000	
	Law Enforcement Liability	10,000,000	
Iowa Municipalities Workers Compensation Association	Workers Compensation	1,000,000	Jul 1, 2007
EMC Insurance Co.	Surety Bond Coverage - Blanket	300,000	Jan 1, 2007
Old Republic Insurance Co.	Airport Bodily Injury	5,000,000	Mar 13, 2007

Statistical Information:

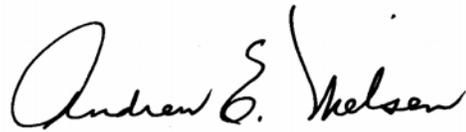
Number of customers at June 30, 2005:	4,640
	<u>Rate Per Cubic Foot</u>
Water Rate Schedule – Monthly	
Monthly account fee (all meter sizes)	\$ 7.00
0 –1,500 Cubic Feet / month	0.0245
1,500 - 10,000 Cubic Feet / month	0.02205
10,000 – 50,000 Cubic Feet / month	0.0196
above 50,000 Cubic Feet / month	0.01715

City of Fairfield

Staff

This audit was performed by:

Michelle B. Meyer CPA, Manager
John G. Vanis, CGFM, Senior Auditor
Paul F. Kearney, CGFM, Senior Auditor
Jennifer L. Wall, Staff Auditor
Paula J. Smothers, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State