



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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Des Moines, Iowa 50319-0004

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NEWS RELEASE

FOR RELEASE _____ February 4, 2004 _____ Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$1,043,232 for the year ended June 30, 2003. The receipts included \$125,860 in property tax, \$237,745 in tax increment financing collections, \$75,021 in local option sales tax, \$229,151 from other governments and \$11,657 in interest on investments. The City also received \$462,908 in general obligation corporate purpose note proceeds that are reported as other financing sources.

Disbursements for the year totaled \$1,036,331, and included \$235,598 for debt service, \$200,071 for business type activities and \$159,527 for capital projects.

The report contains recommendations to the City Council and other City officials. For example, operating procedures should be reviewed to obtain the maximum internal control possible and utility billings, collections and delinquencies should be reconciled. The City has responded favorably to the comments.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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CITY OF FAIRFAX
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2003

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Financial Statements:	<u>Exhibit</u>	
Combined Statement of Cash Transactions – All Fund Types	A	8-9
Comparison of Receipts, Disbursements and Changes in Balances – Actual to Budget	B	10
Statement of Indebtedness	C	12-13
Notes to Financial Statements		15-18
Supplemental Information:	<u>Schedule</u>	
Combining and Individual Schedules of Cash Transactions:		
General Fund	1	21-23
Special Revenue Funds	2	24-25
Debt Service Fund	3	26
Capital Projects Funds	4	28-29
Enterprise Funds	5	30
Trust Funds	6	31
Independent Auditor’s Report on Compliance and on Internal Control over Financial Reporting		33-34
Schedule of Findings		35-41
Staff		42

City of Fairfax

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
William Voss	Mayor	Jan 2004
Marianne Wainwright	Mayor Pro tem	Jan 2006
Mark Ekstrom	Council Member	Jan 2004
Cheryll Scott	Council Member	Jan 2004
Jo Ann Beer	Council Member	Jan 2006
Bernie Frieden	Council Member	Jan 2006
Mary Pacha	Clerk	Jan 2004
Nancy Flickinger	Deputy Clerk	Jan 2004
Randy Scholer	Attorney	Jan 2004

City of Fairfax



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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, listed as exhibits in the table of contents of this report, of the City of Fairfax, Iowa, as of and for the year ended June 30, 2003. These financial statements are the responsibility of the City of Fairfax's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 that our audit provides a reasonable basis for our opinion.

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. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2002.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2002, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Fairfax as of and for the year ended June 30, 2003, and its indebtedness at June 30, 2003, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 22, 2003 on our consideration of the City of Fairfax's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2002, as discussed in the third paragraph, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 22, 2003

Financial Statements

City of Fairfax
 Combined Statement of Cash Transactions
 All Fund Types
 Year ended June 30, 2003

	<u>Governmental Fund</u>	
	<u>General</u>	<u>Special Revenue</u>
Receipts:		
Property tax	\$ 125,860	-
Tax increment financing collections	-	237,745
Other city tax	44,249	-
Licenses and permits	27,901	-
Use of money and property	10,028	90
Intergovernmental	156,774	72,377
Charges for service	-	-
Miscellaneous	35,115	-
Total receipts	<u>399,927</u>	<u>310,212</u>
Disbursements:		
Public safety	71,135	-
Public works	52,570	68,534
Culture and recreation	73,629	-
Community and economic development	76,576	-
General government	98,691	-
Debt service	-	-
Capital projects	-	-
Business type activities	-	-
Total disbursements	<u>372,601</u>	<u>68,534</u>
Excess (deficiency) of receipts over (under) disbursements	<u>27,326</u>	<u>241,678</u>
Other financing sources (uses):		
General obligation corporate purpose note proceeds (net of \$2,092 discount)	397,739	-
Operating transfers in	19,255	64,156
Operating transfers out	(30,780)	(274,419)
Total other financing sources (uses)	<u>386,214</u>	<u>(210,263)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	413,540	31,415
Balance beginning of year	<u>463,844</u>	<u>93,098</u>
Balance end of year	<u>\$ 877,384</u>	<u>124,513</u>

See notes to financial statements.

Types		Proprietary Fund Type	Fuduciary Fund Type	Total (Memorandum Only)
Debt Service	Capital Projects	Enterprise	Trust	
-	-	-	-	125,860
-	-	-	-	237,745
-	-	75,021	-	119,270
-	-	-	-	27,901
-	-	1,108	431	11,657
-	-	-	-	229,151
-	-	225,399	-	225,399
860	-	14,290	15,984	66,249
860	-	315,818	16,415	1,043,232
-	-	-	-	71,135
-	-	-	-	121,104
-	-	-	-	73,629
-	-	-	-	76,576
-	-	-	-	98,691
235,598	-	-	-	235,598
24,614	134,913	-	-	159,527
-	-	200,071	-	200,071
260,212	134,913	200,071	-	1,036,331
(259,352)	(134,913)	115,747	16,415	6,901
65,169	-	-	-	462,908
274,419	218,257	33,050	30,780	639,917
(218,257)	-	(97,206)	(19,255)	(639,917)
121,331	218,257	(64,156)	11,525	462,908
(138,021)	83,344	51,591	27,940	469,809
194,822	-	124,744	30,524	907,032
56,801	83,344	176,335	58,464	1,376,841

Exhibit B

City of Fairfax

Comparison of Receipts, Disbursements and Changes in Balances -

Actual to Budget

Year ended June 30, 2003

	Actual	Amended Budget	Variance Favorable (Unfavorable)	Actual as % of Amended Budget
Receipts:				
Property tax	\$ 125,860	127,737	(1,877)	99%
Tax increment financing collections	237,745	234,382	3,363	101%
Other city tax	119,270	111,287	7,983	107%
Licenses and permits	27,901	15,615	12,286	179%
Use of money and property	11,657	8,145	3,512	143%
Intergovernmental	229,151	239,703	(10,552)	96%
Charges for service	225,399	167,110	58,289	135%
Miscellaneous	66,249	7,000	59,249	946%
Total receipts	<u>1,043,232</u>	<u>910,979</u>	<u>132,253</u>	<u>115%</u>
Disbursements:				
Public safety	71,135	137,248	66,113	52%
Public works	121,104	171,264	50,160	71%
Culture and recreation	73,629	113,720	40,091	65%
Community and economic development	76,576	109,495	32,919	70%
General government	98,691	214,839	116,148	46%
Debt service	235,598	-	(235,598)	-
Capital projects	159,527	-	(159,527)	-
Business type activities	200,071	611,348	411,277	33%
Total disbursements	<u>1,036,331</u>	<u>1,357,914</u>	<u>321,583</u>	<u>76%</u>
Excess (deficiency) of receipts over (under) disbursements	6,901	(446,935)		
Other financing sources, net	<u>462,908</u>	<u>463,768</u>		
Excess of receipts and other financing sources over disbursements and other financing uses	469,809	16,833		
Balance beginning of year	<u>907,032</u>	<u>907,034</u>		
Balance end of year	<u>\$ 1,376,841</u>	<u>923,867</u>		

See notes to financial statements.

City of Fairfax

City of Fairfax
Statement of Indebtedness
Year ended June 30, 2003

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Fire truck	Mar 27, 2000	5.25%	\$ 125,000
General obligation corporate purpose	Jun 1, 2001	4.60-5.25	1,185,000
General obligation water	Oct 1, 2001	3.00-5.00	450,000
General obligation corporate purpose	Mar 1, 2003	1.80-3.80	465,000
Total			

See notes to financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
60,000	-	60,000	-	3,353
1,185,000	-	60,000	1,125,000	57,233
450,000	-	25,000	425,000	31,941
-	465,000	-	465,000	-
<u>\$1,695,000</u>	<u>465,000</u>	<u>145,000</u>	<u>2,015,000</u>	<u>92,527</u>

City of Fairfax

City of Fairfax

Notes to Financial Statements

June 30, 2003

(1) Summary of Significant Accounting Policies

The City of Fairfax is a political subdivision of the State of Iowa located in Linn County. It was first incorporated in 1936 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, general government, and business type activities.

A. Reporting Entity

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

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: Linn County Assessor's Conference Board, Linn County Emergency Management Commission and Linn County Joint E911 Service Board.

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and balances. The various funds and their designated purposes are as follows:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are 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 that are not paid through other funds.

Special Revenue Funds – The Special Revenue Funds are utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

Debt Service Fund – The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation long-term debt.

Capital Projects Funds – The Capital Projects Funds are utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through Enterprise Funds.

Proprietary Funds

Enterprise Funds – The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

Fiduciary Funds

Trust Funds – The Trust Funds are used to account for monies and properties received and held by the City in a trustee capacity. These include Expendable Trust Funds.

C. Basis of Accounting

The City of Fairfax 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.

D. Budgets and Budgetary Accounting

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities.

E. Total (Memorandum Only)

The total column on the combined statement of cash transactions is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2003 were covered by federal depository insurance or 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.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement Number 3.

(3) Notes Payable

Annual debt service requirements to maturity for general obligation notes are as follows:

Year Ending June 30,	General Obligation Notes											
	Issued Jun 1, 2001			Issued Oct 1, 2001			Issued Mar 1, 2003			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2004	4.60%	\$ 65,000	54,472	3.25%	\$ 25,000	18,415	1.80%	\$ 55,000	12,910	\$ 145,000	85,797	230,797
2005	4.60	70,000	51,482	3.40	25,000	17,602	1.85	40,000	11,920	135,000	81,004	216,004
2006	4.60	75,000	48,262	3.70	25,000	16,752	1.90	40,000	11,180	140,000	76,194	216,194
2007	4.60	75,000	44,812	3.90	30,000	15,827	2.25	40,000	10,420	145,000	71,059	216,059
2008	4.60	80,000	41,362	4.00	30,000	14,657	2.60	45,000	9,520	155,000	65,539	220,539
2009	4.60	80,000	37,682	4.20	30,000	13,457	3.00	45,000	8,350	155,000	59,489	214,489
2010	4.70	85,000	34,002	4.30	30,000	12,197	3.20	50,000	7,000	165,000	53,199	218,199
2011	4.80	90,000	30,007	4.40	35,000	10,907	3.40	50,000	5,400	175,000	46,314	221,314
2012	4.90	95,000	25,687	4.55	35,000	9,367	3.60	50,000	3,700	180,000	38,754	218,754
2013	5.00	95,000	21,032	4.70	35,000	7,775	3.80	50,000	1,900	180,000	30,707	210,707
2014	5.10	100,000	16,282	4.80	40,000	6,130	-	-	-	140,000	22,412	162,412
2015	5.15	105,000	11,182	4.90	40,000	4,210	-	-	-	145,000	15,392	160,392
2016	5.25	110,000	5,775	5.00	45,000	2,250	-	-	-	155,000	8,025	163,025
Total		<u>\$1,125,000</u>	<u>422,039</u>		<u>\$425,000</u>	<u>149,546</u>		<u>\$ 465,000</u>	<u>82,300</u>	<u>\$ 2,015,000</u>	<u>653,885</u>	<u>2,668,885</u>

During the year ended June 30, 2003, the City issued \$465,000 in general obligation notes and retired \$145,000 of notes.

(4) Pension and Retirement Benefits

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 salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2003 was \$6,760, equal to the required contribution for the year.

(5) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2003, disbursements in the debt service and capital projects functions exceeded the amounts budgeted.

(6) Risk Management

The City of Fairfax is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks did not exceed commercial insurance coverage in the fiscal year ended June 30, 2003.

(7) Construction Contract/Commitments

During the year ended June 30, 2003, the City entered into a construction contract totaling \$75,117 for an iron filtration plant at Well #3. The City paid \$65,888 on this contract during the year. At June 30, 2003, \$9,229 remained unpaid and will be paid as work on the project progresses.

On December 18, 2002, the City approved entering into a contract to purchase two fire vehicles, which were received in July 2003. The cost of the vehicles totaled \$292,786 and was paid on August 12, 2003 with note proceeds from the March 1, 2003 note issuance.

Supplemental Information

City of Fairfax

City of Fairfax
 Schedule of Cash Transactions
 General Fund
 Year ended June 30, 2003

Receipts:	
Property tax	<u>\$ 125,860</u>
Other city tax:	
Utility tax replacement excise tax	39,021
Cable franchise fee	5,228
	<u>44,249</u>
Licenses and permits:	
Liquor	855
Cigarette	75
Building	25,297
Miscellaneous	1,674
	<u>27,901</u>
Use of money and property:	
Interest on investments	<u>10,028</u>
Intergovernmental:	
State allocation	9,117
Bank franchise tax	9,111
Community development block grant	63,650
Open access	256
Enrich Iowa	1,154
Fire allocations	62,946
County/township library	10,540
	<u>156,774</u>
Miscellaneous:	
Housing rehab reimbursements	26,880
Refunds and reimbursements	3,463
Library fines and fees	4,063
Miscellaneous	709
	<u>35,115</u>
Total receipts	<u>399,927</u>
Disbursements:	
Public safety:	
Police:	
Services and commodities	<u>13,832</u>
Fire protection:	
Services and commodities	54,380
General obligation fire truck note:	
Interest paid	2,629
	<u>57,009</u>
Animal control:	
Services and commodities	294
	<u>71,135</u>

Schedule 1

City of Fairfax
Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

Disbursements (continued):	
Public works:	
Roads, bridges and sidewalks:	
Personal services	8,300
Services and commodities	20,708
Capital outlay	<u>23,562</u>
	<u>52,570</u>
Culture and recreation:	
Library:	
Personal services	25,682
Services and commodities	17,961
Capital outlay	<u>3,621</u>
	<u>47,264</u>
Cemetery:	
Services and commodities	<u>400</u>
Transit bus:	
Services and commodities	<u>370</u>
Senior citizens:	
Services and commodities	<u>500</u>
Parks:	
Personal services	5,942
Services and commodities	16,925
Capital outlay	<u>2,228</u>
	<u>25,095</u>
	<u>73,629</u>
Community and economic development:	
Community beautification:	
Services and commodities	1,000
Community Development Block Grant:	
Services and commodities	<u>75,576</u>
	<u>76,576</u>
General government:	
Mayor and council members:	
Personal services	7,190
Services and commodities	<u>354</u>
	7,544
City Clerk:	
Personal services	22,265
Other general government:	
Services and commodities	27,620

City of Fairfax
 Schedule of Cash Transactions
 General Fund
 Year ended June 30, 2003

Disbursements (continued):	
General government:	
Elections:	
Services and commodities	373
Legal services:	
Services and commodities	26,314
City hall and general buildings:	
Services and commodities	14,575
	<u>98,691</u>
Total disbursements	<u>372,601</u>
Excess of receipts over disbursements	<u>27,326</u>
Other financing sources (uses):	
General obligation corporate purpose note proceeds (net of \$1,797 discount)	397,739
Operating transfers in (out):	
Expendable Trust:	
Fire Department Equipment	1,079
Fire Department Fireworks	5,255
Fire Department Truck	(30,780)
Library Gifts and Bequests	9,751
Fairfax Arbor Team	3,170
Total other financing sources (uses)	<u>386,214</u>
Excess of receipts and other finances sources over disbursements and other financing uses	413,540
Balance beginning of year	<u>463,844</u>
Balance end of year	<u>\$ 877,384</u>

See accompanying independent auditor's report.

City of Fairfax
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2003

	Road Use Tax	Tax Increment Financing
Receipts:		
Tax increment financing collections	\$ -	237,745
Use of money and property:		
Interest on investments	-	-
Intergovernmental:		
Road use tax allocation	72,377	-
Total receipts	72,377	237,745
Disbursements:		
Public works:		
Roads, bridges and sidewalks:		
Personal services	17,307	-
Services and commodities	51,227	-
Total disbursements	68,534	-
Excess of receipts over disbursements	3,843	237,745
Other financing sources (uses):		
Operating transfers in (out):		
Debt Service	-	(274,419)
Enterprise:		
Utility Deposits	-	-
Total other financing sources (uses)	-	(274,419)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	3,843	(36,674)
Balance beginning of year	26,608	66,490
Balance end of year	\$ 30,451	29,816

See accompanying independent auditor's report.

Local Option Sales Tax	Local Option Sales Tax Street Improvement	Total
-	-	237,745
45	45	90
-	-	72,377
45	45	310,212
-	-	17,307
-	-	51,227
-	-	68,534
45	45	241,678
-	-	(274,419)
32,078	32,078	64,156
32,078	32,078	(210,263)
32,123	32,123	31,415
-	-	93,098
32,123	32,123	124,513

Schedule 3

City of Fairfax
Schedule of Cash Transactions
Debt Service Fund
Year ended June 30, 2003

Receipts:	
Miscellaneous:	
Accrued interest on general obligation corporate purpose notes sold	<u>\$ 860</u>
Disbursements:	
Debt service:	
Principal redeemed	145,000
Interest paid	89,898
Administration fees	<u>700</u>
	235,598
Capital projects:	
Services and commodities	<u>24,614</u>
Total disbursements	<u>260,212</u>
Deficiency of receipts under disbursements	<u>(259,352)</u>
Other financing sources (uses):	
General obligation corporate purpose note proceeds (net of \$295 discount)	65,169
Operating transfers in (out):	
Special Revenue:	
Tax Increment Financing	274,419
Capital Projects:	
Water Project	(2,513)
Hall and Hall Engineering	(25,877)
Water Main Reconstruction	(5,759)
Iron Filtration Plant	<u>(184,108)</u>
Total other financing sources (uses)	<u>121,331</u>
Deficiency of receipts and other financing sources under disbursements and other financing uses	(138,021)
Balance beginning of year	<u>194,822</u>
Balance end of year	<u><u>\$ 56,801</u></u>

See accompanying independent auditor's report.

City of Fairfax

City of Fairfax
Combining Schedule of Cash Transactions
Capital Projects Funds
Year ended June 30, 2003

	Water Project	Hall and Hall Engineering
Receipts:		
None	\$ -	-
Disbursements:		
Capital projects:		
Services and commodities	-	-
Capital outlay	-	-
Total disbursements	-	-
Deficiency of receipts under disbursements	-	-
Other financing sources:		
Operating transfers in:		
Debt Service	2,513	25,877
Excess of receipts and other financing sources over disbursements	2,513	25,877
Balance beginning of year	-	-
Balance end of year	\$ 2,513	25,877

See accompanying independent auditor's report.

Water Main Reconstruction	Iron Filtration Plant	Total
-	-	-
-	6,025	6,025
-	128,888	128,888
-	134,913	134,913
-	(134,913)	(134,913)
5,759	184,108	218,257
5,759	49,195	83,344
-	-	-
5,759	49,195	83,344

Schedule 5

City of Fairfax
Combining Schedule of Cash Transactions

Enterprise Funds

Year ended June 30, 2003

	Water	Sewer Rental	Garbage	Utility Deposits	Local Option Sales Tax Water Improvements	Total
Receipts:						
Other city tax:						
Local option sales tax	\$ -	-	-	75,021	-	75,021
Use of money and property:						
Interest on investments	-	1,061	-	-	47	1,108
Charges for service:						
Sale of water	64,060	-	-	-	-	64,060
Sewer rental fees	-	71,676	-	-	-	71,676
Garbage collection	-	-	46,733	-	-	46,733
Cedar Rapids sewer line assessment	-	32,289	-	-	-	32,289
Garbage tag sales	-	-	5,699	-	-	5,699
Inspection fees	1,400	1,400	-	-	-	2,800
Miscellaneous	181	1,948	13	-	-	2,142
	<u>65,641</u>	<u>107,313</u>	<u>52,445</u>	<u>-</u>	<u>-</u>	<u>225,399</u>
Miscellaneous:						
Sales tax collected	3,306	204	-	-	-	3,510
Customer deposits	-	-	-	10,780	-	10,780
	<u>3,306</u>	<u>204</u>	<u>-</u>	<u>10,780</u>	<u>-</u>	<u>14,290</u>
Total receipts	<u>68,947</u>	<u>108,578</u>	<u>52,445</u>	<u>85,801</u>	<u>47</u>	<u>315,818</u>
Disbursements:						
Business type activities:						
Personal services	27,085	26,382	-	-	-	53,467
Services and commodities	41,260	63,696	36,896	4,752	-	146,604
Total disbursements	<u>68,345</u>	<u>90,078</u>	<u>36,896</u>	<u>4,752</u>	<u>-</u>	<u>200,071</u>
Excess of receipts over disbursements	<u>602</u>	<u>18,500</u>	<u>15,549</u>	<u>81,049</u>	<u>47</u>	<u>115,747</u>
Other financing sources (uses):						
Operating transfers in (out):						
Special Revenue:						
Local Option Sales Tax	-	-	-	(32,078)	-	(32,078)
Local Option Sales Tax Street Improvement	-	-	-	(32,078)	-	(32,078)
Enterprise:						
Utility Deposits	-	-	-	-	33,050	33,050
Local Option Sales Tax Water Improvements	-	-	-	(33,050)	-	(33,050)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(97,206)</u>	<u>33,050</u>	<u>(64,156)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>602</u>	<u>18,500</u>	<u>15,549</u>	<u>(16,157)</u>	<u>33,097</u>	<u>51,591</u>
Balance beginning of year	<u>2,864</u>	<u>74,492</u>	<u>6,388</u>	<u>41,000</u>	<u>-</u>	<u>124,744</u>
Balance end of year	<u>\$ 3,466</u>	<u>92,992</u>	<u>21,937</u>	<u>24,843</u>	<u>33,097</u>	<u>176,335</u>

See accompanying independent auditor's report.

City of Fairfax
Combining Schedule of Cash Transactions
Expendable Trust Funds
Year ended June 30, 2003

	Fire Department Equipment	Fire Department Fireworks	Fire Department Truck	Library Gifts and Bequests	Fairfax Arbor Team	Total
Receipts:						
Use of money and property:						
Interest on investments	\$ 121	68	-	221	21	431
Miscellaneous:						
Donations	5,268	5,485	-	2,356	2,875	15,984
Total receipts	5,389	5,553	-	2,577	2,896	16,415
Disbursements:						
None	-	-	-	-	-	-
Excess of receipts over disbursements	5,389	5,553	-	2,577	2,896	16,415
Other financing sources (uses):						
Operating transfers in (out):						
General	(1,079)	(5,255)	30,780	(9,751)	(3,170)	11,525
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	4,310	298	30,780	(7,174)	(274)	27,940
Balance beginning of year	8,144	3,076	-	18,010	1,294	30,524
Balance end of year	\$ 12,454	3,374	30,780	10,836	1,020	58,464

See accompanying independent auditor's report.

City of Fairfax



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STATE OF IOWA

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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Fairfax, Iowa, as of and for the year ended June 30, 2003, and have issued our report thereon dated October 22, 2003. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2002.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Fairfax's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City of Fairfax's operations for the year ended June 30, 2003 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. Prior audit statutory comments have been resolved except for items (2) and (3).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Fairfax's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Fairfax's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A) and (B) are material weaknesses. Prior year reportable conditions have been resolved except for items (A) and (D).

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 Fairfax and other parties to whom the City of Fairfax may report. 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 Fairfax during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 22, 2003

City of Fairfax
Schedule of Findings
Year ended June 30, 2003

INSTANCES OF NON-COMPLIANCE

No matters were noted.

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One person had control over each of the following areas for the City:

- (1) Cash – preparing bank reconciliations, initiating cash receipts and disbursement transactions and handling and recording cash.
- (2) Investments – detailed recording keeping, custody of investments and reconciling earnings.
- (3) Receipts – collecting, depositing, journalizing and posting.
- (4) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (5) Long Term Debt – recording and reconciling.
- (6) Payroll – preparing and distributing.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control activities to obtain the maximum internal control possible under the circumstances.

Response – Due to the manpower of a small City this is beyond our control.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel and Council Member oversight to provide additional control through review of financial transactions and reports.

(B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also, utility collections were not reconciled to deposits. In addition, utility customers read their own meters and report the readings to the City for billing. The City does not periodically read customer meters for verification.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and also to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

At a minimum, the City should read customer meters annually to verify that the readings are accurate and billings are correct.

City of Fairfax
Schedule of Findings
Year ended June 30, 2003

Response – This will be complied with in the future, we were following the format of the past.

Conclusion – Response accepted.

- (C) Receipts – Although the City issues receipts for collections, the receipts are not prenumbered by the printer.

Recommendation – For additional accountability over receipts and financial reporting, prenumbered receipts should be issued as collections are received. The receipts should also be accounted for in numerical order.

Response – This will be complied with.

Conclusion – Response accepted.

- (D) Disbursements – The City requires one signature for a check to be issued. Also, invoices and supporting documentation were not always available to support disbursements. In addition, invoices and supporting documentation that was available was not marked paid with the date of payment and check number to help avoid possible duplicate payment(s).

Recommendation – To strengthen internal control, each check should be prepared and signed by one person and then the supporting vouchers and invoices should be made available along with the check to the second or independent person for review and countersignature.

Also, invoices and supporting documentation should be available to support all disbursements. In addition, all invoices and supporting documentation should be cancelled with the date of payment and check number to avoid possible duplicate payment(s).

Response – This will be complied with.

Conclusion – Response accepted.

- (E) Payroll – Timecards/timesheets were not always available in support of hours actually worked. Also, timecards/timesheets that were available were not approved/initialed by an independent individual to verify the actual hours worked.

Recommendation – Timecards/timesheets should be available for all employees and for all hours actually worked. Additionally, timecards/timesheets should be reviewed by an independent individual to verify actual hours worked. Once reviewed the independent individual should initial the timecard/timesheet to document approval.

Response – This will be complied with.

Conclusion – Response accepted.

City of Fairfax
Schedule of Findings
Year ended June 30, 2003

(F) Transfers – Fund/account transfers were not always approved by the City Council.

Recommendation – All individual fund/account transfers should be approved by the City Council through the budget process and/or by Council resolution with the approval documented in the minutes.

Response – This will be complied with. No resolutions were approved in previous years.

Conclusion – Response accepted.

(G) Information Systems – The following weaknesses in the City’s computer-based systems were noted:

The City does not have written policies for:

- requiring password changes because software does not require the user to change logins/passwords periodically.
- time out and/or logoff functions.
- screen saver password use to protect terminals.
- use of antivirus software.
- usage of the internet.
- ensuring that only software licensed to the City is installed on computers.

Also, the City does not have a written disaster recovery plan to help ensure the continuity of City operations in the event of a disaster.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer-based systems. A written disaster recovery plan should be developed.

Response – This will be complied with.

Conclusion – Response accepted.

City of Fairfax

Schedule of Findings

Year ended June 30, 2003

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming the official depository has been approved by the City Council. The maximum deposit amount stated in the resolution was not exceeded during the year ended June 30, 2003.
- (2) Certified Budget – Disbursements during the year ended June 30, 2003 exceeded the amounts budgeted in the debt service and capital project functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response – The disbursements during the year ended June 30, 2003 were budgeted for but apparently reported in the wrong section of the certified budget. After the conversion to the new chart of accounts and upon direction from the state we were told to report the disbursements for debt service and capital projects pertaining to Proprietary Funds on line 53 under the general government functions and not on lines 67 and 68 within the Enterprise Fund. This will be changed for future budgeting as per State Auditor’s direction.

Conclusion – Response accepted.

- (3) Questionable Disbursements – Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Fareway Stores	Pop, groceries, food	\$505
Hungry Hobo	Food	220
Fairfax Meat Company	Meat	113
Dave Yanecek	Chili cookoff food reimbursement	101
Elan	Food charges	9
The Corporate Chili Challenge	Entry fee	50
Fairfax Senior Citizens	Senior Christmas dinner	500

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

City of Fairfax

Schedule of Findings

Year ended June 30, 2003

Recommendation – The City Council should determine and document in the minute record the specific public purpose served by each of these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation surrounding each individual transaction.

Response – This will be complied with.

Conclusion – Response accepted.

- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jim Bayne, Library Board Member, owner of Bayne School and Equipment	Supplies	\$ 485

In accordance with Chapter 362.5(11) of the Code of Iowa, this transaction does not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

- (6) 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.
- (7) Council Minutes – Except as previously noted, no transactions were found that we believe should have been approved in the Council minutes but were not.

The City did not publish total disbursements by fund as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should publish minutes as required by Chapter 372.13(6) of the Code of Iowa.

Response – This has been complied with since the audit.

Conclusion – Response accepted.

- (8) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa were noted. The City has adopted an investment policy as required by the Code of Iowa. However, the City has not complied with sections 9 and 11 of the approved policy.

City of Fairfax
Schedule of Findings
Year ended June 30, 2003

Section 9 requires the Treasurer and all officers and employees of Fairfax involved in the investment process to disclose in writing to the City Council personal investments or loans in excess of \$1,000 in or with any entity the City has declared as a depository. The City has not monitored compliance with this requirement.

Section 11 requires the investment policy to be reviewed every two years.

Recommendation – The City should review and comply with the provisions contained in the approved investment policy.

Response – This will be complied with.

Conclusion – Response accepted.

- (9) Garbage Rates – City garbage rates were approved by a resolution of the City Council.

Recommendation – The City should approved garbage rates by City ordinance as required by Chapter 384.86 of the Code of Iowa.

Response – The resolution has been appealed and a new ordinance adopted since this audit.

Conclusion – Response accepted.

- (10) Debt Service Fund Disbursements – During the year ended June 30, 2003, the City paid \$24,614 from the Debt Service Fund for engineering, sidewalk replacement, publications and postage. Chapter 384.4 of the Code of Iowa allows for only debt related principal and interest to be paid from the Debt Service Fund.

Also, the City paid general obligation fire truck note interest from the General Fund. Chapter 384.4 of the Code of Iowa requires general obligation principal and interest to be paid from the Debt Service Fund.

Recommendation – The City should comply with the provisions contained in Chapter 384.4 of the Code of Iowa.

Response – Currently this has been complied with.

Conclusion – Response accepted.

- (11) General Obligation Note Proceeds and Community Development Block Grant Collections

During the year ended June 30, 2003, the City recorded \$63,650 of Community Development Block Grant (CDBG) funds and \$397,739 in General Obligation Note proceeds directly to the General Fund.

Recommendation – The City should establish a Special Revenue Fund to account for and record all transactions involving CDBG funds. Additionally, the City should establish a separate Capital Projects Fund to account for all general obligation note proceeds and related disbursements of these funds.

City of Fairfax

Schedule of Findings

Year ended June 30, 2003

Response – A Special Revenue Fund for CDBG grants will be established. We were following past procedures. Capital projects receipts and disbursements lines were set up within the General Fund for the \$379,739 general obligation note proceeds.

Conclusion – Response acknowledged. Alternatively, the City could transfer the balance of the general obligation note proceeds from the General Fund to a Capital Projects Fund. This would provide better accountability and internal control over the disposition of the note proceeds.

- (12) Local Option Sales Tax – Local option sales tax collections were recorded directly to the Enterprise, Utility Deposits Fund.

Recommendation – The City should establish a Special Revenue, Local Option Sales Tax Fund, record all local option sales tax collections to this fund and then transfer the collections to the appropriate fund(s) as approved by the voters.

Response – The monies were posted into what we used as a Trust and Agency Fund and we kept separate from the meter deposits and transferred out to the appropriate funds as stated in the resolution as approved by the voters. A totally separate fund will be set up for future LOST.

Conclusion – Response accepted.

- (13) Accounting System and New Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts for Iowa City Governments as approved by the City Finance Committee on September 25, 2002. As a result, several disbursements were not classified to the proper disbursement function in accordance with the Uniform Chart of Accounts. These reclassifications were resolved for audit purposes.

Recommendation – To provide better financial information and control, the City should follow the Uniform Chart of Accounts for Iowa City Governments.

Response – The transfer funds have been classified to a specific disbursement function. The use of the chart of accounts is not mandatory and will not be implemented at this time. The monthly financial reports detailing fund/account activity has been complied with retroactive as of July 1, 2003.

Conclusion – Response acknowledged. The required City budget forms and the City annual financial reports both use the Uniform Chart of Accounts for Iowa City Government as approved by the City Finance Committee. We agree the City Finance Committee's recommended chart of accounts is not mandatory. However, the City should establish an accounting system which includes accounts that permit efficient and accurate budgeting and reporting consistent with the required state forms.

City of Fairfax

Staff

This audit was performed by:

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Elvir Alicic, Assistant Auditor

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