



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE June 30, 2005

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515/281-5834

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

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$10,660,096 for the year ended June 30, 2004, a 43 percent decrease from 2003. The receipts included \$2,981,381 in property tax, \$411,499 from tax increment financing, \$3,384,529 from charges for service, \$1,282,370 from operating grants, contributions and restricted interest, \$285,561 from capital grants, contributions and restricted interest, \$760,503 from local option sales tax, \$27,080 from unrestricted interest on investments, \$1,249,343 from construction warrant and bond proceeds and \$277,830 from other general receipts.

Disbursements for the year totaled \$10,298,612, a 35 percent decrease from 2003, and included \$2,035,789 for public safety, \$1,289,611 for culture and recreation and \$942,223 for debt service. Also, disbursements for business type activities totaled \$3,827,484.

The decrease in receipts and disbursements is due primarily to a decrease of receipts and disbursements for the Water-State Revolving Fund Project.

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 FAIRFIELD

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

JUNE 30, 2004

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City of Fairfield

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Edward Malloy	Mayor	Jan 2004
Myron Gookin	Council Member/Mayor Pro tem	Jan 2006
Rodger Gillaspie	Council Member	Jan 2004
Tom Thompson	Council Member	Jan 2004
Daryn Hamilton	Council Member	Jan 2004
Connie Boyer	Council Member	Jan 2004
Pauline Reeder	Council Member	Jan 2006
John Revolinski	Council Member	Jan 2006
John Brown	City Administrator/City Clerk	Indefinite
Joy Messer	Deputy City Clerk	Indefinite
John Morrissey	City Attorney	Indefinite
(After January 2004)		
Edward Malloy	Mayor	Jan 2007
Myron Gookin	Council Member/Mayor Pro tem	Jan 2006
John Revolinski	Council Member	Jan 2006
Pauline Reeder	Council Member	Jan 2006
Ron Adam	Council Member	Jan 2008
Christy Welty	Council Member	Jan 2008
Daryn Hamilton	Council Member	Jan 2008
Connie Boyer	Council Member	Jan 2008
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, 2004, 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, 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 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.

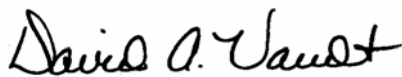
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairfield as of June 30, 2004, 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.

As described in Note 16, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

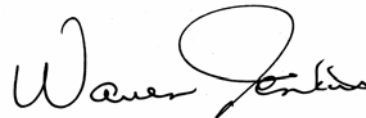
In accordance with Government Auditing Standards, we have also issued our reports dated January 7, 2005 on our consideration of the City of Fairfield's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are 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.

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 applied 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 performed 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 year ended June 30, 2003 (which are not presented herein) and expressed unqualified opinions on those financial statements. 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, 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

January 7, 2005

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, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 15.4%, or approximately \$1,114,000, from fiscal 2003 to fiscal 2004. Property tax decreased approximately \$236,000 and intergovernmental receipts decreased approximately \$1,243,000.
- Disbursements decreased 17.5%, or approximately \$1,371,000, in fiscal 2004 from fiscal 2003. Capital projects disbursements decreased approximately \$1,318,000.
- The City's total cash basis net assets increased 48.2%, or approximately \$361,000, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$125,000 and the assets of the business type activities increased by approximately \$236,000.

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 Special Revenue and Enterprise 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, the reader 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 which 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 and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 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 and Logan apartments.

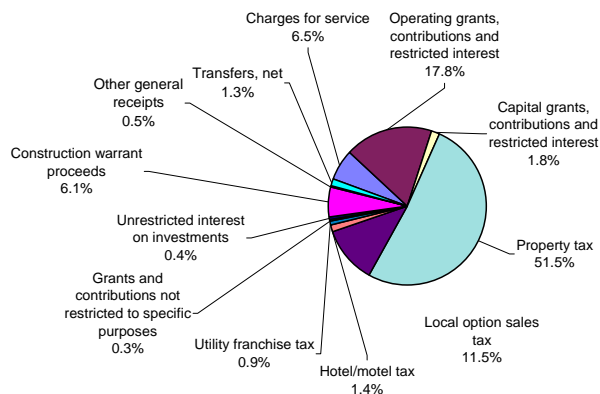
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

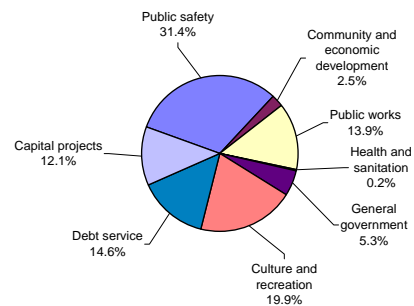
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$(134,916) to \$(9,765). The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		Year ended June 30, 2004
Receipts and transfers:		
Program receipts:		
Charges for service	\$	431
Operating grants, contributions and restricted interest		1,177
Capital grants, contributions and restricted interest		121
General receipts:		
Property tax		3,393
Local option sales tax		760
Hotel/motel tax		90
Utility franchise tax		58
Grants and contributions not restricted to specific purposes		22
Unrestricted interest on investments		27
Construction warrant proceeds		400
Other general receipts		32
Transfers, net		85
Total receipts and transfers		<u>6,596</u>
Disbursements:		
Public safety		2,036
Public works		900
Health and social services		10
Culture and recreation		1,290
Community and economic development		163
General government		346
Debt service		942
Capital projects		784
Total disbursements		<u>6,471</u>
Increase in cash basis net assets		125
Cash basis net assets beginning of year, as restated		<u>(135)</u>
Cash basis net assets end of year		<u>\$ (10)</u>

Receipts by Source



Disbursements by Function



The City's total receipts and transfers for governmental activities were \$6,596,279. The total cost of all programs and services was \$6,471,128. The \$125,151 difference in receipts and transfers over disbursements was due to grant reimbursements for projects and short term borrowing in anticipation of issuing long term debt.

The cost of governmental activities this year was \$6,471,128. As shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$4,742,447 because some of the cost was paid by those directly benefited from the programs (\$431,265) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$1,297,416).

Changes in Cash Basis Net Assets of Business Type Activities	
(Expressed in Thousands)	
	Year ended June 30, 2004
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 1,803
Sewer	674
Yard waste	303
Airport	61
Logan apartments	112
Operating grants, contributions and restricted interest	105
Capital grants, contributions and restricted interest	165
General receipts:	
Construction warrant proceeds	500
Bond proceeds	349
Other general receipts	76
Total receipts	<u>4,148</u>
Disbursements and transfers:	
Water	2,278
Sewer	961
Yard waste	310
Airport	42
Logan apartments	236
Transfers	85
Total disbursements and transfers	<u>3,912</u>
Increase in cash balance	236
Cash basis net assets beginning of year, as restated	<u>884</u>
Cash basis net assets end of year	<u>\$ 1,120</u>

Total business type activities receipts for the fiscal year were \$4.1 million compared to \$3.0 million last year. This significant increase was due primarily to increased fees and short-term borrowing. The cash balance increased by approximately \$236,000 from the prior year because revenues exceeded disbursements. Total disbursements and transfers for the fiscal year decreased by 49%, from \$7.9 million in fiscal year 2003 to \$3.9 million in fiscal year 2004, due to the completion of several capital projects.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fairfield completed the year, its governmental funds reported a combined fund balance of \$(9,765), an increase of more than \$125,000 above last year's total of \$(134,916). 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 \$14,710 from the prior year to \$166,440. This increase was due to a planned attempt to increase the available operating balance in this fund.
- The Road Use Tax Fund cash balance decreased by \$5,303 to \$102,789 during the fiscal year. This decrease was also primarily attributable to planned capital expenditures.
- The Local Option Sales Tax Fund cash balance increased \$10,348 from the prior year to \$46,970. This increase was due to revenues exceeding budget estimates.
- The UDAG-FALCO Project Fund cash balance increased by \$37,365 to \$341,041. This increase was due to scheduled loan repayments that had been budgeted for.
- The Debt Service Fund cash balance increased by \$50,026 to \$66,444 during the fiscal year. This increase was due to increased special assessment payments from the sale of property within the City of Fairfield.
- The Capital Projects Fund cash balance decreased by \$109,055 to \$(1,627,873). This decrease is primarily due to ongoing capital project expenditures that will either be reimbursed by grants or planned bond sales.
- The Library Endowment Fund cash balance increased \$52,363 from the prior year to \$399,460. This increase was due to increased bequests to the Library and investment returns that exceeded budget estimates.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$29,624 to \$1,078,454, due primarily to lower than anticipated operating expenses.
- The Sewer Fund cash balance increased by \$284,325 to \$(173,233), due primarily to short-term borrowing.

BUDGETARY HIGHLIGHTS

The City did not amend its budget during the year.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$13,014,000 in bonds and other long-term debt, compared to approximately \$12,721,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2004	2003
General obligation bonds	\$ 1,595	1,840
General obligation capital loan notes	3,565	3,945
Revenue bonds	670	755
Water revenue capital loan notes	5,652	5,447
Lease purchase agreements	78	69
Construction warrants	1,300	400
Mortgage note	154	228
Bank loan	-	37
Total	<u>\$ 13,014</u>	<u>12,721</u>

Debt increased as a result of issuing water revenue capital loan notes for a water construction project and construction warrants for airport improvements and the sewer disaster project.

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 \$6.5 million is significantly below its constitutional debt limit of \$15.1 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Fairfield's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates and fees charged for various City activities.

Amounts available for appropriation in the fiscal year 2005 operating budget are \$15.9 million, an increase of 28% over the final 2004 budget. Property tax (benefiting from the 2004 rate increases and increases in assessed valuations) is expected to lead this increase. The City will use these increases in receipts to finance programs we currently offer and to defray a portion of the costs of carrying out a major urban renewal project of the City. Budgeted disbursements are expected to increase by approximately \$3.9 million. Increased wage and cost-of-living adjustments, increases in street construction and maintenance and the urban renewal project represent the largest increases. The City has added no major new programs or initiatives to the 2005 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$109,032 by the close of 2005.

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.

Basic Financial Statements

City of Fairfield

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 2,035,789	99,950	64,650	42,787
Public works	900,369	8,957	799,727	-
Health and social services	9,720	-	-	-
Culture and recreation	1,289,611	302,828	254,395	13,413
Community and economic development	163,464	8,960	58,154	5,000
General government	346,384	10,570	-	-
Debt service	942,223	-	-	59,290
Capital projects	783,568	-	-	-
Total governmental activities	6,471,128	431,265	1,176,926	120,490
Business type activities:				
Water	2,278,299	1,803,284	-	141,395
Sewer	961,048	673,663	-	23,676
Yard waste	309,983	303,061	-	-
Airport	42,514	61,278	492	-
Logan apartments	235,640	111,978	104,952	-
Total business type activities	3,827,484	2,953,264	105,444	165,071
Total	\$ 10,298,612	3,384,529	1,282,370	285,561
General Receipts:				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Employee benefits				
Local option sales tax				
Hotel/motel tax				
Utility franchise tax				
Grants and contributions not restricted to specific purpose				
Unrestricted interest on investments				
Construction warrant proceeds				
Water revenue capital loan note proceeds				
Miscellaneous				
Sale of assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year, as restated				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Urban renewal purposes				
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
(1,828,402)	-	(1,828,402)
(91,685)	-	(91,685)
(9,720)	-	(9,720)
(718,975)	-	(718,975)
(91,350)	-	(91,350)
(335,814)	-	(335,814)
(882,933)	-	(882,933)
(783,568)	-	(783,568)
<u>(4,742,447)</u>	<u>-</u>	<u>(4,742,447)</u>
-	(333,620)	(333,620)
-	(263,709)	(263,709)
-	(6,922)	(6,922)
-	19,256	19,256
-	(18,710)	(18,710)
-	<u>(603,705)</u>	<u>(603,705)</u>
<u>(4,742,447)</u>	<u>(603,705)</u>	<u>(5,346,152)</u>
1,932,152	-	1,932,152
411,499	-	411,499
487,210	-	487,210
562,019	-	562,019
760,503	-	760,503
89,910	-	89,910
57,614	-	57,614
21,870	-	21,870
27,071	9	27,080
400,000	500,000	900,000
-	349,343	349,343
24,361	75,686	100,047
8,389	-	8,389
85,000	(85,000)	-
<u>4,867,598</u>	<u>840,038</u>	<u>5,707,636</u>
125,151	236,333	361,484
(134,916)	884,249	749,333
<u>\$ (9,765)</u>	<u>1,120,582</u>	<u>1,110,817</u>
\$ 102,789	-	102,789
74,613	-	74,613
66,444	240,839	307,283
399,460	-	399,460
95,504	-	95,504
(748,575)	879,743	131,168
<u>\$ (9,765)</u>	<u>1,120,582</u>	<u>1,110,817</u>

City of Fairfield

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

As of and for the year ended June 30, 2004

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	UDAG- FALCO Project
Receipts:				
Property tax	\$ 1,714,464	-	-	-
Tax increment financing	-	-	-	-
Other city tax	225,906	-	760,503	-
Licenses and permits	15,800	-	-	-
Use of money and property	13,194	-	-	48,365
Intergovernmental	211,380	799,727	-	-
Charges for service	311,174	-	-	-
Special assessments	-	-	-	-
Miscellaneous	111,490	-	-	5,000
Total receipts	<u>2,603,408</u>	<u>799,727</u>	<u>760,503</u>	<u>53,365</u>
Disbursements:				
Operating:				
Public safety	1,192,423	-	608,402	-
Public works	86,220	805,030	-	-
Health and social services	9,720	-	-	-
Culture and recreation	1,102,647	-	14,954	-
Community and economic development	37,054	-	5,027	16,000
General government	328,293	-	1,772	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	<u>2,756,357</u>	<u>805,030</u>	<u>630,155</u>	<u>16,000</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(152,949)</u>	<u>(5,303)</u>	<u>130,348</u>	<u>37,365</u>
Other financing sources (uses):				
Construction warrant proceeds	-	-	-	-
Sale of capital assets	8,389	-	-	-
Operating transfers in	216,205	-	-	-
Operating transfers out	(56,935)	-	(120,000)	-
Total other financing sources (uses)	<u>167,659</u>	<u>-</u>	<u>(120,000)</u>	<u>-</u>
Net change in cash balances	14,710	(5,303)	10,348	37,365
Cash balances beginning of year, as restated	151,730	108,092	36,622	303,676
Cash balances end of year	<u>\$ 166,440</u>	<u>102,789</u>	<u>46,970</u>	<u>341,041</u>
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	-	-	-
Unreserved:				
General fund	166,440	-	-	-
Special revenue funds	-	102,789	46,970	341,041
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	<u>\$ 166,440</u>	<u>102,789</u>	<u>46,970</u>	<u>341,041</u>

See notes to financial statements.

Debt Service	Capital Projects	Permanent		Nonmajor Special Revenue	Total
		Library Endowment			
467,241	133,212	-		537,376	2,852,293
-	-	-		411,499	411,499
19,969	6,094	-		24,643	1,037,115
-	-	-		-	15,800
-	-	-		18,781	80,340
-	-	-		1,413	1,012,520
-	-	-		5,000	316,174
59,290	-	-		-	59,290
-	20,162	52,668		128,539	317,859
546,500	159,468	52,668		1,127,251	6,102,890
-	-	-		234,964	2,035,789
-	-	-		9,119	900,369
-	-	-		-	9,720
-	4,955	305		166,750	1,289,611
-	-	-		105,383	163,464
-	-	-		16,319	346,384
904,884	-	-		37,339	942,223
-	783,568	-		-	783,568
904,884	788,523	305		569,874	6,471,128
(358,384)	(629,055)	52,363		557,377	(368,238)
-	400,000	-		-	400,000
-	-	-		-	8,389
408,410	120,000	-		106,769	851,384
-	-	-		(589,449)	(766,384)
408,410	520,000	-		(482,680)	493,389
50,026	(109,055)	52,363		74,697	125,151
16,418	(1,518,818)	347,097		420,267	(134,916)
66,444	(1,627,873)	399,460		494,964	(9,765)
66,444	-	-		-	66,444
-	-	-		-	166,440
-	-	-		494,964	985,764
-	(1,627,873)	-		-	(1,627,873)
-	-	399,460		-	399,460
66,444	(1,627,873)	399,460		494,964	(9,765)

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, 2004

	Enterprise Funds			Total
	Water	Sewer	Nonmajor	
Operating receipts:				
Use of money and property	\$ 6	-	135,968	135,974
Charges for service	1,770,164	649,988	303,061	2,723,213
Miscellaneous	13,895	71,709	48,943	134,547
Total operating receipts	1,784,065	721,697	487,972	2,993,734
Operating disbursements:				
Business type activities	1,239,414	617,078	587,697	2,444,189
Excess (deficiency) of operating receipts over (under) operating disbursements	544,651	104,619	(99,725)	549,545
Non-operating receipts (disbursements):				
Intergovernmental	141,395	23,676	105,444	270,515
Interest on investments	-	-	3	3
Miscellaneous	1,834	-	1,662	3,496
Capital projects	(551,459)	(343,970)	-	(895,429)
Debt service	(456,140)	-	-	(456,140)
Total non-operating receipts (disbursements)	(864,370)	(320,294)	107,109	(1,077,555)
Excess (deficiency) of receipts over (under) disbursements	(319,719)	(215,675)	7,384	(528,010)
Other financing sources (uses):				
Water revenue capital loan note proceeds	349,343	-	-	349,343
Construction warrant proceeds	-	500,000	-	500,000
Operating transfers out	-	-	(85,000)	(85,000)
Total other financing sources (uses)	349,343	500,000	(85,000)	764,343
Net change in cash balances	29,624	284,325	(77,616)	236,333
Cash balances beginning of year, as restated	1,048,830	(457,558)	292,977	884,249
Cash balances end of year	\$ 1,078,454	(173,233)	215,361	1,120,582
Cash Basis Fund Balances				
Reserved for debt service	\$ 240,839	-	-	240,839
Unreserved	837,615	(173,233)	215,361	879,743
Total cash basis fund balances	\$ 1,078,454	(173,233)	215,361	1,120,582

See notes to financial statements.

City of Fairfield

Notes to Financial Statements

June 30, 2004

(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 and Fairfield Library 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. The funds of these components units are reported as part of the City and blended into the Special Revenue Funds. Although the Friends of the Fairfield Library and Fairfield Library Foundation are legally separate from the City, their purpose is to benefit the City of Fairfield (the primary government) by soliciting contributions and managing those funds.

Jointly Governed Organizations

The City also participates in several jointly governed organizations for which the City is not financially accountable or the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following boards and commissions: 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 Special Revenue Funds.

The City reports the following major governmental funds:

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

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for receipts and disbursements of local option sales tax.

The UDAG-FALCO Project Fund is used to account for the grants/loans given by the City for economic development and/or improvements.

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

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

Permanent:

The 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 sewers.

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.

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, 2004, disbursements exceeded the amounts budgeted in the public safety, general government and debt service functions.

(2) Cash and Pooled Investments

The City’s deposits in banks at June 30, 2004 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.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,860 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

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

(3) 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				Water Revenue				Total	
	Bonds		Capital Loan Notes		Revenue Bonds		Capital Loan Notes		Principal	Interest
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest		
2005	\$ 255,000	85,370	395,000	166,058	90,000	35,683	148,000	172,680	888,000	459,791
2006	265,000	72,238	415,000	148,287	100,000	30,913	147,000	168,240	927,000	419,678
2007	285,000	58,458	435,000	130,185	105,000	25,513	152,000	163,830	977,000	377,986
2008	140,000	43,495	310,000	110,537	110,000	19,790	158,000	159,270	718,000	333,092
2009	150,000	35,970	325,000	96,080	115,000	13,685	164,000	154,530	754,000	300,265
2010 - 2014	495,000	56,560	1,215,000	273,187	125,000	7,187	1,442,000	672,210	3,277,000	1,009,144
2015 - 2019	-	-	470,000	34,320	-	-	1,843,000	424,740	2,313,000	459,060
2020 - 2024	-	-	-	-	-	-	1,598,320	129,690	1,598,320	129,690
Total	\$1,590,000	352,091	3,565,000	958,654	645,000	132,771	5,652,320	2,045,190	11,452,320	3,488,706

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) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to a water bond and interest sinking account. At June 30, 2004, the balance in this account was \$21,159.

- (c) Additional monthly transfers of 25 percent of the amount required to be deposited in a water revenue bond and interest sinking account shall be made to the water reserve account until \$132,187 is accumulated and maintained. At June 30, 2004, the balance in this account was \$165,025.
- (d) Monthly transfers of \$500 shall be made to a water improvement account until such account reaches a balance of \$50,000. At June 30, 2004, the balance in this account was \$52,437.
- (e) 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.
- (f) 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 23, 2000, 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 also 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, 2004, 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 as the project progresses. 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, 2003. Although the City is still drawing funds on the water revenue capital loan notes, a formal repayment schedule has been adopted for the debt.

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) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal due shall be made to a water revenue note and interest sinking account. At June 30, 2004, the balance in this account was \$54,655.
- (c) Additional monthly transfers of 25 percent of the amount required to be deposited in the water revenue note and interest sinking account shall be made to a water reserve account until \$459,380 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 not made the transfers to the water reserve account required by the water revenue capital loan note resolution.

Construction Warrants

During the year ended June 30, 2004, the City entered into agreements with First National Bank, Fairfield, Iowa to provide for the issuance of construction warrants to provide interim financing for the airport improvement and sewer digester projects. The warrants were issued to First National Bank for \$500,000 and \$400,000, respectively, with interest at 3.5% per annum. The warrants are to be paid from the fund from which payments for the project were made. These warrants, in addition to a \$400,000 warrant issued May 13, 2003 to First National Bank, Fairfield, Iowa for the airport improvement project, were outstanding at June 30, 2004.

(4) Sewer Utility Replacement Account

Ordinance number 733, dated December 1, 1986, established a user charge system to provide funds for all costs associated with the City's wastewater treatment works, accounted for in the Enterprise, Sewer Fund, and provides for the creation of a Sewer Utility Replacement Account. The purpose of this account is to provide for replacement needs over the useful life of the wastewater treatment works. Quarterly deposits of \$31,250 are to be made to the Sewer Utility Replacement Account from the revenues of the Sewer Utility Account. During the year ended June 30, 2004, the City made only three of the four required quarterly deposits. At June 30, 2004, the balance of the Sewer Utility Replacement Account was \$(173,097). The deficit is due to the sewer distribution and digester improvement projects.

(5) Water Capital Improvement Reserve Sinking Account

Resolution number 1395, dated August 24, 1992, provides for the creation of a Water Capital Improvement Reserve Sinking Account. The purpose of this account is to provide for anticipated capital improvements to the water utility system, accounted for in the Enterprise, Water Fund. Monthly deposits of \$8,350 are to be made to this account from the revenues of the Water Utility Account. During the year ended June 30, 2004, the balance of the Water Capital Improvement Reserve Sinking Account was \$0.

(6) Mortgage Note Payable – Logan Apartments

The land and buildings for the Logan Apartments are secured by a first mortgage note to MDS Loan Services, L. P. The note, with a balance of \$154,357 at June 30, 2004, bears interest at 8.75% per annum and is due in monthly installments of \$7,552. Final payment on the note is scheduled for April, 2006.

The mortgage is due as follows:

<u>Year Ending June 30,</u>	<u>Principal Amount</u>
2005	\$ 80,290
2006	<u>74,067</u>
Total	<u>\$ 154,357</u>

(7) 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 5.95% to 7.90% per annum, and the present value of net minimum lease payments under agreements in effect at June 30, 2004:

Year ending June 30,	Water Generator	Tractor/ Mower	Tractor/ Mower	Truck	Total
2005	\$ 18,796	5,026	3,033	11,771	38,626
2006	18,796	5,026	3,033	11,771	38,626
2007	7,831	-	-	-	7,831
Total minimum lease payments	45,423	10,052	6,066	23,542	85,083
Less amount representing interest	(3,625)	(1,113)	(650)	(1,947)	-
Present value of net minimum lease payments	\$ 41,798	8,939	5,416	21,595	85,083

(8) 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 annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$98,933, \$100,521 and \$100,026, 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 that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 104th St., Urbandale, Iowa 50322.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 20.48% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2004, 2003 and 2002 were \$123,869, \$110,265 and \$115,291, respectively, which met the required minimum contribution for each year.

(9) Compensated Absences

City employees accumulate unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2004, primarily relating to the General Fund, was \$63,000. This liability has been computed based on rates of pay in effect at June 30, 2004.

(10) 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 with over 490 members from 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, 2004 was \$163,413.

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 \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in the aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks, including automobile physical damage, are also 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, 2004, 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.

(11) Contractual Commitments

The City has entered into various construction contracts totaling \$1,658,791. The unpaid contract balances at June 30, 2004 totaled \$972,193. These balances will be paid as work on the projects progresses. These construction contracts will be funded with federal grants, local sources and possible bond or note sales in fiscal year 2005.

(12) Deficit Balances

The General Fund, Revolving Account had a deficit balance of \$93,196 at June 30, 2004. The deficit will be eliminated by transfers from other funds.

The Capital Projects Fund, Recreation Trails, Civic Center, Walton Lake Subdivision, Madison and Grimes, Airport Improvements, 2002 RISE Project, Airport Apron, Forth Street Traffic Signals, Bypass Forcemain Relocation, Bypass Cross Interceptor Relocation, Bypass Crow Creek Relocation and Bypass Water Main Relocation Accounts had deficit balances of \$408,890, \$171,824, \$562,096, \$95,475, \$77,390, \$69,266, \$83,464, \$110,827, \$33,640, \$28,620, \$40,500 and \$15,750, respectively, at June 30, 2004. 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 future bond or note issues.

The Enterprise Funds, Water-State-Revolving, Sewer Utility Replacement, Sewer Utility and Yard Waste Accounts had deficit balances of \$278,130 \$173,097, \$136 and \$9,432, respectively, at June 30, 2004. The deficits will be eliminated by local sources, grants, future bond or note sales and transfers from other accounts.

(13) Interfund Transfers

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefits	\$ 131,205
	Enterprise:	
	Logan Apartments	85,000
		<u>216,205</u>
Debt Service	Special Revenue:	
	Tax Increment Financing	<u>408,410</u>
Capital Projects	Special Revenue:	
	Local Option Sales Tax	<u>120,000</u>
Special Revenue: Hotel/Motel Tax	Special Revenue:	
	Employee Benefits	49,834
	General	<u>56,935</u>
		<u>106,769</u>
Total		<u>\$ 851,384</u>

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

(14) Litigation

The City is involved in several legal matters at June 30, 2004. The probability of loss, if any, is undeterminable.

(15) Subsequent Events

In August 2004, the City entered into construction contracts totaling \$1,147,652 and received a grant from the Federal Aviation Administration for \$1,263,902 to complete Phase 4 of the airport improvement project.

(16) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The Water - State Revolving and Sewer Utility Replacement Accounts previously reported in the Capital Projects Fund, are now reported in the Enterprise, Water and Sewer Funds to better reflect the nature and activity of these accounts. As a result, the beginning balances in the Water and Sewer Funds decreased \$274,980 and \$436,293, respectively, and the beginning balance of the Capital Projects Fund increased \$711,273. Also, the Revolving Account, previously reported as an Internal Service Fund, is now reported in the General Fund to better reflect the nature and activity of this account. As a result, the beginning balance of the General Fund decreased \$86,412 to \$151,730.

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, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 2,852,293	-	-
Tax increment financing	411,499	-	-
Other city tax	1,037,115	-	-
Licenses and permits	15,800	-	-
Use of money and property	80,340	135,977	10,990
Intergovernmental	1,012,520	270,515	-
Charges for service	316,174	2,723,213	-
Special assessments	59,290	-	-
Miscellaneous	317,859	138,043	63,863
Total receipts	<u>6,102,890</u>	<u>3,267,748</u>	<u>74,853</u>
Disbursements:			
Public safety	2,035,789	-	-
Public works	900,369	-	-
Health and social services	9,720	-	-
Culture and recreation	1,289,611	-	4,508
Community and economic development	163,464	-	-
General government	346,384	-	-
Debt service	942,223	-	696
Capital projects	783,568	-	-
Business type activities	-	3,795,758	-
Total disbursements	<u>6,471,128</u>	<u>3,795,758</u>	<u>5,204</u>
Excess (deficiency) of receipts over (under) disbursements	(368,238)	(528,010)	69,649
Other financing sources, net	493,389	764,343	-
Excess of receipts and other financing sources over disbursements and other financing uses	125,151	236,333	69,649
Balances beginning of year	(134,916)	884,249	448,266
Balances end of year	<u>\$ (9,765)</u>	<u>1,120,582</u>	<u>517,915</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts	Final to Net Variance
2,852,293	2,829,870	22,423
411,499	352,581	58,918
1,037,115	951,992	85,123
15,800	16,350	(550)
205,327	75,500	129,827
1,283,035	1,754,940	(471,905)
3,039,387	3,470,500	(431,113)
59,290	51,781	7,509
392,039	3,000	389,039
<u>9,295,785</u>	<u>9,506,514</u>	<u>(210,729)</u>
2,035,789	2,009,040	(26,749)
900,369	909,438	9,069
9,720	9,720	-
1,285,103	1,296,118	11,015
163,464	194,665	31,201
346,384	332,477	(13,907)
941,527	903,984	(37,543)
783,568	826,600	43,032
3,795,758	4,187,597	391,839
<u>10,261,682</u>	<u>10,669,639</u>	<u>407,957</u>
(965,897)	(1,163,125)	197,228
<u>1,257,732</u>	<u>2,005,000</u>	<u>(747,268)</u>
291,835	841,875	(550,040)
<u>301,067</u>	<u>1,537,394</u>	<u>(1,236,327)</u>
<u>592,902</u>	<u>2,379,269</u>	<u>(1,786,367)</u>

City of Fairfield

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

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, Library Endowment Fund and the Special Revenue, Fairfield Library Foundation, Friends of the Library and Fairfield Public Library House Funds. 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 ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety, general government and debt service functions.

Other Supplementary Information

City of Fairfield

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

As of and for the year ended June 30, 2004

	Urban Renewal Tax Increment Financing	Hotel/Motel Tax	Employee Benefits
Receipts:			
Property tax	\$ -	-	537,376
Tax increment financing	411,499	-	-
Other city tax	-	-	24,643
Use of money and property	-	-	-
Intergovernmental	-	-	-
Charges for service	-	-	-
Miscellaneous	-	-	-
Total receipts	411,499	-	562,019
Disbursements:			
Operating:			
Public safety	-	-	234,964
Public works	-	-	9,119
Culture and recreation	-	2,200	86,612
Community and economic development	-	99,715	5,668
General government	-	-	16,319
Debt service	-	-	-
Total disbursements	-	101,915	352,682
Excess (deficiency) of receipts over (under) disbursements	411,499	(101,915)	209,337
Other financing sources (uses):			
Operating transfers in	-	106,769	-
Operating transfers out	(408,410)	-	(181,039)
Total other financing sources (uses)	(408,410)	106,769	(181,039)
Net change in cash balances	3,089	4,854	28,298
Cash balances beginning of year	71,524	-	31,609
Cash balances end of year	\$ 74,613	4,854	59,907
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ 74,613	4,854	59,907

See accompanying independent auditor's report.

Library Memorial	Library Building Trust	Fairfield Library Foundation	Friends of the Library	Friends of the Library		Indian Creek Escrow	Total
				Fairfield Public Library House			
-	-	-	-	-	-	-	537,376
-	-	-	-	-	-	-	411,499
-	-	-	-	-	-	-	24,643
7,723	-	6,505	35	4,450	68	-	18,781
1,413	-	-	-	-	-	-	1,413
-	-	-	-	-	5,000	-	5,000
113,433	3,911	10,000	745	450	-	-	128,539
122,569	3,911	16,505	780	4,900	5,068	-	1,127,251
-	-	-	-	-	-	-	234,964
-	-	-	-	-	-	-	9,119
67,528	6,207	-	1,319	2,884	-	-	166,750
-	-	-	-	-	-	-	105,383
-	-	-	-	-	-	-	16,319
-	36,643	-	-	696	-	-	37,339
67,528	42,850	-	1,319	3,580	-	-	569,874
55,041	(38,939)	16,505	(539)	1,320	5,068	-	557,377
-	-	-	-	-	-	-	106,769
-	-	-	-	-	-	-	(589,449)
-	-	-	-	-	-	-	(482,680)
55,041	(38,939)	16,505	(539)	1,320	5,068	-	74,697
15,353	189,602	84,094	15,042	2,033	11,010	-	420,267
70,394	150,663	100,599	14,503	3,353	16,078	-	494,964
70,394	150,663	100,599	14,503	3,353	16,078	-	494,964

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, 2004

	Enterprise			Total
	Yard Waste	Logan Apartments	Airport Hangar	
Operating receipts:				
Use of money and property	\$ -	111,978	23,990	135,968
Charges for service	303,061	-	-	303,061
Miscellaneous	4,668	2,455	41,820	48,943
Total operating receipts	307,729	114,433	65,810	487,972
Operating disbursements:				
Business type activities	309,983	235,200	42,514	587,697
Excess (deficiency) of operating receipts over (under) operating disbursements	(2,254)	(120,767)	23,296	(99,725)
Non-operating receipts:				
Intergovernmental	-	104,952	492	105,444
Interest on investments	-	3	-	3
Miscellaneous	-	1,662	-	1,662
Total non-operating receipts	-	106,617	492	107,109
Excess (deficiency) of receipts over (under) disbursements	(2,254)	(14,150)	23,788	7,384
Operating transfers out	-	(85,000)	-	(85,000)
Net change in cash balances	(2,254)	(99,150)	23,788	(77,616)
Cash balances beginning of year	(7,178)	319,058	(18,903)	292,977
Cash balances end of year	\$ (9,432)	219,908	4,885	215,361
Cash Basis Fund Balances				
Unreserved	\$ (9,432)	219,908	4,885	215,361

See accompanying independent auditor's report.

City of Fairfield
Schedule of Indebtedness
Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Street construction	Jan 2, 1958	2.600%	\$ 85,000
Library and street construction	May 1, 1995	5.000-5.600	3,300,000
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 23, 2000 *	3.00%	\$ 5,900,000
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
Total			
Mortgage note:			
Logan apartments	Jun 1, 1977	8.75%	\$ 960,000
Lease-purchase agreements			
Water generator	Dec 31, 1999	6.85%	\$ 105,180
Tractor/mower	Jul 25, 2002	7.90	17,935
Tractor/mower	Jul 5, 2003	7.90	8,448
Truck	Aug 15, 2003	5.95	33,365
Total			
Bank loan:			
Library	Mar 17, 2000	5.00%	\$ 44,000

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

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Principal and Interest Due and Unpaid
5,000	-	-	5,000	-	5,520
1,835,000	-	245,000	1,590,000	97,743	-
\$ 1,840,000	-	245,000	1,595,000	97,743	5,520
3,670,000	-	350,000	3,320,000	163,951	-
275,000	-	30,000	245,000	17,290	-
\$ 3,945,000	-	380,000	3,565,000	181,241	-
25,000	-	-	25,000	-	32,838
730,000	-	85,000	645,000	40,103	-
\$ 755,000	-	85,000	670,000	40,103	32,838
5,446,977	349,343	144,000	5,652,320	171,988	-
400,000	-	-	400,000	10,608	-
-	500,000	-	500,000	10,260	-
-	400,000	-	400,000	-	-
\$ 400,000	900,000	-	1,300,000	20,868	-
227,944	-	73,587	154,357	17,041	-
56,359	-	14,561	41,798	3,436	-
12,909	-	3,970	8,939	1,058	-
-	8,448	3,032	5,416	-	-
-	33,365	11,770	21,595	-	-
\$ 69,268	41,813	33,333	77,748	4,494	-
37,046	-	37,046	-	293	-

City of Fairfield
Bond and Note Maturities
June 30, 2004

Year Ending June 30,	General Obligation Bonds		General Obligation Capital Loan Notes			
	Library and Street Construction		General Corporate Purpose - Series 2001A		Urban Renewal Project - Series 2001B	
	Issued May 1, 1995		Issued May 1, 2001		Issued May 1, 2001	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2005	5.150%	\$ 255,000	4.250%	\$ 365,000	6.15%	\$ 30,000
2006	5.200	265,000	4.375	385,000	6.20	30,000
2007	5.250	285,000	4.500	400,000	6.25	35,000
2008	5.375	140,000	4.500	275,000	6.30	35,000
2009	5.500	150,000	4.500	290,000	6.35	35,000
2010	5.600	155,000	4.500	295,000	6.40	40,000
2011	5.600	165,000	4.500	210,000	6.45	40,000
2012	5.600	175,000	4.500	200,000		-
2013		-	4.600	210,000		-
2014		-	4.700	220,000		-
2015		-	4.750	230,000		-
2016		-	4.800	240,000		-
2017		-		-		-
2018		-		-		-
2019		-		-		-
2020		-		-		-
2021		-		-		-
2022		-		-		-
2023		-		-		-
Total		<u>\$1,590,000</u>		<u>\$3,320,000</u>		<u>\$ 245,000</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.

	Revenue Bonds		Water Revenue Capital Loan	
	Water		Note - Series 2002	
	Issued May 1, 1995		Water	
	Issued February 23, 2000		Water	
Total	Interest Rates	Amount	Interest Rates *	Amount
\$ 395,000	5.30%	\$ 90,000	3.00%	\$ 148,000
415,000	5.40	100,000	3.00	147,000
435,000	5.45	105,000	3.00	152,000
310,000	5.55	110,000	3.00	158,000
325,000	5.65	115,000	3.00	164,000
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>\$ 3,565,000</u>		<u>\$ 645,000</u>		<u>\$ 5,652,320</u>

Schedule 5

City of Fairfield

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

For the Last Two Years

	2004	2003
Receipts:		
Property tax	\$ 2,852,293	3,088,534
Tax increment financing	411,499	316,671
Other city tax	1,037,115	959,462
Licenses and permits	15,800	14,960
Use of money and property	80,340	38,694
Intergovernmental	1,012,520	2,255,519
Charges for service	316,174	321,895
Special assessments	59,290	51,290
Miscellaneous	317,859	170,190
	<hr/>	<hr/>
Total	\$ 6,102,890	7,217,215
	<hr/> <hr/>	<hr/> <hr/>
Disbursements:		
Operating:		
Public safety	\$ 2,035,789	2,006,603
Public works	900,369	871,806
Health and social services	9,720	6,683
Culture and recreation	1,289,611	1,305,919
Community and economic development	163,464	101,835
General government	346,384	306,993
Non-program	-	36,722
Debt service	942,223	1,104,910
Capital projects	783,568	2,101,125
	<hr/>	<hr/>
Total	\$ 6,471,128	7,842,596
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See accompanying independent auditor's report.

City of Fairfield
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2004

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Housing and Urban Development - Office of Housing: Tenant Assistance Program	14.182	IA050008008	\$ 104,952
U.S. Department of Transportation: Federal Aviation Administration: Airport Improvement Program	20.106	3-19-0033-06-2003	239,847
U.S. Department of Homeland Security: Assistance to Firefighters Grant	97.044	EMW-2003-FG-09160	42,787
U.S. Department of Agriculture: Commodity Loans and Loan Deficiency Payments	10.051	ID 42 6004655	492
Total direct			<u>388,078</u>
Indirect:			
Environmental Protection Agency: Iowa Department of Natural Resources: Capitalization Grants for Drinking Water - State Revolving Fund	66.468	FS-51-00-DWSRF-011	<u>244,292</u>
U.S. Department of Transportation: Iowa Department of Transportation: Highway Planning and Construction	20.205	STP-U-2465(610)-70-51	21,207
Highway Planning and Construction	20.205	STP-U-2465(609)-70-51	51,311
Highway Planning and Construction	20.205	STP-E-2465(607)-8V-51	159,414
Total indirect			<u>231,932</u> <u>476,224</u>
Total			<u>\$ 864,302</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

David A. Vaudt, CPA
Auditor of State

State Capitol Building
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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 Fairfield, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated January 7, 2005. Our report expressed unqualified opinions 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, 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 Fairfield's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 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, 2004 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 year statutory comments have been resolved except for items IV-G-04, IV-I-04 and IV-J-04.

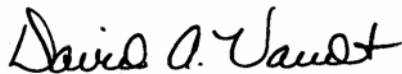
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Fairfield'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 Fairfield'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 Part II of the accompanying Schedule of Findings and Questioned Costs.

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 II-A-04 and II-B-04 are material weaknesses. Prior year reportable conditions have been resolved except for items II-A-04, II-B-04 and II-C-04.

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. 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

January 7, 2005

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance**

City of Fairfield



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance

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 each of its major federal programs for the year ended June 30, 2004. The City of Fairfield's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs 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, Chapter 11 of the Code of Iowa, 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 provisions 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 each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

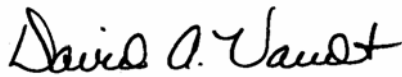
The management of the City of Fairfield is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Fairfield's internal 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Fairfield's ability to administer

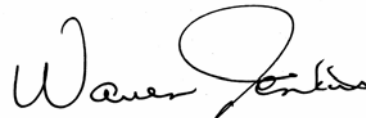
a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

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 non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance 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, we believe item III-A-04 is a material weakness.

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

January 7, 2005

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

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) Reportable conditions 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 reportable condition in internal control over a major program was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed 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 programs were as follows:
 - CFDA Number 20.106 – Airport Improvement Program
 - CFDA Number 66.468 – Capitalization Grants for Drinking Water – State Revolving Fund.
- (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, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties – One important element in designing internal control that safeguards assets and reasonably ensures the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another. The collection, deposit preparation, reconciliation and recording of cash receipts are all performed by the same person.

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

Response – We try to segregate duties as much as possible. With the small number of staff assigned to accounting and collecting it is very difficult to completely segregate duties but we try to rotate duties to the extent that is practical.

Conclusion – Response accepted.

II-B-04 Separately Maintained Records – The bookkeeping and custody of the Special Revenue, Library Memorial and Library Building Trust 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. These accounts were not reflected in the City's accounting system or monthly fund balances. In addition, Library receipts were not deposited timely.

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, receipts issued were not prenumbered.

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

Library receipts should be deposited timely.

The control activities at Logan Apartments should be reviewed to obtain the maximum internal control possible under the circumstances. Additionally, receipts issued for collections should be prenumbered.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Response – Independent Library funds are also reported to the City Council monthly by the Librarian. Effective February 1, 2005 we hired a new Librarian and our office will be working with her to ensure that deposits are made in a more timely manner and that all funds are appropriately accounted for.

Logan Apartment deposit funds are also reported to the City Council monthly as part of the Finance Report. The City Clerk is working with the manager of the Logan Apartments to bring the deposit funds into the overall city accounting system.

Conclusion – Response accepted. In addition, receipts issued for collections at Logan Apartments should be prenumbered.

- II-C-04 Electronic Data Processing Systems – During our review of internal control, the existing control activities in the City’s computer-based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. 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.
- maintaining password privacy and confidentiality.

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

Response – Appropriate policies will be developed as time allows.

Conclusion – Response accepted.

- II-D-04 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 received in are then disbursed out. The City’s revolving account has a deficit balance of \$93,196 at June 30, 2004. In addition, upon examination of the revolving account activity, it was determined these receipts and disbursements should be recorded in the appropriate governmental fund.

Recommendation – The City should determine why the revolving fund 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 – Work has begun to identify all deficit amounts and appropriate fund transfers will be made to close this account. Internal policies concerning in and out transactions have been changed after January 1, 2005 and such transactions are being run through specific funds i.e. General, Water General, etc.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

CFDA Number 66.468 – Capitalization Grants for Drinking Water State Revolving Fund
Pass-through Agency Number: FS-51-00-DWSRF-011
Federal Award Year: 2004
Environmental Protection Agency
Passed through the Iowa Department of Natural Resources

III-A-04 Segregation of Duties – The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-04.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-04 Official Depositories – A resolution naming official depositories has been approved by the Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

IV-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the public safety, general government and debt service 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 accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Appropriate budget amendments will be made.

Conclusion – Response accepted.

IV-C-04 Questionable Disbursements – No disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-D-04 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-04 Business Transactions – No business transactions between the City and City officials or employees were noted for the year ended June 30, 2004.

IV-F-04 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.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

IV-G-04 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 for the year ended June 30, 2004.

Library Board minutes were not always signed.

Recommendation – The City should publish minutes as required. Also, Library minutes should be signed to authenticate the record and support actions approved by the Library Board.

Response – The City Clerk will send the minutes of the City Council meetings to the local paper within one week of the meeting date.

The Library Director was given a copy of this audit comment and asked to instruct the Secretary of his Board of Trustees to sign all minutes that they record.

Conclusion – Response accepted.

IV-H-04 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-I-04 Financial Condition – At June 30, 2004, the City had deficit balances in the following accounts:

Fund/Account	Amount
General:	
Revolving	\$ (93,196)
Capital Projects:	
Recreation Trails	(408,890)
Civic Center	(171,824)
Walton Lake Subdivision	(562,096)
Madison and Grimes	(95,475)
Airport Improvements	(77,390)
2002 RISE Project	(69,266)
Airport Apron	(83,464)
Forth Street Traffic Signals	(110,827)
Bypass Forcemain Recolation	(33,640)
Bypass Cross Interceptor Relocation	(28,620)
Bypass Crow Creek Relocation	(40,500)
Bypass Water Main Relocation	(15,750)
Enterprise:	
Water-State Revolving	(278,130)
Sewer Utility Replacement	(173,097)
Sewer Utility	(136)
Yard Waste	(9,432)

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

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

Response – Appropriate transfers or pending bond issues will finance these deficits. In addition, sewer rates are in the process of being increased to fund the Sewer Utility Account. The Revolving Fund issue was addressed in a prior comment response (see II-D-04).

Conclusion – Response accepted.

- IV-J-04 Chart of Accounts – In January 2003, the City adopted the revised Uniform City Chart of Accounts for reporting purposes. However, as of June 30, 2004, 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 that was adopted in January 2003.

Response – A software reporting program was purchased in April 2005 which allows for conversion of the existing data into the new chart of accounts formats. Training has just been completed and this process should be implemented at the beginning of FY2005-06. The existing accounting system will continue to be utilized but monthly reports will be generated utilizing the new chart of accounts for functions of the budget.

Conclusion – Response accepted.

- IV-K-04 Water Revenue Capital Loan Notes – The City has not made the required transfers to the water reserve account as required by the note resolution.

Recommendation – The City should make the required transfers.

Response – Appropriate transfers will be made by the end of the current fiscal year and future transfers will be made as required.

Conclusion – Response accepted.

- IV-L-04 Unclaimed Property – Chapter 556.11 of the Code of Iowa requires all unclaimed property, including outstanding payroll checks, greater than a year old and all other checks greater than three years old be reported to the State Treasurer as unclaimed property by November 1 for the proceeding fiscal year. The City did not properly report these items to the State Treasurer for the fiscal year ended June 30, 2004.

Recommendation – The City should comply with Chapter 556.11 of the Code of Iowa.

Response – This matter has been referred to the City Attorney for review. All potential items will be compiled and contact will be made with the State Treasurer's Office for any monies that would fall into this category.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

IV-M-04 Other Information Required by Bond Resolutions –

Account Requirements – The City complied with the account requirements in accordance with the revenue bond provisions.

Insurance – The following insurance policies were in force at June 30, 2004:

Insurer	Description	Amount	Expiration Dates
Iowa Communities Assurance Pool	Property	\$33,322,831	Nov 1, 2004
Iowa Communities Assurance Pool	General Liability	5,000,000	Nov 1, 2004
	Officials Liability	5,000,000	
	Automobile Liability	5,000,000	
	Law Enforcement Liability	5,000,000	
Iowa Municipalities Workers Compensation Association	Workers Compensation	1,000,000	Jul 1, 2004
EMC Insurance Co.	Surety Bond Coverage - Blanket	300,000	Jan 1, 2005
Old Republic Insurance Co.	Airport Bodily Injury	5,000,000	Mar 13, 2005

Statistical Information:

Number of customers at June 30, 2004: 4,632

Water Rate Schedule – Monthly

	Rate Per Cubic Foot
Monthly account fee (all meter sizes)	\$ 7.00
0 –1,500 Cubic Feet / month	0.0245
1,500 - 10,000 Cubic Feet / month	.02205
10,000 – 50,000 Cubic Feet / month	.0196
above 50,000 Cubic Feet / month	.01715

City of Fairfield

Staff

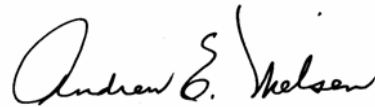
This audit was performed by:

Joe T. Marturello CPA, Manager

John G. Vanis, CGFM, Senior Manager

Kathleen S. Caggiano, Staff Auditor

Daniel L. Grady, CPA, 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