



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

David A. Vaudt, CPA  
Auditor of State

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Des Moines, Iowa 50319-0004

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**NEWS RELEASE**

FOR RELEASE

April 6, 2006

Contact: Andy Nielsen  
515/281-5834

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

The City's receipts totaled \$11,284,933 for the year ended June 30, 2005, a 5.9 percent increase over 2004. The receipts included \$3,144,936 in property tax, \$230,189 from tax increment financing, \$3,310,167 from charges for service, \$1,345,184 from operating grants, contributions and restricted interest, \$1,835,677 from capital grants, contributions and restricted interest, \$671,667 from local option sales tax, \$22,776 from unrestricted interest on investments, \$535,640 from the sale of assets and \$188,697 from other general receipts.

Disbursements for the year totaled \$11,069,608, a 7.5 percent increase over 2004, and included \$1,751,741 for public safety, \$1,444,278 for culture and recreation and \$2,527,712 for capital projects. Also, disbursements for business type activities totaled \$3,105,295.

The increase in receipts and disbursements is due primarily to an increase of receipts and disbursements for various capital projects.

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

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**CITY OF FAIRFIELD**

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

**JUNE 30, 2005**

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**City of Fairfield**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Edward Malloy	Mayor	Jan 2007
Myron Gookin	Council Member/Mayor Pro tem	Jan 2006
Pauline Reeder	Council Member	Jan 2006
John Revolinski	Council Member	Jan 2006
Ron Adam	Council Member	Jan 2008
Connie Boyer	Council Member	Jan 2008
Daryn Hamilton	Council Member	Jan 2008
Christy Welty	Council Member	Jan 2008
John Brown	City Administrator	Indefinite
Joy Messer	City Clerk	Indefinite
John Morrissey	City Attorney	Indefinite

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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, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Fairfield's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

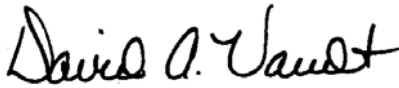
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairfield as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 19, 2006 on our consideration of the City of Fairfield's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairfield's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 (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, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 19, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2005 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 23.9%, or approximately \$1,576,000, from fiscal 2004 to fiscal 2005. Capital grants and contributions increased \$1,715,000 and receipts from the sale of assets increased approximately \$528,000. Additionally, proceeds from construction warrants decreased \$400,000, local option sales tax receipts decreased approximately \$88,000 and transfers to governmental funds decreased approximately \$85,000.
- Governmental activities disbursements increased 23.1%, or approximately \$1,493,000, in fiscal 2005 from fiscal 2004. Capital projects disbursements increased approximately \$1,744,000.
- The City's total cash basis net assets increased 19.4%, or approximately \$215,000, from June 30, 2004 to June 30, 2005. Of this amount, the net assets of the governmental activities increased approximately \$208,000 and the net assets of the business type activities increased by approximately \$8,000.

### 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, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

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

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

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

### *Fund Financial Statements*

The City has two kinds of funds:

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

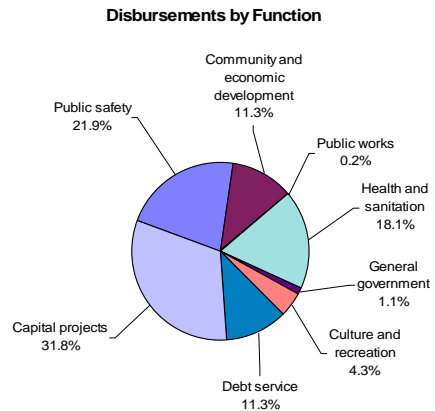
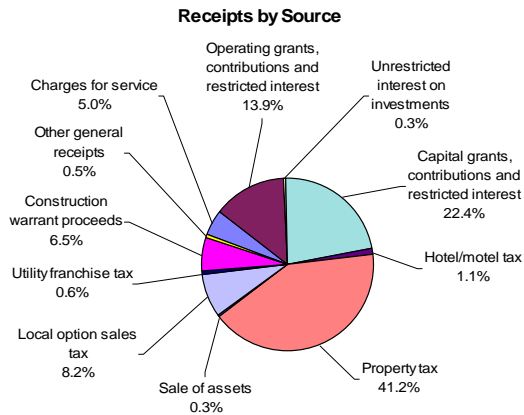
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$(9,765) to \$197,968. 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,	
	2005	2004
<b>Receipts and transfers:</b>		
<b>Program receipts:</b>		
Charges for service	\$ 411	431
Operating grants, contributions and restricted interest	1,141	1,177
Capital grants, contributions and restricted interest	1,836	121
<b>General receipts:</b>		
Property tax	3,375	3,393
Local option sales tax	672	760
Hotel/motel tax	91	90
Utility franchise tax	44	58
Grants and contributions not restricted to specific purposes	-	22
Unrestricted interest on investments	23	27
Sale of assets	536	8
Construction warrant proceeds	-	400
Other general receipts	43	24
Transfers, net	-	85
<b>Total receipts and transfers</b>	<b>8,172</b>	<b>6,596</b>
<b>Disbursements:</b>		
Public safety	1,752	2,036
Public works	898	900
Health and social services	12	10
Culture and recreation	1,444	1,290
Community and economic development	86	163
General government	342	346
Debt service	902	942
Capital projects	2,528	784
<b>Total disbursements</b>	<b>7,964</b>	<b>6,471</b>
<b>Increase in cash basis net assets</b>	<b>208</b>	<b>125</b>
<b>Cash basis net assets beginning of year</b>	<b>(10)</b>	<b>(135)</b>
<b>Cash basis net assets end of year</b>	<b>\$ 198</b>	<b>(10)</b>



The City's total receipts and transfers for governmental activities were \$8,172,048. The total cost of all programs and services was \$7,964,315. The \$207,733 difference in receipts over disbursements was the sale of assets held by the City and grant reimbursements for projects.

The cost of governmental activities this year was \$7,964,315. As shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$4,576,289 because some of the cost was paid by those directly benefited from the programs (\$411,371) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$2,976,655).

Changes in Cash Basis Net Assets of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2005	2004
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 1,718	1,803
Sewer	643	674
Logan apartments	132	112
Yard waste	338	303
Airport	68	61
Operating grants, contributions and restricted interest	204	105
Capital grants, contributions and restricted interest	-	165
General receipts:		
Construction warrant proceeds	-	500
Bond proceeds	-	349
Other general receipts	10	76
Total receipts	<u>3,113</u>	<u>4,148</u>
Disbursements and transfers:		
Water	1,646	2,278
Sewer	832	961
Logan apartments	256	236
Yard waste	325	310
Airport	46	42
Transfers	-	85
Total disbursements and transfers	<u>3,105</u>	<u>3,912</u>
Increase in cash balance	8	236
Cash basis net assets beginning of year	<u>1,120</u>	<u>884</u>
Cash basis net assets end of year	<u>\$ 1,128</u>	<u>1,120</u>

Total business type activities receipts for the fiscal year were \$3.1 million compared to \$4.1 million last year. This significant decrease was due primarily to bond and short term borrowing proceeds received in the prior fiscal year. The cash balance increased by approximately \$8,000 from the prior year. Total disbursements and transfers for the fiscal year decreased by 19.7%, from \$3.9 million in fiscal year 2004 to \$3.1 million in fiscal year 2005, due to the completion of several capital projects, including the water treatment plant and sewer digester project.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Fairfield completed the year, its governmental funds reported a combined fund balance of \$197,968, an increase of approximately \$208,000 above last year's total of \$(9,765). 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 decreased \$107,968 from the prior year to \$58,472. This decrease was primarily due to a budget transfer in from Logan Apartments not made prior to June 30, 2005 in the amount of \$50,000. The transfer was made after July 1, 2005.
- The Road Use Tax Fund cash balance decreased by \$1,815 to \$100,974, which was not considered a significant change.
- The Local Option Sales Tax Fund cash balance increased \$311,731 from the prior year to \$358,701. This increase was due to a diversion of local option sales tax receipts for a downtown revitalization project. This accounted for approximately \$260,000 of the increase and is earmarked for a capital disbursement to be made in a subsequent fiscal year. Prior to February 2005, these funds were disbursed to the Joint City/County Law Enforcement Center to retire debt.
- The UDAG-FALCO Project Fund cash balance increased by \$48,680 to \$389,721. This increase was due to the receipt of scheduled loan payments as budgeted.
- The Debt Service Fund cash balance decreased by \$76,164 to \$(9,720) during the fiscal year. This decrease was due primarily to a budgeted transfer of \$30,000 from the Urban Renewal Tax Increment Financing Fund that was not made prior to June 30, 2005. The transfer was made after July 1, 2005.
- The Capital Projects Fund cash balance decreased by \$59,069 to \$(1,686,942). This decrease is primarily due to ongoing capital project disbursements, including the airport runway project. These costs will be reimbursed by grants or planned bond or note sales.
- The Library Endowment Fund cash balance increased \$24,070 from the prior year to \$423,530. This increase was due to increased gifts from private individuals.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$87,612 to \$1,166,066, due primarily to a decrease in capital project disbursements.
- The Sewer Fund cash balance decreased by \$102,469 to \$(275,702), due primarily to a planned rate increase which was not implemented and budgeted transfers between accounts that were not made prior to June 30, 2005. The transfers were made after July 1, 2005.
- The Logan Apartments Fund cash balance decreased \$19,810 to \$200,098, due primarily to costs associated with the elevator.

## **BUDGETARY HIGHLIGHTS**

The City did not amend its budget during the year.

## DEBT ADMINISTRATION

At June 30, 2005, the City had approximately \$12,019,000 in bonds and other long-term debt, compared to approximately \$13,014,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2005	2004
General obligation bonds	\$ 1,340	1,595
General obligation capital loan notes	3,170	3,565
Revenue bonds	580	670
Water revenue capital loan notes	5,504	5,652
Construction warrants	1,300	1,300
Mortgage note	74	154
Lease purchase agreements	51	78
Total	\$ 12,019	13,014

Debt decreased due to payments made on outstanding debt during the fiscal year.

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 \$5.9 million is significantly below its constitutional debt limit of \$15.8 million.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Fairfield's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates and fees charged for various City activities.

Amounts available for appropriation in the fiscal year 2006 operating budget are \$22.05 million, an increase of 82% over the final 2005 budget. The increase is the result of proceeds from general obligation bonds that the City plans to issue in the spring of 2006. Budgeted disbursements are expected to increase by approximately \$6.3 million. Increased wage and cost-of-living adjustments, increases in street construction, Airport Runway lengthening project and the urban renewal project represent the largest increases. The City has added no major new programs or initiatives to the 2006 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$3.8 million by the close of 2006.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

## **Basic Financial Statements**

City of Fairfield

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2005

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 1,751,741	119,058	67,267	-
Public works	898,017	5,103	798,367	-
Health and social services	12,220	-	-	-
Culture and recreation	1,444,278	270,053	207,969	3,076
Community and economic development	85,867	5,252	67,375	-
General government	342,499	11,905	-	-
Debt service	901,981	-	-	33,834
Capital projects	2,527,712	-	-	1,798,767
Total governmental activities	7,964,315	411,371	1,140,978	1,835,677
Business type activities:				
Water	1,645,979	1,718,063	6,415	-
Sewer	832,377	642,902	87,006	-
Logan apartments	256,061	132,238	103,243	-
Yard waste	325,066	337,871	-	-
Airport	45,810	67,722	7,542	-
Total business type activities	3,105,293	2,898,796	204,206	-
Total	\$ 11,069,608	3,310,167	1,345,184	1,835,677
<b>General Receipts:</b>				
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				
Unrestricted interest on investments				
Miscellaneous				
Sale of assets				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Streets				
Urban renewal				
Debt service				
Permanent fund				
Other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(1,565,416)	-	(1,565,416)
(94,547)	-	(94,547)
(12,220)	-	(12,220)
(963,180)	-	(963,180)
(13,240)	-	(13,240)
(330,594)	-	(330,594)
(868,147)	-	(868,147)
(728,945)	-	(728,945)
(4,576,289)	-	(4,576,289)
-	78,499	78,499
-	(102,469)	(102,469)
-	(20,580)	(20,580)
-	12,805	12,805
-	29,454	29,454
-	(2,291)	(2,291)
(4,576,289)	(2,291)	(4,578,580)
1,993,298	-	1,993,298
230,189	-	230,189
567,955	-	567,955
583,683	-	583,683
671,667	-	671,667
91,205	-	91,205
44,436	-	44,436
22,756	20	22,776
43,193	9,863	53,056
535,640	-	535,640
4,784,022	9,883	4,793,905
207,733	7,592	215,325
(9,765)	1,120,582	1,110,817
\$ 197,968	1,128,174	1,326,142
\$ 100,974	-	100,974
80,774	-	80,774
-	165,025	165,025
423,530	-	423,530
1,230,880	-	1,230,880
(1,638,190)	963,149	(675,041)
\$ 197,968	1,128,174	1,326,142



City of Fairfield

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

As of and for the year ended June 30, 2005

	General	Special Revenue	
		Road Use Tax	Local Option Sales Tax
<b>Receipts:</b>			
Property tax	\$ 1,739,484	-	-
Tax increment financing	-	-	-
Other city tax	198,652	-	671,667
Licenses and permits	24,228	-	-
Use of money and property	19,212	-	-
Intergovernmental	158,011	798,367	-
Charges for service	337,963	-	-
Special assessments	-	-	-
Miscellaneous	63,573	-	-
<b>Total receipts</b>	<b>2,541,123</b>	<b>798,367</b>	<b>671,667</b>
<b>Disbursements:</b>			
<b>Operating:</b>			
Public safety	1,139,090	-	326,613
Public works	90,788	800,182	-
Health and social services	9,720	-	2,500
Culture and recreation	1,114,083	-	29,688
Community and economic development	56,161	-	-
General government	314,315	-	1,135
Debt service	-	-	-
Capital projects	-	-	-
<b>Total disbursements</b>	<b>2,724,157</b>	<b>800,182</b>	<b>359,936</b>
Excess (deficiency) of receipts over (under) disbursements	(183,034)	(1,815)	311,731
<b>Other financing sources (uses):</b>			
Sale of capital assets	1,500	-	-
Operating transfers in	164,771	-	-
Operating transfers out	(91,205)	-	-
<b>Total other financing sources (uses)</b>	<b>75,066</b>	<b>-</b>	<b>-</b>
Net change in cash balances	(107,968)	(1,815)	311,731
Cash balances beginning of year	166,440	102,789	46,970
Cash balances end of year	\$ 58,472	100,974	358,701
<b>Cash Basis Fund Balances</b>			
<b>Unreserved:</b>			
General fund	\$ 58,472	-	-
Special revenue funds	-	100,974	358,701
Debt service fund	-	-	-
Capital projects fund	-	-	-
Permanent fund	-	-	-
<b>Total cash basis fund balances</b>	<b>\$ 58,472</b>	<b>100,974</b>	<b>358,701</b>

See notes to financial statements.

UDAG- FALCO Project	Debt Service	Capital Projects	Permanent		Nonmajor Special Revenue	Total
			Library Endowment			
-	548,617	132,195	-	-	617,077	3,037,373
-	-	-	-	-	230,189	230,189
-	19,338	4,789	-	-	20,425	914,871
-	-	-	-	-	-	24,228
64,680	-	-	-	-	23,738	107,630
-	-	1,798,767	-	-	3,076	2,758,221
-	-	-	-	-	-	337,963
-	33,834	-	-	-	-	33,834
-	-	-	24,832	-	103,694	192,099
64,680	601,789	1,935,751	24,832	-	998,199	7,636,408
-	-	-	-	-	286,038	1,751,741
-	-	-	-	-	7,047	898,017
-	-	-	-	-	-	12,220
-	-	-	762	-	299,745	1,444,278
16,000	-	1,248	-	-	12,458	85,867
-	-	-	-	-	27,049	342,499
-	901,981	-	-	-	-	901,981
-	-	2,527,712	-	-	-	2,527,712
16,000	901,981	2,528,960	762	-	632,337	7,964,315
48,680	(300,192)	(593,209)	24,070	-	365,862	(327,907)
-	-	534,140	-	-	-	535,640
-	224,028	-	-	-	155,079	543,878
-	-	-	-	-	(452,673)	(543,878)
-	224,028	534,140	-	-	(297,594)	535,640
48,680	(76,164)	(59,069)	24,070	-	68,268	207,733
341,041	66,444	(1,627,873)	399,460	-	494,964	(9,765)
389,721	(9,720)	(1,686,942)	423,530	-	563,232	197,968
-	-	-	-	-	-	58,472
389,721	-	-	-	-	563,232	1,412,628
-	(9,720)	-	-	-	-	(9,720)
-	-	(1,686,942)	-	-	-	(1,686,942)
-	-	-	423,530	-	-	423,530
389,721	(9,720)	(1,686,942)	423,530	-	563,232	197,968

**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, 2005

	Enterprise Funds				
	Water	Sewer	Logan Apartments	Nonmajor	Total
Operating receipts:					
Use of money and property	\$ -	-	128,560	62,830	191,390
Charges for service	1,718,063	642,902	-	332,188	2,693,153
Intergovernmental	-	-	103,243	7,542	110,785
Miscellaneous	6,415	87,006	3,678	10,575	107,674
Total operating receipts	1,724,478	729,908	235,481	413,135	3,103,002
Operating disbursements:					
Business type activities	1,178,950	681,632	165,433	370,876	2,396,891
Excess (deficiency) of operating receipts over (under) operating disbursements	545,528	48,276	70,048	42,259	706,111
Non-operating receipts (disbursements):					
Interest on investments	17	-	3	-	20
Miscellaneous	9,096	-	767	-	9,863
Capital projects	(8,987)	(150,745)	-	-	(159,732)
Debt service	(458,042)	-	(90,628)	-	(548,670)
Total non-operating receipts (disbursements)	(457,916)	(150,745)	(89,858)	-	(698,519)
Excess (deficiency) of receipts over (under) disbursements	87,612	(102,469)	(19,810)	42,259	7,592
Cash balances beginning of year	1,078,454	(173,233)	219,908	(4,547)	1,120,582
Cash balances end of year	\$ 1,166,066	(275,702)	200,098	37,712	1,128,174
<b>Cash Basis Fund Balances</b>					
Reserved for debt service	\$ 165,025	-	-	-	165,025
Unreserved	1,001,041	(275,702)	200,098	37,712	963,149
Total cash basis fund balances	\$ 1,166,066	(275,702)	200,098	37,712	1,128,174

See notes to financial statements.

City of Fairfield

Notes to Financial Statements

June 30, 2005

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

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

A. Reporting Entity

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

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

Blended Component Units

The Friends of the Fairfield Library, Fairfield Library Foundation and the Fairfield Park and Recreation Foundation were established as non-profit corporations in accordance with Chapter 504A of the Code of Iowa. The Friends of the Fairfield Library includes the Fairfield Public Library House. These non-profit corporations are legally separate from the City but are so intertwined with the City that they are, in substance, the same as the City. 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, Fairfield Library Foundation, and the Fairfield Park and Recreation 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 participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Jefferson County Assessor's Conference Board, Jefferson County E911 Joint Service Board and Jefferson County Emergency Management Agency. The City also participates in the Jefferson County Regional Service Agency, a jointly governed organization established pursuant to Chapter 28E of the Code of Iowa.

### B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The Road Use Tax Fund is used to account for 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.

The Permanent Fund includes the Library Endowment Fund, which 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.

The Logan Apartments Fund accounts for the operation and maintenance of the City's low income housing facility.

C. Measurement Focus and Basis of Accounting

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

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the culture and recreation and debt service functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2005, the City and its component units had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Mutual Funds	\$ 27,093	28,620	N/A
Money Market	128,739	128,739	N/A
Corporate Bonds	5,006	5,120	Dec. 15, 2006
Common Stock	24,965	25,650	N/A

Additionally, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,888 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City. The Fairfield Library Foundation, a blended component unit of the City, does not have a formal policy limiting investment maturities as a means of managing exposure to credit risk.

Credit risk – The Bank of America Corporate bonds carry a rating of A+/Aa3. The City's investments in the Iowa Public Agency Investment Trust, Mutual Funds and Money Market are unrated.

Concentration of Credit Risk – The City and the Fairfield Library Foundation place no limits on the amount that may be invested in any one issuer. However, the City's policy does require the City to diversify its investments to eliminate the risk of loss resulting from the over concentration of assets in a specific maturity, issuer or class of securities. The Foundation's investments in common stock of any single issuer is less than 5 percent of the Foundation's total investments.

### (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
2006	\$ 265,000	72,238	415,000	148,054	100,000	30,913	147,000	168,240	927,000	419,445
2007	285,000	58,458	435,000	129,350	105,000	25,513	152,000	163,830	977,000	377,151
2008	140,000	43,495	310,000	109,163	110,000	19,790	158,000	159,270	718,000	331,718
2009	150,000	35,970	325,000	94,583	115,000	13,685	164,000	154,530	754,000	298,768
2010	155,000	27,720	335,000	79,310	125,000	7,187	166,000	149,610	781,000	263,827
2011 - 2015	340,000	28,840	1,110,000	212,595	-	-	1,621,000	628,950	3,071,000	870,385
2016 - 2020	-	-	240,000	11,520	-	-	1,903,000	369,450	2,143,000	380,970
2021 - 2025	-	-	-	-	-	-	1,193,320	78,630	1,193,320	78,630
Total	\$ 1,335,000	266,721	3,170,000	784,575	555,000	97,088	5,504,320	1,872,510	10,564,320	3,020,894

#### Revenue Bonds

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate water revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers of 25 percent of the amount required to be deposited in the water revenue bond sinking account shall be made to a water reserve account until \$132,187 is accumulated. At June 30, 2005, the balance in this account was \$165,025.
- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to retire any subordinate obligations and then can be used for any lawful purpose.
- (e) Bonds maturing after June 1, 2005 may be called for redemption and paid before maturity on June 1, 2005 or any interest payment date thereafter.

#### Water Revenue Capital Loan Notes

On February 13, 2003, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, N.A. for the issuance of \$5,900,000 of water revenue capital loan notes with interest at 3.00% per annum. The agreement 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, 2005, 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, 2004. 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) Sufficient monthly transfers shall be made to a separate water revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers of 25 percent of the amount required to be deposited in the water revenue note sinking account shall be made to a water reserve account until \$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 sinking or reserve accounts required by the water revenue capital loan note resolution.

#### Construction Warrants

The City entered into agreements with First National Bank, Fairfield, Iowa during the years ended June 30, 2003 and 2004 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 \$400,000, \$500,000 and \$400,000 respectively, with interest at 3.50% to 3.75% per annum. The warrants are to be paid from the fund from which payments for the project were made. These warrants are outstanding at June 30, 2005.

#### **(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. At June 30, 2005, the balance of the Sewer Utility Replacement Account was \$(155,045). The deficit is due to the sewer distribution and digester improvement projects.

#### **(5) 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 \$74,066 at June 30, 2005, 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.

## (6) 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 12.65% per annum, and the present value of net minimum lease payments under agreements in effect at June 30, 2005:

Year ending June 30,	Water Generator	Tractor/ Mower	Tractor/ Mower	Truck	Financial Software	Total
2006	\$ 18,796	5,027	3,033	11,771	3,223	41,850
2007	7,832	-	-	-	3,223	11,055
2008	-	-	-	-	1,881	1,881
Total minimum lease payments	26,628	5,027	3,033	11,771	8,327	54,786
Less amount representing interest	(1,276)	(382)	(222)	(662)	(1,255)	(3,797)
Present value of net minimum lease payments	\$ 25,352	4,645	2,811	11,109	7,072	50,989

## (7) 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. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$97,804, \$98,933 and \$100,521, 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 104<sup>th</sup> 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 17% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2005, 2004 and 2003 were \$155,787, \$123,869 and \$110,265, respectively, which met the required minimum contribution for each year.

## (8) 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, 2005, primarily relating to the General Fund, was \$67,500. This liability has been computed based on rates of pay in effect at June 30, 2005.

## **(9) Risk Management**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 509 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contribution to the Pool for the year ended June 30, 2005 was \$187,709.

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

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2005, 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.

**(10) Contractual Commitments**

The City has entered into various construction contracts totaling \$8,576,522. The unpaid contract balances at June 30, 2005 totaled \$5,706,613. 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 2006.

**(11) Deficit Balances**

The General Fund, Revolving Account had a deficit balance of \$101,162 at June 30, 2005. The deficit will be eliminated by transfers from other funds.

The Debt Service Fund had a deficit balance of \$9,720 at June 30, 2005. The deficit will be eliminated by local sources.

The Capital Projects Fund, Civic Center, Recreation Trails, Walton Lake Subdivision, Madison and Grimes, 2000 RISE Project, Airport Apron, Forth Street Traffic Signals, Bypass Forcemain Relocation, Bypass Cross Interceptor Relocation, Bypass Crow Creek Relocation, Bypass Water Main Relocation, Runway 18/36 Phase I, Runway 18/36 Phase II and CDBG Accounts had deficit balances of \$323,606, 372,950, \$428,192, \$249,965, \$69,266, \$83,464, \$55,942, \$53,466, \$41,580, \$52,971, \$177,950, \$310,945, \$352 and \$1,248, respectively, at June 30, 2005. 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, Water Sinking, Sewer Utility and Sewer Utility Replacement Accounts had deficit balances of \$278,130, \$256,110, \$120,657 and \$155,045, respectively, at June 30, 2005. The deficits will be eliminated by local sources, grants, future bond or note sales and transfers from other accounts.

**(12) Interfund Transfers**

Transfer To	Transfer From	Amount
General	Special Revenue:	
	Emergency Levy	\$ 53,819
	Employee Benefits	110,952
		<u>164,771</u>
Debt Service	Special Revenue:	
	Urban Renewal	
	Tax Increment Financing	224,028
		<u>224,028</u>
Special Revenue:	General	91,205
Hotel/Motel Tax		
Fairfield Library Foundation	Special Revenue:	
	Friends of the Library	13,874
	Library Memorial	50,000
		<u>63,874</u>
Total		<u>\$ 543,878</u>

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

**(13) Litigation**

The City is subject to pending litigation. The amount and probability of loss, if any, is not determinable.

**(14) Subsequent Events**

In August 2005, the City received a grant from the Federal Aviation Administration for \$3,512,670 to fund engineering and design costs associated with Phase 1 through 4 of the airport improvement project.

In September 2005, the City entered into an agreement with Iowa Bank and Trust Company, Fairfield, Iowa to provide for the issuance of a \$900,000 construction warrant to provide interim financing for the Fairfield Street Improvement Project.

**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, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
<b>Receipts:</b>			
Property tax	\$ 3,037,373	-	-
Tax increment financing	230,189	-	-
Other city tax	914,871	-	-
Licenses and permits	24,228	-	-
Use of money and property	107,630	191,410	8,433
Intergovernmental	2,758,221	110,785	-
Charges for service	337,963	2,693,153	-
Special assessments	33,834	-	-
Miscellaneous	192,099	117,537	105,620
Total receipts	7,636,408	3,112,885	114,053
<b>Disbursements:</b>			
Public safety	1,751,741	-	-
Public works	898,017	-	-
Health and social services	12,220	-	-
Culture and recreation	1,444,278	-	44,677
Community and economic development	85,867	-	-
General government	342,499	-	-
Debt service	901,981	-	-
Capital projects	2,527,712	-	-
Business type activities	-	3,105,293	-
Total disbursements	7,964,315	3,105,293	44,677
Excess (deficiency) of receipts over (under) disbursements	(327,907)	7,592	69,376
Other financing sources, net	535,640	-	50,000
Excess of receipts and other financing sources over disbursements and other financing uses	207,733	7,592	119,376
Balances beginning of year	(9,765)	1,120,582	517,915
Balances end of year	\$ 197,968	1,128,174	637,291

See accompanying independent auditor's report.

Net	Budgeted Amounts Original and Final	Final to Net Variance
3,037,373	3,045,693	(8,320)
230,189	213,322	16,867
914,871	942,748	(27,877)
24,228	20,125	4,103
290,607	110,000	180,607
2,869,006	3,229,708	(360,702)
3,031,116	3,579,800	(548,684)
33,834	26,784	7,050
204,016	25,400	178,616
10,635,240	11,193,580	(558,340)
1,751,741	2,040,440	288,699
898,017	906,178	8,161
12,220	13,220	1,000
1,399,601	1,238,216	(161,385)
85,867	154,070	68,203
342,499	353,237	10,738
901,981	900,781	(1,200)
2,527,712	4,507,291	1,979,579
3,105,293	4,471,115	1,365,822
11,024,931	14,584,548	3,559,617
(389,691)	(3,390,968)	3,001,277
485,640	3,500,000	(3,014,360)
95,949	109,032	(13,083)
592,902	1,327,688	(734,786)
688,851	1,436,720	(747,869)



City of Fairfield

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Permanent, Library Endowment Fund and the Special Revenue, Fairfield Library Foundation, Friends of the Library, Fairfield Public Library House and the Fairfield Park and Recreation Foundation 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, 2005, disbursements exceeded the amounts budgeted in the culture and recreation 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, 2005

	Urban Renewal Tax Increment Financing	Hotel/Motel Tax	Emergency Levy	Employee Benefits	Library Memorial
<b>Receipts:</b>					
Property tax	\$ -	-	53,819	563,258	-
Tax increment financing	230,189	-	-	-	-
Other city tax	-	-	-	20,425	-
Use of money and property	-	-	-	-	10,279
Intergovernmental	-	-	-	-	3,076
Miscellaneous	-	-	-	150	22,756
<b>Total receipts</b>	<b>230,189</b>	<b>-</b>	<b>53,819</b>	<b>583,833</b>	<b>36,111</b>
<b>Disbursements:</b>					
<b>Operating:</b>					
Public safety	-	-	-	286,038	-
Public works	-	-	-	7,047	-
Culture and recreation	-	85,410	-	98,065	41,959
Community and economic development	-	-	-	12,458	-
General government	-	-	-	27,049	-
<b>Total disbursements</b>	<b>-</b>	<b>85,410</b>	<b>-</b>	<b>430,657</b>	<b>41,959</b>
<b>Excess (deficiency) of receipts over (under) disbursements</b>	<b>230,189</b>	<b>(85,410)</b>	<b>53,819</b>	<b>153,176</b>	<b>(5,848)</b>
<b>Other financing sources (uses):</b>					
Operating transfers in	-	91,205	-	-	-
Operating transfers out	(224,028)	-	(53,819)	(110,952)	(50,000)
<b>Total other financing sources (uses)</b>	<b>(224,028)</b>	<b>91,205</b>	<b>(53,819)</b>	<b>(110,952)</b>	<b>(50,000)</b>
<b>Net change in cash balances</b>	<b>6,161</b>	<b>5,795</b>	<b>-</b>	<b>42,224</b>	<b>(55,848)</b>
Cash balances beginning of year	74,613	4,854	-	59,907	70,394
Cash balances end of year	\$ 80,774	10,649	-	102,131	14,546
<b>Cash Basis Fund Balances</b>					
<b>Unreserved:</b>					
Special revenue funds	\$ 80,774	10,649	-	102,131	14,546

See accompanying independent auditor's report.

Library Building Trust	Fairfield Library Foundation	Friends of the Library	Friends of the Library		Indian Creek Escrow	Fairfield Park and Recreation Foundation	Total
			Fairfield Public Library House				
-	-	-	-	-	-	-	617,077
-	-	-	-	-	-	-	230,189
-	-	-	-	-	-	-	20,425
4,950	2,721	55	5,385	76	272	23,738	
-	-	-	-	-	-	-	3,076
-	3,019	290	450	-	77,029	103,694	
4,950	5,740	345	5,835	76	77,301	998,199	
-	-	-	-	-	-	-	286,038
-	-	-	-	-	-	-	7,047
30,396	-	974	6,247	-	36,694	299,745	
-	-	-	-	-	-	-	12,458
-	-	-	-	-	-	-	27,049
30,396	-	974	6,247	-	36,694	632,337	
(25,446)	5,740	(629)	(412)	76	40,607	365,862	
-	63,874	-	-	-	-	-	155,079
-	-	(13,874)	-	-	-	-	(452,673)
-	63,874	(13,874)	-	-	-	-	(297,594)
(25,446)	69,614	(14,503)	(412)	76	40,607	68,268	
150,663	100,599	14,503	3,353	16,078	-	494,964	
125,217	170,213	-	2,941	16,154	40,607	563,232	
125,217	170,213	-	2,941	16,154	40,607	563,232	

**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, 2005

	Enterprise		Total
	Yard Waste	Airport Hangar	
Operating receipts:			
Use of money and property	\$ -	62,830	62,830
Charges for service	332,188	-	332,188
Intergovernmental	-	7,542	7,542
Miscellaneous	5,683	4,892	10,575
Total operating receipts	337,871	75,264	413,135
Operating disbursements:			
Business type activities	325,066	45,810	370,876
Excess of operating receipts over operating disbursements	12,805	29,454	42,259
Cash balances beginning of year	(9,432)	4,885	(4,547)
Cash balances end of year	\$ 3,373	34,339	37,712
<b>Cash Basis Fund Balances</b>			
Unreserved	\$ 3,373	34,339	37,712

See accompanying independent auditor's report.

City of Fairfield  
Schedule of Indebtedness  
Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Street construction	Jan 2, 1958	2.60%	\$ 85,000
Library and street construction	May 1, 1995	5.00-5.60	3,300,000
Total			
General obligation capital loan notes:			
General corporate purpose - series 2001 A	May 1, 2001	4.20-4.80%	\$ 4,330,000
Urban renewal project - series 2001B	May 1, 2001	5.40-6.45	325,000
Total			
Revenue bonds:			
Water	Jun 1, 1977	4.90-5.70%	\$ 1,500,000
Water	May 1, 1995	4.60-5.75	1,165,000
Total			
Water revenue capital loan notes:			
State Revolving	Feb 13, 2003 *	3.00%	\$ 5,900,000
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
Financial software	Feb 1, 2005	12.65	8,100
Total			

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

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Principal and Interest Due and Unpaid
5,000	-	-	5,000	-	5,520
1,590,000	-	255,000	1,335,000	85,370	-
<b>\$ 1,595,000</b>	-	<b>255,000</b>	<b>1,340,000</b>	<b>85,370</b>	<b>5,520</b>
3,320,000	-	365,000	2,955,000	149,951	-
245,000	-	30,000	215,000	15,460	-
<b>\$ 3,565,000</b>	-	<b>395,000</b>	<b>3,170,000</b>	<b>165,411</b>	-
25,000	-	-	25,000	-	32,838
645,000	-	90,000	555,000	35,683	-
<b>\$ 670,000</b>	-	<b>90,000</b>	<b>580,000</b>	<b>35,683</b>	<b>32,838</b>
5,652,320	-	148,000	5,504,320	169,570	-
400,000	-	-	400,000	17,781	-
500,000	-	-	500,000	22,226	-
400,000	-	-	400,000	13,140	-
<b>\$ 1,300,000</b>	-	-	<b>1,300,000</b>	<b>53,147</b>	-
154,357	-	80,291	74,066	10,337	-
41,798	-	16,446	25,352	2,350	-
8,939	-	4,294	4,645	732	-
5,416	-	2,605	2,811	428	-
21,595	-	10,486	11,109	1,284	-
-	8,100	1,028	7,072	315	-
<b>\$ 77,748</b>	<b>8,100</b>	<b>34,859</b>	<b>50,989</b>	<b>5,109</b>	-



City of Fairfield  
Bond and Note Maturities  
June 30, 2005

Year Ending June 30,	General Obligation Bonds		General Obligation Capital Loan Notes				Total
	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	
2006	5.200%	\$ 265,000	4.375%	\$ 385,000	6.20%	\$ 30,000	415,000
2007	5.250	285,000	4.500	400,000	6.25	35,000	435,000
2008	5.375	140,000	4.500	275,000	6.30	35,000	310,000
2009	5.500	150,000	4.500	290,000	6.35	35,000	325,000
2010	5.600	155,000	4.500	295,000	6.40	40,000	335,000
2011	5.600	165,000	4.500	210,000	6.45	40,000	250,000
2012	5.600	175,000	4.500	200,000	-	-	200,000
2013	-	-	4.600	210,000	-	-	210,000
2014	-	-	4.700	220,000	-	-	220,000
2015	-	-	4.750	230,000	-	-	230,000
2016	-	-	4.800	240,000	-	-	240,000
2017	-	-	-	-	-	-	-
2018	-	-	-	-	-	-	-
2019	-	-	-	-	-	-	-
2020	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-
2022	-	-	-	-	-	-	-
2023	-	-	-	-	-	-	-
Total		<u>\$1,335,000</u>		<u>\$2,955,000</u>		<u>\$ 215,000</u>	<u>3,170,000</u>

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

See accompanying independent auditor's report.

Water Revenue Bonds		Water Revenue Capital Loan Note - Series 2002	
Issued May 1, 1995		Issued February 13, 2003	
Interest Rates	Amount	Interest Rates *	Amount
5.40%	\$ 100,000	3.00%	\$ 147,000
5.45	105,000	3.00	152,000
5.55	110,000	3.00	158,000
5.65	115,000	3.00	164,000
5.75	125,000	3.00	166,000
-	-	3.00	304,000
-	-	3.00	314,000
-	-	3.00	324,000
-	-	3.00	334,000
-	-	3.00	345,000
-	-	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>\$ 555,000</u>		<u>\$ 5,504,320</u>

**Schedule 5**

## City of Fairfield

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

For the Last Three Years

	2005	2004	2003
Receipts:			
Property tax	\$ 3,037,373	2,852,293	3,088,534
Tax increment financing	230,189	411,499	316,671
Other city tax	914,871	1,037,115	959,462
Licenses and permits	24,228	15,800	14,960
Use of money and property	107,630	80,340	38,694
Intergovernmental	2,758,221	1,012,520	2,255,519
Charges for service	337,963	316,174	321,895
Special assessments	33,834	59,290	51,290
Miscellaneous	192,099	317,859	170,190
	<hr/>		
Total	\$ 7,636,408	6,102,890	7,217,215
	<hr/>		
Disbursements:			
Operating:			
Public safety	\$ 1,751,741	2,035,789	2,006,603
Public works	898,017	900,369	871,806
Health and social services	12,220	9,720	6,683
Culture and recreation	1,444,278	1,289,611	1,305,919
Community and economic development	85,867	163,464	101,835
General government	342,499	346,384	306,993
Non-program	-	-	36,722
Debt service	901,981	942,223	1,104,910
Capital projects	2,527,712	783,568	2,101,125
	<hr/>		
Total	\$ 7,964,315	6,471,128	7,842,596
	<hr/>		

See accompanying independent auditor's report.

City of Fairfield  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2005

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Agriculture:			
Commodity Loans and Loan Deficiency Payments	10.051	ID 42 6004655	\$ 7,542
U.S. Department of Housing and Urban Development - Office of Housing:			
Section 8 Housing Assistance Payments Program - Special Allocations	14.195	IA050008008	103,243
U.S. Department of Transportation:			
Federal Aviation Administration:			
Airport Improvement Program	20.106	3-19-0033-07-2004	768,514
Airport Improvement Program	20.106	3-19-0033-08-2005	196,701
			965,215
Total direct			1,076,000
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program	14.228	05-HSG-002	1,190
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-U-2465(610)-70-51	284,473
Highway Planning and Construction	20.205	STP-U-2465(609)-70-51	173,149
Highway Planning and Construction	20.205	STP-E-2465(607)-8V-51	123,537
			581,159
Total indirect			582,349
Total			\$ 1,658,349

**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  
Des Moines, Iowa 50319-0004

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

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairfield, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 19, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Fairfield's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 reportable 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 caused by error or fraud 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-05 and II-B-05 are material weaknesses.

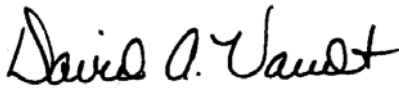
Compliance and Other Matters

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

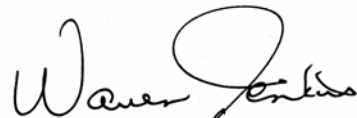
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions 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.

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

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



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 19, 2006

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



**City of Fairfield**



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

To the Honorable Mayor and  
Members of the City Council:

Compliance

We have audited the compliance of the City of Fairfield, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2005. 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 grant agreements applicable to 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, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Fairfield's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Fairfield's compliance with those requirements.

As described in item III-A-05 in the accompanying Schedule of Findings and Questioned Costs, the City of Fairfield did not comply with requirements regarding reporting applicable to its Airport Improvement Program. Compliance with such requirements is necessary, in our opinion, for the City of Fairfield to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Fairfield complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended June 30, 2005.

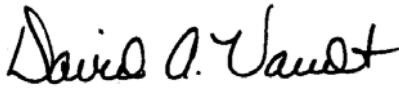
Internal Control Over Compliance

The management of the City of Fairfield is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Fairfield's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

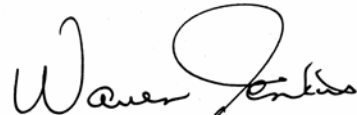
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance 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 grant agreements. Reportable conditions are described as items III-B-05 and III-C-05 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable 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 grant agreements caused by error or fraud 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 that none of the reportable conditions described above are 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 19, 2006

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

**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) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, none of which were considered material weaknesses.
- (e) The independent auditor's report on compliance for major programs expressed an unqualified opinion for CFDA #20.205 and a qualified opinion due to non-compliance with reporting requirements for CFDA #20.106.
- (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 20.205 – Highway Planning and Construction.
- (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, 2005

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

II-A-05 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 on 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 – Duties are segregated as much as practical. With the small number of staff assigned to accounting and collections it is very difficult to completely segregate duties but we try to rotate duties to the extent that it is practical.

Conclusion – Response accepted.

II-B-05 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.

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.

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

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

In addition, control activities at Logan Apartments should be reviewed to obtain the maximum internal control possible under the circumstances.

Response – Both the independent Library funds and the Logan Apartments Deposit fund are reported to the City Council monthly. Annual independent audit reviews are done on all of these funds. The Library Board of Trustees desires to maintain control of their independent funds. Some of these funds may be transferred to the Library Foundation which is also included under the City's financial statements.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

The Logan Apartment Deposit Fund may be incorporated into the City's accounting system or may be eliminated altogether and included with the overall Logan Apartments operating fund.

Conclusion – Response acknowledged. Pursuant to Chapter 392.5 of the Code of Iowa, the Library Board of Trustees may continue to maintain control over these funds. However, in order to comply with the requirements of Chapter 384.20 of the Code of Iowa, the Board should provide monthly financial reports to the City. The Library Memorial, Library Building and Library Endowment funds should be reflected in the City's monthly and annual financial statements.

II-C-05 Electronic Data Processing Systems – The following weaknesses in the City's computer-based systems were noted:

The City does not have written policies for:

- Requiring password changes because software does not require the user to change logins/passwords periodically.
- 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-05 Revolving Account – The City maintains a revolving account for miscellaneous receipt and disbursement recording. A true revolving account should have a balance of zero as only funds receipted in are then disbursed out. The City's revolving account has a deficit balance of \$101,162 at June 30, 2005. 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 account has a deficit balance and make corrective transfers to correctly reflect the fund balance as zero. The City should then close the fund and record the receipt and disbursement activity in the appropriate governmental fund.

Response – Work is continuing to determine the appropriate funds that need to be transferred from. The account will be eliminated as these funds are identified. Charges against this account are no longer allowed.

Conclusion – Response acknowledged. The deficit in the revolving account increased from fiscal 2004 to June 30, 2005. The City should resolve this deficit balance and close this account prior to June 30, 2006.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

II-E-05 Fairfield Park and Recreation Foundation – The Fairfield Park and Recreation Foundation (Foundation) was established in March 2004 to raise funds for playground equipment for parks within the City of Fairfield. Although the Foundation maintains a listing of all donations received, no receipt procedures have been established to account for fundraising activities.

Recommendation – The Fairfield Park and Recreation Foundation should establish receipt procedures to account for fundraising activities.

Response – The City Finance Office will work with the Foundation to establish appropriate procedures.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

**CFDA Number 20.106 – Airport Improvement Program  
Federal Award Year: 2005  
Federal Aviation Administration**

III-A-05 Federal Reporting – The Federal Aviation Administration requires an SF-271 – Outlay Report and Request for Reimbursement for Construction Program report to be submitted with each drawdown requested. During the year ended June 30, 2005, the City drew down funds three times and did not complete the required SF-271 reports.

Recommendation – The City should develop procedures to ensure the SF-271 report is completed for each drawdown requested.

Response – The required forms have been completed and submitted to the FAA. The FAA has indicated that the required reports have been filed and are acceptable. The appropriate forms and supporting documentation will be submitted to the FAA as future drawdown requests are made.

Conclusion – Response accepted.

**REPORTABLE CONDITIONS:**

**CFDA Number 20.106 – Airport Improvement Program  
Federal Award Year: 2005  
Federal Aviation Administration**

**CFDA Number 20.205 – Highway Planning and Construction  
Pass-through Agency Number: None  
Federal Award Year: 2005  
Department of Transportation  
Passed through the Iowa Department of Transportation**

III-B-05 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-05.

**CFDA Number 20.106 – Airport Improvement Program  
Federal Award Year: 2005  
Federal Aviation Administration**

III-C-05 Change Orders – Change orders for the Airport Improvement Project were not always approved by the City Council.

Recommendation – All change orders should be approved by the City Council.

Response – In the future change orders will be submitted to the City Council. This will include those where contract quantities and price are being reduced.

Conclusion – Response accepted.



City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

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

IV-A-05 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, 2005.

IV-B-05 Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the culture and recreation and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The Debt Service function was exceeded due to a failure to count the bond registration fees as part of the certified budget. This oversight has been corrected. All other functions will be amended if necessary during a fiscal year.

Conclusion – Response accepted.

IV-C-05 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

IV-D-05 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-05 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-F-05 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-G-05 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

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

Recommendation – The City should publish minutes as required.

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

Conclusion – Response accepted.

IV-H-05 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.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

IV-I-05 Financial Condition – At June 30, 2005, the City had deficit balances in the following accounts:

Fund/Account	Amount
General:	
Revolving	\$ (101,162)
Debt Service	(9,720)
Capital Projects:	
Civic Center	(323,606)
Recreation Trails	(372,950)
Walton Lake Subdivision	(428,192)
Madison and Grimes	(249,965)
2000 RISE Project	(69,266)
Airport Apron	(83,464)
Forth Street Traffic Signals	(55,942)
Bypass Forcemain Relocation	(53,466)
Bypass Cross Interceptor Relocation	(41,580)
Bypass Crow Creek Relocation	(52,971)
Bypass Water Main Relocation	(177,950)
Runway 18/36 Phase I	(310,945)
Runway 18/36 Phase II	(352)
CDBG	(1,248)
Enterprise:	
Water-State Revolving	(278,130)
Water Sinking	(256,110)
Sewer Utility	(120,657)
Sewer Utility Replacement	(155,045)

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

Response – Most of these funds involve capital projects that will be financed by general obligation bonds the City plans to issue in the spring of 2006. For those funds not involved with long term financing appropriate transfers will be made during the current fiscal year.

Conclusion – Response accepted.

IV-J-05 Chart of Accounts – In January 2003, the City adopted the revised Uniform City Chart of Accounts for reporting purposes. However, as of June 30, 2005, 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 – Training continues with the new GASB 34 software. The goal is to have implemented the new, supplemental reporting system by June 30, 2006. The existing accounting software will continue to be utilized in addition to the GASB 34 reporter program.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

- IV-K-05 Water Revenue Capital Loan Notes – The City has not made the required transfers to the water sinking and reserve accounts as required by the note resolution.

Recommendation – The City should make the required transfers.

Response – Separate water sinking and water reserve accounts have been established as of December 2005. With the assistance of the field auditor the amounts necessary have been determined and appropriate transfers made to account for the covenants of the loan note. Monthly transfers are being recorded properly as of January 2006.

Conclusion – Response accepted.

- IV-L-05 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, 2005.

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

Response – The Water Department accounting office and Finance Office have been advised of this and are in the process of determining funds that are required to be reported.

Conclusion – Response accepted.

- IV-M-05 Vehicle Usage – Vehicles provided to City employees for personal use, including commuting, are considered a non-cash taxable fringe benefit and must be reported as taxable wages to the employee. Four employees of the City are currently provided a vehicle for personal use, including commuting, but a non-cash taxable fringe benefit is not reported as taxable wages to the employee.

Recommendation – The City should develop procedures to ensure that non-cash taxable fringe benefits are reported as taxable wages to employees.

Response – The City will review its current vehicle policies and either make the appropriate taxable wage report or discontinue providing vehicles to employees even when it is for the benefit of the City.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

IV-N-05 Other Information Required by Bond Resolutions –

Account Requirements – Except as noted, 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, 2005:

Insurer	Description	Amount	Expiration Dates
Iowa Communities Assurance Pool	Property	\$ 34,447,361	Nov 1, 2005
Iowa Communities Assurance Pool	General Liability	5,000,000	Nov 1, 2005
	General Liability - Logan Apartments	2,000,000	
	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, 2005
EMC Insurance Co.	Surety Bond Coverage - Blanket	300,000	Jan 1, 2006
Old Republic Insurance Co.	Airport Bodily Injury	5,000,000	Mar 13, 2006

Statistical Information:

Number of customers at June 30, 2005:	4,628
	<u>Rate Per</u>
	<u>Cubic Foot</u>
Water Rate Schedule – Monthly	
Monthly account fee (all meter sizes)	\$ 7.00
0 –1,500 Cubic Feet / month	0.0245
1,500 - 10,000 Cubic Feet / month	0.02205
10,000 – 50,000 Cubic Feet / month	0.0196
above 50,000 Cubic Feet / month	0.01715

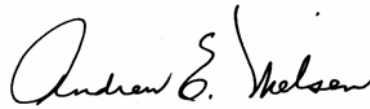
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City of Fairfield

Staff

This audit was performed by:

Michelle B. Meyer CPA, Manager  
Kathleen S. Caggiano, Senior Auditor  
Daniel L. Grady, Assistant Auditor  
Nickolas J. Schaul, 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