



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

May 17, 2010

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 \$12,297,007 for the year ended June 30, 2009, a less than one percent increase over 2008. The receipts included \$3,949,454 in property tax, \$332,517 from tax increment financing, \$3,891,659 from charges for service, \$1,388,462 from operating grants, contributions and restricted interest, \$814,302 from capital grants, contributions and restricted interest, \$834,024 from local option sales tax, \$124,780 from hotel/motel tax, \$40,934 from unrestricted interest on investments, \$500,000 from note proceeds and \$420,875 from other general receipts.

Disbursements for the year totaled \$12,529,331, a 4.8 percent decrease from 2008, and included \$1,913,794 for capital projects, \$1,761,035 for public safety, \$1,626,771 for culture and recreation and \$1,245,752 for debt service. Also, disbursements for business type activities totaled \$4,456,849.

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

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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, 2009

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City of Fairfield

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Edward Malloy	Mayor	Jan 2012
Myron Gookin	Council Member/Mayor Pro tem	Jan 2010
Martha Norbeck	Council Member	Jan 2010
John F. Revolinski	Council Member	Jan 2010
Ron Adam	Council Member	Jan 2012
Daryn Hamilton	Council Member	Jan 2012
Ray Mottet	Council Member	Jan 2012
Susan Silvers	Council Member	Jan 2012
John Brown	City Administrator	Resigned Nov 2009
Joy Messer	City Clerk	Indefinite
John Morrissey	City Attorney	Indefinite

City of Fairfield



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairfield, Iowa, as of and for the year ended June 30, 2009, 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.

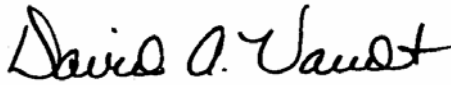
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

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, 2009, 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.

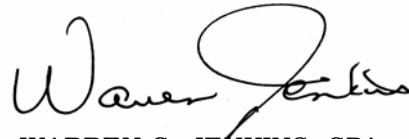
In accordance with Government Auditing Standards, we have also issued our report dated April 26, 2010 on our consideration of the City of Fairfield's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairfield's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2008 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 26, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Fairfield provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 6.3%, or approximately \$560,000, from fiscal year 2008 to fiscal year 2009. The decrease is primarily due to various capital projects winding down, which resulted in a decrease in grant funds of approximately \$1,674,000. Also, the City issued \$500,000 in general obligation anticipation notes and property and other City tax receipts increased approximately \$410,000.
- Governmental activities disbursements decreased 14.5%, or approximately \$1,373,000, in fiscal year 2009 from fiscal year 2008. Capital projects disbursements decreased approximately \$1,883,000 due to various capital projects winding down. Also, debt service disbursements increased approximately \$230,000 as debt payments increased during fiscal year 2009.
- The City's total cash basis net assets decreased approximately \$232,000 from June 30, 2008 to June 30, 2009. Of this amount, the net assets of the governmental activities increased approximately \$220,000 and the net assets of the business type activities decreased approximately \$452,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness. 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 which helps answer this question.

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

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

- Governmental Activities include public safety, public works, health and social services, 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, yard waste collection, airport hanger and Logan Apartments. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

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

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

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

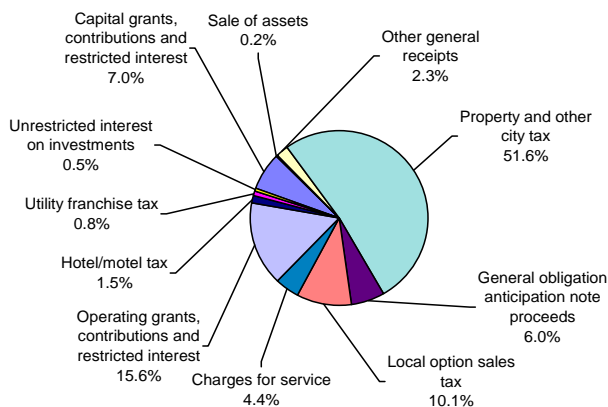
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

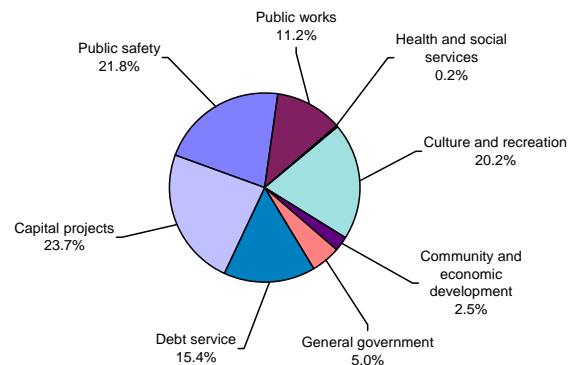
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$587,962 to \$807,716. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2009	2008
Receipts:		
Program receipts:		
Charges for service	\$ 362	359
Operating grants, contributions and restricted interest	1,292	1,106
Capital grants, contributions and restricted interest	580	2,254
General receipts:		
Property and other city tax	4,282	3,872
Local option sales tax	834	796
Hotel/motel tax	125	127
Utility franchise tax	69	69
Unrestricted interest on investments	41	83
General obligation anticipation note proceeds	500	-
Sale of assets	20	68
Other general receipts	187	118
Total receipts	8,292	8,852
Disbursements:		
Public safety	1,761	1,627
Public works	906	998
Health and social services	13	13
Culture and recreation	1,627	1,490
Community and economic development	200	117
General government	406	388
Debt service	1,246	1,016
Capital projects	1,913	3,796
Total disbursements	8,072	9,445
Change in cash basis net assets before transfers	220	(593)
Transfers, net	-	140
Change in cash basis net assets	220	(453)
Cash basis net assets beginning of year	588	1,041
Cash basis net assets end of year	\$ 808	588

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities were \$8,292,236. The total cost of all programs and services was \$8,072,482. The \$219,754 excess of receipts over disbursements was due, in part, to capital projects disbursements being less than the prior year as projects were winding down during fiscal year 2009.

The cost of governmental activities this year was \$8,072,482. As shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was \$5,838,760 because some of the cost was paid by those directly benefited from the programs (\$362,072) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$1,871,650).

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2009	2008
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 2,002	1,734
Sewer	923	920
Airport hangar	70	72
Logan Apartments	155	128
Yard waste	380	347
Operating grants, contributions and restricted interest	97	77
Capital grants, contributions, and restricted interest	234	-
General receipts:		
Other general receipts	144	111
Total receipts	<u>4,005</u>	<u>3,389</u>
Disbursements:		
Water	2,072	2,116
Sewer	1,422	1,062
Airport hangar	269	14
Logan Apartments	258	153
Yard waste	436	375
Total disbursements	<u>4,457</u>	<u>3,720</u>
Change in cash basis net assets before transfers	(452)	(331)
Transfers, net	-	(140)
Change in cash basis net assets	(452)	(471)
Cash basis net assets beginning of year	<u>1,087</u>	<u>1,558</u>
Cash basis net assets end of year	<u>\$ 635</u>	<u>1,087</u>

Total business type activities receipts for the fiscal year were \$4,004,771 compared to \$3,389,385 last year. This increase was due primarily to an increase in water rates. The cash balance decreased \$452,078 from the prior year. Total disbursements for the fiscal year increased 19.8%, from approximately \$3.7 million in fiscal year 2008 to approximately \$4.5 million in fiscal year 2009 due, in part, to the purchase of a new sewer truck, the purchase of a snow plow for the airport and a new roof and electrical repairs at Logan Apartments.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fairfield completed the year, its governmental funds reported a combined fund balance of \$807,716, an increase of \$219,754 over last year's total of \$587,962. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$616,827 from the prior year to \$774,512. This increase was primarily due to the transfer of \$686,863 from the Capital Projects Fund. This transfer was primarily from the Capital Projects, Civic Center Fund. After the Civic Center debt was retired, the remaining balance of local option sales tax collected could be used for any lawful purpose.
- The Special Revenue, Road Use Tax Fund cash balance increased \$79,473, or 612.6%, to \$92,446. This was primarily due to delays in street work planned for fiscal year 2009.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$56,615, or 55.3%, to \$159,034. Transfers to the Capital Projects Fund during fiscal year 2009 decreased \$81,251 due to the Civic Center debt being retired during fiscal year 2009.
- The Special Revenue, Employee Benefits Fund cash balance increased \$45,208, or 35.8%, to \$171,574. This increase was primarily due to an increase in property tax receipts.
- The Special Revenue, UDAG-FALCO Project Fund cash balance decreased \$25,994, or 7.8%, to \$306,214. The decrease was due to the City continuing its support to the Fairfield Economic Development Association while there was only a small amount of receipts in the fund.
- The Special Revenue, Fairfield Library Foundation Fund cash balance increased \$255,535, or 96.2%, to \$521,092. The increase was due to the Foundation having no disbursements in fiscal year 2009 while receiving \$237,890 in donations.
- The Debt Service Fund cash balance increased \$31,569 to \$67,576, primarily due to higher TIF and special assessment collections, which are transferred to the Debt Service Fund to pay related debt, than originally anticipated during the budget process.
- The Capital Projects Fund cash balance decreased \$806,724 to \$(1,845,381). This decrease is primarily due to ongoing project expenses prior to receiving grant reimbursements or proceeds from the sale of bonds or notes.
- The Permanent, Library Endowment Fund cash balance decreased \$1,578 from the prior year to \$465,733.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$14,710 to \$244,771, primarily due to an increase in water rates.
- The Sewer Fund cash balance decreased \$440,341 to \$201,152, primarily due to the purchase of a new sewer truck and undertaking a systematic study of the sewer system ordered by the Iowa Department of Natural Resources.
- The Airport Hangar Fund cash balance increased \$35,264 to \$186,433, primarily due to the delay of projects planned for fiscal year 2009.

BUDGETARY HIGHLIGHTS

The City amended its budget one time during the year, increasing budgeted disbursements from \$13,078,960 to \$14,468,960, primarily due to capital projects and business type activities.

The City's receipts were \$1,862,764 less than budgeted. This was primarily due to the City not requesting reimbursement for capital projects due to delays in capital project activity.

Total disbursements were \$2,013,481 less than the amended budget. This was due, in part, to delays in capital project activity.

The City exceeded the amount budgeted in the culture and recreation function for the year ended June 30, 2009. Culture and recreation function disbursements exceeded the budget primarily due to the City purchasing and demolishing a house next to the recreation department. This disbursement was not included in the budget. The City is planning on constructing a parking lot for the recreation center.

DEBT ADMINISTRATION

At June 30, 2009, the City had approximately \$14,135,000 in bonds and other long-term debt outstanding, compared to approximately \$15,213,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2009	2008
General obligation bonds	\$ 6,925	7,440
General obligation capital loan notes	1,685	2,010
Water revenue bonds	125	265
Water revenue capital loan notes	4,883	5,047
Local option sales and services tax revenue bonds	-	400
Lease purchase agreements	17	51
General obligation anticipation note	500	-
Total	<u>\$ 14,135</u>	<u>15,213</u>

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 approximately \$9.1 million is significantly below its constitutional debt limit of approximately \$20.4 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The elected and appointed officials of the City of Fairfield considered many factors when setting the fiscal year 2010 budget, tax rates and fees for various City services. One of those factors is the economy. Average unemployment for 2009 in Jefferson County was 7.9% versus 4.4% a year ago. This compares with the State's unemployment rate of 6.0% and the national rate of 9.3%.

These indicators were taken into account when adopting the budget for fiscal year 2010. The tax rate for fiscal year 2010 is \$16.57891 per thousand dollars of taxable valuation. This compares to the tax rate for fiscal year 2009 of \$16.58031 per thousand dollars of taxable valuation. Amounts available for appropriation in the operating budget are approximately \$12.3 million, a decrease of 14.7% from the final fiscal year 2009 budget. Budgeted disbursements are expected to decrease approximately \$2.1 million. This decrease is primarily due to various capital projects which were substantially completed during fiscal year 2009.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$33,000 by the close of fiscal year 2010.

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, 2009

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,761,035	75,475	95,962	-
Public works	906,095	-	796,676	-
Health and social services	13,081	-	-	-
Culture and recreation	1,626,771	261,530	397,477	-
Community and economic development	199,972	13,937	-	-
General government	405,982	11,130	-	-
Debt service	1,245,752	-	-	45,898
Capital projects	1,913,794	-	1,599	534,038
Total governmental activities	8,072,482	362,072	1,291,714	579,936
Business type activities:				
Water	2,072,471	2,001,565	-	-
Sewer	1,422,084	923,289	-	-
Airport hangar	269,043	69,941	-	234,366
Logan Apartments	257,559	155,022	96,748	-
Yard waste	435,692	379,770	-	-
Total business type activities	4,456,849	3,529,587	96,748	234,366
Total	\$ 12,529,331	3,891,659	1,388,462	814,302

General Receipts:

Property and other city tax levied for:
 General purposes
 Debt service
 Employee benefits
 Tax increment financing
 Local option sales tax
 Hotel/motel tax
 Utility franchise tax
 Unrestricted interest on investments
 General obligation anticipation note proceeds
 Sale of capital assets
 Miscellaneous

Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Nonexpendable:
 Permanent fund

Expendable:

Streets
 Local option sales tax
 Employee benefits
 UDAG-FALCO project
 Fairfield Library Foundation
 Debt service
 Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
----------------------------	-----------------------------	-------

(1,589,598)	-	(1,589,598)
(109,419)	-	(109,419)
(13,081)	-	(13,081)
(967,764)	-	(967,764)
(186,035)	-	(186,035)
(394,852)	-	(394,852)
(1,199,854)	-	(1,199,854)
(1,378,157)	-	(1,378,157)
(5,838,760)	-	(5,838,760)

-	(70,906)	(70,906)
-	(498,795)	(498,795)
-	35,264	35,264
-	(5,789)	(5,789)
-	(55,922)	(55,922)

-	(596,148)	(596,148)
(5,838,760)	(596,148)	(6,434,908)

2,293,802	-	2,293,802
974,682	-	974,682
680,971	-	680,971
332,517	-	332,517
834,024	-	834,024
124,780	-	124,780
69,190	-	69,190
40,920	14	40,934
500,000	-	500,000
19,820	-	19,820
187,808	144,056	331,864

6,058,514	144,070	6,202,584
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219,754	(452,078)	(232,324)
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587,962	1,087,182	1,675,144
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\$ 807,716	635,104	1,442,820
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\$ 465,733	-	465,733
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92,446	-	92,446
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159,034	-	159,034
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171,574	-	171,574
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306,214	-	306,214
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521,092	-	521,092
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67,576	673,640	741,216
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94,916	-	94,916
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(1,070,869)	(38,536)	(1,109,405)
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\$ 807,716	635,104	1,442,820
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City of Fairfield

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

As of and for the year ended June 30, 2009

	Special Revenue					Fairfield Library Foundation
	General	Road Use Tax	Local Option Sales Tax	Employee Benefits	UDAG- FALCO Project	
Receipts:						
Property tax	\$ 2,134,557	-	-	680,971	-	-
Tax increment financing	-	-	-	-	-	-
Other city tax	193,970	-	834,024	-	-	-
Licenses and permits	22,741	-	-	-	-	-
Use of money and property	3,383	-	-	-	6	17,605
Intergovernmental	162,792	796,676	-	-	-	-
Charges for service	303,182	-	-	-	-	-
Special assessments	-	-	-	-	-	-
Miscellaneous	245,650	-	-	-	-	237,890
Total receipts	3,066,275	796,676	834,024	680,971	6	255,495
Disbursements:						
Operating:						
Public safety	1,398,562	-	65,307	297,166	-	-
Public works	91,619	717,203	17,500	79,773	-	-
Health and social services	10,300	-	2,781	-	-	-
Culture and recreation	1,310,072	-	87,081	101,327	-	-
Community and economic development	87,387	-	10,809	-	26,000	-
General government	363,349	-	10,448	32,185	-	-
Debt service	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-
Total disbursements	3,261,289	717,203	193,926	510,451	26,000	-
Excess (deficiency) of receipts over (under) disbursements	(195,014)	79,473	640,098	170,520	(25,994)	255,495
Other financing sources (uses):						
General obligation anticipation note proceeds	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-
Operating transfers in	812,175	-	334	-	-	40
Operating transfers out	(334)	-	(583,817)	(125,312)	-	-
Total other financing sources (uses)	811,841	-	(583,483)	(125,312)	-	40
Net change in cash balances	616,827	79,473	56,615	45,208	(25,994)	255,535
Cash balances beginning of year	157,685	12,973	102,419	126,366	332,208	265,557
Cash balances end of year	\$ 774,512	92,446	159,034	171,574	306,214	521,092
Cash Basis Fund Balances						
Reserved for debt service	\$ -	-	-	-	-	-
Unreserved:						
General fund	774,512	-	-	-	-	-
Special revenue funds	-	92,446	159,034	171,574	306,214	521,092
Capital projects fund	-	-	-	-	-	-
Permanent fund	-	-	-	-	-	-
Total cash basis fund balances	\$ 774,512	92,446	159,034	171,574	306,214	521,092

See notes to financial statements.

Debt Service	Capital Projects	Permanent Library Endowment	Nonmajor	Total
974,682	159,245	-	-	3,949,455
-	-	-	332,517	332,517
-	-	-	-	1,027,994
-	-	-	-	22,741
-	1,599	-	66,789	89,382
-	504,354	-	-	1,463,822
-	-	-	-	303,182
45,898	29,684	-	-	75,582
-	1,414	5	22,782	507,741
1,020,580	696,296	5	422,088	7,772,416
-	-	-	-	1,761,035
-	-	-	-	906,095
-	-	-	-	13,081
-	6,000	2,098	120,193	1,626,771
-	-	-	75,776	199,972
-	-	-	-	405,982
1,245,752	-	-	-	1,245,752
-	1,913,794	-	-	1,913,794
1,245,752	1,919,794	2,098	195,969	8,072,482
(225,172)	(1,223,498)	(2,093)	226,119	(300,066)
-	500,000	-	-	500,000
-	19,820	-	-	19,820
294,629	583,817	515	37,888	1,729,398
(37,888)	(686,863)	-	(295,184)	(1,729,398)
256,741	416,774	515	(257,296)	519,820
31,569	(806,724)	(1,578)	(31,177)	219,754
36,007	(1,038,657)	467,311	126,093	587,962
67,576	(1,845,381)	465,733	94,916	807,716
67,576	-	-	-	67,576
-	-	-	-	774,512
-	-	-	94,916	1,345,276
-	(1,845,381)	-	-	(1,845,381)
-	-	465,733	-	465,733
67,576	(1,845,381)	465,733	94,916	807,716

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, 2009

	Enterprise				Total
	Water	Sewer	Airport Hangar	Nonmajor	
Operating receipts:					
Use of money and property	\$ -	-	47,293	144,433	191,726
Charges for service	2,001,565	923,289	-	375,776	3,300,630
Intergovernmental	-	-	234,366	96,748	331,114
Miscellaneous	85,602	58,454	22,648	14,583	181,287
Total operating receipts	2,087,167	981,743	304,307	631,540	4,004,757
Operating disbursements:					
Business type activities	1,558,230	1,102,584	269,043	693,251	3,623,108
Excess (deficiency) of operating receipts over (under) operating disbursements	528,937	(120,841)	35,264	(61,711)	381,649
Non-operating receipts (disbursements):					
Interest on investments	14	-	-	-	14
Capital projects and equipment	(24,281)	(319,500)	-	-	(343,781)
Debt service	(489,960)	-	-	-	(489,960)
Net non-operating receipts (disbursements)	(514,227)	(319,500)	-	-	(833,727)
Excess (deficiency) of receipts over (under) disbursements	14,710	(440,341)	35,264	(61,711)	(452,078)
Cash balances beginning of year	230,061	641,493	151,169	64,459	1,087,182
Cash balances end of year	\$ 244,771	201,152	186,433	2,748	635,104
Cash Basis Fund Balances					
Reserved for debt service	\$ 673,640	-	-	-	673,640
Unreserved	(428,869)	201,152	186,433	2,748	(38,536)
Total cash basis fund balances	\$ 244,771	201,152	186,433	2,748	635,104

See notes to financial statements.

City of Fairfield

Notes to Financial Statements

June 30, 2009

(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

Friends of the Fairfield Library, Fairfield Library Foundation and Fairfield Park and Recreation Foundation were established as non-profit corporations in accordance with Chapter 504A of the Code of Iowa. These non-profit corporations are legally separate from the City but are so intertwined with the City they are, in substance, the same as the City. Their purpose is to benefit the City of Fairfield (the primary government) by soliciting contributions and managing those funds. The funds of these components units are reported as part of the City and blended into the Special Revenue Funds.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Jefferson County Assessor's Conference Board, Jefferson County E911 Joint Service Board and Jefferson County Emergency Management Agency. The City also participates in the Jefferson County Regional Service Agency, a jointly governed organization established pursuant to Chapter 28E of the Code of Iowa.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City and its component units. 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 three categories:

Restricted nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City’s Permanent Fund.

Restricted expendable net assets result when constraints placed on net assets 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 categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for local option sales tax collections.

The Employee Benefits Fund is used to account for the employee benefit tax levy used to fund pension and related employee benefits.

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

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

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

The City reports the following major proprietary funds:

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

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

The Airport Hangar Fund is used to account for hangar rent and maintenance of the airport.

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are 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, 2009, disbursements exceeded the amount budgeted in the culture and recreation function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 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, 2009, the City and its component units had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Mutual Funds	\$ 387,649	365,455	N/A
Money Market	54,577	54,577	N/A
Stocks	720	720	N/A
Corporate Bonds:			
Bank of America	5,006	4,451	Dec 15, 2010
Caterpillar Financial Services	20,000	20,926	Dec 15, 2026

Additionally, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,159 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

Credit risk – The Bank of America corporate bonds carry a rating of A/A2/A. The Caterpillar Financial Services corporate bonds carry a rating of A-/A3/A. The City's investments in the Iowa Public Agency Investment Trust, mutual funds and money market are unrated.

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

(3) Lease-Purchase Agreements

The City has entered into an agreement to lease a dump truck under a non-cancelable capital lease. The following is a schedule of the future minimum lease payments, including interest at 9.21% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2009:

Year ending June 30,	Amount
2010	\$ 11,973
2011	7,270
Total minimum lease payments	19,243
Less amount representing interest	(2,184)
Present value of net minimum lease payments	<u>\$ 17,059</u>

During the year ended June 30, 2009, the City made principal payments of \$33,958 and interest payments of \$3,662 on the above capital lease and an integrated tool carrier capital lease, which was paid off during the year.

(4) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation				Water Revenue				Total	
	Bonds		Capital Loan Notes		Bonds		Capital Loan Notes		Principal	Interest
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest		
2010	\$ 535,000	284,720	335,000	79,310	125,000	7,187	166,000	162,078	1,161,000	533,295
2011	560,000	260,840	250,000	63,475	-	-	304,000	156,682	1,114,000	480,997
2012	585,000	235,800	200,000	51,445	-	-	314,000	146,803	1,099,000	434,048
2013	430,000	209,600	210,000	42,445	-	-	324,000	136,597	964,000	388,642
2014	450,000	192,400	220,000	32,785	-	-	334,000	126,068	1,004,000	351,253
2015-2019	2,545,000	677,400	470,000	33,965	-	-	1,843,000	460,135	4,858,000	1,171,500
2020-2023	1,815,000	147,200	-	-	-	-	1,598,320	140,497	3,413,320	287,697
Total	\$ 6,920,000	2,007,960	1,685,000	303,425	125,000	7,187	4,883,320	1,328,860	13,613,320	3,647,432

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$7,065,000 of water revenue bonds and water revenue capital loan notes issued in May 1995 and February 2003. Proceeds from the bonds and notes provided financing for the construction of water main improvements and extensions. The bonds and notes are payable solely from water customer net receipts and are payable through 2023. Annual principal and interest payments on the bonds and notes are expected to require less than 93 percent of net receipts. The total principal and interest remaining to be paid on the bond and note issues is \$6,344,367. For the current year, total principal and interest paid on the May 1995 and the February 2003 bonds and notes was \$489,960 and total customer net receipts were \$528,937.

The bond and note resolutions require the City to provide for rates to be charged to produce net operating revenues equal to at least 125% and 110% of the principal and interest coming due in each year for the May 1995 and the February 2003 debt issuances, respectively.

Water Revenue Bonds

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate water revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers of 25 percent of the amount required to be deposited in the water revenue bond sinking account shall be made to a water reserve account until \$116,500 is accumulated. At June 30, 2009, the balance in this account was \$116,500.
- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to retire any subordinate obligations and then can be used for any lawful purpose.
- (e) Bonds maturing after June 1, 2005 may be called for redemption and paid before maturity on June 1, 2005 or any interest payment date thereafter.

Water Revenue Capital Loan Notes

On February 13, 2003, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$5,900,000 of water revenue capital loan notes with interest at 3.00% per annum. The agreement requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal waterworks system. The City will receive disbursements from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2009, the City had drawn \$5,796,320 of the \$5,900,000 authorized. Wells Fargo Bank Iowa, N.A. has the remaining \$103,680 held in trust which the City will request when the project has been finalized. An initiation fee of 1% of the authorized borrowing for the water revenue capital loan notes was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee was withheld by the bank from the first proceeds of the water revenue capital loan notes drawn by the City during the year ended June 30, 2004. The final drawdown of \$103,680 will be used to reduce the deficit balance of the SRF project.

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

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to a separate water revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers of 25 percent of the amount required to be deposited in the water revenue note sinking account shall be made to a water reserve account until \$458,340 is accumulated and maintained. At June 30, 2009, the balance in this account was \$483,747.
- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any notes and then can be used for any lawful purpose.

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

Local Option Sales and Services Tax Revenue Bonds

On September 1, 2006, the City issued local option sales and services tax revenue bonds for the purpose of paying costs of land acquisition for the Fairfield Civic Center and providing grant funds to Jefferson County Civic Center, Inc. The City has pledged 70 percent of future local option sales and services tax receipts to repay \$1,030,000 in local option sales and services tax revenue bonds. The bonds are payable solely from the proceeds of the local option sales and services tax received by the City in accordance with Chapter 422B.12(3) of the Code of Iowa. Annual principal and interest payments on the bonds are expected to require less than 52 percent of receipts. For the current year, principal and interest paid and total local option sales and services tax receipts were \$415,000 and \$834,024, respectively. The remaining balance of the notes were redeemed during the year ended June 30, 2009.

(5) General Obligation Anticipation Note

On June 10, 2009, the City issued a \$500,000 general obligation anticipation note to pay the costs of a streetscape and landscaping project in the downtown area. The note bears interest at 4.25% per annum and matured on October 15, 2009. The due date on the note was extended until October 15, 2010. The note is to be repaid through the issuance of long term general obligation debt.

(6) 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.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$126,549, \$114,455 and \$107,639, respectively, equal to the required contributions for each year.

Municipal Fire and Police Retirement System of Iowa – The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing multiple employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by state statute to plan members and beneficiaries. The police department and the full time employees of the fire department for the City participate in this Plan. The Plan issues a publicly available financial report, including financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, Suite 201, West Des Moines, IA 50266.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, can not be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2009, 2008 and 2007 were \$128,106, \$178,084 and \$189,732, respectively, which met the required minimum contributions for each year.

(7) Compensated Absences

City employees accumulate unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2009, primarily relating to the General and Enterprise Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 80,500
Sick Leave	<u>37,800</u>
	<u>\$ 118,300</u>

This liability has been computed based on rates of pay in effect at June 30, 2009. Sick leave is payable when used or, after an employment period of twenty years, upon termination, retirement or death. Accumulated sick leave hours are paid at the rate of one-half upon retirement or death and one-fourth upon termination.

(8) 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 577 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 200 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, 2009 was \$214,980.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in the aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical

damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

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, 2009, 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.

(9) Development Rebate Agreement

In November 2005, the City entered into a development rebate agreement to assist in an urban renewal project. The City agreed to rebate incremental tax paid by the developer in exchange for the construction of Jefferson County Civic Center, Inc., (Civic Center) as set forth in the urban renewal plan. The agreement provides for the exclusion from taxation of the Civic Center for a period of two years during construction. The incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of thirty years beginning with the tax year in which the property tax on the completed value of the Civic Center is first paid. A total of \$75,776 in rebates was made during the year ended June 30, 2009.

(10) Deficit Balances

The Capital Projects Fund, Great Places, Safe Routes to School, Recreation Trails, Sidewalk Improvements, Walton Lake Subdivision, Bypass Forcemain Relocation, Bypass Cross Interceptor Relocation, Bypass Crow Creek Relocation, Bypass Water Main Relocation, Runway 18/36 Phase II, Runway 18/36 Phase III and 2006 Street Project Accounts had deficit balances of \$1,240, \$58,804, \$7,025, \$190,701, \$193,125, \$199,800, \$323,255, \$162,631, \$292,422, \$118,680, \$352,106 and \$27,156, respectively, at June 30, 2009. 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 bonds or notes issued after June 30, 2009.

The Enterprise Funds, Water-State Revolving, Sinking and Utility Accounts had deficit balances of \$278,130, 7,406 and \$296,964, respectively, at June 30, 2009. The Enterprise Fund, Yard Waste Account had a deficit balance of \$49,037 at June 30, 2009 and the City is exploring alternatives to resolve the deficit balance. Also, the City plans to raise water rates during fiscal year 2010.

(11) Interfund Transfers

Transfer To	Transfer From	Amount
General	Special Revenue:	
	Employee Benefits	\$ 125,312
	Capital Projects	686,863
		<u>812,175</u>
Special Revenue:		
Local Option Sales Tax	General	334
Fairfield Library Foundation	Special Revenue:	
	Library Memorial	40
Urban Renewal Tax Increment Financing	Debt Service	37,888
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment Financing	294,629
Capital Projects	Special Revenue:	
	Local Option Sales Tax	583,817
Permanent:	Special Revenue:	
Library Endowment	Library Memorial	515
Total		<u>\$ 1,729,398</u>

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

(12) Contractual Commitments

The City has entered into various construction contracts totaling \$4,931,692. The unpaid contract balances at June 30, 2009 totaled \$1,504,195. These balances will be paid as work on the projects progresses. These construction contracts will be funded with federal grants, local sources and bond or note sales in fiscal year 2010.

(13) Litigation

The City is involved in several lawsuits as of June 30, 2009. The probability of loss, if any, is undeterminable.

(14) Subsequent Event

In March, 2010, the City authorized the issuance of \$4,915,000 of general obligation bonds, Series 2010. The bonds will be used to resurface, reconstruct, patch and seal coat various streets, purchase two fire trucks and a street sweeper and pave two parking lots.

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, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 3,949,455	-	-
Tax increment financing	332,517	-	-
Other city tax	1,027,994	-	-
Licenses and permits	22,741	-	-
Use of money and property	89,382	191,740	59,692
Intergovernmental	1,463,822	331,114	-
Charges for service	303,182	3,300,630	-
Special assessments	75,582	-	-
Miscellaneous	507,741	181,287	243,923
Total receipts	7,772,416	4,004,771	303,615
Disbursements:			
Public safety	1,761,035	-	-
Public works	906,095	-	-
Health and social services	13,081	-	-
Culture and recreation	1,626,771	-	73,852
Community and economic development	199,972	-	-
General government	405,982	-	-
Debt service	1,245,752	-	-
Capital projects	1,913,794	-	-
Business type activities	-	4,456,849	-
Total disbursements	8,072,482	4,456,849	73,852
Excess (deficiency) of receipts over (under) disbursements	(300,066)	(452,078)	229,763
Other financing sources, net	519,820	-	555
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	219,754	(452,078)	230,318
Balances beginning of year	587,962	1,087,182	798,221
Balances end of year	\$ 807,716	635,104	1,028,539

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
3,949,455	3,843,921	3,843,921	105,534
332,517	-	305,000	27,517
1,027,994	1,107,869	1,107,869	(79,875)
22,741	22,730	22,730	11
221,430	370,651	370,651	(149,221)
1,794,936	3,092,205	3,332,205	(1,537,269)
3,603,812	4,075,850	4,225,850	(622,038)
75,582	37,610	52,610	22,972
445,105	70,500	75,500	369,605
<u>11,473,572</u>	<u>12,621,336</u>	<u>13,336,336</u>	<u>(1,862,764)</u>
1,761,035	1,742,393	1,842,393	81,358
906,095	975,101	1,005,101	99,006
13,081	15,800	17,800	4,719
1,552,919	1,364,828	1,414,828	(138,091)
199,972	302,168	342,168	142,196
405,982	396,199	411,199	5,217
1,245,752	1,244,513	1,247,513	1,761
1,913,794	2,619,200	3,369,200	1,455,406
4,456,849	4,418,758	4,818,758	361,909
<u>12,455,479</u>	<u>13,078,960</u>	<u>14,468,960</u>	<u>2,013,481</u>
(981,907)	(457,624)	(1,132,624)	150,717
<u>519,265</u>	<u>1,500</u>	<u>751,500</u>	<u>(232,235)</u>
(462,642)	(456,124)	(381,124)	(81,518)
<u>876,923</u>	<u>540,169</u>	<u>540,169</u>	<u>336,754</u>
<u>414,281</u>	<u>84,045</u>	<u>159,045</u>	<u>255,236</u>

City of Fairfield

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

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 blended unit units and the Permanent Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the budget was amended one time, increasing disbursements by \$1,390,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amount budgeted in the culture and recreation function.

Other Supplementary Information

City of Fairfield

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

As of and for the year ended June 30, 2009

				Special
	Urban Renewal Tax Increment Financing	Live on The Square	Indian Creek Escrow	Library Memorial
Receipts:				
Tax increment financing	\$ 332,517	-	-	-
Use of money and property	-	-	42	18,310
Miscellaneous	-	4,130	-	12,624
Total receipts	332,517	4,130	42	30,934
Disbursements:				
Operating:				
Culture and recreation	-	4,711	-	23,311
Community and economic development	75,776	-	-	-
Total disbursements	75,776	4,711	-	23,311
Excess (deficiency) of receipts over (under) disbursements	256,741	(581)	42	7,623
Other financing sources (uses):				
Operating transfers in	37,888	-	-	-
Operating transfers out	(294,629)	-	-	(555)
Total other financing sources (uses)	(256,741)	-	-	(555)
Net change in cash balances	-	(581)	42	7,068
Cash balances beginning of year	8,858	1,996	16,512	10,651
Cash balances end of year	\$ 8,858	1,415	16,554	17,719
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	\$ 8,858	1,415	16,554	17,719

See accompanying independent auditor's report.

Revenue				
Library Building Trust	Fairfield Public Library House	Friends of the Fairfield Library	Fairfield Park and Recreation Foundation	Total
-	-	-	-	332,517
-	6,350	-	42,087	66,789
-	-	4,453	1,575	22,782
-	6,350	4,453	43,662	422,088
15,487	4,930	3,481	68,273	120,193
-	-	-	-	75,776
15,487	4,930	3,481	68,273	195,969
(15,487)	1,420	972	(24,611)	226,119
-	-	-	-	37,888
-	-	-	-	(295,184)
-	-	-	-	(257,296)
(15,487)	1,420	972	(24,611)	(31,177)
16,752	5,971	1,657	63,696	126,093
1,265	7,391	2,629	39,085	94,916
1,265	7,391	2,629	39,085	94,916

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, 2009

	Enterprise		Total
	Logan Apartments	Yard Waste	
Operating receipts:			
Use of money and property	\$ 144,433	-	144,433
Charges for service	-	375,776	375,776
Intergovernmental	96,748	-	96,748
Miscellaneous	10,589	3,994	14,583
Total operating receipts	251,770	379,770	631,540
Operating disbursements:			
Business type activities	257,559	435,692	693,251
Deficiency of operating receipts under operating disbursements	(5,789)	(55,922)	(61,711)
Cash balances beginning of year	57,574	6,885	64,459
Cash balances end of year	\$ 51,785	(49,037)	2,748
Cash Basis Fund Balances			
Unreserved	\$ 51,785	(49,037)	2,748

See accompanying independent auditor's report.

City of Fairfield
Schedule of Indebtedness
Year ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Street construction	Jan 2, 1958	2.60%	\$ 85,000
Library and street construction	May 1, 1995	5.00-5.60	3,300,000
Essential corporate purpose	Sep 1, 2006	4.00	6,925,000
Total			
General obligation capital loan notes:			
General corporate purpose - series 2001 A	May 1, 2001	4.00-4.80%	\$ 4,330,000
Urban renewal project - series 2001B	May 1, 2001	6.00-6.45	325,000
Total			
General obligation anticipation note	Jun 10, 2009	4.25%	\$ 500,000
Revenue bonds:			
Water	Jun 1, 1977	4.90-5.70%	\$ 1,500,000
Water	May 1, 1995	4.60-5.75	1,165,000
Total			
Water revenue capital loan notes:			
State revolving	Feb 13, 2003 *	3.00%	\$ 5,900,000
Local option sales and services tax revenue bonds	Sep 1, 2006	3.75%	\$ 1,030,000
Capital lease-purchase agreements:			
Integrated tool carrier	Sep 29, 2005	4.25	\$ 96,234
Dump truck	Dec 21, 2006	9.21	47,300
Total			

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

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Principal and Interest Due and Unpaid
5,000	-	-	5,000	-	5,520
645,000	-	150,000	495,000	35,970	-
6,790,000	-	365,000	6,425,000	271,600	-
<u>\$ 7,440,000</u>	<u>-</u>	<u>515,000</u>	<u>6,925,000</u>	<u>307,570</u>	<u>5,520</u>
1,895,000	-	290,000	1,605,000	87,220	-
115,000	-	35,000	80,000	7,362	-
<u>\$ 2,010,000</u>	<u>-</u>	<u>325,000</u>	<u>1,685,000</u>	<u>94,582</u>	<u>-</u>
-	500,000	-	500,000	-	-
25,000	-	25,000	-	7,837	-
240,000	-	115,000	125,000	13,685	-
<u>\$ 265,000</u>	<u>-</u>	<u>140,000</u>	<u>125,000</u>	<u>21,522</u>	<u>-</u>
5,047,320	-	164,000	4,883,320	164,038	-
400,000	-	400,000	-	15,000	-
24,432	-	24,432	-	1,214	-
26,585	-	9,526	17,059	2,448	-
<u>\$ 51,017</u>	<u>-</u>	<u>33,958</u>	<u>17,059</u>	<u>3,662</u>	<u>-</u>

City of Fairfield
Bond and Note Maturities
June 30, 2009

Year Ending June 30,	General Obligation Bonds					General Obligation Capital Loan Notes				
	Library and Street Construction		Essential Corporate Purpose		Total	General Corporate Purpose - Series 2001A		Urban Renewal Project - Series 2001B		Total
	Issued May 1, 1995		Issued Sep 1, 2006			Issued May 1, 2001		Issued May 1, 2001		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2010	5.600%	\$ 155,000	4.000%	\$ 380,000	535,000	4.500%	\$ 295,000	6.40%	\$ 40,000	335,000
2011	5.600	165,000	4.000	395,000	560,000	4.500	210,000	6.45	40,000	250,000
2012	5.600	175,000	4.000	410,000	585,000	4.500	200,000	-	-	200,000
2013	-	-	4.000	430,000	430,000	4.600	210,000	-	-	210,000
2014	-	-	4.000	450,000	450,000	4.700	220,000	-	-	220,000
2015	-	-	4.000	465,000	465,000	4.750	230,000	-	-	230,000
2016	-	-	4.000	485,000	485,000	4.800	240,000	-	-	240,000
2017	-	-	4.000	510,000	510,000	-	-	-	-	-
2018	-	-	4.000	530,000	530,000	-	-	-	-	-
2019	-	-	4.000	555,000	555,000	-	-	-	-	-
2020	-	-	4.000	580,000	580,000	-	-	-	-	-
2021	-	-	4.000	605,000	605,000	-	-	-	-	-
2022	-	-	4.000	630,000	630,000	-	-	-	-	-
2023	-	-	-	-	-	-	-	-	-	-
Total		<u>\$ 495,000</u>		<u>\$ 6,425,000</u>	<u>6,920,000</u>		<u>\$ 1,605,000</u>		<u>\$ 80,000</u>	<u>1,685,000</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	
Issued May 1, 1995		Notes - State Revolving	
Issued May 1, 1995		Issued Feb 13, 2003	
Interest Rates	Amount	Interest Rates *	Amount
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>\$ 125,000</u>		<u>\$ 4,883,320</u>

Schedule 5

City of Fairfield

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

For the Last Seven Years

	2009	2008	2007	2006	2005	2004	2003
Receipts:							
Property tax	\$ 3,949,455	3,639,821	3,350,952	3,236,344	3,037,373	2,852,293	3,088,534
Tax increment financing	332,517	232,613	210,355	229,701	230,189	411,499	316,671
Other city tax	1,027,994	991,721	968,336	911,782	914,871	1,037,115	959,462
Licenses and permits	22,741	29,359	21,441	27,043	24,228	15,800	14,960
Use of money and property	89,382	88,133	104,655	45,527	107,630	80,340	38,694
Intergovernmental	1,463,822	3,217,212	4,965,682	2,635,955	2,758,221	1,012,520	2,255,519
Charges for service	303,182	292,480	323,930	346,434	337,963	316,174	321,895
Special assessments	75,582	44,482	51,081	27,614	33,834	59,290	51,290
Miscellaneous	507,741	248,944	284,838	197,893	192,099	317,859	170,190
Total	\$ 7,772,416	8,784,765	10,281,270	7,658,293	7,636,408	6,102,890	7,217,215
Disbursements:							
Operating:							
Public safety	\$ 1,761,035	1,626,961	1,570,831	1,589,215	1,751,741	2,035,789	2,006,603
Public works	906,095	997,862	942,597	977,938	898,017	900,369	871,806
Health and social services	13,081	12,786	17,801	9,720	12,220	9,720	6,683
Culture and recreation	1,626,771	1,490,126	1,591,083	1,536,035	1,444,278	1,289,611	1,305,919
Community and economic development	199,972	116,881	100,958	107,223	85,867	163,464	101,835
General government	405,982	387,699	374,948	397,803	342,499	346,384	306,993
Non-program	-	-	-	-	-	-	36,722
Debt service	1,245,752	1,016,258	1,116,957	901,491	901,981	942,223	1,104,910
Capital projects	1,913,794	3,796,689	7,085,671	3,845,328	2,527,712	783,568	2,101,125
Total	\$ 8,072,482	9,445,262	12,800,846	9,364,753	7,964,315	6,471,128	7,842,596

See accompanying independent auditor's report.

City of Fairfield
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2009

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Housing and Urban Development - Office of Housing:			
Section 8 Housing Assistance Payments Program	14.195	IA050008008	\$ 96,748
U.S. Department of Transportation:			
Federal Aviation Administration:			
Airport Improvement Program	20.106	3-19-0033-08-2005	73,090
Airport Improvement Program	20.106	3-19-0033-09-2006	54,313
Airport Improvement Program	20.106	3-19-0033-11-2008	234,366
			<u>361,769</u>
U.S. Department of Homeland Security:			
Assistance to Firefighters Grant	97.044	ENW-2008-FO-05628	81,558
Total direct			<u>540,075</u>
Indirect:			
U.S. Department of Housing and Urban Development: Iowa Department of Economic Development:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	05-HSG-002	96,129
U.S. Department of Justice - Office of Juvenile Justice and Delinquency Prevention:			
Iowa Department of Human Rights:			
Enforcing Underage Drinking Laws Program	16.727	08-JD07-F08	1,440
U.S. Department of Transportation: Iowa Department of Transportation:			
Highway Planning and Construction	20.205	SRTS-U-2465(612)--8U-51	106,280
National Highway Traffic Safety Administration: Iowa Department of Public Safety:			
Governor's Traffic Safety Bureau:			
Safety Belt Performance Grant	20.609	08-157, Task 64	200
Safety Belt Performance Grant	20.609	09-406, Task 59	2,366
			<u>2,566</u>
Total indirect			<u>206,415</u>
Total			<u>\$ 746,490</u>

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

See accompanying independent auditor's report.

City of Fairfield



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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

To the Honorable Mayor and
Members of the City Council:

We have audited 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, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated April 26, 2010. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-09, II-B-09, II-C-09, II-D-09 and II-F-09 are material weaknesses.

Compliance and Other Matters

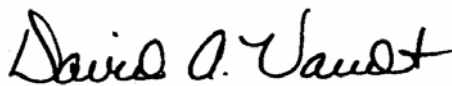
As part of obtaining reasonable assurance about whether the City of Fairfield's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and 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, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.


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

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 26, 2010

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

City of Fairfield



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Fairfield, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. 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 each of its major federal programs is the responsibility of the City of Fairfield's management. Our responsibility is to express an opinion on the City of Fairfield's compliance based on our audit.

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

In our opinion, the City of Fairfield complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

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

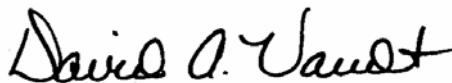
Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed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

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-09 to be a significant deficiency.

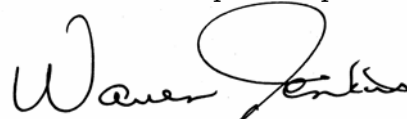
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. We do not consider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

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 26, 2010

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

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

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over a major program, CFDA Number 20.106, was disclosed by the audit of the financial statements, which is not considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were:
 - 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, 2009

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-09 Initial List of Receipts – An initial listing of receipts is not prepared by the mail opener prior to forwarding the checks to the bookkeeper for receipt processing and deposit preparation.

Recommendation – The mail opener should prepare an initial listing of receipts and, after the receipts have been processed and the deposit has been prepared by the bookkeeper, an independent person should reconcile the initial listing against the deposit.

Response – We will start having the mail opener prepare an initial list of checks and then occasionally compare the list to a deposit.

Conclusion – Response acknowledged. However, the mail opener should be independent of the person preparing the receipt and making the bank deposit.

II-B-09 Bank Reconciliations – Although the City prepares monthly financial reports which include City fund/account activity and are presented to the City Council for its review and approval, monthly reconciliations of the fund balances to the bank account balances were not prepared.

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

Response – We have closed all the other accounts and money markets to reconcile the bank statement to the treasurer's report.

Conclusion – Response accepted.

II-C-09 Logan Apartments – The City owns an apartment complex with forty-seven units. The following were noted:

- 1) The bookkeeping and custody of the Enterprise, Logan Apartments Deposit account certificate of deposit is under the control of the Manager of Logan Apartments in a location separate from the Clerk's office. This account is not reflected in the City's books. This matter was resolved for audit purposes.
- 2) Duties are not segregated as the Manager prepares the tenant certifications, prepares housing assistance payment requests, collects rent, reconciles the rent receivable each month, collects and refunds security deposits and performs other accounting duties for the apartments.
- 3) A current listing of security and pet deposits by tenant is not prepared and maintained.

Recommendation – Control activities for Logan Apartments should be reviewed to obtain the maximum internal control possible under the circumstances. A listing

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

of rent receipt should be prepared. Also, prenumbered receipts should be issued for all cash collections. The receipt listing and prenumbered receipts should be reconciled each month to rent deposits per the City's records and rent receivables and should be reviewed by an independent person. In addition, a log of security and pet deposits by apartment should be maintained and reconciled to the City's records periodically by an independent person. Also, rent owed each month versus rent collected as well as rent receivables should be reconciled monthly and reviewed by an independent person.

Response – We will ask the Logan Apartments Manager for a listing of the rent receipts to reconcile it to the deposit.

Conclusion – Response acknowledged. The City should review records maintained and include other City personnel to provide segregation of duties for the Logan Apartments. Also, a record of security and pet deposits by tenant should be prepared and maintained.

II-D-09 Parks and Recreation Receipts Process – On January 12, 2009, the Office of Auditor of State released a special investigation report relating to the Parks and Recreation Department. During a follow-up of the Parks and Recreation Department receipt process, the following were noted:

- 1) A receipt log of all Parks and Recreation receipts is prepared in the department. However, an independent reconciliation is not performed to ensure all receipts per the receipt log were deposited by the City.
- 2) Certain locations use a cash register to receipt admissions and concession sales. The cash register tapes are not reconciled to the receipts log maintained at the Parks and Recreation department by an independent person.
- 3) Prenumbered receipts are used only upon request of the payee or when a credit card is used.

Recommendation - The City should consider developing procedures for the following:

- 1) On a periodic basis, an independent person should reconcile the receipt log/deposit listing to the City Hall receipt confirmation and evidence this review by initialing the reconciliation.
- 2) An independent person should reconcile the cash register tapes to the log and evidence the reconciliation by initialing the log.
- 3) Prenumbered receipts should be issued for all collections which are not recorded through a cash register. On a periodic basis, a person independent of the receipt process should reconcile prenumbered receipts issued to deposits.

Response – Several staff changes have been made and we feel the inadequacies in the bookkeeping system have been corrected. It will be a continuing process.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

- II-E-09 Electronic Data Processing Systems – The City does not have a written policy to require users to use screen saver passwords to protect personal computers (PCs) during the day when left unattended.

Although there is a written policy for maintaining password privacy and confidentiality, it has a provision which can allow the City Administrator or other authorized personnel to require an employee to share their password.

Back-up tapes were not stored off site during fiscal year 2009. Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop a policy to require users to put in place a screen saver password to protect PCs during the day when left unattended.

To improve the City's control over its computer-based systems, the City should revise the written policy addressing password privacy to not allow the sharing of passwords.

The City should store back-up tapes off site as well as develop a disaster recovery plan

Response – Almost all of our PCs do have screen saver passwords at this time. We will work on a policy addressing the sharing of passwords and developing a disaster recovery plan. We are presently taking a back-up tape off site.

Conclusion – Response accepted.

- II-F-09 Financial Reporting – Significant amounts of interest were not recorded in the City's financial statements. Adjustments were subsequently made by the City to properly transfer funds and include these amounts in the financial statements.

Recommendation – The City should implement procedures to ensure interest is identified and included in the City's financial statements.

Response – We have made journal entries to correct this problem.

Conclusion – Response accepted.

- II-G-09 Special Assessments – The City has various sidewalk improvements projects. The City issued debt for some of the projects and did not issue debt for other projects. The City issued special assessments to the property owners to pay for these sidewalk improvements.

All of the special assessment receipts from property owners were recorded in the Debt Service Fund for the repayment of debt. However, some of the receipts should have been recorded in the Capital Projects, Sidewalk Projects Fund.

Recommendation – The City should record special assessment receipts in the Debt Service Fund for the projects for which the City issued debt and the remainder should be recorded in the Capital Projects, Sidewalk Projects Fund. The City should contact the County Treasurer to obtain this information.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Response – The City has already talked to the County Treasurer and she is separating the sidewalk assessments from the paving assessments. The sidewalk assessments will be receipted to the Capital Projects, Sidewalk Projects Fund.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

CFDA Number 20.106: Airport Improvement Program

Federal Award Year: 2005, 2006

U.S. Department of Transportation

III-A-09 Airport Improvement Program Reports – Although the City has obtained reimbursement for the various phases of the Airport Improvement Projects through the use of the federal Electronic Clearing House Operation system, the City has not filed the required SF 271 reports, “Outlay Report and Request for Reimbursement for Construction Programs” for Phases II and III.

Recommendation – The City should develop procedures to ensure these reports are completed and submitted, as required.

Response – The City will develop a procedure to file the required report in the future.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-09 Certified Budget – Disbursements during the year ended June 30, 2009 exceeded the amount budgeted in the culture and recreation function. 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 budget should have been amended. We will attempt to ensure the budget is amended sufficiently in the future.

Conclusion – Response accepted.

IV-B-09 Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived has not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Cookies from the Heart	Cookies for an employee holiday party	\$ 66
Pizza Ranch	Pizza for an employee holiday party	210
Hy Vee Food Store	Refreshments for Breakfast Before Business function at library	75
Fairfield Flower Shop	Wreath for police memorial service	50
Hy Vee Drug Store	Flowers for reserve officer’s funeral	61
Fairfield Flower Shop	Flowers for an individual helping with and a prize for a potluck at Logan Apartments	34
Catering Unlimited	Thanksgiving meal catered for Logan Apartment residents	544

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

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

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Response – The City Council does give permission for these payments. However, we will work on a written policy to cover these expenses.

Conclusion – Response accepted.

IV-C-09 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-09 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-E-09 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-09 Council Minutes – Except as noted below, no transactions were found that we believe should have been approved in the Council minutes but were not.

Certain disbursements tested were not approved by the Council and were not listed in the minutes.

A notice of bid was not published for one construction contract as required by Chapter 26.3 of the Code of Iowa. Also, a public hearing was not held prior to entering into two construction contracts as required by Chapter 26.12 of the Code of Iowa.

A public hearing was not held prior to the issuance of a \$500,000 anticipation note as required by Chapter 73A.12 of the Code of Iowa.

Recommendation – The Council should ensure all bills are approved and recorded in the minutes. Also, the Council should ensure a public hearing is held prior to the issuance of indebtedness and public hearings are held as required for bid letting and awarding of construction contracts.

Response – In the future, all claims will be approved by the Council and listed in the minutes. The City will also keep in close contact with project engineers to make sure public hearings are held. In addition, the City will hold public hearings in the future for all construction warrants.

Conclusion – Response accepted.

IV-G-09 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, 2009

IV-H-09 Financial Condition – At June 30, 2009, the City had deficit balances in the following accounts:

Fund/Account	Amount
Capital Projects:	
Great Places	\$ (1,240)
Safe Routes to School	(58,804)
Recreation Trails	(7,025)
Sidewalk Improvements	(190,701)
Walton Lake Subdivision	(193,125)
Bypass Forcemain Relocation	(199,800)
Bypass Cross Interceptor Relocation	(323,255)
Bypass Crow Creek Relocation	(162,631)
Bypass Water Main Relocation	(292,422)
Runway 18/36 Phase II	(118,680)
Runway 18/36 Phase III	(352,106)
2006 Street Project	(27,156)
Enterprise:	
Water-State Revolving	(278,130)
Water-Sinking	(7,406)
Water-Utility	(296,964)
Yard Waste	(49,037)

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

Response – The City is in the process of obtaining resources for several capital projects. The resources will consist of some combination of local sources, grants and bonds or notes issued after June 30, 2009. For the Enterprise, Water Utility Funds, the City plans to raise water rates during fiscal year 2010 and for the Enterprise, Yard Waste Fund the City is exploring alternatives to resolve the deficit balance.

Conclusion – Response accepted.

IV-I-09 Chart of Accounts – In January 2003, the City adopted the revised Uniform City Chart of Accounts for reporting purposes. However, as of June 30, 2009, the computer system has not been converted to the new Chart of Accounts.

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

Response – The City will check into the cost of new software to convert to the revised Uniform City Chart of Accounts.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

IV-J-09 Annual Financial Report – The City’s Annual Financial Report contained material errors and amounts which could not be substantiated.

Recommendation – The Annual Financial Report should be amended to correct material errors and the amounts reported should be substantiated.

Response – The City Administrator left his position on November 30, 2009 so the City Clerk filed the annual report. A corrected report will be filed.

Conclusion – Response accepted.

IV-K-09 Separately Maintained Records – The Special Revenue, Indian Creek Escrow, Library Memorial, Library Building Trust, Fairfield Public Library House and Live on the Square Funds, Proprietary, Logan Apartment Fund certificate of deposit and the Permanent, Library Endowment Fund were not reflected in the City’s accounting system or monthly fund balances.

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 Special Revenue, Indian Creek Escrow, various Library funds and Live on the Square activity, the Proprietary, Logan Apartment Fund certificate of deposit and the Permanent, Library Endowment Fund should be reflected in the City’s monthly financial statements.

Response – We will try to incorporate as many of these funds into the accounting system as possible.

Conclusion – Response acknowledged. All funds should also be included in the City’s monthly financial report.

IV-L-10 Tax Increment Financing (TIF) – The City has certified debt in five urban renewal areas with debt included on the City’s TIF Indebtedness Certification. TIF receipts for all five urban renewal areas are included in one Special Revenue, Urban Renewal Tax Increment Financing Fund of the City and the City does not maintain the receipts and disbursements of each urban renewal area separately.

The City transferred \$256,741 from the Special Revenue, Urban Renewal Tax Increment Financing Fund to the Debt Service Fund to reimburse the Debt Service Fund for the TIF portion of the general obligation notes. However, the TIF portion of the general obligation note principal and interest due in the fiscal year ended June 30, 2009 was \$207,447. Therefore, the City transferred \$49,294 more than was required from the Special Revenue, Urban Renewal Tax Increment Financing Fund to the Debt Service Fund.

The City’s general obligation capital loan notes, series 2001A, is split between three urban renewal areas and a portion which is not TIF related. When the City included the TIF portions on the City’s TIF Indebtedness Certification, the allocation between the three urban renewal areas and the portion which is not TIF related was miscalculated, which resulted in too much TIF debt being included on the City’s TIF Indebtedness Certification for each of the three TIF districts by \$118,270, \$16,370 and 60,667, or a total of \$195,307. The last payment on the notes is due in the fiscal year ending June 30, 2016.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Recommendation – The City should establish subaccounts for the Special Revenue, Urban Renewal Tax Increment Financing Fund to record receipts, disbursements and a fund balance separately for each urban renewal area to match TIF tax collections with the TIF debt paid for each urban renewal area.

The City should only make transfers from the Special Revenue, Urban Renewal Tax Increment Financing Fund to the Debt Service fund for the TIF debt coming due in the fiscal year. Also, the City should transfer \$49,294 from the Debt Service Fund to the Special Revenue, Urban Renewal Tax Increment Financing Fund to reimburse the Special Revenue, Urban Renewal Tax Increment Financing Fund.

The City should complete Form 3 of the TIF Indebtedness Certification to the County Auditor to reduce the TIF indebtedness outstanding for the amounts overcertified.

The City should consult bond counsel to determine the disposition of these issues.

Response – The City will make the transfer of \$49,294 from the Debt Service Fund to the Special Revenue, Urban Renewal Tax Increment Fund. The City will also try to establish subaccounts in the Special Revenue, Urban Renewal Tax Increment Fund. The new City Administrator will complete Form 3 to reduce the TIF indebtedness outstanding for the amounts overcertified.

Conclusion – Response accepted.

IV-M-09 Other Information Required by Bond Resolutions –

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

Insurance – The following insurance policies were in force at June 30, 2009:

Insurer	Description	Amount	Expiration Dates
Iowa Communities Assurance Pool	Property	\$ 40,624,403	Nov 1, 2009
Iowa Communities Assurance Pool	General Liability	10,000,000	Nov 1, 2009
	General Liability - Logan Apartments	10,000,000	
	Officials Liability	10,000,000	
	Automobile Liability	10,000,000	
	Law Enforcement Liability	10,000,000	
Iowa Municipalities Workers Compensation Association	Workers Compensation	1,000,000	Jul 1, 2009
EMC Insurance Co.	Surety Bond Coverage - Blanket	300,000	Jan 1, 2010
Old Republic Insurance Co.	Airport Bodily Injury	5,000,000	Mar 13, 2010

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Statistical Information:

Number of customers at June 30, 2009: 4,777

	Monthly Charge for Meter
Water rate schedule monthly:	
<u>Water Line Size (Inches) for Water Meter:</u>	
1/2" - 5/8"	\$ 7.50
3/4"	8.50
1"	12.00
1 1/2"	20.00
2"	27.00
3"	47.00
4"	67.00
6"	107.00

	Rate Per Cubic Foot
<u>Usage:</u>	
0-1,500 Cubic Feet/Month	\$ 0.03241
1,501 - 10,000 Cubic Feet/Month	0.02919
10,001 - 50,000 Cubic Feet/Month	0.02592
50,001 - 401,100 Cubic Feet/Month	0.02269
over 401,100 Cubic Feet/Month	0.01463

City of Fairfield

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Brian R. Brustkern, CPA, Senior Auditor II
Lori M. Dinville, Staff Auditor
Christina M. Renze, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State