

CITY OF FAIRBANK
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
& SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

June 30, 2004

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City of Fairbank

Officials

<u>Name</u>	<u>Title</u> (Before January 2004)	<u>Term Expires</u>
Maurice Welsh	Mayor	Jan 2004
Mary Kay Frost	Council Member	Jan 2006
Dwayne Suckow	Council Member	Jan 2006
Jason Kayser	Council Member	Jan 2004
Jerry Plaster	Council Member	Jan 2006
Ronald Woods	Council Member	Jan 2004
Ted Vorwald	Utility Superintendent	Jan 2004
Dave Ryan	Assistant Public Works Director	Jan 2004
Marlene Strempeke	City Clerk	Jan 2004
Mary Lou Fink	Treasurer	Jan 2004
Jim Peters	Attorney	Jan 2004
(After January 2004)		
Maurice Welsh	Mayor	Jan 2008
Mary Kay Frost	Council Member	Jan 2006
Dwayne Suckow	Council Member	Jan 2006
Jason Kayser	Council Member	Jan 2006
Jerry Plaster	Council Member	Jan 2008
Ronald Woods	Council Member	Jan 2008
Ted Vorwald	Utility Superintendent	Jan 2005
Dave Ryan	Assistant Public Works Director	Jan 2005
Marlene Strempeke	City Clerk	Jan 2005
Mary Lou Fink	Treasurer	Jan 2005
Jim Peters	Attorney	Jan 2005

Keith Oltrogge CPA
201 East Main Street
Denver IA 50622

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

I 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 Fairbank, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Fairbank's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I 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. I believe my audit provides a reasonable basis for my 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 generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2003.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2003, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Fairbank as of and for the year ended June 30, 2004 on the basis of accounting described in Note 1.

In my 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 Fairbank as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 11, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis- for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, I have also issued my reports dated October 12, 2004 on my consideration of the City of Fairbank's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 19 through 20 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairbank's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2000 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 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 my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A rectangular box containing a handwritten signature in black ink. The signature is cursive and appears to read "Keith Oltrogge".

Keith Oltrogge
Certified Public Accountant

October 12, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Fairbank provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 323.7% or \$1,380,304 from fiscal 2000 to fiscal 2004. Property tax increased \$43,352 and bond proceeds increased \$1,315,000.
- Disbursements increased 405.5%, or \$1,419,468, in fiscal 2004 from fiscal 2000. Capital projects disbursements increased \$1,017,816.
- The City's total cash basis net assets increased 25.8%, or \$208,927 from June 30, 2000 to June 30, 2004. Of this amount, the assets of the governmental activities increased \$206,212 and the assets of the business type activities increased by \$2,715.

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 non-major governmental funds.

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has three kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects 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 statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains five Enterprise Funds to provide separate information for the water, sewer, electric, natural gas and solid waste funds, considered to be major funds of the City.

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

3. Fiduciary funds accounts for the City's Permanent Funds. The permanent funds are trust funds set up for the care of the cemetery.

The City is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The City excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

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 \$315,307 to \$523,065. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year Ended June 30, 2004
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 77,876
Operating grants, contributions and restricted interest	153,670
Capital grants, contributions and restricted interest	160,827
General receipts:	
Property tax	227,998
Local option sales tax	54,052
Grants and contributions not restricted to specific purposes	-
Unrestricted investment earnings	8,607
Loan proceeds	1,315,000
Other general receipts	-
Transfers, net	89,273
Total receipts and transfers	<u>\$ 2,087,303</u>
Disbursements:	
Public safety	\$ 121,972
Public works	116,005
Health and social services	1,600
Culture and recreation	115,074
Community and economic development	416,202
General government	27,545
Debt service	68,187
Capital projects	1,012,960
Total disbursements	<u>\$ 1,879,545</u>
Increase in cash basis net assets	\$ 207,758
Cash basis net assets beginning of year	<u>315,307</u>
Cash basis net assets end of year	<u>\$ 523,065</u>

Changes in Cash Basis Net Assets of Business Type Activities

	Year Ended June 30, 2004
Receipts:	
Program receipts:	
Capital grants, contributions and restricted interest	\$ 2,082
Charges for service:	
Solid waste	48,647
Water	49,708
Sewer	108,411
Natural gas	389,663
Electric	508,585
General receipts:	
Unrestricted interest on investments	15,734
Other general receipts	5,032
Total receipts	\$ 1,127,862
 Disbursements and transfers:	
Solid waste	\$ 46,628
Water	63,744
Sewer	69,868
Natural gas	419,855
Electric	436,443
Transfers	89,273
Total disbursements and transfers	\$ 1,125,811
 Increase in cash balance	 \$ 2,051
 Cash basis net assets beginning of year	 516,177
 Cash basis net assets end of year	 \$ 518,228

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Fairbank completed the year, its governmental funds reported a combined fund balance of \$523,065, an increase of \$207,758 above last year's total of \$315,307.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on November 13, 2003 and resulted in an increase in operating disbursements related to a cost overrun of \$43,476 on various projects. The second amendment was approved on April 29, 2004 to provide for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2004, the City had \$1,652,839 in other long-term debt, compared to \$371,712 last year, as shown below.

Outstanding Debt at Year-End

	June 30,	
	2004	2003
General obligation bonds	\$ -	\$ 30,000
Urban renewal tax increment financing revenue bonds	1,390,100	20,000
Revenue bonds	262,739	321,712
Total	<u>\$ 1,652,839</u>	<u>\$ 371,712</u>

Debt increased as a result of issuing urban renewal tax increment financing revenue bonds for the purpose of defraying a portion of the costs of carrying out urban renewal projects of the City.

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 Marlene Strempe, City Clerk, 116 East Main Street, Fairbank IA 50629-0447.

Basic Financial Statements

City of Fairbank

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

	Program Receipts			
	Disbursements	Charges for Service	Operating Grants, Contributions, & Restricted Interest	Capital Grants, Contributions & Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 121,972	\$ 9,557	\$ 53,204	\$ -
Public works	116,005	1,239	86,702	-
Health and social services	1,600	-	-	-
Culture and recreation	115,074	53,554	13,764	-
Community and economic development	416,202	-	-	-
General government	27,545	13,526	-	-
Debt service	68,187	-	-	-
Capital projects	1,012,960	-	-	160,827
Total governmental activities	\$ 1,879,545	\$ 77,876	\$ 153,670	\$ 160,827
Business type activities:				
Water	\$ 63,744	\$ 49,708	\$ -	\$ -
Sewer	69,868	108,411	-	-
Electric	436,443	508,585	-	-
Natural gas	419,855	389,663	-	-
Solid waste	46,628	48,647	2,082	-
Total business type activities	\$ 1,036,538	\$ 1,105,014	\$ 2,082	\$ -
Total	\$ 2,916,083	\$ 1,182,890	\$ 155,752	\$ 160,827

General Receipts:

Property tax levied for:
 General purposes
 Tax increment financing
 Local option sales tax
 Unrestricted interest on investments
 Loan proceeds
 Miscellaneous
 Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year, as restated

Cash basis net assets end of year

Cash Basis Net Assets

Unrestricted

See notes to financial statements.

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

Governmental Activities	Business Type Activities	Total
\$ -59,211	\$ -	\$ -59,211
-28,064	-	-28,064
-1,600	-	-1,600
-47,756	-	-47,756
-416,202	-	-416,202
-14,019	-	-14,019
-68,187	-	-68,187
-852,133	-	-852,133
<hr/>		
\$ -1,487,172	\$ -	\$ -1,487,172
<hr/>		
\$ -	\$ -14,036	\$ -14,036
-	38,543	38,543
-	72,142	72,142
-	-30,192	-30,192
-	4,101	4,101
<hr/>		
\$ -	\$ 70,558	\$ 70,558
<hr/>		
\$ -1,487,172	\$ 70,558	\$ -1,416,614
<hr/>		
\$ 150,847	\$ -	\$ 150,847
77,151	-	77,151
54,052	-	54,052
8,607	15,734	24,341
1,315,000	-	1,315,000
-	5,032	5,032
89,273	-89,273	-
<hr/>		
\$ 1,694,930	\$ -68,507	\$ 1,626,423
<hr/>		
\$ 207,758	\$ 2,051	\$ 209,809
315,307	516,177	831,484
<hr/>		
\$ 523,065	\$ 518,228	\$ 1,041,293
<hr/>		
\$ 523,065	\$ 518,228	\$ 1,041,293

City of Fairbank

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

As of and for the year ended June 30, 2004

	Special Revenue			
	General	Assisted Living	Urban Renewal Tax Increment	Local Option Sales Tax
Receipts:				
Property tax	\$ 150,315	\$ -	\$ -	\$ -
Tax increment financing collections	-	-	77,151	-
Other city tax	27,381	-	-	27,203
Licenses and permits	1,633	-	-	-
Use of money and property	5,619	-	-	-
Intergovernmental	65,395	-	-	-
Charges for service	44,738	-	-	-
Special assessments	-	-	-	-
Miscellaneous	27,002	-	-	-
Total receipts	\$ 322,083	\$ -	\$ 77,151	\$ 27,203
Disbursements:				
Operating:				
Public safety	\$ 121,972	\$ -	\$ -	\$ -
Public works	14,886	-	-	-
Health and social services	1,600	-	-	-
Culture and recreation	110,427	-	-	-
Community and economic development	-	400,000	16,202	-
General government	27,545	-	-	-
Debt service	-	-	35,967	-
Capital projects	-	-	-	-
Total disbursements	\$ 276,430	\$ 400,000	\$ 52,169	\$ -
Excess (deficiency) of receipts over (under) disbursements	\$ 45,653	\$ -400,000	\$ 24,982	\$ 27,203
Other financing sources (uses):				
Loan proceeds	\$ -	\$ 400,000	\$ -	\$ -
Operating transfers in	7,497	-	80,000	8,515
Operating transfers out	-47,920	-	-54,358	-
Total other financing sources (uses)	\$ -40,423	\$ 400,000	\$ 25,642	\$ 8,515
Net change in cash balances	\$ 5,230	\$ -	\$ 50,624	\$ 35,718
Cash balances beginning of year	50,735	-	76,949	87,859
Cash balances end of year	\$ 55,965	\$ -	\$ 127,573	\$ 123,577

Cash Basis Fund Balances

Reserved:

Debt service

Unreserved:

General fund

Special revenue funds

Capital projects fund

Permanent fund

Total cash basis fund balances

See notes to financial statements.

Capital Projects	Other Non-Major Governmental Funds	Total
\$ -	\$ -	\$ 150,315
-	-	77,151
-	-	54,584
-	-	1,633
3,153	1,623	10,395
91,000	88,275	244,670
-	2,715	47,453
-	-	-
69,827	-	96,829
<u>\$ 163,980</u>	<u>\$ 92,613</u>	<u>\$ 683,030</u>
\$ -	\$ -	\$ 121,972
-	101,119	116,005
-	-	1,600
-	4,647	115,074
-	-	416,202
-	-	27,545
-	32,220	68,187
1,012,960	-	1,012,960
<u>\$ 1,012,960</u>	<u>\$ 137,986</u>	<u>\$ 1,879,545</u>
<u>\$ -848,980</u>	<u>\$ -45,373</u>	<u>\$ -1,196,515</u>
\$ 915,000	\$ -	\$ 1,315,000
62,743	32,812	191,567
-	-16	-102,294
<u>\$ 977,743</u>	<u>\$ 32,796</u>	<u>\$ 1,404,273</u>
\$ 128,763	\$ -12,577	\$ 207,758
-663	100,427	315,307
<u>\$ 128,100</u>	<u>\$ 87,850</u>	<u>\$ 523,065</u>

\$ -

55,965

297,778

128,100

41,222

\$ 523,065

City of Fairbank

Reconciliation of the Statement of Cash
 Receipts, Disbursements and Changes in Cash Balances
 to the Statement of Activities and Net Assets –
 Governmental Funds
 As of and for the year ended June 30, 2004

Total governmental funds cash balances (page 10)	\$ 523,065
<i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i>	
None	<u>-</u>
Cash basis net assets of governmental activities (page 9)	<u>\$ 523,065</u>
Net change in cash balances (page 10)	\$ 207,758
<i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i>	
None	<u>-</u>
Change in cash balance of governmental activities (page 9)	<u>\$ 207,758</u>

City of Fairbank

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

As of and for the year ended June 30, 2004

	Enterprise Funds		
	Solid Waste	Water	Sewer
Operating receipts:			
Use of money and property	\$ -	\$ -	\$ -
Charges for service	48,647	49,708	108,411
Total operating receipts	<u>\$ 48,647</u>	<u>\$ 49,708</u>	<u>\$ 108,411</u>
Operating disbursements:			
Business type activities	\$ 46,628	\$ 63,744	\$ 62,028
Total operating disbursements	<u>\$ 46,628</u>	<u>\$ 63,744</u>	<u>\$ 62,028</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$ 2,019</u>	<u>\$ -14,036</u>	<u>\$ 46,383</u>
Non-operating receipts (disbursements):			
Intergovernmental	\$ 2,082	\$ -	\$ -
Interest on investments	236	455	887
Miscellaneous	-	243	74
Debt service	-	-	-7,840
Total non-operating receipts (disbursements)	<u>\$ 2,318</u>	<u>\$ 698</u>	<u>\$ -6,879</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 4,337</u>	<u>\$ -13,338</u>	<u>\$ 39,504</u>
Other financing sources (uses):			
Operating transfers in	\$ -	\$ 20,000	\$ -
Operating transfers out	-	-2,212	-32,220
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ 17,788</u>	<u>\$ -32,220</u>
Net change in cash balances	\$ 4,337	\$ 4,450	\$ 7,284
Cash balances beginning of year	<u>14,293</u>	<u>5,723</u>	<u>54,850</u>
Cash balances end of year	<u><u>\$ 18,630</u></u>	<u><u>\$ 10,173</u></u>	<u><u>\$ 62,134</u></u>
Cash Basis Fund Balances			
Unreserved	<u>\$ 18,630</u>	<u>\$ 10,173</u>	<u>\$ 62,134</u>
Total cash basis fund balances	<u><u>\$ 18,630</u></u>	<u><u>\$ 10,173</u></u>	<u><u>\$ 62,134</u></u>

See notes to financial statements.

Enterprise Funds		
Electric	Natural Gas	Total
\$ 7,443	\$ -	\$ 7,443
508,585	389,663	1,105,014
<u>\$ 516,028</u>	<u>\$ 389,663</u>	<u>\$ 1,112,457</u>
\$ 436,443	\$ 353,595	\$ 962,438
<u>\$ 436,443</u>	<u>\$ 353,595</u>	<u>\$ 962,438</u>
<u>\$ 79,585</u>	<u>\$ 36,068</u>	<u>\$ 150,019</u>
\$ -	\$ -	\$ 2,082
6,713	-	8,291
1,016	3,699	5,032
-	-66,260	-74,100
<u>\$ 7,729</u>	<u>\$ -62,561</u>	<u>\$ -58,695</u>
<u>\$ 87,314</u>	<u>\$ -26,493</u>	<u>\$ 91,324</u>
\$ 9,842	\$ 30,602	\$ 60,444
-115,285	-	-149,717
<u>\$ -105,443</u>	<u>\$ 30,602</u>	<u>\$ -89,273</u>
\$ -18,129	\$ 4,109	\$ 2,051
391,625	49,686	516,177
<u>\$ 373,496</u>	<u>\$ 53,795</u>	<u>\$ 518,228</u>
<u>\$ 373,496</u>	<u>\$ 53,795</u>	<u>\$ 518,228</u>
<u>\$ 373,496</u>	<u>\$ 53,795</u>	<u>\$ 518,228</u>

City of Fairbank

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets –
Proprietary Funds
As of and for the year ended June 30, 2004

Total enterprise funds cash balances (page 12)	\$ 518,228
<i>Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:</i>	
None	<u>-</u>
Cash basis net assets of business type activities (page 9)	<u>\$ 518,228</u>
Net change in cash balances (page 12)	\$ 2,051
<i>Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:</i>	
None	<u>-</u>
Change in cash balance of business type activities (page 9)	<u>\$ 2,051</u>

City of Fairbank

Notes to Financial Statements

June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Fairbank is a political subdivision of the State of Iowa located in Buchanan and Fayette Counties 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, electric, natural gas, solid waste and sewer utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

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

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund 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 services.

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

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

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

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

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental 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 that are not paid from other funds.

Special Revenue:

The Assisted Living Fund is used to account for the construction of an assisted living unit.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

Local Option Sales Tax is used to account for taxes collected and disbursements.

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

The City reports the following major proprietary funds:

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

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

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Natural Gas Fund accounts for the operation and maintenance of the City's natural gas system.

The Solid Waste Fund accounts for the operation and maintenance of the City's garbage system.

C. Measurement Focus and Basis of Accounting

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

NOTE 2 – DEPOSITS AND INVESTMENTS

The City’s deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$5,772 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

NOTE 3 – BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for urban renewal tax increment financing revenue bonds and revenue notes are as follows:

Year Ending June 30,	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds **		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$125,000	\$35,163	\$61,795	\$11,865	\$186,795	\$47,028
2006	125,000	35,838	64,771	8,889	189,771	44,727
2007	150,000	35,362	60,908	5,752	210,908	41,114
2008	100,000	32,025	64,216	2,444	164,216	34,469
2009	100,000	30,155	11,049	73	111,049	30,228
2010	100,000	27,885	-	-	100,000	27,885
2011	100,000	25,217	-	-	100,000	25,217
2012	100,000	22,145	-	-	100,000	22,145
2013	100,000	18,675	-	-	100,000	18,675
2014	100,000	14,805	-	-	100,000	14,805
2015	100,000	10,535	-	-	100,000	10,535
2016	115,000	5,865	-	-	115,000	5,865
	<u>\$1,315,000</u>	<u>\$293,670</u>	<u>\$262,739</u>	<u>\$29,023</u>	<u>\$1,577,739</u>	<u>\$322,693</u>

** TIF Bond Electric is not included in the above. This was an inter-fund loan from the Electric Fund for \$80,000 issued November 1, 2003. At June 30, 2004, the balance was \$75,100. Payments are only required when funds are available. Accrued interest at 5% will be paid first, then principal.

The urban renewal tax increment financing revenues bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City’s urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

NOTE 4 – INTER-FUND LOAN

The City has an inter-fund loan from the Enterprise Fund – Electric to the General Fund for the purpose of purchasing a fire truck. The total amount borrowed is \$100,242, of which \$19,418 was advanced in the fiscal year ended June 30, 1999, and \$80,824 was advanced in the fiscal year ended June 30, 2000. Repayment is as follows:

Year Ending June 30,	Principal	Interest
2005	\$7,785	\$3,042
2006	8,142	2,684
2007	8,516	2,310
2008	8,907	1,919
2009	9,317	1,509
2010	9,745	1,081
2011	10,193	634
2012	8,523	209
	<u>\$71,128</u>	<u>\$13,388</u>

In the year ended June 30, 2004, principal paid was \$7,443, and interest paid was \$3,383.

NOTE 5 – PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2004 was \$11,936.

NOTE 6 – RISK MANAGEMENT

The City of Fairbank is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 – COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but 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 vacation and sick leave termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 2,154
Sick leave	9,953
Total	<u>\$ 12,107</u>

This liability has been computed based on rates of pay in effect at June 30, 2004.

NOTE 8 – RELATED PARTIES

The City had business transactions between the City and City officials totaling \$5,842 during the year ended June 30, 2004.

NOTE 9 – INTER-FUND TRANSFERS

The detail of inter-fund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
General Fund	Enterprise: Electric	\$ 5,285
	Enterprise: Water	2,212
		<u>\$ 7,497</u>
Enterprise: Water	General Fund	<u>\$ 20,000</u>
Special Revenue: Road Use Tax	General Fund	\$ 247
Special Revenue: Local Option Sales Tax	General Fund	8,515
Capital Projects	General Fund	15,285
Enterprise: Electric	General Fund	2,942
Enterprise: Natural Gas	General Fund	602
Permanent: Expendable Trust	General Fund	329
		<u>\$ 27,920</u>
Urban Renewal Tax Increment	Enterprise: Electric	<u>\$ 80,000</u>
Urban Renewal Tax Increment	Capital Projects	\$ 47,458
Enterprise: Electric	Capital Projects	6,900
		<u>\$ 54,358</u>
Debt Service	Enterprise: Sewer	<u>\$ 32,220</u>
Enterprise: Natural Gas	Enterprise: Electric	<u>\$ 30,000</u>
Permanent: Non-Expendable Trust	Permanent: Expendable Trust	<u>\$ 16</u>
Total		<u><u>\$ 252,011</u></u>

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

NOTE 10 – COMMITMENTS

At June 30, 2004, the City had contracts of \$123,269 for pool construction, which was not yet completed; and a contract of \$18,454 for street asphalt.

NOTE 11 – ACCOUNTING CHANGE AND RESTATEMENTS

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

SUPPLEMENTAL INFORMATION

City of Fairbank

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

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted
Receipts:			
Property tax	\$ 150,315	\$ -	\$ -
Tax increment financing collections	104,354	-	-
Other city tax	27,381	-	-
Licenses and permits	1,633	-	-
Use of money and property	10,395	15,734	900
Intergovernmental	244,670	2,082	-
Charges for service	47,453	1,105,014	-
Special assessments	-	-	-
Miscellaneous	96,829	5,032	-
Total receipts	<u>\$ 683,030</u>	<u>\$ 1,127,862</u>	<u>\$ 900</u>
Disbursements:			
Public safety	\$ 121,972	\$ -	\$ -
Public works	116,005	-	-
Health and social services	1,600	-	-
Culture and recreation	115,074	-	-
Community and economic development	416,202	-	-
General government	27,545	-	-
Debt service	68,187	-	-
Capital projects	1,012,960	-	-
Business type activities	-	1,036,538	-
Total disbursements	<u>\$ 1,879,545</u>	<u>\$ 1,036,538</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ -1,196,515	\$ 91,324	\$ 900
Other financing sources, net	1,404,273	-89,273	-16
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 207,758	\$ 2,051	\$ 884
Balances beginning of year	<u>315,307</u>	<u>516,177</u>	<u>23,208</u>
Balances end of year	<u><u>\$ 523,065</u></u>	<u><u>\$ 518,228</u></u>	<u><u>\$ 24,092</u></u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 150,315	\$ 150,826	\$ 150,826	\$ -511
104,354	38,100	63,000	41,354
27,381	67,650	55,350	-27,969
1,633	1,815	1,685	-52
25,229	13,072	16,801	8,428
246,752	258,154	225,407	21,345
1,152,467	1,002,924	1,039,335	113,132
-	-	-	-
101,861	113,499	107,230	-5,369
<u>\$ 1,809,992</u>	<u>\$ 1,646,040</u>	<u>\$ 1,659,634</u>	<u>\$ 150,358</u>
\$ 121,972	\$ 103,176	\$ 124,650	\$ 2,678
116,005	102,191	128,341	12,336
1,600	1,750	1,600	-
115,074	110,257	117,623	2,549
416,202	85,400	423,200	6,998
27,545	29,504	30,205	2,660
68,187	32,220	69,085	898
1,012,960	1,000,000	1,173,918	160,958
1,036,538	995,773	1,106,455	69,917
<u>\$ 2,916,083</u>	<u>\$ 2,460,271</u>	<u>\$ 3,175,077</u>	<u>\$ 258,994</u>
\$ -1,106,091	\$ -814,231	\$ -1,515,443	\$ 409,352
<u>1,315,016</u>	<u>750,000</u>	<u>1,315,000</u>	<u>16</u>
\$ 208,925	\$ -64,231	\$ -200,443	\$ 409,368
808,276	659,915	659,915	148,361
<u>\$ 1,017,201</u>	<u>\$ 595,684</u>	<u>\$ 459,472</u>	<u>\$ 557,729</u>

City of Fairbank

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$714,806. The budget amendments are reflected in the final budgeted amounts.

Other Supplementary Information

City of Fairbank

**Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Non-major Governmental Funds**

As of and for the year ended June 30, 2004

	Special Revenue		
	Road Use Tax		Debt Service
Receipts:			
Use of money and property	\$ -	\$ -	-
Intergovernmental	86,702		-
Charges for service	-		-
Total receipts	\$ 86,702	\$ -	-
Disbursements:			
Operating:			
Public works	\$ 101,119	\$ -	-
Culture and recreation	-		-
Debt service	-		32,220
Total disbursements	\$ 101,119	\$ 32,220	-
Excess (deficiency) of receipts over (under) disbursements	\$ -14,417	\$ -32,220	
Other financing sources (uses):			
Operating transfers in	\$ 247	\$ 32,220	
Operating transfers out	-		-
Total other financing sources (uses)	\$ 247	\$ 32,220	
Net change in cash balances	\$ -14,170	\$ -	
Cash balances beginning of year	60,798		-
Cash balances end of year	\$ 46,628	\$ -	
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds			
Debt service			
Permanent fund			
Total cash basis fund balances			

See accompanying independent auditor's report.

Permanent		
Non-Expendable Trust	Expendable Trust	
Cemetery Perpetual Care	Cemetery	Total
\$ 900	\$ 723	\$ 1,623
-	1,573	88,275
-	2,715	2,715
<u>\$ 900</u>	<u>\$ 5,011</u>	<u>\$ 92,613</u>
\$ -	\$ -	\$ 101,119
-	4,647	4,647
-	-	32,220
<u>\$ -</u>	<u>\$ 4,647</u>	<u>\$ 137,986</u>
\$ 900	\$ 364	\$ -45,373
\$ -	\$ 345	\$ 32,812
-16	-	-16
<u>\$ -16</u>	<u>\$ 345</u>	<u>\$ 32,796</u>
\$ 884	\$ 709	\$ -12,577
23,208	16,421	100,427
<u>\$ 24,092</u>	<u>\$ 17,130</u>	<u>\$ 87,850</u>
	\$ 46,628	
	-	
	<u>41,222</u>	
	<u>\$ 87,850</u>	

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Sewer	March 1, 1989	6.6-7.4%	<u>\$320,000</u>
Urban renewal tax increment financing (TIF) revenue bonds:			
TIF – NE Utility	May 31, 2000	6.00%	\$80,000
TIF – Assisted Living	October 13, 2003	2.50-3.75%	400,000
TIF – Revenue Bond	October 27, 2003	2.5-5.1%	915,000
TIF – Electric	November 1, 2003	5.00%	80,000
			<u>\$1,475,000</u>
Revenue notes:			
Sewer	October 1, 1966	4.00%	\$215,000
Natural Gas System Construction	July 23, 1993	5.30% *	675,000
			<u>\$890,000</u>

* Under variable rate provisions of the note, interest can never exceed a maximum rate of 7.5%.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$30,000	\$-	\$30,000	\$-	\$2,220	\$-
\$20,000	\$-	\$20,000	\$-	\$605	\$-
-	400,000	-	400,000	-	-
-	915,000	-	915,000	-	-
-	80,000	4,900	75,100	2,000	-
\$20,000	\$1,395,000	\$24,900	\$1,390,100	\$2,605	\$-
\$21,000	\$-	\$7,000	\$14,000	\$840	\$-
300,712	-	51,973	248,739	14,687	-
\$321,712	\$-	\$58,973	\$262,739	\$15,527	\$-

City of Fairbank

Bond and Note Maturities

June 30, 2004

Urban Renewal Tax
Increment Financing
(TIF) Revenue Bonds

Year Ending June 30,	Assisted Living		Revenue Bond		Electric		Totals (Without Electric)
	Issued Oct 13, 2003		Issued Oct 27, 2003		Issued Nov 1, 2003		
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
2005	2.50%	\$125,000	2.75%	\$-	5%	**	\$125,000
2006	3.05%	125,000	3.00%	-	5%		125,000
2007	3.75%	150,000	3.25%	-	5%		150,000
2008		-	3.50%	100,000	5%		100,000
2009		-	3.78%	100,000	5%		100,000
2010		-	3.90%	100,000	5%		100,000
2011		-	4.10%	100,000	5%		100,000
2012		-	4.30%	100,000	5%		100,000
2013		-	4.50%	100,000	5%		100,000
2014		-	4.70%	100,000	5%		100,000
2015		-	4.90%	100,000	5%		100,000
2016		-	5.10%	115,000	5%		115,000
		<u>\$400,000</u>		<u>\$915,000</u>		<u>\$75,100</u>	<u>\$1,315,000</u>

** This is an inter-fund loan from the Electric Fund. Payments are only required when funds are available. Accrued interest will be paid first, then principal.

Revenue Notes

Year Ending June 30,	Sewer		Natural Gas System Construction		Totals
	Issued Oct 1, 1966		Issued July 23, 1993		
	Interest Rate	Amount	Interest Rate	Amount	
2005	4.00%	\$7,000	5.30%	\$54,795	\$61,795
2006	4.00%	7,000	***	57,771	64,771
2007		-		60,908	60,908
2008		-		64,216	64,216
2009		-		11,049	11,049
		<u>\$14,000</u>		<u>\$248,739</u>	<u>\$262,739</u>

*** Variable interest rate, with a maximum increase of 1.5% every three years, up to a maximum of 7.5%.

City of Fairbank

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

For the Last Two Years

	2004	2003
		(Unaudited)
Receipts:		
Property tax	\$ 150,315	\$ 106,963
Tax increment financing collection	104,354	172,054
Other city tax	27,381	67,592
Licenses and permits	1,633	1,633
Use of money and property	10,395	8,252
Intergovernmental	244,670	194,180
Charges for service	47,453	21,141
Special assessments	-	-
Miscellaneous	96,829	45,291
	<hr/>	<hr/>
Total	\$ 683,030	\$ 617,106
	<hr/>	<hr/>
Disbursements:		
Operating:		
Public safety	\$ 121,972	\$ 91,866
Public works	116,005	98,863
Health and social services	1,600	1,472
Culture and recreation	115,074	177,647
Community and economic development	416,202	1,143
General government	27,545	25,897
Debt service	68,187	67,658
Capital projects	1,012,960	-
	<hr/>	<hr/>
Total	\$ 1,879,545	\$ 464,546
	<hr/>	<hr/>

See accompanying independent auditor's report.

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

Keith Oltrogge CPA
201 East Main Street
Denver IA 50622

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

To the Honorable Mayor and
Members of the City Council:

I have audited the financial statements of the City of Fairbank, Iowa, as of and for the year ended June 30, 2004, and have issued my report thereon dated October 12, 2004. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my 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.

Internal Control Over Financial Reporting

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item I-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Fairbank and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

A rectangular box containing a handwritten signature in black ink. The signature is cursive and appears to read "Keith Oltrogge".

Keith Oltrogge
Certified Public Accountant

October 12, 2004

City of Fairbank
Schedule of Findings
Year ended June 30, 2004

Part I – Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties – One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I realize a segregation of duties is not possible where there is only one full-time employee. Therefore, it is the responsibility of the City Council and City Treasurer to oversee the City Clerk's procedures sufficiently to detect errors or irregularities within a timely period.

Recommendation – I recommend that the City Council again be made aware of the risks inherent with a lack of a segregation of duties and that the City Council continue to take an active role in the internal control of the City's funds.

Response – Since we only have one full-time clerk, all the duties are overseen by the Council and therefore, we feel we are abiding by the Auditor's recommendations.

Conclusion – Response accepted.

City of Fairbank
Schedule of Findings
Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

II-A-04 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2004.

Recommendation – A new depository resolution should be approved with significant limits for all deposits.

Response – We will issue a new depository resolution.

Conclusion – Response accepted.

II-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.

II-C-04 Questionable Disbursements – I noted no disbursements that would not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

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

II-E-04 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ron Woods, Council Member Owner of Woods Construction	Services by Council approval	<u>\$5,842</u>

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with the Council Member does not appear to represent a conflict of interest since there was Council approval.

II-F-04 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-04 Council Minutes – No transactions were found that I believe should have been approved in the Council minutes but were not.

II-H-04 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted.