



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE March 19, 2007

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 \$12,002,953 for the year ended June 30, 2006, a 6.4 percent increase over 2005. The receipts included \$3,236,344 in property tax, \$229,701 from tax increment financing, \$3,365,999 from charges for service, \$1,182,410 from operating grants, contributions and restricted interest, \$1,705,331 from capital grants, contributions and restricted interest, \$749,435 from local option sales tax, \$29,664 from unrestricted interest on investments, \$59,426 from the sale of capital assets, \$1,200,000 from construction warrant proceeds and \$244,643 from other general receipts.

Disbursements for the year totaled \$12,668,583, a 14.4 percent increase over 2005, and included \$3,845,328 for capital projects, \$1,589,215 for public safety and \$1,535,275 for culture and recreation. Also, disbursements for business type activities totaled \$3,304,590.

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

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

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CITY OF FAIRFIELD

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

JUNE 30, 2006

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City of Fairfield

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Edward Malloy	Mayor	Jan 2007
Myron Gookin	Council Member/Mayor Pro tem	Jan 2006
Pauline Reeder	Council Member	Jan 2006
John Revolinski	Council Member	Jan 2006
Ron Adam	Council Member	Jan 2008
Connie Boyer	Council Member	Jan 2008
Daryn Hamilton	Council Member	Jan 2008
Christy Welty	Council Member	Jan 2008
John Brown	City Administrator	Indefinite
Joy Messer	City Clerk	Indefinite
John Morrissey	City Attorney	Indefinite
(After January 2006)		
Edward Malloy	Mayor	Jan 2007
Myron Gookin	Council Member/Mayor Pro tem	Jan 2010
Ron Adam	Council Member	Jan 2008
Connie Boyer	Council Member	Jan 2008
Daryn Hamilton	Council Member	Jan 2008
Christy Welty	Council Member	Jan 2008
John F. Revolinski	Council Member	Jan 2010
Jim Rubis	Council Member	Jan 2010
John Brown	City Administrator	Indefinite
Joy Messer	City Clerk	Indefinite
John Morrissey	City Attorney	Indefinite

City of Fairfield



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairfield, Iowa, as of and for the year ended June 30, 2006, 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, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 10, 2007 on our consideration of the City of Fairfield's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We 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 three years ended June 30, 2005 (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

January 10, 2007

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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- Receipts and transfers of the City's governmental activities increased 11.3%, or approximately \$924,000, from fiscal 2005 to fiscal 2006. Proceeds from construction warrants increased \$1,200,000.
- Governmental activities disbursements increased 17.6%, or approximately \$1,401,000, in fiscal 2006 from fiscal 2005. Capital projects disbursements increased approximately \$1,318,000.
- The City's total cash basis net assets decreased 50.2%, or approximately \$666,000, from June 30, 2005 to June 30, 2006. Of this amount, the net assets of the governmental activities decreased approximately \$269,000 and the net assets of the business type activities decreased approximately \$397,000.

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. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

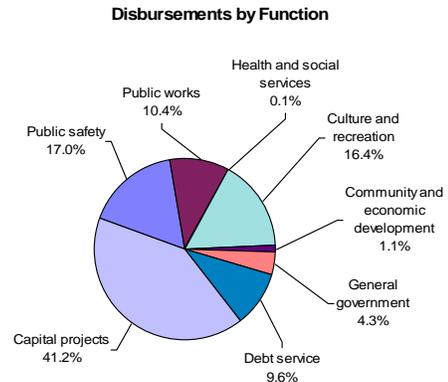
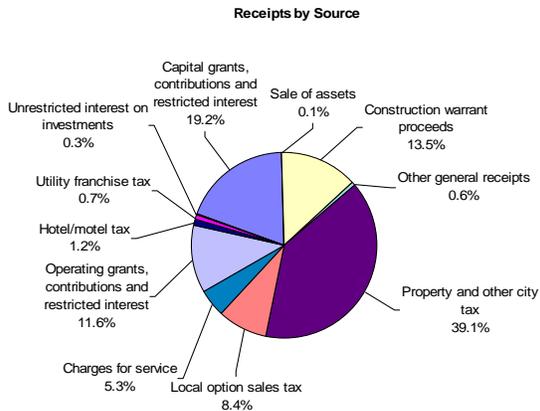
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$197,968 to \$(70,926). 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,	
	2006	2005
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 466	411
Operating grants, contributions and restricted interest	1,027	1,141
Capital grants, contributions and restricted interest	1,705	1,836
General receipts:		
Property and other city tax	3,466	3,375
Local option sales tax	749	672
Hotel/motel tax	103	91
Utility franchise tax	59	44
Unrestricted interest on investments	30	23
Construction warrant proceeds	1,200	-
Sale of capital assets	3	536
Other general receipts	52	43
Transfers, net	235	-
Total receipts and transfers	9,095	8,172
Disbursements:		
Public safety	1,589	1,752
Public works	978	898
Health and social services	10	12
Culture and recreation	1,535	1,444
Community and economic development	107	86
General government	398	342
Debt service	902	902
Capital projects	3,845	2,528
Total disbursements	9,364	7,964
Increase (decrease) in cash basis net assets	(269)	208
Cash basis net assets beginning of year	198	(10)
Cash basis net assets end of year	\$ (71)	198



The City's total receipts and transfers for governmental activities were \$9,095,099. The total cost of all programs and services was \$9,363,993. The \$268,894 excess of disbursements over receipts was due, in part, to Highway Planning and Construction grant disbursements for projects in excess of FY '06 grant receipts.

The cost of governmental activities this year was \$9,363,993. As shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$6,165,542 because some of the cost was paid by those directly benefited from the programs (\$465,597) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$2,732,854).

Changes in Cash Basis Net Assets of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2006	2005
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 1,756	1,718
Sewer	631	643
Logan apartments	129	132
Yard waste	337	338
Airport	47	68
Operating grants, contributions and restricted interest	155	204
General receipts:		
Other general receipts	88	10
Total receipts	<u>3,143</u>	<u>3,113</u>
Disbursements and transfers:		
Water	1,836	1,646
Sewer	829	832
Logan apartments	252	256
Yard waste	323	325
Airport	65	46
Transfers	235	-
Total disbursements and transfers	<u>3,540</u>	<u>3,105</u>
Increase (decrease) in cash basis net assets	(397)	8
Cash basis net assets beginning of year	<u>1,128</u>	<u>1,120</u>
Cash basis net assets end of year	<u>\$ 731</u>	<u>1,128</u>

Total business type activities receipts for the fiscal year were \$3,142,854 compared to \$3,112,885 last year. This decrease was due primarily to an insurance reimbursement received in FY 05. The cash balance decreased by approximately \$397,000 from the prior year. Total disbursements and transfers for the fiscal year increased by 14%, from \$3.1 million in fiscal year 2005 to \$3.5 million in fiscal year 2006, due in part to the Bypass Watermain Relocation project.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fairfield completed the year, its governmental funds reported a combined fund balance of \$(70,926), a decrease of approximately \$269,000 below last year's total of \$197,968. 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 \$70,249 over the prior year to \$128,721. This increase was primarily due to a budget transfer in from Logan Apartments made prior to June 30, 2006 in the amount of \$165,000.
- The Road Use Tax Fund cash balance decreased by \$67,885 to \$33,089 due in part to an increase in street maintenance projects.
- The UDAG-FALCO Project Fund cash balance decreased by \$15,553 to \$374,168. This decrease was due to the end of scheduled loan payments, as budgeted for the fiscal year ended June 30, 2006.
- The Fairfield Library Foundation cash balance increased by \$24,637 to \$194,850 due, in part, to an increase in donations of approximately \$11,000 over FY 05.
- The Capital Projects Fund cash balance increased by \$69,279 to \$(1,617,663). This increase is primarily due to ongoing capital project disbursements, including the airport runway project. These costs will be reimbursed by grants or planned bond or note sales made in September 2006.
- The Library Endowment Fund cash balance increased \$15,702 from the prior year to \$439,232, which was not considered a significant change.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$147,050 to \$1,019,016, due primarily to an increase in maintenance of the water mains.
- The Sewer Fund cash balance decreased by \$176,138 to \$(451,840), due primarily to an increase in capital project disbursements and a decrease in receipts from FY 05 for an insurance reimbursement not received in FY 06.

BUDGETARY HIGHLIGHTS

The City amended its budget one time during the year, increasing budgeted disbursements from \$14,425,037 to \$17,907,037 for capital projects activity.

The City's receipts were \$2,141,811 less than budgeted. This was primarily due to the City not receiving Federal reimbursements by June 30, 2006.

Total disbursements were \$5,268,867 less than the amended budget. Due to delays in the sale of bonds, approximately \$3.2 million of construction warrants, including interest, were not paid. In addition, a fire truck budgeted to be paid for in FY 06 was not received until after year end. These items will be paid for in FY 07.

The City exceeded the amounts budgeted in the public safety, public works and culture and recreation functions for the year ended June 30, 2006, due to unanticipated costs in the month of June.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$12,250,000 in bonds and other long-term debt outstanding, compared to approximately \$12,019,000 last year, as shown below.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2006	2005
General obligation bonds	\$ 1,075	1,340
General obligation capital loan notes	2,755	3,170
Revenue bonds	480	580
Water revenue capital loan notes	5,357	5,504
Construction warrants	2,500	1,300
Mortgage note	-	74
Lease purchase agreements	83	51
Total	\$ 12,250	12,019

Debt increased due to the sale of \$1,200,000 in construction warrants in fiscal year 2006.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$6.4 million is significantly below its constitutional debt limit of \$15.8 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Fairfield's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates and fees charged for various City activities.

Bond issues planned for fiscal year 2006 did not occur until the first quarter of fiscal year 2007. This will require an amendment to reflect the increased receipts and available fund balances for that fiscal year. Increased costs in wastewater treatment operations will require an increase in sewer utility rates from those in effect for fiscal year 2006. Declines in street construction activity and the airport runway expansion project will decrease disbursements in fiscal year 2007 compared to fiscal year 2006.

The City has added no major new programs or initiatives to the 2007 budget.

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, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,589,215	171,914	75,204	-
Public works	977,938	3,106	803,931	-
Health and social services	9,720	-	-	-
Culture and recreation	1,535,275	258,466	148,388	3,037
Community and economic development	107,223	20,042	-	-
General government	397,803	12,069	-	-
Debt service	901,491	-	-	27,616
Capital projects	3,845,328	-	-	1,674,678
Total governmental activities	9,363,993	465,597	1,027,523	1,705,331
Business type activities:				
Water	1,835,512	1,756,275	-	-
Sewer	829,411	630,794	-	-
Logan apartments	251,514	129,581	102,625	-
Yard waste	323,143	336,665	-	-
Airport	65,010	47,087	52,262	-
Total business type activities	3,304,590	2,900,402	154,887	-
Total	\$ 12,668,583	3,365,999	1,182,410	1,705,331

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
Construction warrant proceeds
Miscellaneous
Sale of capital assets
Transfers
Total general receipts and transfers
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:
 Streets
 Urban renewal
 Debt service
 Permanent fund
 Other purposes
Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(1,342,097)	-	(1,342,097)
(170,901)	-	(170,901)
(9,720)	-	(9,720)
(1,125,384)	-	(1,125,384)
(87,181)	-	(87,181)
(385,734)	-	(385,734)
(873,875)	-	(873,875)
(2,170,650)	-	(2,170,650)
(6,165,542)	-	(6,165,542)
-	(79,237)	(79,237)
-	(198,617)	(198,617)
-	(19,308)	(19,308)
-	13,522	13,522
-	34,339	34,339
-	(249,301)	(249,301)
(6,165,542)	(249,301)	(6,414,843)
2,053,081	-	2,053,081
584,717	-	584,717
598,546	-	598,546
229,701	-	229,701
749,435	-	749,435
102,780	-	102,780
59,567	-	59,567
29,625	39	29,664
1,200,000	-	1,200,000
51,630	30,666	82,296
2,566	56,860	59,426
235,000	(235,000)	-
5,896,648	(147,435)	5,749,213
(268,894)	(396,736)	(665,630)
197,968	1,128,174	1,326,142
\$ (70,926)	731,438	660,512
\$ 33,089	-	33,089
8,856	-	8,856
2,739	436,916	439,655
439,232	-	439,232
934,100	-	934,100
(1,488,942)	294,522	(1,194,420)
\$ (70,926)	731,438	660,512

City of Fairfield

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

As of and for the year ended June 30, 2006

	Special Revenue			
	General	Road Use Tax	UDAG- FALCO Project	Fairfield Library Foundation
Receipts:				
Property tax	\$ 1,912,826	-	-	-
Tax increment financing	-	-	-	-
Other city tax	162,347	-	-	-
Licenses and permits	27,043	-	-	-
Use of money and property	12,619	-	447	10,372
Intergovernmental	158,309	803,931	-	-
Charges for service	346,434	-	-	-
Special assessments	-	-	-	-
Miscellaneous	128,714	-	-	15,025
Total receipts	2,748,292	803,931	447	25,397
Disbursements:				
Operating:				
Public safety	1,222,840	-	-	-
Public works	97,755	871,816	-	-
Health and social services	9,720	-	-	-
Culture and recreation	1,300,765	-	-	760
Community and economic development	80,718	-	16,000	-
General government	338,103	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	3,049,901	871,816	16,000	760
Excess (deficiency) of receipts over (under) disbursements	(301,609)	(67,885)	(15,553)	24,637
Other financing sources (uses):				
Construction warrant proceeds	-	-	-	-
Sale of capital assets	2,566	-	-	-
Operating transfers in	369,292	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	371,858	-	-	-
Net change in cash balances	70,249	(67,885)	(15,553)	24,637
Cash balances beginning of year	58,472	100,974	389,721	170,213
Cash balances end of year	\$ 128,721	33,089	374,168	194,850
Cash Basis Fund Balances				
Reserved for debt service	\$ -	-	-	-
Unreserved:				
General fund	128,721	-	-	-
Special revenue funds	-	33,089	374,168	194,850
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 128,721	33,089	374,168	194,850

See notes to financial statements.

Capital Projects	Permanent		Nonmajor	Total
	Library Endowment			
140,255	-		1,183,263	3,236,344
-	-		229,701	229,701
-	-		749,435	911,782
-	-		-	27,043
-	-		22,089	45,527
1,667,678	-		6,037	2,635,955
-	-		-	346,434
-	-		27,614	27,614
7,000	6,800		40,354	197,893
1,814,933	6,800		2,258,493	7,658,293
-	-		366,375	1,589,215
-	-		8,367	977,938
-	-		-	9,720
-	608		233,902	1,536,035
-	-		10,505	107,223
-	-		59,700	397,803
-	-		901,491	901,491
3,845,328	-		-	3,845,328
3,845,328	608		1,580,340	9,364,753
(2,030,395)	6,192		678,153	(1,706,460)
1,200,000	-		-	1,200,000
-	-		-	2,566
899,674	9,510		301,619	1,580,095
-	-		(1,345,095)	(1,345,095)
2,099,674	9,510		(1,043,476)	1,437,566
69,279	15,702		(365,323)	(268,894)
(1,686,942)	423,530		742,000	197,968
(1,617,663)	439,232		376,677	(70,926)
-	-		2,739	2,739
-	-		-	128,721
-	-		373,938	976,045
(1,617,663)	-		-	(1,617,663)
-	439,232		-	439,232
(1,617,663)	439,232		376,677	(70,926)

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, 2006

	Enterprise			Total
	Water	Sewer	Nonmajor	
Operating receipts:				
Use of money and property	\$ -	-	174,802	174,802
Charges for service	1,756,275	630,794	332,432	2,719,501
Intergovernmental	-	-	154,887	154,887
Miscellaneous	2,148	22,479	12,138	36,765
Total operating receipts	<u>1,758,423</u>	<u>653,273</u>	<u>674,259</u>	<u>3,085,955</u>
Operating disbursements:				
Business type activities	1,378,246	784,469	562,379	2,725,094
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>380,177</u>	<u>(131,196)</u>	<u>111,880</u>	<u>360,861</u>
Non-operating receipts (disbursements):				
Interest on investments	39	-	-	39
Sale of capital assets			56,860	56,860
Capital projects	-	(44,942)	-	(44,942)
Debt service	(457,266)	-	(77,288)	(534,554)
Operating transfers out	(70,000)	-	(165,000)	(235,000)
Total non-operating receipts (disbursements)	<u>(527,227)</u>	<u>(44,942)</u>	<u>(185,428)</u>	<u>(757,597)</u>
Deficiency of receipts under disbursements	(147,050)	(176,138)	(73,548)	(396,736)
Cash balances beginning of year	1,166,066	(275,702)	237,810	1,128,174
Cash balances end of year	<u>\$ 1,019,016</u>	<u>(451,840)</u>	<u>164,262</u>	<u>731,438</u>
Cash Basis Fund Balances				
Reserved for debt service	\$ 436,916	-	-	436,916
Unreserved	582,100	(451,840)	164,262	294,522
Total cash basis fund balances	<u>\$ 1,019,016</u>	<u>(451,840)</u>	<u>164,262</u>	<u>731,438</u>

See notes to financial statements.

City of Fairfield

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

Blended Component Units

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

Jointly Governed Organizations

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

B. Basis of Presentation

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

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

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

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

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

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor 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 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 is used to account for donations received and purchases made for the benefit of the Fairfield Public Library.

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

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

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, public works and culture and recreation functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 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, 2006, the City and its component units had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Mutual Funds	\$ 146,236	150,482	N/A
Money Market	15,167	15,167	N/A
Corporate Bonds	5,006	4,900	Dec. 15, 2006

Additionally, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,956 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

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

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

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation				Water Revenue				Total	
	Bonds		Capital Loan Notes		Bonds		Capital Loan Notes		Principal	Interest
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest		
2007	\$ 285,000	58,458	435,000	129,350	105,000	25,513	152,000	163,830	977,000	377,151
2008	140,000	43,495	310,000	109,163	110,000	19,790	158,000	159,270	718,000	331,718
2009	150,000	35,970	325,000	94,583	115,000	13,685	164,000	154,530	754,000	298,768
2010	155,000	27,720	335,000	79,310	125,000	7,187	166,000	149,610	781,000	263,827
2011	165,000	19,040	250,000	63,475	-	-	304,000	144,630	719,000	227,145
2012-2016	175,000	9,800	1,100,000	160,640	-	-	1,674,000	580,320	2,949,000	750,760
2017-2021	-	-	-	-	-	-	1,965,000	312,360	1,965,000	312,360
2022-2023	-	-	-	-	-	-	774,320	39,720	774,320	39,720
Total	\$ 1,070,000	194,483	2,755,000	636,521	455,000	66,175	5,357,320	1,704,270	9,637,320	2,601,449

Water Revenue Bonds

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate water revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers of 25 percent of the amount required to be deposited in the water revenue bond sinking account shall be made to a water reserve account until \$116,500 is accumulated. At June 30, 2006, 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, 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, 2006, the City had drawn \$5,796,320 of the \$5,900,000 authorized. Wells Fargo Bank Iowa, N.A. has the remaining \$103,680 held in trust which the City will request as the project progresses. An initiation fee of 1% of the authorized borrowing for the water revenue capital loan notes was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee was withheld by the bank from the first proceeds of the water revenue capital loan notes drawn by the City during the year ended June 30, 2004. Because the City is still drawing funds on the water revenue capital loan notes, a formal repayment schedule has been adopted for the debt.

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

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to a separate water revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers of 25 percent of the amount required to be deposited in the water revenue note sinking account shall be made to a water reserve account until \$459,380 is accumulated and maintained.
- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any notes and then can be used for any lawful purpose.

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

Construction Warrants

The City entered into agreements with First National Bank, Fairfield, Iowa during the years ended June 30, 2003, 2004 and 2006 for the issuance of construction warrants to provide interim financing for the airport improvement and sewer digester projects. The warrants were issued to First National Bank for \$400,000, \$500,000 and \$400,000, respectively, with interest at 3.50% to 3.75% per annum. In addition, the City issued warrants during the year ended June 30, 2006 to Iowa State Bank & Trust Company for \$900,000 and 300,000, with interest at 4.75% and 5.08% per annum, respectively. The warrants are to be paid from the fund from which payments for the project were made. These warrants are outstanding at June 30, 2006.

(4) Sewer Utility Replacement Account

Ordinance number 733, dated December 1, 1986, established a user charge to provide funds for all costs associated with the City’s wastewater treatment works, accounted for in the Enterprise, Sewer Fund, and provides for the creation of a Sewer Utility Replacement Account. The purpose of this account is to provide for replacement needs over the useful life of the wastewater treatment works. Quarterly deposits of \$31,250 are to be made to the Sewer Utility Replacement Account from the revenues of the Sewer Utility Account. At June 30, 2006, the balance of the Sewer Utility Replacement Account was \$(458,042). The deficit is due to the sewer distribution and digester improvement projects and transfers to the Sewer Utility Replacement Accounts which were not made as required.

(5) Lease-Purchase Agreements

The City has entered into agreements to lease certain equipment under non-cancelable capital leases. The following is a schedule of the future minimum lease payments, including interest at rates ranging from 4.25% to 12.65% per annum, and the present value of net minimum lease payments under agreements in effect at June 30, 2006:

Year ending June 30,	Water Generator	Financial Software	Caterpillar	Total
2007	\$ 7,832	3,223	25,647	36,702
2008	-	1,881	25,647	27,528
2009	-	-	25,647	25,647
Total minimum lease payments	7,832	5,104	76,941	89,877
Less amount representing interest	(133)	(501)	(6,354)	(6,988)
Present value of net minimum lease payments	\$ 7,699	4,603	70,587	82,889

(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.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$104,648, \$97,804 and \$98,933, respectively, equal to the required contributions for each year.

Municipal Fire and Police Retirement System of Iowa – The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing multiple employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by state statute to plan members and beneficiaries. The police department and the full time employees of the fire department for the City participate in this Plan. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 104th St., Urbandale, Iowa 50322.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate, 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, 2006, 2005 and 2004 were \$178,198, \$155,787 and \$123,869, respectively, which met the required minimum contribution 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, 2006, primarily relating to the General and Enterprise Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 67,800
Sick leave	44,600
	\$ 112,400

This liability has been computed based on rates of pay in effect at June 30, 2006. 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 531 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contribution to the Pool for the year ended June 30, 2006 was \$195,069.

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 \$5,000,000 in the aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2006, 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 taxes paid by the developer in exchange for the construction of the 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 taxes 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 taxes on the completed value of the Civic Center are first paid. No rebates were made during the year ended June 30, 2006.

(10) Deficit Balances

The General Fund, Revolving Account had a deficit balance of \$109,819 at June 30, 2006. The deficit will be eliminated by transfers from other funds.

The Capital Projects Fund, Capital Improvement Replacement, Recreation Trails, Sidewalk Improvements, Walton Lake Subdivision, Madison and Grimes, 2000 RISE Project, Airport Apron, Fourth Street Traffic Signals, Bypass Forcemain Relocation, Bypass Cross Interceptor Relocation, Bypass Crow Creek Relocation, Bypass Water Main Relocation, Runway 18/36 Phase I, and CDBG Accounts had deficit balances of \$208,698, \$25,773, \$18,965, \$428,192, \$225,280, \$69,266, \$88,493, \$55,942, \$431,439, \$709,247, \$612,855, \$292,422, \$82,263, and \$39,055, respectively, at June 30, 2006. 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 bond or note issues after June 30, 2006.

The Enterprise Funds, Water-State Revolving and Sewer Utility Replacement Accounts had deficit balances of \$278,130 and \$458,042, respectively, at June 30, 2006. The deficits will be eliminated by local sources, grants, future bond or note sales and transfers from other accounts.

(11) Interfund Transfers

Transfer To	Transfer From	Amount
General	Special Revenue:	
	Hotel/Motel Tax	\$ 10,649
	Employee Benefits	123,643
	Enterprise:	
	Water	70,000
	Logan Apartments	165,000
		<u>369,292</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment Financing	301,619
Capital Projects	Special Revenue: Local Option Sales Tax	899,674
Permanent: Library Endowment	Special Revenue: Library Memorial	9,510
Total		<u>\$ 1,580,095</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 \$10,833,334. The unpaid contract balances at June 30, 2006 totaled \$6,990,939. 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 2007.

(13) Pending Litigation

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

(14) Subsequent Events

In August 2006, the City sold \$6,925,000 of general obligation bonds and \$1,030,000 of local option sales and service tax revenue bonds. The City also approved the issuance of a \$500,000 construction warrant for capital improvement.

In addition, the City accepted a bid of \$127,136 for asphaltting City parking lots and, in November 2005, the City accepted a bid of \$427,246 for the Greased Lightning lift station project.

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 3,236,344	-	-
Tax increment financing	229,701	-	-
Other city tax	911,782	-	-
Licenses and permits	27,043	-	-
Use of money and property	45,527	174,841	16,090
Intergovernmental	2,635,955	154,887	-
Charges for service	346,434	2,719,501	-
Special assessments	27,614	-	-
Miscellaneous	197,893	93,625	43,633
Total receipts	<u>7,658,293</u>	<u>3,142,854</u>	<u>59,723</u>
Disbursements:			
Public safety	1,589,215	-	-
Public works	977,938	-	-
Health and social services	9,720	-	-
Culture and recreation	1,536,035	-	31,173
Community and economic development	107,223	-	-
General government	397,803	-	-
Debt service	901,491	-	-
Capital projects	3,845,328	-	-
Business type activities	-	3,304,590	-
Total disbursements	<u>9,364,753</u>	<u>3,304,590</u>	<u>31,173</u>
Excess (deficiency) of receipts over (under) disbursements	(1,706,460)	(161,736)	28,550
Other financing sources, net	1,437,566	(235,000)	9,510
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(268,894)	(396,736)	38,060
Balances beginning of year	197,968	1,128,174	637,291
Balances end of year	<u>\$ (70,926)</u>	<u>731,438</u>	<u>675,351</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
3,236,344	3,086,062	3,086,062	150,282
229,701	249,847	249,847	(20,146)
911,782	935,054	935,054	(23,272)
27,043	21,525	21,525	5,518
204,278	66,000	66,000	138,278
2,790,842	4,570,060	4,570,060	(1,779,218)
3,065,935	3,920,900	3,920,900	(854,965)
27,614	23,787	23,787	3,827
247,885	10,000	10,000	237,885
<u>10,741,424</u>	<u>12,883,235</u>	<u>12,883,235</u>	<u>(2,141,811)</u>
1,589,215	1,503,117	1,553,117	(36,098)
977,938	960,759	960,759	(17,179)
9,720	16,720	16,720	7,000
1,504,862	1,364,734	1,439,734	(65,128)
107,223	170,548	195,548	88,325
397,803	368,927	398,927	1,124
901,491	902,292	904,292	2,801
3,845,328	4,667,000	7,867,000	4,021,672
3,304,590	4,470,940	4,570,940	1,266,350
<u>12,638,170</u>	<u>14,425,037</u>	<u>17,907,037</u>	<u>5,268,867</u>
(1,896,746)	(1,541,802)	(5,023,802)	3,127,056
1,193,056	-	7,060,000	(5,866,944)
(703,690)	(1,541,802)	2,036,198	(2,739,888)
688,851	3,331,152	1,149,504	(460,653)
<u>(14,839)</u>	<u>1,789,350</u>	<u>3,185,702</u>	<u>(3,200,541)</u>

City of Fairfield

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the budget was amended one time, increasing disbursements by \$3,482,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, public works and culture and recreation functions.

Other Supplementary Information

City of Fairfield

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

As of and for the year ended June 30, 2006

	Special				
	Local Option Sales Tax	Urban Renewal Tax Increment Financing	Hotel/Motel Tax	Employee Benefits	Library Memorial
Receipts:					
Property tax	\$ -	-	-	598,546	-
Tax increment financing	-	229,701	-	-	-
Other city tax	749,435	-	-	-	-
Use of money and property	-	-	-	-	13,559
Intergovernmental	-	-	-	-	6,037
Special assessments	-	-	-	-	-
Miscellaneous	-	-	-	-	18,546
Total receipts	749,435	229,701	-	598,546	38,142
Disbursements:					
Operating:					
Public safety	38,367	-	-	328,008	-
Public works	-	-	-	8,367	-
Culture and recreation	65,248	-	-	98,007	40,842
Community and economic development	10,505	-	-	-	-
General government	35,360	-	-	24,340	-
Debt service	-	-	-	-	-
Total disbursements	149,480	-	-	458,722	40,842
Excess (deficiency) of receipts over (under) disbursements	599,955	229,701	-	139,824	(2,700)
Other financing sources (uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	(899,674)	(301,619)	(10,649)	(123,643)	(9,510)
Total other financing sources (uses)	(899,674)	(301,619)	(10,649)	(123,643)	(9,510)
Net change in cash balances	(299,719)	(71,918)	(10,649)	16,181	(12,210)
Cash balances beginning of year	358,701	80,774	10,649	102,131	14,546
Cash balances end of year	\$ 58,982	8,856	-	118,312	2,336
Cash Basis Fund Balances					
Reserved for debt service					
Unreserved:	\$ -	-	-	-	-
Special revenue funds	58,982	8,856	-	118,312	2,336
Total cash basis fund balances	\$ 58,982	8,856	-	118,312	2,336

See accompanying independent auditor's report.

Revenue						
Library Building Trust	Friends of the Library Fairfield Public Library House	Indian Creek Escrow	Fairfield Park and Recreation Foundation	Debt Service		Total
-	-	-	-	584,717		1,183,263
-	-	-	-	-		229,701
-	-	-	-	-		749,435
2,729	5,400	83	318	-		22,089
-	-	-	-	-		6,037
-	-	-	-	27,614		27,614
-	-	-	21,808	-		40,354
2,729	5,400	83	22,126	612,331		2,258,493
-	-	-	-	-		366,375
-	-	-	-	-		8,367
-	3,494	-	26,311	-		233,902
-	-	-	-	-		10,505
-	-	-	-	-		59,700
-	-	-	-	901,491		901,491
-	3,494	-	26,311	901,491		1,580,340
2,729	1,906	83	(4,185)	(289,160)		678,153
-	-	-	-	301,619		301,619
-	-	-	-	-		(1,345,095)
-	-	-	-	301,619		(1,043,476)
2,729	1,906	83	(4,185)	12,459		(365,323)
125,217	2,941	16,154	40,607	(9,720)		742,000
127,946	4,847	16,237	36,422	2,739		376,677
-	-	-	-	2,739		2,739
127,946	4,847	16,237	36,422	-		373,938
127,946	4,847	16,237	36,422	2,739		376,677

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, 2006

	Enterprise			Total
	Logan Apartments	Yard Waste	Airport Hangar	
Operating receipts:				
Use of money and property	\$ 129,441	-	45,361	174,802
Charges for service	-	332,432	-	332,432
Intergovernmental	102,625	-	52,262	154,887
Miscellaneous	4,038	4,442	3,658	12,138
Total operating receipts	236,104	336,874	101,281	674,259
Operating disbursements:				
Business type activities	174,226	323,143	65,010	562,379
Excess of operating receipts over operating disbursements	61,878	13,731	36,271	111,880
Non-operating receipts (disbursements):				
Sale of capital assets	56,860	-	-	56,860
Debt service	(77,288)	-	-	(77,288)
Operating transfers out	(165,000)	-	-	(165,000)
Total non-operating receipts (disbursements)	(185,428)	-	-	(185,428)
Net change in cash balances	(123,550)	13,731	36,271	(73,548)
Cash balances beginning of year	200,098	3,373	34,339	237,810
Cash balances end of year	\$ 76,548	17,104	70,610	164,262
Cash Basis Fund Balances				
Unreserved	\$ 76,548	17,104	70,610	164,262

See accompanying independent auditor's report.

City of Fairfield
Schedule of Indebtedness
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Street construction	Jan 2, 1958	2.60%	\$ 85,000
Library and street construction	May 1, 1995	5.00-5.60	3,300,000
Total			
General obligation capital loan notes:			
General corporate purpose - series 2001 A	May 1, 2001	4.20-4.80%	\$ 4,330,000
Urban renewal project - series 2001B	May 1, 2001	5.40-6.45	325,000
Total			
Revenue bonds:			
Water	Jun 1, 1977	4.90-5.70%	\$ 1,500,000
Water	May 1, 1995	4.60-5.75	1,165,000
Total			
Water revenue capital loan notes:			
State Revolving	Feb 13, 2003 *	3.00%	\$ 5,900,000
Construction warrants:			
Airport improvement	May 12, 2003	3.75%	\$ 400,000
Sewer digester improvement	Jul 30, 2003	3.50	500,000
Airport improvement	Jun 28, 2004	3.50	400,000
Street improvement	Sep 15, 2005	4.75	900,000
Airport improvement	Mar 29, 2006	5.08	300,000
Total			
Mortgage note:			
Logan apartments	Jun 1, 1977	8.75%	\$ 960,000
Lease-purchase agreements:			
Water generator	Dec 31, 1999	6.85%	\$ 105,180
Tractor/mower	Jul 25, 2002	7.90	17,935
Tractor/mower	Jul 5, 2003	7.90	8,448
Truck	Aug 15, 2003	5.95	33,365
Financial software	Feb 1, 2005	12.65	8,100
Caterpillar Integrated Tool Carrier	Sep 29, 2005	4.25	96,234
Total			

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

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Principal and Interest Due and Unpaid
5,000	-	-	5,000	-	5,520
1,335,000	-	265,000	1,070,000	72,237	-
\$ 1,340,000	-	265,000	1,075,000	72,237	5,520
2,955,000	-	385,000	2,570,000	134,439	-
215,000	-	30,000	185,000	13,615	-
\$ 3,170,000	-	415,000	2,755,000	148,054	-
25,000	-	-	25,000	-	32,838
555,000	-	100,000	455,000	30,912	-
\$ 580,000	-	100,000	480,000	30,912	32,838
5,504,320	-	147,000	5,357,320	165,133	-
400,000	-	-	400,000	16,444	-
500,000	-	-	500,000	20,555	-
400,000	-	-	400,000	16,444	-
-	900,000	-	900,000	22,839	-
-	300,000	-	300,000	-	-
\$ 1,300,000	1,200,000	-	2,500,000	76,282	-
74,066	-	74,066	-	3,222	-
25,352	-	17,653	7,699	1,187	-
4,645	-	4,645	-	381	-
2,811	-	2,811	-	252	-
11,109	-	11,109	-	663	-
7,072	-	2,469	4,603	755	-
-	96,234	25,647	70,587	-	-
\$ 50,989	96,234	64,334	82,889	3,238	-

City of Fairfield
Bond and Note Maturities
June 30, 2006

Year Ending June 30,	General Obligation Bonds		General Obligation Capital Loan Notes				Total
	Library and Street Construction		General Corporate Purpose - Series 2001A		Urban Renewal Project - Series 2001B		
	Issued May 1, 1995		Issued May 1, 2001		Issued May 1, 2001		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2007	5.250%	\$ 285,000	4.500%	\$ 400,000	6.25%	\$ 35,000	\$ 435,000
2008	5.375	140,000	4.500	275,000	6.30	35,000	310,000
2009	5.500	150,000	4.500	290,000	6.35	35,000	325,000
2010	5.600	155,000	4.500	295,000	6.40	40,000	335,000
2011	5.600	165,000	4.500	210,000	6.45	40,000	250,000
2012	5.600	175,000	4.500	200,000	-	-	200,000
2013	-	-	4.600	210,000	-	-	210,000
2014	-	-	4.700	220,000	-	-	220,000
2015	-	-	4.750	230,000	-	-	230,000
2016	-	-	4.800	240,000	-	-	240,000
2017	-	-	-	-	-	-	-
2018	-	-	-	-	-	-	-
2019	-	-	-	-	-	-	-
2020	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-
2022	-	-	-	-	-	-	-
2023	-	-	-	-	-	-	-
Total		<u>\$1,070,000</u>		<u>\$2,570,000</u>		<u>\$ 185,000</u>	<u>\$ 2,755,000</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		Note - State Revolving	
Issued February 13, 2003			
Interest		Interest	
Rates	Amount	Rates *	Amount
5.45%	\$ 105,000	3.00%	\$ 152,000
5.55	110,000	3.00	158,000
5.65	115,000	3.00	164,000
5.75	125,000	3.00	166,000
-	-	3.00	304,000
-	-	3.00	314,000
-	-	3.00	324,000
-	-	3.00	334,000
-	-	3.00	345,000
-	-	3.00	357,000
-	-	3.00	368,000
-	-	3.00	380,000
-	-	3.00	393,000
-	-	3.00	405,000
-	-	3.00	419,000
-	-	3.00	432,000
-	-	3.00	342,320
	<u>\$ 455,000</u>		<u>\$ 5,357,320</u>

Schedule 5

City of Fairfield

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

For the Last Four Years

	2006	2005	2004	2003
Receipts:				
Property tax	\$ 3,236,344	3,037,373	2,852,293	3,088,534
Tax increment financing	229,701	230,189	411,499	316,671
Other city tax	911,782	914,871	1,037,115	959,462
Licenses and permits	27,043	24,228	15,800	14,960
Use of money and property	45,527	107,630	80,340	38,694
Intergovernmental	2,635,955	2,758,221	1,012,520	2,255,519
Charges for service	346,434	337,963	316,174	321,895
Special assessments	27,614	33,834	59,290	51,290
Miscellaneous	197,893	192,099	317,859	170,190
Total	\$ 7,658,293	7,636,408	6,102,890	7,217,215
Disbursements:				
Operating:				
Public safety	\$ 1,589,215	1,751,741	2,035,789	2,006,603
Public works	977,938	898,017	900,369	871,806
Health and social services	9,720	12,220	9,720	6,683
Culture and recreation	1,536,035	1,444,278	1,289,611	1,305,919
Community and economic development	107,223	85,867	163,464	101,835
General government	397,803	342,499	346,384	306,993
Non-program	-	-	-	36,722
Debt service	901,491	901,981	942,223	1,104,910
Capital projects	3,845,328	2,527,712	783,568	2,101,125
Total	\$ 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, 2006

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Agriculture:			
Commodity Loans and Loan Deficiency Payments	10.051	ID 42 6004655	\$ 2,119
U.S. Department of Housing and Urban Development - Office of Housing:			
Section 8 Housing Assistance Payments Program - Special Allocations	14.195	IA050008008	102,625
U.S. Department of Transportation:			
Federal Aviation Administration:			
Airport Improvement Program	20.106	3-19-0033-07-2004	493,161
Airport Improvement Program	20.106	3-19-0033-08-2005	256,344
			<u>749,505</u>
Total direct			<u>854,249</u>
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program	14.228	05-HSG-002	63,954
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.005	NHSX-34-8(94,95)--3H-51 (Const)	1,460,854
Total indirect			<u>1,524,808</u>
Total			<u>\$ 2,379,057</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, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 10, 2007. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-06 and II-B-06 are material weaknesses.

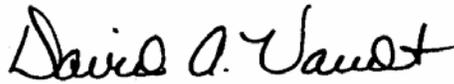
Compliance and Other Matters

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.

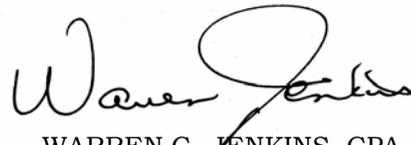
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 10, 2007

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

City of Fairfield



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

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Fairfield, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2006. The City of Fairfield's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of the City of Fairfield's management. Our responsibility is to express an opinion on the City of Fairfield's compliance based on our audit.

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

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, 2006.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of

laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 10, 2007

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

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

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were as follows:
 - CFDA Number 20.106 – Airport Improvement Program
 - CFDA Number 20.205 – Highway Planning and Construction.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Fairfield did not qualify as a low-risk auditee.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part II: Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

II-A-06 Management Financial Information – 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 for City Council comparison to the monthly financial report.

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

Response – The City Clerk, Office Manager and Senior Field Auditor worked out a process for monthly reconciliation between the bank statement and the monthly finance report. The process has been implemented.

Conclusion – Response accepted.

II-B-06 Separately Maintained Records – The bookkeeping and custody of the Special Revenue, Library Memorial and Library Building Trust Funds and the Permanent, Library Endowment Fund were under the control of the Director of the Library in a location separate from the Clerk's office. These accounts were not reflected in the City's accounting system or monthly fund balances.

The bookkeeping and custody of the Enterprise, Logan Apartments Deposit account was under the control of the Manager of the Logan Apartments in a location separate from the Clerk's office. This account was not reflected in the City's annual budget. Duties are not segregated as the Logan Apartments Manager prepares tenant certifications, prepares housing assistance payment requests, collects rent, reconciles rent receivable each month, collects and refunds security deposits and performs other accounting duties for the apartments. Additionally, receipts were issued, but the receipts were not prenumbered and were numbered by Logan Apartment staff as issued.

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

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

In addition, control activities at Logan Apartments should be reviewed to obtain the maximum internal control possible under the circumstances. Also, prenumbered receipts should be issued at the time of collection to provide additional control over collections and recording of receipts.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

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

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

Conclusion – Response acknowledged. Although the Library Board of Trustees will maintain control over the Library Funds, the Library Memorial, Library Building Trust and Library Endowment Fund activity should be reflected in the City's monthly Clerk report.

II-C-06 Electronic Data Processing Systems – The City does not have a written policy for maintaining password privacy and confidentiality.

Recommendation – The City should develop a written policy addressing password privacy in order to improve the City's control over its computer-based systems.

Response – Passwords are now required by the operating software and requires the passwords to be changed automatically after specified periods of time. A written statement regarding maintenance of password privacy and confidentiality will be developed as time allows.

Conclusion – Response accepted.

II-D-06 Revolving Account – The City maintains a revolving account for miscellaneous receipt and disbursement recording. A true revolving account should have a balance of zero as only funds receipted in are then disbursed out. The City's revolving account has a deficit balance of \$109,819 at June 30, 2006.

Recommendation – The City should determine why the revolving account has a deficit balance and make corrective transfers to correctly reflect the fund balance as zero. The City should then close the fund and record the receipt and disbursement activity in the appropriate governmental fund.

Response – Work is continuing to determine the appropriate funds that need to be transferred from. The account will be eliminated when these funds are identified.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over the major programs were noted.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the public safety, public works and culture and recreation functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – Functions will be amended as necessary.

Conclusion – Response accepted.

IV-B-06 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

IV-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-06 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-E-06 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-06 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

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

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Also, the City went into closed session on October 10 and November 11, 2005. However, the minutes record did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Recommendation – The City should publish minutes as required. The City should enter into closed sessions in accordance with Chapter 21 of the Code of Iowa.

Response – The City Clerk will send the minutes to the newspaper as soon as they are completed. Any closed session will have the specific allowance under Chapter 21 of the Code of Iowa noted in the motion to go into closed session.

Conclusion – Response accepted.

IV-G-06 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

IV-H-06 Financial Condition – At June 30, 2006, the City had deficit balances in the following accounts:

Fund/Account	Amount
General:	
Revolving	\$ (109,819)
Capital Projects:	
Capital Improvement Replacement	(208,698)
Recreation Trails	(25,773)
Sidewalk Improvements	(18,965)
Walton Lake Subdivision	(428,192)
Madison and Grimes	(225,280)
2000 RISE Project	(69,266)
Airport Apron	(88,493)
Forth Street Traffic Signals	(55,942)
Bypass Forcemain Relocation	(431,439)
Bypass Cross Interceptor Relocation	(709,247)
Bypass Crow Creek Relocation	(612,855)
Bypass Water Main Relocation	(292,422)
Runway 18/36 Phase I	(82,263)
CDBG	(39,055)
Enterprise:	
Water-State Revolving	(278,130)
Sewer Utility Replacement	(458,042)

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

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Response – The City of Fairfield issued General Obligation Bonds and Local Option Sales and Services Revenue Bonds in September 2006. The proceeds from these bond issues will eliminate most of these deficit balances. In addition, grant reimbursements received after the close of the fiscal year will eliminate other deficits.

Conclusion – Response accepted.

- IV-I-06 Chart of Accounts – In January 2003, the City adopted the revised Uniform City Chart of Accounts for reporting purposes. However, as of June 30, 2006, 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 – Training on GASB 34 converter software continues. Once in service, the existing accounting software will continue to be utilized and the data generated by that system will be exported to the GASB 34 reporter program for conversion.

Conclusion – Response accepted.

- IV-J-06 Revenue Bonds and Loan Notes – No instances of non-compliance with the revenue bond and water revenue capital loan note resolutions were noted.

- IV-K-06 Unclaimed Property – Chapter 556.11 of the Code of Iowa requires all unclaimed property, including outstanding payroll checks, greater than a year old and all other checks greater than three years old be reported to the State Treasurer as unclaimed property by November 1 for the preceding fiscal year. The City did not properly report these items to the State Treasurer for the fiscal year ended June 30, 2006.

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

Response – The Office Manager has been instructed to follow these procedures for any unclaimed property.

Conclusion – Response accepted.

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

Recommendation – The City should develop a written policy regarding the use of City owned vehicles. If City owned vehicles are used for personal use, the City should develop procedures to ensure non-cash taxable fringe benefits are reported as taxable wages to the employee as required by the Internal Revenue Service.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Response – Either appropriate forms will be developed or vehicle usage policies revised to address this recommendation. Internal Revenue Service regulations will be reviewed with employees and if applicable non-cash benefits will be reported.

Conclusion – Response accepted.

IV-M-06 Sewer Utility Replacement Account – Ordinance number 733 requires the transfer of \$31,250 quarterly to the Sewer Utility Replacement account. Two of the required 4 transfers totaling \$62,500 were not made for the year ended June 30, 2006.

Recommendation – The City should make transfers as required by the City Ordinance.

Response – Transfers will be made as required by City Ordinance.

Conclusion – Response accepted.

IV-N-06 Other Information Required by Bond Resolutions –

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

Insurance – The following insurance policies were in force at June 30, 2006:

Insurer	Description	Amount	Expiration Dates
Iowa Communities Assurance Pool	Property	\$ 36,127,790	Nov 1, 2006
Iowa Communities Assurance Pool	General Liability	10,000,000	Nov 1, 2006
	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, 2006
EMC Insurance Co.	Surety Bond Coverage - Blanket	300,000	Jan 1, 2007
Old Republic Insurance Co.	Airport Bodily Injury	5,000,000	Mar 13, 2007

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Statistical Information:

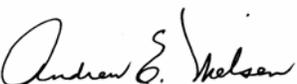
Number of customers at June 30, 2005:	4,641
	<u>Rate Per</u> <u>Cubic Foot</u>
Water Rate Schedule – Monthly	
Monthly account fee (all meter sizes)	\$ 7.00
0 –1,500 Cubic Feet / month	0.0245
1,500 - 10,000 Cubic Feet / month	0.02205
10,000 – 50,000 Cubic Feet / month	0.0196
above 50,000 Cubic Feet / month	0.01715

City of Fairfield

Staff

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