



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

June 30, 2009

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 \$12,241,695 for the year ended June 30, 2008, a 44 percent decrease from 2007. The receipts included \$3,639,821 in property tax, \$232,613 from tax increment financing, \$3,560,693 from charges for service, \$1,182,673 from operating grants, contributions and restricted interest, \$2,254,261 from capital grants, contributions and restricted interest, \$796,110 from local option sales tax, \$126,487 from hotel/motel tax, \$82,778 from unrestricted interest on investments, \$67,545 from the sale of assets and \$298,714 from other general receipts.

Disbursements for the year totaled \$13,165,005, a 34 percent decrease from 2007, and included \$3,796,689 for capital projects, \$1,626,961 for public safety and \$1,490,126 for culture and recreation. Also, disbursements for business type activities totaled \$3,719,743.

The decrease in receipts is due primarily to the issuance of \$7,955,000 of bonds during fiscal year 2007 while there were no debt issuances during fiscal year 2008. Disbursements decreased due to various capital projects winding down during fiscal year 2008.

A copy of the audit report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/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, 2008

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City of Fairfield

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2008)		
Edward Malloy	Mayor	Jan 2009
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	(Resigned)
Martha Norbeck	Council Member	Jan 2010
John Brown	City Administrator	Indefinite
Joy Messer	City Clerk	Indefinite
John Morrissey	City Attorney	Indefinite
(After January 2008)		
Edward Malloy	Mayor	Jan 2009
Myron Gookin	Council Member/Mayor Pro tem	Jan 2010
Martha Norbeck	Council Member	Jan 2010
John F. Revolinski	Council Member	Jan 2010
Ron Adam	Council Member	Jan 2012
Daryn Hamilton	Council Member	Jan 2012
Ray Mottet	Council Member	Jan 2012
Susan Silvers	Council Member	Jan 2012
John Brown	City Administrator	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, 2008, 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, 2008, 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.

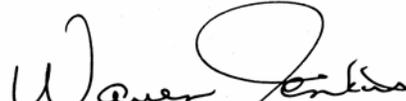
In accordance with Government Auditing Standards, we have also issued our report dated June 5, 2009 on our consideration of the City of Fairfield's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and 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 five years ended June 30, 2007 (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

June 5, 2009

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, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 47%, or approximately \$7,790,000, from fiscal 2007 to fiscal 2008. The decrease is primarily due to the City issuing \$5,707,212 of general obligation bonds and local option sales and services tax revenue bonds in fiscal year 2007 while no new debt was issued during fiscal year 2008. Also, there was a decrease of approximately \$1,700,000 in grant funds due to various capital projects winding down.
- Governmental activities disbursements decreased 39%, or approximately \$6,135,000, in fiscal 2008 from fiscal 2007. Capital projects disbursements decreased approximately \$6,069,000 due to various capital projects winding down.
- The City's total cash basis net assets decreased approximately \$923,000 from June 30, 2007 to June 30, 2008. Of this amount, the net assets of the governmental activities decreased approximately \$453,000 and the net assets of the business type activities decreased approximately \$470,000.

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 which helps answer this question.

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

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

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

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

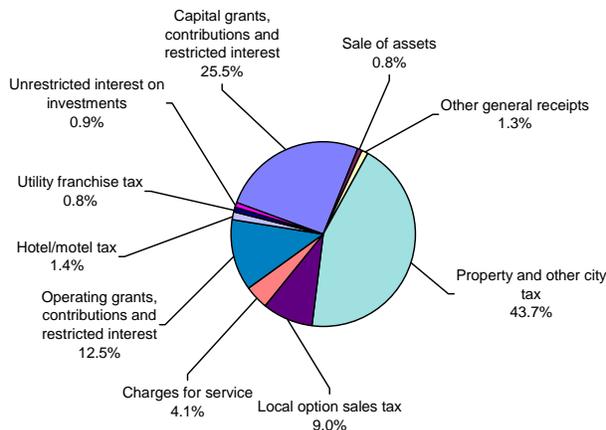
GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$1,040,914 to \$587,962. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

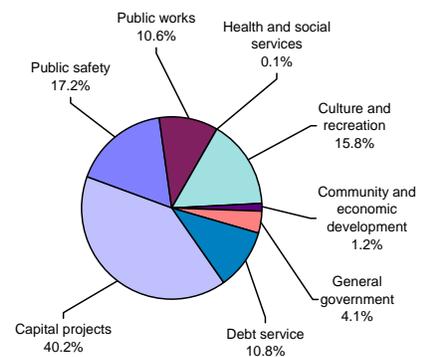
Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	Year ended June 30,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service	\$ 359	417
Operating grants, contributions and restricted interest	1,106	1,045
Capital grants, contributions and restricted interest	2,254	4,061
General receipts:		
Property and other city tax	3,872	3,562
Local option sales tax	796	796
Hotel/motel tax	127	113
Utility franchise tax	69	60
Unrestricted interest on investments	83	99
Bond proceeds	-	5,707
Construction warrant proceeds	-	500
Sale of assets	68	153
Other general receipts	118	129
Total receipts	8,852	16,642
Disbursements:		
Public safety	1,627	1,571
Public works	998	942
Health and social services	13	18
Culture and recreation	1,490	1,591
Community and economic development	117	101
General government	388	375
Debt service	1,016	1,117
Capital projects	3,796	9,865
Total disbursements	9,445	15,580
Change in cash basis net assets before transfers	(593)	1,062
Transfers, net	140	50
Change in cash basis net assets	(453)	1,112
Cash basis net assets beginning of year	1,041	(71)
Cash basis net assets end of year	\$ 588	1,041

Receipts by Source



Disbursements by Function



The City's total receipts and transfers for governmental activities were \$8,992,310. The total cost of all programs and services was \$9,445,262. The \$452,952 deficiency of receipts under disbursements was due, in part, to capital projects where expenses were incurred prior to reimbursement under various grant programs.

The cost of governmental activities this year was \$9,445,262. As shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was \$5,725,796 because some of the cost was paid by those directly benefited from the programs (\$359,311) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$3,360,155).

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 1,734	1,731
Sewer	920	698
Logan Apartments	128	110
Yard waste	347	344
Airport hangar	72	69
Operating grants, contributions and restricted interest	77	112
General receipts:		
Bond proceeds	-	2,200
Other general receipts	111	36
Total receipts	<u>3,389</u>	<u>5,300</u>
Disbursements:		
Water	2,116	2,222
Sewer	1,062	1,713
Logan Apartments	153	143
Yard waste	375	326
Airport hangar	14	19
Total disbursements	<u>3,720</u>	<u>4,423</u>
Change in cash basis net assets before transfers	(331)	877
Transfers, net	<u>(140)</u>	<u>50</u>
Change in cash basis net assets	(471)	827
Cash basis net assets beginning of year	<u>1,558</u>	<u>731</u>
Cash basis net assets end of year	<u>\$ 1,087</u>	<u>1,558</u>

Total business type activities receipts for the fiscal year were \$3,389,385 compared to \$5,299,633 last year. This decrease was due primarily to the sale of \$2,200,000 of general obligation bonds for sewer capital projects last year. There was no similar debt issuance in the current year. The cash balance decreased \$470,358 from the prior year. Total disbursements for the fiscal year decreased 16%, from approximately \$4.4 million in fiscal year 2007 to approximately \$3.7 million in fiscal year 2008 due, in part, to decreased capital project activity.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fairfield completed the year, its governmental funds reported a combined fund balance of \$587,962, a decrease of \$452,952 from last year's total of \$1,040,914. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$80,302 from the prior year to \$157,685. This decrease was due, in part, to the purchase of land for a parking lot. This disbursement totaled \$50,000 and was not budgeted for in the current fiscal year.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$51,540, or 100%, to \$102,419. During the year, the Capital Projects Fund returned \$43,320 to the Local Option Sales Tax Fund due to excess funds received in fiscal year 2007.
- The Special Revenue, Employee Benefits Fund cash balance increased \$5,403, or 4.5%, to \$126,366.
- The Special Revenue, UDAG-FALCO Project Fund cash balance decreased \$25,983, or 7.3%, to \$332,208. The decrease was due, in part, to the City increasing its support to the Fairfield Economic Development Association.
- The Special Revenue, Fairfield Library Foundation Fund cash balance increased \$44,123, or 19.9%, to \$265,557. The increase was due to the Foundation having no disbursements in fiscal year 2008.
- The Debt Service Fund cash balance increased \$238,534 to \$36,007. In 2006, the City sold bonds which included a payment in fiscal year 2007. This payment had not been budgeted for so the Debt Service Fund experienced a deficit. In fiscal year 2008, an additional tax levy was imposed to make up for the deficit.
- The Capital Projects Fund cash balance decreased \$732,384 to \$(1,038,657). This decrease is primarily due to ongoing project expenses prior to receiving grant reimbursements or proceeds from the sale of bonds or notes.
- The Permanent, Library Endowment Fund cash balance increased \$3,575 over the prior year to \$467,311. The increase was primarily a result of a transfer in of \$3,000 from the Special Revenue, Library Memorial Fund.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$302,539 to \$230,061, due primarily to work performed on the water main project.
- The Sewer Fund cash balance decreased \$115,515 to \$641,493, due primarily to replacement of the Greased Lightning Lift Station and undertaking a systematic study of the sewer system ordered by the Iowa Department of Natural Resources.
- The Airport Hangar Fund cash balance increased \$6,810 to \$151,169.

BUDGETARY HIGHLIGHTS

The City amended its budget one time during the year, increasing budgeted disbursements from \$14,307,524 to \$14,744,524, primarily due to capital projects activity.

The City's receipts were \$313,798 less than budgeted. This was primarily due to the City not requesting reimbursement for capital projects due to delays in capital project activity and receiving less than budgeted in the Proprietary Funds.

Total disbursements were \$1,586,510 less than the amended budget. This was due, in part, to delays in capital project activity.

The City exceeded the amounts budgeted in the culture and recreation and business type activities functions for the year ended June 30, 2008. Culture and recreation disbursements exceeded the budget due primarily to the purchase of land for a parking lot. This purchase occurred on June 30, 2008. Business type activities expenditures exceeded the budget due to underestimating disbursements in capital projects, the failure of Jordan Well which needed to be repaired and a pump motor for a failed lift station.

DEBT ADMINISTRATION

At June 30, 2008, the City had approximately \$15,213,000 in bonds and other long-term debt outstanding, compared to approximately \$16,480,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2008	2007
General obligation bonds	\$ 7,440	7,715
General obligation capital loan notes	2,010	2,320
Water revenue bonds	265	375
Water revenue capital loan notes	5,047	5,205
Local option sales and services tax revenue bonds	400	780
Lease purchase agreements	51	85
Total	\$ 15,213	16,480

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

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt of approximately \$9.9 million is significantly below its constitutional debt limit of approximately \$18.7 million.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The elected and appointed officials of the City of Fairfield considered many factors when setting the FY 2009 budget, tax rates and fees for various City services. The tax rate for fiscal year 2009 is \$16.58031 per thousand dollars of valuation. This compares to the tax rate for fiscal year 2008 of \$16.62330 per thousand dollars of valuation.

After the budget was certified, an error was discovered in the property valuations submitted by Jefferson County. This resulted in a decrease of approximately \$13,000,000 in the taxable value. As a response to this, the City Council chose not to fill two full-time positions. Also, the City has experienced a trend of increased valuations.

The City did undertake the first phase of a three phase downtown improvement project involving streetscapes, additional parking areas and lighting improvements. Currently we have finished phase 2 of this project and anticipate phase 3 to be completed in fiscal year 2010.

CONTACTING THE CITY’S FINANCIAL MANAGEMENT

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

Basic Financial Statements

City of Fairfield

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2008

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,626,961	86,271	112,742	-
Public works	997,862	-	822,629	-
Health and social services	12,786	-	-	-
Culture and recreation	1,490,126	244,896	170,523	-
Community and economic development	116,881	12,354	-	-
General government	387,699	15,790	-	-
Debt service	1,016,258	-	-	36,026
Capital projects	3,796,689	-	-	2,218,235
Total governmental activities	9,445,262	359,311	1,105,894	2,254,261
Business type activities:				
Water	2,116,108	1,733,952	-	-
Sewer	1,061,358	920,309	-	-
Logan apartments	153,304	127,944	76,779	-
Yard waste	375,233	347,330	-	-
Airport hangar	13,740	71,847	-	-
Total business type activities	3,719,743	3,201,382	76,779	-
Total	\$ 13,165,005	3,560,693	1,182,673	2,254,261

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
 Sale of capital assets
 Miscellaneous
 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
(1,427,948)	-	(1,427,948)
(175,233)	-	(175,233)
(12,786)	-	(12,786)
(1,074,707)	-	(1,074,707)
(104,527)	-	(104,527)
(371,909)	-	(371,909)
(980,232)	-	(980,232)
(1,578,454)	-	(1,578,454)
(5,725,796)	-	(5,725,796)
-	(382,156)	(382,156)
-	(141,049)	(141,049)
-	51,419	51,419
-	(27,903)	(27,903)
-	58,107	58,107
-	(441,582)	(441,582)
(5,725,796)	(441,582)	(6,167,378)
2,092,171	-	2,092,171
931,153	-	931,153
616,497	-	616,497
232,613	-	232,613
796,110	-	796,110
126,487	-	126,487
69,124	-	69,124
82,732	46	82,778
67,545	-	67,545
118,412	111,178	229,590
140,000	(140,000)	-
5,272,844	(28,776)	5,244,068
(452,952)	(470,358)	(923,310)
1,040,914	1,557,540	2,598,454
\$ 587,962	1,087,182	1,675,144
\$ 12,973	-	12,973
8,858	-	8,858
36,007	629,914	665,921
467,311	-	467,311
943,785	-	943,785
(880,972)	457,268	(423,704)
\$ 587,962	1,087,182	1,675,144

City of Fairfield

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

As of and for the year ended June 30, 2008

	Special Revenue			
	General	Local Option Sales Tax	Employee Benefits	UDAG- FALCO Project
Receipts:				
Property tax	\$ 1,947,489	-	616,497	-
Tax increment financing	-	-	-	-
Other city tax	195,611	796,110	-	-
Licenses and permits	29,359	-	-	-
Use of money and property	42,487	-	-	17
Intergovernmental	184,804	-	-	-
Charges for service	292,480	-	-	-
Special assessments	-	-	-	-
Miscellaneous	157,624	-	-	-
Total receipts	2,849,854	796,110	616,497	17
Disbursements:				
Operating:				
Public safety	1,257,462	28,282	341,217	-
Public works	140,297	36,716	9,863	-
Health and social services	10,200	2,586	-	-
Culture and recreation	1,301,706	41,820	100,343	-
Community and economic development	84,459	6,422	-	26,000
General government	344,453	6,996	36,250	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	3,138,577	122,822	487,673	26,000
Excess (deficiency) of receipts over (under) disbursements	(288,723)	673,288	128,824	(25,983)
Other financing sources (uses):				
Sale of capital assets	-	-	-	-
Operating transfers in	208,421	43,320	-	-
Operating transfers out	-	(665,068)	(123,421)	-
Total other financing sources (uses)	208,421	(621,748)	(123,421)	-
Net change in cash balances	(80,302)	51,540	5,403	(25,983)
Cash balances beginning of year	237,987	50,879	120,963	358,191
Cash balances end of year	\$ 157,685	102,419	126,366	332,208
Cash Basis Fund Balances				
Reserved for debt service	\$ -	-	-	-
Unreserved:				
General fund	157,685	-	-	-
Special revenue funds	-	102,419	126,366	332,208
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 157,685	102,419	126,366	332,208

See notes to financial statements.

Fairfield Library Foundation	Debt Service	Capital Projects	Permanent Library Endowment	Nonmajor	Total
-	931,153	144,682	-	-	3,639,821
-	-	-	-	232,613	232,613
-	-	-	-	-	991,721
-	-	-	-	-	29,359
16,631	-	-	-	28,998	88,133
-	-	2,209,779	-	822,629	3,217,212
-	-	-	-	-	292,480
-	36,026	8,456	-	-	44,482
27,492	-	12,095	1,510	50,223	248,944
44,123	967,179	2,375,012	1,510	1,134,463	8,784,765
-	-	-	-	-	1,626,961
-	-	-	-	810,986	997,862
-	-	-	-	-	12,786
-	-	-	935	45,322	1,490,126
-	-	-	-	-	116,881
-	-	-	-	-	387,699
-	1,016,258	-	-	-	1,016,258
-	-	3,796,689	-	-	3,796,689
-	1,016,258	3,796,689	935	856,308	9,445,262
44,123	(49,079)	(1,421,677)	575	278,155	(660,497)
-	-	67,545	-	-	67,545
-	287,613	665,068	3,000	5,000	1,212,422
-	-	(43,320)	-	(240,613)	(1,072,422)
-	287,613	689,293	3,000	(235,613)	207,545
44,123	238,534	(732,384)	3,575	42,542	(452,952)
221,434	(202,527)	(306,273)	463,736	96,524	1,040,914
265,557	36,007	(1,038,657)	467,311	139,066	587,962
-	36,007	-	-	-	36,007
-	-	-	-	-	157,685
265,557	-	-	-	139,066	965,616
-	-	(1,038,657)	-	-	(1,038,657)
-	-	-	467,311	-	467,311
265,557	36,007	(1,038,657)	467,311	139,066	587,962

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, 2008

	Enterprise				Total
	Water	Sewer	Airport Hangar	Nonmajor	
Operating receipts:					
Use of money and property	\$ -	-	32,840	127,944	160,784
Charges for service	1,733,952	920,309	-	343,430	2,997,691
Intergovernmental	-	-	-	76,779	76,779
Miscellaneous	79,571	25,534	42,710	6,270	154,085
Total operating receipts	1,813,523	945,843	75,550	554,423	3,389,339
Operating disbursements:					
Business type activities	1,558,507	1,061,358	13,740	528,537	3,162,142
Excess (deficiency) of operating receipts over (under) operating disbursements	255,016	(115,515)	61,810	25,886	227,197
Non-operating receipts (disbursements):					
Interest on investments	46	-	-	-	46
Capital projects	(100,238)	-	-	-	(100,238)
Debt service	(457,363)	-	-	-	(457,363)
Net non-operating receipts (disbursements)	(557,555)	-	-	-	(557,555)
Excess (deficiency) of receipts over (under) disbursements	(302,539)	(115,515)	61,810	25,886	(330,358)
Operating transfers out	-	-	(55,000)	(85,000)	(140,000)
Net change in cash balances	(302,539)	(115,515)	6,810	(59,114)	(470,358)
Cash balances beginning of year	532,600	757,008	144,359	123,573	1,557,540
Cash balances end of year	\$ 230,061	641,493	151,169	64,459	1,087,182
Cash Basis Fund Balances					
Reserved for debt service	\$ 629,914	-	-	-	629,914
Unreserved	(399,853)	641,493	151,169	64,459	457,268
Total cash basis fund balances	\$ 230,061	641,493	151,169	64,459	1,087,182

See notes to financial statements.

City of Fairfield

Notes to Financial Statements

June 30, 2008

(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. 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. Their purpose is to benefit the City of Fairfield (the primary government) by soliciting contributions and managing those funds. The funds of these components units are reported as part of the City and blended into the Special Revenue Funds.

Jointly Governed Organizations

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

E911 Joint Service Board and Jefferson County Emergency Management Agency. The City also participates in the Jefferson County Regional Service Agency, a jointly governed organization established pursuant to Chapter 28E of the Code of Iowa.

B. Basis of Presentation

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

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in 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 Local Option Sales Tax Fund is used to account for local option sales tax collections.

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

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

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

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

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

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

The City reports the following major proprietary funds:

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

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

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

C. Measurement Focus and Basis of Accounting

The City 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, 2008, disbursements exceeded the amounts budgeted in the culture and recreation and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2008 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, 2008, the City and its component units had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Mutual Funds	\$ 168,394	169,915	N/A
Money Market	60,237	60,237	N/A
Stocks	1,145	1,145	N/A
Corporate Bonds	5,006	4,819	Dec. 15, 2008

Additionally, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,132 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

Credit risk – The Bank of America corporate bonds carry a rating of AA-/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 requires the City to diversify its investments to eliminate the risk of loss resulting from the over concentration of assets in a specific maturity, issuer or class of securities.

(3) Lease-Purchase Agreements

The City has entered into 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 9.21% per annum, and the present value of net minimum lease payments under agreements in effect at June 30, 2008:

Year ending June 30,	Integrated		
	Tool Carrier	Dump Truck	Total
2009	\$ 25,647	11,973	37,620
2010	-	11,973	11,973
2011	-	7,270	7,270
Total minimum lease payments	25,647	31,216	56,863
Less amount representing interest	(1,215)	(4,631)	(5,846)
Present value of net minimum lease payments	\$ 24,432	26,585	51,017

During the year ended June 30, 2008, the City made principal payments of \$34,113 and interest payments of \$5,417 on the above capital leases and a financial software capital lease which was paid off.

(4) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation			
	Bonds		Capital Loan Notes	
	Principal	Interest	Principal	Interest
2009	\$ 515,000	307,570	325,000	94,583
2010	535,000	284,720	335,000	79,310
2011	560,000	260,840	250,000	63,475
2012	585,000	235,800	200,000	51,445
2013	430,000	209,600	210,000	42,445
2014-2018	2,440,000	775,000	690,000	66,750
2019-2023	2,370,000	242,000	-	-
Total	\$ 7,435,000	2,315,530	2,010,000	398,008

Year Ending June 30,	Water Revenue				Local Option Sales and Services Tax Revenue Bonds		Total	
	Bonds		Capital Loan Notes		Principal	Interest	Principal	Interest
	Principal	Interest	Principal	Interest				
2009	115,000	13,685	164,000	154,530	400,000	15,000	1,519,000	585,368
2010	125,000	7,187	166,000	149,610	-	-	1,161,000	520,827
2011	-	-	304,000	144,630	-	-	1,114,000	468,945
2012	-	-	314,000	135,510	-	-	1,099,000	422,755
2013	-	-	324,000	126,090	-	-	964,000	378,135
2014-2018	-	-	1,784,000	478,260	-	-	4,914,000	1,320,010
2019-2023	-	-	1,991,320	192,540	-	-	4,361,320	434,540
Total	240,000	20,872	5,047,320	1,381,170	400,000	15,000	15,132,320	4,130,580

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$7,065,000 of water revenue bonds and water revenue capital loan notes issued in May 1995 and February 2003. Proceeds from the bonds and notes provided financing for the construction of water main improvements and extensions. The bonds and notes are payable solely from water customer net receipts and are payable through 2023. Annual principal and interest payments on the bonds and notes are expected to require less than 175 percent of net receipts. The total principal and interest remaining to be paid on the bond and note issues is \$6,689,362. For the current year, total principal and interest paid on the May 1995 and February 2003 bonds and notes was \$443,950 and total customer net receipts were \$255,016.

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

Water Revenue Bonds

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate water revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers of 25 percent of the amount required to be deposited in the water revenue bond sinking account shall be made to a water reserve account until \$116,500 is accumulated. At June 30, 2008, 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, 2008, the City had drawn \$5,796,320 of the \$5,900,000 authorized. Wells Fargo Bank Iowa, N.A. has the remaining \$103,680 held in trust which the City will request when the project has been finalized. An initiation fee of 1% of the authorized borrowing for the water revenue capital loan notes was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee was withheld by the bank from the first proceeds of the water revenue capital loan notes drawn by the City during the year ended June 30, 2004. The final drawdown of \$103,680 will be used to reduce the deficit balance of the SRF project.

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

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

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

Local Option Sales and Services Tax Revenue Bonds

On September 1, 2006, the City issued local option sales and services tax revenue bonds for the purpose of paying costs of land acquisition for the Fairfield Civic Center and providing grant funds to Jefferson County Civic Center, Inc. The City has pledged 70 percent of future local option sales and services tax receipts to repay \$1,030,000 in local option sales and services tax revenue bonds. The bonds are payable solely from the proceeds of the local option sales tax received by the City in accordance with Chapter 422B.12(3) of the Code of Iowa. Annual principal and interest payments on the bonds are expected to require less than 52 percent of receipts. The total principal and interest remaining to be paid on the notes is \$415,000. For the current year, principal and interest paid and total local option sales and services tax receipts were \$409,250 and \$796,110, respectively. The bonds are not a general obligation of the City, but the debt is subject to the constitutional debt limitation of the City.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- (a) The bonds will only be redeemed from the local option sales tax received by the City and the bond holders hold a lien on the future revenues received.
- (b) Sufficient deposits shall be made to a separate sinking account for the purpose of making the bond principal and interest payments when due.

As of June 30, 2008, the City has not established the required sinking account.

(5) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$114,455, \$107,639 and 104,648, respectively, equal to the required contributions for each year.

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

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, can not be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2008, 2007 and 2006 were \$178,084, \$189,732 and \$178,198, respectively, which met the required minimum contributions for each year.

(6) 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, 2008, primarily relating to the General and Enterprise Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 80,000
Sick Leave	<u>32,000</u>
	<u>\$ 112,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2008. 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.

(7) 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 563 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contribution to the Pool for the year ended June 30, 2008 was \$204,625.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in the aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured 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, 2008, 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.

(8) Development Rebate Agreement

In November 2005, the City entered into a development rebate agreement to assist in an urban renewal project. The City agreed to rebate incremental tax paid by the developer in exchange for the construction of Jefferson County Civic Center, Inc., (Civic Center) as set forth in the urban renewal plan. The agreement provides for the exclusion from taxation of the Civic Center for a period of two years during construction. The incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of thirty years beginning with the tax year in which the property tax on the completed value of the Civic Center is first paid. No rebates were made during the year ended June 30, 2008.

(9) Deficit Balances

The General Fund, Emergency Levy Account had a deficit balance of \$25 and the General Fund, Revolving Account had a deficit balance of \$92,998 at June 30, 2008. The deficit in the General Fund, Revolving Account will be eliminated by collections from Jefferson County and transfers from other funds.

The Capital Projects Fund, Safe Routes to School, Recreation Trails, Highway 1 Bridge Project, Sidewalk Improvements, Walton Lake Subdivision, Airport Apron, Bypass Forcemain Relocation, Bypass Cross Interceptor Relocation, Bypass Crow Creek Relocation, Bypass Water Main Relocation, Runway 18/36 Phase I, Runway 18/36 Phase II, Runway 18/36 Phase III, CDBG and 2006 Street Project Accounts had deficit balances

of \$29,184, \$773, \$13,157, \$99,417, \$212,945, \$88,493, \$199,800, \$323,255, \$162,631, \$292,422, \$150,349, \$442,579, \$294,934, \$20,737 and \$27,156, respectively, at June 30, 2008. These deficit balances were a result of project costs incurred prior to availability of funds. The deficit balances will be eliminated by local sources, grants and bonds or notes issued after June 30, 2008.

The Enterprise Funds, Water-State Revolving Account and Water-Utility had deficit balances of \$278,130 and \$266,973, respectively, at June 30, 2008. These deficits will be eliminated by local sources, grants, future bond or note sales and transfers from other accounts.

(10) Interfund Transfers

Transfer To	Transfer From	Amount
General	Special Revenue:	
	Employee Benefits	\$ 123,421
	Enterprise:	
	Logan Apartments	85,000
		<u>208,421</u>
Special Revenue:		
Local Option Sales Tax	Capital Projects	43,320
		<u>43,320</u>
Library Building Trust	Special Revenue:	
	Fairfield Public Library House	5,000
		<u>5,000</u>
Debt Service	Special Revenue:	
	Urban Renewal	
	Tax Increment Financing	232,613
	Enterprise:	
Airport Hangar	55,000	
		<u>287,613</u>
Capital Projects	Special Revenue:	
	Local Option Sales Tax	665,068
		<u>665,068</u>
Permanent:	Special Revenue:	
Library Endowment	Library Memorial	3,000
		<u>3,000</u>
Total		<u>\$ 1,212,422</u>

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

(11) Contractual Commitments

The City has entered into various construction contracts totaling \$11,141,435. The unpaid contract balances at June 30, 2008 totaled \$5,006,294. 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 2009.

(12) Subsequent Events

In January 2009, the City purchased a snow plow for the airport for \$246,701. The City signed a grant agreement with the Federal Aviation Administration in June 2008 to provide up to \$222,480 in federal awards to partially cover the cost of the snow plow.

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, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 3,639,821	-	-
Tax increment financing	232,613	-	-
Other city tax	991,721	-	-
Licenses and permits	29,359	-	-
Use of money and property	88,133	160,830	17,701
Intergovernmental	3,217,212	76,779	-
Charges for service	292,480	2,997,691	-
Special assessments	44,482	-	-
Miscellaneous	248,944	154,085	58,055
Total receipts	8,784,765	3,389,385	75,756
Disbursements:			
Public safety	1,626,961	-	-
Public works	997,862	-	-
Health and social services	12,786	-	-
Culture and recreation	1,490,126	-	6,991
Community and economic development	116,881	-	-
General government	387,699	-	-
Debt service	1,016,258	-	-
Capital projects	3,796,689	-	-
Business type activities	-	3,719,743	-
Total disbursements	9,445,262	3,719,743	6,991
Excess (deficiency) of receipts over (under) disbursements	(660,497)	(330,358)	68,765
Other financing sources, net	207,545	(140,000)	3,000
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(452,952)	(470,358)	71,765
Balances beginning of year	1,040,914	1,557,540	726,456
Balances end of year	\$ 587,962	1,087,182	798,221

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
3,639,821	3,679,130	3,679,130	(39,309)
232,613	235,849	235,849	(3,236)
991,721	1,027,113	1,067,113	(75,392)
29,359	24,600	24,600	4,759
231,262	19,700	19,700	211,562
3,293,991	3,740,086	3,740,086	(446,095)
3,290,171	3,612,167	3,612,167	(321,996)
44,482	18,047	18,047	26,435
344,974	15,500	15,500	329,474
<u>12,098,394</u>	<u>12,372,192</u>	<u>12,412,192</u>	<u>(313,798)</u>
1,626,961	1,628,496	1,643,496	16,535
997,862	1,019,022	1,049,022	51,160
12,786	15,800	20,800	8,014
1,483,135	1,397,864	1,422,864	(60,271)
116,881	240,605	250,605	133,724
387,699	390,187	400,187	12,488
1,016,258	1,224,408	1,226,408	210,150
3,796,689	5,038,750	5,188,750	1,392,061
3,719,743	3,352,392	3,542,392	(177,351)
<u>13,158,014</u>	<u>14,307,524</u>	<u>14,744,524</u>	<u>1,586,510</u>
(1,059,620)	(1,935,332)	(2,332,332)	1,272,712
64,545	1,500	1,001,500	(936,955)
(995,075)	(1,933,832)	(1,330,832)	335,757
1,871,998	2,927,402	1,798,956	73,042
<u>876,923</u>	<u>993,570</u>	<u>468,124</u>	<u>408,799</u>

City of Fairfield

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

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 nine 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 and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the budget was amended one time, increasing disbursements by \$437,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the culture and recreation and business type activities functions.

Other Supplementary Information

City of Fairfield

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

As of and for the year ended June 30, 2008

	Road Use Tax	Urban Renewal Tax Increment Financing	Live on The Square	Indian Creek Escrow
Receipts:				
Tax increment financing	-	232,613	-	-
Use of money and property	-	-	-	113
Intergovernmental	822,629	-	-	-
Miscellaneous	-	-	4,630	-
Total receipts	822,629	232,613	4,630	113
Disbursements:				
Operating:				
Public works	810,986	-	-	-
Culture and recreation	-	-	6,863	-
Total disbursements	810,986	-	6,863	-
Excess (deficiency) of receipts over (under) disbursements	11,643	232,613	(2,233)	113
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	-	(232,613)	-	-
Total other financing sources (uses)	-	(232,613)	-	-
Net change in cash balances	11,643	-	(2,233)	113
Cash balances beginning of year	1,330	8,858	4,229	16,399
Cash balances end of year	\$ 12,973	8,858	1,996	16,512
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	\$ 12,973	8,858	1,996	16,512

See accompanying independent auditor's report.

Special Revenue					
Library Memorial	Library Building Trust	Fairfield Public Library House	Friends of the Fairfield Library	Fairfield Park and Recreation Foundation	Total
-	-	-	-	-	232,613
22,415	-	5,400	-	1,070	28,998
-	-	-	-	-	822,629
14,540	2,000	-	7,713	21,340	50,223
36,955	2,000	5,400	7,713	22,410	1,134,463
-	-	-	-	-	810,986
26,042	3,962	2,399	6,056	-	45,322
26,042	3,962	2,399	6,056	-	856,308
10,913	(1,962)	3,001	1,657	22,410	278,155
-	5,000	-	-	-	5,000
(3,000)	-	(5,000)	-	-	(240,613)
(3,000)	5,000	(5,000)	-	-	(235,613)
7,913	3,038	(1,999)	1,657	22,410	42,542
2,738	13,714	7,970	-	41,286	96,524
10,651	16,752	5,971	1,657	63,696	139,066
10,651	16,752	5,971	1,657	63,696	139,066

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, 2008

	Enterprise		Total
	Logan Apartments	Yard Waste	
Operating receipts:			
Use of money and property	\$ 127,944	-	127,944
Charges for service	-	343,430	343,430
Intergovernmental	76,779	-	76,779
Miscellaneous	2,370	3,900	6,270
Total operating receipts	207,093	347,330	554,423
Operating disbursements:			
Business type activities	153,304	375,233	528,537
Excess (deficiency) of operating receipts over (under) operating disbursements	53,789	(27,903)	25,886
Operating transfers out	(85,000)	-	(85,000)
Net change in cash balances	(31,211)	(27,903)	(59,114)
Cash balances beginning of year	88,785	34,788	123,573
Cash balances end of year	\$ 57,574	6,885	64,459
Cash Basis Fund Balances			
Unreserved	\$ 57,574	6,885	64,459

See accompanying independent auditor's report.

City of Fairfield
Schedule of Indebtedness
Year ended June 30, 2008

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Street construction	Jan 2, 1958	2.60%	\$ 85,000
Library and street construction	May 1, 1995	5.00-5.60	3,300,000
Essential corporate purpose	Sep 1, 2006	4.00	6,925,000
Total			
General obligation capital loan notes:			
General corporate purpose - series 2001 A	May 1, 2001	4.00-4.80%	\$ 4,330,000
Urban renewal project - series 2001B	May 1, 2001	6.00-6.45	325,000
Total			
Revenue bonds:			
Water	Jun 1, 1977	4.90-5.70%	\$ 1,500,000
Water	May 1, 1995	4.60-5.75	1,165,000
Total			
Water revenue capital loan notes:			
State revolving	Feb 13, 2003 *	3.00%	\$ 5,900,000
Local option sales and services tax revenue bonds	Sep 1, 2006	3.75%	\$ 1,030,000
Capital lease-purchase agreements:			
Financial software	Feb 1, 2005	12.65%	\$ 8,100
Integrated tool carrier	Sep 29, 2005	4.25	96,234
Dump truck	Dec 21, 2006	9.21	47,300
Total			

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

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Principal and Interest Due and Unpaid
5,000	-	-	5,000	-	5,520
785,000	-	140,000	645,000	43,495	-
6,925,000	-	135,000	6,790,000	277,000	-
\$ 7,715,000	-	275,000	7,440,000	320,495	5,520
2,170,000	-	275,000	1,895,000	99,595	-
150,000	-	35,000	115,000	9,567	-
\$ 2,320,000	-	310,000	2,010,000	109,162	-
25,000	-	-	25,000	-	32,838
350,000	-	110,000	240,000	19,790	-
\$ 375,000	-	110,000	265,000	19,790	32,838
5,205,320	-	158,000	5,047,320	156,160	-
780,000	-	380,000	400,000	29,250	-
1,804	-	1,804	-	77	-
47,999	-	23,567	24,432	2,080	-
35,327	-	8,742	26,585	3,260	-
\$ 85,130	-	34,113	51,017	5,417	-

City of Fairfield
 Bond and Note Maturities
 June 30, 2008

Year Ending June 30,	General Obligation Bonds					General Obligation Capital Loan Notes				
	Library and Street Construction		Essential Corporate Purpose		Total	General Corporate Purpose - Series 2001A		Urban Renewal Project - Series 2001B		
	Issued May 1, 1995		Issued Sep 1, 2006			Issued May 1, 2001		Issued May 1, 2001		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2009	5.500%	\$ 150,000	4.000%	\$ 365,000	515,000	4.500%	\$ 290,000	6.35%	\$ 35,000	
2010	5.600	155,000	4.000	380,000	535,000	4.500	295,000	6.40	40,000	
2011	5.600	165,000	4.000	395,000	560,000	4.500	210,000	6.45	40,000	
2012	5.600	175,000	4.000	410,000	585,000	4.500	200,000		-	
2013		-	4.000	430,000	430,000	4.600	210,000		-	
2014		-	4.000	450,000	450,000	4.700	220,000		-	
2015		-	4.000	465,000	465,000	4.750	230,000		-	
2016		-	4.000	485,000	485,000	4.800	240,000		-	
2017		-	4.000	510,000	510,000		-		-	
2018		-	4.000	530,000	530,000		-		-	
2019		-	4.000	555,000	555,000		-		-	
2020		-	4.000	580,000	580,000		-		-	
2021		-	4.000	605,000	605,000		-		-	
2022		-	4.000	630,000	630,000		-		-	
2023		-		-	-		-		-	
Total		<u>\$ 645,000</u>		<u>\$ 6,790,000</u>	<u>7,435,000</u>		<u>\$ 1,895,000</u>		<u>\$ 115,000</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						
Total	Bonds		Capital Loan		Local Option Sales and Services Tax Revenue Bonds	
	Issued May 1, 1995		Notes - State Revolving Issued Feb 13, 2003		Issued Sep 1, 2006	
	Interest Rates	Amount	Interest Rates *	Amount	Interest Rates	Amount
325,000	5.65%	\$ 115,000	3.00%	\$ 164,000	3.75%	\$ 400,000
335,000	5.75	125,000	3.00	166,000		-
250,000		-	3.00	304,000		-
200,000		-	3.00	314,000		-
210,000		-	3.00	324,000		-
220,000		-	3.00	334,000		-
230,000		-	3.00	345,000		-
240,000		-	3.00	357,000		-
-		-	3.00	368,000		-
-		-	3.00	380,000		-
-		-	3.00	393,000		-
-		-	3.00	405,000		-
-		-	3.00	419,000		-
-		-	3.00	432,000		-
-		-	3.00	342,320		-
<u>2,010,000</u>		<u>\$ 240,000</u>		<u>\$ 5,047,320</u>		<u>\$ 400,000</u>

Schedule 5

City of Fairfield

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

For the Last Six Years

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

See accompanying independent auditor's report.

City of Fairfield
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2008

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Housing and Urban Development - Office of Housing: Section 8 Housing Assistance Payments Program - Special Allocations	14.195	IA050008008	\$ 76,779
U.S. Department of Transportation: Federal Aviation Administration: Airport Improvement Program	20.106	3-19-0033-08-2005	93,859
Airport Improvement Program	20.106	3-19-0033-09-2006	1,904,079
			<u>1,997,938</u>
Total direct			<u>2,074,717</u>
Indirect:			
U.S. Department of Housing and Urban Development: Iowa Department of Economic Development: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	05-HSG-002	153,754
U.S. Department of Justice - Office of Juvenile Justice and Delinquency Prevention: Iowa Department of Human Rights: Enforcing Underage Drinking Laws Program	16.727	27-JD06-F07	2,268
U.S. Department of Transportation - National Highway Traffic Safety Administration: Iowa Department of Public Safety - Governor's Traffic Safety Bureau: Safety Incentive Grants for Use of Seatbelts	20.604	08-157, Task 64	4,259
U.S. Department of Homeland Security: Iowa Department of Public Defense - Emergency Management Division: Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		29,265
Total indirect			<u>189,546</u>
Total			<u>\$ 2,264,263</u>

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

See accompanying independent auditor's report.

City of Fairfield



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
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Independent Auditor's Report on 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, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated June 5, 2009. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-08, II-B-08 and II-C-08 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, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

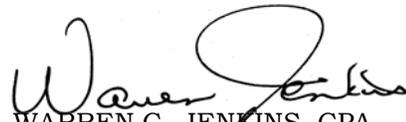
The City of Fairfield's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Fairfield's responses and, accordingly, we express no opinion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

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 5, 2009

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

City of Fairfield



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Fairfield, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2008. The City of Fairfield's major federal program is 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 program 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 its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

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

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

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-08 to be a significant deficiency.

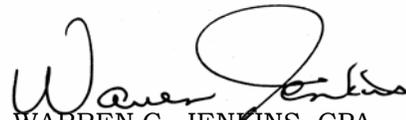
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. We do not consider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

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 5, 2009

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

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

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over the major program was disclosed by the audit of the financial statements, which is not considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (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 program was CFDA Number 20.106 – Airport Improvement Program.
- (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, 2008

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-08 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.

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

Response – We believe we do such a report but that it has not been made a part of the monthly finance report to the City Council. We will start including this report with the overall monthly report.

Conclusion – Response accepted.

II-B-08 Logan Apartments – The City owns an apartment complex with forty-seven units. The following were noted:

- 1) The bookkeeping and custody of the Enterprise, Logan Apartments Deposit account was under the control of the Manager of the Logan Apartments in a location separate from the Clerk's office. This account is not reflected in the City's books or annual budget.
- 2) Duties are not segregated as the Manager prepares the tenant certifications, prepares housing assistance payment requests, collects rent, reconciles the rent receivable each month, collects and refunds security deposits and performs other accounting duties for the apartments.
- 3) Pre-numbered receipts were not issued for all collections during fiscal year 2008.
- 4) A current listing of security and pet deposits by tenant is not prepared and maintained.
- 5) \$1,334 in cash and \$1,538 in checks which had not been deposited were found and brought to the auditor's attention by the new Manager of the Logan Apartments.

Recommendation – Control activities for the Logan Apartments should be reviewed to obtain the maximum internal control possible under the circumstances. A listing of rent receipts, including the issuance of prenumbered receipts for all cash collections, should be prepared. The receipt listing and prenumbered receipts should be reconciled each month to rent deposits per the City's records and rent receivables and reviewed by an independent person. In addition, a log of security and pet deposits by apartment should be maintained and reconciled to the City records periodically by an independent person. Also, the Logan Apartment deposit account should be turned over to the City Clerk and the activity recorded in the City records.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

All receipts should be deposited intact and in a timely manner.

Response – The deposit account has been turned over to the City Clerk and is part of our overall accounting system. We will continue to review procedures with the Logan Apartments Board and implement controls as possible. Segregation of duties will be a problem to the extent that the Logan Apartments only have one person to operate the office.

Conclusion – Response acknowledged. The City should review records maintained and include other City personnel to provide segregation of duties for the Logan Apartments.

II-C-08 Parks and Recreation Receipts Process – On January 12, 2009, the Office of Auditor of State released a special investigation report relating to the Parks and Recreation Department. During a follow-up of the Parks and Recreation Department receipt process, the following were noted:

- 1) A receipt log of all Parks and Recreation receipts is prepared in the department. However, an independent reconciliation is not performed to ensure all receipts per the receipt log were deposited by the City.
- 2) Certain locations use a cash register to receipt admissions and concession sales. There is no evidence the cash register tapes are reconciled to the receipts log maintained at the Parks and Recreation department by an independent person.
- 3) Prenumbered receipts are used only upon request of the payee or when a credit card is used.

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

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

Response – Numerous changes in Departmental procedures have been implemented as recommended by the State Auditor’s Office. While several procedures have been changed and others implemented it will be an ongoing process for several months.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

II-D-08 Separately Maintained Records – The Special Revenue, Indian Creek Escrow, Library Memorial, Library Building Trust, Fairfield Public Library House and Live on the Square Funds and the Permanent, Library Endowment Fund were not reflected in the City’s accounting system or monthly fund balances.

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

The Indian Creek Escrow, various Library funds and Live on the Square activity should be reflected in the City’s monthly financial statements.

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

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

II-E-08 Electronic Data Processing Systems – The City does not have a written policy to require users to use screen saver passwords to protect PCs during the day when they are left unattended.

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

Back-up tapes were not stored off site during fiscal year 2008. Also, the City does not have a written disaster recovery plan.

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

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

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

Response – Some work stations do not have screen saver passwords in effect presently. Policies for this will be reviewed with staff to ensure this is implemented system wide. However, it is sometimes necessary for the system administrator to access work stations for trouble shooting, etc.

Backup tapes are currently taken home with the City Administrator nightly.

While there is no written disaster recovery plan, there is insurance coverage in place to offset the cost of a catastrophic failure with the system.

Conclusion – Response acknowledged. A written disaster recovery plan should be developed to ensure the City resumes operation quickly and efficiently in the event of a disaster. In addition, the City should review its procedures for storing back-up tapes to ensure sensitive information included on the tapes is properly safeguarded.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

II-F-08 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 \$92,998 at June 30, 2008.

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 – This item is an ongoing project and as items are identified, billing reimbursement requests or transfers will be made.

Conclusion – Response accepted.

II-G-08 Financial Reporting – During fiscal year 2008, the City should have transferred \$557,279 of local option sales and services tax receipts to the Civic Center. However, only \$510,935 was actually transferred. In addition, significant amounts of interest were not recorded in the City’s financial statements. Adjustments were subsequently made by the City to properly transfer funds and include these amounts in the financial statements.

Recommendation – The City should implement procedures to ensure interest and required local option sales and services tax transfers are identified and included in the City’s financial statements.

Response – Closer review of these practices have been implemented. As noted, prior problems were addressed at the time of the field audit.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

**CFDA Number 20.106: Airport Improvement Program
Federal Award Year: 2004, 2005, 2006
U.S. Department of Transportation**

III-A-08 Airport Improvement Program Reports – Although the City has obtained reimbursement for the various phases of the Airport Improvement Projects through the use of the federal Electronic Clearing House Operation system, the City has not filed the required SF 271 reports, “Outlay Report and Request for Reimbursement for Construction Programs” for Phases I, II and III.

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

Response – We will implement such procedures.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-08 Certified Budget – Disbursements during the year ended June 30, 2008 exceeded the amounts budgeted in the culture and recreation and business type activities 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 – Each year the City does amend the budget based on the recommendations and forecasts of each department. One area was the result of a land purchase transaction on June 30, 2008. This transaction was not expected to occur until July of the following fiscal year. We will attempt to ensure the budget is amended sufficiently in the future.

Conclusion – Response accepted.

IV-B-08 Questionable Disbursements – The City paid \$240 to Bredeaux Pizza for an employee pizza party, which we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived has not been clearly documented. According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

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

Response – The City Council did approve these expenditures at a public meeting. This transaction and approval was reflected in the minutes.

Besides not approving an annual employee appreciation event, we are unclear about what proper documentation would be.

Conclusion – Response acknowledged. Article III, Section 31 of the Constitution of Iowa provides that public funds may only be spent for public benefit. This concept is also addressed in various court cases and opinions of the Attorney General, including the opinion dated April 25, 1979. Disbursements in the “gray” area should be evaluated and determined through the criteria of “public purpose” and the Council should document the public purpose served, including how the public benefits through the disbursement of public funds for the particular purpose such as an employee pizza party. Documentation should be in the Council minutes and/or through established Council policy. The decision and documentation should be in place prior to spending the public funds.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

- IV-C-08 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-D-08 Business Transactions – No business transactions between the City and City officials or employees were noted.
- IV-E-08 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-08 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

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

Recommendation – The City should publish minutes as required.

Response – A log of when minutes are transmitted to the local newspaper for publication will be kept. The vast majority of those minutes will be shown to have been sent to the paper prior to the 15 day limit. We will attempt to make sure all minutes are delivered within the proper time frame.

Conclusion – Response accepted.

- IV-G-08 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-08 Financial Condition – At June 30, 2008, the City had deficit balances in the following accounts:

Fund/Account	Amount
General:	
Emergency Levy	\$ (25)
Revolving	(92,998)
Capital Projects:	
Safe Routes to School	(29,184)
Recreation Trails	(773)
Highway 1 Bridge Project	(13,157)
Sidewalk Improvements	(99,417)
Walton Lake Subdivision	(212,945)
Airport Apron	(88,493)
Bypass Forcemain Relocation	(199,800)
Bypass Cross Interceptor Relocation	(323,255)
Bypass Crow Creek Relocation	(162,631)
Bypass Water Main Relocation	(292,422)
Runway 18/36 Phase I	(150,349)
Runway 18/36 Phase II	(442,579)
Runway 18/36 Phase III	(294,934)
CDBG	(20,737)
2006 Street Project	(27,156)
Enterprise:	
Water-State Revolving	(278,130)
Water-Utility	(266,973)

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

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

Response – Most of these funds are project funds and bonds will be issued to cover these expenses. In other cases transfers will be made from other funds to eliminate these deficits.

Conclusion – Response acknowledged. In addition, the City should consider requesting grant receipts as the projects progress.

- IV-I-08 Chart of Accounts – In January 2003, the City adopted the revised Uniform City Chart of Accounts for reporting purposes. However, as of June 30, 2008, the computer system has not been converted to the new Chart of Accounts.

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

Response – The system administrator is working on using a conversion software program to present the chart of accounts in the required format on a monthly basis.

Conclusion – Response accepted.

- IV-J-08 Local Option Sales and Services Tax Revenue Bonds – The City has not established the sinking account for the local option sales and services tax revenue bonds required by the resolution. Additionally, accrued interest on the sale of these revenue bonds was not credited to the sinking account as required.

Recommendation – The City should establish the required sinking account and credit the accrued interest on the sale of the bonds as required.

Response – We will review this matter, but please note the bond issue in question will be retired in June 2009 with ample funds available to retire the debt.

Conclusion – Response accepted.

- IV-K-08 Water Revenue Bonds – The City's 1995 water revenue bond resolution, Section 17(b), and 2003 water revenue bond resolution, Section 19(b) require the City to establish, impose, adjust and provide for the collection of rates to be charged to utility customers that produce net operating revenues equal to at least 125% and 110% of the principal and interest coming due in each year, respectively. The City's fiscal year 2008 net water operating revenues of \$255,016 were less than the required 125% of the \$129,790 of 1995 water revenue bond principal and interest due and the 110% of the \$314,160 of 2003 water revenue bond principal and interest due during fiscal year 2008.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – We will consult bond counsel and bond advisors to review this matter. There is a planned rate increase for fiscal year 2010 which should partially address this issue.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

IV-L-08 Annual Financial Report – The City’s annual financial report was prepared and filed timely for the year ended June 30, 2008. However, the report contained material errors and amounts which could not be substantiated.

Recommendation – The annual financial report should be amended to correct material errors and the amounts reported should be substantiated.

Response – The cause of the difference is related to how funds were budgeted originally. When first using the new chart of accounts we budgeted all capital projects under the capital project account, including those of the business enterprise account. We were subsequently informed that business enterprise projects should be accounted for under that activity. Upon being informed of that those expenses were reported under that activity.

Conclusion – Response accepted.

IV-M-08 Other Information Required by Bond Resolutions –

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

Insurance – The following insurance policies were in force at June 30, 2008:

Insurer	Description	Amount	Expiration Dates
Iowa Communities Assurance Pool	Property	\$ 38,955,210	Nov 1, 2008
Iowa Communities Assurance Pool	General Liability	10,000,000	Nov 1, 2008
	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, 2008
EMC Insurance Co.	Surety Bond Coverage - Blanket	300,000	Jan 1, 2009
Old Republic Insurance Co.	Airport Bodily Injury	5,000,000	Mar 13, 2009

Statistical Information:

Number of customers at June 30, 2008:	4,683
	<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

This audit was performed by:

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