

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

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Auditor of State

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Des Moines, Iowa 50319-0006

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**NEWS RELEASE**

FOR RELEASE

April 14, 2016

Contact: Andy Nielsen  
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Auditor of State Mary Mosiman today released an audit report on the City of Fairfield, Iowa.

The City's receipts totaled \$23,118,157 for the year ended June 30, 2015, a 60% increase over the prior year. The receipts included \$5,205,442 in property tax, \$154,982 from tax increment financing, \$6,662,763 from charges for service, \$1,448,612 from operating grants, contributions and restricted interest, \$2,373,969 from capital grants, contributions and restricted interest, \$837,462 from local option sales tax, \$168,666 from hotel/motel tax, \$4,503 from unrestricted interest on investments, \$4,842,144 of general obligation and revenue note proceeds, \$1,175,000 from the sale of capital assets and \$244,614 from other general receipts.

Disbursements for the year ended June 30, 2015 totaled \$19,301,139, a 31% increase over the prior year, and included \$5,021,949 for capital projects, \$2,073,533 for culture and recreation and \$2,061,445 for public safety. Also, disbursements for business type activities totaled \$6,160,064.

The significant increase in receipts and disbursement is due primarily to receiving grants, contributions, capital asset sale proceeds and note proceeds for the indoor recreation and pool facility capital project.

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/1520-0476-B00F.pdf>.

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**CITY OF FAIRFIELD**

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

**JUNE 30, 2015**

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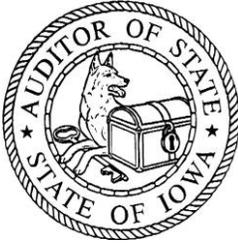
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**City of Fairfield**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Edward Malloy	Mayor	Jan 2018
John F. Revolinski	Mayor Pro tem	Jan 2018
Daryn Hamilton	Council Member	Jan 2016
Tony Hammes	Council Member	Jan 2016
Jessica Ledger-Kalen	Council Member	Jan 2016
Martha Rasmussen	Council Member	Jan 2016
Doug Flournoy	Council Member	Jan 2018
Michael Halley	Council Member	Jan 2018
Mike Harmon	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:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Fairfield, Iowa, as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Fairfield as of June 30, 2015, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

### Emphasis of a Matter

As discussed in Note 5, the City of Fairfield adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinions are not modified with respect to this matter.

### Other Matters

#### *Supplementary and Other Information*

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 third paragraph of this report, the financial statements for the two years ended June 30, 2014 and the five years ended June 30, 2010 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the two years ended June 30, 2012 (which are not presented herein) were audited by another auditor who expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 7 through 13 and 40 through 47, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 5, 2016 on our consideration of the City of Fairfield's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Fairfield's internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

April 5, 2016

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The City of Fairfield provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2015 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities increased 89%, or approximately \$6,887,000, from fiscal year 2014 to fiscal year 2015. The City issued \$3,775,000 of general obligation notes and received grant and other capital contributions of approximately \$2,352,000 to fund the indoor recreation and pool facility capital project during fiscal year 2015.
- Disbursements of the City's governmental activities increased 59%, or approximately \$4,854,000, in fiscal year 2015 from fiscal year 2014. Capital projects disbursements increased approximately \$4,449,000.
- The City's total cash basis net position increased 68%, or approximately \$3,817,000, from June 30, 2014 to June 30, 2015. Of this amount, the net position of the governmental activities increased approximately \$2,471,000 and the net position of the business type activities increased approximately \$1,346,000.

### **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 Cash Basis Statement of Activities and Net Position. 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 financial 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.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the nonmajor governmental and enterprise funds and the City's indebtedness.

## **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 Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

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

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system, the solid waste collection system, the airport 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, Local Option Sales Tax and Employee Benefits, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains five Enterprise Funds to provide separate information for the Water, Sewer and Logan Apartments Funds, major funds of the City, and the Solid Waste and Airport Funds.

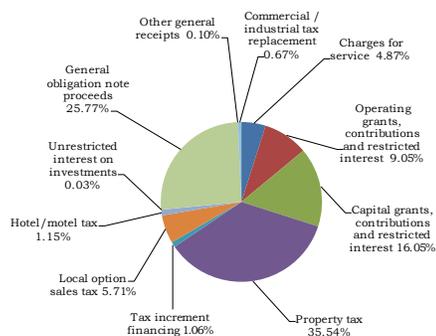
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

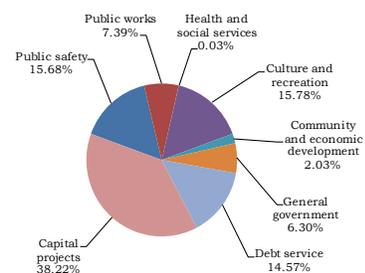
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$1,904,000 to approximately \$4,375,000. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2015	2014
<b>Receipts:</b>		
Program receipts:		
Charges for service	\$ 714	669
Operating grants, contributions and restricted interest	1,326	1,358
Capital grants, contributions and restricted interest	2,352	160
General receipts:		
Property tax	5,205	4,567
Tax increment financing	155	105
Local option sales tax	837	748
Hotel/motel tax	168	144
Commercial/industrial tax replacement	98	-
Unrestricted interest on investments	5	12
General obligation note proceeds	3,775	-
Other general receipts	15	-
Total receipts	14,650	7,763
<b>Disbursements:</b>		
Public safety	2,061	2,084
Public works	971	920
Health and social services	4	-
Culture and recreation	2,074	2,075
Community and economic development	267	212
General government	828	796
Debt service	1,914	1,627
Capital projects	5,022	573
Total disbursements	13,141	8,287
Change in cash basis net position before transfers	1,509	(524)
Transfers, net	962	(67)
Change in cash basis net position	2,471	(591)
Cash basis net position beginning of year	1,904	2,495
Cash basis net position end of year	\$ 4,375	1,904

**Receipts by Source**



**Disbursements by Function**



The City's total receipts for governmental activities increased 89%, or approximately \$6,887,000, over the prior year. The total cost of all programs and services increased approximately \$4,854,000, or 59%. The significant increase in receipts and disbursements was due to the issuance of general obligation notes and receiving grant and other capital contributions to fund the indoor recreation and pool facility capital project in fiscal year 2015.

The City's property tax rates for fiscal year 2015 increased \$1.52 per \$1,000 of assessed valuation compared to fiscal year 2014. Property tax is budgeted to decrease approximately \$111,000 in fiscal year 2016 due to a decrease in property tax rates.

The cost of governmental activities this year was approximately \$13,141,000 compared to approximately \$8,287,000 last year. However, as shown in the Cash Basis Statement of Activities and Net Position, the amount taxpayers ultimately financed for these activities was approximately \$8,750,000 because some of the cost was paid by those directly benefited from the programs (approximately \$714,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$3,678,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2015 from approximately \$2,187,000 to approximately \$4,392,000. The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and other receipts, such as interest, local option sales tax and other general receipts.

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2015	2014
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 2,456	2,405
Sewer	2,728	2,490
Solid waste	565	570
Airport	40	22
Logan Apartments	160	180
Operating grants, contributions and restricted interest	123	113
Capital grants, contributions, and restricted interest	22	30
General receipts:		
Revenue note proceeds	1,067	718
Sale of capital assets	1,175	-
Other general receipts	132	126
Total receipts	<u>8,468</u>	<u>6,654</u>
Disbursements:		
Water	2,388	2,424
Sewer	2,908	3,207
Solid waste	523	522
Airport	137	171
Logan Apartments	204	172
Total disbursements	<u>6,160</u>	<u>6,496</u>
Change in cash basis net position before transfers	2,308	158
Transfers, net	(962)	67
Change in cash basis net position	1,346	225
Cash basis net position beginning of year	3,722	3,497
Cash basis net position end of year	<u>\$ 5,068</u>	<u>3,722</u>

Total business type activities receipts for the fiscal year were approximately \$8,468,000 compared to approximately \$6,654,000 last year. This increase was primarily due to the City selling the Logan Apartments for \$1,175,000 and receiving approximately \$349,000 more in sewer revenue note proceeds. The cash balance increased approximately \$1,346,000 over the prior year. Total disbursements for the fiscal year decreased 5.2%, from approximately \$6.5 million in fiscal year 2014 to approximately \$6.2 million in fiscal year 2015.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Fairfield completed the year, its governmental funds reported a combined fund balance of \$4,375,447, an increase of \$2,471,189 from last year's total of \$1,904,258. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$791,378 from the prior year to \$889,233. Disbursements decreased \$528,594. This was primarily due to the City beginning to fund Police and Fire pensions from the Special Revenue, Employee Benefits Fund and a decrease in culture and recreation disbursements. In addition, \$981,364 of the proceeds from the sale of the Logan Apartments was transferred to the General Fund.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$97,288 to \$402,360. The decrease was primarily due to a transfer out to the Capital Projects Fund for the Highland Street project.
- The Special Revenue, Local Option Sales Tax Fund cash balance remained relatively consistent, decreasing \$35,568 to \$131,459.
- The Special Revenue, Employee Benefits Fund cash balance increased \$195,464 over the prior year to \$353,304. Receipts remained consistent with the prior year while disbursements and transfers out decreased approximately \$404,000 from the prior year. The prior year transfers out included fiscal year 2013 benefits related to Road Use Tax employees.
- The Debt Service Fund cash balance increased \$133,150 to \$(2,422), primarily due to an increase in debt service property tax of \$345,227 and an increase in debt service of \$284,468 due to the issuance of new debt.
- The Capital Projects Fund cash balance increased \$1,539,297 to \$1,555,415. The increase is primarily due to the receipt of note proceeds, grants and donations for the indoor recreation and pool facility project.
- The Permanent, Library Endowment Fund cash balance increased \$966 over the prior year to \$483,625.

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

- The Enterprise, Water Fund cash balance remained relatively consistent, increasing \$92,710 to \$771,096.
- The Enterprise, Sewer Fund cash balance increased \$1,134,601 to \$3,938,431. The City received \$1,067,144 of sewer revenue note proceeds for planning, designing and constructing improvements to the sewer system. Overall, disbursements decreased approximately \$299,000 as work on the improvements continued.
- The Enterprise, Logan Apartments cash balance decreased \$160,278 to \$60,808. The City sold the property during the year for \$1,175,000. Transfers out of \$1,415,987 were made to other City funds.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 26, 2015 and resulted in decreases in budgeted disbursements for the public safety, capital projects and business type activities functions.

The City's receipts were \$3,439,281 less than budgeted. This was primarily due to the City receiving less in charges for service and miscellaneous receipts than anticipated.

The City exceeded the amounts budgeted in the public safety, public works, community and economic development, general government, debt service, capital projects and business type activities functions for the year ended June 30, 2015 due to various disbursements which were not budgeted.

## DEBT ADMINISTRATION

At June 30, 2015, the City had approximately \$21,495,000 of bonds and other long-term debt outstanding, compared to approximately \$18,916,000 last year, as shown below.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2015	2014
General obligation bonds	\$ 6,470	7,480
General obligation capital loan notes	3,770	465
Revenue bonds	355	420
Revenue capital loan notes	7,215	7,731
General obligation anticipation notes	1,900	1,900
Interim sewer revenue project notes	1,785	718
Loan agreement	-	202
Total	\$ 21,495	18,916

Debt increased as a result of issuing general obligation capital loan notes for an urban renewal project, including Frontage Road/South Highway 1, sidewalks and safety measures and other recreation projects at the indoor recreation/swimming pool facility.

The City carries a general obligation bond rating of Baa3 assigned by national rating agencies to the City's debt. 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 \$12.2 million, including the appropriated portion of the tax increment financing rebate agreement of \$96,841, is significantly below its constitutional debt limit of approximately \$15.0 million. Additional information about the City's long term debt is presented in Notes 3 and 4 to the financial statements.

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

The elected and appointed officials of the City of Fairfield considered many factors when setting the fiscal year 2016 budget, tax rates and fees for various City services. One of those factors is the economy. Average unemployment for 2015 in Jefferson County was 3.5% versus 4.4% a year ago. This compares with the State's unemployment rate of 3.7% and the national rate of 5.3%.

These indicators were taken into account when adopting the budget for fiscal year 2016. Amounts available for appropriation in the operating budget are approximately \$22.3 million, a decrease of 20.4% from the final fiscal year 2015 budget. Budgeted disbursements are expected to increase approximately \$5.6 million. This increase is primarily due to increases in capital projects and business type activities. The City has added no new programs to the fiscal year 2016 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase \$691,237 by the close of fiscal year 2016.

**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.

**City of Fairfield**

## **Basic Financial Statements**

City of Fairfield

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2015

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 2,061,445	78,130	145,340	-
Public works	970,765	50,164	984,090	-
Health and social services	4,450	-	-	-
Culture and recreation	2,073,533	457,565	124,989	2,278,436
Community and economic development	267,377	17,786	14,707	-
General government	828,026	109,156	-	-
Debt service	1,913,530	-	-	-
Capital projects	5,021,949	924	56,618	73,258
Total governmental activities	13,141,075	713,725	1,325,744	2,351,694
Business type activities:				
Water	2,388,259	2,455,755	-	-
Sewer	2,908,520	2,728,277	-	-
Solid waste	522,602	564,743	-	-
Airport	136,732	40,010	-	22,275
Logan Apartments	203,951	160,253	122,868	-
Total business type activities	6,160,064	5,949,038	122,868	22,275
<b>Total Primary Government</b>	<b>\$ 19,301,139</b>	<b>6,662,763</b>	<b>1,448,612</b>	<b>2,373,969</b>
<b>Component Unit:</b>				
Fairfield Public Library Foundation	\$ 75,505		165,486	-
<b>General Receipts and Transfers:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Commercial/industrial tax replacement				
Unrestricted interest on investments				
Note proceeds				
Sale of capital assets				
Farm rent				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
<b>Cash Basis Net Position</b>				
Restricted:				
Nonexpendable:				
Permanent Fund				
Expendable:				
Streets				
Urban renewal purposes				
Debt service				
Capital projects				
Health plan trustee				
Other purposes				
Unrestricted				
<b>Total cash basis net position</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			Component Unit
Governmental Activities	Business Type Activities	Total	Fairfield Public Library Foundation
(1,837,975)	-	(1,837,975)	
63,489	-	63,489	
(4,450)	-	(4,450)	
787,457	-	787,457	
(234,884)	-	(234,884)	
(718,870)	-	(718,870)	
(1,913,530)	-	(1,913,530)	
(4,891,149)	-	(4,891,149)	
(8,749,912)	-	(8,749,912)	
-	67,496	67,496	
-	(180,243)	(180,243)	
-	42,141	42,141	
-	(74,447)	(74,447)	
-	79,170	79,170	
-	(65,883)	(65,883)	
(8,749,912)	(65,883)	(8,815,795)	
			89,981
3,852,517	-	3,852,517	-
1,352,925	-	1,352,925	-
154,982	-	154,982	-
837,462	-	837,462	-
168,666	-	168,666	-
97,739	-	97,739	-
4,503	-	4,503	-
3,775,000	1,067,144	4,842,144	-
-	1,175,000	1,175,000	-
-	66,102	66,102	-
15,685	65,088	80,773	-
961,622	(961,622)	-	-
11,221,101	1,411,712	12,632,813	-
2,471,189	1,345,829	3,817,018	89,981
1,904,258	3,722,447	5,626,705	905,341
\$ 4,375,447	5,068,276	9,443,723	995,322
\$ 483,625	-	483,625	-
360,085	-	360,085	-
167,253	-	167,253	-
127,044	-	630,329	-
1,555,415	503,285	1,555,415	-
210,289	106,343	316,632	-
714,608	-	714,608	-
757,128	4,458,648	5,215,776	995,322
\$ 4,375,447	5,068,276	9,443,723	995,322

City of Fairfield

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

As of and for the year ended June 30, 2015

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Employee Benefits
Receipts:				
Property tax	\$ 2,779,626	-	-	875,438
Tax increment financing	-	-	-	-
Other city tax	168,666	-	837,462	-
Licenses and permits	153,548	-	-	-
Use of money and property	4,503	-	-	-
Intergovernmental	262,001	984,090	-	16,455
Charges for service	456,295	-	-	-
Special assessments	-	-	-	-
Miscellaneous	114,211	-	-	-
Total receipts	3,938,850	984,090	837,462	891,893
Disbursements:				
Operating:				
Public safety	1,685,829	-	37,703	334,198
Public works	52,076	918,689	-	-
Health and social services	-	-	4,450	-
Culture and recreation	1,719,483	-	91,388	77,063
Community and economic development	131,173	-	16,531	11,717
General government	709,235	-	-	118,791
Debt service	-	-	80,562	-
Capital projects	-	-	-	-
Total disbursements	4,297,796	918,689	230,634	541,769
Excess (deficiency) of receipts over (under) disbursements	(358,946)	65,401	606,828	350,124
Other financing sources (uses):				
General obligation note proceeds	-	-	-	-
Transfers in	1,150,324	-	-	-
Transfers out	-	(162,689)	(642,396)	(154,660)
Total other financing sources (uses)	1,150,324	(162,689)	(642,396)	(154,660)
Change in cash balances	791,378	(97,288)	(35,568)	195,464
Cash balances beginning of year	97,855	499,648	167,027	157,840
Cash balances end of year	\$ 889,233	402,360	131,459	353,304
<b>Cash Basis Fund Balances</b>				
Nonspendable - Library endowment	\$ -	-	-	-
Restricted for:				
Streets	-	360,085	-	-
Urban renewal purposes	-	-	-	-
Debt service	-	-	127,044	-
Capital projects	-	-	-	-
Health plan trustee	-	42,275	-	168,014
Other purposes	129,683	-	4,415	185,290
Assigned for downtown façade project	100,000	-	-	-
Unassigned	659,550	-	-	-
Total cash basis fund balances	\$ 889,233	402,360	131,459	353,304

See notes to financial statements.

Debt Service	Capital Projects	Permanent		Total
		Library Endowment	Nonmajor	
1,352,925	197,453	-	-	5,205,442
-	-	-	154,982	154,982
-	-	-	-	1,006,128
-	-	-	-	153,548
-	-	966	20,852	26,321
25,223	463,080	-	-	1,750,849
-	-	-	18,155	474,450
-	43,963	-	-	43,963
-	1,676,659	-	269,089	2,059,959
1,378,148	2,381,155	966	463,078	10,875,642
-	-	-	3,715	2,061,445
-	-	-	-	970,765
-	-	-	-	4,450
-	-	-	185,599	2,073,533
-	-	-	107,956	267,377
-	-	-	-	828,026
1,787,368	45,600	-	-	1,913,530
-	5,021,949	-	-	5,021,949
1,787,368	5,067,549	-	297,270	13,141,075
(409,220)	(2,686,394)	966	165,808	(2,265,433)
-	3,775,000	-	-	3,775,000
542,370	450,691	-	6,256	2,149,641
-	-	-	(228,274)	(1,188,019)
542,370	4,225,691	-	(222,018)	4,736,622
133,150	1,539,297	966	(56,210)	2,471,189
(135,572)	16,118	482,659	618,683	1,904,258
(2,422)	1,555,415	483,625	562,473	4,375,447
-	-	483,625	-	483,625
-	-	-	-	360,085
-	-	-	167,253	167,253
-	-	-	-	127,044
-	1,555,415	-	-	1,555,415
-	-	-	-	210,289
-	-	-	395,220	714,608
-	-	-	-	100,000
(2,422)	-	-	-	657,128
(2,422)	1,555,415	483,625	562,473	4,375,447

**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, 2015

	Enterprise				Total
	Logan				
	Water	Sewer	Apartments		
Operating receipts:					
Use of money and property	\$ -	-	160,253	39,727	199,980
Charges for service	2,455,755	2,728,277	-	564,743	5,748,775
Miscellaneous	25,214	38,335	1,539	283	65,371
Total operating receipts	2,480,969	2,766,612	161,792	604,753	6,014,126
Operating disbursements:					
Business type activities	1,639,916	1,183,601	203,951	659,334	3,686,802
Excess (deficiency) of operating receipts over (under) operating disbursements	841,053	1,583,011	(42,159)	(54,581)	2,327,324
Non-operating receipts (disbursements):					
Revenue note proceeds	-	1,067,144	-	-	1,067,144
Sale of capital assets	-	-	1,175,000	-	1,175,000
Farm rent	-	-	-	66,102	66,102
Intergovernmental	-	-	122,868	22,275	145,143
Capital projects and equipment	(340,943)	(1,415,386)	-	-	(1,756,329)
Debt service	(407,400)	(309,533)	-	-	(716,933)
Net non-operating receipts (disbursements)	(748,343)	(657,775)	1,297,868	88,377	(19,873)
Excess of receipts over disbursements	92,710	925,236	1,255,709	33,796	2,307,451
Transfers in (out):					
Transfers in	-	209,365	-	245,000	454,365
Transfers out	-	-	(1,415,987)	-	(1,415,987)
Total transfers in (out)	-	209,365	(1,415,987)	245,000	(961,622)
Change in cash balances	92,710	1,134,601	(160,278)	278,796	1,345,829
Cash balances beginning of year	678,386	2,803,830	221,086	19,145	3,722,447
Cash balances end of year	\$ 771,096	3,938,431	60,808	297,941	5,068,276
<b>Cash Basis Fund Balances</b>					
Restricted for:					
Debt service	\$ 478,299	24,986	-	-	503,285
Health plan trustee	60,065	41,412	4,866	-	106,343
Unrestricted	232,732	3,872,033	55,942	297,941	4,458,648
Total cash basis fund balances	\$ 771,096	3,938,431	60,808	297,941	5,068,276

See notes to financial statements.

City of Fairfield

Notes to Financial Statements

June 30, 2015

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

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

A. Reporting Entity

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

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

Blended Component Units

Friends of the Fairfield Public Library and Fairfield Parks and Recreation Foundation were established as non-profit corporations in accordance with Chapter 504A of the Code of Iowa. These non-profit corporations are legally separate from the City but are so intertwined with the City they are, in substance, the same as the City. Their purpose is to benefit the City of Fairfield (the primary government) by soliciting contributions and managing those funds. In accordance with criteria set forth by the Governmental Accounting Standards Board, Friends of the Fairfield Public Library and Fairfield Parks and Recreation Foundation meet the definition of component units which should be blended. The financial activity of the components units has been blended as Special Revenue Funds of the City.

Discretely Presented Component Unit

Fairfield Public Library Foundation was established as a non-profit corporation in accordance with Chapter 504A of the Code of Iowa. Its purpose is to benefit the City of Fairfield (the primary government) by soliciting contributions and managing those funds. In accordance with criteria set forth by the Governmental Accounting Standards Board, Fairfield Public Library Foundation meets the

definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or held by Fairfield Public Library Foundation are substantially for the direct benefit of the City of Fairfield Library.

#### 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 Emergency Management Agency and Jefferson County E911 Joint Service Board. 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 Statement – The Cash Basis Statement of Activities and Net Position 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 Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position 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 from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the collection and use of local option sales tax.

The Employee Benefits Fund is used to account for the collection and use of property tax for pension, retirement and insurance benefits.

The Debt Service Fund is utilized to account for property tax and other receipts to be used 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 the collection and use of funds given to the library for endowment purposes.

The City reports the following major proprietary funds:

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

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

The Enterprise, Logan Apartments Fund accounts for the operation and maintenance of City owned apartments for low-income housing.

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position 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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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. Governmental Cash Basis Fund Balances

In the governmental fund financial statement, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the public safety, public works, community and economic development, general government, debt service, capital projects and business type activities functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2015 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 ensure 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, 2015, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Mutual Funds	\$5,182	13,858	N/A
Stocks	509	1,402	N/A

At June 30, 2015, the City's discretely presented component unit had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Mutual Funds	\$ 899,199	1,319,617	N/A
Taxable Municipal Bonds	10,000	10,203	Oct 1, 2016

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 taxable municipal bonds carry a rating of A+. The investments in mutual funds are unrated.

Concentration of Credit Risk – The City and the Fairfield Library Foundation place no limit 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) Bonds and Notes Payable**

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

Year Ending June 30,	General Obligation				Local Option Sales and Services Tax Revenue Bonds	
	Bonds		Capital Loan Notes		Principal	Interest
	Principal	Interest	Principal	Interest		
2016	\$ 1,045,000	225,195	285,000	128,190	65,000	12,999
2017	1,085,000	193,755	113,000	121,975	70,000	10,598
2018	1,125,000	158,980	116,000	118,020	70,000	7,867
2019	755,000	121,417	121,000	113,960	75,000	4,875
2020	785,000	93,217	138,000	109,725	75,000	1,650
2021-2025	1,670,000	96,548	898,000	468,090	-	-
2026-2030	-	-	1,135,000	288,645	-	-
2031-2034	-	-	964,000	85,750	-	-
<b>Total</b>	<b>\$ 6,465,000</b>	<b>889,112</b>	<b>3,770,000</b>	<b>1,434,355</b>	<b>355,000</b>	<b>37,989</b>

Year Ending June 30,	Revenue Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest
	2016	\$ 533,000	170,638	1,928,000
2017	550,000	159,311	1,818,000	485,639
2018	568,000	147,623	1,879,000	432,490
2019	586,000	135,558	1,537,000	375,810
2020	606,000	123,102	1,604,000	327,694
2021-2025	2,420,000	421,754	4,988,000	986,392
2026-2030	1,349,000	202,784	2,484,000	491,429
2031-2034	603,000	25,782	1,567,000	111,532
<b>Total</b>	<b>\$ 7,215,000</b>	<b>1,386,552</b>	<b>17,805,000</b>	<b>3,748,008</b>

Local Option Sales and Services Tax Revenue Bonds

The City has pledged future local option sales tax receipts to repay \$550,000 of local option sales and services tax revenue bonds issued in June 2010. Proceeds from the bonds provided financing for the purchase of the Fairfield Arts and Convention Center. The bonds are payable through 2020. For the year ended June 30, 2015, annual principal and interest payments on the bonds required approximately 10% of net receipts. The total principal and interest remaining to be paid on the bonds is \$392,989. For the current year, principal and interest paid and total local option sales tax receipts were \$80,062 and \$837,462, respectively.

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 future local option sales and services tax receipts and the bond holders hold a lien on the future local option tax receipts received by the City.
- b) Sufficient monthly transfers shall be made to a separate local option sales tax sinking account for the purpose of making the bond principal and interest payments when due.
- c) A local option sales tax reserve account shall be established and maintained in the amount of \$55,000.

At June 30, 2015, the City has not established the required sinking or reserve accounts or made the required transfers to the accounts.

#### Revenue Capital Loan Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$5,797,000 of water revenue capital loan notes issued in February 2003. Proceeds from the notes provided financing for the construction of water main improvements and extensions. The notes are payable solely from water customer net receipts and are payable through 2023. During the year ended June 30, 2014, the Iowa Finance Authority reduced the interest rate from 3.0% to 1.75% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. Annual principal and interest payments on the notes required approximately 47% of net receipts. The total principal and interest remaining to be paid on the notes is \$3,387,902. For the current year, principal and interest paid and total customer net receipts were \$398,725 and \$841,053, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$4,000,000 and \$600,000 of sewer revenue capital loan notes issued in October 2011 and November 2012, respectively. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2032. The interest rates on the October 2011 and November 2012 issues are 3.0% and 1.75% per annum, respectively. The agreements also require the City to annually pay a .25% servicing fee on the outstanding principal balance. Annual principal and interest payments on the notes required approximately 19% of net receipts. The total principal and interest remaining to be paid on the notes is \$5,213,650. For the current year, principal and interest paid and total customer net receipts were \$298,880 and \$1,583,011, respectively.

The resolutions providing for the issuance of the water and sewer revenue capital loan notes include 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 water revenue note sinking account and a sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) A water reserve account shall be established and maintained in the amount of \$444,648. No reserve accounts are required to be established for the sewer notes.
- (d) User rates shall be established and charged to customers of the utility, including the City, to produce and maintain net operating receipts at a level not less than 110% of the principal and interest coming due in the next succeeding year.

At June 30, 2015, the City had not established the required water and sewer sinking accounts or the water reserve account or made the required transfers to the accounts.

#### Interim Revenue Project Notes

On August 12, 2013, the City entered into an interest free interim revenue project note agreement with the Iowa Finance Authority for up to \$500,000 to be used for the purpose of paying costs of planning, designing and constructing improvements and extensions to the sanitary sewer system. During the year ended June 30, 2015, the City drew \$59,579 on the notes.

On April 14, 2014, the City entered into two interest free interim revenue project note agreements with the Iowa Finance Authority for up to \$1,075,000 and \$1,585,000, respectively, to be used for the purpose of paying costs of planning, designing and constructing improvements and extensions to the sanitary sewer system. During the year ended June 30, 2015, the City drew \$186,026 on the \$1,075,000 note and \$821,539 on the \$1,585,000 note.

The notes were issued pursuant to Chapters 76.13 and 384.24A of the Code of Iowa in anticipation of the receipt of and are payable from the proceeds of an authorized loan agreement and the corresponding issuance of sewer revenue bonds. The interim revenue project notes each have a term of three years.

#### **(4) General Obligation Bond Anticipation Project Note**

On June 28, 2013, the City issued a \$1,900,000 general obligation bond anticipation project note to eliminate the deficit balance in the Capital Projects Fund. The note bears interest at 2.4% per annum and is due on June 1, 2016. The note is to be repaid through the issuance of long-term general obligation debt. For the current year, interest paid was \$45,600.

#### **(5) Pension Plans**

##### **Iowa Public Employees' Retirement System**

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment or when the member’s years of service plus the member’s age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member’s first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member’s monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member’s highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member’s monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member’s earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member’s lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member’s beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member’s accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS’ Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1%. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the “entry age normal” actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% for a total rate of 14.88%. Protection occupation members contributed 6.76% of covered payroll and the City contributed 10.14% for a total rate of 16.90%.

The City's contributions to IPERS for the year ended June 30, 2015 were \$219,168.

Collective Net Pension Liability, Collective Pension Expense, Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$1,356,349. The collective net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2014, the City's proportion was 0.0342002%, which was a decrease of 0.0133054% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City's collective pension expense, collective deferred outflows of resources and collective deferred inflows of resources totaled \$105,534, \$75,926 and \$552,409, respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
US Equity	23%	6.31%
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 2,633,797	\$ 1,356,349	\$ 278,122

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

## **Municipal Fire and Police Retirement System of Iowa (MFPRSI)**

Plan Description – MFPRSI membership is mandatory for fire fighters and police officers covered by the provisions of Chapter 411 of the Code of Iowa. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by MFPRSI. MFPRSI issues a stand-alone financial report which is available to the public by mail at 7155 Lake Drive, Suite #201, West Des Moines, Iowa 50266 or at [www.mfprsi.org](http://www.mfprsi.org).

MFPRSI benefits are established under Chapter 411 of the Code of Iowa and the administrative rules thereunder. Chapter 411 of the Code of Iowa and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - Members with 4 or more years of service are entitled to pension benefits beginning at age 55. Full service retirement benefits are granted to members with 22 years of service, while partial benefits are available to members with 4 to 22 years of service based on the ratio of years completed to years required (i.e., 22 years). Members with less than 4 years of service are entitled to a refund of their contribution only, with interest, for the period of employment.

Benefits are calculated based upon the member's highest 3 years of compensation. The average of these 3 years becomes the member's average final compensation. The base benefit is 66% of the member's average final compensation. Additional benefits are available to members who perform more than 22 years of service (2% for each additional year of service, up to a maximum of 8 years). Survivor benefits are available to the beneficiary of a retired member according to the provisions of the benefit option chosen plus an additional benefit for each child. Survivor benefits are subject to a minimum benefit for those members who chose the basic benefit with a 50% surviving spouse benefit.

Active members at least 55 years of age with 22 or more years of service have the option to participate in the Deferred Retirement Option Program (DROP). The DROP is an arrangement whereby a member who is otherwise eligible to retire and commence benefits opts to continue to work. A member can elect a 3, 4 or 5 year DROP period. When electing to participate in DROP, the member signs a contract stating the member will retire at the end of the selected DROP period. During the DROP period, the member's retirement benefit is frozen and a DROP benefit is credited to a DROP account established for the member. Assuming the member completes the DROP period, the DROP benefit is equal to 52% of the member's retirement benefit at the member's earliest date eligible and 100% if the member delays enrollment for 24 months. At the member's date of retirement, the member's DROP account will be distributed to the member in the form of a lump sum or rollover to an eligible plan.

Disability and Death Benefits - Disability coverage may be either accidental or ordinary. Accidental disability is defined as permanent disability incurred in the line of duty, with benefits equivalent to the greater of 60% of the member's average final compensation or the member's service retirement benefit calculation amount. Ordinary disability occurs outside the call of duty and pays benefits equivalent to the greater of 50% of the member's average final compensation, for those with 5 or more years of service or the member's service retirement benefit calculation amount plus 25% of average final compensation for those with less than 5 years of service.

Death benefits are similar to disability benefits. Benefits for accidental death are 50% of the average final compensation of the member plus an additional amount for each child, or the provisions for ordinary death. Ordinary death benefits consist of a pension equal to 40% of the average final compensation of the member plus an additional amount for each child, or a lump-sum distribution to the designated beneficiary equal to 50% of the previous year's earnable compensation of the member or equal to the amount of the member's total contributions plus interest.

Benefits are increased annually in accordance with Chapter 411.6 of the Code of Iowa which provides a standard formula for the increases.

The surviving spouse or dependents of an active member who dies due to a traumatic personal injury incurred in the line of duty receives a \$100,000 lump-sum payment.

Contributions - Member contribution rates are set by state statute. In accordance with Chapter 411 of the Code of Iowa, the contribution rate was 9.40% of earnable compensation for the year ended June 30, 2015.

Employer contribution rates are based upon an actuarially determined normal contribution rate and are set by state statute. The required actuarially determined contributions are calculated on the basis of the entry age normal method as adopted by the Board of Trustees as permitted under Chapter 411 of the Code of Iowa. The normal contribution rate is provided by State statute to be the actuarial liabilities of the plan less current plan assets, with the total divided by 1% of the actuarially determined present value of prospective future compensation of all members, further reduced by member contributions and State appropriations. Under the Code of Iowa, the City's contribution rate cannot be less than 17.00% of earnable compensation. The contribution rate was 30.41% for the year ended June 30, 2015.

The City's contributions to MFPRSI for the year ended June 30, 2015 was \$265,966.

If approved by the State legislature, State appropriations may further reduce the City's contribution rate, but not below the minimum statutory contribution rate of 17.00% of earnable compensation. The State is considered to be a nonemployer contributing entity in accordance with the provisions of Governmental Accounting Standards Board Statement No. 67 - Financial Reporting for Pension Plans.

There were no State appropriations to MFPRSI for the year ended June 30, 2015.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the City's liability for its proportionate share of the net pension liability totaled \$1,164,467. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to MFPRSI relative to the contributions of all MFPRSI participating employers. At June 30, 2014, the City's proportion was 0.321234%, which was an increase of 0.001229% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$97,868, \$91,660 and \$550,680, respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Rate of Inflation	3.00%.
Salary increases	4.50 to 15.11%, including inflation.
Investment rate of return	7.50%, net of investment expense, including inflation.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2002 to June 30, 2012.

Mortality rates were based weighting 2/12 of the 1971 GAM table and 10/12 of the 1994 GAM table with no projection of future mortality improvement.

The long-term expected rate of return on MFPRSI investments was determined using a building-block method in which best-estimate ranges of expected future real rates (i.e., expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Core Plus Fixed Income	7.0%	3.8%
Emerging Markets Debt	3.0	6.5
Domestic Equities	12.5	6.0
Master Limited Partnerships (MLP)	5.0	8.5
International Equities	12.5	7.0
Core Investments	40.0%	
Tactical Asset Allocation	35.0	6.0
Private Equity	15.0	9.8
Private Non-Core Real Estate	5.0	9.3
Private Core Real Estate	5.0	6.8
Real Estate	10.0	
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%.

The projection of cash flows used to determine the discount rate assumed contributions will be made at 9.40% of covered payroll and the City's contributions will be made at rates equal to the difference between actuarially determined rates and the member rate. Based on those assumptions, MFPRSI's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on MFPRSI's investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease 6.50%	Discount Rate 7.50%	1% Increase 8.50%
City's proportionate share of the net pension liability	2,232,773	1,164,467	276,802

MFPRSI's Fiduciary Net Position - Detailed information about MFPRSI's fiduciary net position is available in the separately issued MFPRSI financial report which is available on MFPRSI's website at [www.mfprsi.org](http://www.mfprsi.org).

**(6) Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 67 active and 4 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a partially self-funded plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members range from \$392 to \$408 for single coverage and from \$941 to \$987 for family coverage. For the year ended June 30, 2015, the City contributed \$438,774 and plan members eligible for benefits contributed \$176,602 to the plan.

**(7) Compensated Absences**

City employees accumulate unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2015, primarily relating to the General and Enterprise Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 105,000
Sick leave	91,000
Total	<u>\$ 196,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2015. Sick leave is payable when used or, after an employment period of twenty years, upon termination, retirement or death. Accumulated sick leave hours are paid at the rate of one-half upon retirement or death and one-fourth upon termination.

**(8) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax	\$ 14,300
	Employee Benefits	154,660
	Enterprise:	
	Logan Apartments	981,364
		<u>1,150,324</u>
Special Revenue:	Special Revenue:	
Library Capital Improvements	Library Memorial	1,256
	Fairfield Public Library House	5,000
		<u>6,256</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	418,731
	Urban Renewal	
	Tax Increment Financing	123,639
		<u>542,370</u>
Capital Projects	Special Revenue:	
	Road Use Tax	162,689
	Fairfield Parks and Recreation Foundation	98,379
	Enterprise:	
	Logan Apartments	189,623
		<u>450,691</u>
Enterprise:		
Sewer	Special Revenue:	
	Local Option Sales Tax	209,365
Airport	Enterprise:	
	Logan Apartments	245,000
Total		<u>\$ 2,604,006</u>

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

**(9) Related Party Transactions**

The City had business transactions between the City and City officials/employees totaling \$48,053.

**(10) Risk Management**

The City is a member of 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 727 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 casualty 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 estimated for the fiscal 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 at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal 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 contributions to the Pool for the year ended June 30, 2015 were \$229,348.

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 through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any reinsurance and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

The City does not disclose a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2015, no liability has been disclosed in the City's financial statements. As of June 30, 2015, 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 casualty 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. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$5,000,000 and \$300,000, respectively. 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.

**(11) Employee Health Insurance Plan**

The City self-funds a portion of health insurance deductibles for its employees. The plan is funded by both employee and City contributions and is administered by Employee Benefit Systems (EBS) under an agreement which is subject to automatic renewal. The City self-funds up to \$500 per individual or \$1,000 per family, with employees contributing the first \$50 to \$500, respectively. Administrative service fees and premiums are paid monthly from the City's operating funds to a separate account administered by EBS. During the year ended June 30, 2015, the City paid \$615,376 into the account. At June 30, 2015, the account balance was \$316,632. The activity for this account is recorded in the City's Special Revenue, Road Use Tax and Employee Benefits Funds and the Enterprise, Water, Sewer and Logan Apartments Funds.

**(12) Deficit Balances**

At June 30, 2015, the Debt Service and Enterprise, Solid Waste Funds had deficit balances of \$2,422 and \$6,375, respectively. The City is exploring alternatives to eliminate the deficit balances.

**(13) Lessor Operating Leases**

The City leases unused land around the Airport. The following is a schedule by year of minimum future rentals on this lease as of June 30, 2015:

Year ending June 30,	Amount
2016	\$ 66,100
2017	66,100
2018	66,100
2019	33,050
Total	\$ 231,350

**(14) Development Agreement**

The City has entered into a development agreement with Pale Moon Investments (developer) for the construction of a hotel with a minimum assessed value of \$3,000,000. The City agreed to pay the developer an amount not to exceed \$500,000, subject to annual appropriation by the City Council. The agreement requires up to ten annual payments, provided the developer is in compliance with the terms of the agreement. During the year ended June 30, 2015, the City rebated \$81,956 of incremental property tax to the developer. At June 30, 2015, the remaining balance to be paid on the agreement was \$418,044.

**(15) Construction Commitment**

The City entered into contracts totaling \$3,358,516 for the construction of an indoor recreation and pool facility. As of June 30, 2015, costs of \$133,168 have been paid on the contracts. The \$3,225,348 remaining balance on the contracts will be paid as work on the project progresses.

**(16) Litigation**

The City is involved in several lawsuits and other potential litigation as of June 30, 2015. The probability of loss, if any, is undeterminable.

**(17) Special Investigation**

The City requested the Office of Auditor of State perform a special investigation of the City as a result of concerns identified with the Parks and Recreation Department. A separate report will be issued upon completion of the special investigation.

## **Other 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

Other Information

Year ended June 30, 2015

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
<b>Receipts:</b>			
Property tax	\$ 5,205,442	-	-
Tax increment financing	154,982	-	-
Other city tax	1,006,128	-	-
Licenses and permits	153,548	-	-
Use of money and property	26,321	266,082	252
Intergovernmental	1,750,849	145,143	-
Charges for service	474,450	5,748,775	-
Special assessments	43,963	-	-
Miscellaneous	2,059,959	65,371	236,921
Total receipts	10,875,642	6,225,371	237,173
<b>Disbursements:</b>			
Public safety	2,061,445	-	-
Public works	970,765	-	-
Health and social services	4,450	-	-
Culture and recreation	2,073,533	-	110,082
Community and economic development	267,377	-	-
General government	828,026	-	-
Debt service	1,913,530	-	-
Capital projects	5,021,949	-	-
Business type activities	-	6,160,064	-
Total disbursements	13,141,075	6,160,064	110,082
Excess (deficiency) of receipts over (under) disbursements	(2,265,433)	65,307	127,091
Other financing sources, net	4,736,622	1,280,522	(98,379)
Excess of receipts and other financing sources over disbursements and other financing uses	2,471,189	1,345,829	28,712
Balances beginning of year	1,904,258	3,722,447	75,913
Balances end of year	\$ 4,375,447	5,068,276	104,625

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
5,205,442	5,058,320	5,058,320	147,122
154,982	-	-	154,982
1,006,128	1,126,273	1,126,273	(120,145)
153,548	45,250	45,250	108,298
292,151	42,650	42,650	249,501
1,895,992	4,353,539	1,033,539	862,453
6,223,225	8,184,429	8,184,429	(1,961,204)
43,963	1,000	1,000	42,963
1,888,409	5,412,000	4,811,660	(2,923,251)
16,863,840	24,223,461	20,303,121	(3,439,281)
2,061,445	2,517,458	2,017,458	(43,987)
970,765	922,740	922,740	(48,025)
4,450	10,500	10,500	6,050
1,963,451	2,024,863	2,024,863	61,412
267,377	130,658	130,658	(136,719)
828,026	769,551	769,551	(58,475)
1,913,530	1,349,847	1,349,847	(563,683)
5,021,949	35,440,000	653,000	(4,368,949)
6,160,064	7,200,302	4,672,987	(1,487,077)
19,191,057	50,365,919	12,551,604	(6,639,453)
(2,327,217)	(26,142,458)	7,751,517	(10,078,734)
6,115,523	26,500,000	-	6,115,523
3,788,306	357,542	7,751,517	(3,963,211)
5,550,792	7,745,950	7,745,950	(2,195,158)
9,339,098	8,103,492	15,497,467	(6,158,369)

City of Fairfield

Notes to Other Information – Budgetary Reporting

June 30, 2015

The budgetary comparison is presented 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 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 nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent 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, one budget amendment decreased budgeted disbursements by \$37,814,315. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the public safety, public works, community and economic development, general government, debt service, capital projects and business type activities functions.

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City of Fairfield

Schedule of the City's Proportionate Share of the Net Pension Liability

Last Fiscal Year\*  
(In Thousands)

Other Information

Iowa Public Employees' Retirement System

	<u>2015</u>
City's proportion of the net pension liability	0.0342002%
City's proportionate share of the net pension liability	\$ 1,356
City's covered-employee payroll	\$ 2,377
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	57.05%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

Municipal Fire and Police Retirement System of Iowa

	<u>2015</u>
City's proportion of the net pension liability	0.321234 %
City's proportionate share of the net pension liability	\$ 1,164
City's covered-employee payroll	\$ 820
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	141.95%
Plan fiduciary net position as a percentage of the total pension liability	86.27%

\* The amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report.

City of Fairfield  
Schedule of City Contributions

Last Ten Fiscal Years  
(In Thousands)

Other Information

Iowa Public Employees' Retirement System

	2015	2014	2013	2012
Statutorily required contribution	\$ 219	213	195	182
Contributions in relation to the statutorily required contribution	(219)	(213)	(195)	(182)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered-employee payroll	\$ 2,441	2,377	2,232	2,234
Contributions as a percentage of covered-employee payroll	8.97%	8.96%	8.74%	8.15%

Municipal Fire and Police Retirement System of Iowa

	2015	2014	2013	2012
Statutorily required contribution	\$ 266	247	209	182
Contributions in relation to the statutorily required contribution	(266)	(247)	(209)	(182)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered-employee payroll	\$ 871	820	800	735
Contributions as a percentage of covered-employee payroll	30.54%	30.12%	26.12%	24.76%

See accompanying independent auditor's report.

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2011	2010	2009	2008	2007	2006
151	140	127	116	108	105
(151)	(140)	(127)	(116)	(108)	(105)
-	-	-	-	-	-
2,140	2,060	1,971	1,912	1,836	1,784
7.06%	6.80%	6.44%	6.07%	5.88%	5.89%

2011	2010	2009	2008	2007	2006
146	120	128	178	190	178
(146)	(120)	(128)	(178)	(190)	(178)
-	-	-	-	-	-
732	706	683	699	684	631
19.90%	17.00%	18.75%	25.48%	27.75%	28.21%

City of Fairfield

Notes to Other Information – Pension Liability

Year ended June 30, 2015

**Iowa Public Employee's Retirement System**

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25% to 4.00%.
- Lowered the inflation assumption from 3.50% to 3.25%.
- Lowered disability rates for sheriffs, deputies and protection occupation members.

### **Municipal Fire and Police Retirement System of Iowa**

#### Changes of benefit terms:

There were no significant changes of benefit terms.

#### Changes of assumptions:

Effective July 1, 2014, two additional steps were taken to phase in the 1994 Group Annuity Mortality Table for post-retirement mortality. The two additional steps result in a weighting of 2/12 of the 1971 Group Annuity Mortality Table and 10/12 of the 1994 Group Annuity Mortality Table.

**City of Fairfield**

## **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, 2015

	Urban Renewal Tax Increment Financing	Police Specialty	UDAG- FALCO Project	Live on The Square	Indian Creek Escrow
<b>Receipts:</b>					
Tax increment financing	\$ 154,982	-	-	-	-
Use of money and property	-	-	12,787	-	13
Charges for service	-	18,155	-	-	-
Miscellaneous	-	-	-	2,250	10,000
Total receipts	154,982	18,155	12,787	2,250	10,013
<b>Disbursements:</b>					
<b>Operating:</b>					
Public safety	-	3,715	-	-	-
Culture and recreation	-	-	-	2,853	-
Community and economic development	81,956	-	26,000	-	-
Total disbursements	81,956	3,715	26,000	2,853	-
Excess (deficiency) of receipts over (under) disbursements	73,026	14,440	(13,213)	(603)	10,013
<b>Other financing sources (uses):</b>					
Transfers in	-	-	-	-	-
Transfers out	(123,639)	-	-	-	-
Total other financing sources (uses)	(123,639)	-	-	-	-
Change in cash balances	(50,613)	14,440	(13,213)	(603)	10,013
Cash balances beginning of year	217,866	45,332	180,491	3,210	16,696
Cash balances end of year	\$ 167,253	59,772	167,278	2,607	26,709
<b>Cash Basis Fund Balances</b>					
<b>Restricted for:</b>					
Urban renewal purposes	\$ 167,253	-	-	-	-
Other purposes	-	59,772	167,278	2,607	26,709
Total cash basis fund balances	\$ 167,253	59,772	167,278	2,607	26,709

See accompanying independent auditor's report.

Special Revenue					
Library Memorial	Library Capital Improvements	Fairfield Public Library House	Friends of the Fairfield Public Library	Fairfield Parks and Recreation Foundation	Total
-	-	-	-	-	154,982
-	-	7,800	-	252	20,852
-	-	-	-	-	18,155
16,519	3,399	-	8,816	228,105	269,089
16,519	3,399	7,800	8,816	228,357	463,078
-	-	-	-	-	3,715
12,896	54,903	4,865	6,174	103,908	185,599
-	-	-	-	-	107,956
12,896	54,903	4,865	6,174	103,908	297,270
3,623	(51,504)	2,935	2,642	124,449	165,808
-	6,256	-	-	-	6,256
(1,256)	-	(5,000)	-	(98,379)	(228,274)
(1,256)	6,256	(5,000)	-	(98,379)	(222,018)
2,367	(45,248)	(2,065)	2,642	26,070	(56,210)
4,285	66,525	8,365	3,528	72,385	618,683
6,652	21,277	6,300	6,170	98,455	562,473
-	-	-	-	-	167,253
6,652	21,277	6,300	6,170	98,455	395,220
6,652	21,277	6,300	6,170	98,455	562,473

**Schedule 2**

## City of Fairfield

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

As of and for the year ended June 30, 2015

	Enterprise		
	Airport	Solid Waste	Total
Operating receipts:			
Use of money and property	\$ 39,727	-	39,727
Charges for service	-	564,743	564,743
Miscellaneous	283	-	283
Total operating receipts	40,010	564,743	604,753
Operating disbursements:			
Business type activities	136,732	522,602	659,334
Excess (deficiency) of operating receipts over (under) operating disbursements	(96,722)	42,141	(54,581)
Non-operating receipts:			
Farm rent	66,102	-	66,102
Intergovernmental	22,275	-	22,275
Non-operating receipts	88,377	-	88,377
Excess (deficiency) of receipts over (under) disbursements	(8,345)	42,141	33,796
Transfers in	245,000	-	245,000
Change in cash balances	236,655	42,141	278,796
Cash balances beginning of year	67,661	(48,516)	19,145
Cash balances end of year	\$ 304,316	(6,375)	297,941
<b>Cash Basis Fund Balances</b>			
Unrestricted	\$ 304,316	(6,375)	297,941

See notes to financial statements.

**City of Fairfield**

City of Fairfield  
Schedule of Indebtedness  
Year ended June 30, 2015

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Street construction	Jan 2, 1958	2.60%	\$ 85,000
Essential corporate purpose	Sep 1, 2006	4.00	6,925,000
Essential corporate purpose	Jul 1, 2010	1.55-3.40	4,915,000
Total			
General obligation capital loan notes:			
General obligation refunding - series 2011	Apr 1, 2011	1.25-1.90%	1,135,000
General obligation capital loan note - series 2015	Feb 5, 2015	3.50	3,775,000
Total			
Revenue bonds:			
Local option sales and services tax	Jun 29, 2010	2.65-4.40%	550,000
Revenue capital loan notes:			
Water	Feb 13, 2003 *	1.75%	5,797,000
Sewer	Oct 5, 2011 *	3.00	4,000,000
Sewer	Nov 9, 2012 *	1.75	600,000
Total			
General obligation bond anticipation project note	Jun 28, 2013	2.40%	1,900,000
Interim revenue project notes:			
Sewer	Aug 12, 2013	0.00%	500,000
Sewer	Apr 14, 2014	0.00	1,075,000
Sewer	Apr 14, 2014	0.00	1,585,000
Total			
Loan agreement	Oct 1, 2013	0.00-1.00%	202,000

\* 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
4,360,000	-	465,000	3,895,000	174,400	-
3,115,000	-	545,000	2,570,000	79,750	-
<b>\$ 7,480,000</b>	<b>-</b>	<b>1,010,000</b>	<b>6,470,000</b>	<b>254,150</b>	<b>5,520</b>
465,000	-	230,000	235,000	8,145	-
-	3,775,000	240,000	3,535,000	42,574	-
<b>\$ 465,000</b>	<b>3,775,000</b>	<b>470,000</b>	<b>3,770,000</b>	<b>50,719</b>	<b>-</b>
420,000	-	65,000	355,000	15,062	-
3,470,000	-	338,000	3,132,000	60,725	-
3,705,000	-	155,000	3,550,000	111,150	-
556,000	-	23,000	533,000	9,730	-
<b>\$ 7,731,000</b>	<b>-</b>	<b>516,000</b>	<b>7,215,000</b>	<b>181,605</b>	<b>-</b>
1,900,000	-	-	1,900,000	45,600	-
352,659	59,579	-	412,238	-	-
365,505	186,026	-	551,531	-	-
-	821,539	-	821,539	-	-
<b>\$ 718,164</b>	<b>1,067,144</b>	<b>-</b>	<b>1,785,308</b>	<b>-</b>	<b>-</b>
202,000	-	202,000	-	2,000	-

City of Fairfield  
Bond and Note Maturities  
June 30, 2015

Year Ending June 30,	General Obligation Bonds					General Obligation Capital Loan Notes				
	Essential Corporate Purpose		Essential Corporate Purpose		Total	Refunding, Series 2011		Series 2015		Total
	Issued Sep 1, 2006		Issued July 1, 2010			Issued April 1, 2011		Issued Feb 5, 2015		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2016	4.00%	\$ 485,000	2.15%	\$ 560,000	1,045,000	1.90%	\$ 235,000	3.50%	\$ 50,000	285,000
2017	4.00	510,000	2.50	575,000	1,085,000	-	-	3.50	113,000	113,000
2018	4.00	530,000	2.75	595,000	1,125,000	-	-	3.50	116,000	116,000
2019	4.00	555,000	3.00	200,000	755,000	-	-	3.50	121,000	121,000
2020	4.00	580,000	3.00	205,000	785,000	-	-	3.50	138,000	138,000
2021	4.00	605,000	3.25	215,000	820,000	-	-	3.50	143,000	143,000
2022	4.00	630,000	3.40	220,000	850,000	-	-	3.50	149,000	149,000
2023	-	-	-	-	-	-	-	3.50	195,000	195,000
2024	-	-	-	-	-	-	-	3.50	202,000	202,000
2025	-	-	-	-	-	-	-	3.50	209,000	209,000
2026	-	-	-	-	-	-	-	3.50	217,000	217,000
2027	-	-	-	-	-	-	-	3.50	225,000	225,000
2028	-	-	-	-	-	-	-	3.50	232,000	232,000
2029	-	-	-	-	-	-	-	3.50	241,000	241,000
2030	-	-	-	-	-	-	-	3.50	220,000	220,000
2031	-	-	-	-	-	-	-	3.50	229,000	229,000
2032	-	-	-	-	-	-	-	3.50	237,000	237,000
2033	-	-	-	-	-	-	-	3.50	245,000	245,000
2034	-	-	-	-	-	-	-	3.50	253,000	253,000
Total		<u>\$ 3,895,000</u>		<u>\$ 2,570,000</u>	<u>6,465,000</u>		<u>\$ 235,000</u>		<u>\$ 3,535,000</u>	<u>\$ 3,770,000</u>

See accompanying independent auditor's report.

Revenue Bonds		Revenue Capital Loan Notes							
Local Option Sales and Services Tax		Water		Sewer		Sewer			
Issued June 29, 2010		Issued Feb 13, 2003		Issued Oct 5, 2011		Issued Nov 9, 2012			
Interest		Interest		Interest		Interest			
Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Total	
3.35%	\$ 65,000	1.75%	\$ 349,000	3.00%	\$ 160,000	1.75%	\$ 24,000	533,000	
3.75	70,000	1.75	360,000	3.00	165,000	1.75	25,000	550,000	
4.05	70,000	1.75	372,000	3.00	170,000	1.75	26,000	568,000	
4.20	75,000	1.75	384,000	3.00	176,000	1.75	26,000	586,000	
4.40	75,000	1.75	397,000	3.00	182,000	1.75	27,000	606,000	
-	-	1.75	410,000	3.00	187,000	1.75	28,000	625,000	
-	-	1.75	423,000	3.00	194,000	1.75	29,000	646,000	
-	-	1.75	437,000	3.00	200,000	1.75	30,000	667,000	
-	-	-	-	3.00	206,000	1.75	31,000	237,000	
-	-	-	-	3.00	213,000	1.75	32,000	245,000	
-	-	-	-	3.00	220,000	1.75	33,000	253,000	
-	-	-	-	3.00	227,000	1.75	34,000	261,000	
-	-	-	-	3.00	234,000	1.75	35,000	269,000	
-	-	-	-	3.00	242,000	1.75	36,000	278,000	
-	-	-	-	3.00	250,000	1.75	38,000	288,000	
-	-	-	-	3.00	258,000	1.75	39,000	297,000	
-	-	-	-	3.00	266,000	1.75	40,000	306,000	
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	
	<u>\$ 355,000</u>		<u>\$ 3,132,000</u>		<u>\$ 3,550,000</u>		<u>\$ 533,000</u>	<u>7,215,000</u>	

City of Fairfield

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

For the Last Ten Years

	2015	2014	2013	2012
<b>Receipts:</b>				
Property tax	\$ 5,205,442	4,567,137	4,389,250	4,305,856
Tax increment financing	154,982	105,228	189,020	168,392
Other city tax	1,006,128	891,960	956,885	1,030,554
Licenses and permits	153,548	138,796	131,114	21,927
Use of money and property	26,321	41,523	64,537	16,151
Intergovernmental	1,750,849	1,204,178	1,685,508	2,122,051
Charges for service	474,450	469,719	501,509	533,266
Special assessments	43,963	43,870	53,529	-
Miscellaneous	2,059,959	300,996	239,928	88,337
<b>Total</b>	<b>\$ 10,875,642</b>	<b>7,763,407</b>	<b>8,211,280</b>	<b>8,286,534</b>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	\$ 2,061,445	2,083,750	2,005,343	1,773,322
Public works	970,765	919,575	1,173,014	788,506
Health and social services	4,450	-	-	24,042
Culture and recreation	2,073,533	2,075,406	2,246,585	1,968,927
Community and economic development	267,377	211,799	220,509	134,867
General government	828,026	796,394	514,862	700,625
Debt service	1,913,530	1,627,479	1,582,824	1,574,018
Capital projects	5,021,949	573,037	912,042	2,889,145
<b>Total</b>	<b>\$ 13,141,075</b>	<b>8,287,440</b>	<b>8,655,179</b>	<b>9,853,452</b>

See accompanying independent auditor's report.

2011	2010	2009	2008	2007	2006
4,205,134	4,076,420	3,949,455	3,639,821	3,350,952	3,236,344
253,181	429,971	332,517	232,613	210,355	229,701
966,858	960,005	1,027,994	991,721	968,336	911,782
23,588	25,681	22,741	29,359	21,441	27,043
24,366	43,279	89,382	88,133	104,655	45,527
2,270,294	2,179,131	1,463,822	3,217,212	4,965,682	2,635,955
480,915	350,499	303,182	292,480	323,930	346,434
71,947	64,130	75,582	44,482	51,081	27,614
569,010	263,644	507,741	248,944	284,838	197,893
8,865,293	8,392,760	7,772,416	8,784,765	10,281,270	7,658,293
1,857,711	1,705,256	1,761,035	1,626,961	1,570,831	1,589,215
120,088	1,060,704	906,095	997,862	942,597	977,938
39,585	13,000	13,081	12,786	17,801	9,720
1,491,155	1,641,994	1,626,771	1,490,126	1,591,083	1,536,035
1,263,995	300,665	199,972	116,881	100,958	107,223
815,111	1,155,196	405,982	387,699	374,948	397,803
2,787,905	1,235,630	1,245,752	1,016,258	1,116,957	901,491
3,444,543	2,143,000	1,913,794	3,796,689	7,085,671	3,845,328
11,820,093	9,255,445	8,072,482	9,445,262	12,800,846	9,364,753

**City of Fairfield**



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

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

To the Honorable Mayor and  
Members of the City Council:

We have audited 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, the financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Fairfield, Iowa, as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 5, 2016. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Fairfield's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fairfield's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Fairfield's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Fairfield's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A) through (E) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (F) through (H) to be significant deficiencies.

#### 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 which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2015 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

The City of Fairfield's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Fairfield's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

April 5, 2016

City of Fairfield

Schedule of Findings

Year ended June 30, 2015

**INTERNAL CONTROL DEFICIENCIES:**

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check of those of another. During the audit, we identified the following incompatible duties:

- (1) Bank reconciliations are not performed by an individual who does not handle or record cash. In addition, the reconciliation is not reviewed and approved by an independent person.
- (2) Receipts – opening mail, collecting, depositing, journalizing and posting.
- (3) Utility receipts – opening mail, billing, collecting, depositing, posting, reconciling and maintaining detailed accounts receivable records.
- (4) An initial listing of mail receipts is not prepared by the mail openers.
- (5) Journal entries are not reviewed and approved.
- (6) All accounting staff have the ability to void receipts. No report is maintained or review performed over voided receipts.
- (7) Accounting system – performing all general accounting functions and having custody of City assets.
- (8) Payroll – Independent reviews of payroll journals or electric remittances of payroll taxes are not performed.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response – We have changed our internal duties to establish stronger internal controls.

Conclusion – Response accepted.

(B) Financial Reporting – During the audit, we identified the following material items requiring corrections. Adjustments were subsequently made by the City to properly record these amounts in the financial statements.

- 1) Certain receipts and disbursements were recorded in an incorrect fund.
- 2) Certain disbursements were reported in an incorrect function.
- 3) Amounts held by the employee health plan trustee were not recorded in the City's cash balances.

City of Fairfield

Schedule of Findings

Year ended June 30, 2015

Additionally, certain receipts were recorded as negative disbursements. Since the amounts are not material, the financial statements were not adjusted.

Recommendation – The City should establish procedures to ensure accurate financial reporting.

Response – The City feels this has been addressed. The City Administrator and the City Clerk watch the monthly financial reports very close to catch any errors.

Conclusion – Response accepted.

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. For the solid waste utility, the initial listing is not compared to receipt records by an independent person.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. The City Council or a Council-designated independent person should review the reconciliations and monitor delinquencies. The initial listing should be compared to receipt records by an independent person.

Response - The City is working on reconciling the utility accounts at this time. The City has established monthly reconciliation protocol to address the recommendations.

Conclusion – Response accepted.

- (D) Credit Cards - Supporting documentation was not always available to support credit card charges.

Recommendation – Credit card payments should be supported by itemized receipts or other detailed documentation to substantiate charges.

Response - We will make sure all the documentation is with the statements. The City has also adopted a financial policy which requires itemized documentation for credit card purchases.

Conclusion – Response accepted.

- (E) Parks and Recreation Receipts – The City’s Parks and Recreation Department has weaknesses in segregation of duties for the collection of receipts, as follows:

- 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 for admissions and concession sales. The cash register tapes are not reconciled to the receipts log maintained at the Parks and Recreation Department by an independent person.

City of Fairfield

Schedule of Findings

Year ended June 30, 2015

- 3) Prenumbered receipts are issued only upon request of the payee or when a credit card is used.
- 4) One employee is responsible for collecting, depositing and reconciling receipts.

Recommendation - The City should develop 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 document the review by signing or initialing and dating the reconciliation.
- 2) An independent person should reconcile the cash register tapes to the log and document the reconciliation by signing or initialing and dating the log.
- 3) Prenumbered receipts should be issued for all collections which are not recorded through a cash register. On a periodic basis, a person independent of the receipt process should reconcile prenumbered receipts issued to deposits.
- 4) The City should review its internal control procedures to obtain the maximum internal control possible under the circumstances.

Response – We are in the process of addressing this issue. The City will establish stronger internal controls within the park and recreation department.

Conclusion – Response accepted.

- (F) City Library Receipts – The City’s separately maintained records for the Library Endowment, Library Memorial, Library Capital Improvements and Fairfield Public Library House have weaknesses in segregation of duties for the collection of receipts, as follows:

Receipts – An initial listing of receipts is not prepared by the mail opener.

Recommendation – Control activities for the Library separately maintained records should be reviewed to obtain the maximum internal control possible under the circumstances.

Response – Incoming mail is opened by Claudette, who routes items related to financial recordkeeping to Kris. We do not receive cash by mail; rather, payments are by check. This means Claudette sees the items, then Kris sees and posts the items. Once the items are posted to our financial recordkeeping system, they are reviewed by the Library Director and summarized in the monthly Statement of Funds report, which is further reviewed by the Library Board.

Cash revenue is received at the front desk. Since last year’s audit, we have modified our routines. Instead of closing the cash register once per day, we close it at the end of each shift, i.e. midday and evening. This new approach has reduced errors, because the employees who handled the transactions are present to correct most posting errors shortly after they occur.

Conclusion – Response acknowledged. An initial listing of checks received in the mail should be prepared by the mail opener and compared by an independent person to recorded receipts.

City of Fairfield

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Year ended June 30, 2015

- (G) Computer System – The City’s computer system does not identify who processed transactions. The City does not update user profiles periodically. In addition, the City does not have a written disaster recovery plan.

Recommendation – The City’s computer system should identify who processes transactions. The City should review user profiles and update the profiles timely. The City should adopt a written disaster recovery plan.

Response – The City will adopt a written disaster recovery plan. The City will consult our software provider to address tracking and profiles.

Conclusion – Response accepted.

- (H) Compensated Absences - Compensatory time, including vacation and sick leave, are maintained in the City’s payroll records for all departments except the Library and Fire Department. In addition, eight employees had negative leave balances because the City is not adequately monitoring the balances. Additionally, the wage rates used to calculate the liability were the rates for fiscal year 2016 rather than the rates in effect at June 30, 2015.

Recommendation - All payroll records should be maintained on a consistent and uniform basis to document potential liabilities of the City. The City should monitor balances recorded in the payroll system. Proper rates should be used to calculate balances.

Response – The City is in the process of changing the leave process in the payroll system. All compensated absences will be tracked and accounted for in the city’s payroll system. The liability will be calculated using the proper rates.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Fairfield

Schedule of Findings

Year ended June 30, 2015

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

- (1) Certified Budget - Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety, public works, community and economic development, general government, debt service, capital projects 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 - The City will make every effort to amend the budget before disbursements occur.

Conclusion - Response accepted.

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

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Wal-Mart	Late fees	\$2
Visa	Late fees	11

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

Response - The City will try in the future, to pay more attention to late fees charged. Timely submission of invoices has been addressed with staff.

Conclusion - Response accepted.

- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Fairfield

Schedule of Findings

Year ended June 30, 2015

- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Denise Estle, Bookkeeper, husband owns Estle Construction	Various services (rock and building construction)	\$ 47,267
Rebecca Johnson, Librarian, husband is Dennis Johnson	Various services at Library (Lawn and snow removal)	786

In accordance with Chapters 362.5(3)(d) and (j) of the Code of Iowa, the transactions with Estle Construction may represent a conflict of interest since total transactions were more than \$1,500 during the fiscal year and the contracts were not entered into through competitive bidding.

In accordance with Chapter 362.5 (3)(j) of the Code of Iowa, the transactions with Dennis Johnson do not appear to represent a conflict of interest since total transactions were less than \$1,500 during the fiscal year.

Recommendation – The City should consult legal counsel for the proper disposition of this matter.

Response – The City will accept bids from now on where a spouse is involved. Additionally, this issue was addressed in the City’s financial plan.

Conclusion – Response acknowledged. The City should consult legal counsel for the proper disposition of this matter.

- (5) 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.

- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not except as follows:

Disbursements made for electronic debt payments and remittances of payroll withholdings were not approved by the City Council.

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

Recommendation – The City Council should approve all disbursements, including disbursements made electronically. The City should publish minutes as required.

Response – Payroll and debt service remittances will be added to the City Council consent agenda for approval. The City will try to be more diligent on publishing the minutes in a timely fashion.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings

Year ended June 30, 2015

- (7) Deposits and Investments – Deposits and investments were in compliance with the provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy, except for the following:

Interest income from the investment of note proceeds was not credited to the Capital Projects Fund. In addition, interest earned on the Special Revenue, Tax Increment Financing Fund balance is not credited to the fund. In accordance with Chapter 12C.9 of the Code of Iowa, such interest shall be used to pay the principal or interest of the indebtedness or be credited to the Capital Projects Fund for which the indebtedness was issued.

Additionally, a resolution naming official depositories could not be located by the City.

Recommendation – The City should credit interest to the proper funds in accordance with Chapter 12C.9 of the Code of Iowa. In addition, the City should adopt a depository resolution which establishes maximum deposit amounts for each bank as required by Chapter 12C.2 of the Code of Iowa.

Response – The City will credit interest to the proper funds. The City will work toward adopting a depository resolution to establish maximum deposits amounts.

Conclusion – Response accepted.

- (8) Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions, except as follows:

The water revenue note resolution requires the City to establish water sinking and reserve accounts. The City has not established these accounts or made the required transfers to these accounts.

The sewer revenue note resolutions require the City to establish a sewer sinking account. The City has not established this account or made the required transfers to the account.

The local option sales and services tax (LOST) revenue bond resolution requires the City to establish LOST sinking and reserve accounts. The City has not established these accounts or made the required transfers to these accounts.

Recommendation – The City should establish the required sinking and reserve accounts and make the transfers required by the sewer and water note and LOST bond resolutions.

Response – The City has now established the required sinking and reserve funds.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings

Year ended June 30, 2015

- (9) Financial Condition – At June 30, 2015, the City had deficit balances in the following funds:

<u>Fund</u>	<u>Amount</u>
Debt Service	\$2,422
Enterprise, Solid Waste	6,375

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

Response – We will attempt to eliminate all negative fund balances.

Conclusion – Response accepted.

- (10) Separately Maintained Records – The City maintains separate bank accounts or investments for the Special Revenue, Indian Creek Escrow, Library Memorial, Library Capital Improvements, Fairfield Public Library House and Live on the Square Funds and the Permanent, Library Endowment Fund. These accounts and investments 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 financial activity of the separately maintained bank accounts and investments should be reflected in the City’s monthly financial statements.

Response – We will try to add these accounts on our financial reports.

Conclusion – Response accepted.

- (11) Capital Improvements Levy – Chapter 384.7 of the Code of Iowa allows cities to levy property tax for a capital improvement reserve fund, subject to approval by the voters at an election. The City previously established this levy, but the levy expired in the fiscal year ended June 30, 2009. The City levied \$164,380, \$174,067, \$178,492 and \$100,000 for the fiscal years ended June 30, 2010, June 30, 2011, June 30, 2012 and June 30, 2013, respectively, without holding an election.

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

Response – The City attorney is working on this and will offer a recommended action for the City.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings

Year ended June 30, 2015

- (12) Clothing Allowances and Taxable Meals – The City provides certain employees with an annual clothing allowance. The amount allowed is \$200 for water plant employees and \$450 for water distribution, wastewater and street employees. These payments were not processed through payroll and, accordingly, the proper tax withholdings were not applied.

In addition, meal reimbursements provided by the City when employees are not in travel status are not included on the employees' W-2s.

Recommendation – The City should report clothing allowances and taxable meal reimbursements provided to employees on the employees' W-2s.

Response – These items will be added to the W-2's.

Conclusion – Response accepted.

- (13) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures....". The City's Annual Financial Report reported fund balances which did not materially agree with the City's records.

Recommendation – The City should ensure the Annual Financial Report agrees with the City's records.

Response – The City is working very hard to make sure all reports match.

Conclusion – Response accepted.

- (14) Urban Renewal Tax Increment Financing (TIF) Fund – The City has certified TIF obligations in five urban renewal areas. The TIF receipts for all five urban renewal areas are included in the Special Revenue, Urban Renewal Tax Increment Financing Fund. The City does not maintain the receipts and disbursements of each urban renewal area separately.

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

Response – The City will set up subaccounts for different TIF projects.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings

Year ended June 30, 2015

- (15) Tax Increment Financing (TIF) Debt Certification – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness, and bonds (indebtedness) to the County Auditor which qualify for reimbursement from the fund as provided in Chapter 403.19 of the Code of Iowa. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness and, as such, the County Auditor shall provide available TIF incremental property tax in subsequent fiscal years without further certification until the amount of certified indebtedness is paid to the City. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(5)(b) of the Code of Iowa requires the city to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

The following relates to the City's TIF debt certifications:

The City made transfers from the Special Revenue, Urban Renewal Tax Increment Financing Fund (TIF) to the Debt Service Fund in excess of the TIF portion of the general obligation debt. As a result, the City has used TIF receipts to pay general obligation debt not eligible to be paid from TIF. In prior years, the City transferred \$186,622 from the Special Revenue, Urban Renewal Tax Increment Financing Fund (TIF) to the Debt Service Fund in excess of the TIF portion of the general obligation debt. For the year ended June 30, 2015, the TIF portion of the general obligation note principal and interest paid was \$104,223, but the City transferred \$123,639 from the Special Revenue, Urban Renewal Tax Increment Financing Fund to the Debt Service Fund, or \$19,416 more than was required. At June 30, 2015, the excess transfers total \$206,038.

Recommendation – The City should limit transfers from the Special Revenue, Urban Renewal Tax Increment Financing Fund to the Debt Service Fund to the TIF debt coming due in the fiscal year. Also, the City should transfer \$206,038 from the Debt Service Fund to the Special Revenue, Urban Renewal Tax Increment Financing Fund for the excess amounts transferred.

Response – The City will transfer \$206,038 from the Debt Service Fund to the Special Revenue, Urban Renewal Tax Increment Financing.

Conclusion – Response accepted.

- (16) Annual Urban Renewal Report – The City understated the amount reported as TIF debt outstanding by \$536,684. The Levy Authority Summary also included disbursements, beginning and ending cash balances which did not reconcile to the City's Special Revenue, Urban Renewal Tax Increment Financing Fund.

Recommendation – The City should ensure the amounts reported on the Levy Authority Summary agree with the City's records.

Response – The City has been working with the Department of Management to correct this report.

Conclusion – Response accepted.

City of Fairfield

Schedule of Findings

Year ended June 30, 2015

- (17) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City to report and remit obligations, including checks and unrepresented bonds/coupons, outstanding for more than two years to the Office of Treasurer of State annually. The City did not remit these obligations as required. The City canceled \$3,700 of old outstanding checks and deposited it in the City's accounts.

Recommendation – The outstanding checks and bonds/coupons should be reviewed annually and items over two years old should be remitted to the Office of Treasurer of State as required.

Response – The City will work on this process.

Conclusion – Response accepted.

City of Fairfield

Staff

This audit was performed by:

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