



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

May 17, 2017

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Auditor of State Mary Mosiman today released an audit report on the City of Fairfax, Iowa.

The City's receipts totaled \$3,288,759 for the year ended June 30, 2016, a 39.9% decrease from the prior year. The receipts included \$624,278 in property tax, \$985,032 from tax increment financing, \$1,007,520 from charges for service, \$327,984 from operating grants, contributions and restricted interest, \$25,100 from capital grants, contributions and restricted interest, \$276,415 from local option sales tax, \$8,823 from unrestricted interest on investments and \$33,607 from other general receipts.

Disbursements for the year ended June 30, 2016 totaled \$4,934,435, a 5.1% increase over the prior year, and included \$1,241,485 for debt service, \$905,781 for public safety and \$669,319 for public works. Also, disbursements for business type activities totaled \$1,362,413.

The significant decrease in receipts in fiscal year 2016 is due to the issuance of general obligation bonds in fiscal year 2015. The increase in disbursements is primarily due to a street project started in fiscal year 2016 and purchase of a firetruck.

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 <https://auditor.iowa.gov/reports/1620-0544-B00F>.

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CITY OF FAIRFAX

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

JUNE 30, 2016

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City of Fairfax

Officials

(Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jason Rabe	Mayor	Jan 2016
Marianne Wainwright	Mayor Pro tem	Jan 2018
Travis Otto	Council Member	Jan 2016
Marc Magers	Council Member	Jan 2016
JoAnn Beer	Council Member	Jan 2018
Bernie Frieden	Council Member	Jan 2018
Cynthia Stimson	City Clerk/Treasurer	Indefinite
Kathy Everett	Deputy Clerk	Indefinite
Randy Scholer	Attorney	Indefinite

(After January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bernie Frieden	Mayor	Jan 2018
Marianne Wainwright	Mayor Pro tem	Jan 2018
JoAnn Beer	Council Member	Jan 2018
Nick Volk	Council Member	Jan 2018
Michael Daly	Council Member	Jan 2020
Joe Kell	Council Member	Jan 2020
Cynthia Stimson	City Clerk/Treasurer	Indefinite
Kathy Everett	Deputy Clerk	Indefinite
Randy Scholer	Attorney	Indefinite

City of Fairfax



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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, each major fund and the aggregate remaining fund information of the City of Fairfax, Iowa, as of and for the year ended June 30, 2016, 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, each major fund and the aggregate remaining fund information of the City of Fairfax as of June 30, 2016, 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.

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 Fairfax's basic financial statements. The financial statements for the six years ended June 30, 2015 (which are not presented herein) were audited by other auditors 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 4 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 12 and 32 through 38, 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 May 9, 2017 on our consideration of the City of Fairfax'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 Fairfax's internal control over financial reporting and compliance.



MARY MOSIMAN, CPA
Auditor of State

May 9, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Fairfax 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, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 48.3%, or approximately \$2,300,000 from fiscal year 2015 to fiscal year 2016. Tax increment financing increased approximately \$125,000 while capital grants, contributions and restricted interest decreased approximately \$332,000 and bond proceeds decreased \$2,080,000.
- Disbursements for governmental activities decreased 13.5%, or approximately \$557,000, in fiscal year 2016 from fiscal year 2015. Public safety increased approximately \$523,000 while public works and culture and recreation decreased approximately \$632,000 and \$647,000 respectively.
- The City's total cash basis net position decreased 47.5%, or approximately \$1,646,000, from June 30, 2015 to June 30, 2016. Of this amount, the cash basis net position of the governmental activities decreased approximately \$910,000 and the cash basis net position of the business type activities decreased approximately \$735,000.

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 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 and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system, solid waste and farm operations. 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, Tax Increment Financing and Local Option Sales Tax and 3) the Debt Service 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 four Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City, and the Solid Waste and Farm Operations Funds.

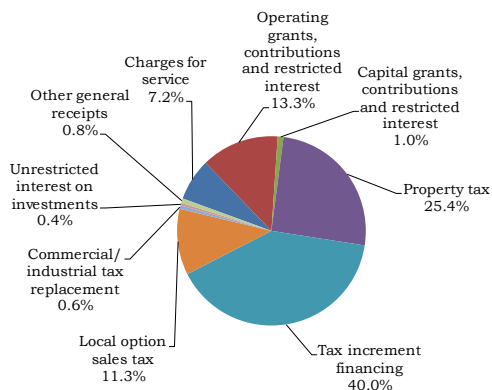
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

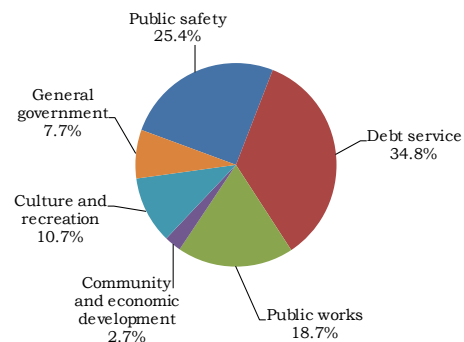
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$1,964,972 to \$1,054,729. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

	Changes in Cash Basis Net Position of Governmental Activities	
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service	\$ 176	202
Operating grants, contributions and restricted interest	328	290
Capital grants, contributions and restricted interest	25	357
General receipts:		
Property tax	624	606
Tax increment financing	985	860
Local option sales tax	277	254
Commercial/industrial tax replacement	14	6
Unrestricted interest on investments	9	9
Bond proceeds	-	2,080
Other general receipts	20	94
Total receipts	2,458	4,758
Disbursements:		
Public safety	906	383
Public works	669	1,301
Culture and recreation	382	1,029
Community and economic development	98	16
General government	276	253
Debt service	1,241	1,147
Total disbursements	3,572	4,129
Change in cash basis net position before transfers	(1,114)	629
Transfers, net	204	(941)
Change in cash basis net position	(910)	(312)
Cash basis net position beginning of year	1,965	2,277
Cash basis net position end of year	\$ 1,055	1,965

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities decreased 48.3%, or approximately \$2,300,000, from the prior year. The total cost of all programs and services decreased approximately \$557,000, or 13.5%, with no new programs added this year. The decrease in receipts was primarily the result of a bond issuance in the prior fiscal year with no new bond issuance in fiscal year 2016. The increase in disbursements was primarily the result of the street improvement projects which started in fiscal year 2016 and the purchase of a fire truck.

Changes in Cash Basis Net Position of Business Type Activities		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 218	202
Sewer	450	377
Garbage	152	123
Farm	11	9
General receipts:		
Other general receipts	-	6
Total receipts	831	717
Disbursements:		
Water	703	223
Sewer	500	219
Garbage	149	120
Farm	10	6
Total disbursements	1,362	568
Change in cash basis net position before transfers	(531)	149
Transfers, net	(204)	941
Change in cash basis net position	(735)	1,090
Cash basis net position beginning of year	1,497	407
Cash basis net position end of year	\$ 762	1,497

Total business type activities receipts increased approximately \$114,000, or 15.9%, over the prior year, primarily due to increases in both the water and sewer rates to customers. Total disbursements for the fiscal year increased 139.8%, or approximately \$794,000, due to the start of a water main and sewer extension project in fiscal year 2016.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fairfax completed the year, its governmental funds reported a combined fund balance of \$1,054,729, a decrease of \$910,243 compared to last year's total of \$1,964,972. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$1,043,131 from the prior year to \$533,075. The decrease is attributable to an increase in disbursements in the public safety and public works functions for the purchase of a fire truck and a drainage project, respectively.
- The Special Revenue, Road Use Tax Fund cash balance increased \$67,390 to \$87,490 during the fiscal year. This increase was primarily due to the City receiving more road use tax receipts in fiscal year 2016 as a result of the Iowa Legislature increasing the tax collected on gasoline.

- The Special Revenue, Local Option Sales Tax Fund was established to account for sales tax collected. At the end of the fiscal year, the cash balance was \$355,970, a \$27,964 increase over the prior year ending balance. While the cash balance increased during the year, the City utilized resources to purchase a utility vehicle, sewer pump and to make upgrades to the utility system in fiscal year 2016.
- The Special Revenue, Tax Increment Financing Fund cash balance increased \$51,651 from \$26,543 to \$78,194. This increase was primarily due to collecting more tax increment financing proceeds than was required to service the related debt in fiscal year 2016.
- The Debt Service Fund cash balance decreased \$14,117 to \$0 at the end of the fiscal year. This decrease was primarily due to the City disbursing funds for current debt obligations.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased from \$1,017,373 to \$522,313. Total receipts increased \$9,390 over the prior year due to increases in the number of users of the system and an increase in customer rates. Disbursements increased \$474,591 over the prior year due to waterworks system expansion.
- The Enterprise, Sewer Fund cash balance decreased from \$448,571 to \$204,399. Total receipts increased \$73,563 over the prior year due to increases in the number of users of the system and an increase in sewer rates. Disbursements increased \$281,566 over the prior year due to sanitary sewer system expansion projects.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on October 13, 2015 and resulted in an increase in operating disbursements for added projects and repair and maintenance of systems. The second amendment was approved on April 12, 2016 to provide for additional projects and improvements. The City had sufficient cash balances to absorb these additional costs.

The City’s receipts were \$3,715 less than budgeted. Total disbursements were \$2,188,561, or 30.7%, less than the final budget. This was primarily due to the City not completing some of the projects as originally planned.

Disbursements did not exceed the amounts budgeted for the year ended June 30, 2016.

DEBT ADMINISTRATION

At June 30, 2016, the City had \$9,644,000 of bonds/notes and other long-term debt outstanding, compared to \$10,615,000 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2016	2015
General obligation notes	\$ 495	645
General obligation bonds	7,353	8,033
Revenue bonds	1,753	1,886
Lease/purchase agreement	43	51
Total	\$ 9,644	10,615

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 property within the City's corporate limits. The City's outstanding general obligation debt of \$7,891,000, including annually appropriated lease purchase agreements of \$43,000, is significantly below its constitutional debt limit of approximately \$10,018,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Fairfax's elected and appointed officials and citizens considered many factors when setting the fiscal year 2017 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in Linn County and the State of Iowa was 3.8% at the end of fiscal year 2016.

These factors were taken into account when adopting the budget for fiscal year 2017. Property tax receipts available for appropriation in the fiscal year 2017 operating budget are expected to increase \$38,650 over fiscal year 2016. Budgeted disbursements are expected to decrease \$2,232,953 from the final fiscal year 2016 budget to \$4,890,043.

If these estimates are realized, the City's June 30, 2017 cash balance is expected to decrease approximately \$1,461,000 by the close of fiscal year 2017.

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 Cynthia Stimson, City Clerk/Treasurer, 300-80th Street Court, PO Box 337, Fairfax, Iowa 52228-0337.

Basic Financial Statements

City of Fairfax

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2016

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 905,781	114,810	21,143	-
Public works	669,319	200	268,160	-
Culture and recreation	381,983	12,821	38,681	25,100
Community and economic development	97,650	35,366	-	-
General government	275,804	12,960	-	-
Debt service	1,241,485	-	-	-
Total governmental activities	3,572,022	176,157	327,984	25,100
Business type activities:				
Water	703,383	218,431	-	-
Sewer	500,214	450,337	-	-
Solid waste	149,133	151,831	-	-
Farm operations	9,683	10,764	-	-
Total business type activities	1,362,413	831,363	-	-
Total	\$ 4,934,435	1,007,520	327,984	25,100
General Receipts and Transfers:				
Property and other city tax levied for general purposes				
Tax increment financing				
Local option sales tax				
Commercial/industrial tax replacement				
Unrestricted interest on investments				
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				
Cash Basis Net Position				
Restricted:				
Streets				
Local option sales tax				
Urban renewal purposes				
Debt service				
Capital improvements				
Other purposes				
Unrestricted				
Total cash basis net position				
See notes to financial statements.				

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
(769,828)	-	(769,828)
(400,959)	-	(400,959)
(305,381)	-	(305,381)
(62,284)	-	(62,284)
(262,844)	-	(262,844)
(1,241,485)	-	(1,241,485)
(3,042,781)	-	(3,042,781)
-	(484,952)	(484,952)
-	(49,877)	(49,877)
-	2,698	2,698
-	1,081	1,081
-	(531,050)	(531,050)
(3,042,781)	(531,050)	(3,573,831)
624,278	-	624,278
985,032	-	985,032
276,415	-	276,415
13,882	-	13,882
8,803	20	8,823
19,725	-	19,725
204,403	(204,403)	-
2,132,538	(204,383)	1,928,155
(910,243)	(735,433)	(1,645,676)
1,964,972	1,497,131	3,462,103
\$ 1,054,729	761,698	1,816,427
\$ 87,490	-	87,490
355,970	-	355,970
78,194	-	78,194
-	62,762	62,762
225,540	495,345	720,885
-	16,020	16,020
307,535	187,571	495,106
\$ 1,054,729	761,698	1,816,427

City of Fairfax

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

As of and for the year ended June 30, 2016

	General	Special	
		Road Use Tax	Local Option Sales Tax
Receipts:			
Property tax	\$ 608,423	-	-
Tax increment financing	-	-	-
Other city tax	15,855	-	276,415
Licenses and permits	45,829	-	-
Use of money and property	12,298	-	-
Intergovernmental	195,171	262,359	-
Charges for service	3,428	-	-
Miscellaneous	51,941	-	-
Total receipts	932,945	262,359	276,415
Disbursements:			
Operating:			
Public safety	905,781	-	-
Public works	301,395	194,969	172,955
Culture and recreation	337,236	-	44,747
Community and economic development	97,650	-	-
General government	275,804	-	-
Debt service	-	-	-
Total disbursements	1,917,866	194,969	217,702
Excess (deficiency) of receipts over (under) disbursements	(984,921)	67,390	58,713
Other financing sources (uses):			
Transfers out	(58,210)	-	(30,749)
Total other financing sources (uses)	(58,210)	-	(30,749)
Change in cash balances	(1,043,131)	67,390	27,964
Cash balances beginning of year	1,576,206	20,100	328,006
Cash balances end of year	\$ 533,075	87,490	355,970
Cash Basis Fund Balances			
Restricted for:			
Streets	\$ -	87,490	-
Local option sales tax	-	-	355,970
Urban renewal purposes	-	-	-
Capital improvements	225,540	-	-
Committed for:			
Fire department	26,055	-	-
Fireworks	17,958	-	-
Library	235,477	-	-
Parks	9,204	-	-
Unassigned	18,841	-	-
Total cash basis fund balances	\$ 533,075	87,490	355,970

See notes to financial statements.

Revenue		
Tax Increment Financing	Debt Service	Total
-	-	608,423
985,032	-	985,032
-	-	292,270
-	-	45,829
625	-	12,923
-	-	457,530
-	-	3,428
-	-	51,941
985,657	-	2,457,376
-	-	905,781
-	-	669,319
-	-	381,983
-	-	97,650
-	-	275,804
-	1,241,485	1,241,485
-	1,241,485	3,572,022
985,657	(1,241,485)	(1,114,646)
(934,006)	1,227,368	204,403
(934,006)	1,227,368	204,403
51,651	(14,117)	(910,243)
26,543	14,117	1,964,972
78,194	-	1,054,729
-	-	87,490
-	-	355,970
78,194	-	78,194
-	-	225,540
-	-	26,055
-	-	17,958
-	-	235,477
-	-	9,204
-	-	18,841
78,194	-	1,054,729

City of Fairfax

City of Fairfax

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

As of and for the year ended June 30, 2016

	Enterprise			
	Water	Sewer	Nonmajor	Total
Operating receipts:				
Charges for service	\$ 210,136	449,812	162,595	822,543
Operating disbursements:				
Business type activities	260,460	366,199	158,816	785,475
Excess (deficiency) of operating receipts over (under) operating disbursements	(50,324)	83,613	3,779	37,068
Non-operating receipts (disbursements):				
Licenses and permits	525	525	-	1,050
Interest on investments	-	-	20	20
Utility deposits/miscellaneous	7,770	-	-	7,770
Utility deposits refunded	(7,170)	-	-	(7,170)
Capital projects	(435,753)	(134,015)	-	(569,768)
Net non-operating disbursements	(434,628)	(133,490)	20	(568,098)
Excess (deficiency) of receipts over (under) disbursements	(484,952)	(49,877)	3,799	(531,030)
Transfers out	(10,108)	(194,295)	-	(204,403)
Change in cash balances	(495,060)	(244,172)	3,799	(735,433)
Cash balances beginning of year	1,017,373	448,571	31,187	1,497,131
Cash balances end of year	\$ 522,313	204,399	34,986	761,698
Cash Basis Fund Balances				
Restricted for:				
Debt service	\$ -	62,762	-	62,762
Capital improvements	495,345	-	-	495,345
Meter deposits	16,020	-	-	16,020
Unrestricted	10,948	141,637	34,986	187,571
Total cash basis fund balances	\$ 522,313	204,399	34,986	761,698

See notes to financial statements.

City of Fairfax

City of Fairfax

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

The City of Fairfax is a political subdivision of the State of Iowa located in Linn County. It was first incorporated in 1930 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, sewer, solid waste utilities and farm operations for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Fairfax 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. The City has no component units which meet the Governmental Accounting Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations for which the City is not financially accountable or the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following boards and commissions: Linn County Assessor's Conference Board, Linn County Emergency Management Commission, Linn County Joint E-911 Service Board, and the Corridor Metropolitan Planning Organization.

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. 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:

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 enterprise funds are aggregated and reported as nonmajor enterprise funds.

The City reports the following major governmental funds:

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

Special Revenue:

The Road Use Tax Fund is used to account for 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 receipts from the tax authorized by referendum and used for community betterment and property tax relief.

The Tax Increment Financing Fund is used to account for tax increment financing collections and repayment of tax increment financing indebtedness.

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 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 system.

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 statements, cash basis fund balances are classified as follows:

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.

Committed – Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year-end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

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.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2016 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.

The City had no investments meeting the disclosure requirement of Governmental Accounting Standards Board Statement No. 72.

(3) Long-Term Debt

Annual debt service requirements to maturity for general obligation bonds and notes and sewer revenue bonds and notes are as follows:

Year Ending June 30,	General Obligation Bonds/Notes		Sewer Revenue Bonds		Total		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2017	\$ 850,000	183,265	137,000	52,590	987,000	235,855	1,222,855
2018	840,000	167,853	141,000	48,480	981,000	216,333	1,197,333
2019	831,000	151,588	145,000	44,250	976,000	195,838	1,171,838
2020	851,000	134,255	150,000	39,900	1,001,000	174,155	1,175,155
2021	866,000	115,310	154,000	35,400	1,020,000	150,710	1,170,710
2022-2026	3,178,000	273,428	842,000	104,880	4,020,000	378,308	4,398,308
2027-2029	432,000	17,675	184,000	5,520	616,000	23,195	639,195
Total	\$ 7,848,000	1,043,374	1,753,000	331,020	9,601,000	1,374,394	10,975,394

Sewer Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,400,000 of sewer revenue bonds issued in November 2006. The agreement also requires the City to annually pay a 0.25% servicing fee on the outstanding principal balance. The bonds are payable solely from sewer customer net receipts and are payable through 2027. Annual principal and interest payments on the bonds required 227% of net receipts. The total principal and interest remaining to be paid on the bonds is \$2,084,020. For the current year, principal and interest paid and total customer net receipts were \$189,580 and \$83,613, respectively.

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

- a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the fund.
- b) Sufficient monthly transfers shall be made to a sewer revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- c) User rates shall be established and charged to customers of the utility, including the City, to produce and maintain net receipts at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

The City is not charged for sewer usage as required and did not establish sewer rates at a level to produce net receipts equal to at least 110% of the principal and interest on the sewer bonds.

Subsequent to June 30, 2016, the City received notice from the Iowa Finance Authority the interest rate on the Series 2008 Sewer Revenue Bond will be reduced from 3.00% to 1.75% effective December 1, 2016.

(4) Lease Purchase Agreement

On April 30, 2015, the City entered into a capital lease purchase agreement for a Track Skid Loader for \$50,543. The agreement requires two annual payments of \$9,335 and a final payment of \$35,976, including interest at 3.2% per annum.

Year Ending June 30,	Skid Loader
2017	\$ 9,335
2018	35,976
Total minimum lease payments	45,311
Less amount representing interest	2,486
Present value of net minimum lease payments	<u>\$ 42,825</u>

During the year ended June 30, 2016, the City made principal payments of \$7,718 and interest payments of \$1,617 on the lease purchase agreement.

(5) Operating Leases

On April 14, 2016, the City entered into an operating lease for an excavator. The agreement requires five annual payments of \$15,151. The first \$15,151 payment was made in August 2016. At the end of the lease, the City may purchase the equipment at a predetermined market value of \$38,010.

In June 2016, the City entered into an operating lease for occupancy of a building for City Hall. The lease begins July 1, 2016 and is for three years with two successive options to extend the lease, each for a one year term. Annual rent is \$60,000 payable in two equal payments of \$30,000 on July 1 and January 1 and is subject to annual appropriation by the City Council.

(6) Pension Plan

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, PO Box 9117, Des Moines, Iowa 50306-9117 or at 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, any time 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, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally at age 55. Protection occupation members may retire any time after reaching age 50 with 22 or more years of covered employment.

The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-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 – 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 percentage point. 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 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City’s contributions to IPERS for the year ended June 30, 2016 were \$40,732.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the City’s liability of \$274,781 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 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 IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City’s proportion was 0.005562%, which was a decrease of 0.000267% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$23,216, \$53,018 and \$64,200, 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, as follows:

Rate of inflation	
(effective June 30, 2014)	3.00% per annum.
Rates of salary increase	4.00 to 17.00% average, including inflation.
(effective June 30, 2010)	Rates vary by membership group.
Long-term investment rate of return	7.50% compounded annually, net of investment
(effective June 30, 1996)	expense, including inflation.
Wage growth	4.00% per annum, based on 3.00% inflation
(effective June 30, 1990)	and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 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
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
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 (Asset) to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability (asset) 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 (asset)	\$ 481,673	274,781	100,148

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.

(7) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug and dental benefits for employees, retirees and their spouses. There are 8 active and 1 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. For the year ended June 30, 2016, the City contributed \$74,371.

(8) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, and compensatory time 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 compensatory time to employees at June 30, 2016, primarily relating to the General Fund is as follows:

Type of Benefit	Amount
Vacation	\$ 4,000
Compensatory time	13,000
Total	<u>\$ 17,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2016.

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

Transfer to	Transfer from	Amount
Debt Service	General	\$ 58,210
	Special Revenue:	
	Local Option Sales Tax	30,749
	Tax Increment Financing	934,006
	Enterprise:	
	Water	10,108
	Sewer	194,295
Total		<u>\$ 1,227,368</u>

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

(10) Risk Management

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

(11) Construction Commitments

Construction commitments at June 30, 2016 totaled \$1,959,453, which will be paid as work on the projects progress. These projects will be funded through bond proceeds, grants and local funds.

(12) Subsequent Events

In August 2016, the City entered into a loan agreement to issue water revenue bonds of \$445,000 to finance the construction of improvements to the municipal waterworks system.

In August 2016, the City entered into a loan agreement to issue sewer revenue bonds of \$1,200,000 to finance the construction of improvements to the municipal sanitary sewer system.

(13) New Accounting Pronouncement

The City of Fairfax adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

Other Information

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

Other Information

Year ended June 30, 2016

	Governmental Funds Actual	Enterprise Funds Actual	Total
Receipts:			
Property tax	\$ 608,423	-	608,423
Tax increment financing	985,032	-	985,032
Other city tax	292,270	-	292,270
Licenses and permits	45,829	1,050	46,879
Use of money and property	12,923	20	12,943
Intergovernmental	457,530	-	457,530
Charges for service	3,428	822,543	825,971
Miscellaneous	51,941	7,770	59,711
Total receipts	2,457,376	831,383	3,288,759
Disbursements:			
Public safety	905,781	-	905,781
Public works	669,319	-	669,319
Culture and recreation	381,983	-	381,983
Community and economic development	97,650	-	97,650
General government	275,804	-	275,804
Debt service	1,241,485	-	1,241,485
Business type activities	-	1,362,413	1,362,413
Total disbursements	3,572,022	1,362,413	4,934,435
Excess (deficiency) of receipts over (under) disbursements	(1,114,646)	(531,030)	(1,645,676)
Other financing sources (uses), net	204,403	(204,403)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(910,243)	(735,433)	(1,645,676)
Balances beginning of year	1,964,972	1,497,131	3,462,103
Balances end of year	\$ 1,054,729	761,698	1,816,427

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
610,518	610,518	(2,095)
898,000	933,800	51,232
250,375	316,375	(24,105)
58,500	48,000	(1,121)
28,740	13,000	(57)
400,303	462,400	(4,870)
771,140	841,381	(15,410)
53,500	67,000	(7,289)
<u>3,071,076</u>	<u>3,292,474</u>	<u>(3,715)</u>
903,815	997,215	91,434
897,711	1,167,500	498,181
676,379	591,000	209,017
73,500	185,000	87,350
391,400	425,000	149,196
1,257,733	1,300,000	58,515
<u>1,881,000</u>	<u>2,457,281</u>	<u>1,094,868</u>
<u>6,081,538</u>	<u>7,122,996</u>	<u>2,188,561</u>
(3,010,462)	(3,830,522)	2,184,846
-	2,175,000	(2,175,000)
(3,010,462)	(1,655,522)	9,846
<u>2,756,646</u>	<u>3,480,827</u>	<u>(18,724)</u>
<u>(253,816)</u>	<u>1,825,305</u>	<u>(8,878)</u>

City of Fairfax

Notes to Other Information – Budgetary Reporting

June 30, 2016

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. 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 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, two budget amendments increased budgeted disbursements by \$1,041,458. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements did not exceed the amounts budgeted.

City of Fairfax

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

Iowa Public Employees' Retirement System
For the Last Two Years*
(In Thousands)

Other Information

	2016	2015
City's proportion of the net pension liability	0.005562%	0.005829%
City's proportionate share of the net pension liability	\$ 275	231
City's covered-employee payroll	\$ 382	382
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	71.99%	60.47%
IPERS' net position as a percentage of the total liability pension	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Fairfax

Schedule of City Contributions

Iowa Public Employees' Retirement System
For the Last Seven Years
(In Thousands)

Other Information

	2016	2015	2014	2013
Statutorily required contribution	\$ 41	34	34	30
Contributions in relation to the statutorily required contribution	(41)	(34)	(34)	(30)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered-employee payroll	\$ 446	382	382	342
Contributions as a percentage of covered-employee payroll	9.19%	8.90%	8.90%	8.77%

See accompanying independent auditor's report.

Note: GASB Statement No. 68 requires ten years of information be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

2012	2011	2010
26	21	20
(26)	(21)	(20)
-	-	-
321	308	302
8.10%	6.82%	6.62%

City of Fairfax

Notes to Other Information – Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for 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.

Legislative action in 2008 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.

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 future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

Supplementary Information

City of Fairfax

City of Fairfax

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

As of and for the year ended June 30, 2016

	Enterprise		
	Solid Waste	Farm Operations	Total
Operating receipts:			
Charges for service	\$ 151,831	10,764	162,595
Operating disbursements:			
Business type activities	149,133	9,683	158,816
Excess of operating receipts over operating disbursements	2,698	1,081	3,779
Non-operating receipts (disbursements):			
Interest on investments	-	20	20
Change in cash balances	2,698	1,101	3,799
Cash balances beginning of year	22,531	8,656	31,187
Cash balances end of year	<u>\$ 25,229</u>	<u>9,757</u>	<u>34,986</u>
Cash Basis Fund Balances			
Unrestricted	<u>\$ 25,229</u>	<u>9,757</u>	<u>34,986</u>

See accompanying independent auditor's report.

City of Fairfax
Schedule of Indebtedness
Year ended June 30, 2016

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Sanitary sewer and refunding	Mar 1, 2008	3.40%	\$ 560,000
Water improvement	Mar 24, 2009	3.50-4.20	790,000
Total			
General obligation bonds:			
Water improvement	Feb 10, 2010 *	3.00%	\$ 118,000
Water improvement	May 12, 2011	2.65-3.65	540,000
Water main improvement and Fairfax Athletics and Park Complex	Nov 10, 2011	2.00-3.00	2,260,000
Fire truck and refunding	Jun 26, 2012	0.85-1.70	590,000
Corporate purpose and refunding	Sep 10, 2013	1.00-3.00	2,485,000
Corporate purpose	Apr 8, 2014	2.00-2.75	1,330,000
Corporate purpose	Jun 10, 2015	1.00-3.00	2,080,000
Total			
Revenue bonds:			
Sewer improvement	Nov 2, 2006 *	3.00%	\$ 2,400,000
Lease Purchase agreement:			
Track skid loader	Apr 30, 2015	3.20%	\$ 50,543

* The agreement 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
145,000	-	75,000	70,000	4,930
500,000	-	75,000	425,000	19,585
<u>\$ 645,000</u>	<u>-</u>	<u>150,000</u>	<u>495,000</u>	<u>24,515</u>
88,000	-	5,000	83,000	2,640
390,000	-	50,000	340,000	11,810
1,735,000	-	175,000	1,560,000	40,890
345,000	-	90,000	255,000	4,470
2,065,000	-	195,000	1,870,000	45,343
1,330,000	-	100,000	1,230,000	29,727
2,080,000	-	65,000	2,015,000	38,108
<u>\$ 8,033,000</u>	<u>-</u>	<u>680,000</u>	<u>7,353,000</u>	<u>172,988</u>
<u>\$ 1,886,000</u>	<u>-</u>	<u>133,000</u>	<u>1,753,000</u>	<u>56,580</u>
<u>\$ 50,543</u>	<u>-</u>	<u>7,718</u>	<u>42,825</u>	<u>1,617</u>

City of Fairfax
Bond and Note Maturities
June 30, 2016

Year Ending June 30,	General Obligation Bonds/Notes					
	Sanitary Sewer and Refunding		Water Improvement		Water Improvement	
	Issued Mar 1, 2008		Issued Mar 24, 2009		Issued Feb 10, 2010	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2017	3.40%	\$ 35,000	3.50%	\$ 80,000	3.00%	\$ 5,000
2018	3.40	35,000	4.00	80,000	3.00	5,000
2019	-	-	4.00	85,000	3.00	6,000
2020	-	-	4.20	90,000	3.00	6,000
2021	-	-	4.20	90,000	3.00	6,000
2022	-	-	-	-	3.00	6,000
2023	-	-	-	-	3.00	6,000
2024	-	-	-	-	3.00	7,000
2025	-	-	-	-	3.00	7,000
2026	-	-	-	-	3.00	7,000
2027	-	-	-	-	3.00	7,000
2028	-	-	-	-	3.00	7,000
2029	-	-	-	-	3.00	8,000
Total		<u>\$ 70,000</u>		<u>\$ 425,000</u>		<u>\$ 83,000</u>

Year Ending June 30,	General Obligation Bonds/Notes					
	Fire Truck and Refunding		Corporate Purpose and Refunding		Corporate Purpose	
	Issued June 26, 2012		Issued Sep 10, 2013		Issued Apr, 8, 2014	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2017	1.25%	\$ 85,000	1.10%	\$ 135,000	2.00%	\$ 100,000
2018	1.25	55,000	1.45	140,000	2.00	100,000
2019	1.70	60,000	1.70	170,000	2.00	105,000
2020	1.70	55,000	2.00	175,000	2.00	105,000
2021	-	-	2.25	240,000	2.00	105,000
2022	-	-	2.45	275,000	2.05	110,000
2023	-	-	2.75	280,000	2.25	115,000
2024	-	-	3.00	285,000	2.40	115,000
2025	-	-	3.00	170,000	2.50	120,000
2026	-	-	-	-	2.60	125,000
2027	-	-	-	-	2.75	130,000
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
Total		<u>\$ 255,000</u>		<u>\$ 1,870,000</u>		<u>\$ 1,230,000</u>

See accompanying independent auditor's report.

Water Improvement		Water Main Improvement and Fairfax Athletics and Park Complex			
Issued May 12, 2011		Issued Nov 10, 2011			
Interest Rates		Interest Rates		Interest Rates	
Amount		Amount		Amount	
\$ 50,000	2.65%	\$ 180,000	2.00%	\$ 180,000	2.00%
55,000	2.65	185,000	2.00	185,000	2.00
55,000	3.15	185,000	2.00	185,000	2.00
60,000	3.15	190,000	2.20	190,000	2.20
60,000	3.65	195,000	2.40	195,000	2.40
60,000	3.65	200,000	2.60	200,000	2.60
-	-	210,000	2.80	210,000	2.80
-	-	215,000	3.00	215,000	3.00
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 340,000</u>		<u>\$ 1,560,000</u>			

Corporate Purpose		
Issued Jun 10, 2015		
Interest Rates	Amount	Total
1.00%	\$ 180,000	850,000
1.00	185,000	840,000
1.40	165,000	831,000
1.40	170,000	851,000
1.80	170,000	866,000
1.80	175,000	826,000
2.15	180,000	791,000
2.15	185,000	807,000
2.35	190,000	487,000
2.35	135,000	267,000
3.00	135,000	272,000
3.00	145,000	152,000
-	-	8,000
<u>\$ 2,015,000</u>		<u>7,848,000</u>

Year Ending June 30,	Revenue Bonds	
	Sewer Improvement	
	Issued Nov 2, 2006	
	Interest Rates	Amount
2017	3.00%	\$ 137,000
2018	3.00	141,000
2019	3.00	145,000
2020	3.00	150,000
2021	3.00	154,000
2022	3.00	159,000
2023	3.00	163,000
2024	3.00	168,000
2025	3.00	173,000
2026	3.00	179,000
2027	3.00	184,000
Total		<u>\$ 1,753,000</u>

City of Fairfax

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

For the Last Ten Years

	2016	2015	2014	2013
Receipts:				
Property tax	\$ 608,423	597,563	580,825	520,387
Tax increment financing	985,032	860,078	706,060	717,125
Other city tax	292,270	262,334	262,490	247,776
Licenses and permits	45,829	33,156	43,567	26,452
Use of money and property	12,923	9,373	10,956	13,876
Intergovernmental	457,530	781,113	443,071	347,783
Charges for service	3,428	3,453	3,832	5,105
Miscellaneous	51,941	60,313	78,937	142,454
Total	<u>\$ 2,457,376</u>	<u>2,607,383</u>	<u>2,129,738</u>	<u>2,020,958</u>
Disbursements:				
Operating:				
Public safety	\$ 905,781	383,152	478,843	400,435
Public works	669,319	1,301,332	1,925,806	417,548
Culture and recreation	381,983	1,029,373	767,059	1,602,417
Community and economic development	97,650	15,740	5,499	5,326
General government	275,804	253,202	270,829	198,952
Debt service	1,241,485	1,146,467	1,597,450	1,468,724
Total	<u>\$ 3,572,022</u>	<u>4,129,266</u>	<u>5,045,486</u>	<u>4,093,402</u>

See accompanying independent auditor's report.

2012	2011	2010
540,087	452,537	425,909
450,269	589,491	585,576
261,920	213,898	210,814
30,703	35,626	33,250
29,960	24,692	33,586
334,696	288,938	288,017
10,240	4,425	-
65,599	46,696	86,731
<u>1,723,474</u>	<u>1,656,303</u>	<u>1,663,883</u>

262,658	327,357	155,302
265,955	462,784	336,818
1,123,820	253,544	219,882
11,992	-	5,064
240,765	189,052	206,012
805,257	917,470	661,240
<u>2,710,447</u>	<u>2,150,207</u>	<u>1,584,318</u>

City of Fairfax



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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, each major fund and the aggregate remaining fund information of the City of Fairfax, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 9, 2017. 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 Fairfax'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 Fairfax's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Fairfax'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 Fairfax'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 (C) 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 (D) through (K) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fairfax'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, 2016 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 Fairfax's Responses to the Findings

The City of Fairfax's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Fairfax'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 Fairfax 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

May 9, 2017

City of Fairfax
Schedule of Findings
Year ended June 30, 2016

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements.

Condition – Generally, one or two individuals may have control over the following areas for which no compensating controls exist:

- (1) Accounting system – performing all accounting functions, including making journal entries and having custody of assets.
- (2) Cash - initiating cash receipt and disbursement functions, handling and recording cash and reconciling.
- (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing and posting.
- (7) Debt – recordkeeping, compliance and debt payment processing.
- (8) Compensated absences – maintaining records and balances.

Cause – The City has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the City’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances. The City should utilize current personnel and officials to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons and should be documented by the signature or initials of the reviewer and the date of the review.

City of Fairfax

Schedule of Findings

Year ended June 30, 2016

Response – The City will try to segregate duties as much as possible going forward and will have Council Members and the Mayor help in this process.

Conclusion – Response accepted.

(B) Financial Reporting

Criteria – A deficiency in internal control over financial reporting 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, misstatement of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City's financial statements.

Condition – A material amount of receipts were incorrectly recorded in the City's financial records according to the Uniform Chart of Accounts. Adjustments were subsequently made by the City to properly include these amounts in the financial statements.

Cause – City policies do not require and procedures have not been established to require independent review of financial records to ensure the City's financial records are accurate.

Effect – Lack of policies and procedures resulted in City employees not detecting the errors in the normal course of performing their assigned functions. As a result, material adjustments to the City financial records were necessary.

Recommendation – The City should ensure all receipts are recorded to the proper receipt code in the financial records according to the recommended Uniform Chart of Accounts for Iowa City Governments.

Response – The City will code all receipts in accordance with the Uniform Chart of Accounts.

Conclusion – Response accepted.

(C) Journal Entries

Criteria – An effective internal control system provides for internal controls related to preparation of journal entries by all employees. Supporting documentation for all journal entries supports the accuracy of the entries by the employees and an independent review helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

Condition – There was no evidence of independent review for journal entries tested.

Cause – The City has a limited number of employees and procedures have not been designed to clearly document the review and approval of journal entries.

City of Fairfax

Schedule of Findings

Year ended June 30, 2016

Effect – Lack of independent approval of transactions could adversely affect the City’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – To strengthen controls, journal entries should be supported and the support should be provided to the reviewer for approval by an independent person.

Response – The City will implement procedures to ensure all journal entries are reviewed by an independent person. The evidence of the review will be documented by the reviewer’s signature and date.

Conclusion – Response accepted.

(D) Accounting Policies and Procedures Manual

Criteria – Accounting policies and procedures manuals provide the following benefits:

- Aid in training additional or replacement staff.
- Help achieve uniformity in accounting and in the application of policies and procedures.
- Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

Condition – The City does not have an accounting policies and procedures manual.

Cause – Officials have been unaware of the need for an accounting policies and procedures manual.

Effect – Lack of an accounting policies and procedures manual could negatively result in the City’s ability to continue operating effectively and efficiently in the event of staff turnover.

Recommendation – An accounting policies and procedures manual should be developed for the City.

Response – The City will adopt an accounting policies and procedures manual.

Conclusion – Response accepted.

(E) Credit Cards and Retail Charge Accounts

Criteria – Internal controls over safeguarding assets constitutes a process, effected by an entity’s governing body, management and other personnel designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from error or misappropriation. Such processes include establishing policies addressing proper asset use and proper supporting documentation.

City of Fairfax

Schedule of Findings

Year ended June 30, 2016

Condition – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards or charge accounts and to establish procedures for the proper accounting of credit card charges or charge accounts.

Cause – Adoption of a formal policy to regulate the use of credit cards and charge accounts has not been prioritized by the City Council.

Effect – Lack of written policies and procedures to regulate the use of credit cards and charge accounts could result in unauthorized and unsupported transactions and the opportunity for misappropriation.

Recommendation – The City should adopt a formal written policy regulating the use of the City’s credit cards and retail charge accounts. The policy, at a minimum, should address who controls the credit cards, who is authorized to use the credit cards and retail charge accounts and for what purposes, as well as the types of supporting documentation required to substantiate charges. Additionally, all charges on City credit cards and charge accounts should be supported by an original receipt or invoice.

Response – The City is working on developing a written policy to cover credit cards and retail charge accounts.

Conclusion – Response accepted.

(F) Debit Card

Criteria – Internal controls over safeguarding assets constitutes a process, effected by an entity’s governing body, management and other personnel designated to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from error or misappropriation. Such processes include establishing policies addressing proper asset use and proper supporting documentation.

Condition – The City has a debit card available for use by City employees. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

Cause – Officials have been unaware of the repercussions of allowing the use of debit cards.

Effect – Allowing the use of debit cards could result in unauthorized transactions and the opportunity for misappropriations.

Recommendation – The City Council should prohibit the use of debit cards for City purchases.

Response – Staff has shredded the debit card. The City Council will pass a resolution prohibiting the use of debit cards for City purchases.

Conclusion – Response accepted.

City of Fairfax

Schedule of Findings

Year ended June 30, 2016

(G) Bank Reconciliations

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by maintaining appropriate accounting records and reconciling bank and book balances. Supervisory review of bank reconciliations can help ensure the accuracy of recorded amounts.

Condition – Monthly bank statements are reconciled to the City’s monthly financial report. However, the monthly bank reconciliations are not reviewed and approved by an independent person and did not include petty cash amounts.

Cause – Procedures have not been designed and implemented to ensure bank reconciliations are independently reviewed for completeness and accuracy.

Effect – The lack of independent review of bank reconciliations and incomplete reconciliation can result in unrecorded transactions, undetected errors and opportunity for misappropriation.

Recommendation – An independent person should review the reconciliations and document their review by signing or initialing and dating the monthly reconciliations. Reconciliations should include all cash accounts.

Response – Petty cash funds are now recorded on the cash balances report and balances to the bank statements monthly. In addition, bank reconciliation reports are reviewed and approved by a Council Member each month as evidenced by the reviewer’s signature and date.

Conclusion – Response accepted.

(H) Reconciliation of Utility Billings, Collections and Delinquent Accounts

Criteria – An effective internal control system provides for internal controls related to maintaining delinquent account listings, reconciling utility billings, collections and delinquent accounts and comparing utility collections to deposit to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances.

Condition – Utility billings, collections and delinquent accounts were reconciled throughout the year and a delinquent accounts listing was prepared. However, the reconciliations and delinquent accounts listings are not reviewed and approved by an independent person.

Cause – Policies have not been established and procedures have not been implemented to ensure reconciliations and delinquent accounts are independently reviewed for completeness and accuracy.

Effect – This condition could result in unrecorded or misstated utility receipts, improper or unauthorized adjustments and write-offs and/or misstated delinquent account balances.

City of Fairfax

Schedule of Findings

Year ended June 30, 2016

Recommendation – The City Council or a Council-designated independent person should review the reconciliation and monitor delinquencies. The review of the reconciliation should be documented by the signature or initials of the reviewer and the date of review.

Response – The City will perform independent reviews of the Utility billings, collections and delinquent accounts reconciliations. The review will be evidenced by the reviewer’s name and date.

Conclusion – Response accepted.

(I) Sewer Fund Debt Payments

Criteria – In accordance with the Uniform Chart of Accounts for Iowa City Governments, sewer services are accounted for in enterprise funds and are classified as “business type activities”. All expenses related to these funds, including principal and interest on revenue debt, should be paid from the Enterprise Funds and the business type activities function.

Condition – The City paid principal and interest on its sewer revenue bond from the Debt Service Fund after transfers were made from the Sewer Fund.

Cause – City policies do not require and procedures have not been established to ensure principal and interest on sewer revenue bonds are paid from the Enterprise, Sewer Fund.

Effect – Lack of policies and procedures resulted in the City paying principal and interest from an incorrect fund.

Recommendation – The City should implement procedures to ensure all sewer revenue bond principal and interest is paid from the respective Enterprise Fund and the business type activities function.

Response – Procedures have been changed to pay all principal and interest on sewer bonds from the respective Enterprise Fund.

Conclusion – Response accepted.

City of Fairfax

Schedule of Findings

Year ended June 30, 2016

(J) Disaster Recovery Plan

Criteria – A disaster recovery plan for financial continuity should include the following:

- Identification of critical applications.
- Identification of steps for recovery of any operating systems for City operations.
- Identification of computer equipment needed for temporary processing.
- Identification of business location(s) which could be used to process critical applications in the event of an emergency, including any applicable written agreements for the use of the locations.
- Requirement to keep a copy of the disaster recovery plan off site.
- Requirement to keep system backups current and off site.
- An inventory of all hardware and components.
- An inventory of all software applications.
- A requirement that copies of all user documentation and policy and procedures manual be located off site.
- A requirement for extra stock of paper supplies, such as checks, warrants, purchase orders, etc., be located off site.
- Requirement outlining the frequency of testing the disaster recovery plan to identify issues and document the results of testing.

Condition – The City does not have a written disaster recovery plan for its computer system.

Cause – Management has not required a written disaster recovery plan for its computer.

Effect – The failure to have a formal disaster recovery plan could result in the City's inability to function in the event of a disaster or continue City business without interruption.

Recommendation – The City should develop a written disaster recovery plan.

Response – The City will look into the development and implementation of a computer system disaster recovery plan.

Conclusion – Response accepted.

(K) Capital Projects

Criteria – An effective internal control system provides for internal controls related to reconciling current capital projects disbursements to contracts awards and subsequent change orders to ensure disbursements do not exceed contract awards unless an approved change order exists.

Condition – The City does not formally reconcile total contract awards and subsequent change orders to payments. The City relies on outside grant administrators and/or the contracted City Engineer to reconcile each contract and subsequent change orders to payments.

City of Fairfax

Schedule of Findings

Year ended June 30, 2016

Cause – The City has a limited number of employees and procedures have not been designed to reconcile current capital projects.

Effect – The City may have disbursements greater than the contract award without a change order approved by the City Council.

Recommendation – The City should ensure all awarded contracts are appropriately reconciled to ensure approved contract totals are not exceeded and if necessary change orders are approved by the City Council.

Response – The City has tracked projects, but not developed a spreadsheet to show this tracking. The City will develop project spreadsheets to document that the projects are tracked by the City Clerk.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Fairfax
 Schedule of Findings
 Year ended June 30, 2016

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2016 did not exceed the amounts budgeted.
- (2) Questionable Disbursements – We noted certain disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefit to be derived have not been clearly documented. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Mike Machula	Food purchased for Fire Department meeting	\$ 162
Fareway Stores	City Hall drinks and snacks	27

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

Response – The City will review policies and procedures to establish whether these types of purchases serve a public purpose.

Conclusion – Response accepted.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (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
Mike Sankot, Fire Chief, Co-Owner of Sankot's Garage	Miscellaneous parts and supplies	\$ 10,032
Mike Daly, City Council Member, Father-in-law owns Waln Repair and Collision Truck Repair	Truck repair	280

In accordance with Chapter 362.5(3)(h) of the Code of Iowa, the transactions with Sankot’s Garage do not appear to represent a conflict of interest.

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions with Waln Repair and Collision Truck Repair do not appear to represent a conflict of interest since the total transactions during the year were less than \$2,500.

City of Fairfax

Schedule of Findings

Year ended June 30, 2016

- (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.

Minutes of City Council meetings were not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – All minutes should be signed to authenticate the actions taken.

Response – Going forward all minutes will be signed by both the City Clerk and the Mayor.

Conclusion – Response accepted.

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds – The following instances of non-compliance with the sewer revenue bond requirements were noted.
- (a) The City's sewer revenue note resolution requires all users of the system, including the City, be charged for usage. The City is not being charged for usage.
 - (b) The sewer revenue bond resolution requires sewer user rates be established at a level which produces and maintains net receipts at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year. During the year ended June 30, 2016, the City was not in compliance with the net receipts requirement of the sewer revenue bond resolution.
 - (c) The sewer revenue bond resolution requires all interest received by the City as a result of the Utility's investments shall be considered Gross Revenues of the Utility and shall be deposited in the sewer revenue fund. The City is not recording interest in the sewer revenue fund for interest earned on investments.

Recommendation – The City should comply with the bond resolution by establishing sewer user rates at a level which produces net receipts of 110% of the annual principal and interest payments on the bonds. The City should also ensure that all users of the system are charged for usage, and the City should record any interest, earned on the investments of the Utility.

Response – The City will establish policies and procedures to comply with all requirements of the sewer revenue bond resolution.

Conclusion – Response accepted.

City of Fairfax

Schedule of Findings

Year ended June 30, 2016

- (9) Annual Urban Renewal Report – Except as follows, the Annual Urban Renewal Report was approved and certified to the Iowa Department of Management on or before December 1.

The City's beginning and ending cash balance of the Special Revenue, Urban Renewal Tax Increment Fund reported on the Levy Authority Summary do not agree with the City's general ledger.

The amount reported by the City as TIF debt outstanding was overstated by \$603,214.

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

Response – These items will be corrected on next year's report.

Conclusion – Response accepted.

- (10) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires all cities to report and remit outstanding obligations, including checks, trusts and bonds held for more than two years, to the Office of Treasurer of State annually. The City did not remit all outstanding obligations held for more than two years to the Office of Treasurer of State annually.

Recommendation – Outstanding obligations should be reviewed annually and amounts over two years old should be remitted to the Office of Treasurer of State annually, as required.

Response – A process to review, report annually and remit to the State amounts over two years old through the unclaimed property reporting will be implemented.

Conclusion – Response accepted.

- (11) Taxable Fringe Benefits – Certain City disbursements for clothing considered adaptable to general use as ordinary clothing were not included in wages of employees in accordance with Internal Revenue Service (IRS) guidelines.

Recommendation – The City should properly include taxable fringe benefits in reported employee wages in accordance with IRS guidelines.

Response – The City will review procedures for including clothing disbursements in wages of employees.

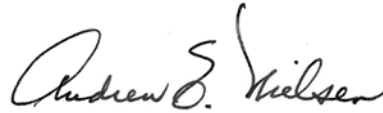
Conclusion – Response accepted.

City of Fairfax

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Jamie T. Reuter, Senior Auditor II
Justin M. Gibbons, Assistant Auditor
Mitchell W. Shipman, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State