



Financial Statements
December 31, 2014
City of Fairfax

INTRODUCTORY SECTION

Officials I

FINANCIAL SECTION

Independent Auditor’s Report II

Basic Financial Statements:

Government-Wide Financial Statements:

Statement of Net Position 1
Statement of Activities 2

Fund Financial Statements:

Balance Sheet – Governmental Funds 3
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position 4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds 5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities 6
Statement of Net Position – Proprietary Funds 7
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds 8
Statement of Cash Flows - Proprietary Funds 9
Notes to Financial Statements 10

Required Supplementary Information:

Budgetary Comparison Schedule – General Fund 27
Notes to the Required Supplementary Information 29

Supplemental Schedules and Related Information:

Combining Nonmajor Fund Financial Schedules:

Combining Balance Sheet – Nonmajor Governmental Funds 30
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Major and Nonmajor Governmental Funds 31

MINNESOTA COMPLIANCE SECTION

Independent Auditor’s Report on Minnesota Legal Compliance 32

CITY COUNCIL

Doug Pomplun	Mayor
Todd Kiecker	Councilor
Brad Augustin	Councilor
Lois Gilles	Councilor
Cindy Fahey	Councilor

ADMINISTRATION

Marcia Seibert-Volz	City Administrator
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Independent Auditor's Report

Honorable Mayor and City Council
City of Fairfax
Fairfax, Minnesota

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, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as 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 accounting principles generally accepted in the United States of America; 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 entity'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 entity'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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective 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 December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considered it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively compromise the City of Fairfax's financial statements. The introductory section and supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplemental schedules are the responsibility of management and were derived from and relate 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 auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section 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.



Mankato, Minnesota
March 4, 2015

City of Fairfax
Statement of Net Position
December 31, 2014

	Primary Government		Totals
	Governmental Activities	Business-Type Activities	
Assets			
Cash	\$ 194,903	\$ 668,569	\$ 863,472
Investments	502,559	4,389,744	4,892,303
Receivables:			
Taxes	35,027	-	35,027
Special assessments	587,111	-	587,111
Accounts	64,866	359,230	424,096
Notes	49,201	-	49,201
Prepaid items	31,827	163,629	195,456
Inventory	26,580	151,645	178,225
Restricted cash			
Customer deposits	-	29,367	29,367
Savings reserve account	-	14,764	14,764
Capital assets not being depreciated:			
Land	769,290	218,850	988,140
Capital assets net of accumulated depreciation:			
Infrastructure	4,005,395	9,679,300	13,684,695
Buildings	1,492,201	485,053	1,977,254
Equipment	678,923	569,145	1,248,068
Vehicles	337,514	-	337,514
Total assets	<u>8,775,397</u>	<u>16,729,296</u>	<u>25,504,693</u>
Deferred Outflows of Resources			
Deferred charge on refunding	-	46,429	46,429
Liabilities			
Accounts payable	61,482	222,888	284,370
Interest payable	52,243	10,037	62,280
Liabilities payable from restricted assets:			
Customer deposits payable	-	29,367	29,367
Noncurrent liabilities:			
Compensated absences	30,393	1,235	31,628
Due within one year	60,000	454,204	514,204
Due in more than one year	4,250,000	2,781,915	7,031,915
Total liabilities	<u>4,454,118</u>	<u>3,499,646</u>	<u>7,953,764</u>
Net Position			
Net investment in capital assets	2,973,323	7,716,229	10,689,552
Restricted for:			
EDA	435,722	-	435,722
Unrestricted	912,234	5,559,850	6,472,084
Total net position	<u>\$ 4,321,279</u>	<u>\$ 13,276,079</u>	<u>\$ 17,597,358</u>

City of Fairfax
Statement of Activities
Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	
Governmental Activities							
General government	\$ 76,608	\$ 49,219	\$ -	\$ -	\$ (27,389)	\$ -	\$ (27,389)
Public safety	420,512	148,203	-	-	(272,309)	-	(272,309)
Public works	626,223	-	-	-	(626,223)	-	(626,223)
Health and sanitation	82,479	81,782	-	-	(697)	-	(697)
Culture and recreation	263,555	19,348	-	-	(244,207)	-	(244,207)
Housing and economic development	93,427	-	-	-	(93,427)	-	(93,427)
Interest and other charges on long-term debt	163,194	-	-	-	(163,194)	-	(163,194)
Total governmental activities	1,725,998	298,552	-	-	(1,427,446)	-	(1,427,446)
Business-Type Activities							
Water	212,883	288,232	-	-	-	75,349	75,349
Sanitary sewer	134,423	212,905	-	-	-	78,482	78,482
Storm sewer	64,963	104,275	-	-	-	39,312	39,312
Electric	946,641	1,213,356	-	-	-	266,715	266,715
Natural gas	1,547,731	1,835,611	-	-	-	287,880	287,880
Liquor	547,300	542,546	-	-	-	(4,754)	(4,754)
HRA							
Southview	57,667	55,924	-	-	-	(1,743)	(1,743)
Fairview	109,427	141,645	-	-	-	32,218	32,218
Total business-type activities	3,621,035	4,394,494	-	-	-	773,459	773,459
Total	\$ 5,347,033	\$ 4,693,046	\$ -	\$ -	(1,427,446)	773,459	(653,987)
			General Revenues				
			Property and franchise taxes		472,886	-	472,886
			State aid		497,120	-	497,120
			Special assessments		106,136	-	106,136
			Earnings on investments		16,945	291,327	308,272
			Transfers		307,446	(307,446)	-
			Gain (loss) on sale of capital assets		(866)	-	(866)
			Miscellaneous		60,868	4,505	65,373
			Total general revenues		1,460,535	(11,614)	1,448,921
			Change in net position		33,089	761,845	794,934
			Net Position - Beginning		4,288,190	12,514,234	16,802,424
			Net Position - Ending		\$ 4,321,279	\$ 13,276,079	\$ 17,597,358

The notes to the financial statements are an integral part of the financial statements

City of Fairfax
Balance Sheet – Governmental Funds
December 31, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash	\$ 58,730	\$ 136,173	\$ 194,903
Investments	295,383	207,176	502,559
Advance to other funds	-	43,827	43,827
Receivables:			
Taxes	35,027	-	35,027
Special assessments	587,111	-	587,111
Accounts	64,866	-	64,866
Notes	500	48,701	49,201
Prepaid items	31,827	-	31,827
Total assets	<u>\$ 1,073,444</u>	<u>\$ 435,877</u>	<u>\$ 1,509,321</u>
Liabilities:			
Accounts payable	\$ 61,327	\$ 155	\$ 61,482
Advance from other funds	43,827	-	43,827
Total liabilities	<u>105,154</u>	<u>155</u>	<u>105,309</u>
Deferred Inflows of Resources			
Unavailable revenue	617,473	48,701	666,174
Fund Balances			
Nonspendable - prepaid items	31,827	-	31,827
Nonspendable - advance to other funds	-	43,827	43,827
Restricted reported in nonmajor special revenue funds	-	343,194	343,194
Committed	290,601	-	290,601
Unassigned	28,389	-	28,389
Total fund balances	<u>350,817</u>	<u>387,021</u>	<u>737,838</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,073,444</u>	<u>\$ 435,877</u>	<u>\$ 1,509,321</u>

City of Fairfax
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
 December 31, 2014

Total Fund Balances for Governmental Funds	\$	737,838
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of these assets is \$12,129,202 and the accumulated depreciation is \$4,845,879.</p>		7,283,323
<p>Some of the City's receivables will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore, are reported as deferred inflows in the funds.</p>		666,174
<p>Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general long term debt is \$52,243.</p>		(52,243)
<p>Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period, and therefore, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. Balances at year-end are:</p>		
Bonds payable	\$ 4,310,000	
Compensated absences	30,393	
		(4,340,393)
<p>Some assets reported in the statement of net position do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.</p>		
Inventory		26,580
Total Net Position for Governmental Activities	\$	4,321,279

City of Fairfax
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
Year Ended December 31, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 462,852	\$ -	\$ 462,852
Franchise taxes	5,782	-	5,782
Special assessments	83,354	-	83,354
Fees and fines	5,423	-	5,423
Licenses and permits	10,716	-	10,716
Intergovernmental	494,120	3,000	497,120
Charges for services	319,144	-	319,144
Investment earnings	8,147	8,798	16,945
Miscellaneous	-	10,575	10,575
Total revenue	<u>1,389,538</u>	<u>22,373</u>	<u>1,411,911</u>
Expenditures			
Current:			
General government	244,169	-	244,169
Public safety	454,613	-	454,613
Streets and highways	516,071	-	516,071
Sanitation	82,479	-	82,479
Culture and recreation	198,804	-	198,804
Economic development	-	93,427	93,427
Debt Services:			
Principal	-	60,000	60,000
Interest and other charges	1,966	118,963	120,929
Total expenditures	<u>1,498,102</u>	<u>272,390</u>	<u>1,770,492</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(108,564)</u>	<u>(250,017)</u>	<u>(358,581)</u>
Other Financing Sources (Uses)			
Transfers in	257,934	201,896	459,830
Transfers out	(131,451)	(20,933)	(152,384)
Total other financing sources (uses)	<u>126,483</u>	<u>180,963</u>	<u>307,446</u>
Net change in fund balances	17,919	(69,054)	(51,135)
Fund Balances - Beginning	<u>332,898</u>	<u>456,075</u>	<u>788,973</u>
Fund Balances - Ending	<u>\$ 350,817</u>	<u>\$ 387,021</u>	<u>\$ 737,838</u>

City of Fairfax

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental
Funds to the Statement of Activities
Year Ended December 31, 2014

Total Net Change in Fund Balances - Governmental Funds \$ (51,135)

Amounts reported for governmental activities in the statement of activities are different because:

Some revenues will not be collected for several months after year end, they are not considered "available" revenues and are unearned in the governmental funds. Unearned special assessment receivables increased by \$22,782, delinquent property taxes increased by \$4,252, deferred notes receivable increased by \$34,154, and unearned accounts receivable decreased \$20,592. 40,596

Some assets reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.

Inventory 7,724

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$412,579) exceeds depreciation expense (\$393,032) in the current period. 19,547

Asset sales gross proceeds are reported in governmental funds as revenues. However, in the statement of activities, only the gain or loss of the sale of these assets is recorded. Disposal of capital assets resulted in a loss of \$866 in the current period (866)

The governmental funds report compensated absence costs as expenditures when paid. The statement of activities, however, reports these costs as expenditures as they are earned by the employees. In the current year, no compensated absence costs were paid, but \$512 was earned. In the statement of net position, the payment of compensated absences reduces the liability. This amount is the net effect of these differences. (512)

The governmental funds report repayment of bond principal as expenditures. In the statement of net position, however, repayment of principal reduces the liability. 60,000

Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. There was \$52,243 and \$9,978 of accrued interest at December 31, 2014 and 2013, respectively. (42,265)

Change in Net Position of Governmental Activities \$ 33,089

	Water	Sanitary Sewer	Storm Sewer
Assets			
Current Assets			
Cash	\$ 128,391	\$ 88,579	\$ 52,029
Investments	627,052	203,726	198,593
Accounts Receivable	32,937	27,741	33,675
Prepaid items	1,855	1,757	-
Inventory	20,332	1,107	-
Total current assets	<u>810,567</u>	<u>322,910</u>	<u>284,297</u>
Noncurrent Assets:			
Restricted cash			
Customer deposits	-	-	-
Savings reserve account	-	-	-
Prepaid items	-	-	-
Capital assets not being depreciated:			
Land	32,650	166,200	-
Capital assets, net of accumulated depreciation:			
Infrastructure	3,135,182	1,901,490	1,749,005
Buildings	-	-	-
Equipment	43,035	66,931	8,826
Total noncurrent assets	<u>3,210,867</u>	<u>2,134,621</u>	<u>1,757,831</u>
Total assets	<u>4,021,434</u>	<u>2,457,531</u>	<u>2,042,128</u>
Deferred Outflows of Resources			
Deferred charge on refunding	-	-	-
Liabilities			
Current Liabilities:			
Accounts payable	2,434	1,330	59
Interest payable	4,446	2,057	-
Total current liabilities	<u>6,880</u>	<u>3,387</u>	<u>59</u>
Current Liabilities Payable from Restricted Assets:			
Customer deposits payable	-	-	-
Noncurrent Liabilities:			
Compensated absences	-	-	-
Due within one year	104,000	95,063	-
Due in more than one year	1,210,977	97,887	-
Total noncurrent liabilities	<u>1,314,977</u>	<u>192,950</u>	<u>-</u>
Total liabilities	<u>1,321,857</u>	<u>196,337</u>	<u>59</u>
Net Position			
Net investment in capital assets	1,895,890	1,941,671	1,757,831
Unrestricted	803,687	319,523	284,238
Total net position	<u>\$ 2,699,577</u>	<u>\$ 2,261,194</u>	<u>\$ 2,042,069</u>

The notes to the financial statements are an integral part of the financial statements

City of Fairfax
Statement of Net Position – Proprietary Funds
December 31, 2014

Electric	Natural Gas	Liquor	HRA Southview	HRA Fairview	Enterprise Fund Total
\$ 151,133	\$ 120,296	\$ 51,627	\$ 2,332	\$ 74,182	\$ 668,569
2,104,157	756,663	99,320	-	400,233	4,389,744
76,014	188,752	-	111	-	359,230
3,532	-	5,110	1,851	4,401	18,506
74,061	12,359	43,786	-	-	151,645
<u>2,408,897</u>	<u>1,078,070</u>	<u>199,843</u>	<u>4,294</u>	<u>478,816</u>	<u>5,587,694</u>
13,780	4,575	-	3,303	7,709	29,367
-	-	-	14,764	-	14,764
145,123	-	-	-	-	145,123
2,500	-	2,500	5,000	10,000	218,850
1,369,598	1,524,025	-	-	-	9,679,300
8,581	-	12,456	80,071	383,945	485,053
45,434	334,141	36,825	6,957	26,996	569,145
<u>1,585,016</u>	<u>1,862,741</u>	<u>51,781</u>	<u>110,095</u>	<u>428,650</u>	<u>11,141,602</u>
<u>3,993,913</u>	<u>2,940,811</u>	<u>251,624</u>	<u>114,389</u>	<u>907,466</u>	<u>16,729,296</u>
-	46,429	-	-	-	46,429
64,434	122,544	25,579	2,686	3,822	222,888
501	3,033	-	-	-	10,037
<u>64,935</u>	<u>125,577</u>	<u>25,579</u>	<u>2,686</u>	<u>3,822</u>	<u>232,925</u>
<u>13,780</u>	<u>4,575</u>	<u>-</u>	<u>3,303</u>	<u>7,709</u>	<u>29,367</u>
1,235	-	-	-	-	1,235
145,000	105,000	-	5,141	-	454,204
-	1,405,000	-	68,051	-	2,781,915
<u>146,235</u>	<u>1,510,000</u>	<u>-</u>	<u>73,192</u>	<u>-</u>	<u>3,237,354</u>
<u>224,950</u>	<u>1,640,152</u>	<u>25,579</u>	<u>79,181</u>	<u>11,531</u>	<u>3,499,646</u>
1,281,113	348,166	51,781	18,836	420,941	7,716,229
2,487,850	998,922	174,264	16,372	474,994	5,559,850
<u>\$ 3,768,963</u>	<u>\$ 1,347,088</u>	<u>\$ 226,045</u>	<u>\$ 35,208</u>	<u>\$ 895,935</u>	<u>\$ 13,276,079</u>

	Water	Sanitary Sewer	Storm Sewer
Operating Revenues			
Utility sales	\$ 285,253	\$ 210,631	\$ 102,486
Liquor and food sales	-	-	-
Rent	-	-	-
Refunds and reimbursements	-	-	-
Miscellaneous	2,979	2,274	1,789
Total operating revenues	<u>288,232</u>	<u>212,905</u>	<u>104,275</u>
Operating Expenses			
Cost of goods sold	-	-	-
Power production	-	-	-
Distribution system	82,138	61,589	13,804
General and administrative	6,037	786	1,364
Depreciation and amortization	104,421	64,067	49,795
Total operating expenses	<u>192,596</u>	<u>126,442</u>	<u>64,963</u>
Operating income (loss)	<u>95,636</u>	<u>86,463</u>	<u>39,312</u>
Non-Operating Revenues (Expenses)			
Interest and investment revenue	22,288	5,352	(984)
Miscellaneous revenue	-	-	-
Interest expense	(20,287)	(7,981)	-
Bond issuance costs	-	-	-
Total non-operating revenues (expenses)	<u>2,001</u>	<u>(2,629)</u>	<u>(984)</u>
Income (loss) before contributions and transfers	97,637	83,834	38,328
Transfers out	<u>(24,756)</u>	<u>-</u>	<u>(24,756)</u>
Change in net position	72,881	83,834	13,572
Net Position - Beginning	<u>2,626,696</u>	<u>2,177,360</u>	<u>2,028,497</u>
Net Position - Ending	<u><u>\$ 2,699,577</u></u>	<u><u>\$ 2,261,194</u></u>	<u><u>\$ 2,042,069</u></u>

The notes to the financial statements are an integral part of the financial statements

City of Fairfax
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds
Year Ended December 31, 2014

Electric	Natural Gas	Liquor	HRA Southview	HRA Fairview	Enterprise Fund Total
\$ 1,204,683	\$ 1,819,586	\$ -	\$ -	\$ -	\$ 3,622,639
-	-	542,546	-	-	542,546
-	-	-	53,976	129,589	183,565
-	-	-	-	6,869	6,869
8,673	16,025	-	1,948	5,187	38,875
<u>1,213,356</u>	<u>1,835,611</u>	<u>542,546</u>	<u>55,924</u>	<u>141,645</u>	<u>4,394,494</u>
-	-	539,865	-	-	539,865
670,443	-	-	-	-	670,443
103,947	1,413,591	-	-	-	1,675,069
70,164	-	-	36,595	73,662	188,608
90,788	58,631	7,435	17,516	35,765	428,418
<u>935,342</u>	<u>1,472,222</u>	<u>547,300</u>	<u>54,111</u>	<u>109,427</u>	<u>3,502,403</u>
<u>278,014</u>	<u>363,389</u>	<u>(4,754)</u>	<u>1,813</u>	<u>32,218</u>	<u>892,091</u>
225,274	32,350	2,761	2,002	2,284	291,327
-	-	4,505	-	-	4,505
(11,299)	(48,304)	-	(3,556)	-	(91,427)
-	(27,205)	-	-	-	(27,205)
<u>213,975</u>	<u>(43,159)</u>	<u>7,266</u>	<u>(1,554)</u>	<u>2,284</u>	<u>177,200</u>
491,989	320,230	2,512	259	34,502	1,069,291
(140,000)	(117,934)	-	-	-	(307,446)
351,989	202,296	2,512	259	34,502	761,845
<u>3,416,974</u>	<u>1,144,792</u>	<u>223,533</u>	<u>34,949</u>	<u>861,433</u>	<u>12,514,234</u>
<u>\$ 3,768,963</u>	<u>\$ 1,347,088</u>	<u>\$ 226,045</u>	<u>\$ 35,208</u>	<u>\$ 895,935</u>	<u>\$ 13,276,079</u>

	Water	Sanitary Sewer	Storm Sewer
Cash Flows from Operating Activities			
Receipts from customers	\$ 287,637	\$ 214,593	\$ 103,856
Other receipts	-	-	-
Payments to employees	(42,326)	(22,522)	(7,097)
Payments to suppliers	(52,017)	(41,387)	(7,905)
Net cash provided by (used for) operating activities	<u>193,294</u>	<u>150,684</u>	<u>88,854</u>
Cash Flows from Noncapital Financing Activity			
Transfers to Governmental Funds	<u>(24,756)</u>	-	<u>(24,756)</u>
Cash Flows from Capital and Related Financing Activities			
Principal paid on bonds and notes payable	(103,000)	(92,319)	-
Proceeds from bonds	8,810	-	-
Interest paid on bonds and notes payable	(20,999)	(7,740)	-
Acquisition of capital assets	(17,990)	(92,343)	-
Net cash provided by (used for) capital and related financing activities	<u>(133,179)</u>	<u>(192,402)</u>	<u>-</u>
Cash Flows from Investing Activities			
Purchase of investments	(200,000)	-	(200,000)
Proceeds from sale of investments	98,989	-	-
Earnings on investments and cash	14,734	3,500	423
Net cash provided by (used in) investing activities	<u>(86,277)</u>	<u>3,500</u>	<u>(199,577)</u>
Net change in cash	(50,918)	(38,218)	(135,479)
Cash - January 1st (including \$14,680, \$3,375, \$21,063, and \$7,292, for the electric, natural gas, HRA Southview and HRA Fairview funds, respectively, reported as restricted)	<u>179,309</u>	<u>126,797</u>	<u>187,508</u>
Cash - December 31st (including \$13,780, \$4,575, \$18,067, and \$7,709, for the electric, natural gas, HRA Southview and HRA Fairview funds, respectively, reported as restricted)	<u>\$ 128,391</u>	<u>\$ 88,579</u>	<u>\$ 52,029</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income (loss)	\$ 95,636	\$ 86,463	\$ 39,312
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	104,421	64,067	49,795
Miscellaneous revenue and expenses	-	-	-
Decrease (increase) in assets:			
Accounts receivable	(595)	1,688	(419)
Inventory	7,049	6	-
Prepaid items	504	(134)	107
Increase (decrease) in liabilities:			
Accounts payable	(13,721)	(1,406)	59
Compensated absences	-	-	-
Customer deposits	-	-	-
Net Cash Provided by (used for) Operating Activities	<u>\$ 193,294</u>	<u>\$ 150,684</u>	<u>\$ 88,854</u>
Schedule of non-cash items:			
Interest expense - deferred charge on refunding	\$ -	\$ -	\$ -
Transfers of investments to Governmental Funds	-	-	-

The notes to the financial statements are an integral part of the financial statements

City of Fairfax
Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2014

Electric	Natural Gas	Liquor	HRA Southview	HRA Fairview	Enterprise Fund Total
\$ 1,251,126	\$ 1,882,131	\$ 542,546	\$ 54,554	\$ 130,385	\$ 4,466,828
-	-	4,505	1,948	12,056	18,509
(87,999)	(47,897)	(175,926)	(6,605)	(17,705)	(408,077)
(766,001)	(1,390,115)	(359,342)	(29,568)	(57,655)	(2,703,990)
<u>397,126</u>	<u>444,119</u>	<u>11,783</u>	<u>20,329</u>	<u>67,081</u>	<u>1,373,270</u>
<u>(40,000)</u>	<u>(20,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(109,512)</u>
(140,000)	(95,000)	-	(5,536)	-	(435,855)
-	-	-	-	-	8,810
(11,778)	(46,332)	-	(3,556)	-	(90,405)
(30,455)	(45,961)	(9,570)	(9,847)	(19,034)	(225,200)
<u>(182,233)</u>	<u>(187,293)</u>	<u>(9,570)</u>	<u>(18,939)</u>	<u>(19,034)</u>	<u>(742,650)</u>
(529,138)	(262,350)	-	-	(300,000)	(1,491,488)
279,985	100,262	-	-	200,644	679,880
65,732	8,593	1,375	2,002	2,426	98,785
(183,421)	(153,495)	1,375	2,002	(96,930)	(712,823)
(8,528)	83,331	3,588	3,392	(48,883)	(191,715)
<u>173,441</u>	<u>41,540</u>	<u>48,039</u>	<u>17,007</u>	<u>130,774</u>	<u>904,415</u>
<u>\$ 164,913</u>	<u>\$ 124,871</u>	<u>\$ 51,627</u>	<u>\$ 20,399</u>	<u>\$ 81,891</u>	<u>\$ 712,700</u>
\$ 278,014	\$ 363,389	\$ (4,754)	\$ 1,813	\$ 32,218	\$ 892,091
90,788	58,631	7,435	17,516	35,765	428,418
-	-	4,505	-	-	4,505
38,670	45,320	-	1,776	379	86,819
1,589	(996)	4,595	-	-	12,243
3,077	594	1,425	150	352	6,075
(13,862)	(24,019)	(1,423)	272	(2,050)	(56,150)
(250)	-	-	-	-	(250)
(900)	1,200	-	(1,198)	417	(481)
<u>\$ 397,126</u>	<u>\$ 444,119</u>	<u>\$ 11,783</u>	<u>\$ 20,329</u>	<u>\$ 67,081</u>	<u>\$ 1,373,270</u>
\$ -	\$ 3,572	\$ -	\$ -	\$ -	\$ -
100,000	97,934	-	-	-	197,934

Note 1 - Summary of Significant Accounting Policies

The City of Fairfax (City) is a municipal corporation governed by a mayor and a four member council elected by eligible voters of the City. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant City accounting policies are described below.

A. Financial Reporting Entity

The City is the basic level of government which has oversight responsibility and control over all activities related to the government in the City's area. The City receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. However, the City is not included in any other governmental "reporting entity" as defined by GASB pronouncement, since mayor and council members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The City has no component units.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except for those resources required to be accounted for in a separate fund.

The government reports the following major proprietary funds:

The water fund accounts for the activities of the government's water distribution operations.

The sanitary sewer fund accounts for the activities of the government's sewage treatment plant, sewage pumping stations, and collection systems.

The storm sewer fund accounts for the activities of the government's storm sewer operations.

The electric fund accounts for the activities of the government's electric distribution operations.

The natural gas fund accounts for the activities of the government's natural gas distribution operations.

The liquor fund accounts for the activities of the government's on-off sale liquor operations.

The HRA Southview fund accounts for the activities of the government's Southview rental operations.

The HRA Fairview fund accounts for the activities of the government's Fairview rental operations.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's electric, water, and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric, water, sewer, natural gas, and liquor enterprise funds are charges to customers for sales and services. The enterprise funds also recognize, as operating revenue, rent, recycling charges, refunds and reimbursements, and penalties. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position and Fund Balance

1. Cash and Investments

Cash balances of the City's funds are combined (pooled) and invested to the extent available in various deposits and investments authorized by Minnesota State Statutes. Each fund shares in the investment earnings according to its average cash and investments balance. Cash includes amounts in demand deposits and savings accounts, as well as short term investments with an original maturity date within three months of the date acquired by the City. Investments for the government are reported at fair value. For the purposes of the statement of cash flows, cash for each fund includes demand deposit account balances and restricted assets.

2. Receivables and Payables

Under the modified accrual basis of accounting, some revenues are susceptible to accrual while others are not. Major revenues treated as susceptible to accrual are: property taxes, special assessments, and state and federal aids. All receivables are reported at their gross value and, if appropriate, reduced by the estimated portion that is expected to be uncollectible. Allowances for uncollectible accounts netted with accounts receivable were \$1,500 and \$5,000 in the electric and general fund (ambulance), respectively.

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance reserve in applicable governmental funds to indicate they are not available for appropriation and are not expendable from available financial resources.

Interest on investments and certain receivables is recorded as revenue in the year that the interest is earned and is available to pay liabilities of the current period.

On or before September 15th of each year, the City Council certifies to the county auditor the dates that it has selected for its public hearing and for the continuation of its hearing, if necessary. If not certified by this date, the county auditor will assign the hearing date. All cities must hold public hearings on their proposed property tax levies.

Beginning on November 29th and through December 20th of each year, the City is required by State Law to hold its public hearing on its proposed budgets and proposed property tax levies for the taxes payable in the following year. On or before five business days after December 20th, the City Council certifies its final adopted property taxes payable the following year to the county auditor. If the City has not certified its final property tax by this time, its property tax shall be the amount levied by it in the preceding year.

In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. Revenues are accrued and recognized in the year collectible, net of delinquencies. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Agricultural land taxes may be paid on November 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts three times a year, in January, June, and November.

3. Inventories and Prepaid Items

All inventories are valued at the lower of cost using the first-in/first-out (FIFO) method or market. Inventories of governmental funds are recorded as expenditures when purchased, rather than when consumed, in the fund financial statements.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements.

4. Restricted Assets

Certain proceeds of enterprise fund customer deposits, utility revenue, and revenue bonds, as well as certain resources set aside for their repayment or use, are classified as restricted assets on the balance sheet because their use is limited by deposit requirements, grant agreements, or applicable bond covenants.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Lift Station	50
Sanitary Sewer Mains	40
Water Mains	40
Storm Sewer Mains	40
Sump Pump Lines	40
Buildings	40
Concrete Curb & Gutter and Sidewalks	30
Wells & Pump Houses	25
Water, Electric, Gas Meter	20
Office Equipment	10
Computer Equipment & Software	5
Vehicles	5
Machinery, Equipment, Radios, Phones	10
Site Improvements	20
Land	Not Depreciated

6. Compensated Absences

It is the City's policy to permit employees to accumulate unused vacation and sick pay benefits. The City allows employees to accumulate a maximum of 115 days of unused sick leave. An employee who is terminated by the City is eligible for a payout of their accumulated sick leave on the following scale: 0 – 9 years of service – no payout, 10 – 19 years of service – 25% payout, 20 years or more – 50% payout. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Employees with six months or more of continuous employment will be paid all accrued vacation upon termination.

7. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Deferred Outflows/Inflows of resources

In addition to assets, the statement of financial position or governmental balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position or fund balance that applies to a future period and so will *not* be recognized as an outflow (expense/expenditure) until then. The City has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the proprietary fund and government-wide statements of net position. A deferred charge on refunding results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized as interest expense using the straight-line method over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position or the governmental balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The city has one item that qualifies for reporting in this category, *unavailable revenue*, which arises only under the modified accrual basis of accounting. Accordingly, *unavailable revenue* is only reported on the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amount becomes available.

8. Fund Balance and Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance—amounts that are not in spendable form (such as prepaid items) or are required to be maintained intact.
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance—amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance—amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The City did not approve a specific amount to maintain as a minimum unassigned general fund balance. If resources from more than one fund balance classification could be spent, the City will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned.

E. Inter-fund Transactions

Quasi-external transactions are accounted for as revenues or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other inter-fund transfers are reported as operating transfers. Transfers between funds within the same activity have been eliminated from the government-wide financial statements.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at fiscal yearend. The actual revenues, expenditures, and transfers for the year ended December 31, 2014, have been compared to the City's budget for the year where applicable. Variances which are in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budgeted. The budget is adopted through passage of a resolution. Administration can authorize transfer of budgeted amounts within any fund per state statutes. Any revisions that alter total expenditures of any fund must be approved by the City Council.

On or before the last Tuesday in August of each year, all agencies of the government submit requests for appropriation to the City's Administrator so that a budget may be prepared. The budget is prepared by fund, function, and activity and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

The City Council reviews the budget at both of their regular meetings in September and makes changes as they see fit. All changes are approved by an affirmative vote of a majority of the government's council.

Budgetary control is maintained at the object of expenditure category level within each activity, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the City Council. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (a) adequate funds were appropriated, (b) the expenditure is still necessary, and (c) funds are available. Budgeted amounts are as originally adopted or as amended by the City Council. Budgeted expenditure appropriations lapse at year end.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts or other commitments) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

B. Excess of Expenditures over Appropriations

For the year ended December 31, 2014, expenditures exceeded appropriations in the General Fund, the EDA special revenue fund, the HRA Rehab special revenue fund, and the Debt Service fund by \$134,163, \$58,586, \$4,902, respectively. These excess expenditures were funded by greater than anticipated revenues and transfers from other funds. The City did not adopt a budget for the Debt Service fund.

Note 3 - Detailed Notes on All Funds

A. Cash and Investments

1. Cash

In accordance with Minnesota Statutes, the City maintains deposits at those depository banks authorized by the City Council. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the City Treasurer or in a financial institution other than that furnishing the collateral.

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2014, none of the City's bank balances were exposed to custodial credit risk.

2. Investments

As of December 31, 2014, the City had the following investments.

	Fair Value	Weighted Average Maturity (Years)
Investment Type:		
GNMA	\$ 225	-
Certificates of deposit	1,787,567	0.91
Federal bonds and notes	2,472,967	6.09
Municipal bonds	631,544	0.81
Total Fair Value	\$ 4,892,303	

Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The City may invest funds as authorized by Minnesota Statutes Section 118A.04. The negotiable Certificates of Deposits are not rated, they are insured by FDIC or pledged collateral. The GNMA and Federal Bonds and Notes have a Moody rating of AAA and an S & P rating of AAA.

Concentration of Credit Risk. The City places no limit on the amount the City may invest in any one issuer. More than 5% of the City's investments are in Federal bonds and notes (50.55%).

Custodial Credit Risk-Investments. Custodial credit risk is the risk that in the event of an investments failure, the City's investment may not be returned to it. The City does not have an investment policy for custodial credit risk. As of December 31, 2014, none of the City's balances were exposed to custodial credit risk.

B. Receivables

The EDA fund issues loans to local businesses. The loans are typically repaid with sixty monthly payments, with interest at 2% to 4.5%. One loan is a lump sum due in March 2017. The loans are secured by liens on the property. The total unpaid balance at December 31, 2014 was \$48,701.

The City entered into a purchase agreement with a local business for land for \$18,000 in 1980. Yearly payments of \$500, with no interest, are made. The note is secured by the land purchased. The unpaid balance at December 31, 2014 is \$500.

Governmental funds report unearned revenue in connection with receivables for revenues that have been received but unearned and report unavailable revenue in connection with receivables for revenues that have been earned but not received. Both items are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Special assessments not yet due (general fund)	\$ 562,090	\$ -
Delinquent property taxes and special assessments (general fund)	54,883	-
Notes receivable (general fund)	500	-
Notes receivable (special revenue EDA fund)	48,701	-
Total unearned revenue for governmental funds	\$ 666,174	\$ -

The only receivables not expected to be collected within one year are \$506,715 of special assessments not yet due and \$41,649 of notes receivable in the EDA fund.

C. Capital Assets

Depreciation expense was charged to functions/programs of the governmental activities as follows:

Governmental Activities:	
General government	\$ 32,298
Public safety	57,184
Public works	219,090
Culture and recreation	84,460
Total Depreciation Expense – Governmental Activities	\$ 393,032

C. Capital Assets – Continued

Capital asset activity for the year ended December 31, 2014, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 764,290	\$ 5,000	\$ -	\$ 769,290
Capital assets, being depreciated:				
Buildings	1,888,391	42,077	-	1,930,468
Infrastructure	6,169,638	258,820	-	6,428,458
Equipment	2,254,086	63,357	-	2,317,443
Vehicles	647,143	43,325	(6,925)	683,543
Total capital assets, being depreciated	<u>10,959,258</u>	<u>407,579</u>	<u>(6,925)</u>	<u>11,359,912</u>
Less accumulated depreciation for:				
Buildings	391,426	46,841	-	438,267
Infrastructure	2,225,883	197,180	-	2,423,063
Equipment	1,529,382	109,138	-	1,638,520
Vehicles	312,215	39,873	(6,059)	346,029
Total accumulated depreciation	<u>4,458,906</u>	<u>393,032</u>	<u>(6,059)</u>	<u>4,845,879</u>
Total capital assets, being depreciated, net	<u>6,500,352</u>	<u>14,547</u>	<u>(866)</u>	<u>6,514,033</u>
Governmental activities capital assets, net	<u>\$ 7,264,642</u>	<u>\$ 19,547</u>	<u>\$ (866)</u>	<u>\$ 7,283,323</u>

Depreciation expense was charged to business-type activities as follows:

Business-Type Activities:	
Water	\$ 104,421
Sanitary sewer	64,067
Storm sewer	49,795
Electric	90,788
Natural gas	58,631
Liquor	7,435
HRA Southview	17,516
HRA Fairview	35,765
Total Depreciation Expense - Business-Type Activities	<u>\$ 428,418</u>

C. Capital Assets - Continued

Capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, not being depreciated				
Land	\$ 218,850	\$ -	\$ -	\$ 218,850
Capital assets, being depreciated				
Infrastructure	15,058,707	99,210	-	15,157,917
Buildings	1,484,743	31,463	-	1,516,206
Equipment	1,456,704	94,527	(12,442)	1,538,789
Total capital assets, being depreciated	<u>18,000,154</u>	<u>225,200</u>	<u>(12,442)</u>	<u>18,212,912</u>
Less accumulated depreciation for:				
Infrastructure	5,135,086	343,531	-	5,478,617
Buildings	983,574	47,579	-	1,031,153
Equipment	944,778	37,308	(12,442)	969,644
Total accumulated depreciation	<u>7,063,438</u>	<u>428,418</u>	<u>(12,442)</u>	<u>7,479,414</u>
Total capital assets, being depreciated, net	<u>10,936,716</u>	<u>(203,218)</u>	<u>-</u>	<u>10,733,498</u>
Business-type activities capital assets, net	<u>\$ 11,155,566</u>	<u>\$ (203,218)</u>	<u>\$ -</u>	<u>\$ 10,952,348</u>

D. Long-Term Debt

Mortgage Note. The City entered into a mortgage note secured by an apartment building, payable in monthly installments including interest at 8% per annum through May 21, 2028. Under provisions of a U.S. Government program, the HRA is required to make a minimum monthly payment of \$488 which includes interest at approximately 1%. Additional payments are required to the extent that rent collected exceeds certain prescribed levels. The balance of interest is provided in the form of an interest subsidy. The balance outstanding in the HRA Southview enterprise fund at December 31, 2014 was \$73,192.

The balance outstanding for compensated absences at December 31, 2014 was \$30,393 for governmental activities and \$1,235 for business-type activities.

D. Long-Term Debt - Continued

General Obligation Bonds. The City issued general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The original principle amount of general obligation bonds issued in prior years was \$4,392,000. General obligations currently outstanding are as follows:

<u>Bond Issue and Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
G.O. Revenue & Improvement Bond of 2012A for \$3,925,000, due in annual installments of \$35,000 to \$275,000 through February, 1, 2033	2.00% - 3.25%	\$ 3,890,000
G.O. Capital Improvement Bond of 2011A for \$467,000, due in annual installments of \$25,000 to \$40,000 through February, 1, 2027	3.40%	<u>420,000</u>
General Obligation Bonds Payable		<u><u>\$ 4,310,000</u></u>

Revenue Bonds. The City issued revenue bonds where the government pledges income derived from the acquired or constructed assets to pay debt service requirements. General obligation revenue bonds are direct obligations and pledge the full faith and credit of the City. Revenue Bonds currently outstanding are as follows:

<u>Bond Issue and Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Drinking Water Revolving Funds - Bonds of 2012 for \$1,103,648, due in annual installments of \$32,000 to \$45,976 through August 20, 2039	1.244%	\$ 937,977
G.O. Bond Purchase Agreement - Bonds of 1997 for \$1,506,773, due in semi-annual installments of \$47,531 to \$49,302 through August 16, 2016	2.95%	192,950
G.O. Bond Purchase Agreement - Bonds of 2000 for \$1,265,806, due in annual installments of \$72,000 to \$79,000 through August 20, 2019	2.04%	377,000
Electric Refunding Bonds of 2007 for \$1,015,000, due in one annual installment of \$145,000 on December 1, 2015	4.15%	145,000
G.O. Natural Gas Refunding Bond of 2013A for \$1,605,000, due in annual installments of \$105,000 to \$135,000 through December 1, 2027	0.70% - 3.60%	<u>1,510,000</u>
Revenue Bonds Payable		<u><u>\$ 3,162,927</u></u>

D. Long-Term Debt – Continued

Annual debt service requirements to maturity are as follows:

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 60,000	\$ 117,413	\$ 454,204	\$ 68,558
2016	60,000	115,863	315,081	57,061
2017	195,000	112,928	218,246	51,657
2018	195,000	108,608	225,299	48,404
2019	200,000	104,238	228,353	44,444
2020-2024	1,275,000	438,344	787,591	169,435
2025-2029	1,380,000	246,627	594,369	66,256
2030-2034	945,000	61,111	199,000	26,087
2035-2039	-	-	213,976	13,410
Total	<u>\$ 4,310,000</u>	<u>\$ 1,305,132</u>	<u>\$ 3,236,119</u>	<u>\$ 545,312</u>

Changes in Long-Term Liabilities. During the year ended December 31, 2014, the following changes occurred in long-term liabilities:

	Balance January 1	Additions	Reductions	Balance December 31	Due Within One Year
Governmental Activities:					
Compensated absences	\$ 29,881	\$ 1,284	\$ 772	\$ 30,393	\$ -
General obligation bonds	4,370,000	-	60,000	4,310,000	60,000
Long-term Liabilities	<u>\$ 4,399,881</u>	<u>\$ 1,284</u>	<u>\$ 60,772</u>	<u>\$ 4,340,393</u>	<u>\$ 60,000</u>
Business-type Activities:					
Compensated absences	\$ 1,485	\$ 362	\$ 612	\$ 1,235	\$ -
Mortgage note payable	78,728	-	5,536	73,192	5,141
Revenue Bonds	3,584,435	8,810	430,318	3,162,927	449,063
Long-term Liabilities	<u>\$ 3,664,648</u>	<u>\$ 9,172</u>	<u>\$ 436,466</u>	<u>\$ 3,237,354</u>	<u>\$ 454,204</u>
Refunding bonds included in above activities	<u>\$ 1,890,000</u>	<u>\$ -</u>	<u>\$ 235,000</u>	<u>\$ 1,655,000</u>	<u>\$ 250,000</u>

Legal Debt Margin. The legal debt limitation based on market values of taxable property in the municipality is equal to \$1,066,776. The computed legal debt margin at December 31, 2014 equaled \$1,066,776.

E. Inter-fund Transfers and Receivables

Inter-fund transfers during 2014 consisted of the following:

<u>Transfers From</u>	<u>Transferred To</u>		
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
General Fund	\$ -	\$ 131,451	\$ 131,451
Other governmental funds	-	20,933	20,933
Water Fund	-	24,756	24,756
Storm Sewer Fund	-	24,756	24,756
Electric Fund	140,000	-	140,000
Natural Gas Fund	117,934	-	117,934
Total	\$ 257,934	\$ 201,896	\$ 459,830

Purpose for Inter-fund Transfers:

The general fund, water fund, and storm sewer fund transfers funds to the debt service fund for a portion of the general obligation improvement bonds.

The electric and natural gas enterprise funds transferred to the general funds for operations.

The HRA rehab fund transfer its remaining fund balance to the EDA fund to close the HRA Rehab fund.

During 2008, the EDA purchased a building which during 2009 was transferred to the public works department and an advance to/advance from other funds was recorded between the general fund and the EDA fund. The advance is being paid back over 10 annual payments at 4% interest through 2018. The balance of advance to/advance from other fund as of December 31, 2014 is \$43,827.

F. Committed and Restricted Fund Balances and Net Position

Balances in Committed Fund Balances as of December 31, 2014:

	<u>General Fund</u>
Committed for Debt Service	\$ 197,500
Committed for Fire Equipment	4,910
Committed for Ambulance	87,400
Committed for Police Equipment	791
Total	\$ 290,601

Note 4 - Pension Plans

A. Public Employees Retirement Association

1. Plan Description

All full-time and certain part-time employees of the City of Fairfax are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after five years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service.

For all PEPFF members and for GERF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

1. Plan Description - Continued

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained on the Internet at www.mnpera.org, by writing to the Public Employees Retirement Association at 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651)296-7460 or (800)652-9026.

2. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary. PEPFF members were required to contribute 9.6% of their annual covered salary. The City of Fairfax is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 7.25% for Coordinated Plan members, and 14.40% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2014, 2013, and 2012 were \$31,107, \$28,914, and \$31,564 respectively. The City's contributions to the Public Police and Fire Fund for the years ending December 31, 2014, 2013, and 2012 were \$16,072, \$13,455, and \$13,760, respectively. The City's contributions were equal to the contractually required contributions for each year as set by State Statute.

Note 5 - Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City accounts for and reports risk management activities in the General Fund within the constraints of the modified accrual basis of accounting.

The City has joined together with other governmental entities in the State of Minnesota in the League of Minnesota Cities Insurance Trust Group Self-Insured Workers' Compensation Plan, a public entity risk pool currently operating as a common risk management and insurance program for member cities. The City pays an annual premium to this plan for its worker's compensation coverage. These premiums are used to purchase reinsurance through commercial companies. The administrators of this plan believe assessment to participating Cities for future losses sustained is extremely remote.

The City is self-insured for unemployment compensation. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The City continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Contingencies

The City participates in a number of federal and state programs that are either partially or fully funded by grants or aids received from these agencies or other governmental units. Such programs are subject to audit by the grantor agencies which could result in requests for reimbursement to the granting agency for expenditures that are disallowed under the terms of the grant.

The City obtained from the Minnesota Housing Finance Agency, Housing Trust Fund Housing Program deferred mortgages of \$84,838 during 1995 and \$56,800 during 1996. The proceeds of the loans were used along with bonds to purchase and repair a rental project by the HRA of the City of Fairfax. The City is subject to the terms and conditions of the deferred mortgage loan agreements, which includes restriction on transfer or sale, usage, and other various requirements regarding the property for a period of thirty years. The loans were made as no-interest loans. It is the intent of all parties concerned that the deferred mortgage loans be paid back only in the event the organization defaults on the conditions described in the agreement. These amounts were accounted for as contributed capital in that no default is intended or foreseen by either party.

C. Joint Power Agreement

The City, in conjunction with Sibley and Renville County, created a joint powers agreement to analyze and assess communications delivery and service issues affecting the parties and the region, and develop plans for construction and operation of a communications network and enhancement of local communications services. In the event of dissolution, following the payment of all outstanding obligations, assets will be distributed among the then-existing members in direct proportion to their cumulative contributions. If the outstanding obligations exceed the assets of the joint powers, the net deficit will be charge to and paid by then-existing members equally. The City did not make any payments to joint powers during 2014. As of December 31, 2014, the joint power agreement had a positive balance and did not represent a burden to the City.



Required Supplementary Information
December 31, 2014

City of Fairfax

City of Fairfax
 Budgetary Comparison Schedule – General Fund
 Year Ended December 31, 2014

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes:				
Property	\$ 482,779	\$ 482,779	\$ 462,852	\$ (19,927)
Franchise	5,394	5,394	5,782	388
Special assessments	70,309	70,309	82,184	11,875
Licenses and permits	14,851	14,851	10,716	(4,135)
Intergovernmental revenue				
Local government aid	439,942	439,942	439,942	-
Agricultural market value credit	-	-	209	209
Other state aids and grants	17,528	17,528	53,969	36,441
Charges for services:				
General government	32,506	32,506	69,811	37,305
Police and fire contracts	23,000	23,000	41,662	18,662
Other public safety	77,600	77,600	106,541	28,941
Garbage and recycling	79,643	79,643	81,782	2,139
Parks and recreation	19,813	19,813	19,348	(465)
Fines and forfeits	2,394	2,394	5,423	3,029
Miscellaneous revenue:				
Interest earnings	10,037	10,037	8,147	(1,890)
Miscellaneous revenue	1,330	1,330	1,170	(160)
Total revenues	<u>1,277,126</u>	<u>1,277,126</u>	<u>1,389,538</u>	<u>112,412</u>
Expenditures:				
General government:				
Mayor and council	14,969	14,969	11,539	3,430
Administration and finance	132,281	132,281	130,377	1,904
Other general government	127,465	127,465	102,253	25,212
Public safety:				
Police - current expenditures	200,371	200,371	212,297	(11,926)
Police - capital outlay	4,870	4,870	40,342	(35,472)
Ambulance - current expenditures	59,105	59,105	58,918	187
Ambulance - capital outlay	19,450	19,450	38,745	(19,295)
Fire - current expenditures	50,313	50,313	76,553	(26,240)
Fire - capital outlay	20,557	20,557	22,074	(1,517)
Other protection	9,064	9,064	5,684	3,380
Streets and highways:				
Street maintenance	151,362	151,362	140,833	10,529
Snow and ice removal	42,619	42,619	39,904	2,715
Street engineering	41,095	41,095	45,540	(4,445)
Street lighting	13,125	13,125	16,017	(2,892)
Street construction - capital outlay	144,186	144,186	250,107	(105,921)
Street - other capital outlay	23,670	23,670	23,670	-
Sanitation:				
Garbage and other refuse collection	79,967	79,967	76,995	2,972
Other sanitation - current expenditures	5,897	5,897	5,484	413

City of Fairfax
 Budgetary Comparison Schedule – General Fund - Continued
 Year Ended December 31, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Culture and recreation:				
Library - current expenditures	43,445	43,445	44,008	(563)
Library - capital outlay	-	-	4,310	(4,310)
Parks and recreation - current expenditures	152,546	152,546	134,037	18,509
Parks and recreation - capital outlay	25,616	25,616	16,449	9,167
Debt service				
Interest payments on other long term debt	1,966	1,966	1,966	-
Total expenditures	<u>1,363,939</u>	<u>1,363,939</u>	<u>1,498,102</u>	<u>(134,163)</u>
Excess (Deficiency) of Revenue over (Under) Expenditures	<u>(86,813)</u>	<u>(86,813)</u>	<u>(108,564)</u>	<u>(21,751)</u>
Other Financing Sources (Uses):				
Transfers in	200,000	200,000	257,934	57,934
Transfers out	<u>(130,178)</u>	<u>(130,178)</u>	<u>(131,451)</u>	<u>(1,273)</u>
Total Other Financing Sources (Uses)	<u>69,822</u>	<u>69,822</u>	<u>126,483</u>	<u>56,661</u>
Net Change in Fund Balances	(16,991)	(16,991)	17,919	34,910
Fund Balance - Beginning	<u>332,898</u>	<u>332,898</u>	<u>332,898</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 315,907</u>	<u>\$ 315,907</u>	<u>\$ 350,817</u>	<u>\$ 34,910</u>

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at year end. The actual revenues, expenditures, and transfers for the year ended December 31, 2014, have been compared to the City's budget for the year where applicable. Variances which are in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budgeted. The budget is adopted through passage of a resolution. Administration can authorize transfer of budgeted amounts within any fund per state statutes. Any revisions that alter total expenditures of any fund must be approved by the City Council.

On or before the last Tuesday in August of each year, all agencies of the government submit requests for appropriation to the City's Administrator so that a budget may be prepared. The budget is prepared by fund, function, and activity and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

The City Council reviews the budget at both of their regular meetings in September and makes changes as they see fit. All changes are approved by an affirmative vote of a majority of the government's council.

Budgetary control is maintained at the object of expenditure category level within each activity, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the City Council. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (a) adequate funds were appropriated, (b) the expenditure is still necessary, and (c) funds are available. Budgeted amounts are as originally adopted or as amended by the City Council. Budgeted expenditure appropriations lapse at year end.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts or other commitments) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

B. Excess of Expenditures over Appropriations

For the year ended December 31, 2014, expenditures exceeded appropriations in the general fund by \$134,163. These excess expenditures were funded by greater than anticipated revenues and transfers from other funds.



Supplemental Schedules and Related Information
December 31, 2014

City of Fairfax

City of Fairfax
Combining Balance Sheet – Nonmajor Governmental Funds
December 31, 2014

	<u>Special Revenue Funds</u>			Debt Service Fund	Total Nonmajor Governmental Funds
	<u>EDA</u>	<u>HRA Rehab</u>	<u>Total Special Revenue Funds</u>		
Assets					
Cash	\$ 136,173	\$ -	\$ 136,173	\$ -	\$ 136,173
Investments	207,176	-	207,176	-	207,176
Advance to other funds	43,827	-	43,827	-	43,827
Notes receivable	48,701	-	48,701	-	48,701
Total Assets	<u>\$ 435,877</u>	<u>\$ -</u>	<u>\$ 435,877</u>	<u>\$ -</u>	<u>\$ 435,877</u>
Liabilities					
Accounts payable	\$ 155	\$ -	\$ 155	\$ -	\$ 155
Deferred Inflows of Resources					
Unavailable revenue	48,701	-	48,701	-	48,701
Fund balances					
Nonspendable - Advance to other funds	43,827	-	43,827	-	43,827
Restricted	343,194	-	343,194	-	343,194
Total fund balances	<u>387,021</u>	<u>-</u>	<u>387,021</u>	<u>-</u>	<u>387,021</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 435,877</u>	<u>\$ -</u>	<u>\$ 435,877</u>	<u>\$ -</u>	<u>\$ 435,877</u>

City of Fairfax

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Major and Nonmajor Governmental Funds
Year Ended December 31, 2014

	Special Revenue Funds			Debt Service Fund	Total Nonmajor Governmental Funds	Total Major Governmental Funds	Total Governmental Funds
	EDA	HRA Rehab	Total Special Revenue				
REVENUES:							
Taxes							
Property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 462,852	\$ 462,852
Franchise	-	-	-	-	-	5,782	5,782
Special assessments	-	-	-	-	-	83,354	83,354
Licenses and permits	-	-	-	-	-	10,716	10,716
Intergovernmental Revenue							
Local government aid	-	-	-	-	-	439,942	439,942
Agricultural market value credit	-	-	-	-	-	209	209
PERA aid	-	-	-	-	-	2,028	2,028
Other state grants and aids	3,000	-	3,000	-	3,000	51,941	54,941
Charges for Services							
General government	-	-	-	-	-	69,811	69,811
Police and fire contracts	-	-	-	-	-	41,662	41,662
Other public safety	-	-	-	-	-	106,541	106,541
Garbage and recycling	-	-	-	-	-	81,782	81,782
Parks and recreation	-	-	-	-	-	19,348	19,348
Fines and forfeits	-	-	-	-	-	5,423	5,423
Investment earnings	8,798	-	8,798	-	8,798	8,147	16,945
Miscellaneous	10,447	128	10,575	-	10,575	-	10,575
Total Revenues	<u>22,245</u>	<u>128</u>	<u>22,373</u>	<u>-</u>	<u>22,373</u>	<u>1,389,538</u>	<u>1,411,911</u>
EXPENDITURES:							
General Government							
Mayor and council	-	-	-	-	-	11,539	11,539
Administration and finance	-	-	-	-	-	130,377	130,377
Other general government	-	-	-	-	-	102,253	102,253

Public Safety							
Police - current expenditures	-	-	-	-	-	212,297	212,297
Police - capital outlay	-	-	-	-	-	40,342	40,342
Fire - current expenditures	-	-	-	-	-	76,553	76,553
Fire - capital outlay	-	-	-	-	-	22,074	22,074
Ambulance - current expenditures	-	-	-	-	-	58,918	58,918
Ambulance - capital outlay	-	-	-	-	-	38,745	38,745
Other protection	-	-	-	-	-	5,684	5,684
Streets and Highways							
Street maintenance	-	-	-	-	-	186,373	186,373
Snow and ice removal	-	-	-	-	-	39,904	39,904
Street lighting	-	-	-	-	-	16,017	16,017
Street construction - capital outlay	-	-	-	-	-	250,107	250,107
Street construction - other capital outlay	-	-	-	-	-	23,670	23,670
Sanitation							
Garbage and other refuse collection	-	-	-	-	-	76,995	76,995
Other sanitation - current expenditures	-	-	-	-	-	5,484	5,484
Culture and Recreation							
Library - current expenditures	-	-	-	-	-	44,008	44,008
Library - capital outlay	-	-	-	-	-	4,310	4,310
Parks and recreation - current expenditures	-	-	-	-	-	134,037	134,037
Parks and recreation - capital outlay	-	-	-	-	-	16,449	16,449
Housing and Economic Development							
Housing and urban redevelopment	-	10,002	10,002	-	10,002	-	10,002
Economic development - current expenditures	83,425	-	83,425	-	83,425	-	83,425
Debt Service							
Principal	-	-	-	60,000	60,000	-	60,000
Interest and other charges	-	-	-	118,963	118,963	1,966	120,929
Total Expenditures	<u>83,425</u>	<u>10,002</u>	<u>93,427</u>	<u>178,963</u>	<u>272,390</u>	<u>1,498,102</u>	<u>1,770,492</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(61,180)</u>	<u>(9,874)</u>	<u>(71,054)</u>	<u>(178,963)</u>	<u>(250,017)</u>	<u>(108,564)</u>	<u>(358,581)</u>
Other Financing Sources (Uses):							
Transfers in	22,933	-	22,933	178,963	201,896	257,934	459,830
Transfers out	-	(20,933)	(20,933)	-	(20,933)	(131,451)	(152,384)
Total Other Financing Sources (Uses)	<u>22,933</u>	<u>(20,933)</u>	<u>2,000</u>	<u>178,963</u>	<u>180,963</u>	<u>126,483</u>	<u>307,446</u>
Net Change in Fund Balances	(38,247)	(30,807)	(69,054)	-	(69,054)	17,919	(51,135)
Fund Balance - Beginning	<u>425,268</u>	<u>30,807</u>	<u>456,075</u>	<u>-</u>	<u>456,075</u>	<u>332,898</u>	<u>788,973</u>
Fund Balance - Ending	<u>\$ 387,021</u>	<u>\$ -</u>	<u>\$ 387,021</u>	<u>\$ -</u>	<u>\$ 387,021</u>	<u>\$ 350,817</u>	<u>\$ 737,838</u>



Independent Auditor's Report on Minnesota Legal Compliance

Honorable Mayor and City Council
City of Fairfax
Fairfax, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, 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, as of and for the year ended December 31, 2014, and have issued our report thereon dated March 4, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the city does not utilize tax increment financing.

In connection with our audit, the one item noted below came to our attention that caused us to believe that City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

The City did not pay all invoices in a timely manner as required per Minnesota Statute § 471.425, subdivision 2.

This report is intended solely for the information and use of those charged with governance and management of the City of Fairfax and is not intended to be, and should not be, used by anyone other than those specified parties.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Mankato, Minnesota
March 4, 2015