



Financial Statements  
December 31, 2013  
**City of Fairfax**

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**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, 2013, 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 opinions.

### **Opinions**

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, 2013, 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.

### **Change in Accounting Principle**

As discussed in Note 5 to the financial statements, the City adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* and has retroactively restated the previously reported net position to account for bond issuance costs in accordance with this Statement. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 30 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 require 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 this 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 schedule are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplemental schedules and related information are the responsibility of management and were derived from, and relate directly to the underlying accounting and other records used to prepare the financial statements.

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 information is fairly stated in all material respects in relation to the 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  
May 19, 2014

City of Fairfax  
Statement of Net Position  
December 31, 2013

	Primary Government		Totals
	Governmental Activities	Business-Type Activities	
<b>Assets</b>			
Cash	\$ 342,127	\$ 858,005	\$ 1,200,132
Investments	399,988	3,583,529	3,983,517
Receivables:			
Taxes	34,217	-	34,217
Special assessments	562,887	-	562,887
Accounts	65,350	446,047	511,397
Notes	15,047	-	15,047
Deferred refunding costs	-	77,205	77,205
Prepaid items	28,326	169,705	198,031
Inventory	18,856	163,890	182,746
Restricted cash			
Customer deposits	-	29,848	29,848
Savings reserve account	-	16,562	16,562
Capital assets not being depreciated:			
Land	764,290	218,850	983,140
Capital assets net of accumulated depreciation:			
Infrastructure	3,943,755	9,923,621	13,867,376
Buildings	1,496,965	501,169	1,998,134
Equipment	724,704	511,926	1,236,630
Vehicles	334,928	-	334,928
Total assets	<u>8,731,440</u>	<u>16,500,357</u>	<u>25,231,797</u>
<b>Liabilities</b>			
Accounts payable	33,391	279,040	312,431
Interest payable	9,978	12,587	22,565
Liabilities payable from restricted assets:			
Customer deposits payable	-	29,848	29,848
Noncurrent liabilities:			
Compensated absences	29,881	1,485	31,366
Due within one year	60,000	435,408	495,408
Due in more than one year	4,310,000	3,227,755	7,537,755
Total liabilities	<u>4,443,250</u>	<u>3,986,123</u>	<u>8,429,373</u>
<b>Net Position</b>			
Net investment in capital assets	2,894,642	7,492,403	10,387,045
Restricted for:			
EDA	438,640	-	438,640
HRA Rehab	31,482	-	31,482
Unrestricted	923,426	5,021,831	5,945,257
Total net position	<u>\$ 4,288,190</u>	<u>\$ 12,514,234</u>	<u>\$ 16,802,424</u>

City of Fairfax  
Statement of Activities  
Year Ended December 31, 2013

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	
<b>PRIMARY GOVERNMENT</b>							
<b>Governmental Activities</b>							
General government	\$ 329,749	\$ 57,497	\$ -	\$ -	\$ (272,252)	\$ -	\$ (272,252)
Public safety	338,728	132,505	-	-	(206,223)	-	(206,223)
Public works	334,089	-	-	-	(334,089)	-	(334,089)
Health and sanitation	88,960	80,078	-	-	(8,882)	-	(8,882)
Culture and recreation	333,354	19,711	-	-	(313,643)	-	(313,643)
Housing and economic development	5,246	-	-	-	(5,246)	-	(5,246)
Interest and other charges on long-term debt	90,677	-	-	-	(90,677)	-	(90,677)
Total governmental activities	<u>1,520,803</u>	<u>289,791</u>	<u>-</u>	<u>-</u>	<u>(1,231,012)</u>	<u>-</u>	<u>(1,231,012)</u>
<b>Business-Type Activities</b>							
Water	310,581	290,367	-	-	-	(20,214)	(20,214)
Sanitary sewer	117,097	205,879	-	-	-	88,782	88,782
Storm sewer	72,159	106,359	-	-	-	34,200	34,200
Electric	1,041,966	1,323,028	-	-	-	281,062	281,062
Natural gas	1,294,945	1,606,136	-	-	-	311,191	311,191
Liquor	574,120	526,245	-	-	-	(47,875)	(47,875)
<b>HRA</b>							
Southview	61,034	55,883	-	-	-	(5,151)	(5,151)
Fairview	111,959	140,370	-	-	-	28,411	28,411
Total business-type activities	<u>3,583,861</u>	<u>4,254,267</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>670,406</u>	<u>670,406</u>
Total Primary Government	<u>\$ 5,104,664</u>	<u>\$ 4,544,058</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(1,231,012)</u>	<u>670,406</u>	<u>(560,606)</u>
<b>General Revenues</b>							
					442,620	-	442,620
					425,447	-	425,447
					21,329	-	21,329
					6,037	(168,932)	(162,895)
					240,000	(240,000)	-
					(1,182)	-	(1,182)
					18,179	6,131	24,310
					<u>1,152,430</u>	<u>(402,801)</u>	<u>749,629</u>
					(78,582)	267,605	189,023
					4,450,479	12,317,628	16,768,107
					(83,707)	(70,999)	(154,706)
					<u>4,366,772</u>	<u>12,246,629</u>	<u>16,613,401</u>
					<u>\$ 4,288,190</u>	<u>\$ 12,514,234</u>	<u>\$ 16,802,424</u>

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

City of Fairfax  
Balance Sheet – Governmental Funds  
December 31, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash	\$ 135,042	\$ 207,085	\$ 342,127
Investments	200,012	199,976	399,988
Advance to other funds	-	49,142	49,142
Receivables:			
Taxes	34,217	-	34,217
Special assessments	562,887	-	562,887
Accounts	65,350	-	65,350
Notes	1,000	14,047	15,047
Prepaid items	28,326	-	28,326
	<u>\$ 1,026,834</u>	<u>\$ 470,250</u>	<u>\$ 1,497,084</u>
<b>Liabilities:</b>			
Accounts payable	\$ 33,263	\$ 128	\$ 33,391
Advance from other funds	49,142	-	49,142
Total liabilities	<u>82,405</u>	<u>128</u>	<u>82,533</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue	<u>611,531</u>	<u>14,047</u>	<u>625,578</u>
<b>Fund Balances</b>			
Nonspendable - prepaid items	28,326	-	28,326
Nonspendable - advance to other funds	-	49,142	49,142
Restricted reported in nonmajor special revenue funds	-	406,933	406,933
Committed	276,380	-	276,380
Unassigned	28,192	-	28,192
	<u>332,898</u>	<u>456,075</u>	<u>788,973</u>
	<u>\$ 1,026,834</u>	<u>\$ 470,250</u>	<u>\$ 1,497,084</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u>\$ 1,026,834</u>	<u>\$ 470,250</u>	<u>\$ 1,497,084</u>

City of Fairfax  
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position  
 December 31, 2013

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Total Fund Balances for Governmental Funds	\$	788,973
<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 \$11,723,548 and the accumulated depreciation is \$4,458,906.</p>		7,264,642
<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>		625,578
<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 \$9,978.</p>		(9,978)
<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	\$ 4,370,000	
Compensated absences	29,881	
		(4,399,881)
<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		18,856
Total Net Position for Governmental Activities	\$	4,288,190

City of Fairfax  
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds  
Year Ended December 31, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property taxes	\$ 433,981	\$ -	\$ 433,981
Franchise taxes	6,065	-	6,065
Special assessments	87,228	-	87,228
Fees and fines	2,341	-	2,341
Licenses and permits	14,176	-	14,176
Intergovernmental	422,829	2,618	425,447
Charges for services	272,580	-	272,580
Investment earnings	3,797	2,240	6,037
Miscellaneous	-	13,089	13,089
Total revenue	<u>1,242,997</u>	<u>17,947</u>	<u>1,260,944</u>
<b>Expenditures</b>			
<b>Current:</b>			
General government	270,961	-	270,961
Public safety	376,523	-	376,523
Streets and highways	583,677	-	583,677
Sanitation	88,960	-	88,960
Culture and recreation	192,424	-	192,424
Economic development	-	5,246	5,246
<b>Debt Services:</b>			
Principal	-	52,000	52,000
Interest and other charges	4,081	147,508	151,589
Total expenditures	<u>1,516,626</u>	<u>204,754</u>	<u>1,721,380</u>
Excess (deficiency) of revenues over expenditures	<u>(273,629)</u>	<u>(186,807)</u>	<u>(460,436)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	240,000	199,508	439,508
Transfers out	(199,508)	-	(199,508)
Total other financing sources (uses)	<u>40,492</u>	<u>199,508</u>	<u>240,000</u>
Net change in fund balances	(233,137)	12,701	(220,436)
Fund Balances - Beginning	<u>566,035</u>	<u>443,374</u>	<u>1,009,409</u>
Fund Balances - Ending	<u>\$ 332,898</u>	<u>\$ 456,075</u>	<u>\$ 788,973</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, 2013

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Total Net Change in Fund Balances - Governmental Funds	\$ (220,436)
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 decreased by \$65,899, delinquent property taxes increased by \$2,574, deferred notes receivable decreased by \$11,427, and unearned accounts receivable decreased \$3,381.	(57,541)
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	(5,649)
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 (\$432,808) exceeds depreciation expense (\$337,972) in the current period.	94,836
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 \$1,182 in the current period	(1,182)
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 \$1,522 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.	(1,522)
The governmental funds report repayment of bond principal as expenditures. In the statement of net position, however, repayment of principal reduces the liability.	52,000
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 \$9,978 and \$70,890 of accrued interest at December 31, 2013 and 2012, respectively.	60,912
Change in Net Position of Governmental Activities	<u>\$ (78,582)</u>

	Water	Sanitary Sewer	Storm Sewer
<b>Assets</b>			
<b>Current Assets</b>			
Cash	\$ 179,309	\$ 126,797	\$ 187,508
Investments	518,489	201,874	-
Accounts Receivable	32,340	29,429	33,256
Prepaid items	2,359	1,623	107
Inventory	27,381	1,113	-
Total current assets	<u>759,878</u>	<u>360,836</u>	<u>220,871</u>
<b>Noncurrent Assets:</b>			
Restricted cash			
Customer deposits	-	-	-
Savings reserve account	-	-	-
Deferred refunding costs	-	-	-
Prepaid items	-	-	-
Capital assets not being depreciated:			
Land and improvements	32,650	166,200	-
Capital assets, net of accumulated depreciation:			
Infrastructure	3,233,735	1,885,532	1,798,176
Buildings	-	-	-
Equipment	30,913	54,613	9,450
Total noncurrent assets	<u>3,297,298</u>	<u>2,106,345</u>	<u>1,807,626</u>
Total assets	<u>4,057,176</u>	<u>2,467,181</u>	<u>2,028,497</u>
<b>Liabilities</b>			
<b>Current Liabilities:</b>			
Accounts payable	16,156	2,736	-
Interest payable	5,158	1,816	-
Total current liabilities	<u>21,314</u>	<u>4,552</u>	<u>-</u>
<b>Current Liabilities Payable from Restricted Assets:</b>			
Customer deposits payable	<u>-</u>	<u>-</u>	<u>-</u>
<b>Noncurrent Liabilities:</b>			
Compensated absences	-	-	-
Due within one year	103,000	92,319	-
Due in more than one year	1,306,166	192,950	-
Total noncurrent liabilities	<u>1,409,166</u>	<u>285,269</u>	<u>-</u>
Total liabilities	<u>1,430,480</u>	<u>289,821</u>	<u>-</u>
<b>Net Position</b>			
Net investment in capital assets	1,888,132	1,821,076	1,807,626
Unrestricted	<u>738,564</u>	<u>356,284</u>	<u>220,871</u>
Total net position	<u>\$ 2,626,696</u>	<u>\$ 2,177,360</u>	<u>\$ 2,028,497</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, 2013

Electric	Natural Gas	Liquor	HRA Southview	HRA Fairview	Enterprise Fund Total
\$ 158,761	\$ 38,165	\$ 48,039	\$ (4,056)	\$ 123,482	\$ 858,005
1,795,462	668,751	97,934	-	301,019	3,583,529
114,684	234,072	-	1,887	379	446,047
2,463	594	6,535	2,001	4,754	20,436
75,650	11,364	48,382	-	-	163,890
<u>2,147,020</u>	<u>952,946</u>	<u>200,890</u>	<u>(168)</u>	<u>429,634</u>	<u>5,071,907</u>
14,680	3,375	-	4,501	7,292	29,848
-	-	-	16,562	-	16,562
-	77,205	-	-	-	77,205
149,269	-	-	-	-	149,269
2,500	-	2,500	5,000	10,000	218,850
1,437,186	1,568,992	-	-	-	9,923,621
-	-	13,294	90,038	397,837	501,169
46,760	301,845	33,851	4,660	29,834	511,926
<u>1,650,395</u>	<u>1,951,417</u>	<u>49,645</u>	<u>120,761</u>	<u>444,963</u>	<u>11,428,450</u>
<u>3,797,415</u>	<u>2,904,363</u>	<u>250,535</u>	<u>120,593</u>	<u>874,597</u>	<u>16,500,357</u>
78,296	146,563	27,002	2,415	5,872	279,040
980	4,633	-	-	-	12,587
<u>79,276</u>	<u>151,196</u>	<u>27,002</u>	<u>2,415</u>	<u>5,872</u>	<u>291,627</u>
<u>14,680</u>	<u>3,375</u>	<u>-</u>	<u>4,501</u>	<u>7,292</u>	<u>29,848</u>
1,485	-	-	-	-	1,485
140,000	95,000	-	5,089	-	435,408
145,000	1,510,000	-	73,639	-	3,227,755
<u>286,485</u>	<u>1,605,000</u>	<u>-</u>	<u>78,728</u>	<u>-</u>	<u>3,664,648</u>
<u>380,441</u>	<u>1,759,571</u>	<u>27,002</u>	<u>85,644</u>	<u>13,164</u>	<u>3,986,123</u>
1,201,446	265,837	49,645	20,970	437,671	7,492,403
<u>2,215,528</u>	<u>878,955</u>	<u>173,888</u>	<u>13,979</u>	<u>423,762</u>	<u>5,021,831</u>
<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>

	Water	Sanitary Sewer	Storm Sewer
Operating Revenues			
Utility sales	\$ 282,620	\$ 200,888	\$ 102,715
Liquor and food sales	-	-	-
Rent	-	-	-
Miscellaneous	7,747	4,991	3,644
Total operating revenues	<u>290,367</u>	<u>205,879</u>	<u>106,359</u>
Operating Expenses			
Cost of goods sold	-	-	-
Power production	-	-	-
Distribution system	172,770	46,794	23,153
General and administrative	17,212	-	15
Depreciation	103,242	62,113	48,991
Total operating expenses	<u>293,224</u>	<u>108,907</u>	<u>72,159</u>
Operating income (loss)	<u>(2,857)</u>	<u>96,972</u>	<u>34,200</u>
Non-Operating Revenues (Expenses)			
Interest and investment revenue	1,097	(1,236)	-
Miscellaneous revenue	-	3,112	-
Gains/(loss) on sale of fixed assets	-	-	-
Interest expense	(17,357)	(8,190)	-
Total non-operating revenues (expenses)	<u>(16,260)</u>	<u>(6,314)</u>	<u>-</u>
Income (loss) before contributions and transfers	(19,117)	90,658	34,200
Transfers out	-	-	-
Change in net position	<u>(19,117)</u>	<u>90,658</u>	<u>34,200</u>
Net Position - Beginning	2,645,813	2,086,702	1,994,297
Change in accounting principle	-	-	-
Net Position - Beginning - Restated	<u>2,645,813</u>	<u>2,086,702</u>	<u>1,994,297</u>
Net Position - Ending	<u>\$ 2,626,696</u>	<u>\$ 2,177,360</u>	<u>\$ 2,028,497</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  
December 31, 2013

Electric	Natural Gas	Liquor	HRA Southview	HRA Fairview	Enterprise Fund Total
\$ 1,313,107	\$ 1,596,488	\$ -	\$ -	\$ -	\$ 3,495,818
-	-	526,245	-	-	526,245
-	-	-	54,316	135,058	189,374
9,921	9,648	-	1,567	5,312	42,830
<u>1,323,028</u>	<u>1,606,136</u>	<u>526,245</u>	<u>55,883</u>	<u>140,370</u>	<u>4,254,267</u>
-	-	565,108	-	-	565,108
735,096	-	-	-	-	735,096
125,234	1,192,600	-	-	-	1,560,551
66,082	-	-	37,929	78,310	199,548
98,753	57,701	9,012	17,260	33,628	430,700
<u>1,025,165</u>	<u>1,250,301</u>	<u>574,120</u>	<u>55,189</u>	<u>111,938</u>	<u>3,491,003</u>
<u>297,863</u>	<u>355,835</u>	<u>(47,875)</u>	<u>694</u>	<u>28,432</u>	<u>763,264</u>
(156,163)	(26,317)	(1,379)	12,700	2,366	(168,932)
-	-	4,859	-	-	7,971
(1,840)	-	-	-	-	(1,840)
(16,801)	(44,644)	-	(5,845)	(21)	(92,858)
<u>(174,804)</u>	<u>(70,961)</u>	<u>3,480</u>	<u>6,855</u>	<u>2,345</u>	<u>(255,659)</u>
123,059	284,874	(44,395)	7,549	30,777	507,605
(120,000)	(120,000)	-	-	-	(240,000)
<u>3,059</u>	<u>164,874</u>	<u>(44,395)</u>	<u>7,549</u>	<u>30,777</u>	<u>267,605</u>
3,430,266	1,034,566	267,928	27,400	830,656	12,317,628
(16,351)	(54,648)	-	-	-	(70,999)
<u>3,413,915</u>	<u>979,918</u>	<u>267,928</u>	<u>27,400</u>	<u>830,656</u>	<u>12,246,629</u>
<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>

	Water	Sanitary Sewer	Storm Sewer
Cash Flows from Operating Activities			
Receipts from customers	\$ 290,530	\$ 204,352	\$ 105,351
Other receipts	-	3,112	-
Payments to employees	(48,492)	(11,826)	(16,141)
Payments to suppliers	(208,532)	(34,775)	(7,134)
Net cash provided by (used for) operating activities	<u>33,506</u>	<u>160,863</u>	<u>82,076</u>
Cash Flows from Noncapital Financing Activity			
Transfers to Governmental Funds	-	-	-
Cash Flows from Capital and Related Financing Activities			
Principal paid on bonds and notes payable	(101,000)	(89,655)	-
Proceeds from bonds	153,790	-	-
Interest paid on bonds and notes payable	(20,977)	(10,404)	-
Acquisition of capital assets	(87,807)	(3,399)	(48,186)
Net cash provided by (used for) capital and related financing activities	<u>(55,994)</u>	<u>(103,458)</u>	<u>(48,186)</u>
Cash Flows from Investing Activities			
Purchase of investments	(101,500)	(100,000)	-
Proceeds from sale of investments	-	-	-
Earnings on investments and cash	12,535	3,367	-
Net cash provided by (used in) investing activities	<u>(88,965)</u>	<u>(96,633)</u>	<u>-</u>
Net change in cash	(111,453)	(39,228)	33,890
Cash - January 1st (including \$14,868, \$3,075, \$3,404, and \$7,191, for the electric, natural gas, HRA Southview and HRA Fairview funds, respectively, reported as restricted)	<u>290,762</u>	<u>166,025</u>	<u>153,618</u>
Cash - December 31st (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>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income (loss)	\$ (2,857)	\$ 96,972	\$ 34,200
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	103,242	62,113	48,991
Loss on disposal of assets	-	-	-
Miscellaneous revenue and expenses	-	3,112	-
Decrease (increase) in assets:			
Accounts receivable	163	(1,527)	(1,008)
Inventory	4,332	497	-
Prepaid expenses	(728)	(1,317)	(107)
Increase (decrease) in liabilities:			
Accounts payable	(70,646)	1,013	-
Compensated absences	-	-	-
Customer deposits	-	-	-
Net Cash Provided by (used for) Operating Activities	<u>\$ 33,506</u>	<u>\$ 160,863</u>	<u>\$ 82,076</u>

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, 2013

Electric	Natural Gas	Liquor	HRA Southview	HRA Fairview	Enterprise Fund Total
\$ 1,313,398	\$ 1,541,573	\$ 526,245	\$ 55,560	\$ 134,618	\$ 4,171,627
-	-	4,859	1,567	5,312	14,850
(76,359)	(50,435)	(198,126)	(6,380)	(18,816)	(426,575)
(836,822)	(1,108,187)	(366,953)	(31,840)	(61,861)	(2,656,104)
<u>400,217</u>	<u>382,951</u>	<u>(33,975)</u>	<u>18,907</u>	<u>59,253</u>	<u>1,103,798</u>
<u>(120,000)</u>	<u>(120,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(240,000)</u>
(135,000)	(1,635,000)	-	(4,600)	-	(1,965,255)
-	1,557,511	-	-	-	1,711,301
(17,256)	(75,841)	-	(5,845)	(21)	(130,344)
(96,226)	(36,589)	(3,088)	(27,572)	(14,421)	(317,288)
<u>(248,482)</u>	<u>(189,919)</u>	<u>(3,088)</u>	<u>(38,017)</u>	<u>(14,442)</u>	<u>(701,586)</u>
(1,163,000)	(876,000)	(100,000)	-	(201,000)	(2,541,500)
985,403	500,000	-	-	200,000	1,685,403
(21,396)	(19,417)	687	12,700	6,787	(4,737)
(198,993)	(395,417)	(99,313)	12,700	5,787	(860,834)
(167,258)	(322,385)	(136,376)	(6,410)	50,598	(698,622)
<u>340,699</u>	<u>363,925</u>	<u>184,415</u>	<u>23,417</u>	<u>80,176</u>	<u>1,603,037</u>
<u>\$ 173,441</u>	<u>\$ 41,540</u>	<u>\$ 48,039</u>	<u>\$ 17,007</u>	<u>\$ 130,774</u>	<u>\$ 904,415</u>
\$ 297,863	\$ 355,835	\$ (47,875)	\$ 694	\$ 28,432	\$ 763,264
98,753	57,701	9,012	17,260	33,628	430,700
452	-	-	-	-	452
-	-	4,859	-	-	7,971
(9,894)	(64,863)	-	147	(339)	(77,321)
21,204	(349)	2,372	-	-	28,056
(1,878)	648	(748)	(438)	(110)	(4,678)
(5,930)	33,679	5,599	147	(2,257)	(38,395)
(165)	-	(7,194)	-	-	(7,359)
(188)	300	-	1,097	(101)	1,108
<u>\$ 400,217</u>	<u>\$ 382,951</u>	<u>\$ (33,975)</u>	<u>\$ 18,907</u>	<u>\$ 59,253</u>	<u>\$ 1,103,798</u>

## **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.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationships with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Blended component units, although legally separate entities, are in substance part of the government's operations. Therefore data from these units are combined with the data of the primary government. The Economic Development Authority (EDA) and the Housing and Redevelopment Authority (HRA) of the City are blended component units and are governed by boards appointed by the City Council. The rentals, loans, and bond portion of debt remains with the government. The EDA is reported in one Special Revenue Fund. The HRA is reported in one Special Revenue Fund and two Enterprise Funds.

### **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 and its component units. 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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 those required to be accounted for in another 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, and Net Position or 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, \$4,473, and \$5,000 in the electric, natural gas, 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.

## **2. Receivables and Payables - Continued**

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.

## 5. Capital Assets - Continued

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, as well as the component units, is 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	30
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 earned but unused vacation and sick pay benefits. The City allows employees to accumulate unused sick leave to a maximum of 115 days. Upon termination of employment after being employed by the City for ten years or more, the City will pay 25% of the accumulated sick leave. Upon retirement after twenty years of employment with the City, the City will pay 50% of the accumulated sick leave. 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. Bonds payable are reported at face value and bond premiums. Discounts are reported as deferred charges.

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. 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.

GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. 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 year end. The actual revenues, expenditures, and transfers for the year ended December 31, 2013, 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 government's manager 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 government's 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, 2013, expenditures exceeded appropriations in the Debt Service Fund by \$199,508 and in the general fund by \$44,256. These excess expenditures were funded by greater than anticipated revenues and transfers from other funds.

**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, 2013, none of the City's bank balances were exposed to custodial credit risk.

**2. Investments**

As of December 31, 2013, the City had the following investments.

	Fair Value	Weighted Average Maturity (Years)
Investment Type:		
GNMA	\$ 258	-
Certificates of deposit	1,729,739	0.97
Federal bonds and notes	1,639,502	4.36
Municipal bonds	614,019	1.00
Total Fair Value	\$ 3,983,518	

**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 (41.16%) and Municipal Bonds (15.41%).

**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, 2013, none of the City's balances were exposed to custodial credit risk.

**B. Receivables**

The HRA Rehab fund issued loans to local residents and businesses for \$11,693 in 2010. Sixty monthly payments, with interest at 1% to 2%, will be made until November 1, and August 5, 2015. The loans are secured by liens on the property. The total unpaid balance at December 31, 2013 was \$675.

The EDA fund issued loans to local businesses for \$20,000 in 2010 and \$8,729 in 2012. Sixty monthly payments, with interest at 1% to 2%, will be made until November 1, and August 5, 2017. The loans are secured by liens on the property. The total unpaid balance at December 31, 2013 was \$13,372.

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, 2013 is \$1,000.

Governmental funds report unearned revenue in connection with receivables for revenues that 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)	\$ 562,887	\$ -
Delinquent property taxes and special assessments (general fund)	27,052	-
Notes receivable (general fund)	1,000	-
Accounts receivable (general fund)	20,592	-
Notes receivable (special revenue HRA Rehab fund)	675	-
Notes receivable (special revenue EDA fund)	13,372	-
 Total deferred/unearned revenue for governmental funds	 \$ 625,578	 \$ -

The only receivables not expected to be collected within one year are \$525,748 of deferred special assessments, \$500 of notes receivable in the general fund, and \$7,618 of notes receivable in the EDA and HRA funds.

**C. Capital Assets**

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

Governmental Activities:	
General government	\$ 85,723
Public safety	31,873
Public works	63,263
Culture and recreation	157,113
Total Depreciation Expense – Governmental Activities	\$ 337,972

**C. Capital Assets – Continued**

Capital asset activity for the year ended December 31, 2013, 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	\$ -	\$ -	\$ 764,290
Construction in progress	1,876,217	-	(1,876,217)	-
Total capital assets, not being depreciated	<u>2,640,507</u>	<u>-</u>	<u>(1,876,217)</u>	<u>764,290</u>
Capital assets, being depreciated:				
Buildings	1,851,013	37,378	-	1,888,391
Infrastructure	3,976,078	2,193,560	-	6,169,638
Equipment	2,235,702	66,538	(48,154)	2,254,086
Vehicles	635,594	11,549	-	647,143
Total capital assets, being depreciated	<u>8,698,387</u>	<u>2,309,025</u>	<u>(48,154)</u>	<u>10,959,258</u>
Less accumulated depreciation for:				
Buildings	346,218	45,208	-	391,426
Infrastructure	2,089,118	136,765	-	2,225,883
Equipment	1,470,506	105,848	(46,972)	1,529,382
Vehicles	262,064	50,151	-	312,215
Total accumulated depreciation	<u>4,167,906</u>	<u>337,972</u>	<u>(46,972)</u>	<u>4,458,906</u>
Total capital assets, being depreciated, net	<u>4,530,481</u>	<u>1,971,053</u>	<u>(1,182)</u>	<u>6,500,352</u>
Governmental activities capital assets, net	<u>\$ 7,170,988</u>	<u>\$ 1,971,053</u>	<u>\$(1,877,399)</u>	<u>\$ 7,264,642</u>

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

Business-Type Activities:	
Water	\$ 103,242
Sanitary sewer	62,113
Storm sewer	48,991
Electric	98,753
Natural gas	57,701
Liquor	9,012
HRA Southview	17,260
HRA Fairview	33,628
Total Depreciation Expense - Business-Type Activities	<u>\$ 430,700</u>

**C. Capital Assets - Continued**

Capital asset activity for the year ended December 31, 2013, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balance
<b>Business-Type Activities:</b>				
Capital assets, not being depreciated				
Land	\$ 218,850	\$ -	\$ -	\$ 218,850
Capital assets, being depreciated				
Infrastructure	14,823,089	235,618	-	15,058,707
Buildings	1,442,751	41,992	-	1,484,743
Equipment	1,418,414	39,678	(1,388)	1,456,704
Total capital assets, being depreciated	<u>17,684,254</u>	<u>317,288</u>	<u>(1,388)</u>	<u>18,000,154</u>
Less accumulated depreciation for:				
Infrastructure	4,786,970	348,116	-	5,135,086
Buildings	935,653	47,921	-	983,574
Equipment	911,052	34,663	(937)	944,778
Total accumulated depreciation	<u>6,633,675</u>	<u>430,700</u>	<u>(937)</u>	<u>7,063,438</u>
Total capital assets, being depreciated, net	<u>11,050,579</u>	<u>(113,412)</u>	<u>(451)</u>	<u>10,936,716</u>
Business-type activities capital assets, net	<u>\$ 11,269,429</u>	<u>\$ (113,412)</u>	<u>\$ (451)</u>	<u>\$ 11,155,566</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, 2013 was \$78,728.

The balance outstanding for compensated absences at December 31, 2013 was \$29,881 for governmental activities and \$1,485 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 \$4,320,000. 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%	\$ 3,925,000
G.O. Capital Improvement Bond of 2011A for \$467,000, due in annual installments of \$22,000 to \$40,000 through February, 1, 2027	3.40%	<u>445,000</u>
General Obligation Bonds Payable		<u><u>\$ 4,370,000</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 \$16,648 to \$44,000 through August 20, 2041	1.244%	\$ 961,166
G.O. Bond Purchase Agreement - Bonds of 1997 for \$1,506,773, due in semi-annual installments of \$38,438 to \$49,302 through August 16, 2016	2.95%	285,269
G.O. Bond Purchase Agreement - Bonds of 2000 for \$1,265,806, due in annual installments of \$67,000 to \$79,000 through August 20, 2019	2.04%	448,000
Electric Refunding Bonds of 2007 for \$1,015,000, due in annual installments of \$130,000 to \$145,000 through December 1, 2015	4.00% - 4.15%	285,000
G.O. Natural Gas Refunding Bond of 2013A for \$1,605,000, due in annual installments of \$95,000 to \$135,000 through December 1, 2027	0.70% - 3.60%	<u>1,605,000</u>
Revenue Bonds Payable		<u><u>\$ 3,584,435</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
2014	\$ 60,000	\$ 118,963	\$ 435,408	\$ 87,801
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
2019-2023	1,195,000	468,244	849,314	187,156
2024-2028	1,440,000	288,219	723,446	86,311
2029-2033	1,165,000	93,857	196,000	28,525
2034-2038	-	-	209,000	16,010
2039-2043	-	-	37,165	1,630
<b>Total</b>	<b>\$ 4,370,000</b>	<b>\$ 1,424,095</b>	<b>\$ 3,663,163</b>	<b>\$ 633,113</b>

Changes in Long-Term Liabilities. During the year ended December 31, 2013, the following changes occurred in liabilities reported in the general long-term debt account group:

	Balance January 1	Additions	Reductions	Balance December 31	Due Within One Year
<b>Governmental Activities:</b>					
Compensated absences	\$ 28,359	\$ 1,522	\$ -	\$ 29,881	\$ -
General obligation bonds	4,422,000	-	52,000	4,370,000	60,000
Long-term Liabilities	<u>\$ 4,450,359</u>	<u>\$ 1,522</u>	<u>\$ 52,000</u>	<u>\$ 4,399,881</u>	<u>\$ 60,000</u>
<b>Business-type Activities:</b>					
Compensated absences	\$ 8,844	\$ -	\$ 7,359	\$ 1,485	\$ -
Mortgage note payable	83,328	-	4,600	78,728	5,089
Revenue Bonds	3,786,300	1,758,790	1,960,655	3,584,435	430,319
Long-term Liabilities	<u>\$ 3,878,472</u>	<u>\$ 1,758,790</u>	<u>\$ 1,972,614</u>	<u>\$ 3,664,648</u>	<u>\$ 435,408</u>
Refunding bonds included in above activities	<u>\$ 2,055,000</u>	<u>\$ 1,605,000</u>	<u>\$ 1,890,000</u>	<u>\$ 1,770,000</u>	<u>\$ 215,000</u>

Legal Debt Margin. The legal debt limitation based on market values of taxable property in the municipality is equal to \$1,023,912. The computed legal debt margin at December 31, 2013 equaled \$1,023,912.

During the year, the City refunded \$1,555,000 of GO Natural Gas Revenue Bonds of 2005, Series A by issuing \$1,605,000 of GO Natural Gas Revenue Refunding Bonds of 2013, Series A. The average interest rate of the 2005A bonds was 4.18% and the average interest rate of the 2013A bonds is 2.15%. The refunding is expected to save the City approximately \$151,044 at present value.

**E. Inter-fund Transfers and Receivables**

Inter-fund transfers during 2013 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	\$ -	\$ 199,508	\$ 199,508
Electric Fund	120,000	-	120,000
Natural Gas Fund	120,000	-	120,000
Total	<u>\$ 240,000</u>	<u>\$ 199,508</u>	<u>\$ 439,508</u>

Purpose for Inter-fund Transfers:

The general 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.

**F. Committed and Restricted Fund Balances and Net Position**

Balances in Committed Fund Balances as of December 31, 2013:

	<u>General Fund</u>
Committed for Debt Service	\$ 197,500
Committed for Fire Equipment	4,910
Committed for Ambulance	73,800
Committed for Police Equipment	170
Total	<u>\$ 276,380</u>

At December 31, 2013, the balance of restricted amounts in nonmajor special revenue funds is comprised of a balance of \$376,126 and \$30,807 in the EDA and HRA Rehab Funds, respectively.

## 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 GERS and PEPFF. That report may be obtained on the Internet at [www.mnpera.org](http://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. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2013. PEPFF members were required to contribute 9.6% of their annual covered salary in 2013. The City of Fairfax is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERA 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, 2013, 2012, and 2011 were \$28,914, \$31,564, and \$27,009 respectively. The City's contributions to the Public Police and Fire Fund for the years ending December 31, 2013, 2012, and 2011 were \$13,455, \$13,760, and \$13,860, respectively. The City's contributions were equal to the contractually required contributions for each year as set by State Statute.

## **B. Fire Relief Association**

### **1. Plan Description**

All volunteer fire fighters of the City of Fairfax are covered by a single employer pension plan administered by the State of Minnesota. All members must participate in the pension plan. Bylaws of the Fairfax Fire Department Relief Association are the authority under which benefit provisions are established. Minnesota Statute Ch. 69 authorizes pension benefits for fire relief associations. A member of the association who has completed 20 years or more of service on the fire department will, after age 50 at retirement, be entitled to the sum of \$1,700 for each year served as an active member of the Fairfax Fire Department. A member of the association who has completed 10 years of service on the fire department will, after age 50 at retirement, be entitled to 60% of the amount per year of service which would have been earned, had the member served for 20 years. A member of the association who has completed 11 years, but less than 20 years of service on the fire department shall, after age 50 at retirement, be entitled to an additional 4% of the amount per year of service which would have been earned, had the member served for 20 years, and shall be added to all years of service for each additional year of service between 11 and 20 years.

## 2. Pension Benefit Obligation

The “pension benefit obligation” is a standardized disclosure measure of the present value of pension benefits, estimated to be payable in the future as a result of member service to date. The measure, which is the present value of credited projected benefits, is intended to help users assess FFDRRA’S funding status on a going concern basis and assess progress made in accumulating sufficient assets to pay benefits when due.

The pension benefit obligation as of December 31, 2012, is shown below:

	<u>FFDRRA</u>
Pension benefit obligation:	
Current benefit obligation	\$ 111,930
Deferred vested pensions	205,582
Total pension benefit obligation	<u>317,512</u>
Assets available for benefits, at market	<u>296,242</u>
Pension benefit obligation in excess of assets	<u>\$ 21,270</u>
Increase from the prior year amount	<u>\$ (23,629)</u>

## 3. Contributions Required and Contributions Made

Financial requirements of the relief association are determined at \$1,700 per year of service for all members based on their years as active fire department members. Normal cost is funded on a current basis. The City’s minimum obligation is the financial requirement for the year less anticipated contributions and state aids. Any additional payments by the City shall be used to amortize the unfunded liability of the relief association. The contribution requirement is not actuarially determined. The required 2012 contribution to the relief association for the calendar year 2013 was \$8,918. The City paid \$9,473 in contributions in 2013. The contributed amounts were determined as described above and were based on funding assumptions, benefit provision, and other significant factors used to determine pension contribution requirements in previous years.

## 4. Three Year Historical Trend Information

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net Pension Benefit Obligation	\$ 21,270	\$ 44,899	\$ 44,430
Annual Pension Cost	N/A	11,401	5,321
Percentage of Annual Pension Cost	-	25.39%	11.98%

## **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. The State of Minnesota allows Cities to levy local taxpayers for estimated future unemployment claims. 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 2013. As of December 31, 2013, the joint power agreement had a positive balance and did not represent a liability to the City.

### **D. Reclassification**

Certain reclassifications of long-term debt previously reported have been made to the accompanying financial statements to better reflect the nature of the long-term debt. The reclassifications had no impact on previously reported net position.

### **E. Change in Accounting Principle**

The City implemented GASB Statement No. 65 - Items Previously Reported as Assets and Liabilities. As a result, costs of issuance previously amortized government-wide in the Statement of Net Position and the Statement of Activities and in the proprietary funds were written off as those costs are now expensed in the year of the debt issuance. The total amount of those costs written off resulted in a decrease of \$83,707 to governmental activities net position, a decrease of \$16,351 in the Electric fund, and a decrease of \$54,648 in the Natural Gas Fund.



Required Supplementary Information  
December 31, 2013

**City of Fairfax**

City of Fairfax  
 Budgetary Comparison Schedule – General Fund  
 Year Ended December 31, 2013

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues:</b>				
Taxes:				
Property	\$ 457,779	\$ 457,779	\$ 433,981	\$ (23,798)
Franchise	5,394	5,394	6,065	671
Special assessments	67,544	67,544	85,893	18,349
Licenses and permits	14,851	14,851	14,176	(675)
Intergovernmental revenue				
Local government aid	398,946	398,946	398,946	-
Agricultural market value credit	-	-	200	200
Other state aids and grants	31,238	31,238	23,683	(7,555)
Charges for services:				
General government	32,506	32,506	40,286	7,780
Police and fire contracts	17,928	17,928	16,644	(1,284)
Other public safety	77,000	77,000	115,861	38,861
Garbage and recycling	79,643	79,643	80,078	435
Parks and recreation	19,813	19,813	19,711	(102)
Fines and forfeits	2,394	2,394	2,341	(53)
Miscellaneous revenue:				
Interest earnings	10,037	10,037	3,797	(6,240)
Miscellaneous revenue	1,330	1,330	1,335	5
Total revenues	<u>1,216,403</u>	<u>1,216,403</u>	<u>1,242,997</u>	<u>26,594</u>
<b>Expenditures:</b>				
General government:				
Mayor and council	14,533	14,533	9,672	4,861
Administration and finance	134,729	134,729	138,021	(3,292)
Other general government	103,893	103,893	106,312	(2,419)
Capital outlay	50,000	50,000	16,956	33,044
Public safety:				
Police - current expenditures	194,661	194,661	189,178	5,483
Police - capital outlay	27,969	27,969	26,971	998
Ambulance - current expenditures	47,728	47,728	53,397	(5,669)
Ambulance - capital outlay	19,600	19,600	641	18,959
Fire - current expenditures	92,447	92,447	51,438	41,009
Fire - capital outlay	21,000	21,000	45,406	(24,406)
Other protection	9,044	9,044	9,492	(448)
Streets and highways:				
Street maintenance	119,821	119,821	152,240	(32,419)
Snow and ice removal	29,151	29,151	33,855	(4,704)
Street engineering	25,000	25,000	54,217	(29,217)
Street lighting	23,734	23,734	10,761	12,973
Street construction - capital outlay	203,368	203,368	313,370	(110,002)
Street - other capital outlay	33,500	33,500	19,234	14,266
Sanitation:				
Garbage and other refuse collection	86,315	86,315	81,411	4,904
Other sanitation - current expenditures	8,261	8,261	7,549	712

City of Fairfax  
 Budgetary Comparison Schedule – General Fund - Continued  
 Year Ended December 31, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Culture and recreation:				
Library - current expenditures	46,692	46,692	46,103	589
Library - capital outlay	-	-	5,077	(5,077)
Parks and recreation - current expenditures	147,872	147,872	129,642	18,230
Parks and recreation - capital outlay	28,882	28,882	11,602	17,280
Debt service				
Interest payments on other long term debt	4,170	4,170	4,081	89
Total expenditures	<u>1,472,370</u>	<u>1,472,370</u>	<u>1,516,626</u>	<u>(44,256)</u>
Excess (Deficiency) of Revenue over (Under) Expenditures	<u>(255,967)</u>	<u>(255,967)</u>	<u>(273,629)</u>	<u>(17,662)</u>
Other Financing Sources (Uses):				
Transfers in	200,000	200,000	240,000	40,000
Transfers out	<u>(221,790)</u>	<u>(221,790)</u>	<u>(199,508)</u>	<u>22,282</u>
Total Other Financing Sources (Uses)	<u>(21,790)</u>	<u>(21,790)</u>	<u>40,492</u>	<u>62,282</u>
Net Change in Fund Balances	(277,757)	(277,757)	(233,137)	44,620
Fund Balance - Beginning	<u>566,035</u>	<u>566,035</u>	<u>566,035</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 288,278</u>	<u>\$ 288,278</u>	<u>\$ 332,898</u>	<u>\$ 44,620</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, 2013, 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 budget. 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 government's manager 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 government's 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, 2013, expenditures exceeded appropriations in the general fund by \$44,256. These excess expenditures were funded by greater than anticipated revenues and transfers from other funds.



Supplemental Schedules and Related Information  
December 31, 2013

**City of Fairfax**

City of Fairfax  
Combining Balance Sheet – Nonmajor Governmental Funds  
December 31, 2013

	<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>		
<b>Assets</b>					
Cash	\$ 176,150	\$ 30,935	\$ 207,085	\$ -	\$ 207,085
Investments	199,976	-	199,976	-	199,976
Advance to other funds	49,142	-	49,142	-	49,142
Notes receivable	13,372	675	14,047	-	14,047
<b>Total Assets</b>	<b><u>\$ 438,640</u></b>	<b><u>\$ 31,610</u></b>	<b><u>\$ 470,250</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 470,250</u></b>
<b>Liabilities</b>					
Accounts payable	\$ -	128	\$ 128	\$ -	\$ 128
<b>Deferred Inflows of Resources</b>					
Unavailable revenue	13,372	675	14,047	-	14,047
<b>Fund balances</b>					
Nonspendable - advance to other funds	49,142	-	49,142	-	49,142
Committed	376,126	30,807	406,933	-	406,933
<b>Total fund balances</b>	<b><u>425,268</u></b>	<b><u>30,807</u></b>	<b><u>456,075</u></b>	<b><u>-</u></b>	<b><u>456,075</u></b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b><u>\$ 438,640</u></b>	<b><u>\$ 31,610</u></b>	<b><u>\$ 470,250</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 470,250</u></b>

City of Fairfax  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Major and Nonmajor Governmental Funds  
Year Ended December 31, 2013

	Special Revenue Funds			Debt Service Fund	Total Nonmajor Governmental Funds	Total Major Governmental Funds	Total Governmental Funds
	EDA	HRA Rehab	Total Special Revenue				
<b>REVENUES:</b>							
Taxes							
Property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 433,981	\$ 433,981
Franchise	-	-	-	-	-	6,065	6,065
Special assessments	-	-	-	-	-	87,228	87,228
Licenses and permits	-	-	-	-	-	14,176	14,176
Intergovernmental Revenue							
Local government aid	-	-	-	-	-	398,946	398,946
Agricultural market value credit	-	-	-	-	-	200	200
PERA aid	-	-	-	-	-	2,028	2,028
Other state grants and aids	2,618	-	2,618	-	2,618	21,655	24,273
Charges for Services							
General government	-	-	-	-	-	40,286	40,286
Police and fire contracts	-	-	-	-	-	16,644	16,644
Other public safety	-	-	-	-	-	115,861	115,861
Garbage and recycling	-	-	-	-	-	80,078	80,078
Parks and recreation	-	-	-	-	-	19,711	19,711
Fines and forfeits	-	-	-	-	-	2,341	2,341
Investment earnings	2,240	-	2,240	-	2,240	3,797	6,037
Miscellaneous	7,150	5,939	13,089	-	13,089	-	13,089
Total Revenues	<u>12,008</u>	<u>5,939</u>	<u>17,947</u>	<u>-</u>	<u>17,947</u>	<u>1,242,997</u>	<u>1,260,944</u>
<b>EXPENDITURES:</b>							
General Government							
Mayor and council	-	-	-	-	-	9,672	9,672
Administration and finance	-	-	-	-	-	138,021	138,021
Other general government	-	-	-	-	-	106,312	106,312
Capital outlay	-	-	-	-	-	16,956	16,956

Public Safety							
Police - current expenditures	-	-	-	-	-	189,178	189,178
Police - capital outlay	-	-	-	-	-	26,971	26,971
Fire - current expenditures	-	-	-	-	-	51,438	51,438
Fire - capital outlay	-	-	-	-	-	45,406	45,406
Ambulance - current expenditures	-	-	-	-	-	53,397	53,397
Ambulance - capital outlay	-	-	-	-	-	641	641
Other protection	-	-	-	-	-	9,492	9,492
Streets and Highways							
Street maintenance	-	-	-	-	-	206,457	206,457
Snow and ice removal	-	-	-	-	-	33,855	33,855
Street lighting	-	-	-	-	-	10,761	10,761
Street construction - capital outlay	-	-	-	-	-	313,370	313,370
Street construction - other capital outlay	-	-	-	-	-	19,234	19,234
Sanitation							
Garbage and other refuse collection	-	-	-	-	-	81,411	81,411
Other sanitation - current expenditures	-	-	-	-	-	7,549	7,549
Culture and Recreation							
Library - current expenditures	-	-	-	-	-	46,103	46,103
Library - capital outlay	-	-	-	-	-	5,077	5,077
Parks and recreation - current expenditures	-	-	-	-	-	129,642	129,642
Parks and recreation - capital outlay	-	-	-	-	-	11,602	11,602
Housing and Economic Development							
Housing and urban redevelopment	-	46	46	-	46	-	46
Economic development - current expenditures	5,200	-	5,200	-	5,200	-	5,200
Debt Service							
Principal	-	-	-	52,000	52,000	-	52,000
Interest and other charges	-	-	-	147,508	147,508	4,081	151,589
Total Expenditures	<u>5,200</u>	<u>46</u>	<u>5,246</u>	<u>199,508</u>	<u>204,754</u>	<u>1,516,626</u>	<u>1,721,380</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,808</u>	<u>5,893</u>	<u>12,701</u>	<u>(199,508)</u>	<u>(186,807)</u>	<u>(273,629)</u>	<u>(460,436)</u>
Other Financing Sources (Uses):							
Transfers in	-	-	-	199,508	199,508	240,000	439,508
Transfers out	-	-	-	-	-	(199,508)	(199,508)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>199,508</u>	<u>199,508</u>	<u>40,492</u>	<u>240,000</u>
Net Change in Fund Balances	6,808	5,893	12,701	-	12,701	(233,137)	(220,436)
Fund Balance - Beginning	<u>418,460</u>	<u>24,914</u>	<u>443,374</u>	<u>-</u>	<u>443,374</u>	<u>566,035</u>	<u>1,009,409</u>
Fund Balance - Ending	<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>



## 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, 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, each major fund, and the aggregate remaining fund information of the City of Fairfax, as of and for the year ended December 31, 2013, and have issued our report thereon dated May 19, 2014.

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 has no tax increment financing.

In connection with our audit, nothing 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.

This report is intended solely for the information and use 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  
May 19, 2014