



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

May 14, 2010

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Farley, Iowa.

The City's receipts totaled \$1,777,795 for the year ended June 30, 2009. The receipts included \$365,514 in property tax, \$256,076 from tax increment financing, \$638,564 from charges for service, \$229,751 from operating grants, contributions and restricted interest, \$921 from capital grants, contributions and restricted interest, \$159,098 from local option sales tax, \$38,252 from unrestricted interest on investments, \$82,195 from interim loan proceeds and \$7,424 from other general receipts.

Disbursements for the year totaled \$1,673,485, and included \$462,294 for debt service, \$286,361 for public safety and \$241,859 for public works. Also, disbursements for business type activities totaled \$217,162.

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

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CITY OF FARLEY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2009

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City of Farley

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeffrey Simon	Mayor	Jan 2010
Jay Hefel	Council Member	Jan 2010
Joyce Jarding	Council Member	Jan 2010
Randy Kramer	Council Member	Jan 2012
Jason Norton	Council Member	Jan 2012
Jody Scherrman	Council Member	Jan 2012
Danielle Hartke	City Clerk	Indefinite
William Blum	Attorney	Indefinite

City of Farley



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Farley, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Farley's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

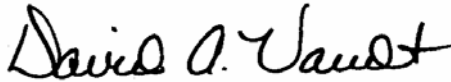
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2008, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Farley as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

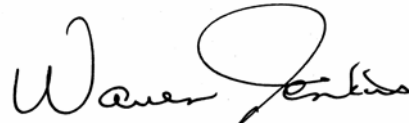
In accordance with Government Auditing Standards, we have also issued our report dated April 27, 2010 on our consideration of the City of Farley's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Farley's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2008, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 27, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Farley provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2009 FINANCIAL HIGHLIGHTS

- The City's governmental activities cash basis net assets increased approximately \$126,000 to approximately \$912,000 at June 30, 2009, primarily due to urban renewal tax increment financing receipts.
- The City's cash basis net assets for business type activities decreased approximately \$21,000 to approximately \$420,000 at June 30, 2009.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

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

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

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

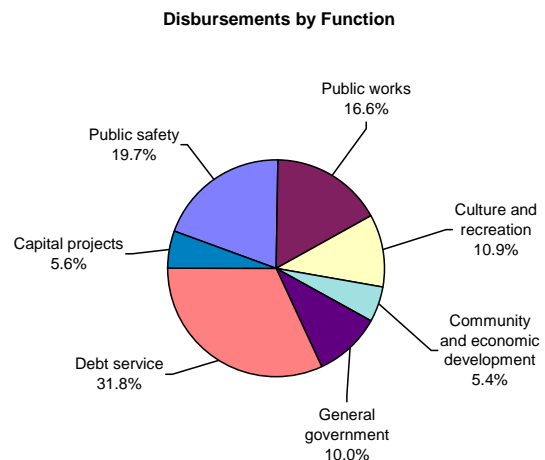
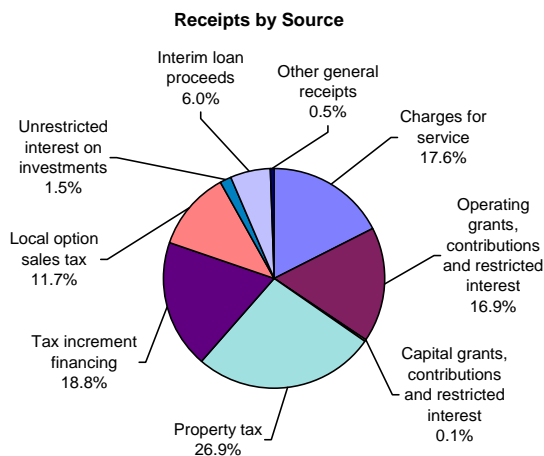
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$786,000 to approximately \$912,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2009
Receipts:	
Program receipts:	
Charges for service	\$ 239,644
Operating grants, contributions and restricted interest	229,751
Capital grants, contributions and restricted interest	921
General receipts:	
Property tax	365,514
Tax increment financing	256,076
Local option sales tax	159,098
Unrestricted interest on investments	20,565
Interim loan proceeds	82,195
Other general receipts	6,921
Total receipts	<u>1,360,685</u>
Disbursements:	
Public safety	286,361
Public works	241,859
Culture and recreation	159,415
Community and economic development	78,590
General government	145,609
Debt service	462,294
Capital projects	82,195
Total disbursements	<u>1,456,323</u>
Change in cash basis net assets before transfers	(95,638)
Transfers	<u>221,356</u>
Change in cash basis net assets	125,718
Cash basis net assets beginning of year	<u>786,021</u>
Cash basis net assets end of year	<u>\$ 911,739</u>



<u>Changes in Cash Basis Net Assets of Business Type Activities</u>	
	<u>Year ended June 30, 2009</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 160,782
Sewer	238,138
General receipts:	
Unrestricted interest on investments	17,687
Miscellaneous	503
Total receipts	<u>417,110</u>
Disbursements:	
Water	104,919
Sewer	112,243
Total disbursements	<u>217,162</u>
Change in cash basis net assets before transfers	199,948
Transfers	<u>(221,356)</u>
Change in cash basis net assets	(21,408)
Cash basis net assets beginning of year	<u>440,987</u>
Cash basis net assets end of year	<u>\$ 419,579</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Farley completed the year, its governmental funds reported a combined fund balance of \$911,739, an increase of \$125,718 above last year's total of \$786,021. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$22,310 over the prior year to \$364,821. The increase was primarily due to an increase in local option sales tax over the prior year. The City intends to use these receipts to help offset future property tax increases.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance was \$281,886 at the end of the fiscal year, an increase of \$103,564 over the previous year. The increase was the result of incremental property tax generated from the increased taxable valuation in the district.
- The Special Revenue, Special Assessment Fund cash balance decreased \$26,703 from the prior year to \$94,582 at the end of the fiscal year. This decrease was due to some special assessment amounts which were paid in full the previous year.
- The Debt Service Fund cash balance increased \$9,878 over the prior fiscal year to \$37,996.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$44,254 to \$115,016 during the fiscal year, primarily due to disbursements for well pump and motor repair.
- The Sewer Fund cash balance increased \$22,846 to \$304,563 during the fiscal year, primarily due to a decrease in disbursements from the previous year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 18, 2009 and resulted in an increase in the public safety, public works, general government and capital projects functions. The City had sufficient cash balances to cover the amendment.

The City's receipts were \$96,090 more than budgeted. This was primarily due to an increase in local option sales tax receipts and the inclusion of Park Board activity.

Disbursements were \$72,251 more than budgeted, primarily due to Park Board activity which was not included in the culture and recreation function budget.

DEBT ADMINISTRATION

At June 30, 2009, the City had \$5,144,372 in notes and other long-term debt outstanding, compared to \$5,264,177 last year, as shown below:

	Outstanding Debt at Year-End	
	June 30,	
	2009	2008
General obligation notes	\$ 115,000	248,000
General obligation bonds	1,975,000	1,998,000
Revenue notes	2,808,000	2,934,000
Interim loan and disbursement agreement	82,195	-
Purchase agreement	100,000	-
Park Board loan	64,177	84,177
Total	\$ 5,144,372	5,264,177

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is approximately \$2,336,000, which is below its constitutional debt limit of \$4,438,271.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Farley's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget, tax rates and fees charged for various City activities.

These indicators were taken into account when adopting the budget for fiscal year 2010. The fiscal year 2010 budget includes total receipts of \$1,454,434 and disbursements of \$1,523,135. The City has added no major new programs or initiatives to the fiscal year 2010 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$69,000 by the close of fiscal year 2010.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Danielle Hartke, City Clerk, 301 First Street NE, Farley, IA 52046.

City of Farley

Basic Financial Statements

City of Farley

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2009

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 286,361	68,156	114,906	-
Public works	241,859	79,992	111,408	-
Culture and recreation	159,415	88,456	3,437	-
Community and economic development	78,590	752	-	-
General government	145,609	2,288	-	-
Debt service	462,294	-	-	921
Capital projects	82,195	-	-	-
Total governmental activities	1,456,323	239,644	229,751	921
Business type activities:				
Water	104,919	160,782	-	-
Sewer	112,243	238,138	-	-
Total business type activities	217,162	398,920	-	-
Total	\$ 1,673,485	638,564	229,751	921

General Receipts:

Property and other city tax levied for:
 General purposes
 Debt service
 Tax increment financing
 Local option sales tax
 Unrestricted interest on investments
 Interim loan proceeds
 Miscellaneous

Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Urban renewal purposes
 Special assessments
 Debt service
 Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(103,299)	-	(103,299)
(50,459)	-	(50,459)
(67,522)	-	(67,522)
(77,838)	-	(77,838)
(143,321)	-	(143,321)
(461,373)	-	(461,373)
(82,195)	-	(82,195)
(986,007)	-	(986,007)
-	55,863	55,863
-	125,895	125,895
-	181,758	181,758
(986,007)	181,758	(804,249)
212,745	-	212,745
152,769	-	152,769
256,076	-	256,076
159,098	-	159,098
20,565	17,687	38,252
82,195	-	82,195
6,921	503	7,424
221,356	(221,356)	-
1,111,725	(203,166)	908,559
125,718	(21,408)	104,310
786,021	440,987	1,227,008
\$ 911,739	419,579	1,331,318
\$ 281,886	-	281,886
94,582	-	94,582
37,996	-	37,996
132,454	-	132,454
364,821	419,579	784,400
\$ 911,739	419,579	1,331,318

Exhibit B

City of Farley

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

As of and for the year ended June 30, 2009

	Special Revenue					Total
	General	Urban Renewal Tax Increment	Special Assessment	Debt Service	Nonmajor	
Receipts:						
Property tax	\$ 212,745	-	-	152,769	-	365,514
Tax increment financing	-	256,076	-	-	-	256,076
Local option sales tax	159,098	-	-	-	-	159,098
Licenses and permits	11,916	-	-	-	-	11,916
Use of money and property	21,821	-	8,804	-	-	30,625
Intergovernmental	19,264	-	-	-	111,408	130,672
Charges for service	67,895	-	-	-	-	67,895
Special assessments	-	-	24,185	-	-	24,185
Miscellaneous	8,278	-	308	-	223,923	232,509
Total receipts	501,017	256,076	33,297	152,769	335,331	1,278,490
Disbursements:						
Operating:						
Public safety	166,540	-	-	-	119,821	286,361
Public works	111,734	-	-	-	130,125	241,859
Culture and recreation	60,620	-	-	-	98,795	159,415
Community and economic development	5,000	73,590	-	-	-	78,590
General government	139,422	-	-	-	6,187	145,609
Debt service	-	-	-	462,294	-	462,294
Capital projects	-	-	-	-	82,195	82,195
Total disbursements	483,316	73,590	-	462,294	437,123	1,456,323
Excess (deficiency) of receipts over (under) disbursements	17,701	182,486	33,297	(309,525)	(101,792)	(177,833)
Other financing sources (uses):						
Interim loan proceeds	-	-	-	-	82,195	82,195
Operating transfers in	4,609	-	-	319,403	36,266	360,278
Operating transfers out	-	(78,922)	(60,000)	-	-	(138,922)
Total other financing sources (uses)	4,609	(78,922)	(60,000)	319,403	118,461	303,551
Net change in cash balances	22,310	103,564	(26,703)	9,878	16,669	125,718
Cash balances beginning of year	342,511	178,322	121,285	28,118	115,785	786,021
Cash balances end of year	\$ 364,821	281,886	94,582	37,996	132,454	911,739
Cash Basis Fund Balances						
Reserved for debt service	\$ -	-	-	37,996	-	37,996
Unreserved:						
General fund	364,821	-	-	-	-	364,821
Special revenue funds	-	281,886	94,582	-	131,954	508,422
Capital projects fund	-	-	-	-	500	500
Total cash basis fund balances	\$ 364,821	281,886	94,582	37,996	132,454	911,739

See notes to financial statements.

City of Farley

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

As of and for the year ended June 30, 2009

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 160,782	238,138	398,920
Operating disbursements:			
Business type activities	104,919	112,243	217,162
Excess of operating receipts over operating disbursements	55,863	125,895	181,758
Non-operating receipts:			
Interest on investments	6,756	10,931	17,687
Miscellaneous	-	503	503
Total non-operating receipts	6,756	11,434	18,190
Excess of receipts over disbursements	62,619	137,329	199,948
Operating transfers out	(106,873)	(114,483)	(221,356)
Net change in cash balances	(44,254)	22,846	(21,408)
Cash balances beginning of year	159,270	281,717	440,987
Cash balances end of year	\$ 115,016	304,563	419,579
Cash Basis Fund Balances			
Unreserved	\$ 115,016	304,563	419,579

See notes to financial statements.

City of Farley

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies

The City of Farley is a political subdivision of the State of Iowa located in Dubuque County. It was first incorporated in 1879 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

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

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

Blended Component Units

The Farley Volunteer Fire Department is legally separate from the City but is so intertwined with the City it is, in substance, part of the City. The Farley Volunteer Fire Company was organized under Chapter 504A of the Code of Iowa as a non-profit corporation. The Company collects donations which are to be used to purchase items not included in the City's budget and to make donations to the City to help finance fire equipment. The financial transactions have been reported as a Special Revenue Fund of the City.

Farley Emergency Medical Services, Inc. is legally separate from the City but is so intertwined with the City it is, in substance, part of the City. Farley Emergency Medical Services, Inc. was organized under Chapter 504A of the Code of Iowa as a non-profit corporation. Farley Emergency Medical Services, Inc. collects donations which are to be used to purchase items not included in the City's budget and to make donations to the City to help finance emergency medical services for those in need. The financial transactions have been reported as a Special Revenue Fund of the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Dubuque County Assessor's Conference Board, City Assessor's Conference Board, Dubuque County Emergency Management Commission, Dubuque County Landfill Commission and Dubuque County Joint E911 Service Board.

B. Basis of Presentation

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

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

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

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the payment of debt for urban renewal projects.

The Special Assessment Fund is used to account for assessments collected from property owners.

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

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amount budgeted in the culture and recreation function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Notes		General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 23,000	4,543	99,000	81,853	129,000	91,260	251,000	95,803
2011	23,000	3,634	104,000	78,035	133,000	87,068	260,000	90,702
2012	23,000	2,726	105,000	73,975	137,000	82,745	265,000	85,471
2013	23,000	1,817	116,000	69,843	141,000	78,293	280,000	80,110
2014	23,000	909	136,000	65,218	146,000	73,710	305,000	74,619
2015-2019	-	-	895,000	226,920	798,000	294,515	1,693,000	294,515
2020-2024	-	-	520,000	41,460	925,000	156,780	1,445,000	156,780
2025-2027	-	-	-	-	399,000	22,620	399,000	22,620
Total	\$ 115,000	13,629	1,975,000	637,304	2,808,000	886,991	4,898,000	900,620

Water and Sewer Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$1,533,000 of water revenue bonds issued in March 2007. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding balance. Proceeds from the bonds provided financing for the construction and improvements to the water system. The bonds are payable solely from customer net receipts and are payable through 2027. Annual principal and interest payments on the notes are expected to require less than 192 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,887,200. For the current year, principal and interest paid and total customer net receipts were \$106,873 and \$55,863, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,650,000 of sewer revenue bonds issued in December 2004. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding balance. Proceeds from the bonds provided financing for the construction and improvements to the sewer system. The bonds are payable solely from customer net receipts and are payable through 2025. Annual principal and interest payments on the notes are expected to require less than 91 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,807,791. For the current year, principal and interest paid and total customer net receipts were \$114,483 and \$125,895, respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate water revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) The source of payment is limited to revenues generated by the enterprise activity and the bonds do not constitute a general obligation of the City and should not be paid in any way from taxation.

The City has not established a water revenue bond sinking account and monthly transfers were not made to the water revenue bond sinking account as required by the water revenue bond resolution.

Ambulance Loan

On April 7, 2008, the City entered into an agreement with Reiff Ambulance Service to purchase all equipment and inventory for \$160,000. The City agreed to pay \$60,000 on the closing date of July 1, 2008, \$50,000 plus interest on July 1, 2009 and \$50,000 plus interest on July 1, 2010. Interest accrues at a rate of 7% per annum. At June 30, 2009 the outstanding principal balance was \$100,000.

Park Board Loan

On June 15, 2007, the City Park Board entered into a line of credit bank loan with Dubuque Bank & Trust for up to \$100,000 for two new baseball fields. The loan is due on September 30, 2012 and requires four principal payments of \$20,000 each and one final principal and interest payment of all remaining outstanding principal and interest. The first principal payment was due on September 30, 2008 and subsequent payments are due on September 30 of the following years, with the final payment due on September 30, 2012. Interest accrues at 6.95% per annum.

During the year ended June 30, 2009, the City Park Board paid principal and interest of \$20,000 and \$4,021, respectively, on the loan. At June 30, 2009, the outstanding principal balance was \$64,177.

On December 2, 2009, the City Park Board and Dubuque Bank & Trust agreed to change the terms of the loan, as follows: one principal payment of \$4,177 on February 1, 2010, three annual principal payments of \$15,000 plus interest beginning September 30, 2010 and each following September 30 and a final payment on September 30, 2013 of all remaining outstanding principal and accrued interest.

Interim Loan and Disbursement Agreement

On March 18, 2009, the City entered into an interim loan and disbursement agreement with the Iowa Finance Authority (IFA) for \$127,000. The loan is interest free and is payable in full within three years of the date of the agreement.

The IFA may terminate the agreement if the City has not entered into a Loan and Disbursement Agreement with the IFA pursuant to the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Program by the maturity date. If the City enters into a Loan and Disbursement Agreement with IFA pursuant to the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Program by the maturity date, IFA may allow the City to repay this agreement by rolling the interim loan into the permanent loan.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2009 was \$12,010, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation hours payable to employees at June 30, 2009, primarily relating to the General Fund, is \$8,300. This liability has been computed based on rates of pay in effect at June 30, 2009.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Urban Renewal Tax Increment	\$ 4,609
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	38,047
	Special Assessment	60,000
	Enterprise:	
	Sewer	114,483
	Water	106,873
		<u>319,403</u>
Capital Projects	Special Revenue:	
	Urban Renewal Tax Increment	36,266
Total		<u>\$ 360,278</u>

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

(7) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 577 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2009 were \$26,025.

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

The Pool's intergovernmental contract with its members provides in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhaust total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2009, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of a membership may receive a partial refund of

their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$1,000,000. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Developer Agreements

The City has entered into developer agreements to assist in urban renewal projects, as follows:

In accordance with a rebate agreement dated November 19, 2007 with South Lake Development Corporation, the incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years beginning with the tax year in which property tax on the completed value of the improvements is first paid. The total amount rebated is not to exceed the lesser of \$80,000 or the actual cost of the public improvements paid for by the developer. Of the amount collected, 67% is to be paid to the developer and 33% is to be used for the development of low and moderate income housing projects. This agreement includes an annual appropriation clause and accordingly, only the amount payable in the succeeding year on the agreement is subject to the constitutional debt limitation.

In accordance with a rebate agreement dated July 7, 2003 with South Lake Development Corporation, the incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years beginning with the tax year in which property tax on the completed value of the improvements is first paid. The total amount rebated is not to exceed the actual cost of the public improvements paid for by the developer. Of the amount collected, 67% is to be paid to the developer and 33% is to be used for the development of low and moderate income housing projects. This agreement is subject to the constitutional debt limitation.

During the year ended June 30, 2009, the City paid the developer \$73,590.

City of Farley

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 365,514	-	-
Tax increment financing	256,076	-	-
Local option sales tax	159,098	-	-
Licenses and permits	11,916	-	-
Use of money and property	30,625	17,687	-
Intergovernmental	130,672	-	-
Charges for service	67,895	398,920	-
Special assessments	24,185	-	-
Miscellaneous	232,509	503	135,467
Total receipts	1,278,490	417,110	135,467
Disbursements:			
Public safety	286,361	-	119,821
Public works	241,859	-	-
Culture and recreation	159,415	-	-
Community and economic development	78,590	-	-
General government	145,609	-	-
Debt service	462,294	-	-
Capital projects	82,195	-	-
Business type activities	-	217,162	-
Total disbursements	1,456,323	217,162	119,821
Excess (deficiency) of receipts over (under) disbursements	(177,833)	199,948	15,646
Other financing sources, net	303,551	(221,356)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	125,718	(21,408)	15,646
Balances beginning of year	786,021	440,987	25,424
Balances end of year	\$ 911,739	419,579	41,070

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
365,514	356,879	356,879	8,635
256,076	190,705	247,929	8,147
159,098	145,163	145,163	13,935
11,916	3,575	3,425	8,491
48,312	31,700	37,200	11,112
130,672	125,500	148,261	(17,589)
466,815	485,700	470,700	(3,885)
24,185	60,000	40,000	(15,815)
97,545	13,560	14,486	83,059
<u>1,560,133</u>	<u>1,412,782</u>	<u>1,464,043</u>	<u>96,090</u>
166,540	182,445	182,745	16,205
241,859	290,263	295,263	53,404
159,415	63,485	63,485	(95,930)
78,590	80,362	80,362	1,772
145,609	143,441	154,691	9,082
462,294	470,578	470,578	8,284
82,195	-	96,900	14,705
217,162	245,991	281,891	64,729
<u>1,553,664</u>	<u>1,476,565</u>	<u>1,625,915</u>	<u>72,251</u>
6,469	(63,783)	(161,872)	168,341
<u>82,195</u>	<u>-</u>	<u>57,389</u>	<u>24,806</u>
88,664	(63,783)	(104,483)	193,147
<u>1,201,584</u>	<u>842,653</u>	<u>1,517,329</u>	<u>(315,745)</u>
<u><u>1,290,248</u></u>	<u><u>778,870</u></u>	<u><u>1,412,846</u></u>	<u><u>(122,598)</u></u>

City of Farley

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except blended component units. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$149,350. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amount budgeted in the culture and recreation function.

Other Supplementary Information

City of Farley

City of Farley

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

As of and for the year ended June 30, 2009

	Special Revenue						Total
	Swimming Pool	Road Use Tax	Farley Volunteer Fire Department	Farley Emergency Medical Services, Inc.	Park Board	Capital Projects	
Receipts:							
Intergovernmental	\$ -	111,408	-	-	-	-	111,408
Miscellaneous	-	-	99,079	36,388	88,456	-	223,923
Total receipts	-	111,408	99,079	36,388	88,456	-	335,331
Disbursements:							
Operating:							
Public safety	-	-	98,125	21,696	-	-	119,821
Public works	-	130,125	-	-	-	-	130,125
Culture and recreation	-	-	-	-	98,795	-	98,795
General government	6,187	-	-	-	-	-	6,187
Capital projects	-	-	-	-	-	82,195	82,195
Total disbursements	6,187	130,125	98,125	21,696	98,795	82,195	437,123
Excess (deficiency) of receipts over (under) disbursements	(6,187)	(18,717)	954	14,692	(10,339)	(82,195)	(101,792)
Other financing sources:							
Interim loan proceeds	-	-	-	-	-	82,195	82,195
Operating transfers in	-	-	-	-	-	36,266	36,266
Total other financing sources	-	-	-	-	-	118,461	118,461
Net change in cash balances	(6,187)	(18,717)	954	14,692	(10,339)	36,266	16,669
Cash balances beginning of year	6,187	103,268	25,424	-	16,672	(35,766)	115,785
Cash balances end of year	\$ -	84,551	26,378	14,692	6,333	500	132,454
Cash Basis Fund Balances							
Unreserved:							
Special revenue funds	\$ -	84,551	26,378	14,692	6,333	-	131,954
Capital projects fund	-	-	-	-	-	500	500
Total cash basis fund balances	\$ -	84,551	26,378	14,692	6,333	-	132,454

See accompanying independent auditor's report.

City of Farley
Schedule of Indebtedness
Year ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Corporate purpose	Aug 1, 1998	4.40-4.65%	\$ 925,000
Corporate purpose	Mar 24, 2004	3.95	230,000
Total			
General obligation bonds:			
Wastewater treatment	Dec 23, 2004 *	3.00%	\$ 620,000
Corporate purpose	Aug 15, 2006	4.05-4.65	1,535,000
Total			
Revenue bonds:			
Sewer	Dec 1, 2004 *	3.00%	\$ 1,650,000
Water	Mar 5, 2007 *	3.00	1,533,000
Total			
Park Board loan	Jun 5, 2007	6.95%	\$ 100,000
Purchase agreement:			
Ambulance	Jul 1, 2008	7.00%	\$ 160,000
Interim loan and disbursement agreement	Mar 18, 2009	0.00%	\$ 127,000

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

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest and Servicing Fees Paid
110,000	-	110,000	-	5,115
138,000	-	23,000	115,000	5,517
<u>\$ 248,000</u>	<u>-</u>	<u>133,000</u>	<u>115,000</u>	<u>10,632</u>
463,000	-	23,000	440,000	15,048
1,535,000	-	-	1,535,000	67,553
<u>\$ 1,998,000</u>	<u>-</u>	<u>23,000</u>	<u>1,975,000</u>	<u>82,601</u>
1,461,000	-	67,000	1,394,000	47,483
1,473,000	-	59,000	1,414,000	47,873
<u>\$ 2,934,000</u>	<u>-</u>	<u>126,000</u>	<u>2,808,000</u>	<u>95,356</u>
84,177	-	20,000	64,177	4,021
-	160,000	60,000	100,000	-
-	82,195	-	82,195	-

City of Farley
Bond and Note Maturities
June 30, 2009

Year Ending June 30,	General Obligation Notes		General Obligation Bonds				
	Corporate Purpose		Wastewater Treatment		Corporate Purpose		
	Issued Mar 24, 2004		Issued Dec 23, 2004		Issued Aug 15, 2006		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
2010	3.95%	\$ 23,000	3.25%	\$ 24,000	4.05%	\$ 75,000	99,000
2011	3.95	23,000	3.25	24,000	4.10	80,000	104,000
2012	3.95	23,000	3.25	25,000	4.15	80,000	105,000
2013	3.95	23,000	3.25	26,000	4.20	90,000	116,000
2014	3.95	23,000	3.25	26,000	4.25	110,000	136,000
2015	-	-	3.25	27,000	4.30	135,000	162,000
2016	-	-	3.25	28,000	4.35	145,000	173,000
2017	-	-	3.25	29,000	4.45	150,000	179,000
2018	-	-	3.25	30,000	4.50	155,000	185,000
2019	-	-	3.25	31,000	4.55	165,000	196,000
2020	-	-	3.25	32,000	4.60	170,000	202,000
2021	-	-	3.25	33,000	4.65	180,000	213,000
2022	-	-	3.25	34,000	-	-	34,000
2023	-	-	3.25	35,000	-	-	35,000
2024	-	-	3.25	36,000	-	-	36,000
2025	-	-	-	-	-	-	-
2026	-	-	-	-	-	-	-
2027	-	-	-	-	-	-	-
		<u>\$ 115,000</u>		<u>\$ 440,000</u>		<u>\$ 1,535,000</u>	<u>1,975,000</u>

See accompanying independent auditor's report.

Revenue Bonds				
Sewer		Water		
Issued Dec 1, 2004		Issued Mar 5, 2007		
Interest Rates	Amount	Interest Rates	Amount	Total
3.25%	\$ 69,000	3.25%	\$ 60,000	129,000
3.25	71,000	3.25	62,000	133,000
3.25	73,000	3.25	64,000	137,000
3.25	75,000	3.25	66,000	141,000
3.25	78,000	3.25	68,000	146,000
3.25	80,000	3.25	70,000	150,000
3.25	83,000	3.25	72,000	155,000
3.25	85,000	3.25	74,000	159,000
3.25	88,000	3.25	77,000	165,000
3.25	90,000	3.25	79,000	169,000
3.25	93,000	3.25	81,000	174,000
3.25	96,000	3.25	84,000	180,000
3.25	99,000	3.25	86,000	185,000
3.25	101,000	3.25	89,000	190,000
3.25	105,000	3.25	91,000	196,000
3.25	108,000	3.25	94,000	202,000
	-	3.25	97,000	97,000
	-	3.25	100,000	100,000
	<u>\$ 1,394,000</u>		<u>\$ 1,414,000</u>	<u>2,808,000</u>

City of Farley



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Farley, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated April 27, 2010. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A), (D), (F), (G), (I) and (J) are material weaknesses.

Compliance and Other Matters

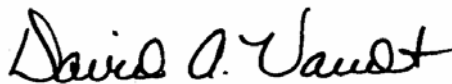
As part of obtaining reasonable assurance about whether the City of Farley's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

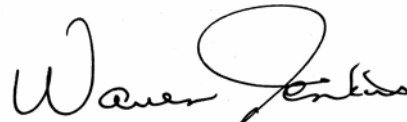
The City of Farley's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Farley's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Farley and other parties to whom the City of Farley may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 27, 2010

City of Farley

Schedule of Findings

Year ended June 30, 2009

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one person has control over each of the following areas:

	Entity
(1) Cash – reconciling, receipting, disbursing and check signing.	City, Farley Volunteer Fire Department and Farley Emergency Medical Services
(2) Investments – detailed record keeping, custody and reconciling.	City
(3) Receipts - opening and listing mail receipts, collecting, depositing, posting and daily reconciling.	City, Farley Volunteer Fire Department and Farley Emergency Medical Services
(4) Long-term debt – check signing, recording and reconciling.	City
(5) Utility receipts – billing, collecting, depositing, posting and reconciling.	City
(6) Disbursements – purchasing, check signing, recording and reconciling.	City, Farley Volunteer Fire Department and Farley Emergency Medical Services
(7) Payroll – preparing and distributing.	City
(8) Bank reconciliations – preparing, reconciling and reviewing.	City
(9) Financial reporting – journal entries are not reviewed by an independent person.	City

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, each entity should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and the date of the review.

Responses –

City – The City Council and the Mayor will review procedures and determine where improvements to segregation of duties are possible. Procedures will also be documented with on-going review.

Farley Volunteer Fire Department – We will review our procedures and look to segregate duties as much as possible.

Farley Emergency Medical Services – Policies and procedures will be segregated to the extent possible.

City of Farley

Schedule of Findings

Year ended June 30, 2009

Conclusions –

City – Response accepted.

Farley Volunteer Fire Department – Response accepted.

Farley Emergency Medical Services – Response accepted.

- (B) Record of Investments – A detailed record of investment transactions was not maintained.

Recommendation – A detailed record of investment transactions by fund should be maintained. This record should include investment number, purchase date, redemption date, interest rate and amount of principal and interest received.

Response – The City will prepare an investment report and make available for review on an as needed basis.

Conclusions – Response accepted.

- (C) City Records and Accounting Procedures – Checks received were not restrictively endorsed "For Deposit Only" immediately upon receipt.

Recommendation – Checks received should be restrictively endorsed "For Deposit Only" immediately at the time of receipt.

Response – Endorsing checks "For Deposit Only" is now being undertaken.

Conclusion – Response accepted.

- (D) Reconciliation of Utility Billings, Collections and Delinquencies – A listing of delinquent accounts is prepared monthly. However, utility billings, collections and delinquent accounts were not reconciled.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – A utility billing reconciliation report will be developed and maintained.

Conclusion – Response accepted.

- (E) Information System – During our review of internal control, the existing control activities in the City's computer based financial system were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the City's computer based financial system were noted:

City of Farley

Schedule of Findings

Year ended June 30, 2009

The City does not have written policies over the computer based financial system for:

- password privacy and confidentiality.
- requiring password changes because software does not require the user to change log-ins/passwords periodically.
- requiring backups be performed daily and stored off site.
- ensuring only software licensed to the City is installed on computers and monitoring software licensing requirements to ensure the City is in compliance.
- usage of the internet.
- logging off unattended computers.
- updating software purchased from outside vendors.
- anti-virus software.
- record and report layout and user instructions.

Recommendation – The City should develop written policies addressing the above items to improve the City's control over its computer based financial system.

Response – The City will develop written policies addressing above issues.

Conclusion – Response accepted.

- (F) Bank Reconciliations – The City prepares a monthly listing of outstanding checks and prepares a monthly Treasurer's Report for the reconciliation of the City's book balances with the bank balances and investments. However, the Treasurer's Report does not properly document the reconciliation of the City's book balances to the bank accounts and investments.

Recommendation – To improve financial accountability and control, the City's book balances should be reconciled with bank balances monthly. The reconciliation should be documented and retained. Any variances should be investigated and resolved in a timely manner. The reconciliation should be reviewed by an independent individual periodically for propriety.

Response – The City will follow suggested bank reconciliation procedures.

Conclusion – Response accepted.

- (G) Fund Balances – The City records receipt and disbursement transactions for each fund on its computer system software. However, the City does not use the computer system software to track fund balances. Monthly reports are prepared using a spreadsheet which summarizes each fund's total receipts, total disbursements, total transfers in/out and reconciles the beginning fund balance with the ending fund balance.

Recommendation – The City should consider recording the fund balances on the City's computer system software.

City of Farley

Schedule of Findings

Year ended June 30, 2009

Response – The City will contact our software vender to create more complete financial statement reports.

Conclusion – Response accepted.

- (H) Accounting Procedures Manual – The City does not have an accounting procedures manual.

Recommendation – An accounting procedures manual should be prepared.

Response – The City will develop an accounting procedures manual.

Conclusion – Response accepted.

- (I) Farley Volunteer Fire Department Account – Accounting records are not maintained to account for receipts and disbursements. Bank reconciliations are not prepared.

Recommendation – The following items should be implemented to improve financial reporting and internal controls:

- A ledger of receipts and disbursements by category should be maintained.
- Bank reconciliations should be prepared monthly and reviewed by an independent person.

Response – We will begin performing monthly bank reconciliations. Additionally, we will explore our options for setting up and maintaining accounting ledgers.

Conclusion – Response accepted.

- (J) Farley Emergency Medical Services – Invoices and supporting documentation are not retained for disbursements. Also, monthly reconciliations between bank and book balances are not documented. In addition, a listing of delinquent accounts is not prepared and a reconciliation of billings, collections and delinquent accounts is not prepared.

Recommendation – Invoices and supporting documentation should be retained to document disbursements. Also, monthly reconciliations between bank and book balances should be documented and retained. In addition, a listing of delinquent accounts should be prepared and a reconciliation of billings, collections and delinquent accounts should be prepared and retained.

Response – Farley Emergency Medical Services will keep invoices, bank reconciliations will be prepared and reviewed, billing reconciliation will be prepared and Lifequest will prepare monthly account statements for outstanding accounts.

Conclusion – Response accepted.

- (L) Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

City of Farley

Schedule of Findings

Year ended June 30, 2009

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – The City has a draft of a policy for credit cards and will work toward getting it approved.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Farley

Schedule of Findings

Year ended June 30, 2009

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budgets – Disbursements during the year ended June 30, 2009 exceeded the amount budgeted in the culture and recreation function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – In the future we will include the Park Board in the budget.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- (8) Revenue Bonds – The City has not established a water revenue bond sinking account and monthly transfers were not made to the water revenue bond sinking account as required by the water revenue bond resolution. Also, the payment of principal and interest for the water and sewer revenue bonds were made from the Debt Service Fund.

Recommendation – The City should establish a water revenue bond sinking account and monthly transfers should be made to the water revenue bond sinking fund as required by the water revenue bond resolution. Also, the payments of principal and interest should be made from the water revenue bond sinking account and the Enterprise, Sewer Fund.

Response – City will establish a water revenue bond sinking account and make monthly transfers to it in accordance with above recommendation. Also, payments of principal and interest will be made from the water revenue bond sinking account and the Enterprise, Sewer Fund.

Conclusion – Response accepted.

City of Farley

Schedule of Findings

Year ended June 30, 2009

- (9) Separately Maintained Records – The City maintains separate bank accounts for the Park Board. The financial transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget or monthly financial reports. However, those financial transactions and the resulting balances are included in these financial statements.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and annual budget and should be reported to the Council on a monthly basis.

Response – The City will include the Park Board in the budget and annual financial report.

Conclusion – Response accepted.

- (10) Tax Increment Financing – The City retains 33% of the tax increment financing receipts for low to moderate income projects. At June 30, 2009, the City has a balance of \$193,351 for use on low to moderate income projects. Currently, the City does not have policies and procedures for the use on low to moderate income projects.

Recommendation – The City should establish policies and procedures for the use of low to moderate income projects.

Response – The City will develop policies for the use of low to moderate income funds.

Conclusion – Response accepted.

City of Farley

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Shawn R. Elsbury, Senior Auditor
Jacqueline E. Gulick, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State