



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 June 7, 2004

Contact: Andy Nielsen
515/281-5834

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

Vaudt reported the City's receipts totaled \$1,001,095 for the year ended June 30, 2003. The receipts included \$216,784 in property tax, \$131,909 in local option sales tax, \$90,002 in tax increment financing collections, \$146,185 from other governments and \$10,260 in interest on investments.

Disbursements for the year totaled \$1,063,306, and included \$213,026 for public safety, \$206,815 for public works and \$167,704 for capital projects.

The report contains recommendations to the City Council and other City officials. For example, the City should segregate accounting duties to the extent possible and reconcile utility billings, collections and delinquencies. The City has responded that duties will be segregated to the extent possible using existing City staff and utility billing, collections and delinquencies will be reconciled and provided to the City Council for review.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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CITY OF FARLEY
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2003

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City of Farley

Officials

Name	Title	Term Expires
William F. Einwalter	Mayor	Jan 2006
Jeff Simon	Mayor Pro tem	Jan 2006
Terry Greenwood	Council Member	Jan 2004
Rod Kramer	Council Member	Jan 2004
Bob Smith	Council Member	Jan 2004
Joyce Jarding	Council Member	Jan 2006
Janet Hingtgen	City Clerk	Indefinite
Danielle Hartke	Deputy Clerk	Indefinite
Don Moonen	City 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, listed as exhibits in the table of contents of this report, of the City of Farley, Iowa, as of and for the year ended June 30, 2003. These financial statements are the responsibility of the City of Farley's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 opinion.


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, 2002.

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, 2002, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Farley as of and for the year ended June 30, 2003, and its indebtedness at June 30, 2003, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued a report dated April 8, 2004 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 grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplemental information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned 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, 2002, as discussed in the third paragraph, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 8, 2004

Financial Statements

City of Farley
 Combined Statement of Cash Transactions

All Fund Types

Year ended June 30, 2003

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Receipts:				
Property tax	\$ 128,902	-	87,882	-
Tax increment financing collections	-	90,002	-	-
Other city tax	142,594	-	2,216	-
Licenses and permits	4,620	-	-	-
Use of money and property	16,060	239	282	136
Intergovernmental	37,580	108,605	-	-
Charges for service	55,345	-	-	-
Special assessments	-	-	5,485	-
Miscellaneous	76,157	67,653	-	2,435
Total receipts	<u>461,258</u>	<u>266,499</u>	<u>95,865</u>	<u>2,571</u>
Disbursements:				
Public safety	163,731	49,295	-	-
Public works	86,304	120,511	-	-
Culture and recreation	117,932	-	-	-
Community and economic development	6,000	44,961	-	-
General government	91,872	-	-	-
Debt service	-	-	129,216	-
Capital projects	-	-	-	167,704
Business type activities	-	-	-	-
Total disbursements	<u>465,839</u>	<u>214,767</u>	<u>129,216</u>	<u>167,704</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(4,581)</u>	<u>51,732</u>	<u>(33,351)</u>	<u>(165,133)</u>
Other financing sources (uses):				
Operating transfers in	24,601	4,796	37,598	2,601
Operating transfers out	(2,601)	(38,634)	(5,800)	-
Total other financing sources (uses)	<u>22,000</u>	<u>(33,838)</u>	<u>31,798</u>	<u>2,601</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	17,419	17,894	(1,553)	(162,532)
Balance beginning of year	<u>321,178</u>	<u>145,171</u>	<u>1,634</u>	<u>(38,358)</u>
Balance end of year	<u>\$ 338,597</u>	<u>163,065</u>	<u>81</u>	<u>(200,890)</u>

See notes to financial statements.

Proprietary Fund Types	Total (Memorandum Only)
Enterprise	
-	216,784
-	90,002
-	144,810
-	4,620
1,453	18,170
-	146,185
161,291	216,636
-	5,485
12,158	158,403
<u>174,902</u>	<u>1,001,095</u>
-	213,026
-	206,815
-	117,932
-	50,961
-	91,872
-	129,216
-	167,704
85,780	85,780
<u>85,780</u>	<u>1,063,306</u>
<u>89,122</u>	<u>(62,211)</u>
-	69,596
<u>(22,561)</u>	<u>(69,596)</u>
<u>(22,561)</u>	-
66,561	(62,211)
<u>84,642</u>	<u>514,267</u>
<u>151,203</u>	<u>452,056</u>

City of Farley

Comparison of Receipts, Disbursements and Changes in Balances -

Actual to Budget

Year ended June 30, 2003

	Actual	Less Funds not Required to be Budgeted	Net	Amended Budget
Receipts:				
Property tax	\$ 216,784	-	216,784	218,747
Tax increment financing collections	90,002	-	90,002	90,000
Other city tax	144,810	-	144,810	130,977
Licenses and permits	4,620	-	4,620	3,625
Use of money and property	18,170	-	18,170	11,210
Intergovernmental	146,185	-	146,185	243,514
Charges for service	216,636	-	216,636	227,470
Special assessments	5,485	-	5,485	5,485
Miscellaneous	158,403	67,653	90,750	8,332
Total receipts	<u>1,001,095</u>	<u>67,653</u>	<u>933,442</u>	<u>939,360</u>
Disbursements:				
Public safety	213,026	49,295	163,731	166,999
Public works	206,815	-	206,815	232,440
Culture and recreation	117,932	-	117,932	53,200
Community and economic development	50,961	-	50,961	52,992
General government	91,872	-	91,872	118,649
Debt service	129,216	-	129,216	129,217
Capital projects	167,704	-	167,704	395,531
Business type activities	85,780	-	85,780	122,765
Total disbursements	<u>1,063,306</u>	<u>49,295</u>	<u>1,014,011</u>	<u>1,271,793</u>
Excess (deficiency) of receipts over (under) disbursements	(62,211)	18,358	(80,569)	(332,433)
Other financing sources, net	-	-	-	288,000
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(62,211)	18,358	(80,569)	(44,433)
Balance beginning of year	<u>514,267</u>	<u>13,557</u>	<u>500,710</u>	<u>486,200</u>
Balance end of year	<u>\$ 452,056</u>	<u>31,915</u>	<u>420,141</u>	<u>441,767</u>

See notes to financial statements.

<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>	<u>Actual</u> <u>as % of</u> <u>Amended</u> <u>Budget</u>
(1,963)	99%
2	100%
13,833	111%
995	127%
6,960	162%
(97,329)	60%
(10,834)	95%
-	100%
82,418	1089%
<u>(5,918)</u>	<u>99%</u>
3,268	98%
25,625	89%
(64,732)	222%
2,031	96%
26,777	77%
1	100%
227,827	42%
36,985	70%
<u>257,782</u>	<u>80%</u>

City of Farley
Statement of Indebtedness
Year ended June 30, 2003

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes: Corporate purpose	Aug 1, 1998	4.10-4.65%	\$ 925,000
Loan agreements: Iowa Department of Transportation: RISE loan	Mar 4, 1996	3.00%	\$ 62,553
Dubuque County: Fire vehicle	Sep 1, 1997	0.00%	\$ 30,000

See notes to financial statements.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
685,000	85,000	600,000	30,558
26,136	12,875	13,261	783
6,000	6,000	-	-

City of Farley

Notes to Financial Statements

June 30, 2003

(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, culture and recreation, community and economic development, general government and business type activities.

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 unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

The Farley Volunteer Fire Department is an entity which is legally separate from the City, but is so intertwined with the City that it is, in substance, part of the City. The Department is reported as part of the City and blended as a Special Revenue Fund. The Department is incorporated under Chapter 504 of the Code of Iowa. Its mission is to diligently prevent and control fires, to provide emergency services, and to perform such duties in connection therewith as may be required of it under the control of the Farley City Council and such officers that may be elected by the Fire Department from year to year. Contributions are used for training and to purchase items which are not included in the City's budget.

Jointly Governed Organizations

The City also 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, Dubuque County Emergency Management Commission, and Dubuque County Joint E911 Service Board.

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and balances. The various funds and their designated purposes are as follows:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are 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 that are not paid through other funds.

Special Revenue Funds – The Special Revenue Funds are utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

Debt Service Funds – The Debt Service Funds are utilized to account for the payment of interest and principal on the City's general obligation long-term debt.

Capital Projects Funds – The Capital Projects Funds are utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through Enterprise Funds.

Proprietary Funds

Enterprise Funds – The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

C. Basis of Accounting

The City of Farley 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.

D. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component unit. 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 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.

E. Total (Memorandum Only)

The total column on the combined statement of cash transactions is captioned "Memorandum Only" to indicate it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2003 were entirely covered by federal depository insurance or 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.

(3) Notes Payable

Annual debt service requirements to maturity for general obligation corporate purpose notes are as follows:

Year Ending June 30,	Principal	Interest	Total
2004	\$ 90,000	26,945	116,945
2005	95,000	23,075	118,075
2006	100,000	18,895	118,895
2007	100,000	14,445	114,445
2008	105,000	9,945	114,945
2009	110,000	5,115	115,115
Total	\$ 600,000	98,420	698,420

(4) Iowa Department of Transportation – Rise Loan

On March 4, 1996, the City entered into a loan agreement with the Iowa Department of Transportation for the Jamesmeier Road and Industrial Park Road Paving project for \$62,553 with interest at 3.00% per annum. The loan calls for five equal installments of \$13,658, including interest, with the first payment due in June 2000 and the final payment due in June 2004.

(5) Dubuque County Fire Vehicle Loan

On September 1, 1997, the City entered into a loan agreement with Dubuque County for the purchase of a fire vehicle for \$30,000. The loan calls for five equal installments of \$6,000 beginning October 1998. The loan is interest free and the final payment was made in July 2002.

(6) 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.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2003 was \$8,356, equal to the required contribution for the year.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, compensatory and personal 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, compensatory and personal hours payable to employees at June 30, 2003, primarily relating to the General Fund, is \$7,300. This liability has been computed based on rates of pay in effect at June 30, 2003.

(8) Risk Management

The City of Farley is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the fiscal year ended June 30, 2003.

(9) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the function level. During the year ended June 30, 2003, disbursements in the culture and recreation function exceeded the amount budgeted.

(10) Construction Contracts

The City entered into construction contracts totaling \$234,939 for lift station and well work. At June 30, 2003, \$130,472 remains unpaid on the projects. Payments will be made from local sources as work on the projects progresses.

(11) Developer Agreements

The City entered into three development agreements to assist in urban renewal projects, as follows:

The City agreed to rebate 100% of the incremental tax paid by the developer in exchange for the construction of an industrial facility. The incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated in twenty semi-annual payments beginning on December 1, 2000. During the year ended June 30, 2003, \$17,955 was rebated to the developer.

The City agreed to rebate 66.97% of the incremental tax paid by the developer in exchange for the construction of certain public improvements related to the development of housing. The incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated in twenty semi-annual payments beginning on December 1, 2000. During the year ended June 30, 2003, \$23,156 was rebated to the developer.

The City agreed to rebate 100% of the incremental tax paid by the developer in exchange for the construction of an industrial facility. The incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated in twenty semi-annual payments beginning on December 1, 2001. The total to be paid by the City under this agreement is not to exceed \$15,000. During the year ended June 30, 2003, \$3,465 was rebated to the developer.

(12) Deficit Balances

The Capital Projects, 1999 Sewer Project, Lift Station Project, Well Rehabilitation Project and Bank Building Project Funds had deficit balances at June 30, 2003 of \$41,096, \$66,158, \$97,908 and \$1,000, respectively. The deficit balances are due to construction costs incurred prior to availability of funds. The deficits will be eliminated by the sale of general obligation corporate purpose notes in March 2004.

(13) Commitments

On February 17, 2003, the City approved the purchase of a bank building at a total cost of \$200,000. The City has paid \$30,000 toward the purchase of the bank building. In August 2003, the City held a public hearing for a loan agreement for \$170,000. The actual loan agreement and terms of repayment have not been finalized as of April 8, 2004.

(14) Subsequent Events

In September 2003, the City approved the purchase of a fire pumper for \$89,800. Dubuque County will provide \$30,000 from its revolving loan fund toward the purchase. A vehicle will be traded in for a \$45,000 trade-in allowance and local sources will pay the remaining cost.

In October 2003, the City approved the purchase of a 1991 Ford dump truck for \$12,500. The purchase will be made from local sources.

On March 22, 2004, the City approved a loan agreement for \$230,000 of general obligation corporate purpose notes to construct sanitary sewer and water system improvements.

Supplemental Information

City of Farley

City of Farley
 Schedule of Cash Transactions
 General Fund
 Year ended June 30, 2003

	General	Park Board	Total
Receipts:			
Property tax	\$ 128,902	-	128,902
Other city tax:			
Cable franchise fee	6,924	-	6,924
Local option sales tax	131,909	-	131,909
Utility tax replacement excise tax	3,761	-	3,761
	<u>142,594</u>	-	<u>142,594</u>
Licenses and permits:			
Liquor	2,715	-	2,715
Cigarette	450	-	450
Building	945	-	945
Miscellaneous	510	-	510
	<u>4,620</u>	-	<u>4,620</u>
Use of money and property:			
Interest on investments	8,094	56	8,150
Rent	5,205	2,705	7,910
	<u>13,299</u>	<u>2,761</u>	<u>16,060</u>
Intergovernmental:			
State allocation	14,677	-	14,677
Bank franchise tax	3,077	-	3,077
Federal FEMA grant	5,969	-	5,969
State FEMA grant	359	-	359
Police STEP grant	702	-	702
Township allocations	12,796	-	12,796
	<u>37,580</u>	-	<u>37,580</u>
Charges for service:			
Garbage collection	52,945	-	52,945
Vehicle inspection	2,400	-	2,400
	<u>55,345</u>	-	<u>55,345</u>
Miscellaneous:			
Donations and contributions	7,750	825	8,575
Refunds and reimbursements	2,620	-	2,620
Concessions	-	17,404	17,404
Fees and rentals	-	30,428	30,428
Riverboat grant	-	15,000	15,000
Court fines	979	-	979
Miscellaneous	1,151	-	1,151
	<u>12,500</u>	<u>63,657</u>	<u>76,157</u>
Total receipts	<u>394,840</u>	<u>66,418</u>	<u>461,258</u>

Schedule 1

City of Farley
Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

	General	Park Board	Total
Disbursements:			
Public safety:			
Police:			
Personal services	36,038	-	36,038
Services and commodities	19,999	-	19,999
Capital outlay	2,188	-	2,188
	<u>58,225</u>	<u>-</u>	<u>58,225</u>
Ambulance allocation	15,000	-	15,000
Civil defense:			
Services and commodities	1,052	-	1,052
Capital outlay	15,945	-	15,945
	<u>16,997</u>	<u>-</u>	<u>16,997</u>
Fire:			
Personal services	1,833	-	1,833
Services and commodities	26,676	-	26,676
Capital outlay	45,000	-	45,000
	<u>73,509</u>	<u>-</u>	<u>73,509</u>
	<u>163,731</u>	<u>-</u>	<u>163,731</u>
Public works:			
Streets:			
Personal services	10,134	-	10,134
Services and commodities	18,039	-	18,039
	<u>28,173</u>	<u>-</u>	<u>28,173</u>
Traffic safety:			
Services and commodities	1,244	-	1,244
Street cleaning:			
Services and commodities	592	-	592
Snow removal:			
Personal services	2,491	-	2,491
Services and commodities	1,546	-	1,546
	<u>4,037</u>	<u>-</u>	<u>4,037</u>
Solid waste:			
Services and commodities	52,258	-	52,258
	<u>86,304</u>	<u>-</u>	<u>86,304</u>
Culture and recreation:			
County library allocation	27,080	-	27,080

City of Farley
 Schedule of Cash Transactions
 General Fund
 Year ended June 30, 2003

	General	Park Board	Total
Disbursements (continued):			
Culture and recreation:			
Parks:			
Personal services	11,200	-	11,200
Services and commodities	11,492	33,563	45,055
Capital outlay	-	34,597	34,597
	<u>22,692</u>	<u>68,160</u>	<u>90,852</u>
	<u>49,772</u>	<u>68,160</u>	<u>117,932</u>
Community and economic development:			
Farley Industrial Development Corporation	6,000	-	6,000
General government:			
Mayor and council:			
Personal services	7,376	-	7,376
City clerk:			
Personal services	41,230	-	41,230
Services and commodities	6,189	-	6,189
	<u>47,419</u>	<u>-</u>	<u>47,419</u>
Legal services	3,050	-	3,050
Memorial hall:			
Personal services	3,126	-	3,126
Services and commodities	30,901	-	30,901
	<u>34,027</u>	<u>-</u>	<u>34,027</u>
	<u>91,872</u>	<u>-</u>	<u>91,872</u>
Total disbursements	<u>397,679</u>	<u>68,160</u>	<u>465,839</u>
Deficiency of receipts under disbursements	(2,839)	(1,742)	(4,581)
Other financing sources (uses):			
Operating transfers in (out):			
Special Revenue:			
Tax Increment Financing	24,601	-	24,601
Capital Projects:			
Memorial Hall Improvement	(2,601)	-	(2,601)
Total other financing sources (uses)	<u>22,000</u>	<u>-</u>	<u>22,000</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	19,161	(1,742)	17,419
Balance beginning of year	306,666	14,512	321,178
Balance end of year	<u>\$ 325,827</u>	<u>12,770</u>	<u>338,597</u>

See accompanying independent auditor's report.

Schedule 2

City of Farley
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2003

	Road Use Tax	Tax Increment Financing	Volunteer Fire Department	Volunteer Fire Department Vehicle	Total
Receipts:					
Tax increment financing collections	\$ -	90,002	-	-	90,002
Use of money and property:					
Interest on investments	-	239	-	-	239
Intergovernmental:					
Road use tax allocation	108,605	-	-	-	108,605
Miscellaneous:					
Fund raisers and donations	-	-	67,653	-	67,653
Total receipts	108,605	90,241	67,653	-	266,499
Disbursements:					
Public safety:					
Services and commodities	-	-	49,295	-	49,295
Public works:					
Streets:					
Personal services	35,167	-	-	-	35,167
Services and commodities	46,765	-	-	-	46,765
Capital outlay	25,940	-	-	-	25,940
	107,872	-	-	-	107,872
Street lighting	12,639	-	-	-	12,639
	120,511	-	-	-	120,511
Community and economic development:					
Services and commodities	-	44,961	-	-	44,961
Total disbursements	120,511	44,961	49,295	-	214,767
Excess (deficiency) of receipts over (under) disbursements	(11,906)	45,280	18,358	-	51,732

City of Farley
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2003

	Road Use Tax	Tax Increment Financing	Volunteer Fire Department	Volunteer Fire Department Vehicle	Total
Other financing sources (uses):					
Operating transfers in (out):					
General:					
General	-	(24,601)	-	-	(24,601)
Special Revenue:					
Volunteer Fire Department	-	-	-	4,796	4,796
Volunteer Fire Department Vehicle	-	-	(4,796)	-	(4,796)
Debt Service:					
General Obligation Notes	-	(9,237)	-	-	(9,237)
Total other financing sources (uses)	-	(33,838)	(4,796)	4,796	(33,838)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(11,906)	11,442	13,562	4,796	17,894
Balance beginning of year	123,031	8,583	5,353	8,204	145,171
Balance end of year	\$ 111,125	20,025	18,915	13,000	163,065

See accompanying independent auditor's report.

City of Farley
Combining Schedule of Cash Transactions
Debt Service Funds
Year ended June 30, 2003

	General Obligation Notes	Special Assessments	Total
Receipts:			
Property tax	\$ 87,882	-	87,882
Other city tax:			
Utility tax replacement excise tax	2,216	-	2,216
Use of money and property:			
Interest on investments	254	28	282
Special assessments	-	5,485	5,485
Total receipts	<u>90,352</u>	<u>5,513</u>	<u>95,865</u>
Disbursements:			
Debt service:			
Principal redeemed	97,875	-	97,875
Interest paid	31,341	-	31,341
Total disbursements	<u>129,216</u>	<u>-</u>	<u>129,216</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(38,864)</u>	<u>5,513</u>	<u>(33,351)</u>
Other financing sources (uses):			
Operating transfers in (out):			
Special Revenue:			
Tax Increment Financing	9,237	-	9,237
Debt Service:			
General Obligation Notes	-	(5,800)	(5,800)
Special Assessments	5,800	-	5,800
Enterprise:			
Water	2,561	-	2,561
Sewer	20,000	-	20,000
Total other financing sources (uses)	<u>37,598</u>	<u>(5,800)</u>	<u>31,798</u>
Deficiency of receipts and other financing sources under disbursements and other financing uses	(1,266)	(287)	(1,553)
Balance beginning of year	<u>1,266</u>	<u>368</u>	<u>1,634</u>
Balance end of year	<u>\$ -</u>	<u>81</u>	<u>81</u>

See accompanying independent auditor's report.

City of Farley

City of Farley
Combining Schedule of Cash Transactions
Capital Projects Funds
Year ended June 30, 2003

	Swimming Pool	1999 Sewer Project
Receipts:		
Use of money and property:		
Interest on investments	\$ 136	-
Miscellaneous:		
Donations and contributions	-	-
Total receipts	136	-
Disbursements:		
Capital projects:		
Services and commodities	-	8,352
Capital outlay	-	-
Total disbursements	-	8,352
Excess (deficiency) of receipts over (under) disbursements	136	(8,352)
Other financing sources:		
Operating transfers in:		
General:		
General	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements	136	(8,352)
Balance beginning of year	5,136	(32,744)
Balance end of year	\$ 5,272	(41,096)

See accompanying independent auditor's report.

Lift Station Project	Memorial Hall Improvement	Well Rehabilitation Project	Bank Building Project	Roadway Beautification	Trees Forever	Total
-	-	-	-	-	-	136
-	-	-	-	700	1,735	2,435
-	-	-	-	700	1,735	2,571
18,294	2,601	11,206	-	700	1,735	42,888
37,114	-	86,702	1,000	-	-	124,816
55,408	2,601	97,908	1,000	700	1,735	167,704
(55,408)	(2,601)	(97,908)	(1,000)	-	-	(165,133)
-	2,601	-	-	-	-	2,601
(55,408)	-	(97,908)	(1,000)	-	-	(162,532)
(10,750)	-	-	-	-	-	(38,358)
(66,158)	-	(97,908)	(1,000)	-	-	(200,890)

City of Farley
Combining Schedule of Cash Transactions

Enterprise Funds

Year ended June 30, 2003

	Water	Sewer Rental	Utility Deposits	Total
Receipts:				
Use of money and property:				
Interest on investments	\$ 708	745	-	1,453
Charges for service:				
Sale of water	79,865	-	-	79,865
Sewer rental fees	-	81,426	-	81,426
	79,865	81,426	-	161,291
Miscellaneous:				
Sales tax collected	4,734	567	-	5,301
Penalties	1,429	-	-	1,429
Miscellaneous	2,678	2,750	-	5,428
	8,841	3,317	-	12,158
Total receipts	89,414	85,488	-	174,902
Disbursements:				
Business type activities:				
Personal services	15,450	6,901	-	22,351
Services and commodities	42,073	18,221	35	60,329
Capital outlay	-	3,100	-	3,100
Total disbursements	57,523	28,222	35	85,780
Excess (deficiency) of receipts over (under) disbursements	31,891	57,266	(35)	89,122
Other financing uses:				
Operating transfers out:				
Debt Service:				
General Obligation Notes	(2,561)	(20,000)	-	(22,561)
Excess (deficiency) of receipts over (under) disbursements and other financing uses	29,330	37,266	(35)	66,561
Balance beginning of year	51,097	30,593	2,952	84,642
Balance end of year	\$ 80,427	67,859	2,917	151,203

See accompanying independent auditor's report.



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 Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Farley, Iowa, as of and for the year ended June 30, 2003, and have issued our report thereon dated April 8, 2004. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2002.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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 grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City of Farley's operations for the year ended June 30, 2003 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. Prior audit statutory comments have been resolved.

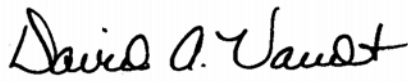
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Farley's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Farley's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A), (B) and (C) are material weaknesses. The prior audit reportable condition has not been resolved and is repeated as item (A).

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 8, 2004

City of Farley

Schedule of Findings

Year ended June 30, 2003

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

(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. One person had control over each of the following areas for the City:

- (1) Cash – reconciling bank accounts, initiating cash receipts and disbursement transactions and handling and recording cash.
- (2) Investments – detailed recording keeping, custody of investments and reconciling.
- (3) Long term debt – recording and reconciling.
- (4) Receipts – collecting, depositing, journalizing and posting.
- (5) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (6) Disbursements – purchasing, check signing, recording and reconciling.
- (7) Payroll – preparing and distributing.
- (8) Financial reporting – preparing, posting and reconciling.
- (9) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

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

Response – We do the best we can. Deputy Clerk is part-time, but mayor is in the office every morning.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

(B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquencies were not reconciled throughout the year. In addition, delinquent account listings were run but not retained.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies. Also, delinquent account listings should be generated and retained for each billing cycle. The Council should review the reconciliations and monitor delinquencies.

City of Farley

Schedule of Findings

Year ended June 30, 2003

Response – This will be addressed and corrected. We will reconcile each quarterly billing and give a report to the council.

Conclusion – Response accepted.

- (C) Records of Accounts – The Park Board maintains the accounting records pertaining to the operations of the Park facilities. These transactions and the resulting balances are not recorded in the City Clerk's records. Chapter 384.20 of the Code of Iowa states in part that a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose. One individual performs all accounting functions for the Park Board. Additionally, no receipt or disbursement journal(s) or subsidiary ledgers were maintained other than the checkbook register, no prenumbered receipts were issued, no financial reports were available, no bank to book reconciliations were prepared and instances of signing of checks in advance were noted.

Recommendation – Internal controls could be strengthened and operating efficiency could be increased by integrating the Farley Park Board account receipts and disbursements with the City's accounting records in the City Clerk's office. If this account is not combined with the Clerk's records, the Park Board should ensure duties are segregated to the extent possible and receipt and disbursement journals are established and maintained, along with subsidiary ledgers to categorize receipts and disbursements. Also, the Park Board should issue prenumbered receipts and account for the numerical sequence, prepare monthly financial reports and monthly bank to book reconciliations and discontinue the practice of signing checks in advance.

Response – These issues are being looked at and the Park Board is being consulted on the best way to implement changes.

Conclusion – Response accepted.

- (D) Information Systems – The following weaknesses in the City's computer-based systems were noted:

The City does not have written policies for:

- (1) requiring password changes because software does not require the user to change logins/passwords periodically.
- (2) time out and/or logoff functions.
- (3) maintaining password privacy.
- (4) usage of the internet.

Also, the City has established an internet web page. However, a firewall has not been added to enhance security.

City of Farley

Schedule of Findings

Year ended June 30, 2003

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer-based systems. The City should also install a firewall on the computer system to enhance security.

Response – We will develop a written policy and purchase and install a firewall.

Conclusion – Response accepted.

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming the official depository has been approved by the City. The maximum deposit amount stated in the resolution was not exceeded during the year ended June 30, 2003.
- (2) Certified Budget – Disbursements exceeded the amount budgeted in the public safety function prior to the budget being amended in May 2003. Also disbursements during the year ended June 30, 2003 exceeded the amount budgeted in the culture and recreation function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response – We will make every effort to comply with this recommendation.

Conclusion – Response accepted.

- (3) Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (6) 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.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

The City did not publish minutes within 15 days and did not include the purpose of claims approved in the minutes publication as required by Chapter 372.13(6) of the Code of Iowa and an Attorney General’s opinion dated April 12, 1978.

City of Farley

Schedule of Findings

Year ended June 30, 2003

Recommendation – The City should publish minutes and the purpose of claims, as required.

Response – Non-compliance with this statute is rare. We will make every effort to see that it doesn't happen again.

Conclusion – Response accepted.

- (8) Deposits and Investments – The City has an investment policy. However, the policy refers to Chapter 452 of the Code of Iowa, which is no longer applicable, rather than to Chapters 12B and 12C of the Code of Iowa.

Recommendation – The City should establish a new investment policy that references Chapters 12B and 12C of the Code of Iowa.

Response – We will amend our investment policy to bring it up to date.

Conclusion – Response accepted.

- (9) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but did not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check, as required.

Response – The bank has been advised and has already begun providing the front and back of checks.

Conclusion – Response accepted.

- (10) City Code of Ordinances – The City Code of Ordinances has not been codified since 1994. Chapter 380.8 of the Code of Iowa requires adoption of the City Code of Ordinances at least once every five years.

Recommendation – The City should re-codify the City Code of Ordinances as required by Chapter 380.8(2) of the Code of Iowa.

Response – We have agreed to a contract to have the recodification done. The ordinances are ready to go and the task should be done soon. We then hope to do it annually.

Conclusion – Response accepted.

- (11) Credit Card Policy – On March 3, 2003, the City approved obtaining a City credit card. The intent was to establish a written credit card policy governing who could use, approved uses, dollar limits, who would control and other user guidelines. The written policy has not been approved.

City of Farley

Schedule of Findings

Year ended June 30, 2003

Recommendation – The City should establish a written credit card policy detailing all items noted above and other guidelines for the use and control of the City credit card.

Response – The policy was in the first draft and is being refined. It should be completed and approved very soon.

Conclusion – Response accepted.

- (12) Financial Condition – At June 30, 2003, the City had deficit balances in the Capital Projects, 1999 Sewer Project, Lift Station Project, Well Rehabilitation Project and Bank Building Project Funds of \$41,096, \$66,158, \$97,908 and \$1,000, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return them to a sound financial position.

Response – These were projects that were not completed as of June 30, 2003. Financing arrangements have been made and the sound financial position has been reached.

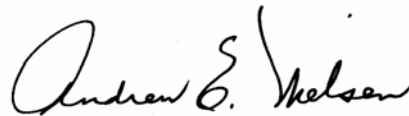
Conclusion – Response accepted.

City of Farley

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
John G. Vanis, CGFM, Senior Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State