CITY OF FARLEY

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

June 30, 2005

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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
Joyce Jarding	Council Member	Jan. 2006
Todd Kluesner	Council Member	(Resigned Jun. 6, 2005)
Eileen Scherrman	Council Member (Appointed Jun. 6, 2005)	Jan. 2006
Randy Kramer	Council Member	Jan. 2008
Duane Petsche	Council Member	Jan. 2008
Janet Hingtgen	City Clerk	Indefinite
Danielle Hartke	Deputy Clerk	Indefinite
Don Moonen	City Attorney	Indefinite

Dietz, Donald & Company
CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA
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Elkader, Iowa 52043
(563) 245-2154 • (800) 310-2154

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, 2005, 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.

Except as discussed in the following paragraph, 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. These 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 balances of the governmental and proprietary funds at July 1, 2004.

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 balances of the governmental and proprietary funds at July 1, 2004, as discussed in the preceeding

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, 2005, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 23, 2006 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 internal control over financial reporting or 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 13 and 26 through 27 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied 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 4, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, 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, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa

January 23, 2006

Dietz, Donald & Company

Dietz, Donald & Company, CPAs
FEIN 42-1172392

CITY OF FARLEY

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FARLEY, IOWA 52046

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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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements which follow. However, keep in mind that Chapter 11 of the Code of Iowa requires the City to have an audit once every four years due to our population being less than 2000. Therefore, any financial information presented herein for the fiscal year ended June 30, 2004 has not been audited.

2005 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities increased 134% or approximately $ 1.363 million from fiscal 2004 to fiscal 2005. Loan and note proceeds increased $ 700,000 and government grants increased approximately $ 475,000. Property tax receipts increased approximately $ 75,000.

Disbursements increased 92.8% or approximately $ 1.109 million in fiscal 2005 from fiscal 2004. Public safety, culture and recreation, and capital projects disbursements increased $ 49,000, $ 114,000 and $ 1.172 million respectively.

The City's total cash basis net assets increased 80.6% or approximately $ 280,000. Of this amount, the assets of the governmental activities increased approximately $ 77,000 and the assets of the business-type activities increased by approximately $ 203,000.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statement consists of a 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 and proprietary funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

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, the reader 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 this year's activities?" The Statement of Activities and Net Assets reports information that helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases and 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, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business-type Activities include the sanitary sewer system and the waterworks.

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 Urban Renewal Tax Increment and Road Use Tax, 3) the Debt Service Fund and 4) the Capital Projects Funds. 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 statements for governmental funds include 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 sewer and water funds, considered to be major funds of the City.

The required financial statements for proprietary funds include 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 significantly from a year ago, increasing from $ 220,000 to $ 297,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	Year Ending June 30,	
	2005	2004
Receipts and transfers:		
Program receipts:		
Charges for service	$ 162	91
Operating grants and contributions	120	111
Capital grants and contributions	487	8
General receipts:		
Property tax	476	363
Local option sales tax	146	149
Grants not restricted to specific purpose	-	1
Unrestricted investment earnings	5	5
Note proceeds	961	260
Other general receipts	23	28
Transfers, net	-	128
Total receipts and transfers	2,380	1,144
Disbursements:		
Public safety	145	95
Public works	169	317
Culture and recreation	157	42
Community and economic development	95	216
General government	131	115
Debt service	156	131
Capital projects	1,450	278
Total disbursements	2,303	1,194
Increase (decrease) in cash basis net assets	77	(50)
Cash basis net assets beginning of year	220	270
Cash basis net assets end of year	$ 297	220

The City's total receipts for governmental activities increased by 134% or $ 1.363 million. The total cost of all programs increased by approximately $ 1.109 million or 92.8%. The significant increase in receipts and disbursements was due to the upgrade of its wastewater treatment facility in fiscal 2005. The City received Community Development Block Grant funds of approximately $ 352,000 and loan proceeds

of $ 916,000 in conneciton with the treatment facility project. Nearly $ 1.235 million was spent on the renovation project in fiscal 2005.

The City property tax rates remained nearly constant for 2005, however total assessed valuations increased by 19.3% or nearly $ 9.7 million. The City's property tax receipts increased by $ 113,000 due to this increase. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase an additional $ 56,000 next year.

The cost of all governmental activities this year was $ 2.303 million compared to $ 1.194 million last year. However, as shown in the Statement of Activities on page 15, the amount taxpayers ultimately financed for these activities was only $ 1.535 million because some of the cost was paid by those directly benefited from the programs ($162,000) or by other governments and organizations that subsidized certain programs with grants and contributions ($ 607,000). Overall the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2005 from approximately $ 210,000 to approximately $ 769,000, principally due to receiving grant proceeds to complete the wastewater treatment facility upgrade project. The City paid for the remaining "public benefit" portion of governmental activities with approximately $ 622,000 in tax (some of which could only be used for certain programs) and with other receipts, such as note proceeds, transfers and interest.

Changes in Cash Basis Net Assets of Business-Type Activities
(Expressed in Thousands)

	Year Ended June 30,	
	2005	2004
Receipts:		
Program receipts:		
Charges for service:		
Sewer	$ 178	89
Water	106	97
General receipts:		
Unrestricted interest on investments	1	1
Other general receipts	4	-
Total receipts	289	187
Disbursements and transfers:		
Sewer	30	36
Water	56	48
Transfers	-	128
Total disbursements and transfers	86	212
Increase (decrease) in cash balances	203	(25)
Cash basis net assets beginning of year	127	152
Cash basis net assets end of year	$ 330	127

Total business-type activities receipts for the fiscal year were $ 289,000 compared to $ 187,000 last year. The significant increase was due primarily to an increase in sewer rates which will fund the payment of the Iowa Finance Authority sewer plant revenue notes.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Farley completed the year, its governmental funds reported a combined fund balance of $ 296,795 an increase of over $ 77,000 more than last year's total of $ 219,791. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased $ 23,865 from the prior year to $ 339,328. General Funded receipts were nearly $ 73,000 more than in fiscal 2004. Over $ 32,000 was due to an increase in property tax receipts. In addition charges for garbage collection increased $ 15,000. Disbursements for culture and recreation increased $ 112,000 because of a major renovation project at the ball park.

The Road Use Tax Fund cash balance decreased by $ 26,961 to $ 76,772. This decrease was due to a transfer of $ 56,623 to the Capital Projects, First Avenue Street Fund.

The Urban Renewal Tax Increment Fund had a cash balance of $ 89,290 at the end of the fiscal year, an increase of $ 66,904 from the previous year. These funds will be used for various construction and refurbishing projects within the urban renewal district and for repayment of previously acquired debt.

The Capital Projects Sewer Treatment Plant Fund had a deficit balance of $ 132,328 at June 30, 2005. This amount along with additional construction costs is expected to be funded with additional borrowing from the Iowa Finance Authority.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

The Water Fund cash balance increased by $ 53,211 to $ 81,590. Water receipts were $ 8,000 more than last year and disbursements increased by roughly the same amount.

The Sewer Fund cash balance increased by $ 149,518 to $ 248,235, due primarily to the increase in sewer rates to fund the improvements at the wastewater treatment plant.

BUDGETARY HIGHLIGHTS

The City amended its budget once during the year. The amendment was approved on May 16, 2005 and resulted in a decrease in disbursements of $ 259,761. This amendment primarily increased budgeted disbursements in two functions, public safety by $ 44,000 and general government by $ 31,963.

DEBT ADMINISTRATION

At June 30, 2005 the City had $ 1,775,569 in notes outstanding, compared to $ 900,000 the year before.

Debt increased as a result of $ 938,569 in advances from the Iowa Finance Authority State Revolving Fund to finance the improvements at the wastewater treatment facility.

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 of $ 843,200 is significantly below its constitutional debt limit of $ 3.012 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Farley's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates and fees that will be charged for various City activities. One of these factors is the economy. Inflation is again becoming a factor as the National Consumer Price Index showed an increase of 3.01 percent for fiscal 2005 compared to the 10-year average increase of 2.46 percent.

These indicators were taken into account when adopting the budget for fiscal year 2006. Amounts available for appropriation in the operating budget are $ 2.185 million a decrease of 34% under the final 2005 budget. This decrease is primarily due to the near completion of the wastewater treatment facility project in 2005, which accounts for the large decrease in intergovernmental revenues (grants) and note proceeds. Property taxes (including TIF revenues) are budgeted to increase by $ 44,000. Budgeted disbursements for 2006 are set at $ 2.015 million a $ 1.714 million decrease from the fiscal 2005 budget. The City has added no major new programs or initiatives to the 2006 budget.

If these estimates are realized, the City budgeted cash balance is expected to increase by approximately $ 169,000 by the close of 2006.

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 any questions about this report or need additional financial information, contact Janet Hingtgen, City Clerk, 301 First Street NE, Farley, Iowa.

BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF FARLEY
STATEMENT OF ACTIVITIES-CASH BASIS
As of and for the Year Ended June 30, 2005

		Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental Activities:							
Public Safety	$ 144,734	18,856	0	0	(125,878)	0	(125,878)
Public works	169,086	62,704	114,881	0	8,499	0	8,499
Culture and recreation	156,679	58,824	0	0	(97,855)	0	(97,855)
Community and economic development	95,374	0	0	0	(95,374)	0	(95,374)
General government	131,222	19,821	5,100	0	(106,301)	0	(106,301)
Debt service	156,217	1,492	0	0	(154,725)	0	(154,725)
Capital projects	1,449,891	0	0	486,774	(963,117)	0	(963,117)
Total governmental activities	2,303,203	161,697	119,981	486,774	(1,534,751)	0	(1,534,751)
Business Type activities:							
Water	56,141	105,609	0	0	0	49,468	49,468
Sewer	29,616	178,457	0	0	0	148,841	148,841
Total business type activities	85,757	284,066	0	0	0	198,309	198,309
Total	$ 2,388,960	445,763	119,981	486,774	(1,534,751)	198,309	(1,336,442)
General Receipts:							
Property tax levied for:							
General purposes					158,449	0	158,449
Tax increment financing					183,432	0	183,432
Debt service					133,881	0	133,881
Local option sales tax					145,891	0	145,891
Grants and contributions not restricted to specific purposes					243	0	243
Unrestricted interest on investments					5,354	744	6,098
Note and loan proceeds					960,869	0	960,869
Miscellaneous					13,718	3,676	17,394
Sale of assets					9,918	0	9,918
Total general receipts					1,611,755	4,420	1,616,175
Change in cash basis net assets					77,004	202,729	279,733
Cash basis net assets beginning of year					219,791	127,096	346,887
Cash basis net assets end of year					$ 296,795	329,825	626,620
Cash Basis Net Assets							
Restricted:							
Streets					$ 76,772	0	76,772
Urban renewal purposes					89,290	0	89,290
Debt service					4,477	0	4,477
Other purposes					5,450	0	5,450
Unrestricted					120,806	329,825	450,631
Total cash basis net assets					$ 296,795	329,825	626,620

See notes to financial statements.

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, 2005

	General	Special Revenue: Road Use Tax	Special Revenue: Urban Renewal Tax Increment	Capital Projects: Sewer Treatment Plant	Other Nonmajor Governmental Funds	Total
Receipts:						
Property tax	$ 158,449	0	0	0	133,881	292,330
Tax increment financing collections	0	0	183,432	0	0	183,432
Other city tax	155,880	0	0	0	2,346	158,226
Licenses and permits	4,511	0	0	0	0	4,511
Use of money and property	16,825	0	0	0	298	17,123
Intergovernmental	17,063	110,917	0	351,697	135,077	614,754
Charges for service	68,269	0	0	0	0	68,269
Special assessments	0	0	0	0	1,492	1,492
Miscellaneous	79,201	0	0	0	0	79,201
Total receipts	500,198	110,917	183,432	351,697	273,094	1,419,338
Disbursements:						
Operating:						
Public safety	144,734	0	0	0	0	144,734
Public works	87,831	81,255	0	0	0	169,086
Culture and recreation	156,679	0	0	0	0	156,679
Community and economic development	6,000	0	89,374	0	0	95,374
General government	131,222	0	0	0	0	131,222
Debt service	0	0	0	0	156,217	156,217
Capital projects	0	0	0	1,235,467	214,424	1,449,891
Total disbursements	526,466	81,255	89,374	1,235,467	370,641	2,303,203
Excess (deficiency) of receipts over (under) disbursements	(26,268)	29,662	94,058	(883,770)	(97,547)	(883,865)
Other financing sources (uses):						
Note and loan proceeds	45,000	0	0	915,869	0	960,869
Operating transfers in	4,500	0	0	0	126,374	130,874
Operating transfers out	(47,097)	(56,623)	(27,154)	0	0	(130,874)
Total other financing sources (uses)	2,403	(56,623)	(27,154)	915,869	126,374	960,869
Net change in cash balances	(23,865)	(26,961)	66,904	32,099	28,827	77,004
Cash balances beginning of year	363,193	103,733	22,386	(164,427)	(105,094)	219,791
Cash balances end of year	$ 339,328	76,772	89,290	(132,328)	(76,267)	296,795
Cash Basis Fund Balances						
Reserved for debt service	$ 0	0	0	0	4,477	4,477
Unreserved:						
General Fund	339,328	0	0	0	0	339,328
Special revenue funds	0	76,772	89,290	0	0	166,062
Capital projects funds	0	0	0	(132,328)	(80,744)	(213,072)
Total cash basis fund balances	$ 339,328	76,772	89,290	(132,328)	(76,267)	296,795

See notes to financial statements.

Exhibit C

CITY OF FARLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
As of and for the Year Ended June 30, 2005

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	$ 105,609	178,457	284,066
Operating disbursements:			
Business type activities	56,141	29,616	85,757
Excess of operating receipts over operating disbursements	49,468	148,841	198,309
Non-operating receipts:			
Interest on investments	67	677	744
Miscellaneous	3,676	0	3,676
Total non-operating receipts	3,743	677	4,420
Net change in cash balances	53,211	149,518	202,729
Cash balances beginning of year	28,379	98,717	127,096
Cash balances end of year	$ 81,590	248,235	329,825
Cash Basis Fund Balances			
Unreserved	$ 81,590	248,235	329,825

See notes to financial statements.

(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, 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. The City has no component units which meet the Governmental Accounting Standards Board criteria.

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, Dubuque County Emergency Management Commission and Dubuque County E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements - 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 services.

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 assets are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet 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 that are not paid from other funds.

Special Revenue

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

Capital Projects

The Sewer Treatment Plant Fund is used to account for receipts and disbursements on the wastewater treatment plant renovation project.

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and 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.

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 funds' 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, 2005, disbursements exceeded amounts budgeted in the general government and capital projects functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 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.

Interest rate risk - The City has invested $ 374,450 in time certificates of deposit whose maturities range from 10 to 200 days at June 30, 2005.

(3) Notes Payable

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

Year Ending June 30,	General Obligation Notes	
	Principal	Interest
2006	$ 123,000	35,192
2007	136,476	29,659
2008	142,159	23,576
2009	147,876	17,095
2010	38,629	10,309
2011-2015	182,843	25,549
2016-2020	21,017	791
Total	$ 792,000	142,171

(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.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2005 was $ 9,225 equal to the required contribution for the year.

(5) 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, 2005 primarily relating to the General Fund, is $ 6,100. This liability has been computed based on rates of pay in effect at June 30, 2005.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Urban Renewal Tax Increment Financing	$ 4,500
Debt Service	Special Revenue: Urban Renewl Tax Increment Financing	22,654
Capital Projects: First Avenue Street	Special Revenue: Road Use Tax	56,623
Memorial Hall	General	47,097
Total		$ 130,874

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

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling $ 1,836 during the year ended June 30, 2005.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes

liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks did not exceed commercial insurance coverage in the fiscal year ended June 30, 2005.

(9) 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.

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.

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, 2005, $ 89,374 was rebated to the developers under the above agreements.

(10) Deficit Fund Balances

The Capital Projects, Sewer Treatment Plant Fund had a deficit balance of $ 132,328 at June 30, 2005. The deficit balance was a result of project costs incurred prior to availability of funds. There is $ 1,331,431 in Iowa Finance Authority State Revolving Loan Funds available for this project.

The Capital Projects, Housing Rehabilitation Fund had a deficit balance of $ 86,194 at June 30, 2005. The deficit was also a result of project costs being incurred prior to the availability of funds. The deficit will be eliminated upon receipt of federal grants.

(11) **Construction Contract and Iowa Finance Authority Revolving Loan Funds**

The City had entered into a construction contract totaling $ 2,229,000 for wastewater treatment plant improvements. At June 30, 2005, $ 1,094,618 remains unpaid on the project. Payments will be made from Iowa Finance Authority State Revolving Loan Funds as work on the project progresses.

The City has obtained acceptance for loan assistance from Iowa Finance Authority totaling $ 2,270,000. When the project is complete this amount will be divided into a $ 620,000 general obligation note and a $ 1,650,000 revenue note. It is anticipated that these notes will be amortized over 20 years at an interest rate of 3.25%. At June 30, 2005 the City had borrowed $ 938,569 against this established line of credit, leaving a balance available of $ 1,331,431.

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 SUPPLEMENTAL INFORMATION
Year Ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts Original	Budgeted Amounts Final	Final to Total Variance
Receipts:						
Property tax	$ 292,330	0	292,330	295,784	295,784	(3,454)
Tax increment financing collections	183,432	0	183,432	148,000	160,000	23,432
Other city tax	158,226	0	158,226	126,519	136,519	21,707
Licenses and permits	4,511	0	4,511	3,515	3,765	746
Use of money and property	17,123	744	17,867	8,200	6,050	11,817
Intergovernmental	614,754	0	614,754	512,268	615,173	(419)
Charges for service	68,269	284,066	352,335	325,450	326,708	25,627
Special assessments	1,492	0	1,492	1,224	2,057	(565)
Miscellaneous	79,201	3,676	82,877	12,950	27,777	55,100
Total receipts	1,419,338	288,486	1,707,824	1,433,910	1,573,833	133,991
Disbursements:						
Public safety	144,734	0	144,734	108,037	152,037	7,303
Public works	169,086	0	169,086	202,833	204,833	35,747
Culture and recreation	156,679	0	156,679	46,250	47,750	(108,929)
Community and economic development	95,374	0	95,374	92,923	95,423	49
General government	131,222	0	131,222	119,715	151,678	20,456
Debt service	156,217	0	156,217	287,349	287,349	131,132
Capital projects	1,449,891	0	1,449,891	2,386,318	2,043,594	593,703
Business type activities	0	85,757	85,757	92,067	93,067	7,310
Total disbursements	2,303,203	85,757	2,388,960	3,335,492	3,075,731	686,771
Excess (deficiency) of receipts over (under) disbursements	(883,865)	202,729	(681,136)	(1,901,582)	(1,501,898)	820,762
Other financing sources, net	960,869	0	960,869	2,100,000	1,539,066	(578,197)
Excess of receipts and other financing sources over disbursements and other financing uses	77,004	202,729	279,733	198,418	37,168	242,565
Balances beginning of year	219,791	127,096	346,887	172,291	333,203	13,684
Balances end of year	$ 296,795	329,825	626,620	370,709	370,371	256,249

See accompanying independent auditor's report.

CITY OF FARLEY
Notes to Required Supplementary Information-Budgetary Information
June 30, 2005

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 Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Capital Projects Fund and Proprietary 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 decreased budgeted disbursements by $ 259,761. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the culture and recreation function.

OTHER SUPPLEMENTARY INFORMATION

Schedule 1

CITY OF FARLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS

		Capital Projects			
	Debt Service	Swimming Pool	Housing Rehabilitation	First Avenue Street	Memorial Hall	Total
Receipts:						
Property tax	$ 133,881	0	0	0	0	133,881
Other city tax	2,346	0	0	0	0	2,346
Use of money and property	208	90	0	0	0	298
Intergovernmental	0	0	135,077	0	0	135,077
Special assessments	1,492	0	0	0	0	1,492
Total receipts	137,927	90	135,077	0	0	273,094
Disbursements:						
Debt service	156,217	0	0	0	0	156,217
Capital projects	0	0	152,025	15,302	47,097	214,424
Total disbursements	156,217	0	152,025	15,302	47,097	370,641
Excess (deficiency) of receipts over (under) disbursements	(18,290)	90	(16,948)	(15,302)	(47,097)	(97,547)
Other financing sources:						
Operating transfers in	22,654	0	0	56,623	47,097	126,374
Net change in cash balances	4,364	90	(16,948)	41,321	0	28,827
Cash balances beginning of year	113	5,360	(69,246)	(41,321)	0	(105,094)
Cash balances end of year	$ 4,477	5,450	(86,194)	0	0	(76,267)
Reserved:						
Debt service	$ 4,477	0	0	0	0	4,477
Unreserved:						
Capital projects fund	0	5,450	(86,194)	0	0	(80,744)
Total cash basis fund balances	$ 4,477	5,450	(86,194)	0	0	(76,267)

See accompanying independent auditor's report.

Schedule 2

CITY OF FARLEY
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation notes:								
Corporate purpose	Aug. 1, 1998	4.40-4.65%	$ 925,000	510,000	-	95,000	415,000	23,075
Corporate purpose	Nov. 1, 2003	3.95%	230,000	230,000	-	23,000	207,000	9,539
City hall	Apr. 16, 2004	5.00%	170,000	170,000	-	-	170,000	8,500
				$ 910,000		118,000	792,000	41,114
Iowa Finance Authority:								
State Revolving Fund Advances:								
Sewer plant revenue	Oct. 21, 2004	3.00%	$ 932,369	-	932,369	-	932,639	3,000
Sewer plant general obligation	Dec. 23, 2004	3.00%	6,200	-	6,200	-	6,200	82
				$ -	938,569	-	938,569	3,082
Demand note:								
Ball park lighting	Jan. 20, 2005	4.95%	$ 45,000	-	45,000	-	45,000	-

See accompanying independent auditor's report.

Schedule 3

CITY OF FARLEY
NOTE MATURITIES
June 30, 2005

Year Ending June 30,	General Obligation Notes						
	Corporate Purpose Issued Aug. 1,1998		Corporate Purpose Issued Nov. 1, 2003		City Hall Issued Aug. 19, 2003		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
2006	4.45%	$ 100,000	3.95%	$ 23,000	5.00%	$ -	123,000
2007	4.50	100,000	3.95	23,000	5.00	13,476	136,476
2008	4.60	105,000	3.95	23,000	5.00	14,159	142,159
2009	4.65	110,000	3.95	23,000	5.00	14,875	147,875
2010		-	3.95	23,000	5.00	15,628	38,628
2011		-		23,000	5.00	16,420	39,420
2012		-		23,000	5.00	17,251	40,251
2013		-		23,000	5.00	18,124	41,124
2014		-		23,000	5.00	19,042	42,042
2015		-		-	5.00	20,006	20,006
2016		-		-		21,019	21,019
		$ 415,000		$ 207,000		$ 170,000	792,000

See accompanying independent auditor's report.

Schedule 4

CITY OF FARLEY
SCHEDULE OF FEDERAL AWARDS
Year Ended June 30, 2005

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS192160-01	$ 938,569
U.S. Department of Housing and Urban Development			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program	14.228	99-WS-028	287,503
	14.228	03-HM-161-25	142,665
			430,168
Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Public Assistance Grants	97.036	FEMA-1518-DRIA	780
Pre-Disaster Mitigation	97.047	PDMC-PL-2003-0002	728
			1,508
Total			$ 1,370,245

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the grant activity of the City of Farley and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Dietz, Donald & Company
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Honorable Mayor and
Members of the City Council:

We have audited 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, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 23, 2006. Our report expressed a qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting, because we were not able to satisfy ourselves as to the distribution by fund of the total fund balance of the governmental and proprietary funds at July 1, 2004. Except as previously discussed, 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 Part II of the accompanying Schedule of Findings.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detectd 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, we believe the reportable condition (II-A-05) described above is a material weakness.

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 noncompliance 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 Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained 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.

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 including federal awarding agencies and pass-through entities. 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 the personnel of the City of Farley during the course of our audit. Should you have any questions regarding any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

January 23, 2006

Dietz, Donald & Company

Dietz, Donald & Company, CPAs
FEIN 42-1172392

Dietz, Donald & Company
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Farley, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2005. The City of Farley's major federal programs are identified in Part I of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of the City of Farley's management. Our responsibility is to express an opinion on the City of Farley's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Farley's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Farley's compliance with those requirements.

In our opinion, the City of Farley complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the City of Farley is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Farley's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 noncompliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Elkader, Iowa

January 23, 2006

Dietz, Donald & Company, CPAs
FEIN 42-1172393

CITY OF FARLEY
SCHEDULE OF FINDINGS
Year Ended June 30, 2005

Part I : Summary of the Independent Auditor's Results:

a) A qualified opinion was issued on the financial statements which 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; because we were not able to satisfy ourselves as to the distribution by fund of the total fund balances of the governmental and proprietary funds at July 1, 2004.

b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, and that reportable condition was a material weakness.

c) The audit did not diclose any noncompliance which is material to the financial statements.

d) No reportable conditions in internal control over the major programs were disclosed by the audit of the financial statements.

e) An unqualified opinion was issued on compliance with requirements applicable to each of the major programs.

f) The audit disclosed no findings that are required to be reported in accordance with Section .510(a) of Circular A-133.

g) The major programs were:
CFDA Number 66.458-Capitalization Grants for Clean Water State Revolving Funds.
CFDA Number 14.228-Community Development Block Grants/State's Program.

h) The dollar theshold used to distinguish between Type A and Type B programs was $ 300,000.

i) The City of Farley did not qualify as a low-risk auditee.

CITY OF FARLEY
SCHEDULE OF FINDINGS
Year Ended June 30, 2005

Part II : Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

II-A-05 Record of Accounts - The Park Board records pertaining to the operations of the Park facilities 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.

Recommendation - Internal controls could be strengthened and operating efficiancy could be increased by integrating the Farley Park Board account receipts and disbursement with the City's accounting records in the City Clerk's office.

Response - The issue is being looked at and will be considered.

Conclusion - Response accepted.

CITY OF FARLEY
SCHEDULE OF FINDINGS
Year Ended June 30, 2005

Part III : Findings for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No matters were noted.

CITY OF FARLEY
SCHEDULE OF FINDINGS
Year Ended June 30, 2005

Part IV : Other Findings Related to Statutory Reporting:

IV-A-05 Official Depositories - A resolution naming the offical depository has been approved by the City. The maximim deposit amount stated in resolution was not exceeded during the year ended June 30, 2005.

IV-B-05 Certified Budget - Disbursements during the year ended June 30, 2005 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 budget.

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

Conclusion - Response accepted.

IV-C-05 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.

IV-D-05 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-05 Business Transactions - Business transactions between City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Duane Petsche, Council Member, Owner of Hallmark Hardwares	Desks and window sills	$ 1,836

In accordance with Chapter 362.5(11) of the Code of Iowa, the transaction with the Council Member does not appear to represent conflicts of interest since the total transaction was less than $ 2,500 during the fiscal year.

IV-F-05 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 insure that the coverage is adequate for current operations.

IV-G-05 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-H-05 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-I-05 Financial Condition - At June 30, 2005, the City had deficit balances in the Capital Projects, Sewer Treatment Plant and Housing Rehabilitation Funds of $ 132,328 and $ 86,194 respectively.

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

Response - These projects were not completed as of June 30, 2005. Financing arrangements have been made and the sound financial position has been reached.

Conclusion - Response accepted.