

CITY OF HARTLEY

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

JUNE 30, 2011

## TABLE OF CONTENTS

	<u>Page</u>
Officials	3
Independent Auditor's Report	4-5
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets - Cash Basis	A      6-7
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	B      8-9
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	C      10
Fiduciary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	D      11
Notes to Financial Statements	12-22
 Required Supplementary Information:	
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	  24
Notes to Required Supplementary Information - Budgetary Reporting	25
 Supplementary Information:	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements, and Changes in Cash Balances – Nonmajor Governmental Funds	1      27
Schedule of Cash Receipts, Disbursements, and Changes in Cash Balances – Nonmajor Proprietary Funds	2      28
Schedule of Indebtedness	3      29
Note Maturities	4      30
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	5      31
 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 <i>Government Auditing Standards</i>	    32-33
 Schedule of Findings	 34-36

CITY OF HARTLEY

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Clayton Pyle	Mayor	January, 2012
Kevin Snider	Council Member	January, 2012
Gina Wiekamp	Council Member	January, 2012
Ron Hengeveld	Council Member	January, 2014
Brad Meendering	Council Member	January, 2014
Jerry Olson	Council Member	January, 2014
Brian Pals	City Clerk/Administrator	Indefinite
Dennis Cmelik	Attorney	Indefinite

HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.  
RICHARD R. MOORE, C.P.A.  
WESLEY E. STILLE, C.P.A. (RETIRED)  
KENNETH A. PUTZIER, C.P.A. (RETIRED)  
W.J. HUNZELMAN, C.P.A. 1921-1997

1100 WEST MILWAUKEE  
STORM LAKE, IOWA 50588  
712-732-3653  
FAX 712-732-3662  
info@hpcocpa.com

Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
Hartley, Iowa

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 City of Hartley, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, 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 City of Hartley as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2012, on our consideration of City of Hartley's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 24 and 25 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

City of Hartley, Iowa, has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Hartley's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for each of the years in the eight year period ended June 30, 2010 (which are not presented herein), and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, 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.

January 9, 2012

*Henzelman, Putzger & Co.*

CITY OF HARTLEY  
STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Exhibit A

Functions/Programs:	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
<b>Governmental activities:</b>							
Public safety	\$ 254,172	\$ 70,228	\$ 22,599	\$ -	\$ (161,345)	\$ -	\$ (161,345)
Public works	247,237	14,736	165,302	-	(67,199)	-	(67,199)
Culture and recreation	173,987	26,491	15,685	-	(131,811)	-	(131,811)
Community and economic development	169,291	-	-	122,320	(46,971)	-	(46,971)
General government	70,400	785	-	-	(69,615)	-	(69,615)
Debt service	123,135	-	-	-	(123,135)	-	(123,135)
<b>Total governmental activities</b>	<b>1,038,222</b>	<b>112,240</b>	<b>203,586</b>	<b>122,320</b>	<b>(600,076)</b>	<b>-</b>	<b>(600,076)</b>
<b>Business-type activities:</b>							
Water	777,342	433,952	-	119,204	-	(224,186)	(224,186)
Sewer	402,585	191,712	-	17,249	-	(193,624)	(193,624)
Electric	2,394,430	1,575,470	-	-	-	(818,960)	(818,960)
Gas	678,966	689,194	-	-	-	10,228	10,228
Solid Waste	119,581	139,061	-	-	-	19,480	19,480
Consumer Deposit	15,014	17,310	-	-	-	2,296	2,296
Cable	926,917	115,176	-	-	-	(811,741)	(811,741)
<b>Total business-type activities</b>	<b>5,314,835</b>	<b>3,161,875</b>	<b>-</b>	<b>136,453</b>	<b>-</b>	<b>(2,016,507)</b>	<b>(2,016,507)</b>
<b>Total</b>	<b>\$ 6,353,057</b>	<b>\$ 3,274,115</b>	<b>\$ 203,586</b>	<b>\$ 258,773</b>	<b>(600,076)</b>	<b>(2,016,507)</b>	<b>(2,616,583)</b>
<b>General Receipts and Transfers:</b>							
Property and other city tax levied for:							
General purposes					313,279	-	313,279
Debt service					29,148	-	29,148
Tax increment financing					190,144	-	190,144
Local option sales tax					148,085	-	148,085
Revenue refunding bond proceeds					-	1,506,200	1,506,200
State revolving loan funds					-	2,000	2,000
Unrestricted interest on investments					26,044	63,016	89,060
Special assessments					335	-	335
Miscellaneous					37,881	-	37,881
Transfers					55,993	(55,993)	-
<b>Total general receipts and transfers</b>					<b>800,909</b>	<b>1,515,223</b>	<b>2,316,132</b>
<b>Change in cash basis net assets</b>					<b>200,833</b>	<b>(501,284)</b>	<b>(300,451)</b>
<b>Cash basis net assets beginning of year</b>					<b>893,175</b>	<b>2,720,714</b>	<b>3,613,889</b>
<b>Cash basis net assets end of year</b>					<b>\$ 1,094,008</b>	<b>\$ 2,219,430</b>	<b>\$ 3,313,438</b>

(continued)

CITY OF HARTLEY  
 STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Exhibit A  
 (continued)

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Cash Basis Net Assets						
Restricted:						
Nonexpendable:						
Cemetery perpetual care				\$ 91,952	\$ -	\$ 91,952
Expendable:						
Streets				223,867	-	223,867
Tax increment financing projects				28,275	-	28,275
Debt service				39,702	592,959	632,661
Other purposes				460,602	-	460,602
Unrestricted				249,610	1,626,471	1,876,081
Total cash basis net assets				<u>\$ 1,094,008</u>	<u>\$ 2,219,430</u>	<u>\$ 3,313,438</u>

See notes to financial statements

CITY OF HARTLEY  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Exhibit B

	Special Revenue						Total
	General	Road Use Tax	Local Option Sales Tax	Tax Increment Financing	Library Expendable Trust	Nonmajor	
Receipts:							
Property tax	\$ 214,615	\$ -	\$ -	\$ -	\$ -	\$ 127,812	\$ 342,427
Tax increment financing	-	-	-	190,144	-	-	190,144
Other city tax	-	-	148,085	-	-	-	148,085
Licenses and permits	3,565	-	-	-	-	-	3,565
Use of money and property	40,464	-	-	-	6,954	-	47,418
Intergovernmental	27,886	165,302	-	8,421	-	113,899	315,508
Charges for services	81,091	-	-	-	-	-	81,091
Special assessments	-	-	-	-	-	335	335
Miscellaneous	53,854	-	-	-	195	440	54,489
Total receipts	<u>421,475</u>	<u>165,302</u>	<u>148,085</u>	<u>198,565</u>	<u>7,149</u>	<u>242,486</u>	<u>1,183,062</u>
Disbursements:							
Operating:							
Public safety	254,172	-	-	-	-	-	254,172
Public works	82,105	165,132	-	-	-	-	247,237
Culture and recreation	150,644	-	-	-	23,343	-	173,987
Community and economic development	573	-	45	7,615	-	161,058	169,291
General government	70,400	-	-	-	-	-	70,400
Debt service	-	-	-	37,830	-	85,305	123,135
Total disbursements	<u>557,894</u>	<u>165,132</u>	<u>45</u>	<u>45,445</u>	<u>23,343</u>	<u>246,363</u>	<u>1,038,222</u>
Excess (deficiency) of receipts over disbursements	<u>(136,419)</u>	<u>170</u>	<u>148,040</u>	<u>153,120</u>	<u>(16,194)</u>	<u>(3,877)</u>	<u>144,840</u>
Other financing sources (uses):							
Operating transfers in	175,193	96,500	-	15,016	-	182,644	469,353
Operating transfers out	-	(15,016)	(125,705)	(158,307)	-	(114,332)	(413,360)
Total other financing sources (uses)	<u>175,193</u>	<u>81,484</u>	<u>(125,705)</u>	<u>(143,291)</u>	<u>-</u>	<u>68,312</u>	<u>55,993</u>
Net change in cash balances	38,774	81,654	22,335	9,829	(16,194)	64,435	200,833
Cash balances beginning of year	<u>210,836</u>	<u>142,213</u>	<u>75,718</u>	<u>18,446</u>	<u>249,254</u>	<u>196,708</u>	<u>893,175</u>
Cash balances end of year	<u>\$ 249,610</u>	<u>\$ 223,867</u>	<u>\$ 98,053</u>	<u>\$ 28,275</u>	<u>\$ 233,060</u>	<u>\$ 261,143</u>	<u>\$ 1,094,008</u>

(Continued)

CITY OF HARTLEY  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Exhibit B  
 (Continued)

	Special Revenue					Nonmajor	Total
	General	Road Use Tax	Local Option Sales Tax	Tax Increment Financing	Library Expendable Trust		
Cash Basis Fund Balances							
Nonspendable - Cemetary perpetual care	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 91,952	\$ 91,952
Restricted for:							
Debt service	-	-	-	-	-	39,702	39,702
Tax increment financing	-	-	-	28,275	-	-	28,275
Streets	-	125,722	-	-	-	-	125,722
Other purposes	-	-	98,053	-	233,060	129,489	460,602
Assigned for equipment	107,807	98,145	-	-	-	-	205,952
Unassigned	141,803	-	-	-	-	-	141,803
<b>Total cash basis fund balances</b>	<b>\$ 249,610</b>	<b>\$ 223,867</b>	<b>\$ 98,053</b>	<b>\$ 28,275</b>	<b>\$ 233,060</b>	<b>\$ 261,143</b>	<b>\$1,094,008</b>

See notes to financial statements

CITY OF HARTLEY  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Exhibit C

	Enterprise						Total
	Water	Sewer	Electric	Gas	Cable	Nonmajor	
Operating receipts:							
Use of money and property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,470	\$ 1,470
Charges for services	416,521	188,205	1,565,831	675,080	104	137,083	2,982,824
Miscellaneous	17,431	3,507	9,639	14,114	115,072	17,818	177,581
Total operating receipts	433,952	191,712	1,575,470	689,194	115,176	156,371	3,161,875
Operating disbursements:							
Business type activities	253,040	208,830	1,326,242	678,966	9,774	134,595	2,611,447
Excess (deficiency) of operating receipts over operating disbursements	180,912	(17,118)	249,228	10,228	105,402	21,776	550,428
Non-operating receipts (disbursements)							
Interest on investments	9,227	2,158	30,600	8,354	9,719	2,958	63,016
Revenue refunding bond proceeds	-	-	758,000	-	748,200	-	1,506,200
State revolving loan funds	-	2,000	-	-	-	-	2,000
Intergovernmental	119,204	17,249	-	-	-	-	136,453
Debt service	(105,547)	(120,120)	(1,068,188)	-	(917,143)	-	(2,210,998)
Capital projects	(418,755)	(73,635)	-	-	-	-	(492,390)
Net non-operating receipts (disbursements)	(395,871)	(172,348)	(279,588)	8,354	(159,224)	2,958	(995,719)
Excess (deficiency) of receipts over disbursements	(214,959)	(189,466)	(30,360)	18,582	(53,822)	24,734	(445,291)
Transfers in	-	121,368	-	-	-	-	121,368
Transfers out	-	-	(50,269)	(30,592)	(96,500)	-	(177,361)
	-	121,368	(50,269)	(30,592)	(96,500)	-	(55,993)
Net change in cash balances	(214,959)	(68,098)	(80,629)	(12,010)	(150,322)	24,734	(501,284)
Cash balances beginning of year	471,025	111,481	1,213,926	342,297	410,829	171,156	2,720,714
Cash balances end of year	\$ 256,066	\$ 43,383	\$ 1,133,297	\$ 330,287	\$ 260,507	\$ 195,890	\$ 2,219,430
Cash Basis Fund Balances							
Restricted for debt service	\$ 85,115	\$ 10,033	\$ 383,036	\$ -	\$ 114,775	\$ -	\$ 592,959
Unrestricted	170,951	33,350	750,261	330,287	145,732	195,890	1,626,471
Total cash basis fund balances	\$ 256,066	\$ 43,383	\$ 1,133,297	\$ 330,287	\$ 260,507	\$ 195,890	\$ 2,219,430

See notes to financial statements

CITY OF HARTLEY  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
FIDUCIARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Exhibit D

	<u>Agency Fund- Hart 2020</u>
Receipts:	
Miscellaneous	\$ 345
Disbursements:	
Community and economic development	<u>2,683</u>
Net change in cash balances	(2,338)
Cash balances beginning of year	<u>2,338</u>
Cash balances end of year	<u>\$ -</u>

See notes to financial statements

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Hartley is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1888 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 services, and business type activities.

A. Reporting Entity

For financial reporting purposes, City of Hartley 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 Standard Board criteria.

Joint Ventures - City of Hartley has a 54% interest in a joint venture with City of Sanborn to provide garbage collection service. The cities participate in the collection of garbage, which is under the general management of one representative of each City Council. The following information summarizes the activity of the joint venture through June 30, 2011:

Receipts:	
Contributions from other governments:	
City of Hartley	\$ 81,000
City of Sanborn	69,000
Interest	146
	<u>150,146</u>
Disbursements:	
Salaries	58,223
Benefits	30,034
Workers compensation insurance	5,946
Unemployment benefits	8,202
Property insurance	4,218
Diesel fuel	17,644
Truck maintenance and repairs	18,987
Professional fees	315
Miscellaneous	1,183
	<u>144,752</u>
Net	5,394
Balance, beginning of year	891
Balance, end of year	<u>\$ 6,285</u>

City of Hartley has a 54% interest of the assets, property and equipment, equity, and net income.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Reporting Entity - (Continued)

City of Hartley also has a 33.1% interest in Community Cable Television Agency of O'Brien County, a joint venture with the Cities of Paullina, Primghar, and Sanborn to provide cable television, telephone, and internet services. The cities participate in providing services, which is under the general management of one representative of each City Council. The City's share of equity in this organization as of June 30, 2011, is \$332,417.

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 or appoint representatives to the following boards and commissions: O'Brien County Emergency Management Commission, O'Brien County E911 Service Board, O'Brien County Assessor's Conference Board, and Northwest Iowa Area Solid Waste Agency. Payments made to Northwest Iowa Area Solid Waste Agency during the year ended June 30, 2011, were \$19,647.

B. Basis of Presentation

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

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

*Nonexpendable restricted net assets* are subject to externally imposed stipulations which require them to be maintained permanently by the City.

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

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding categories. 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.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

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 main 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 the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for monies received to be used for community betterment.

The Tax Increment Financing Fund is used to account for projects financed by tax increment financing.

The Library Expendable Trust Fund is used to account for contributions from citizens to be used for library projects.

The City reports the following major proprietary funds:

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

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

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Gas Fund accounts for the operation and maintenance of the City's natural gas system.

The Cable Fund accounts for receipts and disbursements from the City's cable television system as maintained by Community Cable Television Agency of O'Brien County.

The City also reports the following fiduciary fund:

The Agency fund is used to account for fiduciary assets held by the City in a custodial capacity or as an agent on behalf of others.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus and Basis of Accounting

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

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

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned, and then unassigned fund balances.

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

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the debt service function.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

2. CASH

The City's deposits in banks at June 30, 2011 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 Number 3, as amended by Statement 40.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

3. NOTES PAYABLE

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

Year Ending June 30,	Revenue Notes		General Obligation Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 432,000	\$ 188,817	\$ 89,000	\$ 30,710	\$ 521,000	\$ 219,527
2013	457,000	138,657	95,000	26,712	552,000	165,369
2014	460,000	128,821	51,000	22,373	511,000	151,194
2015	472,000	117,769	53,000	20,295	525,000	138,064
2016	482,000	105,231	54,000	18,138	536,000	123,369
2017-2021	1,398,000	361,292	195,000	61,412	1,593,000	422,704
2022-2026	1,013,000	168,268	160,000	33,475	1,173,000	201,743
2027-2030	462,000	34,594	108,000	7,085	570,000	41,679
	<u>\$ 5,176,000</u>	<u>\$ 1,243,449</u>	<u>\$ 805,000</u>	<u>\$ 220,200</u>	<u>\$ 5,981,000</u>	<u>\$ 1,463,649</u>

The code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund. However, \$37,830 of general obligation bond principal and interest was paid from the Tax Increment Financing Fund during the year ended June 30, 2011.

Revenue Notes

Water

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$400,000 and \$1,000,000 in water revenue notes issued in November, 2003 and July, 2009. Proceeds from the notes provided financing for constructing improvements and extensions to the water system. The notes are payable solely from water customer net receipts and are payable through 2018 and 2029, respectively. The total principal and interest remaining to be paid on the bonds is \$1,493,912. For the current year, principal and interest paid and total customer net receipts were \$102,597 and \$180,912, respectively.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

3. NOTES PAYABLE - (Continued)

Water - (Continued)

Included in the above revenue notes is a forgivable water loan with payments totaling \$1,040,000 in principal and \$365,305 in interest. If not forgiven, these bonds are payable solely from water customer net receipts and are payable through 2030. This loan was made with funds from the American Recovery and Reinvestment Act of 2009 (ARRA). For this loan to be forgiven the City must comply with all applicable ARRA requirements and the issuer (Iowa Department of Natural Resources) may, in its sole discretion, terminate this loan and issue a replacement loan from non-ARRA funds, which would require repayment from the City. As of June 30, 2011 this loan has not been forgiven.

Sewer

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,732,000 in sewer revenue notes issued in July and December, 2004. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2025. The total principal and interest remaining to be paid on the notes is \$1,654,503. For the current year, principal and interest paid and total customer net receipts were \$116,652 and (\$17,118) respectively.

Electric

The City has pledged future electric customer receipts, net of specified operating disbursements, to repay \$1,900,000 in electric revenue capital loan notes issued in February, 2001. Proceeds from the notes provided financing for construction of improvements to the electric system.

On June 1, 2011, the City issued \$775,000 of electric revenue refunding bonds, with interest rates ranging from 1.00% to 2.40% per annum and a maturity date of August 1, 2016. The bonds were issued as a current refunding to retire the outstanding balance, on the call date of August 1, 2011, of \$860,000 of the \$1,900,000 electric revenue capital loan notes issued in February, 2001. The City obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$64,000.

The notes are payable solely from electric customer net receipts and are payable through 2017. The total principal and interest remaining to be paid on the notes is \$1,014,078. For the current year, principal and interest paid and total customer net receipts were \$198,088 and \$249,228 respectively.

Telecommunications

The City has pledged future telecommunication customer receipts, net of specified operating disbursements, to repay \$1,300,000 in telecommunication revenue capital loan notes issued in March 1, 2004. Proceeds from the notes provided financing for the construction of improvements to the telecommunication system.

On June 1, 2011, the City issued \$765,000 of telecommunications revenue refunding bonds, with interest rates ranging from 1.00% to 3.45% per annum and a maturity date of March 1, 2019. The bonds were issued as a current refunding to retire the outstanding balance of \$780,000 of the \$1,300,000 telecommunication revenue capital loan notes issued March 1, 2004. The City obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$34,000.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

3. NOTES PAYABLE - (Continued)

Telecommunications – (Continued)

The notes are payable solely from telecommunication customer net receipts and are payable through 2019. The total principal and interest remaining to be paid on the notes is \$851,651. For the current year, principal and interest paid and total customer net receipts were \$126,718 and \$105,402 respectively.

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

- A. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to separate sewer, electric, water, and telecommunication revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- C. The City is to establish separate Electric, Water, and Telecommunication, Principal and Interest Reserve Accounts into which there shall be set apart and paid at the time of delivery of the obligations the sum of \$77,500 for electric, 76,500 for telecommunications, and \$40,000 for water.
- D. Additional monthly transfers of \$1,650 to the Electric Improvement Fund and \$1,000 to the Water Improvement Fund shall be made until the sum of \$150,000 and \$36,000 has been accumulated, respectively. These accounts are restricted for the purpose of paying for necessary repairs, improvements, and extensions to the system.

4. OPERATING LEASE

The city leases a copier system. Rental expense incurred for this lease was \$4,157 for the year ended June 30, 2011. Minimum amounts payable under this operating lease are as follows:

Year Ending <u>June 30</u> 2012	\$ 3,117
--	----------

5. 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.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

5. PENSION AND RETIREMENT BENEFITS – (Continued)

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2011, 2010, 2009, were \$42,497, \$43,220, and \$38,807 respectively, equal to the required contributions for each year.

6. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave 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 and sick leave payable to employees at June 30, 2011, primarily relating to the Enterprise Funds, is as follows:

<u>Type of Benefit</u>	
Vacation	\$ 24,053
Sick Leave	<u>139,414</u>
Total	<u>\$ 163,467</u>

Sick leave is payable when used or upon retirement or death. If paid upon retirement or death, the total accumulated hours are paid at the then effective hourly rate for that employee. This liability has been computed based on rates of pay in effect at June 30, 2011.

7. INTERGOVERNMENTAL AGREEMENTS

The City has entered into an agreement with Northwest Iowa Area Solid Waste Agency, in accordance with Chapter 28E of the Code of Iowa, for disposal of solid waste from within the City. Payments under this agreement were \$18,099 for the year ended June 30, 2011.

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The closure and post-closure costs to the agency have been estimated at \$2,207,425 as of June 30, 2010, which is the latest information available, and the Agency has begun to accumulate resources to fund these costs. As of June 30, 2010, deposits of \$1,456,299 are held for these purposes. No estimate has been made regarding the effect of future assessments to the City.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

8. EQUITY IN COOPERATIVE

City of Hartley is a member of the Missouri Basin Municipal Electric Cooperative Association. The City's share of equity in this cooperative at June 30, 2011, consists of the following:

Transmission capacity	\$ 286,625
Members' advances for transmission capacity	175,289
Other members' capital	17,568
Membership	<u>100</u>
	<u>\$ 479,582</u>

Transmission Capacity - Transmission capacity is stated at cost and consists of contributions made under the Transmission Agreement for the NIPCO transmission system. Transmission capacity is being amortized on a straight-line basis over thirty-five years.

Members' Advances for Transmission Capacity - Members' advances for transmission capacity consist of contributions by the members and net interest earned on investments allocated to the members. These advances from the participating Transmission Members are being held for future transmission capacity contributions by the Association in its capacity as agent for these members.

Other Members' Capital - Other members' capital consists of patronage dividends declared by NIPCO, but unpaid.

9. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees, and their spouses. There are 15 active members and 1 retired member in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$488 for single coverage, \$999 for spouse only coverage, and \$1,497 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$168,685 and plan members eligible for benefits contributed \$13,615 to the plan.



CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

12. PROMISSORY NOTES

On April 6, 1998, City of Hartley received two promissory notes from Hartley Housing Associates, Limited Partnership, in the amounts of \$40,000 and \$30,000 with interest at two percent and one percent, respectively. Repayment terms are \$2,049 and \$2,164 annually respectively, beginning May 1, 1999, with final payment coming due on May 1, 2013. However, because of limited "surplus cash" available there has only been one payment made on each of these notes since inception. The note agreement does allow this to occur but does stipulate that any unpaid portion shall accrue interest. These notes are secured by mortgages on residential lots owned by the borrower. The funds are to be used to develop affordable rental housing.

13. CONSTRUCTION CONTRACTS AND COMMITMENTS

The City has entered into the following contracts which were not completed as of June 30, 2011.

<u>Project</u>	<u>Total Contract Amount</u>	<u>Amount Paid As of June 30, 2011</u>	<u>Remaining Commitment As of June 30, 2011</u>
Water treatment plant	\$ 2,406,965	\$ 2,385,468	\$ 21,497
Substation improvement	35,348	34,451	897

The remaining commitments on these projects will be financed with grant proceeds and funds on hand.

14. ASSISTED LIVING FACILITY REVENUE BONDS

The City has approved issuing up to \$2,500,000 of assisted living facility revenue bonds under the provisions of Chapter 419 of the Code of Iowa; \$2,470,869 is outstanding at June 30, 2011. The bonds and related interest are payable solely from the revenues of Community Memorial Health Center Association and do not constitute liabilities of the City.

15. RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials or employees totaling \$4,595 during the year ended June 30, 2011.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARTLEY  
 BUDGETARY COMPARISON SCHEDULE OF  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES –  
 BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final To Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 342,427	\$ -	\$ 342,427	\$ 345,256	\$ 345,256	\$ (2,829)
Tax increment financing	190,144	-	190,144	200,000	200,000	(9,856)
Other city tax	148,085	-	148,085	125,000	125,000	23,085
Licenses and permits	3,565	-	3,565	32,000	32,000	(28,435)
Use of money and property	47,418	64,486	111,904	98,391	98,391	13,513
Intergovernmental	315,508	136,453	451,961	379,453	379,453	72,508
Charges for service	81,091	2,982,824	3,063,915	3,057,700	3,057,700	6,215
Special assessments	335	-	335	250	250	85
Miscellaneous	54,489	177,581	232,070	151,406	176,967	55,103
Total receipts	<u>1,183,062</u>	<u>3,361,344</u>	<u>4,544,406</u>	<u>4,389,456</u>	<u>4,415,017</u>	<u>129,389</u>
Disbursements:						
Public safety	254,172	-	254,172	309,071	309,071	54,899
Public works	247,237	-	247,237	184,033	280,533	33,296
Culture and recreation	173,987	-	173,987	204,481	204,481	30,494
Community and economic development	169,291	-	169,291	285,060	285,060	115,769
General government	70,400	-	70,400	122,383	122,383	51,983
Debt service	123,135	-	123,135	123,035	123,035	(100)
Business type activities	-	3,808,635	3,808,635	4,049,068	4,393,068	584,433
Total disbursements	<u>1,038,222</u>	<u>3,808,635</u>	<u>4,846,857</u>	<u>5,277,131</u>	<u>5,717,631</u>	<u>870,774</u>
Excess (deficiency) of receipts over disbursements	144,840	(447,291)	(302,451)	(887,675)	(1,302,614)	1,000,163
Other financing sources, net	55,993	(53,993)	2,000	600,000	600,000	(598,000)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	200,833	(501,284)	(300,451)	(287,675)	(702,614)	402,163
Balance, beginning of year	893,175	2,720,714	3,613,889	2,464,547	2,464,547	1,149,342
Balance, end of year	<u>\$ 1,094,008</u>	<u>\$ 2,219,430</u>	<u>\$ 3,313,438</u>	<u>\$ 2,176,872</u>	<u>\$ 1,761,933</u>	<u>\$ 1,551,505</u>

See accompanying independent auditor's report.

CITY OF HARTLEY  
NOTES TO REQUIRED SUPPLEMENTARY  
INFORMATION – BUDGETARY REPORTING  
JUNE 30, 2011

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. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Permanent Fund, the Debt Service Fund, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year ended June 30, 2011 the budget was amended one time which increased budgeted disbursements by \$440,500. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amount budgeted in the debt service function.

SUPPLEMENTARY INFORMATION

CITY OF HARTLEY  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Schedule 1

	Special Revenue			Permanent		Total
	Employee Benefits	Economic Development	Owner Occupied Rehab	Debt Service	Cemetery Perpetual Care	
Receipts:						
Property tax	\$ 98,664	\$ -	\$ -	\$ 29,148	\$ -	\$ 127,812
Intergovernmental	-	-	113,899	-	-	113,899
Special assessments	-	-	-	335	-	335
Miscellaneous	-	-	-	-	440	440
Total receipts	<u>98,664</u>	<u>-</u>	<u>113,899</u>	<u>29,483</u>	<u>440</u>	<u>242,486</u>
Disbursements:						
Operating:						
Community and economic development	-	40,877	120,181	-	-	161,058
Debt Service	-	-	-	85,305	-	85,305
Total disbursements	<u>-</u>	<u>40,877</u>	<u>120,181</u>	<u>85,305</u>	<u>-</u>	<u>246,363</u>
Excess (deficiency) of receipts over disbursements	<u>98,664</u>	<u>(40,877)</u>	<u>(6,282)</u>	<u>(55,822)</u>	<u>440</u>	<u>(3,877)</u>
Other financing sources (uses):						
Transfers in	-	69,000	30,000	83,644	-	182,644
Transfers out	(84,332)	(30,000)	-	-	-	(114,332)
Total other financing sources and uses	<u>(84,332)</u>	<u>39,000</u>	<u>30,000</u>	<u>83,644</u>	<u>-</u>	<u>68,312</u>
Net change in cash balances	14,332	(1,877)	23,718	27,822	440	64,435
Cash balances beginning of year	<u>86,200</u>	<u>2,079</u>	<u>5,037</u>	<u>11,880</u>	<u>91,512</u>	<u>196,708</u>
Cash balances end of year	<u>\$ 100,532</u>	<u>\$ 202</u>	<u>\$ 28,755</u>	<u>\$ 39,702</u>	<u>\$ 91,952</u>	<u>\$ 261,143</u>
Cash Basis Fund Balances						
Nonspendable - Cemetery perpetual care	\$ -	\$ -	\$ -	\$ -	\$ 91,952	\$ 91,952
Restricted for:						
Debt service	-	-	-	39,702	-	39,702
Other purposes	100,532	202	28,755	-	-	129,489
Total cash basis fund balances	<u>\$ 100,532</u>	<u>\$ 202</u>	<u>\$ 28,755</u>	<u>\$ 39,702</u>	<u>\$ 91,952</u>	<u>\$ 261,143</u>

See accompanying independent auditor's report

CITY OF HARTLEY  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
NONMAJOR PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Schedule 2

	<u>Enterprise</u>		<u>Total</u>
	<u>Solid</u> <u>Waste</u>	<u>Consumer</u> <u>Deposit</u>	
Operating Receipts:			
Use of money and property	\$ 1,470	\$ -	\$ 1,470
Charges for services	137,083	-	137,083
Miscellaneous	508	17,310	17,818
Total operating receipts	139,061	17,310	156,371
Operating disbursements:			
Business type activities	119,581	15,014	134,595
Excess of operating receipts over operating disbursements	19,480	2,296	21,776
Non-operating receipts			
Interest on investments	2,958	-	2,958
Net change in cash balances	22,438	2,296	24,734
Cash balances beginning of year	135,050	36,106	171,156
Cash balances end of year	<u>\$ 157,488</u>	<u>\$ 38,402</u>	<u>\$ 195,890</u>
Cash Basis Fund Balances			
Unrestricted	<u>\$ 157,488</u>	<u>\$ 38,402</u>	<u>\$ 195,890</u>

See accompanying independent auditor's report

CITY OF HARTLEY  
SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2011

Schedule 3

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
<b>Revenue Notes:</b>								
Electric	February 1, 2001	5.25%	\$ 1,900,000	\$ 1,145,000	\$ -	\$ 1,000,000	\$ 145,000	\$ 58,088
Water	November 1, 2003	4.45 - 5.20	400,000	240,000	-	25,000	215,000	11,555
Telecommunication	March 1, 2004	3.70 - 4.90	1,300,000	860,000	-	860,000	-	46,718
Sewer	July 20, 2004	3.00	1,300,000	1,043,000	-	56,000	987,000	31,290
Sewer	December 2, 2004	3.00	432,000	344,000	2,000	19,000	327,000	10,362
Water	July 1, 2009	3.00	1,000,000	959,000	-	37,000	922,000	29,042
Water-forgivable	November 4, 2009	3.00	1,040,000	1,040,000	-	-	1,040,000	-
Electric refunding	June 1, 2011	1.00 - 2.40	775,000	-	775,000	-	775,000	-
Telecommunication refunding	June 1, 2011	1.00 - 3.45	765,000	-	765,000	-	765,000	-
<b>Total</b>			<u>\$ 8,912,000</u>	<u>\$ 5,631,000</u>	<u>\$ 1,542,000</u>	<u>\$ 1,997,000</u>	<u>\$ 5,176,000</u>	<u>\$ 187,055</u>
<b>General Obligation Notes:</b>								
Library	June 1, 2001	5.00 - 5.10%	\$ 400,000	\$ 125,000	\$ -	\$ 40,000	\$ 85,000	\$ 6,255
Street Improvement	June 1, 2008	4.75	280,000	228,000	-	27,000	201,000	10,830
Water	July 1, 2009	3.00	560,000	540,000	-	21,000	519,000	16,200
<b>Total</b>			<u>\$ 1,240,000</u>	<u>\$ 893,000</u>	<u>\$ -</u>	<u>\$ 88,000</u>	<u>\$ 805,000</u>	<u>\$ 33,285</u>

See accompanying independent auditor's report

CITY OF HARTLEY  
NOTE MATURITIES  
JUNE 30, 2011

Schedule 4

Revenue Notes

Year Ending June 30	Electric Issued February 1, 2001		Water Issued November 1, 2003		Sewer Issued July 20, 2004		Sewer Issued December 2, 2004		Water Issued July 1, 2009		Water Issued November 4, 2009		Electric Refunding Issued June 1, 2011		Telecom Refunding Issued June 1, 2011		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2012	5.25%	\$ 145,000	4.45%	\$ 25,000	3.00%	\$ 58,000	3.00%	\$ 19,000	3.00%	\$ 39,000	3.00%	\$ 41,000	1.00%	\$ -	1.00%	\$ 105,000	\$ 432,000
2013	-	-	4.60	30,000	3.00	60,000	3.00	20,000	3.00	40,000	3.00	42,000	1.00	165,000	1.30	100,000	457,000
2014	-	-	4.75	30,000	3.00	61,000	3.00	20,000	3.00	41,000	3.00	43,000	1.30	165,000	1.75	100,000	460,000
2015	-	-	4.90	30,000	3.00	63,000	3.00	21,000	3.00	43,000	3.00	45,000	1.70	170,000	2.20	100,000	472,000
2016	-	-	5.00	30,000	3.00	65,000	3.00	22,000	3.00	44,000	3.00	46,000	2.10	175,000	2.50	100,000	482,000
2017	-	-	5.10	35,000	3.00	67,000	3.00	22,000	3.00	45,000	3.00	47,000	2.40	100,000	2.85	105,000	421,000
2018	-	-	5.20	35,000	3.00	69,000	3.00	23,000	3.00	47,000	3.00	49,000	-	-	3.45	105,000	328,000
2019	-	-	-	-	3.00	71,000	3.00	24,000	3.00	48,000	3.00	51,000	-	-	3.45	50,000	244,000
2020	-	-	-	-	3.00	73,000	3.00	24,000	3.00	50,000	3.00	52,000	-	-	-	-	199,000
2021	-	-	-	-	3.00	75,000	3.00	25,000	3.00	52,000	3.00	54,000	-	-	-	-	206,000
2022	-	-	-	-	3.00	78,000	3.00	26,000	3.00	53,000	3.00	56,000	-	-	-	-	213,000
2023	-	-	-	-	3.00	80,000	3.00	26,000	3.00	55,000	3.00	57,000	-	-	-	-	218,000
2024	-	-	-	-	3.00	82,000	3.00	27,000	3.00	57,000	3.00	59,000	-	-	-	-	225,000
2025	-	-	-	-	3.00	85,000	3.00	28,000	3.00	59,000	3.00	61,000	-	-	-	-	233,000
2026	-	-	-	-	-	-	-	-	3.00	61,000	3.00	63,000	-	-	-	-	124,000
2027	-	-	-	-	-	-	-	-	3.00	62,000	3.00	65,000	-	-	-	-	127,000
2028	-	-	-	-	-	-	-	-	3.00	64,000	3.00	67,000	-	-	-	-	131,000
2029	-	-	-	-	-	-	-	-	3.00	62,000	3.00	70,000	-	-	-	-	132,000
2030	-	-	-	-	-	-	-	-	-	-	3.00	72,000	-	-	-	-	72,000
		<u>\$ 145,000</u>		<u>\$ 215,000</u>		<u>\$ 987,000</u>		<u>\$ 327,000</u>		<u>\$ 922,000</u>		<u>\$ 1,040,000</u>		<u>\$ 775,000</u>		<u>\$ 765,000</u>	<u>\$ 5,176,000</u>

General Obligation Notes

Year Ending June 30	Library Issued June 1, 2001		Street Improvement Issued June 1, 2008		Water Issued July 1, 2009		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2012	5.00%	\$ 40,000	4.75%	\$ 27,000	3.00%	\$ 22,000	\$ 89,000
2013	5.10	45,000	4.75	28,000	3.00	22,000	95,000
2014	-	-	4.75	28,000	3.00	23,000	51,000
2015	-	-	4.75	29,000	3.00	24,000	53,000
2016	-	-	4.75	29,000	3.00	25,000	54,000
2017	-	-	4.75	30,000	3.00	25,000	55,000
2018	-	-	4.75	30,000	3.00	26,000	56,000
2019	-	-	-	-	3.00	27,000	27,000
2020	-	-	-	-	3.00	28,000	28,000
2021	-	-	-	-	3.00	29,000	29,000
2022	-	-	-	-	3.00	30,000	30,000
2023	-	-	-	-	3.00	31,000	31,000
2024	-	-	-	-	3.00	32,000	32,000
2025	-	-	-	-	3.00	33,000	33,000
2026	-	-	-	-	3.00	34,000	34,000
2027	-	-	-	-	3.00	35,000	35,000
2028	-	-	-	-	3.00	36,000	36,000
2029	-	-	-	-	3.00	37,000	37,000
		<u>\$ 85,000</u>		<u>\$ 201,000</u>		<u>\$ 519,000</u>	<u>\$ 805,000</u>

See accompanying independent auditor's report

CITY OF HARTLEY  
SCHEDULE OF RECEIPTS BY SOURCE AND  
DISBURSEMENTS BY FUNCTION  
ALL GOVERNMENTAL FUNDS  
FOR THE LAST NINE YEARS

Schedule 5

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Receipts:</b>									
Property tax	\$ 342,427	\$ 302,921	\$ 285,470	\$ 343,191	\$ 331,406	\$ 257,032	\$ 258,995	\$ 268,036	\$ 259,089
Tax increment financing	190,144	189,906	197,368	129	51,597	252,592	225,368	195,663	190,439
Other city tax	148,085	106,729	174,170	144,957	133,908	105,092	104,751	100,648	102,318
Licenses and permits	3,565	4,295	3,567	5,812	4,822	2,504	1,722	2,276	2,078
Use of money and property	47,418	49,222	47,659	82,017	92,321	71,301	70,569	51,061	25,239
Intergovernmental	315,508	194,738	324,980	207,138	313,154	291,785	222,787	193,663	183,300
Charges for service	81,091	96,188	92,768	80,276	81,220	76,163	59,127	58,675	85,040
Special assessments	335	4,522	7,918	8,844	8,751	10,920	14,771	26,674	16,620
Miscellaneous	54,489	23,155	43,354	37,964	20,428	36,494	328,814	42,931	28,748
<b>Total</b>	<u>\$1,183,062</u>	<u>\$ 971,676</u>	<u>\$1,177,254</u>	<u>\$ 910,328</u>	<u>\$1,037,607</u>	<u>\$1,103,883</u>	<u>\$1,286,904</u>	<u>\$ 939,627</u>	<u>\$ 892,871</u>
<b>Disbursements:</b>									
<b>Operating:</b>									
Public safety	\$ 254,172	\$ 277,500	\$ 263,584	\$ 247,013	\$ 198,068	\$ 198,068	\$ 239,950	\$ 215,464	\$ 345,606
Public works	247,237	241,661	293,157	270,278	121,779	121,779	128,081	337,381	164,224
Culture and recreation	173,987	202,073	326,516	177,783	186,992	186,992	149,383	163,893	171,509
Community and economic development	169,291	126,477	526,164	218,560	137,104	137,104	64,821	107,193	2,791
General government	70,400	86,688	93,356	65,888	82,092	82,092	73,675	96,598	89,965
Debt service	123,135	88,798	56,470	58,660	57,460	57,460	59,300	61,000	67,503
<b>Total</b>	<u>\$1,038,222</u>	<u>\$1,023,197</u>	<u>\$1,559,247</u>	<u>\$1,038,182</u>	<u>\$ 783,495</u>	<u>\$ 783,495</u>	<u>\$ 715,210</u>	<u>\$ 981,529</u>	<u>\$ 841,598</u>

See accompanying independent auditor's report

HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.  
RICHARD R. MOORE, C.P.A.  
WESLEY E. STILLE, C.P.A. (RETIRED)  
KENNETH A. PUTZIER, C.P.A. (RETIRED)  
W.J. HUNZELMAN, C.P.A. 1921-1997

1100 WEST MILWAUKEE  
STORM LAKE, IOWA 50588  
712-732-3653  
FAX 712-732-3662  
info@hpcocpa.com

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  
Hartley, Iowa

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 City of Hartley, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 9, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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 City of Hartley's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Hartley's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Hartley's internal control over financial reporting.

Our consideration of internal control over financial reporting was for limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hartley's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011, 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.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of City of Hartley, and other parties to whom City of Hartley 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.

January 9, 2012

*Henzelman, Putzier & Co.*

CITY OF HARTLEY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2011

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-11 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. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by either of two individuals.

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

Response - It is our practice to cross train each employee on all aspects of our office. Each employee is assigned specific responsibilities. The cross training is used primarily to allow for vacations and unexpected illnesses. We will continue to look for ways to adjust our operating procedures to obtain the maximum internal control possible under the circumstances.

Conclusion - Response accepted.

I-B-11 Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response - The City Clerk/Administrator will try to attend educational courses to be able to report financial data using OCBOA and work with our auditors to make sure we are reporting correctly.

Conclusion - Response accepted.

CITY OF HARTLEY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2011

Part II: Other Findings Related to Required Statutory Reporting:

II-A-11 Certified Budget - Disbursements during the year ended June 30, 2011, exceeded the amounts budgeted in the debt service function at June 30, 2011. Chapter 384.20 of the Code of Iowa states in part that public moneys may not be expended or encumbered except under an annual or continuing appropriation.

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

Response - We try to control costs and time by amending the budget once a year but situations occur with City expenditures that are beyond our control. We will monitor funds more closely in the future and amend the budget before expenditures exceed the budget.

Conclusion - Response accepted.

II-B-11 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-11 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-11 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Kevin Snider, Council Member, owner of Snider Auto Care Center	Repairs/service	\$2,081
Sheri Tewes, Deputy Clerk, mother owns Fanning Construction	Labor and materials	\$2,514

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions with Council Member Snider do not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the fiscal year. The remaining transactions may represent a conflict of interest since the cumulative amount was more than \$2,500 during the fiscal year.

Recommendation - The Code does allow the City to transact business with City officers or employees in excess of \$2,500 but only if the contract is made subject to a competitive bid in writing, publicly invited, and opened. The City should consult their attorney to determine that they are in compliance with the Code of Iowa.

Response - We will monitor our transactions to make sure we do not have a conflict of interest, and will consult with our city attorney.

Conclusion - Response accepted.

II-E-11 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 that the coverage is adequate for current operations.

CITY OF HARTLEY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2011

Part II: Other Findings Related to Required Statutory Reporting: (Continued)

II-F-11 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-11 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-H-11 Revenue Notes – No instances of non-compliance with the revenue note resolutions were noted.

II-I-11 Payment of General Obligation Bonds – Certain general obligation bond payments were paid from the Special Revenue, Tax Increment Financing Fund. Chapter 384.4 of the Code of Iowa states, in part "Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund."

Recommendation - The City should transfer from Special Revenue, Tax Increment Financing Fund to the Debt Service Fund for future funding contributions. Payment of the bonds should then be disbursed from the Debt Service Fund.

Response – The City will adjust and transfer the appropriate funds to the Debt Service Fund to service the general obligation bonds.

Conclusion – Response accepted.

II-J-11 Excess Balances - The following funds have a balance at June 30, 2011, which is in excess of one year's expenditures:

- Special Revenue - Library Expendable Trust
- Road Use Tax
- Employee Benefits

Recommendation - While it appears that these funds may have excessive balances, this can usually be justified if the City has a specific plan for future expenditures. The City should consider the necessity of maintaining these substantial balances and, where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response – Library Expendable Trust – The balance in this account is expendable only according to certain criteria of the trust when it was set up. This amount was received from an estate and it is disbursed according to the library's needs for the specified trust criteria as determined by the Library Board.

Road Use Tax – The excess balance is a result of an equipment replacement plan where we set aside dollars for future replacement of multiple pieces of equipment. The balance will be spent as equipment is replaced.

Employee Benefits – The excess balance is due to unknown and volatile insurance costs. The City will try to reduce this balance in future years by adjusting the employee benefit levy.

Conclusion – Response accepted.