

**CITY OF FARLEY
FARLEY, IOWA**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2014**

**CITY OF FARLEY
FARLEY, IOWA**

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**CITY OF FARLEY
FARLEY, IOWA**

OFFICIALS

Name	Title	Term Expires
(Before January 2014)		
Jeff Simon	Mayor	January 2014
Bill Einwalter	Mayor Pro Tem/Council Member	January 2014
Joyce Jarding	Council Member	January 2014
Jay Hefel	Council Member	January 2016
David Kluesner	Council Member	January 2016
Jason Norton	Council Member	January 2016
Danielle Hartke	City Clerk	Indefinite
Luke Guthrie	City Attorney	Indefinite
(After January 2014)		
Jay Hefel	Mayor	January 2018
Joyce Jarding	Mayor Pro Tem/Council Member	January 2018
Marty Benda	Council Member	January 2016
David Kluesner	Council Member	January 2016
Jason Norton	Council Member	January 2016
Justin Philipp	Council Member	January 2018
Ashley Jasper	City Clerk	Indefinite
Luke Guthrie	City Attorney	Indefinite

1415 Locust Street
P.O. Box 743
Dubuque, IA 52004-0743
Phone | 563-582-7224
Fax | 563-582-6118

901 Spring Street
P.O. Box 294
Galena, IL 61036-0294
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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

www.oconnorbrooks.com

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Farley, Iowa as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2013.

Qualified Opinions

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2013, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Farley as of June 30, 2014, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which are a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

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. The supplementary information included in Schedules 1-3 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2013, as discussed in the "Basis for Qualified Opinions" paragraph, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 5 through 10 and 30 through 32 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 26, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

O'CONNOR, BROOKS & CO., P.C.

O'Connor, Brooks & Co., P.C.

Dubuque, Iowa

May 26, 2015

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, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- The City's governmental activities cash basis net position increased \$243,768 to \$915,514 at June 30, 2014.
- Total receipts for the City's governmental activities were \$1,672,999 including \$504,842 in property tax, \$279,056 in tax increment financing, \$193,396 in local option sales tax and \$153,475 in road use tax receipts.
- Total disbursements for the City's governmental activities were \$1,429,231 including \$458,122 for debt service, \$281,692 for public safety and \$275,615 for public works.
- The City's cash basis net position for business type activities decreased \$26,319 to \$298,992 at June 30, 2014. Total receipts from business type activities were \$437,980, primarily from charges for service. Total business type activities disbursements were \$464,299 including \$244,589 for operations and \$219,710 for debt service.

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 Cash Basis Statement of Activities and Net Position. 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 financial 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.

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

Supplementary Information provides detailed information about the non-major governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government and debt service. Property tax and state and federal grants finance most of these activities.
- Business type activities include water, sewer and customer deposits. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

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

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

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

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$671,746 to \$915,514. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities

	Year Ended June 30, 2014
Receipts:	-----
Program receipts:	
Charges for service	\$ 194,558
Operating grants and contributions	258,633
Capital grants and contributions	10,000
General receipts:	
Property tax	504,842
Tax increment financing	279,056
Local option sales tax	193,396
Unrestricted investment earnings	5,518
Loan proceeds	180,500
Other general receipts	46,496

Total receipts	\$1,672,999

Disbursements:	
Public safety	\$ 281,692
Public works	275,615
Culture and recreation	154,994
Community and economic development	106,889
General government	151,919
Debt service	458,122

Total disbursements	\$1,429,231

Change in cash basis net position	\$ 243,768
Cash basis net position beginning of year	671,746

Cash basis net position end of year	\$ 915,514
	=====

The City's cash balance for business type activities decreased from a year ago, from \$325,311 to \$298,992. The analysis that follows focuses on the changes in cash balances for business type activities.

Changes in Cash Basis Net Position of Business Type Activities

	Year Ended June 30, 2014 -----
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 203,207
Sewer	229,254
Miscellaneous:	
Customer deposits	600
General receipts:	
Unrestricted interest on investments	471
Loan proceeds	4,448

Total receipts	\$ 437,980

Disbursements:	
Water	\$ 249,708
Sewer	214,591

Total disbursements	\$ 464,299

Change in cash basis net position	\$ (26,319)
Cash basis net position beginning of year	325,311

Cash basis net position end of year	\$ 298,992
	=====

Water Fund disbursements consisted of \$143,943 for operations and \$105,765 for debt service. Sewer Fund disbursements consisted of \$100,646 for operations and \$113,945 for debt service.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Farley completed the year, its governmental funds reported a combined fund balance of \$915,514, an increase of \$243,768 above last year's total. The following are the reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased from \$492,883 to \$493,835.
- The Special Revenue, Road Use Tax Fund cash balance increased from \$106,478 to \$149,215 primarily due to a decrease in operational expenses.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased from \$86,371 to \$159,505. The increase was the result of incremental property tax generated from the increased taxable valuation in the district.
- The Debt Service Fund cash balance increased \$56,162 primarily due to increased property tax receipts to remove a \$51,516 deficit at the end of FY2013.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$41,696 primarily due to disbursements for water tower painting and maintenance.
- The Sewer Fund cash balance increased \$14,777 primarily due to decreased disbursements for operational equipment repair.

BUDGETARY HIGHLIGHTS

The City amended its budget once during the fiscal year. It was amended and approved on May 19, 2014, to provide for additional disbursements in the Public Safety, Public Works, General Government, and Debt Service functions. The City had sufficient cash balances to cover the amendment.

The City's receipts were \$139,021 more than budgeted. This was primarily due to park board receipts not being included in the budget.

The City's disbursements exceeded the amounts budgeted in the culture and recreation and business type activities for the year ended June 30, 2014 due to park board expenses not being included in the budget and the water and sewer revenue bond debt payments being budgeted for in the debt service fund instead of the water and sewer funds.

DEBT ADMINISTRATION

At June 30, 2014, the City had \$5,728,948 in bonds and other long-term debt, compared to \$6,053,000 last year, as shown below.

Outstanding Debt at Year End		
	June 30,	
	2014	2013
General obligation bonds	\$3,430,000	\$ 3,785,000
Revenue notes	2,122,000	2,268,000
Road use tax revenue note	32,000	---
Ambulance note	140,500	---
Interim loan and disbursement agreement	4,448	---
Total	\$5,728,948	\$ 6,053,000

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 \$3,430,000 is below its constitutional debt limit of \$5,047,712.

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 2015 budget, tax rates and fees charged for various City activities.

These indicators were taken into account when adopting the budget for fiscal year 2015. The fiscal year 2015 budget includes total receipts of \$2,213,816 and disbursements of \$2,553,840. The City has added no major new programs or initiatives to the fiscal year 2015 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$340,024 by the close of fiscal year 2015.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

**BASIC
FINANCIAL
STATEMENTS**

CITY OF FARLEY
FARLEY, IOWA

CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs:	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Governmental Activities:							
Public safety	\$ 281,692	\$ 24,846	\$ 104,788	\$ ---	\$ (152,058)	\$ ---	\$ (152,058)
Public works	275,615	66,876	153,475	---	(55,264)	---	(55,264)
Culture and recreation	154,994	89,519	370	10,000	(55,105)	---	(55,105)
Community and economic development	106,889	---	---	---	(106,889)	---	(106,889)
General government	151,919	13,317	---	---	(138,602)	---	(138,602)
Debt service	458,122	---	---	---	(458,122)	---	(458,122)
Total Governmental Activities	\$ 1,429,231	\$ 194,558	\$ 258,633	\$ 10,000	\$ (966,040)	\$ ---	\$ (966,040)
Business Type Activities:							
Water	\$ 249,708	\$ 203,207	---	---	\$ ---	\$ (46,501)	\$ (46,501)
Sewer	214,591	229,254	---	---	---	14,663	14,663
Customer deposits	---	600	---	---	---	600	600
Total Business Type Activities	\$ 464,299	\$ 433,061	\$ ---	\$ ---	\$ ---	\$ (31,238)	\$ (31,238)
Total	\$ 1,893,530	\$ 627,619	\$ 258,633	\$ 10,000	\$ (966,040)	\$ (31,238)	\$ (997,278)

See notes to financial statements.

CITY OF FARLEY
FARLEY, IOWA

CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Position			
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
General Receipts and Transfers:						
Property tax levied for:						
General purposes				\$ 140,266	\$ ---	\$ 140,266
Debt service				364,576	---	364,576
Tax increment financing				279,056	---	279,056
Local option sales tax				193,396	---	193,396
Unrestricted interest on investment				5,518	471	5,989
Loan proceeds				180,500	4,448	184,948
Special assessments				12,596	---	12,596
Miscellaneous				18,295	---	18,295
Sale of capital assets				15,605	---	15,605
Total General Receipts and Transfers				<u>\$ 1,209,808</u>	<u>\$ 4,919</u>	<u>\$ 1,214,727</u>
Change in Cash Basis Net Position				<u>\$ 243,768</u>	<u>\$ (26,319)</u>	<u>\$ 217,449</u>
Cash Basis Net Position Beginning of Year				<u>671,746</u>	<u>325,311</u>	<u>997,057</u>
Cash Basis Net Position End of Year				<u>\$ 915,514</u>	<u>\$ 298,992</u>	<u>\$ 1,214,506</u>
Cash Basis Net Position:						
Restricted:						
Expendable:						
Debt service				\$ 4,646	\$ 8,814	\$ 13,460
Urban renewal purposes				159,505	---	159,505
Streets				149,215	---	149,215
Public safety				108,313	---	108,313
Unrestricted				493,835	290,178	784,013
Total Cash Basis Net Position				<u>\$ 915,514</u>	<u>\$ 298,992</u>	<u>\$ 1,214,506</u>

See notes to financial statements.

CITY OF FARLEY
FARLEY, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	Special Revenue					
	General	Road Use Tax	Urban Renewal Tax Increment	Debt Service	Nonmajor	Total
Receipts:						
Property tax	\$ 140,266	---	---	\$ 364,576	---	\$ 504,842
Tax increment financing	---	---	279,056	---	---	279,056
Other city tax	193,396	---	---	---	---	193,396
Licenses and permits	13,317	---	---	---	---	13,317
Use of money and property	12,487	---	33	4,249	19	16,788
Intergovernmental	30,087	153,475	---	---	---	183,562
Charges for services	177,386	---	---	---	3,855	181,241
Special assessments	---	---	---	12,596	---	12,596
Miscellaneous	14,261	---	---	---	77,835	92,096
Total Receipts	\$ 581,200	\$ 153,475	\$ 279,089	\$ 381,421	\$ 81,709	\$1,476,894
Disbursements:						
Operating						
Public safety	\$ 123,266	---	---	---	\$ 158,426	\$ 281,692
Public works	158,674	116,941	---	---	---	275,615
Culture and recreation	154,994	---	---	---	---	154,994
Community and economic development	---	---	106,889	---	---	106,889
General government	151,919	---	---	---	---	151,919
Debt service	---	---	---	458,122	---	458,122
Total Disbursements	\$ 588,853	\$ 116,941	\$ 106,889	\$ 458,122	\$ 158,426	\$1,429,231
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (7,653)	\$ 36,534	\$ 172,200	\$ (76,701)	\$ (76,717)	\$ 47,663

See notes to financial statements.

EXHIBIT "B" (Continued)

**CITY OF FARLEY
FARLEY, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

	Special Revenue					
	General	Road Use Tax	Urban Renewal Tax Increment	Debt Service	Nonmajor	Total
Other Financing Sources (Uses):						
Loan proceeds	\$ ---	\$ 40,000	\$ ---	\$ ---	\$ 140,500	\$ 180,500
Sale of capital assets	8,605	---	---	---	7,000	15,605
Transfers in	---	---	---	132,863	---	132,863
Transfers out	---	(33,797)	(99,066)	---	---	(132,863)
Total Other Financing Sources (Uses)	\$ 8,605	\$ 6,203	\$ (99,066)	\$ 132,863	\$ 147,500	\$ 196,105
Change in Cash Balances	\$ 952	\$ 42,737	\$ 73,134	\$ 56,162	\$ 70,783	\$ 243,768
Cash Balances Beginning of Year	492,883	106,478	86,371	(51,516)	37,530	671,746
Cash Balances End of Year	\$ 493,835	\$ 149,215	\$ 159,505	\$ 4,646	\$ 108,313	\$ 915,514
Cash Basis Fund Balances:						
Restricted for:						
Debt service	\$ ---	\$ ---	\$ ---	\$ 4,646	\$ ---	\$ 4,646
Urban renewal purposes	---	---	159,505	---	---	159,505
Streets	---	149,215	---	---	---	149,215
Public safety	---	---	---	---	108,313	108,313
Assigned for parks	41,552	---	---	---	---	41,552
Unassigned	452,283	---	---	---	---	452,283
Total Cash Basis Fund Balances	\$ 493,835	\$ 149,215	\$ 159,505	\$ 4,646	\$ 108,313	\$ 915,514

See notes to financial statements.

**CITY OF FARLEY
FARLEY, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH
BALANCES - PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

	Enterprise			Total
	Water	Sewer	Nonmajor - Customer Deposits	
Operating Receipts:				
Charges for services	\$ 203,207	\$ 229,254	\$ ---	\$ 432,461
Miscellaneous	---	---	600	600
Total Operating Receipts	\$ 203,207	\$ 229,254	\$ 600	\$ 433,061
Operating Disbursements:				
Business type activities	\$ 143,943	\$ 100,646	\$ ---	\$ 244,589
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	\$ 59,264	\$ 128,608	\$ 600	\$ 188,472
Non-Operating Receipts (Disbursements)				
Interest on investments	\$ 357	\$ 114	\$ ---	\$ 471
Debt service	(105,765)	(113,945)	---	(219,710)
Net Non-Operating Receipts (Disbursements)	\$ (105,408)	\$ (113,831)	\$ ---	\$ (219,239)
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (46,144)	\$ 14,777	\$ 600	\$ (30,767)
Operating Financing Sources:				
Loan proceeds	\$ 4,448	\$ ---	\$ ---	\$ 4,448
Changes in Cash Balances	\$ (41,696)	\$ 14,777	\$ 600	\$ (26,319)
Cash Balances Beginning of Year	81,164	238,689	5,458	325,311
Cash Balances End of Year	<u>\$ 39,468</u>	<u>\$ 253,466</u>	<u>\$ 6,058</u>	<u>\$ 298,992</u>
Cash Basis Fund Balances:				
Restricted for Debt Service	\$ 8,814	\$ ---	\$ ---	\$ 8,814
Unrestricted	30,654	253,466	6,058	290,178
Total Cash Basis Fund Balances	<u>\$ 39,468</u>	<u>\$ 253,466</u>	<u>\$ 6,058</u>	<u>\$ 298,992</u>

See notes to financial statements.

**CITY OF FARLEY
FARLEY, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 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.

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

Blended Component Units

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

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

**CITY OF FARLEY
FARLEY, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 1 - Summary of Significant Accounting Policies: (Continued)

Jointly Governed Organizations

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

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position 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 Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding category. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position 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 and enterprise funds are aggregated and reported as nonmajor governmental funds and nonmajor enterprise funds.

**CITY OF FARLEY
FARLEY, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 1 - Summary of Significant Accounting Policies: (Continued)

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

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

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

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position 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.

**CITY OF FARLEY
FARLEY, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 1 - Summary of Significant Accounting Policies: (Continued)

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:

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 the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the culture and recreation and business type activities functions.

Note 2 - Cash and Pooled Investments:

The City's deposits in banks at June 30, 2014 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.

**CITY OF FARLEY
FARLEY, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 2 - Cash and Pooled Investments: (Continued)

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.

Note 3 - Bonds and Notes Payable:

Annual debt service requirements to maturity for the City's indebtedness are as follows:

Year Ending June 30,	G.O. Corp. Purpose Bonds		G.O. Refunding Bonds		Sewer Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 140,000	\$ 60,575	\$ 215,000	\$ 29,625	\$ 80,000	33,410
2016	145,000	57,495	225,000	25,325	83,000	30,810
2017	150,000	53,870	225,000	20,825	85,000	28,113
2018	150,000	49,745	225,000	16,325	88,000	25,350
2019	155,000	45,245	230,000	13,850	90,000	22,490
2020-2024	875,000	141,515	495,000	14,063	494,000	66,657
2025-2029	200,000	8,000	---	---	108,000	3,510
Total	\$1,815,000	\$ 416,445	\$1,615,000	\$ 120,013	1,028,000	210,340

Year Ending June 30	Water Revenue Bonds		Road Use Tax Revenue Note		Ambulance Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 70,000	\$ 35,555	\$ 8,000	\$ 698	\$ 12,831	\$ 2,810
2016	72,000	33,280	8,000	523	13,088	2,553
2017	74,000	30,940	8,000	349	13,350	2,292
2018	77,000	28,535	8,000	174	13,617	2,025
2019	79,000	26,033	---	---	13,889	1,752
2020-2024	431,000	90,122	---	---	73,725	4,482
2025-2029	291,000	19,110	---	---	---	---
Total	\$1,094,000	\$ 263,575	\$ 32,000	\$ 1,744	\$ 140,500	\$ 15,914

Year Ending June 30	Other Obligations		Total	
	Principal	Interest	Principal	Interest
2015	\$ ---	\$ ---	\$ 525,831	\$ 162,673
2016	---	---	546,088	149,986
2017	4,448	---	559,798	136,389
2018	---	---	561,617	122,154
2019	---	---	567,889	109,370
2020-2024	---	---	2,368,725	316,839
2025-2029	---	---	599,000	30,620
Total	\$ 4,448	\$ ---	\$ 5,728,948	\$1,028,031

**CITY OF FARLEY
FARLEY, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 3 - Bonds and Notes Payable: (Continued)

General Obligation Bonds - On June 15, 2010, the City issued \$2,225,000 of general obligation corporate purpose bonds, with interest rates ranging from 1.25% to 4.00%. Interest on the bonds is due semiannually. Bonds due June 1, 2020 – 2025 are callable in whole or in part any date on or after June 1, 2019, at a price of par plus accrued interest.

On November 15, 2012, the City issued \$2,050,000 of general obligation refunding bonds, with interest rates ranging from 0.50% to 2.00%. Interest on the Bonds is due semiannually. Bonds due June 1, 2019 – 2022 are callable in whole or in part any date on or after June 1, 2018, at a price of par plus accrued interest.

Water and Sewer Revenue Bonds - The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$1,533,000 of water revenue bonds issued in March 2007. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding balance. Proceeds from the bonds provided financing for the construction and improvements to the water system. The bonds are payable solely from customer net receipts and are payable through 2027. Interest on the bonds accrues at 3.00% and is payable semiannually. Annual principal and interest payments on the notes are expected to require less than 174 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,357,575. For the current year, principal and interest paid and total customer net receipts were \$102,860 and \$59,264, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,650,000 of sewer revenue bonds issued in December 2004. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding balance. Proceeds from the bonds provided financing for the construction and improvements to the sewer system. The bonds are payable solely from customer net receipts and are payable through 2025. Interest on the bonds accrues at 3.00% and is payable semiannually. Annual principal and interest payments on the notes are expected to require less than 87 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,238,340. For the current year, principal and interest paid and total customer net receipts were \$111,180 and \$128,608, respectively.

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate water revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.

**CITY OF FARLEY
FARLEY, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 3 - Bonds and Notes Payable: (Continued)

- (c) The source of payment is limited to revenues generated by the enterprise activity and the bonds do not constitute a general obligation of the City and should not be paid in any way from taxation.
- (d) The bonds are subject to an optional redemption at a price of par plus accrued interest on any interest payment date after the ten year anniversary of the bond agreement.

Road Use Tax Revenue Note - The City has pledged future road use tax revenue to repay a \$40,000 Road Use Tax Revenue Note issued July 2, 2013. Proceeds from the note provided financing for the acquisition of a dump truck. The note is payable solely from road use tax revenue and is not considered a general obligation of the City. The note requires annual principal payments of \$8,000. Interest accrues at 2.18% and is payable semiannually. The note matures June 1, 2018.

Ambulance Note - On May 27, 2014, Farley Emergency Medical Services, Inc. entered into an agreement to borrow \$140,500 from E.C.I.A. Business Growth, Inc. to purchase an ambulance. The note calls for annual payments of \$15,641, including 2% annual interest on the outstanding note balance and matures on June 1, 2024.

Interim Loan and Disbursement Agreement - On December 20, 2013, the City entered into an interim loan and disbursement agreement with the Iowa Finance Authority (IFA) to borrow up to \$35,000. The loan is interest free and is payable in full within three years of the date of the agreement. The City had borrowed \$4,448 on this loan through June 30, 2014.

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

**CITY OF FARLEY
FARLEY, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 4 - Pension and Retirement Benefits:

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

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2014 was \$17,530, equal to the required contributions for each year.

Note 5 - Compensated Absences:

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2014, primarily relating to the General Fund, is \$6,318. The liability has been computed based on rates of pay as of June 30, 2014.

Note 6 - Interfund Transfers:

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Road use tax	\$ 33,797
	Urban renewal tax increment	99,066
		\$132,863

Transfers are used to move resources from the fund that statute or budget requires to collect them to the fund that statute or budget requires to disburse them.

**CITY OF FARLEY
FARLEY, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 7 - 28E Agreements:

The City has entered into 28E agreements with Taylor Township, New Wine Township, Iowa Township, Dodge Township and Cascade Township to provide ambulance and fire protection services to the townships.

On July 20, 2005, the City entered into a 28E Agreement with the Western Dubuque Community School District. The agreement was for the purpose of constructing a high school regulation softball field. Along with the 28E Agreement, the City entered into an agreement to lease the softball field to the Western Dubuque Community School District. The term of the lease is 40 years with annual rent of \$1.

On December 29, 2011, the City entered into a 28E Agreement with the Western Dubuque Community School District and the Dubuque County Library Board. The purpose of the agreement is to allow the operation of a joint library facility.

The City Police Department has entered a 28E Agreement with the Iowa Alcohol Beverages Division to provide local tobacco, alternative nicotine, and vapor product enforcement.

Note 8 - Related Party Transactions:

The City had the following business transactions with City officials or employees during the year ended June 30, 2014:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Kluesner Construction, owned by son of Council Member	Street Repairs and Maintenance	\$ 53,024
Tyler Hefel, Son of Mayor	Various Services	1,247
Erin Norton, Daughter of Council Member	Various Services	609
Loras Jarding, Husband of Council Member	Various Services	560

**CITY OF FARLEY
FARLEY, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 9 - Risk Management:

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 700 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public official's liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2014 were \$33,189.

The Pool uses reinsurance and excess risk sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location. Property risks exceeding \$150,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

**CITY OF FARLEY
FARLEY, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 9 - Risk Management: (Continued)

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any reinsurance and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. As of June 30, 2014, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$7,483. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 10 - Developer Agreements:

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

In accordance with a development agreement dated October 17, 2011 with South Lake Development Corporation, the incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated through June 1, 2017. Payments are expected to be paid over a period of five years (ten semi-annual payments) beginning December 1, 2012. The amount rebated is not to exceed the lesser of \$150,000 or the actual cost of the public improvements paid for by the developer. Of the amount collected, 67% is to be paid to the developer and 33% is to be used for the development of low and moderate income housing projects. This agreement includes an annual appropriation clause and accordingly, only the amount payable in the succeeding year on the agreement is subject to the constitutional debt limit. During the year ended June 30, 2014, the City made payments of \$32,691 to the developer on this agreement.

**CITY OF FARLEY
FARLEY, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 10 - Developer Agreements: (Continued)

In accordance with a development agreement dated January 19, 2009 with Farley Industrial Development Corporation, in cooperation with Dubuque County, the incremental property tax to be received by the City from Dubuque County will be rebated through June 1, 2028 up to a maximum amount of \$250,000. The City will rebate 100% of the incremental property tax through June 1, 2015 and expects to rebate \$20,000 annually thereon until the earlier of June 1, 2028 or the date on which total payments of \$250,000 have been made to the developer. This agreement includes an annual appropriation clause and accordingly, only the amount payable in the succeeding year on the agreement is subject to the constitutional debt limit. During the year ended June 30, 2014, the City made payments of \$43,352 to the developer.

In accordance with a development agreement dated June 4, 2012 with Behnke Family, LLC, the incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated through June 1, 2024 up to a maximum of \$120,000. Payments are expected to be paid over a period of ten years (twenty semi-annual payments) beginning December 1, 2014. Under the agreement, the developer must establish twenty-five new jobs within three years of the date the project is completed. This agreement includes an annual appropriation clause and accordingly, only the amount payable in the succeeding year on the agreement is subject to the constitutional debt limit. During the year ended June 30, 2014, the City did not make any payments to the developer.

In accordance with a development agreement dated January 18, 2010 with Cory Heims, the incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated through June 1, 2021 up to a maximum of \$10,000. Payments are expected to be paid over a period of ten years (twenty semi-annual payments) beginning December 1, 2011. This agreement is subject to the constitutional debt limitation. During the year ended June 30, 2014, the City made payments of \$3,034 to the developer.

In accordance with a development agreement dated December 5, 2011 with LSI, LLC, the incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated through June 1, 2023 up to a maximum of \$100,000. Payments are expected to be paid over a period of ten years (twenty semi-annual payments) beginning December 1, 2013. This agreement includes an annual appropriation clause and accordingly, only the amount payable in the succeeding year on the agreement is subject to the constitutional debt limit. During the year ended June 30, 2014, the City made payments of \$5,000 to the developer.

**CITY OF FARLEY
FARLEY, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 10 - Developer Agreements: (Continued)

In accordance with a development agreement dated December 5, 2011 with Top Grade Leasing, LLC, the incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated through June 1, 2023 up to a maximum of \$300,000. Payments are expected to be paid over a period of ten years (twenty semi-annual payments) beginning December 1, 2013. This agreement includes an annual appropriation clause and accordingly, only the amount payable in the succeeding year on the agreement is subject to the constitutional debt limit. During the year ended June 30, 2014, the City made payments of \$15,000 to the developer.

In accordance with a development agreement dated August 20, 2012 with Eastern Iowa Machine Company, the incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated through June 1, 2024 up to a maximum of \$420,000. Payments are expected to be paid over a period of ten years (twenty semi-annual payments) December 1, 2014. This agreement includes an annual appropriation clause and accordingly, only the amount payable in the succeeding year on the agreement is subject to the constitutional debt limit. During the year ended June 30, 2014, the City did not make any payments to the developer.

In accordance with a development agreement dated April 21, 2014 with Darlene and Craig Kluesner, the incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated through June 1, 2026 up to a maximum of \$60,000. Payments are expected to be paid over a period of ten years (annual payments) beginning June 1, 2017. This agreement includes an annual appropriation clause and accordingly, only the amount payable in the succeeding year on the agreement is subject to the constitutional debt limit. During the year ended June 30, 2014, the City did not make any payments to the developer.

In accordance with a development agreement dated April 21, 2014 with South Lake Development Corporation, the incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated through June 1, 2026. Payments are expected to be paid over a period of ten years (twenty semi-annual payments) beginning December 1, 2016. The amount rebated is not to exceed the lesser of \$61,000 or the actual cost of the public improvements paid for by the developer. Of the amount collected, 67% is to be paid to the developer and 33% is to be used for the developments of low and moderate income housing projects. This agreement includes an annual appropriation clause and accordingly, only the amount payable in the succeeding year on the agreement is subject to the constitutional debt limit. During the year ended June 30, 2014, the City did not make any payments to the developer on this agreement.

**CITY OF FARLEY
FARLEY, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 11 - Subsequent Events:

In April, 2015, the City entered into a contract for a curb and drainage improvement project. The total cost of the contract, including change orders, is \$385,379.

In May 2015, City Council approved entering into a water revenue planning & design note with the Iowa Finance Authority to borrow up to \$125,000 at 0%.

In May 2015, City Council approved issuing \$500,000 in general obligation debt to finance a curb and drainage improvement project.

The City's management has evaluated subsequent events and transactions for potential financial statement recognition and disclosure through May 26 2015, the date the financial statements were available to be issued.

Note 12 – Prospective Accounting Change:

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

**OTHER
INFORMATION**

CITY OF FARLEY
FARLEY, IOWA

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION
YEAR ENDED JUNE 30, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
Receipts:							
Property tax	\$ 504,842	\$ ---	\$ ---	\$ 504,842	\$ 509,332	\$ 509,332	\$ (4,490)
Tax increment financing	279,056	---	---	279,056	292,781	292,781	(13,725)
Other city tax	193,396	---	---	193,396	184,432	184,432	8,964
Licenses and permits	13,317	---	---	13,317	5,155	5,680	7,637
Use of money and property	16,788	471	19	17,240	14,300	15,000	2,240
Intergovernmental	183,562	---	---	183,562	164,820	174,106	9,456
Charges for services	181,241	432,461	3,855	609,847	482,100	488,850	120,997
Special assessments	12,596	---	---	12,596	12,200	12,200	396
Miscellaneous	92,096	600	77,835	14,861	6,100	7,315	7,546
Total Receipts	\$ 1,476,894	\$ 433,532	\$ 81,709	\$ 1,828,717	\$ 1,671,220	\$ 1,689,696	\$ 139,021
Disbursements:							
Public safety	\$ 281,692	\$ ---	\$ 158,426	\$ 123,266	\$ 148,379	\$ 150,379	\$ 27,113
Public works	275,615	---	---	275,615	276,401	348,398	72,783
Culture and recreation	154,994	---	---	154,994	74,610	74,610	(80,384)
Community and economic development	106,889	---	---	106,889	209,265	204,303	97,414
General government	151,919	---	---	151,919	162,342	183,700	31,781
Debt service	458,122	---	---	458,122	668,862	677,659	219,537
Business type activities	---	464,299	---	464,299	303,190	303,539	(160,760)
Total Disbursements	\$ 1,429,231	\$ 464,299	\$ 158,426	\$ 1,735,104	\$ 1,843,049	\$ 1,942,588	\$ 207,484

**CITY OF FARLEY
FARLEY, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION
YEAR ENDED JUNE 30, 2014**

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ 47,663	\$ (30,767)	\$ (76,717)	\$ 93,613	\$ (171,829)	\$ (252,892)	\$ 346,505
Other Financing Sources (Uses), Net	196,105	4,448	147,500	53,053	---	34,448	18,605
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	\$ 243,768	\$ (26,319)	\$ 70,783	\$ 146,666	\$ (171,829)	\$ (218,444)	\$ 365,110
Balances, Beginning of Year	671,746	325,311	37,530	959,527	661,813	661,813	297,714
Balances, End of Year	<u>\$ 915,514</u>	<u>\$ 298,992</u>	<u>\$ 108,313</u>	<u>\$ 1,106,193</u>	<u>\$ 489,984</u>	<u>\$ 443,369</u>	<u>\$ 662,824</u>

See accompanying independent auditor's report.

**CITY OF FARLEY
FARLEY, IOWA**

**NOTES TO OTHER INFORMATION
BUDGETARY REPORTING
JUNE 30, 2014**

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts by \$18,476 and budgeted disbursements by \$99,539. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the culture and recreation and business type activities functions.

**SUPPLEMENTARY
INFORMATION**

SCHEDULE "1"

**CITY OF FARLEY
FARLEY, IOWA**

**SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES - NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

	Special Revenue		Total
	Farley Volunteer Fire Department	Farley Emergency Medical Services, Inc.	
Receipts:			
Use of money and property	\$ ---	\$ 19	\$ 19
Charges for services	2,635	1,220	3,855
Miscellaneous	73,799	4,036	77,835
	-----	-----	-----
Total Receipts	\$ 76,434	\$ 5,275	\$ 81,709
	-----	-----	-----
Disbursements:			
Public safety	76,302	82,124	158,426
	-----	-----	-----
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ 132	\$ (76,849)	\$ (76,717)
	-----	-----	-----
Other Financing Sources (Uses):			
Loan proceeds	---	140,500	140,500
Sale of capital assets	7,000	---	7,000
	-----	-----	-----
Total Other Financing Services (Uses)	\$ 7,000	\$ 140,500	\$ 147,500
	-----	-----	-----
Change in Cash Balances	\$ 7,132	\$ 63,651	\$ 70,783
Cash Balances Beginning of Year	20,339	17,191	37,530
	-----	-----	-----
Cash Balances End of Year	\$ 27,471	\$ 80,842	\$ 108,313
	=====	=====	=====
Cash Basis Fund Balances:			
Restricted for public safety	\$ 27,471	\$ 80,842	\$ 108,313
	=====	=====	=====

See accompanying independent auditor's report.

CITY OF FARLEY
FARLEY, IOWA

SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2014

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	Interest Due and Unpaid
Revenue Notes:									
Sewer	December 1, 2004	3.00%	\$ 1,650,000	\$ 1,106,000	\$ ---	\$ 78,000	\$ 1,028,000	\$ 33,180	\$ ---
Water	March 5, 2007	3.00%	1,533,000	1,162,000	---	68,000	1,094,000	34,860	---
				\$ 2,268,000	\$ ---	\$ 146,000	\$ 2,122,000	\$ 68,040	\$ ---
General Obligation Bonds:									
Corporate purpose	June 15, 2010	2.20-4.00%	2,225,000	\$ 1,955,000	\$ ---	\$ 140,000	\$ 1,815,000	\$ 63,235	\$ ---
Refunding bonds	November 15, 2012	1.10-2.00%	2,050,000	1,830,000	---	215,000	1,615,000	30,915	---
Total			\$ 3,785,000	\$ ---	\$ ---	\$ 355,000	\$ 3,430,000	\$ 94,150	\$ ---
Road use tax revenue note	July 2, 2013	2.18%	\$ 40,000	\$ ---	\$ 40,000	\$ 8,000	\$ 32,000	\$ 797	\$ ---
Ambulance note	May 29, 2014	2.00%	\$ 140,500	\$ ---	\$ 140,500	\$ ---	\$ 140,500	\$ ---	\$ ---
Other Obligation:									
Interim loan and disbursement agreement	December 20, 2013	0.00%	\$ 35,000	\$ ---	\$ 4,448	\$ ---	\$ 4,448	\$ ---	\$ ---

CITY OF FARLEY
FARLEY, IOWA

BOND AND NOTE MATURITIES
JUNE 30, 2014

Revenue Notes

Year Ending June 30	Sewer		Water		Total
	Issued December 1, 2004		Issued March 5, 2007		
	Interest Rates	Amount	Interest Rates	Amount	
2015	3.00%	\$ 80,000	3.00%	\$ 70,000	\$ 150,000
2016	3.00%	83,000	3.00%	72,000	155,000
2017	3.00%	85,000	3.00%	74,000	159,000
2018	3.00%	88,000	3.00%	77,000	165,000
2019	3.00%	90,000	3.00%	79,000	169,000
2020	3.00%	93,000	3.00%	81,000	174,000
2021	3.00%	96,000	3.00%	84,000	180,000
2022	3.00%	99,000	3.00%	86,000	185,000
2023	3.00%	101,000	3.00%	89,000	190,000
2024	3.00%	105,000	3.00%	91,000	196,000
2025	3.00%	108,000	3.00%	94,000	202,000
2026		---	3.00%	97,000	97,000
2027		---	3.00%	100,000	100,000
Total		\$1,028,000		\$ 1,094,000	\$ 2,122,000

General Obligation Bonds

Year Ending June 30	Corporate Purpose		Refunding Bonds		Total
	Issued June 15, 2010		Issued November 15, 2012		
	Interest Rates	Amount	Interest Rates	Amount	
2015	2.20%	\$ 140,000	2.00%	\$ 215,000	\$ 355,000
2016	2.50%	145,000	2.00%	225,000	370,000
2017	2.75%	150,000	2.00%	225,000	375,000
2018	3.00%	150,000	1.10%	225,000	375,000
2019	3.20%	155,000	2.00%	230,000	385,000
2020	3.40%	160,000	2.00%	235,000	395,000
2021	3.60%	170,000	---	---	170,000
2022	3.70%	175,000	1.75%	260,000	435,000
2023	3.80%	180,000		---	180,000
2024	3.90%	190,000		---	190,000
2025	4.00%	200,000		---	200,000
Total		\$ 1,815,000		\$1,615,000	\$ 3,430,000

See accompanying independent auditor's report.

SCHEDULE "3" (Continued)

CITY OF FARLEY
 FARLEY, IOWA

BOND AND NOTE MATURITIES
 JUNE 30, 2014

Year Ending June 30	Road Use Tax Revenue Note		Ambulance Note		Other Obligation	
	Issued July 2, 2013		Issued May 29, 2014		Interim Loan and Disbursement Agreement	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2015	2.18%	\$ 8,000	2.00%	\$ 12,831	---	\$ ---
2016	2.18%	8,000	2.00%	13,088	---	---
2017	2.18%	8,000	2.00%	13,350	0.00%	4,448
2018	2.18%	8,000	2.00%	13,617		---
2019		---	2.00%	13,889		---
2020		---	2.00%	14,167		---
2021		---	2.00%	14,450		---
2022		---	2.00%	14,739		---
2023		---	2.00%	15,034		---
2024		---	2.00%	15,335		---
2025		---		---		---
Total		\$ 32,000		\$ 140,500		\$ 4,448

See accompanying independent auditor's report.

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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 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, the 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 26, 2015. Our report expressed qualified opinions on the financial statements since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2013. The financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. In addition, our report included a disclaimer of opinion on the other information.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Farley's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Farley's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Farley's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control that 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 that a material misstatement of the City of Farley'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 as items I-A-14 through I-E-14 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Farley's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in 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, 2014 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 Farley's Responses to Findings

The City of Farley's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The City of Farley's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

O'CONNOR, BROOKS & CO., P.C.

O'CONNOR, BROOKS & CO., P.C.

Dubuque, Iowa

May 26, 2015

**CITY OF FARLEY
FARLEY, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014**

Part I: Findings Related to the Financial Statements:

MATERIAL WEAKNESSES:

I-A-14 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. It was noted that two employees perform most duties over the areas of cash, receipts, disbursements, payroll, utility billing, and financial reporting for the City.

In addition, the Farley Volunteer Fire Department and Farley Emergency Medical Services, Inc. each have one individual who performs most duties over the areas of cash, receipts and disbursements.

The result is that intentional or unintentional errors or unauthorized transactions could occur and not be detected in a timely manner.

Recommendation - We realize segregation of duties is difficult with a limited number of employees. However, each entity should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response – We will review our procedures and attempt to segregate duties as much as possible given the current available staff.

Conclusion - Response accepted.

I-B-14 Adjusting Journal Entries - Several adjusting journal entries were proposed to management to represent a fair presentation of the financial statements. Significant adjustments were made to correct the fund balance of two funds related to a 2013 adjustment, to reclass loan proceeds from a road use tax revenue note, and to reclass water and sewer revenue note debt payments. Misstatements in the financial statements could impair management and the City Council's ability to make informed decisions.

Recommendation - We recommend that the City implement procedures to reasonably assure that account balances are fairly stated.

Response – The adjusting journal entries have been made to accurately represent the balances of the noted funds. Notes have been made within the budget to ensure the improper classifications do not happen again. We will consider implementing a policy for such actions.

Conclusion - Response accepted.

**CITY OF FARLEY
FARLEY, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014**

Part I: Findings Related to the Financial Statements: (Continued)

I-C-14 Farley Volunteer Fire Department – Invoices and supporting documentation were not retained for a number of disbursements. Several of these disbursements included credit card purchases in which the credit card statement was available, however, supporting documentation for the charges was not retained. Without proper documentation for all disbursements, improper or unnecessary purchases or misclassification of expenses could occur.

In addition, monthly reconciliations between bank and book balances were not performed. Without monthly reconciliations, it may be difficult to determine if all cash transactions have been recorded properly or in the correct period.

Recommendation – Invoices and supporting documentation should be retained for all disbursements. For credit card purchases, receipts for each purchase on the credit card statement should be retained and included with the statement. Monthly reconciliations between book and bank balances should also be prepared.

Response – The treasurer of the Farley Volunteer Fire Department, or other person(s) designated by the Farley Volunteer Fire Department, will begin performing monthly bank reconciliations as well as maintaining appropriate documentation for all disbursements.

Conclusion - Response accepted.

I-D-14 Farley Emergency Medical Services, Inc. – Invoices and supporting documentation were not retained for a number of disbursements. Without proper documentation for all disbursements, improper or unnecessary purchases or misclassification of expenses could occur.

In addition, monthly reconciliations between bank and book balances were not performed. Without monthly reconciliations, it may be difficult to determine if all cash transactions have been recorded properly or in the correct period.

Recommendation – Invoices and supporting documentation should be retained for all disbursements. Monthly reconciliations between book and bank balances should also be prepared.

Response – The treasurer of the Farley Emergency Medical Services, or other person(s) designated by the Farley Emergency Medical Services, will begin performing monthly bank reconciliations as well as maintaining appropriate documentation for all disbursements.

Conclusion - Response accepted.

**CITY OF FARLEY
FARLEY, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014**

Part I: Findings Related to the Financial Statements: (Continued)

I-E-14 Water and Sewer Revenue Bonds – The payment of principal and interest on the City’s water and sewer revenue bonds were recorded in the Debt Service Fund. As a result, a reclassification adjusting journal entry was required to show the payment of principal and interest directly out of the water and sewer funds to reflect proper presentation in the financial statements.

Recommendation – Payment of principal and interest on the City’s water revenue bonds should be paid directly from the water sinking account of the Water Fund. Payment of principal and interest on the City’s sewer revenue bonds should be paid directly from the Sewer Fund.

Response - We will begin recording principal and interest payments on the water revenue bonds in the water sinking account of the Water Fund. We will also begin recording the principal and interest payments on the sewer revenue bonds in the Sewer Fund.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**CITY OF FARLEY
FARLEY, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014**

Part II: Other Findings Related to Statutory Reporting:

II-A-14 Certified Budget - Disbursements during the year ended June 30, 2014, exceeded the amounts budgeted in the culture and recreation and business type activities functions. 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 - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - Expenses exceeded the budgeted amounts in the culture and recreation function due to the City including the Park Board activity in the City's financial statements, while not including the Park Board activity in the budget. Budgeted amounts were exceeded in the business-type activities function due to the reclassification of water and sewer bond payments to the Water and Sewer Funds. The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

II-B-14 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-14 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-14 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>
Kluesner Construction, owned by son of Council Member	Street Repairs and Maintenance	\$ 53,024
Tyler Hefel, Son of Mayor	Various Services	1,247
Erin Norton, Daughter of Council Member	Various Services	609
Loras Jarding, Husband of Council Member	Various Services	560

**CITY OF FARLEY
FARLEY, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014**

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

II-D-14 Business Transactions (Continued)

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions with Kluesner Construction may represent a conflict of interest since the total amount for the entity exceeded \$2,500 during the fiscal year and were not entered into through competitive bidding. The other transactions do not appear to represent conflicts of interest since the transactions with each individual were less than \$2,500 during the fiscal year.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response - The City of Farley rotates street repair and maintenance between local contractors. The Council Member has no ownership in Kluesner Construction. The Council Member does not contact Kluesner Construction to do work for the City. The department heads make their own arrangements for work. In the future, the City will try to keep the amount spent with Kluesner Construction under the \$2,500 limit or competitively bid contracts.

Conclusion - Response accepted.

II-E-14 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.

II-F-14 Council Minutes - No transactions were found that we believe should have been approved in the council minutes but were not.

Chapter 372.13(6) of the Code of Iowa requires all council minutes to be published in the local newspaper. Included in this publication should be a list of all claims of the City including the name of the person or firm making the claim, the reason for the claim, and the amount of the claim. It was noted that not all claims from June 2014 were published in the local newspaper in accordance with Iowa Code.

Recommendation - The City should publish all claims in the local newspaper in accordance with Chapter 372.13(6) of the Code of Iowa.

Response - We will publish all claims in the future to comply with Chapter 372.13(6) of the Code of Iowa.

Conclusion - Response accepted.

**CITY OF FARLEY
FARLEY, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014**

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

II-G-14 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-14 Revenue Bonds and Notes – The City has not complied with the water revenue note provision which states the rates must be sufficient to produce net revenues not less than 110% of the principal and interest requirements

Recommendation – The City should ensure water rates are sufficient to produce net revenues of at least 110% of the principal and interest requirements.

Response – Water rates have been raised to a level sufficient to produce net revenues not less than 110% of the principal and interest requirements.

Conclusion - Response accepted

II-I-14 Annual Urban Renewal Reports – The annual urban renewal report was properly approved and certified to the Iowa Department of Management on or before December 1 and no instances of non-compliance with the Annual Urban Renewal Reports requirements for the year ended June 30, 2014 were noted.

II-J-14 Separately Maintained Records – The City maintains separate bank accounts for the Park Board. The financial transactions and the resulting balances were not included in the City's accounting records and were not included in the City's annual budget or monthly financial reports. However, those financial transactions and the resulting balances are included in the General Fund on these financial statements.

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

Response – We have begun including the Park Board activity and fund balance in the City's records, budget, and annual financial report and will continue to do so in the future.

Conclusion - Response accepted.