

CITY OF AFTON

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
COMMENTS AND RECOMMENDATIONS

Year Ended June 30, 2004

CITY OF AFTON, IOWA
TABLE OF CONTENTS

		<u>Page</u>
OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT		2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS		4-10
BASIC FINANCIAL STATEMENTS:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	11
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	12
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	C	13
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D	14
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	E	15
Notes to Financial Statements		16-23
REQUIRED SUPPLEMENTARY INFORMATION:		
Budgetary Comparison Schedule of Receipts, Disbursement and Changes in Balances – Budget And Actual (Cash Basis) – All Governmental Funds And Proprietary Funds		24
Notes to Required Supplementary Information – Budgetary Reporting		25
OTHER SUPPLEMENTARY INFORMATION:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1	26
Schedule of Indebtedness	2	27
Bond and Note Maturities	3	28
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4	29
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING		30-31
SCHEDULE OF FINDINGS		32-36

CITY OF AFTON, IOWA
OFFICIALS
June 30, 2004

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Before January 1, 2004		
H. M. Amos	Mayor	January, 2004
David Cunningham	Council Member	January, 2004
Sherry Parrott	Council Member	January, 2006
Cindy Williams	Council Member	January, 2004
Ann Tunnickliff	Council Member	January, 2004
John Kline	Council Member	January, 2004
Kathy Flam	Clerk	January, 2004
Linda Haner	Deputy Clerk	Appointed
Kathryn Siddens	Treasurer	January, 2004
Marion E. James	Attorney	Appointed
After January 1, 2004		
Gary Clear	Mayor	January, 2006
John Kline	Council Member	January, 2006
David Cunningham	Council Member	January, 2008
Sherry Parrott	Council Member	January, 2006
Cindy Williams	Council Member	January, 2008
Ann Tunnickliff	Council Member	January, 2008
Kathy Flam	Clerk	January, 2006
Linda Haner	Deputy Clerk	Appointed
Kathryn Siddens	Treasurer	January, 2006
Marion E. James	Attorney	Appointed

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:
City of Afton
Afton, 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 the City of Afton, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Afton, Iowa's officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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 the City of Afton, Iowa, as of June 30, 2004, 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.

To the Honorable Mayor and
Members of the City Council
City of Afton

As described in Note 9, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated November 9, 2004, on our consideration of City of Afton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 24 through 25 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Afton, Iowa'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 the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, 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 audits of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

Drapen, Smolgrass, Mickelson & Co., P.C.

November 9, 2004

CITY OF AFTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

The City of Afton 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 ending June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because of the City implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

Basis of Accounting

The City has elected to present its financial statements on the cash basis of accounting. The cash basis of accounting is a basis other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses and their related assets and liabilities. Under the City's cash basis of accounting, revenues and expenses are recorded when they result from cash transactions. As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods and services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Report Layout

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34. GASB 34 implements a new model of financial reporting for state and local governments designed to enhance the usefulness of the City's annual report. Besides the Management's Discussion and Analysis (MD&A), the report consists of government-wide statements, fund financial statements, notes to the financial statements, combining schedules of non-major funds and supplemental information. The first several statements are highly condensed and present a government-wide view of the City's finances. Within this view, all City operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services such as public safety, public works, health and social services, culture and recreation, community and economic development, general government administration, debt service, and capital projects. Business-type activities are electric, sewer and meter deposits.

Statement of Activities

The focus of the Statement of Activities is to present the major program costs and match major resources with each. To the extent a program's cost is not recovered by grants, donations and direct charges, it is paid from general taxes and other resources. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.

The MD&A is intended to explain the significant changes in financial position and differences in operations between the current and prior years. To be an accurate presentation, the prior year would have to be restated to the new reporting format. The City has chosen to not restate the prior year.

Reporting the City as a whole

Government-Wide Financial Statements

To aid in the understanding of the Statement of Activities, some additional explanation is given. First all receipts and disbursements are categorized as either governmental activities or business-type activities. These are defined as follows:

Governmental funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The City's major governmental funds are:

Public Safety: This category includes police operations, fire protections, building inspections and animal control services.

Public Works: This category includes roads, sidewalks, equipment replacement, traffic safety, garbage and snow removal.

Health and Social Services: At this time, we have nothing budgeted in this fund.

Culture and Recreation: This category includes recreation, parks, and cemetery.

Community and Economic Development: This category includes economic development, planning and zoning community beautification, and community activities.

General Government: This category includes mayor, city council, city clerk, treasurer, elections, legal services, city hall, insurance and other general government.

Debt Service: This category includes general and road use debt service for the city. We currently have no general or road use debt at this time. (Except debt in Sewer Fund)

Capital Projects: This category includes the CDBG Housing Rehabilitation Project and the Walking Trail Project.

Business-Type (Proprietary) Funds: When the City charges customers for the services it provides, these services are generally reported in business-type or proprietary funds. These are self-sufficient funds. The City's business-type funds are electric and sewer utility. This also includes all debt service and capital projects associated specifically with these utilities which includes Sewer Reserve, Sewer Improvement, Sewer Bond & Interest, Meter Deposits and Capital Equipment.

2004 Financial Highlights

Revenues of the City's governmental activities increased by \$15,944 from fiscal 2003 to fiscal 2004. Property tax decreased by \$601. Proprietary activities revenues increased by \$8,413.

Governmental activities disbursements decreased by \$21,731. Proprietary activities disbursements increased by \$66,793.

The City's total cash balance decreased by \$38,420. Governmental activities decreased by \$25,962 and proprietary activities decreased by \$12,458.

Sources of Funds for Governmental Activities

Receipts

Property tax	\$ 122,866
Licenses and permits	535
Use of money and property	2,584
Intergovernmental	161,054
Charges for Services	56,808
Miscellaneous	<u>23,622</u>

Total receipts \$ 367,469

Disbursements:

Public safety	\$ 114,350
Public works	141,007
Culture and recreation	50,314
Community and economic development	3,406
General government	64,231
Capital projects	<u>77,077</u>

Total disbursements \$ 450,385

Excess of disbursements over receipts	\$ (82,916)
Total other financing sources	<u>56,954</u>
Net change in cash balances	<u>\$ (25,962)</u>
Cash balances beginning of year	<u>\$ 170,746</u>
Cash balances end of year:	
General fund	\$ 24,196
Special revenue funds	61,392
Capital projects fund	---
Permanent fund	<u>59,196</u>
Total	<u>\$ 144,784</u>
Total government funds cash balances	\$ 144,784
Assets of internal service fund*	<u>45,853</u>
Cash basis net assets of governmental activities	<u>\$ 190,637</u>
Net change in cash balances	\$ (25,962)
Assets of internal service funds*	<u>8,497</u>
Change in cash balances of governmental activities	<u>\$(17,465)</u>

*The Internal Service Funds are used by management to reserve funds for the future purchase and replacement of capital equipment and for the future payment of sick leave benefits earned by employees and payable at the time of termination of employment with the City. The assets of Internal Service Funds are included with Government Activities in the Statement of Net Assets.

Proprietary Fund Activities:

Receipts	
Use of money and property	\$ 9,728
Charges for Services	601,650
Miscellaneous	<u>50</u>
Total receipts	<u>\$ 611,428</u>
Disbursements:	
Business type activities	<u>\$ 566,932</u>
Excess of disbursements over receipts	\$ 44,496
Other financing sources, net	<u>(56,954)</u>
Excess of receipts and other financing sources Over disbursements and other financing uses	\$ (12,458)
Cash balance beginning of year	<u>\$ 815,092</u>
Cash balances end of year	<u>\$ 802,634</u>

Individual Fund Analysis:

General Fund: The General Fund received \$169,102 plus \$65,000 transferred in. Disbursements were \$250,963 plus \$6,492 transferred out.

Road Use Fund: The Road Use Fund received \$76,375. Disbursements were \$77,149 plus \$3,972 transferred out. These funds are received from the State Road Use taxes and are used strictly for street improvements, vehicle repairs, supplies and salaries.

Trust & Agency Fund: The Trust and Agency Fund received \$26,504 and disbursed \$33,503. These funds are received from tax money and used for General Fund employee benefits such as matching FICA/MEDICARE/IPERS and health insurance.

Emergency Fund: The Emergency Fund received \$2,464 from tax money and disbursed \$3,406 for payment to the Union County Economic Development Association.

Sick Leave Fund: The Sick Leave Fund received \$592 in interest and a transfer in of \$4,006. There were no disbursements. This fund is used for the future payment of sick leave benefits earned by employees and payable at the time of termination of employment with the City.

Capital Equipment: The Capital Equipment Fund received interest of \$126 and \$11,100 in transfers in. There were no disbursements.

Sesquicentennial Fund: This fund received \$15,321 plus \$1,500 transferred in. The disbursements were \$8,289. This fund was used for all receipts and expenditures related to the 2004 City Sesquicentennial.

Walking Trail: The Walking Trail Fund received donations of \$500. No disbursements were made. This Fund is used for all receipts and disbursements pertaining to the Walking Trail.

Capital Projects: The Capital Projects Fund received \$76,159 plus \$918 transferred in. The disbursements were \$77,077. This fund is the Community Development Block Grant Housing Rehabilitation Project.

Cemetery Perpetual Care Fund: This fund received \$1,043 in interest. This is a permanent fund and only the earnings of the fund may be spent.

Electric Fund: The Electric Fund received \$486,466 and disbursed \$438,461 plus transferred out \$69,561. The new electric rate increase was in effect the last six months of this year.

Sewer Fund: The Sewer Fund received \$114,981 and disbursed \$89,128 plus transferred out \$35,850.

Sewer Bond & Interest Fund: The Sewer Bond and Interest Fund received \$147 interest and \$33,350 transferred in. The disbursements were \$32,360. This fund is used to repay the State Revolving Loan Fund for loans for sewer system improvements.

Sewer Reserve Fund: The Sewer Reserve Fund received \$404 in interest. There were no disbursements. This fund is mandatory when borrowing from the State Revolving Loan Fund in case there are not enough funds in the Sewer Bond and Interest Fund to make the annual payments.

Sewer Improvement Fund: The Sewer Improvement Fund received \$135 in interest with no disbursements made. This fund is mandatory when borrowing from the State Revolving Loan Fund.

Meter Deposit Fund: The Meter Deposit Fund received \$8,575 with disbursements of \$6,891. This fund is used for Electric and Sewer Deposits made by customers. These deposits are refunded after 12 months of payment by the 20th of each month.

Debt Administration:

As of June 30, 2004, the City had \$335,000 in outstanding long-term debt. This debt is State Revolving Loan Debt borrowed for two sewer improvement projects. Payments are made annually on this debt.

The City has a general obligation debt limit of \$754,602.

Budgetary Highlights:

The City Council approved a budget amendment during the year. This amendment increased expenditures in Culture and Recreation, Community and Economic Development, General Government and the Enterprise programs due to a sewer expansion project and increase in costs of supplies. The City transferred \$65,000 from the Electric Fund to the General Fund in 2003-2004 to balance the budget. In fiscal year 2004-2005 \$80,000 is budgeted to be transferred.

Next Year's Budget and Rates:

The City's tax rate for 2003-04 was \$13.42 per \$1,000 valuation and is \$13.84 per \$1,000 valuation for 2004-2005. Expenditures for 2004-2005 include the CDBG Housing Rehabilitation Project continuation and also the Fire Truck purchase and expenses for the proposed Walking Trail.

Legislative changes passed last year and this year will negatively impact the City's budget. Property tax credit reimbursements and machinery and equipment reimbursements continue to be funded at less than 100%. The state consolidated payment was eliminated completely last year. Bank franchise fee revenue has been eliminated completely beginning in fiscal year 2004-2005.

Financial Contact:

The City's financial statements are designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the City Clerk at 115 E. Kansas Street, P.O. Box 199, Afton, Iowa 50830 or telephone 641-347-5224.

FINANCIAL STATEMENTS

CITY OF AFTON, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the Year Ended June 30, 2004

Exhibit A

FUNCTIONS/PROGRAMS:	<u>Disbursements</u>	PROGRAM RECEIPTS		
		Charges For Services	Operating Grants Contributions, and Restricted Interest	Capital Grants Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 114,350	\$ 3,003	\$ -	\$ -
Public works	141,007	42,080	77,417	-
Culture and recreation	42,025	29,154	500	-
Community/economic development	11,695	-	-	-
General government	64,231	5,968	-	-
Capital projects	77,077	-	-	76,159
Total governmental activities	\$ 450,385	\$ 80,205	\$ 77,917	\$ 76,159
Business type activities:				
Sewer	\$ 121,488	\$ 113,670	\$ -	\$ -
Electric	445,442	488,030	-	-
Total business type activities	\$ 566,930	\$ 601,700	\$ -	\$ -
TOTAL PRIMARY GOVERNMENT	\$ 1,017,315	\$ 681,905	\$ 77,917	\$ 76,159
GENERAL RECEIPTS:				
Property taxes levied for:				
General purposes				
Grants and contributions not restricted				
Interest on investments				
Miscellaneous				
Transfers				
TOTAL GENERAL RECEIPTS				
CHANGE IN CASH BASIS NET ASSETS				
CASH BASIS NET ASSETS, BEGINNING OF YEAR				
CASH BASIS NET ASSETS, END OF YEAR				
CASH BASIS NET ASSETS:				
Restricted				
Streets				
Employee benefits				
Debt service				
Other purposes				
Unrestricted				
TOTAL CASH BASIS NET ASSETS				

The Notes to Financial Statements are an integral part of this statement.

NET (DISBURSEMENTS)/
RECEIPTS AND CHANGES IN CASH BASIS NET ASSETS

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (111,347)	\$ -	\$ (111,347)
(21,510)	-	(21,510)
(12,371)	-	(20,660)
(11,695)	-	(3,406)
(58,263)	-	(58,263)
(918)	-	(918)
<u>\$ (216,104)</u>	<u>\$ -</u>	<u>\$ (216,104)</u>
\$ -	\$ (7,818)	\$ (7,818)
-	42,588	42,588
<u>\$ -</u>	<u>\$ 34,770</u>	<u>\$ 34,770</u>
\$ (216,104)	\$ 34,770	\$ (181,334)
\$ 122,866	\$ -	\$ 122,866
5,832	-	5,832
2,616	9,275	11,891
2,325	-	2,325
65,000	(65,000)	-
<u>\$ 198,639</u>	<u>\$ (55,725)</u>	<u>\$ 142,914</u>
\$ (17,465)	\$ (20,955)	\$ (38,420)
208,102	777,736	985,838
<u>\$ 190,637</u>	<u>\$ 756,781</u>	<u>\$ 947,418</u>
\$ 43,156	\$ -	\$ 43,156
8,862	-	8,862
-	30,042	30,042
68,228	70,738	138,966
70,391	656,001	726,392
<u>\$ 190,637</u>	<u>\$ 756,781</u>	<u>\$ 947,418</u>

CITY OF AFTON, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

As of and for the Year Ended June 30, 2004

Exhibit B

	General	<u>SPECIAL REVENUE</u> Road Use Tax
RECEIPTS:		
Property taxes	\$ 93,898	\$ -
Licenses and permits	535	-
Use of money and property	2,584	-
Intergovernmental	8,520	76,375
Charges for service	56,808	-
Miscellaneous	6,758	-
Total receipts	\$ 169,103	\$ 76,375
DISBURSEMENTS:		
Operating:		
Public safety	\$ 92,685	\$ -
Public works	58,287	77,149
Culture and recreation	42,025	-
Community/economic development	-	-
General government	57,965	-
Capital projects	-	-
Total disbursements	\$ 250,962	\$ 77,149
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	\$ (81,859)	\$ (774)
OTHER FINANCING SOURCES (USES):		
Operating transfers in	\$ 65,000	\$ -
Operating transfers out	(6,492)	(3,972)
TOTAL OTHER FINANCING SOURCES (USES)	\$ 58,508	\$ (3,972)
NET CHANGE IN CASH BALANCES	\$ (23,351)	\$ (4,746)
CASH BALANCES, BEGINNING OF YEAR	47,547	47,902
CASH BALANCES, END OF YEAR	\$ 24,196	\$ 43,156
CASH BASIS FUND BALANCES:		
Unreserved:		
General fund	\$ 24,196	\$ -
Special revenue funds	-	43,156
Capital projects fund	-	-
Permanent fund	-	-
TOTAL CASH BASIS FUND BALANCES	\$ 24,196	\$ 43,156

The Notes to Financial Statements are an integral part of this statement.

Capital Projects	Other Nonmajor Governmental Funds	Total
\$ -	\$ 28,968	\$ 122,866
-	-	535
-	-	2,584
76,159	-	161,054
-	-	56,808
-	16,864	23,622
<u>\$ 76,159</u>	<u>\$ 45,832</u>	<u>\$ 367,469</u>

\$ -	\$ 21,665	\$ 114,350
-	5,571	141,007
-	-	42,025
-	11,695	11,695
-	6,266	64,231
77,077	-	77,077
<u>\$ 77,077</u>	<u>\$ 45,197</u>	<u>\$ 450,385</u>

<u>\$ (918)</u>	<u>\$ 635</u>	<u>\$ (82,916)</u>
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\$ 918	\$ 1,500	\$ 67,418
<u>-</u>	<u>-</u>	<u>(10,464)</u>

<u>\$ 918</u>	<u>\$ 1,500</u>	<u>\$ 56,954</u>
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\$ -	\$ 2,135	\$ (25,962)
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<u>-</u>	<u>75,297</u>	<u>170,746</u>
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<u>\$ -</u>	<u>\$ 77,432</u>	<u>\$ 144,784</u>
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\$ -	\$ -	\$ 24,196
-	18,236	61,392
-	-	-
-	59,196	59,196
<u>\$ -</u>	<u>\$ 77,432</u>	<u>\$ 144,784</u>

CITY OF AFTON, IOWA
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,
 DISBURSEMENTS AND CHANGE IN CASH BALANCES TO THE
 STATEMENT OF ACTIVITIES AND NET ASSETS -
 GOVERNMENT FUNDS

As of and for the Year Ended June 30, 2004

Exhibit C

TOTAL GOVERNMENTAL FUNDS CASH BALANCES \$ 144,784

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE
 STATEMENT OF ACTIVITIES AND NET ASSETS ARE DIFFERENT
 BECAUSE:

The internal service funds are used by management to reserve funds for the future purchase and replacement of capital equipment and for the future payment of sick leave benefits earned by employees and payable at the time of termination of employment with the City. The assets of the internal service funds are included with government activities in the Statement of Net Assets.

45,853

CASH BASIS NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 190,637

NET CHANGE IN CASH BALANCES

\$ (25,962)

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE
 STATEMENT OF ACTIVITIES AND NET ASSETS ARE DIFFERENT
 BECAUSE:

The internal service funds are used by management to reserve funds for the future purchase and replacement of capital equipment and for the future payment of sick leave benefits earned by employees and payable at the time of termination of employment with the City. The assets of the internal service funds are included in government activities in the Statement of Net Assets.

8,497

CHANGE IN CASH BALANCES OF GOVERNMENTAL ACTIVITIES

\$ (17,465)

CITY OF AFTON, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
As of and for the Year Ended June 30, 2004

Exhibit D

	Enterprise Funds		
	Sewer	Electric	Total
OPERATING RECEIPTS:			
Charge for service	\$ 113,670	\$ 487,980	\$ 601,650
Total operating receipts	<u>\$ 113,670</u>	<u>\$ 487,980</u>	<u>\$ 601,650</u>
OPERATING DISBURSEMENTS:			
Business type activities	\$ 89,128	\$ 445,442	\$ 534,570
Total operating disbursements	<u>\$ 89,128</u>	<u>\$ 445,442</u>	<u>\$ 534,570</u>
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	<u>\$ 24,542</u>	<u>\$ 42,538</u>	<u>\$ 67,080</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):			
Interest on investments	\$ 1,998	\$ 7,012	\$ 9,010
Miscellaneous	-	50	50
Debt service	(32,360)	-	(32,360)
Total non-operating receipts (disbursements)	<u>\$ (30,362)</u>	<u>\$ 7,062</u>	<u>\$ (23,300)</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>\$ (5,820)</u>	<u>\$ 49,600</u>	<u>\$ 43,780</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	\$ -	\$ -	\$ -
Operating transfers out	(2,500)	(69,561)	(72,061)
Total other financing sources (uses)	<u>\$ (2,500)</u>	<u>\$ (69,561)</u>	<u>\$ (72,061)</u>
NET CHANGE IN CASH BALANCES	\$ (8,320)	\$ (19,961)	\$ (28,281)
CASH BALANCES, BEGINNING OF YEAR	<u>189,649</u>	<u>565,494</u>	<u>755,143</u>
CASH BALANCES, END OF YEAR	<u>\$ 181,329</u>	<u>\$ 545,533</u>	<u>\$ 726,862</u>
CASH BASIS FUND BALANCES:			
Reserved for debt service	\$ 30,042	\$ -	\$ 30,042
Reserved for sewer improvements	15,641	-	15,641
Reserved for sewer reserve	36,687	-	36,687
Reserved for customer deposits	-	18,410	18,410
Unreserved	98,959	527,123	626,082
Total cash basis fund balances	<u>\$ 181,329</u>	<u>\$ 545,533</u>	<u>\$ 726,862</u>

The Notes to Financial Statements are an integral part of this statement.

Internal Service Funds

Equipment Revolving	Sick Leave	Total
\$ -	\$ -	\$ -
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -
\$ 126	\$ 592	\$ 718
-	-	-
<u>\$ 126</u>	<u>\$ 592</u>	<u>\$ 718</u>
\$ 126	\$ 592	\$ 718
<u>\$ 126</u>	<u>\$ 592</u>	<u>\$ 718</u>
\$ 11,100	\$ 4,006	\$ 15,106
-	-	-
<u>\$ 11,100</u>	<u>\$ 4,006</u>	<u>\$ 15,106</u>
\$ 11,226	\$ 4,598	\$ 15,824
12,698	47,251	59,949
<u>\$ 23,924</u>	<u>\$ 51,849</u>	<u>\$ 75,773</u>
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
23,924	51,850	75,774
<u>\$ 23,924</u>	<u>\$ 51,850</u>	<u>\$ 75,774</u>

CITY OF AFTON, IOWA
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,
 DISBURSEMENTS AND CHANGE IN CASH BALANCES TO THE
 STATEMENT OF ACTIVITIES AND NET ASSETS -
 PROPRIETARY FUNDS

As of and for the Year Ended June 30, 2004

Exhibit E

TOTAL ENTERPRISE FUNDS CASH BALANCES \$ 726,862

AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE
 STATEMENT OF ACTIVITIES AND NET ASSETS ARE DIFFERENT
 BECAUSE:

The internal service funds are used by management to reserve funds for the future purchase and replacement of capital equipment and for the future payment of sick leave benefits earned by employees and payable at the time of termination of employment with the City. The assets of the internal service funds are included in business type activities in the Statement of Net Assets.

29,919

CASH BASIS NET ASSETS OF BUSINESS TYPE ACTIVITIES \$ 756,781

NET CHANGE IN CASH BALANCES \$ (28,281)

AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE
 STATEMENT OF ACTIVITIES AND NET ASSETS ARE DIFFERENT
 BECAUSE:

The internal service funds are used by management to reserve funds for the future purchase and replacement of capital equipment and for the future payment of sick leave benefits earned by employees and payable at the time of termination of employment with the City. The assets of the internal service funds are included with business type activities in the Statement of Net Assets.

7,326

CHANGE IN CASH BALANCES OF GOVERNMENTAL ACTIVITIES \$ (20,955)

CITY OF AFTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 1. Significant Accounting Policies

The City of Afton is a political subdivision of the State of Iowa located in Union County. It was first incorporated in 1868 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, recreation, public improvements and general administrative services.

Reporting Entity:

For financial reporting purposes, the City of Afton has included all funds, organizations, account groups, 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 of Afton has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation:

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

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

Restricted net assets result when constraints placed on net 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 category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

CITY OF AFTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 1. Significant Accounting Policies (continued)

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The Capital Projects Fund is used to account for major capital improvement projects.

The City reports the following major proprietary funds:

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

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

CITY OF AFTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

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.

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.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the general government and in the Capital Projects Fund prior to amendment.

Note 2. Deposits and Investments

The City's deposits at June 30, 2004, 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's investments are normally categorized to give an indication of the level of risk assumed by the City at year-end. At June 30, 2004, the City's investments consisted of certificates of deposits and were not subject to risk categorization.

CITY OF AFTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 3. Bonds and Notes Payable

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

Year Ending June 30,	State Revolving Loan/Sewer Revenue Capital Loan Note		State Revolving Loan/Sewer Revenue Capital Loan Note	
	Principal	Interest	Principal	Interest
2005	\$ 10,000	\$ 4,039	\$ 11,000	\$ 8,354
2006	10,000	3,665	11,000	7,889
2007	10,000	3,291	12,000	7,403
2008	11,000	2,898	12,000	6,895
2009	11,000	2,487	13,000	6,366
2010	11,000	2,076	13,000	5,816
2011	12,000	1,646	14,000	5,245
2012	12,000	1,197	15,000	4,632
2013	13,000	729	15,000	3,997
2014	13,000	243	16,000	3,342
2015	---	---	17,000	2,644
2016	---	---	17,000	1,925
2017	---	---	18,000	1,184
2018	---	---	19,000	402
Total	<u>\$ 113,000</u>	<u>\$ 22,271</u>	<u>\$ 203,000</u>	<u>\$66,094</u>

Year Ending June 30,	Total	
	Principal	Interest
2005	\$ 21,000	\$ 12,393
2006	21,000	11,554
2007	22,000	10,694
2008	23,000	9,793
2009	24,000	8,853
2010	24,000	7,892
2011	26,000	6,891
2012	27,000	5,829
2013	28,000	4,726
2014	29,000	3,585
2015	17,000	2,644
2016	17,000	1,925
2017	18,000	1,184
2018	19,000	402
Total	<u>\$316,000</u>	<u>\$ 88,365</u>

CITY OF AFTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 3. Bonds and Notes Payable (continued)

The resolution providing for the issuance of the sewer revenue capital loan note includes the following provisions:

- (a) The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers shall be made to a separate sewer revenue reserve account until a specific minimum balance has been accumulated. This account shall be used solely for the purpose of paying principal at maturity or interest on the note when insufficient money is available in the sewer revenue note sinking account.
- (d) Additional monthly transfers shall be made to a sewer improvement account, after first making the required payments to the sewer revenue note sinking and reserve accounts, until a specific minimum balance has been accumulated. This account shall be used solely for the purpose of paying principal or interest on the note when there is insufficient money in the sewer revenue note sinking and reserve accounts; and to the extent not required for the foregoing, to pay the cost of extraordinary maintenance expenses or repairs, renewals and replacements, payments of rentals on any part of the system and for capital improvements.

As of June 30, 2004, transfers have been made in amounts adequate on a cumulative basis, to meet the foregoing requirements, and the City complied with the provisions.

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.

CITY OF AFTON, IOWA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2004

Note 4. Pension and Retirement Benefits (continued)

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.04% and 9.07%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002, were \$10,242, \$10,208, and \$9,257 respectively, equal to the required contributions for the year.

Note 5. 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 termination payments payable to employees at June 30, 2004, primarily relating to the General and Enterprise funds is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 6,803
Sick leave	<u>56,296</u>
Total	<u>\$ 63,099</u>

The liability has been computed based on rates of pay as of June 30, 2004.

Note 6. Jointly Governed Organization

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 on-going financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Union County Solid Waste Commission, Southern Iowa Council of Governments, Union County Development Association, and Union County Emergency Management Commission.

CITY OF AFTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 7. Risk Management

The City of Afton is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004, is as follows:

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
General	Enterprise: Electric	<u>\$ 65,000</u>
Capital Projects	General	<u>\$ 918</u>
Special Revenue: Sesquicentennial Fund	General	<u>\$ 1,500</u>
Enterprise: Internal Service: Sick Leave	General	\$ 1,974
	Special revenue: Road use	972
	Enterprise: Electric	<u>1,061</u>
		<u>\$ 4,007</u>
Equipment Revolving	General	\$ 2,100
	Special revenue: Road use	3,000
	Enterprise: Electric	3,500
	Sewer	<u>2,500</u>
		<u>\$ 11,100</u>
Total		<u>\$ 82,525</u>

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

CITY OF AFTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 9. Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the fiscal year ending June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF AFTON, IOWA
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSMENTS
 AND CHANGES IN BALANCES - ACTUAL TO BUDGET (CASH BASIS) -
 ALL GOVERNMENTAL AND PROPRIETARY FUNDS
 Year Ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required To Be Budgeted
	<u>Actual</u>	<u>Actual</u>	<u>Budgeted</u>
RECEIPTS:			
Property tax	\$ 122,866	\$ -	\$ -
Tax increment financing collections	-	-	-
Other city tax	-	-	-
Licenses and permits	535	-	-
Use of money and property	2,584	9,728	-
Intergovernmental	161,054	-	-
Charges for service	56,808	601,650	-
Special assessments	-	-	-
Miscellaneous	23,622	50	-
TOTAL RECEIPTS	<u>\$ 367,469</u>	<u>\$ 611,428</u>	<u>\$ -</u>
DISBURSEMENTS:			
Public safety	\$ 114,350	\$ -	\$ -
Public works	141,007	-	-
Health and social services	-	-	-
Culture and recreation	42,025	-	-
Community and economic development	11,695	-	-
General government	64,231	-	-
Debt service	-	-	-
Capital projects	77,077	-	-
Business type activities	-	566,932	-
TOTAL DISBURSEMENTS	<u>\$ 450,385</u>	<u>\$ 566,932</u>	<u>\$ -</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	\$ (82,916)	\$ 44,496	\$ -
OTHE FINANCING SOURCES, NET	<u>56,954</u>	<u>(56,954)</u>	<u>-</u>
EXCESS OF RECEIPTS AND OTHER FINANCING SOURCES OVER DISBURSEMENTS AND OTHER FINANCING USES	\$ (25,962)	\$ (12,458)	\$ -
BALANCE, BEGINNING OF YEAR	<u>170,746</u>	<u>815,092</u>	<u>-</u>
BALANCE, END OF YEAR	<u>\$ 144,784</u>	<u>\$ 802,634</u>	<u>\$ -</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 122,866	\$ 119,486	\$ 119,486	\$ 3,380
-	-	-	-
-	4,340	4,340	(4,340)
535	1,040	1,040	(505)
12,312	19,450	19,450	(7,138)
161,054	315,110	315,110	(154,056)
658,458	674,000	674,000	(15,542)
-	-	-	-
23,672	86,115	86,115	(62,443)
<u>\$ 978,897</u>	<u>\$1,219,541</u>	<u>\$1,219,541</u>	<u>\$ (240,644)</u>
\$ 114,350	\$ 129,419	\$ 129,419	\$ 15,069
141,007	164,234	164,234	23,227
-	-	-	-
42,025	40,950	45,950	3,925
11,695	3,406	13,610	1,915
64,231	80,359	83,659	19,428
-	-	-	-
77,077	225,000	225,000	147,923
566,932	607,456	677,756	110,824
<u>\$1,017,317</u>	<u>\$1,250,824</u>	<u>\$1,339,628</u>	<u>\$ 322,311</u>
\$ (38,420)	\$ (31,283)	\$ (120,087)	\$ (81,667)
-	-	-	-
\$ (38,420)	\$ (31,283)	\$ (120,087)	<u>\$ (81,667)</u>
<u>985,838</u>	<u>774,552</u>	<u>774,552</u>	
<u>\$ 947,418</u>	<u>\$ 743,269</u>	<u>\$ 654,465</u>	

CITY OF AFTON, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2004

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$88,804. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the culture and recreation function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF AFTON, IOWA
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 As of and for the Year Ended June 30, 2004

	Schedule 1 Special Revenue	
	Employee Benefits	Emergency
RECEIPTS:		
Property tax	\$ 26,504	\$ 2,464
Miscellaneous	-	-
TOTAL RECEIPTS	\$ 26,504	\$ 2,464
DISBURSEMENTS:		
Operating:		
Public safety	\$ 21,665	\$ -
Public works	5,571	-
Community and economic development	-	3,406
General government	6,266	-
TOTAL DISBURSEMENTS	\$ 33,502	\$ 3,406
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	\$ (6,998)	\$ (942)
OTHE FINANCING SOURCES (USES):		
Operating transfers in	\$ -	\$ -
Operating transfers out	-	-
TOTAL OTHER FINANCING SOURCES (USES)	\$ -	\$ -
NET CHANGE IN CASH BALANCES	\$ (6,998)	\$ (942)
CASH BALANCES, BEGINNING OF YEAR	15,860	1,284
CASH BALANCES, END OF YEAR	\$ 8,862	\$ 342
CASH BASIS FUND BALANCES:		
Unreserved:		
General fund	\$ -	\$ -
Special revenue funds	8,862	342
Capital projects fund	-	-
Permanent fund	-	-
TOTAL CASH BASIS FUND BALANCES	\$ 8,862	\$ 342

See accompanying independent auditor's report.

<u>Special Revenue</u>		<u>Permanent</u>	
<u>Sesquicentennial</u>	<u>Walking</u>	<u>Cemetery</u>	
<u>Fund</u>	<u>Trail</u>	<u>Perpetual</u>	<u>Total</u>
		<u>Care</u>	
\$ -	\$ -	\$ -	\$ 28,968
15,321	500	1,043	16,864
<u>\$ 15,321</u>	<u>\$ 500</u>	<u>\$ 1,043</u>	<u>\$ 45,832</u>
\$ -	\$ -	\$ -	\$ 21,665
-	-	-	5,571
8,289	-	-	11,695
-	-	-	6,266
<u>\$ 8,289</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,197</u>
<u>\$ 7,032</u>	<u>\$ 500</u>	<u>\$ 1,043</u>	<u>\$ 635</u>
\$ 1,500	\$ -	\$ -	\$ 1,500
-	-	-	-
<u>\$ 1,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,500</u>
\$ 8,532	\$ 500	\$ 1,043	\$ 2,135
-	-	58,153	75,297
<u>\$ 8,532</u>	<u>\$ 500</u>	<u>\$ 59,196</u>	<u>\$ 77,432</u>
\$ -	\$ -	\$ -	\$ -
8,532	500	-	18,236
-	-	-	-
-	-	59,196	59,196
<u>\$ 8,532</u>	<u>\$ 500</u>	<u>\$ 59,196</u>	<u>\$ 77,432</u>

CITY OF AFTON, IOWA
STATEMENT OF INDEBTEDNESS
Year Ended June 30, 2004

Schedule 2

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates For Entire Issue</u>
State Revolving Loan: 1994 Sewer revenue capital loan note	February 11, 1994	3.74%
1997 Sewer revenue capital loan note	October 7, 1998	4.23%

See accompanying independent auditor's report.

<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>	<u>Interest Due and Unpaid</u>
\$ 195,000	\$122,000	\$ -	\$ 9,000	\$113,000	\$ 4,395	\$ -
\$ 320,000	<u>213,000</u>	<u>-</u>	<u>10,000</u>	<u>203,000</u>	<u>8,798</u>	<u>\$ -</u>
	<u><u>\$335,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 19,000</u></u>	<u><u>\$316,000</u></u>	<u><u>\$13,193</u></u>	<u><u>\$ -</u></u>

CITY OF AFTON, IOWA
 BOND AND OTHER DEBT MATURITIES
 June 30, 2004

Schedule 3

Year Ending June 30,	State Revolving Loan			
	Sewer Revenue Capital Loan Note		Sewer Revenue Capital Loan Note	
	Interest Rates	Amount	Interest Rates	Amount
2005	3.74%	\$ 10,000	4.23%	\$ 11,000
2006	3.74%	10,000	4.23%	11,000
2007	3.74%	10,000	4.23%	12,000
2008	3.74%	11,000	4.23%	12,000
2009	3.74%	11,000	4.23%	13,000
2010	3.74%	11,000	4.23%	13,000
2011	3.74%	12,000	4.23%	14,000
2012	3.74%	12,000	4.23%	15,000
2013	3.74%	13,000	4.23%	15,000
2014	3.74%	13,000	4.23%	16,000
2015	3.74%	-	4.23%	17,000
2016	3.74%	-	4.23%	17,000
2017	3.74%	-	4.23%	18,000
2018	3.74%	-	4.23%	19,000
Total		\$113,000		\$203,000

See accompanying independent auditor's report.

CITY OF AFTON, IOWA
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS
 BY FUNCTION - ALL GOVERNMENTAL FUNDS
 For the Last Four Years

Schedule 4

	2004	2003	2002	2001
RECEIPTS:				
Property tax	\$ 122,866	\$ 123,467	\$ 118,501	\$ 118,270
Tax incremental financing collections	-	-	-	-
Other city tax	-	-	-	-
Licenses and permits	535	860	850	835
Uses of money and property	2,584	2,722	5,721	9,312
Intergovernmental	161,054	145,780	90,781	92,394
Charges for services	56,808	37,759	37,843	37,188
Special assessments	-	-	-	-
Miscellaneous	23,622	41,660	46,007	44,869
	<u>\$ 367,469</u>	<u>\$ 352,248</u>	<u>\$ 299,703</u>	<u>\$ 302,868</u>
TOTAL				
DISBURSEMENTS:				
Operating:				
Public safety	\$ 114,350	\$ 95,434	\$ 75,144	\$ 71,980
Public works	141,007	168,360	145,691	197,779
Health and social services	-	-	-	-
Culture and recreation	50,314	14,117	10,674	9,123
Community and economic development	3,406	56,711	1,765	2,572
General government	64,231	61,932	64,562	59,119
Debt service	-	32,100	28,825	30,525
Capital projects	77,077	-	-	-
	<u>\$ 450,385</u>	<u>\$ 428,654</u>	<u>\$ 326,661</u>	<u>\$ 371,098</u>
TOTAL				

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited the financial statements of the City of Afton, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated November 9, 2004. Our report expressed an unqualified opinion 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, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City of Afton, Iowa, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for item 2003-2.

Internal Control Over Financial Reporting

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. Prior year reportable conditions have been resolved except for items 2003-A.

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

Drapen, Smidgrasso, Mickelson & Co., P.C.

November 9, 2004

CITY OF AFTON, IOWA
SCHEDULE OF FINDINGS
Year Ended June 30, 2004

Findings Related to the Financial Statements

Reportable Conditions:

2004-A Segregation of duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that certain functions are not entirely segregated.

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

Response - We will review our internal control procedures.

Conclusion - Response acknowledged.

2004-B Document for disbursements - The City disbursed funds for a project that was not documented by an invoice supporting the service prior to the payment. This disbursement was properly approved by the City Council; however, there was no invoice or supporting document to support the service that was provided. The City's policies state that all disbursements are to be supported by an invoice or other supporting documentation prior to the disbursement being made.

Recommendation - The City should follow its policies and a payment for services or supplies should not be made until the proper supporting documents are received to support the service or supplies received by the City.

Response - Funds will not be disbursed without proper documentation supporting the service that was provided to the City.

Conclusion - Response acknowledged.

Other Findings Related to Required Statutory Reporting:

2004-1 Official Depositories - A resolution naming official depositories has been approved by the City. During the audit no deposits in excess of the limits stated were noted.

CITY OF AFTON, IOWA
 SCHEDULE OF FINDINGS
 Year Ended June 30, 2004

2004-2 Certified Budget - Budget disbursements during the year ended June 30, 2004, were not exceeded.

2004-3 Questionable Disbursements – Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the benefits to be derived have not been clearly documented. The disbursement is detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Lions Club	Christmas Holiday Giveaway	\$ 10

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny, the line to be drawn between a proper and an improper purpose is very thin.

Recommendation -The Council should determine and document the public purpose served by the disbursement before authorizing any further similar payments. If this practice is continued, the Council should establish written policies and procedures, including the requirements for proper documentation.

Response - Funds will not be disbursed without documenting the public purpose served by the disbursement.

Conclusion - Response acknowledged.

2004-4 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

2004-5 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amounts of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

2004-6 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

2004-7 Business Transactions - There were no business transactions between the City and City Officials or employees.

CITY OF AFTON, IOWA
SCHEDULE OF FINDINGS
Year Ended June 30, 2004

2004-8 Deposits and Investments – We noted no instances of non-compliance with deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy.

2004-9 Notice of Public Hearing for Public Improvements -The City did not publish a notice of public hearing and bid letting on a sewer improvement project as required by Chapters 384.102 and 362.3 of the Code of Iowa.

Recommendation – Before entering into any contract for public improvement where the cost is \$25,000 or more, the Council should set a date for a public hearing and give notice at least four but not more than twenty days prior to the hearing as provided in Chapter 362.3 of the Code of Iowa.

Response - A notice of public hearing and bid letting will be given for all public improvement projects which will exceed \$25,000.

Conclusion - Response acknowledged.

2004-10 Other Information Required by Note Resolution - The following insurance policies were in force at June 30, 2004:

<u>Insurer</u>	<u>Description</u>	<u>Amount</u>	<u>Expiration Date</u>
Employers Mutual Casualty Company	Commercial property	\$ 724,092	April 1, 2005
Employers Mutual Casualty Company	General liability: General aggregate limit	2,000,000	April 1, 2005
	Products/completed operations	2,000,000	
	Personal and/or advertising injury limit	1,000,000	
	Each occurrence limit	1,000,000	
	Fire damage limit	100,000	
	Medical expense limit	5,000	

CITY OF AFTON, IOWA
SCHEDULE OF FINDINGS
Year Ended June 30, 2004

2004-10 Other Information Required by Note Resolution - The following insurance policies were in force at June 30, 2004:

<u>Insurer</u>	<u>Description</u>	<u>Amount</u>	<u>Expiration Date</u>
Employers Mutual Casualty Company	Inland marine: Contractor's equipment	122,275	April 1, 2005
	Miscellaneous	4,333	
Employers Mutual Casualty Company	Commercial automobile: Liability	\$1,000,000	April 1, 2005
	Uninsured motorists	50,000	
	Underinsured motorists	50,000	
Employers Mutual Casualty Company	Employee dishonesty: Public employee dishonesty	\$ 101,000	April 1, 2005
	Forgery or alteration	10,000	
Employers Mutual Casualty Company	Commercial umbrella: Occurrence limit	\$2,000,000	April 1, 2005
	Aggregate limit	2,000,000	
	Retained limit	10,000	
Employers Mutual Casualty Company	Linebacker: Each loss	\$1,000,000	April 1, 2005
	Aggregate for each policy term	1,000,000	
Employers Mutual Casualty Company	Commercial crime: Theft, disappearance and destruction	\$ 10,000	April 1, 2004
	Premises burglary	5,000	
	Premises other than money and securities	5,000	
	Computer fraud	50,000	

CITY OF AFTON, IOWA
 SCHEDULE OF FINDINGS
 Year Ended June 30, 2004

2004-10 Other Information Required by Note Resolution - The following insurance policies were in force at June 30, 2004:

<u>Insurer</u>	<u>Description</u>	<u>Amount</u>	<u>Expiration Date</u>
Employers Mutual Casualty Company	Workers' compensation : Bodily injury by accident)	\$ 500,000	April 1, 2004
	Bodily injury by disease (each employee)	500,000	
	Bodily injury by disease (policy limit)	500,000	