

CITY OF AFTON

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

Year Ended June 30, 2005

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 INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS		30-31
SCHEDULE OF FINDINGS		32-35

CITY OF AFTON, IOWA  
OFFICIALS  
June 30, 2005

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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 Tunncliff	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, 2005, 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 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, 2005, 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

In accordance with Government Auditing Standards, we have also issued our report dated December 27, 2005, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting and compliance. 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, 2004 (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, Smidgras, Mickelson + Co., P.C.*

December 27, 2005

CITY OF AFTON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2005

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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements which follow.

### **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.

## **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, cemetery and the walking trail project.

**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 \$25,000 in general obligation debt due to the fire department borrowing money from USDA for a new fire truck.

**Capital Projects:** This category includes the CDBG Housing Rehabilitation 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.

**2005 Financial Highlights**

Revenues of the City's governmental activities increased by \$198,054 from fiscal 2004 to fiscal 2005. Property tax increased by \$13,832. Proprietary activities revenues increased by \$12,022. The reason for the large increase in governmental revenues is due to a \$160,000 grant, loan and payments for a new fire truck. Also, the City received \$73,525 from the Huss Estate for maintenance and beautification of Greenlawn Cemetery.

Governmental activities disbursements increased by \$152,952. Proprietary activities disbursements increased by \$21,034. The reason for the large increase in governmental disbursements is due to the payments for the new fire truck.

The City's total cash balance increased by \$54,274. Governmental activities increased by \$90,347 and proprietary activities decreased by \$36,073.

**Sources of Funds for Governmental Activities**

	<u>FY 2005</u>	<u>FY 2004</u>
Receipts		
Property tax	\$ 136,698	\$ 122,866
Licenses and permits	410	535
Use of money and property	76,881	2,584
Intergovernmental	250,011	161,054
Charges for Services	75,232	56,808
Miscellaneous	<u>26,291</u>	<u>23,622</u>
Total receipts	<u>\$ 565,523</u>	<u>\$ 367,469</u>
Disbursements:		
Public safety	\$ 254,742	\$ 114,350
Public works	128,932	141,007
Culture and recreation	45,511	50,314
Community and economic development	8,236	3,406
General government	69,145	64,231
Capital projects	<u>96,771</u>	<u>77,077</u>
Total disbursements	<u>\$ 603,337</u>	<u>\$ 450,385</u>
Excess of disbursements over receipts	\$ (37,814)	\$ (82,916)
Total other financing sources	<u>128,161</u>	<u>56,954</u>
Net change in cash balances	<u>\$ 90,347</u>	<u>\$ (25,962)</u>

Cash balances beginning of year	<u>\$ 144,784</u>	<u>\$ 170,746</u>
Cash balances end of year:		
General fund	\$ 27,954	\$ 24,196
Special revenue funds	41,641	61,392
Capital projects fund	---	---
Other non-mayor government funds	92,714	59,196
Huss Cemetery funds	<u>72,822</u>	<u>---</u>
Total	<u>\$ 235,131</u>	<u>\$ 144,784</u>
Total government funds cash balances	\$ 235,131	\$ 144,784
Assets of internal service fund*	<u>67,856</u>	<u>45,853</u>
Cash basis net assets of governmental activities	<u>\$ 302,987</u>	<u>\$ 190,637</u>
Net change in cash balances	\$ 90,347	\$ (25,962)
Assets of internal service funds*	<u>(17,181)</u>	<u>8,497</u>
Change in cash balances of governmental activities	<u>\$ 73,166</u>	<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:**

	<u>FY 2005</u>	<u>FY 2004</u>
Receipts		
Use of money and property	\$ 11,778	\$ 9,728
Charges for Services	611,672	601,650
Miscellaneous	---	50
Total receipts	<u>\$ 623,450</u>	<u>\$ 611,428</u>
Disbursements:		
Business type activities	<u>\$ 591,362</u>	<u>\$ 566,932</u>
Excess of disbursements over receipts	\$ 32,088	\$ 44,496
Other financing sources, net	<u>(68,160)</u>	<u>(56,954)</u>
Excess of receipts and other financing sources Over disbursements and other financing uses	\$ (36,072)	\$ (12,458)
Cash balance beginning of year	<u>\$ 802,634</u>	<u>\$ 815,092</u>
Cash balances end of year	<u>\$ 766,562</u>	<u>\$ 802,634</u>

## **Individual Fund Analysis:**

General Fund: The General Fund received \$337,040 plus \$71,718 transferred in. Disbursements were \$400,715 plus \$4,283 transferred out. These figures include \$160,000 fire truck grant, loan and payment income and disbursements of \$160,000 for fire truck payment.

Road Use Fund: The Road Use Fund received \$76,245. Disbursements were \$73,263 plus \$4,497 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 \$36,201 and disbursed \$27,819. These funds are received from tax money and used for General Fund and Road Use Fund employee benefits such as matching FICA/MEDICARE/IPERS and health insurance.

Emergency Fund: The Emergency Fund received \$53. We did not levy in the emergency fund for FY 05.

Sick Leave Fund: The Sick Leave Fund received \$421 in interest and a transfer in of \$7,533. Disbursements were \$27,819 for the police chief's pay out when he retired July 1, 2005. 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 \$243 and \$9,000 in transfers in. Disbursements were \$3,396 for a John Deere lawn mower.

Sesquicentennial Fund: This fund received \$2,011. Disbursements were \$4,073. This fund was used for all receipts and expenditures related to the 2004 City Sesquicentennial.

Walking Trail: The Walking Trail Fund received donations of \$4,525. Disbursements were \$500. This fund is used for all receipts and disbursements pertaining to the Walking Trail.

Capital Projects: The Capital Projects Fund received \$95,528 plus \$1,243 transferred in. The disbursements were \$96,771. This fund is the Community Development Block Grant Housing Rehabilitation Project.

Cemetery Perpetual Care Fund: This fund received \$903 in interest. This is a permanent fund and only the interest from the Certificates of Deposit may be spent.

Electric Fund: The Electric Fund received \$503,877 and disbursed \$491,265 plus transferred out \$57,303. The new electric rate increase will be effective August 2005.

Sewer Fund: The Sewer Fund received \$111,976 and disbursed \$56,023 plus transferred out \$39,168.

Sewer Bond & Interest Fund: The Sewer Bond and Interest Fund received \$252 interest and \$33,495 transferred in. The disbursements were \$33,647. 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 \$530 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 \$210 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 \$5,941 with disbursements of \$7,031. This fund is used for Electric and Sewer Deposits made by customers. These deposits are refunded after 12 months of payment by the 20<sup>th</sup> of each month.

Huss Cemetery Fund: The Forrest Huss Estate willed \$73,525 to Greenlawn Cemetery to be used for the maintenance and beautification of the cemetery. \$703 was disbursed from this fund.

### **Debt Administration:**

As of June 30, 2005, the City had \$295,000 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. Also, the City has \$35,599 in General Obligation Debt due to a loan from USDA for a new fire truck. This \$35,599 will be paid by the Afton Central Fire Department in 2005-2006.

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 due to additional cemetery and park expenditures; Community and Economic Development due to Sesquicentennial expenditures; Public Safety due to the new fire truck expenditures; and Public Works due to additional road expenditures. The City transferred \$50,000 from the Electric Fund to the General Fund in 2004-2005 to balance the budget. In fiscal year 2005-2006 \$65,000 is budgeted to be transferred from the Electric and Sewer Funds.

### **Next Year's Budget and Rates:**

The City's tax rate for 2004-2005 was \$13.84 per \$1,000 valuation and is \$14.26 per \$1,000 valuation for 2005-2006. Expenditures for 2005-2006 include the CDBG Housing Rehabilitation Project finalization 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 this year.

**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, 2005

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	\$ 254,742	\$ 1,547	\$ -	\$ -
Public works	132,328	42,170	77,148	-
Culture and recreation	45,511	10,450	78,050	-
Community/economic development	8,236	2,012	-	-
General government	69,145	28,052	-	135,000
Capital projects	96,771	-	-	95,528
Total governmental activities	\$ 606,733	\$ 84,231	\$ 155,198	\$ 230,528
Business type activities:				
Sewer	\$ 89,670	\$ 110,532	\$ -	\$ -
Electric	498,296	501,140	-	-
Total business type activities	\$ 587,966	\$ 611,672	\$ -	\$ -
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 1,194,699</b>	<b>\$ 695,903</b>	<b>\$ 155,198</b>	<b>\$ 230,528</b>

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  
        Huss Cemetery  
        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>
\$ (253,195)	\$ -	\$ (253,195)
(13,010)	-	(13,010)
42,989	-	42,989
(6,224)	-	(6,224)
93,907	-	93,907
(1,243)	-	(1,243)
<u>\$ (136,776)</u>	<u>\$ -</u>	<u>\$ (136,776)</u>
\$ -	\$ 20,862	\$ 20,862
-	2,844	2,844
<u>\$ -</u>	<u>\$ 23,706</u>	<u>\$ 23,706</u>
<u>\$ (136,776)</u>	<u>\$ 23,706</u>	<u>\$ (113,070)</u>
\$ 136,699	\$ -	\$ 136,699
5,349	-	5,349
2,056	11,384	13,440
11,858	-	11,858
53,980	(53,980)	-
<u>\$ 209,942</u>	<u>\$ (42,596)</u>	<u>\$ 167,346</u>
\$ 73,166	\$ (18,890)	\$ 54,276
190,637	756,781	947,418
<u>\$ 263,803</u>	<u>\$ 737,891</u>	<u>\$ 1,001,694</u>
\$ 41,641	\$ -	\$ 41,641
21,224	-	21,224
-	30,141	30,141
72,822	-	72,822
71,095	70,388	141,483
57,021	637,362	694,383
<u>\$ 263,803</u>	<u>\$ 737,891</u>	<u>\$ 1,001,694</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, 2005

Exhibit B

	General	SPECIAL REVENUE Road Use Tax
RECEIPTS:		
Property taxes	\$ 100,444	\$ -
Licenses and permits	410	-
Use of money and property	3,356	-
Intergovernmental	78,238	76,245
Charges for service	75,232	-
Miscellaneous	18,851	-
Total receipts	\$ 276,531	\$ 76,245
DISBURSEMENTS:		
Operating:		
Public safety	\$ 237,583	\$ -
Public works	51,798	73,263
Culture and recreation	44,308	-
Community/economic development	4,163	-
General government	62,356	-
Capital projects	-	-
Total disbursements	\$ 400,208	\$ 73,263
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	\$ (123,677)	\$ 2,982
OTHER FINANCING SOURCES (USES):		
Loan proceeds	\$ 60,000	\$ -
Operating transfers in	71,718	-
Operating transfers out	(4,283)	(4,497)
TOTAL OTHER FINANCING SOURCES (USES)	\$ 127,435	\$ (4,497)
NET CHANGE IN CASH BALANCES	\$ 3,758	\$ (1,515)
CASH BALANCES, BEGINNING OF YEAR	24,196	43,156
CASH BALANCES, END OF YEAR	\$ 27,954	\$ 41,641
CASH BASIS FUND BALANCES:		
Unreserved:		
General fund	\$ 27,954	\$ -
Special revenue funds	-	41,641
Capital projects fund	-	-
Permanent fund	-	-
TOTAL CASH BASIS FUND BALANCES	\$ 27,954	\$ 41,641

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

SPECIAL REVENUE

<u>Huss Cemetery Fund</u>	<u>Capital Projects</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
\$ -	\$ -	\$ 36,254	\$ 136,698
-	-	-	410
73,525	-	-	76,881
-	95,528	-	250,011
-	-	-	75,232
-	-	7,440	26,291
<u>\$ 73,525</u>	<u>\$ 95,528</u>	<u>\$ 43,694</u>	<u>\$ 565,523</u>
\$ -	\$ -	\$ 17,159	\$ 254,742
-	-	3,871	128,932
703	-	500	45,511
-	-	4,073	8,236
-	-	6,789	69,145
-	96,771	-	96,771
<u>\$ 703</u>	<u>\$ 96,771</u>	<u>\$ 32,392</u>	<u>\$ 603,337</u>
<u>\$ 72,822</u>	<u>\$ (1,243)</u>	<u>\$ 11,302</u>	<u>\$ (37,814)</u>
\$ -	\$ -	\$ -	\$ 60,000
-	1,243	3,980	76,941
-	-	-	(8,780)
<u>\$ -</u>	<u>\$ 1,243</u>	<u>\$ 3,980</u>	<u>\$ 128,161</u>
\$ 72,822	\$ -	\$ 15,282	\$ 90,347
-	-	77,432	144,784
<u>\$ 72,822</u>	<u>\$ -</u>	<u>\$ 92,714</u>	<u>\$ 235,131</u>
\$ -	\$ -	\$ -	\$ 27,954
72,822	-	32,615	147,078
-	-	-	-
-	-	60,099	60,099
<u>\$ 72,822</u>	<u>\$ -</u>	<u>\$ 92,714</u>	<u>\$ 235,131</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, 2005

Exhibit C

TOTAL GOVERNMENTAL FUNDS CASH BALANCES \$ 235,131

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.

28,672

CASH BASIS NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 263,803

NET CHANGE IN CASH BALANCES

\$ 90,347

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.

(17,181)

CHANGE IN CASH BALANCES OF GOVERNMENTAL ACTIVITIES

\$ 73,166

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, 2005

Exhibit D

	Enterprise Funds		
	Sewer	Electric	Total
OPERATING RECEIPTS:			
Charge for service	\$ 110,532	\$ 501,140	\$ 611,672
Total operating receipts	\$ 110,532	\$ 501,140	\$ 611,672
OPERATING DISBURSEMENTS:			
Public works	\$ -	\$ -	\$ -
Business type activities	56,023	498,296	554,319
Total operating disbursements	\$ 56,023	\$ 498,296	\$ 554,319
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	\$ 54,509	\$ 2,844	\$ 57,353
NON-OPERATING RECEIPTS (DISBURSEMENTS):			
Interest on investments	\$ 2,436	\$ 8,679	\$ 11,115
Debt service	(33,647)	-	(33,647)
Total non-operating receipts (disbursements)	\$ (31,211)	\$ 8,679	\$ (22,532)
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ 23,298	\$ 11,523	\$ 34,821
OTHER FINANCING SOURCES (USES):			
Operating transfers in	\$ -	\$ -	\$ -
Operating transfers out	(5,673)	(57,303)	(62,976)
Total other financing sources (uses)	\$ (5,673)	\$ (57,303)	\$ (62,976)
NET CHANGE IN CASH BALANCES	\$ 17,625	\$ (45,780)	\$ (28,155)
CASH BALANCES, BEGINNING OF YEAR	181,329	545,533	726,862
CASH BALANCES, END OF YEAR	\$ 198,954	\$ 499,753	\$ 698,707
CASH BASIS FUND BALANCES:			
Reserved for debt service	\$ 30,141	\$ -	\$ 30,141
Reserved for sewer improvements	15,850	-	15,850
Reserved for sewer reserve	37,217	-	37,217
Reserved for customer deposits	-	17,321	17,321
Unreserved	115,746	482,432	598,178
Total cash basis fund balances	\$ 198,954	\$ 499,753	\$ 698,707

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>
\$ 3,396	\$ -	\$ 3,396
-	-	-
<u>\$ 3,396</u>	<u>\$ -</u>	<u>\$ 3,396</u>
\$ (3,396)	\$ -	\$ (3,396)
\$ 242	\$ 421	\$ 663
-	-	-
<u>\$ 242</u>	<u>\$ 421</u>	<u>\$ 663</u>
\$ (3,154)	\$ 421	\$ (2,733)
\$ 9,000	\$ 7,534	\$ 16,534
-	(21,718)	(21,718)
<u>\$ 9,000</u>	<u>\$ (14,184)</u>	<u>\$ (5,184)</u>
\$ 5,846	\$ (13,763)	\$ (7,917)
23,924	51,849	75,773
<u>\$ 29,770</u>	<u>\$ 38,086</u>	<u>\$ 67,856</u>
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
29,770	38,086	67,856
<u>\$ 29,770</u>	<u>\$ 38,086</u>	<u>\$ 67,856</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, 2005

Exhibit E

TOTAL ENTERPRISE FUNDS CASH BALANCES \$ 698,707

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.

39,184

CASH BASIS NET ASSETS OF BUSINESS TYPE ACTIVITIES

\$ 737,891

NET CHANGE IN CASH BALANCES

\$ (28,155)

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.

9,265

CHANGE IN CASH BALANCES OF GOVERNMENTAL ACTIVITIES

\$ (18,890)

CITY OF AFTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

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, 2005

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 Huss Cemetery Fund is used to account for funds to be used solely for maintenance and upkeep of the city cemetery.

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, 2005

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, 2005, disbursements exceeded the amounts budgeted in the Public Safety and in the Community and Economic Development Functions prior to amendment.

Note 2. Deposits and Investments

The City's deposits at June 30, 2005, were entirely covered by Federal depository insurance or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are normally categorized to give an indication of the level of risk assumed by the City at year-end. At June 30, 2005, 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, 2005

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
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>\$ 103,000</u>	<u>\$ 18,232</u>	<u>\$ 192,000</u>	<u>\$ 57,740</u>

Year Ending June 30,	Total	
	Principal	Interest
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>\$ 295,000</u>	<u>\$ 75,972</u>

CITY OF AFTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

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, 2005, transfers have been made in amounts adequate on a cumulative basis, to meet the foregoing requirements, and the City complied with the provisions.

Note Payable

The City issued capital loan notes dated August 10, 2004 for the partial financing of a new fire truck for the Afton Fire district in the amount of \$60,000. The notes call for interest at a rate of 4.25% with annual payments of \$5,775 beginning on January 1, 2006 and annually thereafter until paid in full. The note agreement allows for early repayment of the debt. The fire district is providing the funding to pay the notes and is currently paid in advance of the payment schedule and is anticipating paying the notes off in advance of the maturity date. The balance of the notes at June 30, 2005 is \$35,599.

CITY OF AFTON, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2005

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.

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 6.16% and 9.23%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003, were \$9,071, \$10,242, and \$10,208 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, 2005, primarily relating to the General and Enterprise funds is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 4,924
Sick leave	<u>39,525</u>
Total	<u>\$ 44,449</u>

The liability has been computed based on rates of pay as of June 30, 2005.

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, 2005

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, 2005, is as follows:

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
General	Enterprise:	
	Electric	\$ 50,000
	Internal Service:	
	Sick leave	<u>21,718</u>
		<u>\$ 71,718</u>
Capital Projects	General	<u>\$ 1,243</u>
Special Revenue:		
Employee Benefits	Enterprise:	
	Electric	\$ 2,305
	Sewer	<u>1,675</u>
		<u>\$ 3,980</u>
Enterprise:		
Internal Service:		
Sick Leave	General	\$ 3,040
	Special revenue:	
	Road use	1,497
	Enterprise:	
	Electric	1,498
	Sewer	<u>1,498</u>
		<u>\$ 7,533</u>
Equipment Revolving	Special revenue:	
	Road use	\$ 3,000
	Enterprise:	
	Electric	3,500
	Sewer	<u>2,500</u>
		<u>\$ 9,000</u>
Total		<u>\$ 93,474</u>

CITY OF AFTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

Note 8. Interfund Transfers (continued)

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

Note 9. Litigation

The City is subject to pending litigation seeking unspecified damages. The probability of any loss is currently undeterminable.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF AFTON, IOWA  
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN BALANCES - ACTUAL TO BUDGET (CASH BASIS) -  
 ALL GOVERNMENTAL AND PROPRIETARY FUNDS  
 Year Ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required To Be Budgeted
RECEIPTS:			
Property tax	\$ 136,698	\$ -	\$ -
Tax increment financing collections	-	-	-
Other city tax	-	-	-
Licenses and permits	410	-	-
Use of money and property	76,881	11,778	-
Intergovernmental	250,011	-	-
Charges for service	75,232	611,672	-
Special assessments	-	-	-
Miscellaneous	26,291	-	-
<b>TOTAL RECEIPTS</b>	<b><u>\$ 565,523</u></b>	<b><u>\$ 623,450</u></b>	<b><u>\$ -</u></b>
DISBURSEMENTS:			
Public safety	\$ 254,742	\$ -	\$ -
Public works	128,932	3,396	-
Health and social services	-	-	-
Culture and recreation	45,511	-	-
Community and economic development	8,236	-	-
General government	69,145	-	-
Debt service	-	-	-
Capital projects	96,771	-	-
Business type activities	-	587,966	-
<b>TOTAL DISBURSEMENTS</b>	<b><u>\$ 603,337</u></b>	<b><u>\$ 591,362</u></b>	<b><u>\$ -</u></b>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	\$ (37,814)	\$ 32,088	\$ -
OTHER FINANCING SOURCES, NET	<u>128,161</u>	<u>(68,161)</u>	<u>-</u>
EXCESS OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	\$ 90,347	\$ (36,073)	\$ -
BALANCE, BEGINNING OF YEAR	<u>144,784</u>	<u>802,634</u>	<u>-</u>
BALANCE, END OF YEAR	<b><u><u>\$ 235,131</u></u></b>	<b><u><u>\$ 766,561</u></u></b>	<b><u><u>\$ -</u></u></b>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 136,698	\$ 130,476	\$ 130,476	\$ 6,222
-	-	-	-
-	4,152	4,152	(4,152)
410	1,460	1,460	(1,050)
88,659	13,300	13,300	75,359
250,011	376,569	466,569	(216,558)
686,904	718,740	718,740	(31,836)
-	-	-	-
26,291	18,883	96,383	(70,092)
<u>\$ 1,188,973</u>	<u>\$ 1,263,580</u>	<u>\$ 1,431,080</u>	<u>\$ (242,107)</u>
\$ 254,742	\$ 130,320	\$ 290,320	\$ 35,578
132,328	141,929	177,429	45,101
-	-	-	-
45,511	39,567	51,567	6,056
8,236	3,000	9,500	1,264
69,145	75,537	75,537	6,392
-	-	-	-
96,771	312,500	225,000	128,229
587,966	668,488	668,488	80,522
<u>\$ 1,194,699</u>	<u>\$ 1,371,341</u>	<u>\$ 1,497,841</u>	<u>\$ 303,142</u>
\$ (5,726)	\$ (107,761)	\$ (66,761)	\$ (61,035)
60,000	-	-	60,000
\$ 54,274	\$ (107,761)	\$ (66,761)	<u>\$ (121,035)</u>
947,418	862,106	862,106	
<u>\$ 1,001,692</u>	<u>\$ 754,345</u>	<u>\$ 795,345</u>	

CITY OF AFTON, IOWA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
June 30, 2005

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 \$126,500. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the Public Safety and Community and Economic Development functions prior to the budget amendment. The final amended budget was not exceeded for the year.

## 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, 2005

	Schedule 1 Special Revenue	
	Employee Benefits	Emergency
RECEIPTS:		
Property tax	\$ 36,201	\$ 53
Miscellaneous	-	-
TOTAL RECEIPTS	\$ 36,201	\$ 53
DISBURSEMENTS:		
Operating:		
Public safety	\$ 17,159	\$ -
Public works	3,871	-
Culture and recreation	-	-
Community and economic development	-	-
General government	6,789	-
TOTAL DISBURSEMENTS	\$ 27,819	\$ -
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	\$ 8,382	\$ 53
OTHER FINANCING SOURCES (USES):		
Operating transfers in	\$ 3,980	\$ -
Operating transfers out	-	-
TOTAL OTHER FINANCING SOURCES (USES)	\$ 3,980	\$ -
NET CHANGE IN CASH BALANCES	\$ 12,362	\$ 53
CASH BALANCES, BEGINNING OF YEAR	8,862	342
CASH BALANCES, END OF YEAR	\$ 21,224	\$ 395
CASH BASIS FUND BALANCES:		
Unreserved:		
General fund	\$ -	\$ -
Special revenue funds	21,224	395
Capital projects fund	-	-
Permanent fund	-	-
TOTAL CASH BASIS FUND BALANCES	\$ 21,224	\$ 395

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>	
\$ -	\$ -	\$ -	\$ 36,254
2,012	4,525	903	7,440
<u>\$ 2,012</u>	<u>\$ 4,525</u>	<u>\$ 903</u>	<u>\$ 43,694</u>
\$ -	\$ -	\$ -	\$ 17,159
-	-	-	3,871
-	500	-	500
4,073	-	-	4,073
-	-	-	6,789
<u>\$ 4,073</u>	<u>\$ 500</u>	<u>\$ -</u>	<u>\$ 32,392</u>
<u>\$ (2,061)</u>	<u>\$ 4,025</u>	<u>\$ 903</u>	<u>\$ 11,302</u>
\$ -	\$ -	\$ -	\$ 3,980
-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,980</u>
\$ (2,061)	\$ 4,025	\$ 903	\$ 15,282
8,532	500	59,196	77,432
<u>\$ 6,471</u>	<u>\$ 4,525</u>	<u>\$ 60,099</u>	<u>\$ 92,714</u>
\$ -	\$ -	\$ -	\$ -
6,471	4,525	-	32,615
-	-	-	-
-	-	60,099	60,099
<u>\$ 6,471</u>	<u>\$ 4,525</u>	<u>\$ 60,099</u>	<u>\$ 92,714</u>

CITY OF AFTON, IOWA  
 STATEMENT OF INDEBTEDNESS  
 Year Ended June 30, 2005

Schedule 2

Obligation	Date of Issue	Interest Rates For Entire Issue
General Obligation Capital loan notes	August 10, 2004	4.25%
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>
\$ 60,000	<u>\$ -</u>	<u>\$ 60,000</u>	<u>\$ 24,401</u>	<u>\$ 35,599</u>	<u>\$ 1,507</u>	<u>\$ -</u>
\$ 195,000	\$ 113,000	\$ -	\$ 10,000	\$ 103,000	\$ 4,039	\$ -
\$ 320,000	<u>203,000</u>	<u>-</u>	<u>11,000</u>	<u>192,000</u>	<u>8,354</u>	<u>\$ -</u>
	<u>\$ 316,000</u>	<u>\$ -</u>	<u>\$ 21,000</u>	<u>\$ 295,000</u>	<u>\$ 12,393</u>	<u>\$ -</u>

CITY OF AFTON, IOWA  
 BOND AND OTHER DEBT MATURITIES  
 June 30, 2005

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
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
		\$ 103,000		\$ 192,000
Total		\$ 103,000		\$ 192,000

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
RECEIPTS:				
Property tax	\$ 136,698	\$ 122,866	\$ 123,467	\$ 118,501
Tax incremental financing collections	-	-	-	-
Other city tax	-	-	-	-
Licenses and permits	410	535	860	850
Uses of money and property	76,881	2,584	2,722	5,721
Intergovernmental	250,011	161,054	145,780	90,781
Charges for services	75,232	56,808	37,759	37,843
Special assessments	-	-	-	-
Miscellaneous	26,291	23,622	41,660	46,007
	<u>26,291</u>	<u>23,622</u>	<u>41,660</u>	<u>46,007</u>
TOTAL	<u>\$ 565,523</u>	<u>\$ 367,469</u>	<u>\$ 352,248</u>	<u>\$ 299,703</u>
DISBURSEMENTS:				
Operating:				
Public safety	\$ 254,742	\$ 114,350	\$ 95,434	\$ 75,144
Public works	128,932	141,007	168,360	145,691
Health and social services	-	-	-	-
Culture and recreation	45,511	50,314	14,117	10,674
Community and economic development	8,236	3,406	56,711	1,765
General government	69,145	64,231	61,932	64,562
Debt service	-	-	32,100	28,825
Capital projects	96,771	77,077	-	-
	<u>96,771</u>	<u>77,077</u>	<u>-</u>	<u>-</u>
TOTAL	<u>\$ 603,337</u>	<u>\$ 450,385</u>	<u>\$ 428,654</u>	<u>\$ 326,661</u>

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON 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  
City of 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, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated December 27, 2005. 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, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Afton, Iowa's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted 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 the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be 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.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Afton, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters 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, 2005 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.

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

*Drapen, Smidgrass, Mickelson + Co., P.C.*

December 27, 2005

CITY OF AFTON, IOWA  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2005

Findings Related to the Financial Statements

Reportable Conditions:

2005-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.

Other Findings Related to Required Statutory Reporting:

2005-1 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.

2005-2 Certified Budget – Disbursements exceeded budgeted amounts prior to budget amendment in the Public Safety and the Community and Economic Development 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. The final budget for the year ended June 30, 2005 was not exceeded.

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 – In the future, we will attempt to amend the budget before disbursements are made that exceed the approved budget.

Conclusion – Response acknowledged.

CITY OF AFTON, IOWA  
 SCHEDULE OF FINDINGS  
 Year Ended June 30, 2005

- 2005-3 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.
- 2005-4 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- 2005-5 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.
- 2005-6 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- 2005-7 Business Transactions - There were no business transactions between the City and City Officials or employees.
- 2005-8 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.
- 2005-9 Other Information Required by Note Resolution – The following insurance policies were in force at June 30, 2005:

<u>Insurer</u>	<u>Description</u>	<u>Amount</u>	<u>Expiration Date</u>
Employers Mutual Casualty Company	Commercial property	\$ 864,513	April 1, 2006
Employers Mutual Casualty Company	General liability:		April 1, 2006
	General aggregate limit	2,000,000	
	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, 2005

2005-9 Other Information Required by Note Resolution – The following insurance policies were in force at June 30, 2005:

<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, 2006
	Miscellaneous	3,893	
Employers Mutual Casualty Company	Commercial automobile: Liability	\$1,000,000	April 1, 2006
	Uninsured motorists	50,000	
	Underinsured motorists	50,000	
Employers Mutual Casualty Company	Employee dishonesty: Public employee dishonesty	\$ 101,000	April 1, 2006
	Forgery or alteration	10,000	
Employers Mutual Casualty Company	Commercial umbrella: Occurrence limit	\$2,000,000	April 1, 2006
	Aggregate limit	2,000,000	
	Retained limit	10,000	
Employers Mutual Casualty Company	Linebacker: Each loss	\$1,000,000	April 1, 2006
	Aggregate for each policy term	1,000,000	
Employers Mutual Casualty Company	Commercial crime: Theft, disappearance and destruction	\$ 10,000	April 1, 2006
	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, 2005

2005-9 Other Information Required by Note Resolution – The following insurance policies were in force at June 30, 2005:

<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, 2006
	Bodily injury by disease (each employee)	500,000	
	Bodily injury by disease (policy limit)	500,000	