

CITY OF AFTON

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

Year Ended June 30, 2006

CITY OF AFTON, IOWA  
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CITY OF AFTON, IOWA  
OFFICIALS  
June 30, 2006

<u>Name</u>	<u>Title</u> Before January 2006	<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 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

<u>Name</u>	<u>Title</u> After January 2006	<u>Term Expires</u>
Michelle Burger	Mayor	January, 2008
Jeff Burger	Council Member	January, 2010
David Cunningham	Council Member	January, 2008
Sherry Parrott	Council Member	January, 2010
Cindy Williams	Council Member	January, 2008
Ann Tunnickliff	Council Member	January, 2008
Kathy Flam	Clerk	January, 2008
Linda Haner	Deputy Clerk	Appointed
Kathryn Siddens	Treasurer	January, 2008
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, 2006, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards 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 opinions.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Afton, Iowa, as of June 30, 2006, 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 October 31, 2006, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting 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, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 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, Smolgrasso, Mikkelsen + Co., P.C.*

October 31, 2006

CITY OF AFTON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

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, 2006. 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. 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 supplementary 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.

**Capital Projects:** This category includes the CDBG Housing Rehabilitation Project which was finished this fiscal year.

**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.

**2006 Financial Highlights**

Revenues of the City's governmental activities decreased by \$23,728 from fiscal 2005 to fiscal 2006. Property tax increased by \$3,354. Proprietary activities revenues increased by \$109,575.

Governmental activities disbursements decreased by \$21,452. Proprietary activities disbursements increased by \$56,197.

The City's total cash balance increased by \$48,774. Governmental activities increased by \$18,836 and proprietary activities increased by \$29,938.

**Sources of Funds for Governmental Activities**

	<u>FY 2006</u>	<u>FY 2005</u>
Receipts		
Property tax	\$ 140,052	\$ 136,698
Other city taxes	61,696	---
Licenses and permits	349	410
Use of money and property	5,312	76,881
Intergovernmental	189,292	250,011
Charges for Services	116,949	75,232
Miscellaneous	<u>28,145</u>	<u>26,291</u>
Total receipts	<u>\$ 541,795</u>	<u>\$ 565,523</u>
Disbursements:		
Public safety	\$ 98,271	\$ 254,742
Public works	147,643	128,932
Culture and recreation	143,030	45,511
Community and economic development	7,846	8,236
General government	74,056	69,145
Capital projects	<u>111,039</u>	<u>96,771</u>
Total disbursements	<u>\$ 581,885</u>	<u>\$ 603,337</u>
Excess of disbursements over receipts	\$ (40,090)	\$ (37,814)
Total other financing sources	<u>58,926</u>	<u>128,161</u>
Net change in cash balances	<u>\$ 18,836</u>	<u>\$ 90,347</u>

Cash balances beginning of year	<u>\$ 235,131</u>	<u>\$ 144,784</u>
Cash balances end of year:		
General fund	\$ 38,179	\$ 27,954
Special revenue funds	155,084	41,641
Capital projects fund	---	---
Other non-mayor government funds	---	92,714
Huss Cemetery funds	<u>60,704</u>	<u>72,822</u>
Total	<u>\$ 253,967</u>	<u>\$ 235,131</u>
Total governmental funds cash balances	\$ 253,967	\$ 235,131
Assets of internal service fund*	<u>33,801</u>	<u>28,672</u>
Cash basis net assets of governmental activities	<u>\$ 287,768</u>	<u>\$ 263,803</u>
Net change in cash balances	\$ 18,836	\$ 90,347
Assets of internal service funds*	<u>5,129</u>	<u>(17,181)</u>
Change in cash balances of governmental activities	<u>\$ 23,965</u>	<u>\$ 73,166</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 Governmental Activities in the Statement of Net Assets.

**Proprietary Fund Activities:**

	<u>FY 2006</u>	<u>FY 2005</u>
Receipts		
Use of money and property	\$ 19,052	\$ 11,384
Charges for Services	713,249	611,672
Miscellaneous	---	---
Total receipts	<u>\$ 732,301</u>	<u>\$ 623,056</u>
Disbursements:		
Business type activities	<u>\$ 642,964</u>	<u>\$ 587,966</u>
Excess of receipts over disbursements	\$ 89,337	\$ 35,090
Other financing sources, net	<u>(64,526)</u>	<u>(53,980)</u>
Excess of receipts and other financing sources over (under) disbursements and other financing uses	\$ 24,811	\$ (18,890)
Cash balance beginning of year	<u>737,891</u>	<u>756,781</u>
Cash balances end of year	<u>\$ 762,702</u>	<u>\$ 737,891</u>

## **Individual Fund Analysis:**

General Fund: The General Fund received \$207,788 plus \$60,000 transferred in. Disbursements were \$254,067 plus \$3,498 transferred out.

Road Use Fund: The Road Use Fund received \$76,776. Disbursements were \$82,670 plus \$3,000 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 \$37,014 and disbursed \$29,155 plus transferred in \$5,035 from Sewer/Electric Self-Funding. 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 \$2,575 and disbursed \$2,900.

Sick Leave Fund: The Sick Leave Fund received \$1,089 in interest and a transfer in of \$1,439. No disbursements were made in this fiscal year. 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 \$583 and \$11,100 in transfers in. Disbursements were \$2,395 for a copy machine.

Sesquicentennial Fund: This fund was used for all receipts and expenditures relating to the 2004 City Sesquicentennial and was closed out by transfers of \$3,235 to the Walking Trail fund and \$3,235 paid to the East Union After School Program.

Walking Trail: The Walking Trail Fund received grants and donations of \$20,171. Disbursements were \$60,319. The City Council passed a resolution on February 2006 committing to pay for all expenditures of Phase One of the Walking Trail. The Council will transfer two years of the Local Option Sales Tax monies (approximately \$67,000) to the Walking Trail Fund in year 2006-07. Future fund raisers are also being planned. This fund is used for all receipts and disbursements pertaining to the Walking Trail.

Capital Projects: The Capital Projects Fund received \$110,650 plus \$389 transferred in. The disbursements were \$111,039. This fund is the Community Development Block Grant Housing Rehabilitation Project.

Cemetery Perpetual Care Fund: This fund received \$527 in interest and \$600 in sale of lots. This is a permanent fund and only the interest from the Certificates of Deposit may be spent.

Electric Fund: The Electric Fund received \$608,208 and disbursed \$556,926 plus transferred out \$36,579.

Sewer Fund: The Sewer Fund received \$115,933 and disbursed \$45,422 plus transferred out \$67,976.

Sewer Bond & Interest Fund: The Sewer Bond and Interest Fund received \$270 interest and \$33,090 transferred in. The disbursements were \$32,861. 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 \$1,023 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 \$282 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 \$5,638 with disbursements of \$6,557. 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 in 2004-2005. \$12,575 was disbursed this fiscal year to purchase right of way from the Iowa DOT and \$5,490 for reseeded from raccoon destruction at the cemetery.

#### **Debt Administration:**

As of June 30, 2006, the City had \$274,000 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 \$843,260.

#### **Budgetary Highlights:**

The City Council approved a budget amendment during the year. This amendment increased expenditures in Culture and Recreation due to additional Huss Cemetery expense and park and recreation fund expenditures; Community and Economic Development due to Sesquicentennial expenditures; Public Safety due to the new fire truck expenditures; Public Works due to additional road expenditures; Capital Projects due to the CDB Grant expenditures; and Business Type due to electric and capital equipment expenditures. The City transferred \$30,000 from the Electric Fund and \$30,000 from the Sewer Fund to the General Fund in 2005-2006 to balance the budget. In fiscal year 2006-2007 \$10,000 is budgeted to be transferred from the Electric and Sewer Funds.

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

The City's tax rate for 2005-2006 was \$14.26 per \$1,000 valuation and is \$12.61 per \$1,000 valuation for 2006-2007. Expenditures for 2006-2007 include the expenses for continued work on the 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. Bank franchise fee revenue was eliminated completely this last 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, 2006

Exhibit A

FUNCTIONS/PROGRAMS:	PROGRAM RECEIPTS			
	Disbursements	Charges For Services	Operating Grants Contributions, and Restricted Interest	Capital Grants Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 98,271	\$ 1,046	\$ -	\$ -
Public works	147,643	46,496	77,382	-
Culture and recreation	143,030	34,939	21,666	-
Community/economic development	7,845	-	-	-
General government	75,254	39,843	-	-
Capital projects	111,039	-	-	110,650
Total governmental activities	\$ 583,082	\$ 122,324	\$ 99,048	\$ 110,650
Business type activities:				
Sewer	\$ 78,882	\$ 112,783	\$ -	\$ -
Electric	564,082	600,466	-	-
Total business type activities	\$ 642,964	\$ 713,249	\$ -	\$ -
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 1,226,046</b>	<b>\$ 835,573</b>	<b>\$ 99,048</b>	<b>\$ 110,650</b>

GENERAL RECEIPTS:  
Property taxes levied for:  
    General purposes  
Local option sales tax  
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  
        Local option sales tax  
        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>
\$ (97,225)	\$ -	\$ (97,225)
(23,765)	-	(23,765)
(86,425)	-	(86,425)
(7,845)	-	(7,845)
(35,411)	-	(35,411)
(389)	-	(389)
<u>\$ (251,060)</u>	<u>\$ -</u>	<u>\$ (251,060)</u>
\$ -	\$ 33,901	\$ 33,901
-	36,384	36,384
<u>\$ -</u>	<u>\$ 70,285</u>	<u>\$ 70,285</u>
\$ (251,060)	\$ 70,285	\$ (180,775)
\$ 140,052	\$ -	\$ 140,052
61,696	-	61,696
1,917	-	1,917
4,390	19,052	23,442
2,444	-	2,444
64,526	(64,526)	-
<u>\$ 275,025</u>	<u>\$ (45,474)</u>	<u>\$ 229,551</u>
\$ 23,965	\$ 24,811	\$ 48,776
<u>263,803</u>	<u>737,891</u>	<u>1,001,694</u>
<u>\$ 287,768</u>	<u>\$ 762,702</u>	<u>\$ 1,050,470</u>
\$ 51,281	\$ -	\$ 51,281
34,116	-	34,116
-	30,639	30,639
60,086	-	60,086
88,839	70,772	159,611
53,446	661,291	714,737
<u>\$ 287,768</u>	<u>\$ 762,702</u>	<u>\$ 1,050,470</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, 2006

Exhibit B

	<u>General</u>	<u>SPECIAL REVENUE</u> <u>Road Use Tax</u>
RECEIPTS:		
Property taxes	\$ 99,955	\$ -
Other city tax	-	-
Licenses and permits	349	-
Use of money and property	5,312	-
Intergovernmental	1,866	76,776
Charges for service	90,923	-
Miscellaneous	8,875	-
Total receipts	<u>\$ 207,280</u>	<u>\$ 76,776</u>
DISBURSEMENTS:		
Operating:		
Public safety	\$ 86,083	\$ -
Public works	58,171	82,670
Culture and recreation	45,822	-
Community/economic development	100	-
General government	63,890	-
Capital projects	-	-
Total disbursements	<u>\$ 254,066</u>	<u>\$ 82,670</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	<u>\$ (46,786)</u>	<u>\$ (5,894)</u>
OTHER FINANCING SOURCES (USES):		
Operating transfers in	\$ 60,000	\$ -
Operating transfers out	(2,989)	(3,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 57,011</u>	<u>\$ (3,000)</u>
NET CHANGE IN CASH BALANCES	\$ 10,225	\$ (8,894)
CASH BALANCES, BEGINNING OF YEAR	<u>27,954</u>	<u>41,641</u>
CASH BALANCES, END OF YEAR	<u><u>\$ 38,179</u></u>	<u><u>\$ 32,747</u></u>
CASH BASIS FUND BALANCES:		
Unreserved:		
General fund	\$ 38,179	\$ -
Special revenue funds	-	32,747
Capital projects fund	-	-
Permanent fund	-	-
TOTAL CASH BASIS FUND BALANCES	<u><u>\$ 38,179</u></u>	<u><u>\$ 32,747</u></u>

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

SPECIAL REVENUE

<u>Local Option Sales Tax</u>	<u>Capital Projects</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
\$ -	\$ -	\$ 40,097	\$ 140,052
61,696	-	-	61,696
-	-	-	349
-	-	-	5,312
-	110,650	-	189,292
-	-	26,026	116,949
-	-	19,270	28,145
<u>\$ 61,696</u>	<u>\$ 110,650</u>	<u>\$ 85,393</u>	<u>\$ 541,795</u>
\$ -	\$ -	\$ 12,188	\$ 98,271
-	-	6,802	147,643
-	-	97,208	143,030
1,610	-	6,136	7,846
-	-	10,166	74,056
-	111,039	-	111,039
<u>\$ 1,610</u>	<u>\$ 111,039</u>	<u>\$ 132,500</u>	<u>\$ 581,885</u>
<u>\$ 60,086</u>	<u>\$ (389)</u>	<u>\$ (47,107)</u>	<u>\$ (40,090)</u>
\$ -	\$ 389	\$ 7,761	\$ 68,150
-	-	(3,235)	(9,224)
<u>\$ -</u>	<u>\$ 389</u>	<u>\$ 4,526</u>	<u>\$ 58,926</u>
\$ 60,086	\$ -	\$ (42,581)	\$ 18,836
-	-	165,536	235,131
<u>\$ 60,086</u>	<u>\$ -</u>	<u>\$ 122,955</u>	<u>\$ 253,967</u>
\$ -	\$ -	\$ -	\$ 38,179
60,086	-	62,251	155,084
-	-	-	-
-	-	60,704	60,704
<u>\$ 60,086</u>	<u>\$ -</u>	<u>\$ 122,955</u>	<u>\$ 253,967</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, 2006

Exhibit C

TOTAL GOVERNMENTAL FUNDS CASH BALANCES \$ 253,967

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 allocated and a portion is included with governmental activities in the Statement of Net Assets.

33,801

CASH BASIS NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 287,768

NET CHANGE IN CASH BALANCES \$ 18,836

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 allocated and a portion is included in governmental activities in the Statement of Net Assets.

5,129

CHANGE IN CASH BALANCES OF GOVERNMENTAL ACTIVITIES \$ 23,965

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, 2006

Exhibit D

	Enterprise Funds		
	Sewer	Electric	Total
OPERATING RECEIPTS:			
Charge for service	\$ 112,783	\$ 600,466	\$ 713,249
Total operating receipts	\$ 112,783	\$ 600,466	\$ 713,249
OPERATING DISBURSEMENTS:			
General government	\$ -	\$ -	\$ -
Business type activities	45,926	563,483	609,409
Total operating disbursements	\$ 45,926	\$ 563,483	\$ 609,409
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	\$ 66,857	\$ 36,983	\$ 103,840
NON-OPERATING RECEIPTS (DISBURSEMENTS):			
Interest on investments	\$ 4,724	\$ 13,380	\$ 18,104
Debt service	(32,358)	-	(32,358)
Total non-operating receipts (disbursements)	\$ (27,634)	\$ 13,380	\$ (14,254)
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ 39,223	\$ 50,363	\$ 89,586
OTHER FINANCING SOURCES (USES):			
Operating transfers in	\$ -	\$ -	\$ -
Operating transfers out	(34,886)	(36,580)	(71,466)
Total other financing sources (uses)	\$ (34,886)	\$ (36,580)	\$ (71,466)
NET CHANGE IN CASH BALANCES	\$ 4,337	\$ 13,783	\$ 18,120
CASH BALANCES, BEGINNING OF YEAR	198,954	499,753	698,707
CASH BALANCES, END OF YEAR	\$ 203,291	\$ 513,536	\$ 716,827
CASH BASIS FUND BALANCES:			
Reserved for debt service	\$ 30,639	\$ -	\$ 30,639
Reserved for sewer improvements	16,132	-	16,132
Reserved for sewer reserve	38,239	-	38,239
Reserved for customer deposits	-	16,401	16,401
Unreserved	118,281	497,135	615,416
Total cash basis fund balances	\$ 203,291	\$ 513,536	\$ 716,827

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>
\$ 1,198	\$ -	\$ 1,198
1,198	-	1,198
<u>\$ 2,396</u>	<u>\$ -</u>	<u>\$ 2,396</u>
\$ (2,396)	\$ -	\$ (2,396)
\$ 583	\$ 1,089	\$ 1,672
-	-	-
<u>\$ 583</u>	<u>\$ 1,089</u>	<u>\$ 1,672</u>
\$ (1,813)	\$ 1,089	\$ (724)
\$ 11,100	\$ 1,439	\$ 12,539
-	-	-
<u>\$ 11,100</u>	<u>\$ 1,439</u>	<u>\$ 12,539</u>
\$ 9,287	\$ 2,528	\$ 11,815
29,770	38,086	67,856
<u>\$ 39,057</u>	<u>\$ 40,614</u>	<u>\$ 79,671</u>
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
39,057	40,614	79,671
<u>\$ 39,057</u>	<u>\$ 40,614</u>	<u>\$ 79,671</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, 2006

Exhibit E

TOTAL ENTERPRISE FUNDS CASH BALANCES \$ 716,827

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 allocated and a portion is included in business type activities in the Statement of Net Assets.

45,875

CASH BASIS NET ASSETS OF BUSINESS TYPE ACTIVITIES \$ 762,702

NET CHANGE IN CASH BALANCES \$ 18,120

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 allocated and a portion is included with business type activities in the Statement of Net Assets.

6,691

CHANGE IN CASH BALANCES OF GOVERNMENTAL ACTIVITIES \$ 24,811

CITY OF AFTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

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, 2006

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 Local Option Sales Tax is used to account for funds collected from the local option sales and service tax to be used for specifically approved purposes.

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, 2006

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, 2006, disbursements exceeded the amounts budgeted in the Public Safety and in the Capital Projects Functions prior to amendment.

Note 2. Deposits and Investments

The City's deposits at June 30, 2006, 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, 2006, 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, 2006

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	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 10,000	\$ 2,640	\$ 12,000	\$ 7,403
2008	11,000	2,325	12,000	6,895
2009	11,000	1,995	13,000	6,366
2010	11,000	1,665	13,000	5,816
2011	12,000	1,320	14,000	5,245
2012	12,000	960	15,000	4,632
2013	13,000	585	15,000	3,997
2014	13,000	195	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>\$ 93,000</u>	<u>\$ 11,685</u>	<u>\$ 181,000</u>	<u>\$49,851</u>

Year Ending June 30,	Total	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 22,000	\$ 10,043
2008	23,000	9,220
2009	24,000	8,361
2010	24,000	7,481
2011	26,000	6,565
2012	27,000	5,592
2013	28,000	4,582
2014	29,000	3,537
2015	17,000	2,644
2016	17,000	1,925
2017	18,000	1,184
2018	19,000	402
Total	<u>\$274,000</u>	<u>\$ 61,536</u>

CITY OF AFTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

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, 2006, 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 has paid the notes off in advance of the maturity date. The balance of the notes at June 30, 2006 is \$0.

CITY OF AFTON, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2006

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%. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004, were \$9,021, \$9,071, and \$10,242 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, 2006, primarily relating to the General and Enterprise funds is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 7,680
Sick leave	<u>40,517</u>
Total	<u>\$ 48,197</u>

The liability has been computed based on rates of pay as of June 30, 2006.

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, 2006

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, 2006, is as follows:

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
General	Enterprise:	
	Electric	\$ 30,000
	Sewer	<u>30,000</u>
		<u>\$ 60,000</u>
Capital Projects	General	<u>\$ 389</u>
Special Revenue:		
Employee Benefits	Enterprise:	
	Electric	\$ 2,640
	Sewer	<u>1,886</u>
		<u>\$ 4,526</u>
Enterprise:		
Internal Service:		
Sick Leave	General	\$ 500
	Enterprise:	
	Electric	439
	Sewer	<u>500</u>
		<u>\$ 1,439</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>
Special Revenue:	Special Revenue:	
Walking Trail	Sesquicentennial Fund	<u>\$ 3,235</u>
Total		<u>\$ 80,689</u>

CITY OF AFTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

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 was subject to litigation seeking unspecified damages. The litigation has subsequently been settled at no loss to the City.

The City is also a party in a lawsuit with the cooperative that the City purchases its electric power supply through. The probability of any loss is currently undeterminable.

## REQUIRED SUPPLEMENTARY 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, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required To Be Budgeted
RECEIPTS:			
Property tax	\$ 140,052	\$ -	\$ -
Tax increment financing collections	-	-	-
Other city tax	61,696	-	-
Licenses and permits	349	-	-
Use of money and property	5,312	19,776	-
Intergovernmental	189,292	-	-
Charges for service	116,949	713,249	-
Special assessments	-	-	-
Miscellaneous	28,145	-	-
TOTAL RECEIPTS	<u>\$ 541,795</u>	<u>\$ 733,025</u>	<u>\$ -</u>
DISBURSEMENTS:			
Public safety	\$ 98,271	\$ -	\$ -
Public works	147,643	-	-
Health and social services	-	-	-
Culture and recreation	143,030	-	-
Community and economic development	7,846	-	-
General government	74,056	1,198	-
Debt service	-	-	-
Capital projects	111,039	-	-
Business type activities	-	642,965	-
TOTAL DISBURSEMENTS	<u>\$ 581,885</u>	<u>\$ 644,163</u>	<u>\$ -</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	\$ (40,090)	\$ 88,862	\$ -
OTHER FINANCING SOURCES, NET	<u>58,926</u>	<u>(58,926)</u>	<u>-</u>
EXCESS OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	\$ 18,836	\$ 29,936	\$ -
BALANCE, BEGINNING OF YEAR	<u>235,131</u>	<u>766,563</u>	<u>-</u>
BALANCE, END OF YEAR	<u>\$ 253,967</u>	<u>\$ 796,499</u>	<u>\$ -</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 140,052	\$ 135,863	\$ 135,863	\$ 4,189
-	-	-	-
61,696	4,133	44,133	17,563
349	1,240	1,240	(891)
25,088	11,265	11,265	13,823
189,292	206,897	206,897	(17,605)
830,198	739,360	739,360	90,838
-	-	-	-
28,145	113,894	247,294	(219,149)
<u>\$ 1,274,820</u>	<u>\$ 1,212,652</u>	<u>\$ 1,386,052</u>	<u>\$ (111,232)</u>
\$ 98,271	\$ 76,500	\$ 110,500	\$ 12,229
147,643	154,889	174,889	27,246
-	-	-	-
143,030	143,764	172,764	29,734
7,846	10,122	11,122	3,276
75,254	80,937	80,937	5,683
-	-	-	-
111,039	75,000	112,000	961
642,965	681,969	734,369	91,404
<u>\$ 1,226,048</u>	<u>\$ 1,223,181</u>	<u>\$ 1,396,581</u>	<u>\$ 170,533</u>
\$ 48,772	\$ (10,529)	\$ (10,529)	\$ 59,301
-	-	-	-
\$ 48,772	\$ (10,529)	\$ (10,529)	<u>\$ 59,301</u>
1,001,694	819,287	819,287	
<u>\$ 1,050,466</u>	<u>\$ 808,758</u>	<u>\$ 808,758</u>	

CITY OF AFTON, IOWA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
June 30, 2006

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 \$173,400. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the Public Safety and Capital Projects 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, 2006

Schedule 1

	Special Revenue		
	Employee Benefits	Emergency	Sesquicentennial Fund
RECEIPTS:			
Property tax	\$ 37,522	\$ 2,575	\$ -
Charges for services	-	-	-
Miscellaneous	-	-	-
TOTAL RECEIPTS	\$ 37,522	\$ 2,575	\$ -
DISBURSEMENTS:			
Operating:			
Public safety	\$ 12,188	\$ -	\$ -
Public works	6,802	-	-
Culture and recreation	-	-	-
Community and economic development	-	2,900	3,236
General government	10,166	-	-
TOTAL DISBURSEMENTS	\$ 29,156	\$ 2,900	\$ 3,236
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	\$ 8,366	\$ (325)	\$ (3,236)
OTHER FINANCING SOURCES (USES):			
Operating transfers in	\$ 4,526	\$ -	\$ -
Operating transfers out	-	-	(3,235)
TOTAL OTHER FINANCING SOURCES (USES)	\$ 4,526	\$ -	\$ (3,235)
NET CHANGE IN CASH BALANCES	\$ 12,892	\$ (325)	\$ (6,471)
CASH BALANCES, BEGINNING OF YEAR	21,224	395	6,471
CASH BALANCES, END OF YEAR	\$ 34,116	\$ 70	\$ -
CASH BASIS FUND BALANCES:			
Unreserved:			
General fund	\$ -	\$ -	\$ -
Special revenue funds	34,116	70	-
Capital projects fund	-	-	-
Permanent fund	-	-	-
TOTAL CASH BASIS FUND BALANCES	\$ 34,116	\$ 70	\$ -

See accompanying independent auditor's report.

Special Revenue			Permanent	
Walking Trail	Huss Cemetery Fund	Recreation Fund	Cemetery Perpetual Care	Total
\$ -	\$ -	\$ -	\$ -	\$ 40,097
-	-	26,026	-	26,026
16,935	-	1,730	605	19,270
<u>\$ 16,935</u>	<u>\$ -</u>	<u>\$ 27,756</u>	<u>\$ 605</u>	<u>\$ 85,393</u>
\$ -	\$ -	\$ -	\$ -	\$ 12,188
-	-	-	-	6,802
60,319	18,065	18,824	-	97,208
-	-	-	-	6,136
-	-	-	-	10,166
<u>\$ 60,319</u>	<u>\$ 18,065</u>	<u>\$ 18,824</u>	<u>\$ -</u>	<u>\$ 132,500</u>
<u>\$ (43,384)</u>	<u>\$ (18,065)</u>	<u>\$ 8,932</u>	<u>\$ 605</u>	<u>\$ (47,107)</u>
\$ 3,235	\$ -	\$ -	\$ -	\$ 7,761
-	-	-	-	(3,235)
<u>\$ 3,235</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,526</u>
\$ (40,149)	\$ (18,065)	\$ 8,932	\$ 605	\$ (42,581)
4,525	72,822	-	60,099	165,536
<u>\$ (35,624)</u>	<u>\$ 54,757</u>	<u>\$ 8,932</u>	<u>\$ 60,704</u>	<u>\$ 122,955</u>
\$ -	\$ -	\$ -	\$ -	\$ -
(35,624)	54,757	8,932	-	62,251
-	-	-	-	-
-	-	-	60,704	60,704
<u>\$ (35,624)</u>	<u>\$ 54,757</u>	<u>\$ 8,932</u>	<u>\$ 60,704</u>	<u>\$ 122,955</u>

CITY OF AFTON, IOWA  
 STATEMENT OF INDEBTEDNESS  
 Year Ended June 30, 2006

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	3.00%
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>\$ 35,599</u>	<u>\$ -</u>	<u>\$ 35,599</u>	<u>\$ -</u>	<u>\$ 930</u>	<u>\$ -</u>
\$ 195,000	\$ 103,000	\$ -	\$ 10,000	\$ 93,000	\$ 3,321	\$ -
\$ 320,000	<u>192,000</u>	<u>-</u>	<u>11,000</u>	<u>181,000</u>	<u>7,889</u>	<u>\$ -</u>
	<u>\$ 295,000</u>	<u>\$ -</u>	<u>\$ 21,000</u>	<u>\$ 274,000</u>	<u>\$ 11,210</u>	<u>\$ -</u>

CITY OF AFTON, IOWA  
 BOND AND OTHER DEBT MATURITIES  
 June 30, 2006

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
2007	3.00%	\$ 10,000	4.23%	\$ 12,000
2008	3.00%	11,000	4.23%	12,000
2009	3.00%	11,000	4.23%	13,000
2010	3.00%	11,000	4.23%	13,000
2011	3.00%	12,000	4.23%	14,000
2012	3.00%	12,000	4.23%	15,000
2013	3.00%	13,000	4.23%	15,000
2014	3.00%	13,000	4.23%	16,000
2015		-	4.23%	17,000
2016		-	4.23%	17,000
2017		-	4.23%	18,000
2018		-	4.23%	19,000
Total		\$ 93,000		\$ 181,000

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>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
RECEIPTS:				
Property tax	\$ 140,052	\$ 136,698	\$ 122,866	\$ 123,467
Tax incremental financing collections	-	-	-	-
Other city tax	61,696	-	-	-
Licenses and permits	349	410	535	860
Uses of money and property	5,312	76,881	2,584	2,722
Intergovernmental	189,292	250,011	161,054	145,780
Charges for services	116,949	75,232	56,808	37,759
Special assessments	-	-	-	-
Miscellaneous	28,145	26,291	23,622	41,660
TOTAL	<u>\$ 541,795</u>	<u>\$ 565,523</u>	<u>\$ 367,469</u>	<u>\$ 352,248</u>
DISBURSEMENTS:				
Operating:				
Public safety	\$ 98,271	\$ 254,742	\$ 114,350	\$ 95,434
Public works	147,643	128,932	141,007	168,360
Health and social services	-	-	-	-
Culture and recreation	143,030	45,511	50,314	14,117
Community and economic development	7,846	8,236	3,406	56,711
General government	74,056	69,145	64,231	61,932
Debt service	-	-	-	32,100
Capital projects	111,039	96,771	77,077	-
TOTAL	<u>\$ 581,885</u>	<u>\$ 603,337</u>	<u>\$ 450,385</u>	<u>\$ 428,654</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, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 31, 2006. 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, 2006 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.*

October 31, 2006

CITY OF AFTON, IOWA  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2006

Findings Related to the Financial Statements

Reportable Conditions:

2006-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:

2006-1 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.

2006-2 Certified Budget – Disbursements exceeded budgeted amounts prior to budget amendment in the Public Safety and the Capital Projects 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, 2006 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, 2006

- 2006-3 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.
- 2006-4 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- 2006-5 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.
- 2006-6 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- 2006-7 Business Transactions - There were no business transactions between the City and City Officials or employees.
- 2006-8 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.
- 2006-9 Other Information Required by Note Resolution – The following insurance policies were in force at June 30, 2006:

<u>Insurer</u>	<u>Description</u>	<u>Amount</u>	<u>Expiration Date</u>
Employers Mutual Casualty Company	Commercial property	\$ 820,174	April 1, 2007
Employers Mutual Casualty Company	General liability:		April 1, 2007
	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, 2006

2005-9 Other Information Required by Note Resolution – The following insurance policies were in force at June 30, 2006:

<u>Insurer</u>	<u>Description</u>	<u>Amount</u>	<u>Expiration Date</u>
Employers Mutual Casualty Company	Inland marine:		April 1, 2007
	Contractor's equipment	122,275	
	Miscellaneous	17,820	
Employers Mutual Casualty Company	Commercial automobile:		April 1, 2007
	Liability	\$1,000,000	
	Uninsured motorists	50,000	
	Underinsured motorists	50,000	
Employers Mutual Casualty Company	Employee dishonesty:		April 1, 2007
	Public employee dishonesty	\$ 101,000	
	Forgery or alteration	10,000	
Employers Mutual Casualty Company	Commercial umbrella:		April 1, 2007
	Occurrence limit	\$2,000,000	
	Aggregate limit	2,000,000	
	Retained limit	10,000	
Employers Mutual Casualty Company	Linebacker:		April 1, 2007
	Each loss	\$1,000,000	
	Aggregate for each policy term	1,000,000	
Employers Mutual Casualty Company	Commercial crime:		April 1, 2007
	Theft, disappearance and destruction	\$ 120,000	
	Premises burglary	15,000	
	Premises other than money and securities	10,000	
	Computer fraud	50,000	

CITY OF AFTON, IOWA  
 SCHEDULE OF FINDINGS  
 Year Ended June 30, 2006

2005-9 Other Information Required by Note Resolution – The following insurance policies were in force at June 30, 2006:

<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, 2007
	Bodily injury by disease (each employee)	500,000	
	Bodily injury by disease (policy limit)	500,000	