

CITY OF AFTON

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

Year Ended June 30, 2007

CITY OF AFTON, IOWA  
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CITY OF AFTON, IOWA  
OFFICIALS  
June 30, 2007

<u>Name</u>	<u>Title</u>	<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 Tunnicliff	Council Member	January, 2008
Toni Landers	Clerk/Treasurer	January, 2008
Linda Haner	Deputy Clerk	Appointed
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, 2007, 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, 2007, 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 January 25, 2008, 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, 2006 (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.

*D. M. Smedley, Smedley, Mickelson & Co., P.C.*

January 25, 2008

CITY OF AFTON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2007

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, 2007. 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 the 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 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:** At this time, we have nothing budgeted in this fund.

**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.

## 2007 Financial Highlights

Revenues of the City's governmental activities decreased by \$20,432 from fiscal 2006 to fiscal 2007. Property tax decreased by \$1,085. Proprietary activities revenues increased by \$8,219.

Governmental activities disbursements decreased by \$38,941. Proprietary activities disbursements increased by \$89,297.

The City's total cash balance decreased by \$12,531. Governmental activities decreased by \$10,027 and proprietary activities decreased by \$2,504.

### Sources of Funds for Governmental Activities

	<u>FY 2007</u>	<u>FY 2006</u>
Receipts		
Property tax	\$ 138,177	\$ 140,052
Other city taxes	92,949	61,696
Licenses and permits	330	349
Use of money and property	6,423	5,312
Intergovernmental	163,879	189,292
Charges for Services	88,775	116,949
Miscellaneous	<u>30,830</u>	<u>28,145</u>
Total receipts	<u>\$ 521,363</u>	<u>\$ 541,795</u>
Disbursements:		
Public safety	\$ 69,006	\$ 98,271
Public works	161,539	147,643
Culture and recreation	219,528	143,030
Community and economic development	3,000	7,846
General government	89,871	74,056
Capital projects	<u>---</u>	<u>111,039</u>
Total disbursements	<u>\$ 542,944</u>	<u>\$ 581,885</u>
Excess of disbursements over receipts	\$ (21,581)	\$ (40,090)
Total other financing sources	<u>23,812</u>	<u>58,926</u>
Net change in cash balances	<u>\$ 2,231</u>	<u>\$ 18,836</u>
Cash balances beginning of year	<u>\$ 235,967</u>	<u>\$ 235,131</u>
Cash balances end of year:		
General fund	\$ 47,242	\$ 38,179
Special revenue funds	147,771	155,084
Huss Cemetery funds	<u>61,185</u>	<u>60,704</u>
Total	<u>\$ 256,198</u>	<u>\$ 253,967</u>

Total governmental funds cash balances	\$ 256,198	\$ 253,967
Assets of internal service fund*	<u>21,543</u>	<u>33,801</u>
Cash basis net assets of governmental activities	<u>\$ 277,741</u>	<u>\$ 287,768</u>
Net change in cash balances	\$ 2,231	\$ 18,836
Assets of internal service funds*	<u>(12,258)</u>	<u>5,129</u>
Change in cash balances of governmental activities	<u>\$ (10,027)</u>	<u>\$ 23,965</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 2007</u>	<u>FY 2006</u>
Receipts		
Use of money and property	\$ 25,019	\$ 19,052
Charges for Services	715,501	713,249
Miscellaneous	---	---
Total receipts	<u>\$ 740,520</u>	<u>\$ 732,301</u>
Disbursements:		
Business type activities	<u>\$ 732,261</u>	<u>\$ 642,964</u>
Excess of receipts over disbursements	\$ 8,259	\$ 89,337
Other financing sources, net	<u>(10,763)</u>	<u>(64,526)</u>
Excess of receipts and other financing sources over (under) disbursements and other financing uses	\$ (2,504)	\$ 24,811
Cash balance beginning of year	<u>762,702</u>	<u>737,891</u>
Cash balances end of year	<u>\$ 760,198</u>	<u>\$ 762,702</u>

**Individual Fund Analysis:**

General Fund: The General Fund received \$194,480 plus \$63,299 transferred in. Disbursements were \$247,964 plus \$750 transferred out.

Road Use Fund: The Road Use Fund received \$76,427. Disbursements were \$85,325. These funds are received from the State Road Use taxes and are used strictly for street improvements, vehicle repairs, supplies and salaries.

Employee Benefit Fund: The Employee Benefit Fund received \$26,343 plus \$2,263 transferred in from Sewer/Electric for Self-Funding insurance and disbursed \$26,446. 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 \$2,941 and disbursed \$2,840.

Sick Leave Fund: The Sick Leave Fund received \$907 in interest and a transferred out \$27,593. This fund is used for the future payment of sick leave benefits earned by employees and payable at the time of retirement or termination of employment with the City.

Capital Equipment: The Capital Equipment Fund received interest of \$963. No disbursements were made in this fiscal year.

LOST Fund: This LOST fund received \$92,949 and transferred out \$95,713 for community betterment use to pay towards the Walking Trail Fund and also a portion to General Fund for street projects.

Recreation Fund: The Recreation Fund received \$27,598 and disbursed \$27,121. This fund is a self-supporting fund used to receive and disburse money for kid's recreation programs.

Walking Trail Fund: The Walking Trail Fund received grants and donations of \$100,145 plus transferred in \$75,713 from LOST funds. Disbursements were \$153,247. The City Council passed a resolution on February 2006 committing to pay for all expenditures of Phase One of the Walking Trail. The Fund is used for all receipts and disbursements pertaining to the Walking Trail.

Capital Projects: There were no receipts or disbursements to this fund this fiscal year.

Cemetery Perpetual Care Fund: This fund received \$481 in interest and sale of lots. This is a permanent fund and only the interest from the CD's may be spent.

Electric Fund: The Electric Fund received \$620,370 plus transferred in \$9,200. Disbursed \$612,462 plus transferred out \$9,820.

Sewer Fund: The Sewer Fund received \$109,201 plus transferred in \$4,594 and disbursed \$81,293 plus transferred out \$30,216.

Sewer Bond & Interest Fund: The Sewer Bond and Interest Fund received \$180 interest and \$29,273 transferred in. The disbursements were \$32,180. 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 \$1,300 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 \$448 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 \$7,940 with disbursements of \$6,325. 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. \$21,000 was transferred out to the General Cemetery Fund this fiscal year.

### **Debt Administration:**

As of June 30, 2007, the City had \$252,000 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 \$944,848.

### **Budgetary Highlights:**

The City Council approved a budget amendment during the year. This amendment increased expenditures by \$71,015 and revenues by \$130,000. The expenditures included transfers out of LOST funds to fund the Walking Trail in the amount of \$70,000 and for the General Street Funds for \$20,000. The Revenue LOST Fund was increased by \$20,000 and increased transfers in for \$110,000. The City transferred \$8,500 from the Electric Fund, \$21,000 from the Huss Fund, \$20,000 from LOST Fund, and \$13,994 from the Sick Leave Fund to the General Fund in 2006-07 to balance the budget. In fiscal year 2007-2008 \$15,000 is budgeted to be transferred from the Electric Fund and \$13,642 from the Sewer Funds.

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

The City's tax rate for 2006-2007 was \$12.62 per \$1,000 valuation and is \$12.65 per \$1,000 valuation for 2007-2008.

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%.

**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, 2007

Exhibit A

	<u>Disbursements</u>	<u>PROGRAM RECEIPTS</u>		
		<u>Charges For Services</u>	<u>Operating Grants Contributions, and Restricted Interest</u>	<u>Capital Grants Contributions and Restricted Interest</u>
<b>FUNCTIONS/PROGRAMS:</b>				
Governmental activities:				
Public safety	\$ 69,005	\$ 802	\$ -	\$ -
Public works	161,539	50,337	76,909	-
Culture and recreation	219,528	31,716	107,160	-
Community/economic development	3,000	-	-	-
General government	89,871	10,540	-	-
Capital projects	-	-	-	-
Total governmental activities	<u>\$ 542,943</u>	<u>\$ 93,395</u>	<u>\$ 184,069</u>	<u>\$ -</u>
Business type activities:				
Sewer	\$ 113,473	\$ 105,543	\$ -	\$ -
Electric	618,788	609,958	-	-
Total business type activities	<u>\$ 732,261</u>	<u>\$ 715,501</u>	<u>\$ -</u>	<u>\$ -</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u><u>\$ 1,275,204</u></u>	<u><u>\$ 808,896</u></u>	<u><u>\$ 184,069</u></u>	<u><u>\$ -</u></u>

**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

Governmental Activities	Business Type Activities	Total
\$ (68,203)	\$ -	\$ (68,203)
(34,293)	-	(34,293)
(80,652)	-	(80,652)
(3,000)	-	(3,000)
(79,331)	-	(79,331)
-	-	-
<u>\$ (265,479)</u>	<u>\$ -</u>	<u>\$ (265,479)</u>
\$ -	\$ (7,930)	\$ (7,930)
-	(8,830)	(8,830)
<u>\$ -</u>	<u>\$ (16,760)</u>	<u>\$ (16,760)</u>
\$ (265,479)	\$ (16,760)	\$ (282,239)
\$ 138,177	\$ -	\$ 138,177
92,949	-	92,949
1,080	-	1,080
5,592	25,019	30,611
6,891	-	6,891
10,763	(10,763)	-
<u>\$ 255,452</u>	<u>\$ 14,256</u>	<u>\$ 269,708</u>
\$ (10,027)	\$ (2,504)	\$ (12,531)
<u>287,768</u>	<u>762,702</u>	<u>1,050,470</u>
<u>\$ 277,741</u>	<u>\$ 760,198</u>	<u>\$ 1,037,939</u>
\$ 42,827	\$ -	\$ 42,827
36,276	-	36,276
-	27,913	27,913
57,322	-	57,322
91,509	74,136	165,645
49,807	658,149	707,956
<u>\$ 277,741</u>	<u>\$ 760,198</u>	<u>\$ 1,037,939</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, 2007

Exhibit B

	General	<u>SPECIAL REVENUE</u> Road Use Tax
RECEIPTS:		
Property taxes	\$ 108,893	\$ -
Other city tax	-	-
Licenses and permits	330	-
Use of money and property	6,423	-
Intergovernmental	1,567	76,427
Charges for service	68,192	-
Miscellaneous	9,074	-
Total receipts	\$ 194,479	\$ 76,427
DISBURSEMENTS:		
Operating:		
Public safety	\$ 55,670	\$ -
Public works	70,952	85,325
Culture and recreation	39,160	-
Community/economic development	160	-
General government	82,023	-
Total disbursements	\$ 247,965	\$ 85,325
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	\$ (53,486)	\$ (8,898)
OTHER FINANCING SOURCES (USES):		
Operating transfers in	\$ 63,299	\$ -
Operating transfers out	(750)	-
TOTAL OTHER FINANCING SOURCES (USES)	\$ 62,549	\$ -
NET CHANGE IN CASH BALANCES	\$ 9,063	\$ (8,898)
CASH BALANCES, BEGINNING OF YEAR	38,179	32,747
CASH BALANCES, END OF YEAR	\$ 47,242	\$ 23,849
CASH BASIS FUND BALANCES:		
Unreserved:		
General fund	\$ 47,242	\$ -
Special revenue funds	-	23,849
Permanent fund	-	-
TOTAL CASH BASIS FUND BALANCES	\$ 47,242	\$ 23,849

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

SPECIAL REVENUE		Other Nonmajor Governmental Funds	Total
Walking Trail	Local Option Sales Tax		
\$ -	\$ -	\$ 29,284	\$ 138,177
-	92,949	-	92,949
-	-	-	330
-	-	-	6,423
85,885	-	-	163,879
-	-	20,583	88,775
14,260	-	7,496	30,830
<u>\$ 100,145</u>	<u>\$ 92,949</u>	<u>\$ 57,363</u>	<u>\$ 521,363</u>
\$ -	\$ -	\$ 13,336	\$ 69,006
-	-	5,262	161,539
153,247	-	27,121	219,528
-	-	2,840	3,000
-	-	7,848	89,871
<u>\$ 153,247</u>	<u>\$ -</u>	<u>\$ 56,407</u>	<u>\$ 542,944</u>
<u>\$ (53,102)</u>	<u>\$ 92,949</u>	<u>\$ 956</u>	<u>\$ (21,581)</u>
\$ 75,713	\$ -	\$ 2,263	\$ 141,275
-	(95,713)	(21,000)	(117,463)
<u>\$ 75,713</u>	<u>\$ (95,713)</u>	<u>\$ (18,737)</u>	<u>\$ 23,812</u>
\$ 22,611	\$ (2,764)	\$ (17,781)	\$ 2,231
(35,624)	60,086	158,579	253,967
<u>\$ (13,013)</u>	<u>\$ 57,322</u>	<u>\$ 140,798</u>	<u>\$ 256,198</u>
\$ -	\$ -	\$ -	\$ 47,242
(13,013)	57,322	79,613	147,771
-	-	61,185	61,185
<u>\$ (13,013)</u>	<u>\$ 57,322</u>	<u>\$ 140,798</u>	<u>\$ 256,198</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, 2007

Exhibit C

TOTAL GOVERNMENTAL FUNDS CASH BALANCES \$ 256,198

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.

21,543

CASH BASIS NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 277,741

NET CHANGE IN CASH BALANCES

\$ 2,231

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.

(12,258)

CHANGE IN CASH BALANCES OF GOVERNMENTAL ACTIVITIES

\$ (10,027)

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, 2007

Exhibit D

	Enterprise Funds		
	Sewer	Electric	Total
OPERATING RECEIPTS:			
Charge for service	\$ 105,543	\$ 609,958	\$ 715,501
Total operating receipts	\$ 105,543	\$ 609,958	\$ 715,501
OPERATING DISBURSEMENTS:			
General government	\$ -	\$ -	\$ -
Business type activities	81,293	618,788	700,081
Total operating disbursements	\$ 81,293	\$ 618,788	\$ 700,081
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	\$ 24,250	\$ (8,830)	\$ 15,420
NON-OPERATING RECEIPTS (DISBURSEMENTS):			
Interest on investments	\$ 5,586	\$ 18,352	\$ 23,938
Debt service	(32,180)	-	(32,180)
Total non-operating receipts (disbursements)	\$ (26,594)	\$ 18,352	\$ (8,242)
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ (2,344)	\$ 9,522	\$ 7,178
OTHER FINANCING SOURCES (USES):			
Operating transfers in	\$ 4,594	\$ 9,200	\$ 13,794
Operating transfers out	(943)	(9,820)	(10,763)
Total other financing sources (uses)	\$ 3,651	\$ (620)	\$ 3,031
NET CHANGE IN CASH BALANCES	\$ 1,307	\$ 8,902	\$ 10,209
CASH BALANCES, BEGINNING OF YEAR	203,291	513,536	716,827
CASH BALANCES, END OF YEAR	\$ 204,598	\$ 522,438	\$ 727,036
CASH BASIS FUND BALANCES:			
Reserved for debt service	\$ 27,913	\$ -	\$ 27,913
Reserved for sewer improvements	16,580	-	16,580
Reserved for sewer reserve	39,539	-	39,539
Reserved for customer deposits	-	18,017	18,017
Unreserved	120,566	504,421	624,987
Total cash basis fund balances	\$ 204,598	\$ 522,438	\$ 727,036

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

Internal Service Funds

Equipment Revolving	Sick Leave	Total
\$ -	\$ -	\$ -
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -
\$ 963	\$ 907	\$ 1,870
<u>\$ 963</u>	<u>\$ 907</u>	<u>\$ 1,870</u>
<u>\$ 963</u>	<u>\$ 907</u>	<u>\$ 1,870</u>
\$ -	\$ 750	\$ 750
<u>\$ -</u>	<u>(27,593)</u>	<u>(27,593)</u>
<u>\$ -</u>	<u>\$ (26,843)</u>	<u>\$ (26,843)</u>
\$ 963	\$ (25,936)	\$ (24,973)
<u>39,057</u>	<u>40,614</u>	<u>79,671</u>
<u>\$ 40,020</u>	<u>\$ 14,678</u>	<u>\$ 54,698</u>
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
40,020	14,678	54,698
<u>\$ 40,020</u>	<u>\$ 14,678</u>	<u>\$ 54,698</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, 2007

Exhibit E

TOTAL ENTERPRISE FUNDS CASH BALANCES \$ 727,036

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.

33,162

CASH BASIS NET ASSETS OF BUSINESS TYPE ACTIVITIES \$ 760,198

NET CHANGE IN CASH BALANCES \$ 10,209

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.

(12,713)

CHANGE IN CASH BALANCES OF GOVERNMENTAL ACTIVITIES \$ (2,504)

CITY OF AFTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

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, 2007

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 Walking Trail Fund is used to account for funds collected to be used for the extension of the city walking trail.

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, 2007

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.

Note 2. Deposits and Investments

The City's deposits at June 30, 2007, 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, 2007, 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, 2007

Note 3. Bonds and Notes Payable

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

Year Ending <u>June 30,</u>	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>
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	---	---	<u>19,000</u>	<u>402</u>
Total	<u>\$ 83,000</u>	<u>\$ 9,045</u>	<u>\$ 169,000</u>	<u>\$42,448</u>

Year Ending <u>June 30,</u>	Total	
	<u>Principal</u>	<u>Interest</u>
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	<u>19,000</u>	<u>402</u>
Total	<u>\$252,000</u>	<u>\$ 51,493</u>

CITY OF AFTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

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, 2007, transfers have been made in amounts adequate on a cumulative basis, to meet the foregoing requirements, and the City complied with the provisions.

Note 4. Pension and Retirement Benefits

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

CITY OF AFTON, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2007

Note 4. Pension and Retirement Benefits (continued)

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75%. 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, 2007, 2006 and 2005, were \$9,383, \$9,021, and \$9,071 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, 2007, primarily relating to the General and Enterprise funds is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 5,650
Sick leave	14,608
Total	<u>\$ 20,258</u>

The liability has been computed based on rates of pay as of June 30, 2007.

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, 2007

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, 2007, is as follows:

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
General	Enterprise:	
	Electric	\$ 8,500
	Internal Service:	
	Sick leave	13,799
	Special revenue:	
	Huss Cemetery	21,000
	LOST	<u>20,000</u>
		<u>\$ 63,299</u>
Special Revenue:		
Employee Benefits	Enterprise:	
	Electric	\$ 943
	Sewer	<u>1,320</u>
		<u>\$ 2,263</u>
Walking Trail	Special Revenue:	
	LOST	<u>\$ 75,713</u>
Enterprise:		
Sewer:	Enterprise:	
	Internal Service:	
	Sick leave	<u>\$ 4,594</u>
Electric:	Enterprise:	
	Internal service:	
	Sick leave	<u>\$ 9,200</u>
Internal Service:		
Sick Leave	General	<u>\$ 750</u>
Total		<u>\$155,819</u>

CITY OF AFTON, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

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 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, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Net
RECEIPTS:			
Property tax	\$ 138,177	\$ -	\$ 138,177
Tax increment financing collections	-	-	-
Other city tax	92,949	-	92,949
Licenses and permits	330	-	330
Use of money and property	6,423	25,808	32,231
Intergovernmental	163,879	-	163,879
Charges for service	88,775	715,501	804,276
Special assessments	-	-	-
Miscellaneous	30,830	-	30,830
<b>TOTAL RECEIPTS</b>	<b><u>\$ 521,363</u></b>	<b><u>\$ 741,309</u></b>	<b><u>\$ 1,262,672</u></b>
DISBURSEMENTS:			
Public safety	\$ 69,006	\$ -	\$ 69,006
Public works	161,539	-	161,539
Health and social services	-	-	-
Culture and recreation	219,528	-	219,528
Community and economic development	3,000	-	3,000
General government	89,871	-	89,871
Debt service	-	-	-
Capital projects	-	-	-
Business type activities	-	732,261	732,261
<b>TOTAL DISBURSEMENTS</b>	<b><u>\$ 542,944</u></b>	<b><u>\$ 732,261</u></b>	<b><u>\$ 1,275,205</u></b>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	\$ (21,581)	\$ 9,048	\$ (12,533)
OTHER FINANCING SOURCES, NET	<u>23,812</u>	<u>(23,812)</u>	<u>-</u>
EXCESS OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	\$ 2,231	\$ (14,764)	\$ (12,533)
BALANCE, BEGINNING OF YEAR	<u>253,967</u>	<u>796,498</u>	<u>1,050,465</u>
BALANCE, END OF YEAR	<b><u>\$ 256,198</u></b>	<b><u>\$ 781,734</u></b>	<b><u>\$ 1,037,932</u></b>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Net
		Variance
\$ 130,686	\$ 130,686	\$ 7,491
-	-	-
73,543	93,543	(594)
1,430	1,430	(1,100)
14,000	14,000	18,231
205,834	205,834	(41,955)
833,870	833,870	(29,594)
-	-	-
6,620	6,620	24,210
<u>\$ 1,265,983</u>	<u>\$ 1,285,983</u>	<u>\$ (23,311)</u>
\$ 69,091	\$ 69,091	\$ 85
205,015	183,515	21,976
-	-	-
270,131	240,616	21,088
3,840	3,840	840
91,556	91,556	1,685
-	-	-
-	-	-
733,859	733,859	1,598
<u>\$ 1,373,492</u>	<u>\$ 1,322,477</u>	<u>\$ 47,272</u>
\$ (107,509)	\$ (36,494)	\$ 23,961
-	-	-
\$ (107,509)	\$ (36,494)	<u>\$ 23,961</u>
969,088	969,088	
<u>\$ 861,579</u>	<u>\$ 932,594</u>	

CITY OF AFTON, IOWA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
June 30, 2007

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 decreased budgeted disbursements by \$51,015. The budget amendments are reflected in the final budgeted amounts.

## 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, 2007

	Special Revenue		
	Employee Benefits	Emergency	Schedule 1 Huss Cemetery Fund
RECEIPTS:			
Property tax	\$ 26,343	\$ 2,941	\$ -
Charges for services	-	-	-
Miscellaneous	-	-	-
<b>TOTAL RECEIPTS</b>	<b>\$ 26,343</b>	<b>\$ 2,941</b>	<b>\$ -</b>
DISBURSEMENTS:			
Operating:			
Public safety	\$ 13,336	\$ -	\$ -
Public works	5,262	-	-
Culture and recreation	-	-	-
Community and economic development	-	2,840	-
General government	7,848	-	-
<b>TOTAL DISBURSEMENTS</b>	<b>\$ 26,446</b>	<b>\$ 2,840</b>	<b>\$ -</b>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	<b>\$ (103)</b>	<b>\$ 101</b>	<b>\$ -</b>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	\$ 2,263	\$ -	\$ -
Operating transfers out	-	-	(21,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ 2,263</b>	<b>\$ -</b>	<b>\$ (21,000)</b>
NET CHANGE IN CASH BALANCES	\$ 2,160	\$ 101	\$ (21,000)
CASH BALANCES, BEGINNING OF YEAR	34,116	70	54,757
CASH BALANCES, END OF YEAR	<b>\$ 36,276</b>	<b>\$ 171</b>	<b>\$ 33,757</b>
CASH BASIS FUND BALANCES:			
Unreserved:			
General fund	\$ -	\$ -	\$ -
Special revenue funds	36,276	171	33,757
Capital projects fund	-	-	-
Permanent fund	-	-	-
<b>TOTAL CASH BASIS FUND BALANCES</b>	<b>\$ 36,276</b>	<b>\$ 171</b>	<b>\$ 33,757</b>

See accompanying independent auditor's report.

<u>Special Revenue</u>	<u>Permanent Cemetery Perpetual Care</u>	<u>Total</u>
<u>Recreation Fund</u>		
\$ -	\$ -	\$ 29,284
20,583	-	20,583
7,015	481	7,496
<u>\$ 27,598</u>	<u>\$ 481</u>	<u>\$ 57,363</u>
\$ -	\$ -	\$ 13,336
-	-	5,262
27,121	-	27,121
-	-	2,840
-	-	7,848
<u>\$ 27,121</u>	<u>\$ -</u>	<u>\$ 56,407</u>
<u>\$ 477</u>	<u>\$ 481</u>	<u>\$ 956</u>
\$ -	\$ -	\$ 2,263
-	-	(21,000)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (18,737)</u>
\$ 477	\$ 481	\$ (17,781)
8,932	60,704	158,579
<u>\$ 9,409</u>	<u>\$ 61,185</u>	<u>\$ 140,798</u>
\$ -	\$ -	\$ -
9,409	-	79,613
-	-	-
-	61,185	61,185
<u>\$ 9,409</u>	<u>\$ 61,185</u>	<u>\$ 140,798</u>

CITY OF AFTON, IOWA  
 SCHEDULE OF INDEBTEDNESS  
 Year Ended June 30, 2007

Schedule 2

Obligation	Date of Issue	Interest Rates For Entire Issue
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>
\$ 195,000	\$ 93,000	\$ -	\$ 10,000	\$ 83,000	\$ 2,640	\$ -
\$ 320,000	<u>181,000</u>	<u>-</u>	<u>12,000</u>	<u>169,000</u>	<u>7,403</u>	<u>\$ -</u>
	<u>\$ 274,000</u>	<u>\$ -</u>	<u>\$ 22,000</u>	<u>\$ 252,000</u>	<u>\$ 10,043</u>	<u>\$ -</u>

CITY OF AFTON, IOWA  
 BOND AND OTHER DEBT MATURITIES  
 June 30, 2007

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
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		\$ 83,000		\$ 169,000

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>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
RECEIPTS:				
Property tax	\$ 138,177	\$ 140,052	\$ 136,698	\$ 122,866
Tax incremental financing collections	-	-	-	-
Other city tax	92,949	61,696	-	-
Licenses and permits	330	349	410	535
Uses of money and property	6,423	5,312	76,881	2,584
Intergovernmental	163,879	189,292	250,011	161,054
Charges for services	88,775	116,949	75,232	56,808
Special assessments	-	-	-	-
Miscellaneous	30,830	28,145	26,291	23,622
TOTAL	<u>\$ 521,363</u>	<u>\$ 541,795</u>	<u>\$ 565,523</u>	<u>\$ 367,469</u>
DISBURSEMENTS:				
Operating:				
Public safety	\$ 69,006	\$ 98,271	\$ 254,742	\$ 114,350
Public works	161,539	147,643	128,932	141,007
Health and social services	-	-	-	-
Culture and recreation	219,528	143,030	45,511	50,314
Community and economic development	3,000	7,846	8,236	3,406
General government	89,871	74,056	69,145	64,231
Debt service	-	-	-	-
Capital projects	-	111,039	96,771	77,077
TOTAL	<u>\$ 542,944</u>	<u>\$ 581,885</u>	<u>\$ 603,337</u>	<u>\$ 450,385</u>

See accompanying independent auditor's report.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Afton, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City of Afton, Iowa's basic financial statements and have issued our report thereon dated January 25, 2008. 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 generally and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Afton, Iowa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Afton, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Afton, Iowa's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Afton, Iowa's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Afton, Iowa's financial

statements that is more than inconsequential will not be prevented or detected by the City of Afton, Iowa's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Afton, Iowa's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which 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, 2007, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Afton, Iowa's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit City of Afton, Iowa's response and, accordingly, we express no opinion on it.

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

*Drapen, Smelgrasso, Mickelson & Co., P.C.*

January 25, 2008

CITY OF AFTON, IOWA  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2007

Findings Related to the Financial Statements

Significant Deficiencies:

2007-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:

2007-1 Certified Budget – Disbursements did not exceed the budgeted amounts for the year.

2007-2 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.

2007-3 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

2007-4 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.

2007-5 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

2007-6 Business Transactions - There were no business transactions between the City and City Officials or employees.

CITY OF AFTON, IOWA  
 SCHEDULE OF FINDINGS  
 Year Ended June 30, 2007

- 2007-7 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.
- 2007-8 Revenue Notes – The City has complied with the revenue note resolutions.
- 2007-9 Other Information Required by Note Resolution – The following insurance policies were in force at June 30, 2007:

<u>Insurer</u>	<u>Description</u>	<u>Amount</u>	<u>Expiration Date</u>
Employers Mutual Casualty Company	Commercial property	\$ 789,657	April 1, 2008
Employers Mutual Casualty Company	General liability:		April 1, 2008
	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	
Employers Mutual Casualty Company	Medical expense limit	5,000	
	Inland marine:		April 1, 2008
	Contractor's equipment	122,275	
Miscellaneous	17,820		
Employers Mutual Casualty Company	Commercial automobile:		April 1, 2008
	Liability	\$1,000,000	
	Uninsured motorists	50,000	
	Underinsured motorists	50,000	

CITY OF AFTON, IOWA  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2007

2007-9 Other Information Required by Note Resolution – The following insurance policies were in force at June 30, 2007:

<u>Insurer</u>	<u>Description</u>	<u>Amount</u>	<u>Expiration Date</u>
Employers Mutual Casualty Company	Employee dishonesty:		April 1, 2008
	Public employee dishonesty	\$ 101,000	
Employers Mutual Casualty Company	Forgery or alteration	10,000	April 1, 2008
	Commercial umbrella:		
Employers Mutual Casualty Company	Occurrence limit	\$2,000,000	April 1, 2008
	Aggregate limit	2,000,000	
	Retained limit	10,000	
Employers Mutual Casualty Company	Linebacker:		April 1, 2008
	Each loss	\$1,000,000	
Employers Mutual Casualty Company	Aggregate for each policy term	1,000,000	April 1, 2008
	Commercial crime:		
Employers Mutual Casualty Company	Theft, disappearance and destruction	\$ 120,000	April 1, 2008
	Premises burglary	15,000	
	Premises other than money and securities	10,000	
	Computer fraud	50,000	
Employers Mutual Casualty Company	Workers' compensation:		April 1, 2008
	Bodily injury by accident)	\$ 500,000	
	Bodily injury by disease (each employee)	500,000	
	Bodily injury by disease (policy limit)	500,000	