

CITY OF AFTON

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

Year Ended June 30, 2011

CITY OF AFTON, IOWA
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CITY OF AFTON, IOWA
OFFICIALS
June 30, 2011

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michelle Burger	Mayor	January, 2012
Jeff Burger	Council Member	January, 2014
David Cunningham	Council Member	January, 2012
Sherry Parrott	Council Member	January, 2014
Cindy Williams	Council Member	January, 2012
Mary Hill	Council Member	January, 2012
Toni Landers	Clerk/Treasurer	January, 2012
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, 2011, 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. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the preceding paragraph, based on our audit, 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, 2011, 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 September 22, 2011, on our consideration of City of Afton, Iowa'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 considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 23 through 24 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. Other supplementary information included in Schedules 1 through 3, 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 audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Drapen, Smolgraso, Mickelson + Co., P.C.

September 22, 2011

CITY OF AFTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

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, 2011. 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. 54. GASB 54 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 Management Discussion and Analysis 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 Activities - Most of the City's basic services are reported in governmental activities, 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 activities are:

Public Safety: This category includes police operations, fire protections, 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: At this time, we have nothing budgeted in this fund.

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 is for the Community Center Project.

Business-Type (Proprietary) Activities: 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.

2011 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities increased by \$22,920 from fiscal 2010 to fiscal 2011. Property tax increased by \$4,643. Proprietary activities revenues increased by \$41,786.

Governmental activities disbursements increased by \$8,337. Proprietary activities disbursements decreased by \$37,360.

The City's total cash balance increased by \$236,946. Governmental activities increased by \$109,350 and proprietary activities increased by \$127,596.

SOURCES OF FUNDS FOR GOVERNMENTAL ACTIVITIES

	<u>FY 2011</u>
Receipts	
Property tax	\$ 149,345
Other city taxes	94,417
Licenses and permits	210
Use of money and property	3,662
Intergovernmental	87,512
Charges for Services	81,287
Miscellaneous	<u>78,739</u>
Total receipts	<u>\$ 495,172</u>
Disbursements:	
Public safety	\$ 77,369
Public works	152,659
Culture and recreation	68,188
General government	57,961
Capital projects	<u>7,312</u>
Total disbursements	<u>\$ 363,489</u>
Excess (Deficiency) of disbursements over receipts	\$ 131,683
Total other financing sources	<u>(22,333)</u>
Net change in cash balances	<u>\$ 109,350</u>
Cash balances beginning of year	<u>\$ 464,878</u>
Cash balances end of year:	
General fund	\$ 48,226
Special revenue funds	284,303
Capital projects fund	98,176
Other non-major government funds	80,352
Perpetual care cemetery funds	<u>63,171</u>
Total	<u>\$ 574,228</u>

Total governmental funds cash balances	\$ 574,228
Assets of internal service fund*	<u>(5,139)</u>
Cash basis net assets of governmental activities	<u>\$ 569,089</u>
 Net change in cash balances	 <u>\$ 109,350</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 2011</u>
Receipts	
Use of money and property	\$ 6,702
Charges for Services	881,881
Intergovernmental	<u>14,597</u>
Total receipts	<u>\$ 903,180</u>
 Disbursements:	
Public safety	\$ 22,900
Business type activities	<u>775,017</u>
Total disbursements	<u>\$ 797,917</u>
 Excess of receipts over disbursements	 \$ 105,263
 Other financing sources, net	 <u>22,333</u>
 Excess of receipts and other financing sources over disbursements and other financing uses	 \$ 127,596
 Cash balance beginning of year	 <u>758,054</u>
 Cash balances end of year	 <u>\$ 885,650</u>

INDIVIDUAL FUND ANALYSIS

General Fund: The General Fund received \$210,291 plus \$10,241 transferred in. Disbursements were \$219,752.

Road Use Fund: The Road Use Fund received \$86,411. Disbursements were \$81,252. 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 \$24,546 and disbursed \$27,167. 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 \$3,217 and disbursed \$3,241.

Sick Leave Fund: The Sick Leave Fund has a reserve balance of \$5,257. This fund was used for the 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 grants and interest of \$8,772 plus \$5,000 transferred in. Disbursements were \$22,900. This fund is used for new equipment and a police truck was purchased this year.

LOST Fund: This LOST fund received \$94,417 and transferred out \$57,333 for community betterment and capital improvement use to pay towards the Community Center Project and also for repayment of a snow plow and future capital equipment purchases.

Recreation Fund: The Recreation Fund received \$21,546 and disbursed \$28,005. 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 \$490 in donations and interest. This fund is used for all receipts and disbursements pertaining to the Walking Trail.

Capital Projects: The Capital Project Fund received \$53,340 in donations and grants plus \$28,000 transferred in. Disbursements were \$7,312. This fund is being used for all receipts and disbursements pertaining to the Community Center Project.

Cemetery Perpetual Care Fund: This fund received \$661 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 \$779,320 plus transferred in \$24,333. Disbursed \$671,974 plus transferred out \$7,000.

Sewer Fund: The Sewer Fund received \$107,300 and disbursed \$65,206 plus transferred out \$31,131.

Sewer Bond & Interest Fund: The Sewer Bond and Interest Fund received \$31,131 transferred in. The disbursements were \$31,199. 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 \$367 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 \$160 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 \$7,261 with disbursements of \$6,638. This fund is used for electric and sewer deposits made by customers. These deposits are refunded after 12 months of payment by the 20th of each month.

Huss Cemetery Fund: The Huss Cemetery Fund received \$252 in interest. This fund was created when the Forrest Huss Estate willed money to Greenlawn Cemetery to be used for the maintenance and beautification of the cemetery.

DEBT ADMINISTRATION

As of June 30, 2011, the City had \$154,803 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 \$1,062,839.

BUDGETARY HIGHLIGHTS

The City Council approved a budget amendment during the year. This amendment increased expenditures by \$150,900 and revenues by \$127,700. The amended expenditures included transfers out of LOST funds to fund the Community Center Project in the amount of \$18,000. The Revenue Capital Project Fund was increased by \$18,000. The City transferred \$7,000 from the Electric Fund, \$31,131 from the Sewer Fund, \$57,333 from LOST Fund, and \$3,241 from the Emergency Fund in 2010-11. In fiscal year 2011-2012 \$42,709 is budgeted to be transferred from the Electric Fund and \$3,391 from the Emergency Fund to balance the General Fund.

NEXT YEAR'S BUDGET AND RATES

The City's tax rate for 2010-2011 was \$12.25057 per \$1,000 valuation and is \$12.24533 per \$1,000 valuation for 2011-2012.

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, 2011

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	\$ 100,049	\$ 171	\$ -	\$ 8,700
Public works	152,658	53,833	87,072	-
Culture and recreation	68,188	30,759	4,305	-
General government	57,961	15,105	-	-
Capital projects	6,857	-	-	53,339
Total governmental activities	\$ 385,713	\$ 99,868	\$ 91,377	\$ 62,039
Business type activities:				
Sewer	\$ 96,405	\$ 100,626	\$ -	\$ 5,897
Electric	678,612	781,255	-	-
Total business type activities	\$ 775,017	\$ 881,881	\$ -	\$ 5,897
TOTAL PRIMARY GOVERNMENT	\$ 1,160,730	\$ 981,749	\$ 91,377	\$ 67,936

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
 Nonexpendable:
 Cemetery perpetual care
 Expendable:
 Streets
 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
\$ (91,178)	\$ -	\$ (91,178)
(11,753)	-	(11,753)
(33,124)	-	(33,124)
(42,856)	-	(42,856)
46,482	-	46,482
<u>\$ (132,429)</u>	<u>\$ -</u>	<u>\$ (132,429)</u>
\$ -	\$ 10,118	\$ 10,118
-	102,643	102,643
<u>\$ -</u>	<u>\$ 112,761</u>	<u>\$ 112,761</u>
\$ (132,429)	\$ 112,761	\$ (19,668)
\$ 149,345	\$ -	\$ 149,345
92,451	-	92,451
1,005	-	1,005
2,878	6,699	9,577
4,237	-	4,237
(17,333)	17,333	-
<u>\$ 232,583</u>	<u>\$ 24,032</u>	<u>\$ 256,615</u>
\$ 100,154	\$ 136,793	\$ 236,947
468,935	753,998	1,222,933
<u>\$ 569,089</u>	<u>\$ 890,791</u>	<u>\$ 1,459,880</u>
\$ 63,171	\$ -	\$ 63,171
43,874	-	43,874
325,168	111,560	436,728
136,876	779,231	916,107
<u>\$ 569,089</u>	<u>\$ 890,791</u>	<u>\$ 1,459,880</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, 2011

Exhibit B

	General	SPECIAL REVENUE	
		Road Use Tax	Local Option Sales Tax
RECEIPTS:			
Property taxes	\$ 124,799	\$ -	\$ -
Other city tax	-	-	94,417
Licenses and permits	210	-	-
Use of money and property	3,410	-	-
Intergovernmental	1,101	86,411	-
Charges for service	63,618	-	-
Miscellaneous	20,371	-	-
Total receipts	<u>\$ 213,509</u>	<u>\$ 86,411</u>	<u>\$ 94,417</u>
DISBURSEMENTS:			
Operating:			
Public safety	\$ 59,887	\$ -	\$ -
Public works	68,162	81,252	-
Culture and recreation	40,183	-	-
General government	51,521	-	-
Capital projects	-	-	-
Total disbursements	<u>\$ 219,753</u>	<u>\$ 81,252</u>	<u>\$ -</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	<u>\$ (6,244)</u>	<u>\$ 5,159</u>	<u>\$ 94,417</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	\$ 7,000	\$ -	\$ -
Operating transfers out	-	-	(57,333)
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 7,000</u>	<u>\$ -</u>	<u>\$ (57,333)</u>
NET CHANGE IN CASH BALANCES	\$ 756	\$ 5,159	\$ 37,084
CASH BALANCES, BEGINNING OF YEAR	<u>47,470</u>	<u>34,328</u>	<u>207,732</u>
CASH BALANCES, END OF YEAR	<u>\$ 48,226</u>	<u>\$ 39,487</u>	<u>\$ 244,816</u>
CASH BASIS FUND BALANCES:			
Nonspendable:			
Cemetery perpetual care	\$ -	\$ -	\$ -
Restricted for:			
Streets	-	39,487	-
Other purposes	-	-	244,816
Unassigned	<u>48,226</u>	<u>-</u>	<u>-</u>
TOTAL CASH BASIS NET ASSETS	<u>\$ 48,226</u>	<u>\$ 39,487</u>	<u>\$ 244,816</u>

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

Other Nonmajor Governmental Funds	Total
\$ 24,546	\$ 149,345
-	94,417
-	210
252	3,662
-	87,512
17,669	81,287
58,368	78,739
<u>\$ 100,835</u>	<u>\$ 495,172</u>
\$ 17,482	\$ 77,369
3,245	152,659
28,005	68,188
6,440	57,961
7,312	7,312
<u>\$ 62,484</u>	<u>\$ 363,489</u>
<u>\$ 38,351</u>	<u>\$ 131,683</u>
\$ 28,000	\$ 35,000
-	(57,333)
<u>\$ 28,000</u>	<u>\$ (22,333)</u>
\$ 66,351	\$ 109,350
175,348	464,878
<u>\$ 241,699</u>	<u>\$ 574,228</u>
\$ 63,171	\$ 63,171
-	39,487
80,352	325,168
98,176	146,402
<u>\$ 241,699</u>	<u>\$ 574,228</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, 2011

Exhibit C

TOTAL GOVERNMENTAL FUNDS CASH BALANCES \$ 574,228

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.

(5,139)

CASH BASIS NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 569,089

NET CHANGE IN CASH BALANCES \$ 109,350

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.

(9,196)

CHANGE IN CASH BALANCES OF GOVERNMENTAL ACTIVITIES \$ 100,154

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, 2011

Exhibit D

	Enterprise Funds		
	Sewer	Electric	Total
OPERATING RECEIPTS:			
Charge for service	\$ 100,626	\$ 781,255	\$ 881,881
Total operating receipts	<u>\$ 100,626</u>	<u>\$ 781,255</u>	<u>\$ 881,881</u>
OPERATING DISBURSEMENTS:			
Public safety	\$ -	\$ -	\$ -
Business type activities	65,206	678,612	743,818
Total operating disbursements	<u>\$ 65,206</u>	<u>\$ 678,612</u>	<u>\$ 743,818</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	<u>\$ 35,420</u>	<u>\$ 102,643</u>	<u>\$ 138,063</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):			
Interest on investments	\$ 1,304	\$ 5,326	\$ 6,630
Intergovernmental	5,897	-	5,897
Debt service	(31,199)	-	(31,199)
Total non-operating receipts (disbursements)	<u>\$ (23,998)</u>	<u>\$ 5,326</u>	<u>\$ (18,672)</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>\$ 11,422</u>	<u>\$ 107,969</u>	<u>\$ 119,391</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	\$ -	\$ 24,333	\$ 24,333
Operating transfers out	-	(7,000)	(7,000)
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ 17,333</u>	<u>\$ 17,333</u>
NET CHANGE IN CASH BALANCES	\$ 11,422	\$ 125,302	\$ 136,724
CASH BALANCES, BEGINNING OF YEAR	<u>185,262</u>	<u>539,443</u>	<u>724,705</u>
CASH BALANCES, END OF YEAR	<u><u>\$ 196,684</u></u>	<u><u>\$ 664,745</u></u>	<u><u>\$ 861,429</u></u>
CASH BASIS FUND BALANCES:			
Reserved for debt service	\$ 29,572	\$ -	\$ 29,572
Reserved for sewer improvements	17,985	-	17,985
Reserved for sewer reserve	42,967	-	42,967
Reserved for customer deposits	-	21,036	21,036
Unreserved	106,160	643,709	749,869
Total cash basis fund balances	<u><u>\$ 196,684</u></u>	<u><u>\$ 664,745</u></u>	<u><u>\$ 861,429</u></u>

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

Internal Service Funds

Equipment Revolving	Sick Leave	Total
\$ -	\$ -	\$ -
\$ -	\$ -	\$ -
\$ 22,900	\$ -	\$ 22,900
-	-	-
<u>\$ 22,900</u>	<u>\$ -</u>	<u>\$ 22,900</u>
\$ (22,900)	\$ -	\$ (22,900)
\$ 72	\$ -	\$ 72
8,700	-	8,700
-	-	-
<u>\$ 8,772</u>	<u>\$ -</u>	<u>\$ 8,772</u>
\$ (14,128)	\$ -	\$ (14,128)
\$ 5,000	\$ -	\$ 5,000
-	-	-
<u>\$ 5,000</u>	<u>\$ -</u>	<u>\$ 5,000</u>
\$ (9,128)	\$ -	\$ (9,128)
28,092	5,257	33,349
<u>\$ 18,964</u>	<u>\$ 5,257</u>	<u>\$ 24,221</u>
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
18,964	5,257	24,221
<u>\$ 18,964</u>	<u>\$ 5,257</u>	<u>\$ 24,221</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, 2011

Exhibit E

TOTAL ENTERPRISE FUNDS CASH BALANCES \$ 861,429

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.

29,362

CASH BASIS NET ASSETS OF BUSINESS TYPE ACTIVITIES \$ 890,791

NET CHANGE IN CASH BALANCES \$ 136,724

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.

69

CHANGE IN CASH BALANCES OF GOVERNMENTAL ACTIVITIES \$ 136,793

CITY OF AFTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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 the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable 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.

CITY OF AFTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Significant Accounting Policies (continued)

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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 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, 2011

Note 1. 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.

Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in other spendable classifications.

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, 2011, 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.

CITY OF AFTON, IOWA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

Note 2. Deposits and Investments (continued)

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, 2011, the City's investments consisted of certificates of deposits and were not subject to risk categorization.

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>	
2012	\$ 12,000	\$ 960	\$ 15,000	\$ 3,285	
2013		13,000		15,000	2,835
2014		12,803		195	16,000
2015		---		---	1,875
2016		---		---	17,000
2017-2018	---	---	37,000	1,125	
Total	<u>\$ 37,803</u>	<u>\$ 1,740</u>	<u>\$ 117,000</u>	<u>\$ 12,855</u>	

Year Ending June 30,	Total	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 27,000	\$ 4,245
2013	28,000	3,420
2014	28,803	2,565
2015	17,000	1,875
2016	17,000	1,365
2017-2018	37,000	1,125
Total	<u>\$154,803</u>	<u>\$14,595</u>

CITY OF AFTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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, 2011, 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, 2011

Note 4. Pension and Retirement Benefits (continued)

Plan members are required to contribute 4.50% of their annual salary and the City is required to contribute 6.95%. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2011 was \$11,659, 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, 2011, primarily relating to the General and Enterprise funds is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 5,609
Sick leave	<u>2,388</u>
Total	<u>\$ 7,997</u>

The liability has been computed based on rates of pay as of June 30, 2011.

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, 2011

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, 2011, is as follows:

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
General	Enterprise: Electric	<u>\$ 7,000</u>
Capital projects:	Special Revenue: LOST	<u>\$ 28,000</u>
Enterprise: Electric	Special Revenue: LOST	<u>\$ 24,333</u>
Internal Service: Equipment	Special Revenue: LOST	<u>\$ 5,000</u>
Total		<u>\$ 64,333</u>

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.

CITY OF AFTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 10. Subsequent Events

Management has evaluated subsequent events through September 22, 2011, the date on which the financial statements were available to be issued.

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, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Net
RECEIPTS:			
Property tax	\$ 149,345	\$ -	\$ 149,345
Other city tax	94,417	-	94,417
Licenses and permits	210	-	210
Use of money and property	3,662	6,702	10,364
Intergovernmental	87,512	14,597	102,109
Charges for service	81,287	881,881	963,168
Miscellaneous	78,739	-	78,739
TOTAL RECEIPTS	<u>\$ 495,172</u>	<u>\$ 903,180</u>	<u>\$ 1,398,352</u>
DISBURSEMENTS:			
Public safety	\$ 77,369	\$ 22,900	\$ 100,269
Public works	152,659	-	152,659
Culture and recreation	68,188	-	68,188
General government	57,961	-	57,961
Capital projects	7,312	-	7,312
Business type activities	-	775,017	775,017
TOTAL DISBURSEMENTS	<u>\$ 363,489</u>	<u>\$ 797,917</u>	<u>\$ 1,161,406</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	\$ 131,683	\$ 105,263	\$ 236,946
OTHER FINANCING SOURCES, NET	<u>(22,333)</u>	<u>22,333</u>	<u>-</u>
EXCESS OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	\$ 109,350	\$ 127,596	\$ 236,946
BALANCE, BEGINNING OF YEAR	<u>464,878</u>	<u>758,054</u>	<u>1,222,932</u>
BALANCE, END OF YEAR	<u><u>\$ 574,228</u></u>	<u><u>\$ 885,650</u></u>	<u><u>\$ 1,459,878</u></u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
\$ 144,194	\$ 144,194	\$ 5,151
88,106	95,106	(689)
980	980	(770)
13,365	13,365	(3,001)
99,881	152,581	(50,472)
929,998	979,998	(16,830)
21,900	21,900	56,839
<u>\$ 1,298,424</u>	<u>\$ 1,408,124</u>	<u>\$ (9,772)</u>
\$ 94,127	\$ 101,027	\$ 758
156,871	156,871	4,212
81,975	81,975	13,787
74,469	74,469	16,508
20,000	30,000	22,688
832,050	948,050	173,033
<u>\$ 1,259,492</u>	<u>\$ 1,392,392</u>	<u>\$ 230,986</u>
\$ 38,932	\$ 15,732	\$ 221,214
<u>-</u>	<u>-</u>	<u>-</u>
\$ 38,932	\$ 15,732	<u>\$ 221,214</u>
<u>1,077,873</u>	<u>1,077,873</u>	
<u>\$ 1,116,805</u>	<u>\$ 1,093,605</u>	

CITY OF AFTON, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2011

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 \$132,900. 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, 2011

Schedule 1

	Special Revenue		
	Employee Benefits	Huss Cemetery Fund	Walking Trail
RECEIPTS:			
Property tax	\$ 24,546	\$ -	\$ -
Uses of money and property	-	252	-
Charges for services	-	-	-
Miscellaneous	-	-	490
TOTAL RECEIPTS	\$ 24,546	\$ 252	\$ 490
DISBURSEMENTS:			
Operating:			
Public safety	\$ 17,482	\$ -	\$ -
Public works	3,245	-	-
Culture and recreation	-	-	-
Community and economic development	-	-	-
General government	6,440	-	-
Capital projects	-	-	-
TOTAL DISBURSEMENTS	\$ 27,167	\$ -	\$ -
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	\$ (2,621)	\$ 252	\$ 490
OTHER FINANCING SOURCES (USES):			
Operating transfers in	\$ -	\$ -	\$ -
Operating transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	\$ -	\$ -	\$ -
NET CHANGE IN CASH BALANCES	\$ (2,621)	\$ 252	\$ 490
CASH BALANCES, BEGINNING OF YEAR	36,063	31,037	2,608
CASH BALANCES, END OF YEAR	<u>\$ 33,442</u>	<u>\$ 31,289</u>	<u>\$ 3,098</u>
CASH BASIS FUND BALANCES:			
Nonspendable:			
Cemetery perpetual care	\$ -	\$ -	\$ -
Restricted for:			
Other purposes	33,442	31,289	3,098
Unassigned	-	-	-
TOTAL CASH BASIS FUND BALANCES	\$ 33,442	\$ 31,289	\$ 3,098

See accompanying independent auditor's report.

<u>Special Revenue</u>		<u>Permanent Cemetery</u>	
<u>Recreation Fund</u>	<u>Capital Projects</u>	<u>Perpetual Care</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 24,546
-	-	-	252
17,669	-	-	17,669
3,877	53,340	661	58,368
<u>\$ 21,546</u>	<u>\$ 53,340</u>	<u>\$ 661</u>	<u>\$ 100,835</u>
\$ -	\$ -	\$ -	\$ 17,482
-	-	-	3,245
28,005	-	-	28,005
-	-	-	-
-	-	-	6,440
-	7,312	-	7,312
<u>\$ 28,005</u>	<u>\$ 7,312</u>	<u>\$ -</u>	<u>\$ 62,484</u>
<u>\$ (6,459)</u>	<u>\$ 46,028</u>	<u>\$ 661</u>	<u>\$ 38,351</u>
\$ -	\$ 28,000	\$ -	\$ 28,000
-	-	-	-
<u>\$ -</u>	<u>\$ 28,000</u>	<u>\$ -</u>	<u>\$ 28,000</u>
\$ (6,459)	\$ 74,028	\$ 661	\$ 66,351
18,982	24,148	62,510	175,348
<u>\$ 12,523</u>	<u>\$ 98,176</u>	<u>\$ 63,171</u>	<u>\$ 241,699</u>
\$ -	\$ -	\$ 63,171	\$ 63,171
12,523	-	-	80,352
-	98,176	-	98,176
<u>\$ 12,523</u>	<u>\$ 98,176</u>	<u>\$ 63,171</u>	<u>\$ 241,699</u>

CITY OF AFTON, IOWA
 SCHEDULE OF INDEBTEDNESS
 Year Ended June 30, 2011

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	3.00%

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	\$ 50,000	\$ -	\$ 12,197	\$ 37,803	\$ 1,317	\$ -
\$ 320,000	<u>131,000</u>	<u>-</u>	<u>14,000</u>	<u>117,000</u>	<u>3,720</u>	<u>\$ -</u>
	<u>\$ 181,000</u>	<u>\$ -</u>	<u>\$ 26,197</u>	<u>\$ 154,803</u>	<u>\$ 5,037</u>	<u>\$ -</u>

CITY OF AFTON, IOWA
 BOND AND OTHER DEBT MATURITIES
 June 30, 2011

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
	Rates	Amount	Rates	Amount
2012	3.00%	\$ 12,000	3.00%	\$ 15,000
2013	3.00%	13,000	3.00%	15,000
2014	3.00%	12,803	3.00%	16,000
2015		-	3.00%	17,000
2016		-	3.00%	17,000
2017		-	3.00%	18,000
2018		-	3.00%	19,000
Total		\$ 37,803		\$ 117,000

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, 2011, which collectively comprise the City of Afton, Iowa's basic financial statements and have issued our report thereon dated September 22, 2011. 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies in internal control over financial reporting.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 and Questioned Costs as items.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011, 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 and Questioned Costs. We did not audit City of Afton, Iowa's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Drapen, Smidgrass, Mikkelsen + Co., P.C.

September 22, 2011

CITY OF AFTON, IOWA
SCHEDULE OF FINDINGS
Year Ended June 30, 2011

Findings Related to the Financial Statements

Significant Deficiencies:

2011-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:

2011-1 Certified Budget – Disbursements did not exceed the budgeted amounts for the year.

2011-2 Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Union County Endowment	Donation	\$250

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

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

Response – We will make sure future disbursements to Union County endowment are documented that they serve a public purpose and proper documentation is on file.

Conclusion – Response acknowledged.

CITY OF AFTON, IOWA
 SCHEDULE OF FINDINGS
 Year Ended June 30, 2011

- 2011-3 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- 2011-4 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.
- 2011-5 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- 2011-6 Business Transactions - There were no business transactions between the City and City Officials or employees.
- 2011-7 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.
- 2011-8 Revenue Notes - The City has complied with the revenue note resolutions.
- 2011-9 Other Information Required by Note Resolution - The following insurance policies were in force at June 30, 2011:

<u>Insurer</u>	<u>Description</u>	<u>Amount</u>	<u>Expiration Date</u>
Employers Mutual Casualty Company	Commercial property	\$ 976,454	April 1, 2012
Employers Mutual Casualty Company	General liability: General aggregate limit	\$ 2,000,000	April 1, 2012
	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, 2011

2011-9 Other Information Required by Note Resolution – The following insurance policies were in force at June 30, 2011:

<u>Insurer</u>	<u>Description</u>	<u>Amount</u>	<u>Expiration Date</u>
Employers Mutual Casualty Company	Inland marine:		April 1, 2012
	Contractor's equipment	\$ 175,075	
	Miscellaneous	13,820	
Employers Mutual Casualty Company	Commercial automobile:		April 1, 2012
	Liability	\$1,000,000	
	Uninsured motorists	50,000	
	Underinsured motorists	50,000	
Employers Mutual Casualty Company	Employee dishonesty:		April 1, 2012
	Public employee dishonesty	\$ 120,000	
	Forgery or alteration	25,000	
Employers Mutual Casualty Company	Commercial umbrella:		April 1, 2012
	Occurrence limit	\$2,000,000	
	Aggregate limit	2,000,000	
	Retained limit	10,000	
Employers Mutual Casualty Company	Linebacker:		April 1, 2012
	Each loss	\$1,000,000	
	Aggregate for each policy term	1,000,000	
Employers Mutual Casualty Company	Commercial crime:		April 1, 2012
	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, 2011

2011-9 Other Information Required by Note Resolution – The following insurance policies were in force at June 30, 2011:

<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, 2012
	Bodily injury by disease (each employee)	500,000	
	Bodily injury by disease (policy limit)	500,000	

DRAPER, SNODGRASS, MIKKELSEN & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS - IOWA SOCIETY OF CPAs
AMERICAN INSTITUTE OF CPAs

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PHONE (641) 782-8421 — P.O. Box 71
309 EAST MONTGOMERY STREET
CRESTON, IOWA 50801

September 22, 2011

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

In planning and performing our audit of the financial statements of the City of Afton, Iowa, for the year ended June 30, 2011, in accordance with U.S. generally accepted auditing standards, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A reportable condition 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 material weakness is a control deficiency, or a combination of control deficiencies, that adversely affects the City'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 likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a reportable condition, or a combination of reportable conditions, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all reportable conditions in internal control that might be significant or material weaknesses.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This communication is intended solely for the information and use of management, the finance committee, the City council, and others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Draper, Snodgrass, Mikkelsen & Co., P.C.

Draper, Snodgrass, Mikkelsen & Co., P.C.

CITY OF AFTON, IOWA
MANAGEMENT LETTER MEMORANDUM

A. Petty Cash Disbursements

We noted that the petty cash payments were only noted at times on a sheet as to the amount being paid from the petty cash fund. We recommend that vouchers or detailed receipts be used for petty cash disbursements and such items are signed by the individual requesting the reimbursement and also details as to what the reimbursement is for. The use of petty cash vouchers would also be recommended to help in the support and approval of the use of the petty cash funds.