

**CITY OF ALGONA, IOWA
PRIMARY GOVERNMENT**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2004

**T. P. ANDERSON & COMPANY, P.C.
Certified Public Accountants**

Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis		4-11
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	12
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	13
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	14
Notes to Financial Statements		15-24
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		25
Notes to Required Supplementary Information – Budgetary Reporting		26
Other Supplementary Information:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes In Cash Balances – Nonmajor Governmental Funds	1	27
Statement of Cash Receipts, Disbursements and Changes In Cash Balances – Nonmajor Proprietary Funds	2	28
Schedule of Indebtedness	3	29
Bond and Note Maturities	4	30
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	5	31
Schedule of Financial Information	6	32-34
Independent Auditor's Report on Compliance and Internal Control Over Financial Reporting		35-36
Schedule of Findings		37-40

CITY OF ALGONA, IOWA
PRIMARY GOVERNMENT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Lynn Kueck	Mayor	Jan 2004
Howard Esser	Council Member	Jan 2006
Tim Lighter	Council Member	Jan 2006
Hurley Kohlhaas	Council Member	Jan 2006
Dan Carter	Council Member	Jan 2004
Teri Von Ruden	Council Member	Jan 2004
Kim Weaver	Council Member	Jan 2004
(After January 2004)		
Lynn Kueck	Mayor	Jan 2006
Howard Esser	Council Member	Jan 2006
Tim Lighter	Council Member	Jan 2006
Harley Kohlhaas	Council Member	Jan 2006
Sara Curtis	Council Member	Jan 2008
Teri Vonruden	Council Member	Jan 2008
Kim Weaver	Council Member	Jan 2008
Cole O'Donnell City	Administrator	Indefinite
Rexann McEnroe	Clerk	Indefinite
Paul Doster	Attorney	Indefinite

T.P. ANDERSON & COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

701 SUMNER, SUITE 200

HUMBOLDT, IOWA 50548

515-332-3466

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

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 Algona, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Algona's management. 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, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

As described in Note 4, the city has elected to omit all the required disclosures related to the defined benefit police pension plan, which is not in accordance with U.S. generally accepted accounting principals.

The financial statements referred to above include only the primary government of the City of Algona, Iowa which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, Algona Municipal Utilities, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Algona, Iowa, as of June 30, 2004, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, except for the effects, if any, of omitting the required disclosures for the defined benefit police pension plan, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the primary government of the City of Algona, Iowa as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2004, on our consideration of the City of Algona's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. Those reports are 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 11 and 25 through 26 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 inquires 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 an opinion on the aforementioned primary government financial statements taken as a whole. We have previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the year ended June 30, 2003 (none of which is presented herein). We expressed a qualified opinion on the primary government financial statements for the year ended June 30, 2003. The supplemental information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial primary governments financial statements. Such information has been subjected to the auditing procedures applied in the audits of the aforementioned primary government financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned primary government financial statements taken as a whole.

T.P. Anderson & Company, P.C.

September 29, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Algona, Iowa provides this Management's Discussion and Analysis of its primary government financial statements. Algona Municipal Utilities is a component unit of the City of Algona and has issued separate financial statements as allowed by the Code of Iowa. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

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

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 2.3%, or approximately \$101,000, from fiscal 2003 to fiscal 2004. Property tax increased approximately \$112,269 and bond proceeds increased \$3,630,000.
- Disbursements increased 23.1%, or approximately \$1,092,000, in fiscal 2004 from fiscal 2003. Public works, debt service and capital projects disbursements increased approximately \$42,000, \$38,000 and \$1,232,000, respectively.
- The City's total cash basis net assets increased 54%, or approximately \$2,153,000 from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$2,398,000 and the assets of the business type activities decreased by approximately \$245,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and New Assets. This statement provides information about the activities of the City as a whole and presents an overview of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

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. 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.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic service. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the sewer, ambulance, and housing funds, of which the sewer and ambulance funds are considered to be major funds of the City.

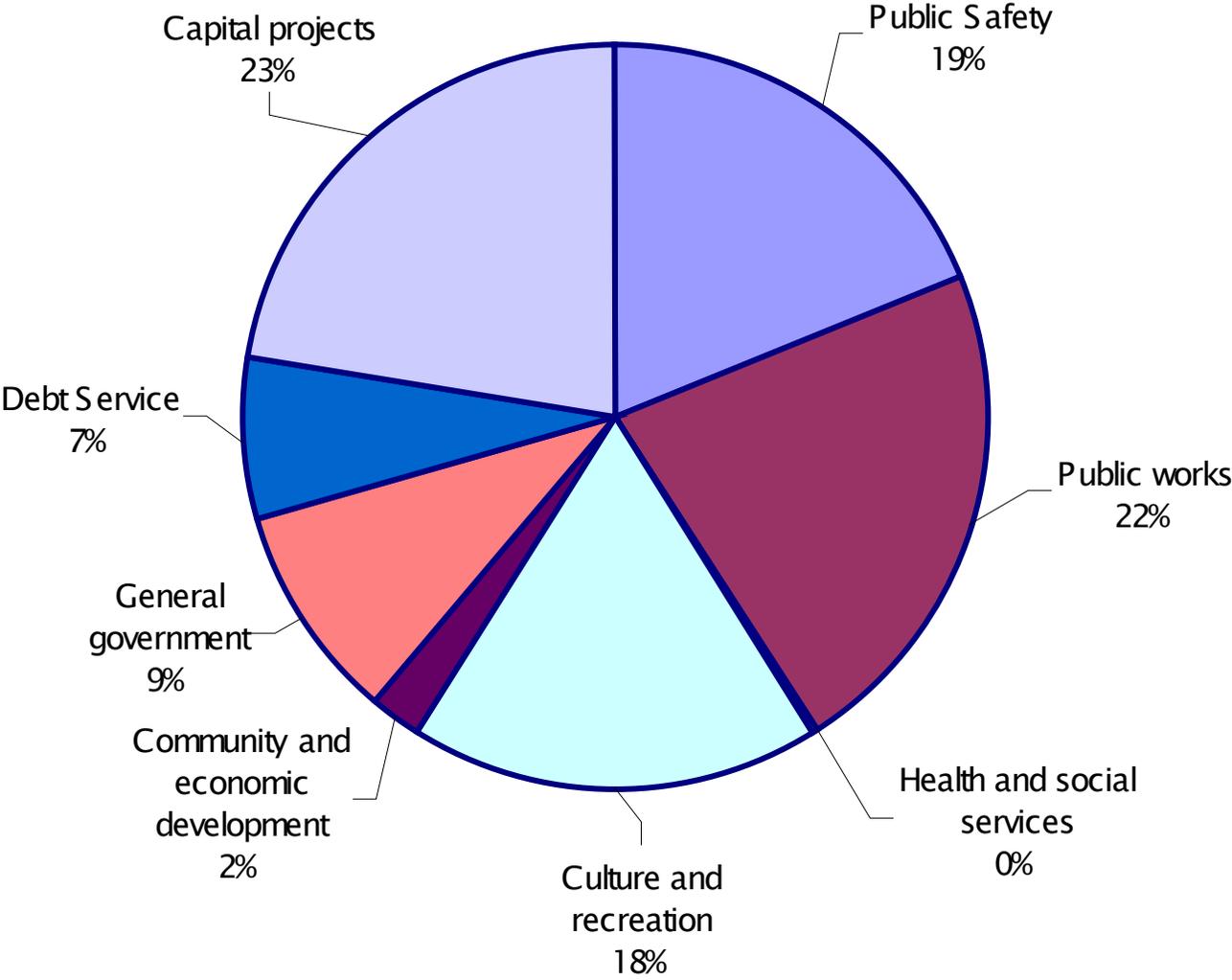
The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

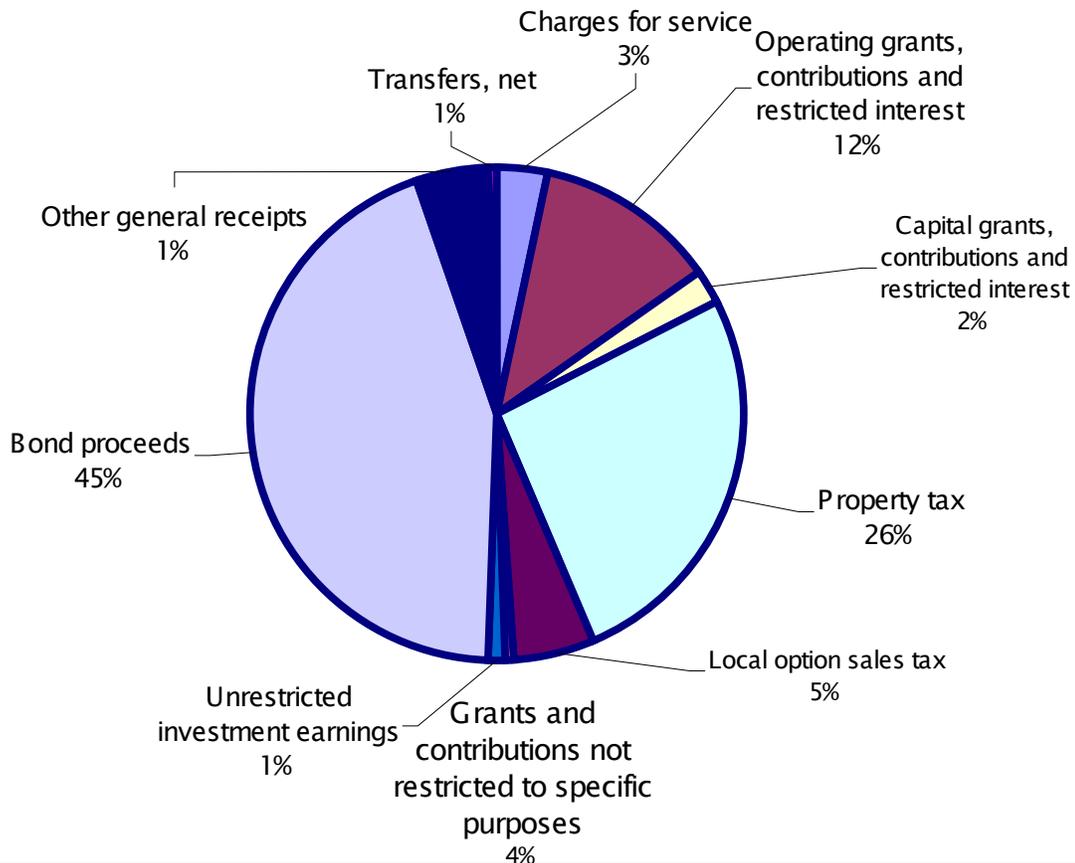
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from \$3.041 million to \$5.438 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2004	2003
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 278	247
Operating grants, contributions and restricted interest	980	1,019
Capital grants, contributions and restricted interest	169	316
General receipts:		
Property tax	2,164	2,014
Local option sales tax	422	416
Grants and contributions not restricted to specific purposes	51	80
Unrestricted investment earnings	96	95
Bond proceeds	3,630	-
Other general receipts	386	298
Transfers, net	43	-
Total receipts and transfers	<u>8,219</u>	<u>4,485</u>
Disbursements:		
Public safety	1,099	1,275
Public works	1,281	1,239
Health and social services	9	9
Culture and recreation	1,038	1,078
Community and economic development	127	226
General government	549	453
Debt service	405	367
Capital projects	1,314	83
Transfers, net	-	99
Total disbursements	<u>5,822</u>	<u>4,829</u>
Increase in cash basis net assets	2,397	(343)
Cash basis net assets beginning of year	<u>3,041</u>	<u>3,384</u>
Cash basis net assets end of year	<u>\$ 5,438</u>	<u>3,041</u>

Disbursements by Function



Receipts by Source



The City's total receipts for governmental activities increased by 83.3%, or \$3,374,000. The total cost of all programs and services increased by approximately \$994,000, or 20.6%, with no new programs added this year. The significant increase in receipts was primarily the result of bond proceeds received from the issuance of general obligation bonds used to finance the downtown main street construction project and the refunding of the Emergency Medical Facility Go Bonds and the General Purpose Go Bonds issued September 1, 1992 and December 1, 1994 respectively.

The cost of all governmental activities this year was \$5.822 million compared to 4.828 million last year. However, as shown in the Statement of Activities and Net Assets on page 12, the amount taxpayers ultimately financed for these activities was only 4.596 million because some of the cost was paid by those directly benefited from the programs (258,000) or by other governments and organizations that subsidized certain programs with grants, receipts, including intergovernmental aid and fees for service (1,149,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$2,164,000 in tax (some of which could only be used for certain programs), \$3,630,000 in bond proceeds and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2004	2003
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 417	480
Ambulance	256	243
Housing	30	44
Operating grants, contributions and restricted interest	33	30
Transfers	-	99
Total receipts	736	896
Disbursements and transfers:		
Sewer	555	421
Ambulance	252	221
Housing	131	64
Transfers	43	-
Total disbursements and transfers	981	706
Increase (decrease) in cash balance	(245)	190
Cash basis net assets beginning of year	974	784
Cash basis net assets end of year	\$ 729	974

Total business type activities receipts for the fiscal year were \$736,000 compared to \$896,000 last year. The decrease is due to a decrease in sewer fees received of 63,000 and a drop in transfers in of \$99,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As The City of Algona completed the year, its governmental funds reported a combined fund balance of \$5,437,879, and increase of more than \$2,390,000 above last year's total of \$3,040,542. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$12,597 from the prior year \$1,582,004. The 1% reduction is due to the regular operations of the General Fund.
- The Road Use Tax Fund cash balance increased by \$77,868 to \$255,669 during the fiscal year. This increase was attributable to planned savings to complete the State Street project from Phillips to Main.
- The LOST (Local Option Sales Tax) Revenue Fund increased \$29,259 to \$478,338 during the fiscal year. This increase is due to excess LOST receipts not being needed to pay the revenue bonds in the current year.
- The Capital Projects Downtown Fund increased \$2,361,055 to \$2,271,993 during the fiscal year. The increase is due to the City receiving the bond proceeds for the project during the year while the project expenses will be expended over the current year and the next fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance decreased by \$1,002 to \$227,026, due primarily to the regular operations of the Sewer Fund.
- The Ambulance Fund cash balance increased by \$37,838 to \$289,921, due primarily to increased services calls during the year ended June 30, 2004.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on March 1, 2004 resulting in an increase in operating disbursements related to capital equipment and airport improvements. The second amendment was approved on May 17, 2004 to provide for refunds of excess gas franchise fees collected and additional operating expenses. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$5,895,000 in bonds and other long-term debt, compared to approximately \$3,190,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	Year ended June 30,	
	2004	2003
General obligation bonds	\$ 4,090	1,265
Revenue notes	1,805	1,925
Total	\$ 5,895	3,190

Debt increased as a result of issuing general obligation bonds for to refund two previous debt issues for \$500,000 and to finance the downtown construction project.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt of \$4,090,000 is significantly below its constitutional debt limit of \$11.568 million.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

Algona's elected and appointed officials considered many factors when setting the fiscal year 2005 budget, tax rates, and charges for City services. One of those factors was the economy. The City experienced negative growth in the last US census, but if the housing developments located within 2 miles of Algona city limits are considered Algona experienced a slight growth in population. Unemployment has fluctuated over the last several years in response to the national economic downturn. However, the unemployment rate has decreased from 5.0% to 3.4% over the last year. The current unemployment rate is less than that of the State's 4.7%.

Inflation has not been an overriding factor in the budget process. The national rate is 2.99% and the State's rate is 3.3%. Increases in energy prices, health insurance, and building materials have been the greatest contributor to inflationary increases.

All of these factors were considered when the City Council of Algona adopted the FY 2005 budget. General fund revenues were projected to increase by 3.25%. This increase was projected despite the reduction of State aid amounting to \$78,000. Overall revenues were down by 23.9%, but this is due to a large bond sale that occurred in FY 2004.

Operating expenses are projected to decrease by .1%. This is largely due to a change in health insurance carriers. Total expenditures were expected to be 6.6% less than FY 2004. The majority of this reduction was due to the completion of the Downtown Development Project.

While the City's debt service levy rose \$0.28/1,000 the overall property tax levy was reduced by \$0.46/1,000. This is directly attributed to a reduction in the trust and agency levy due to lower health insurance costs.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Algona's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Rexann McEnroe, City Clerk, 112 West Call Street, Algona, Iowa 50511.

Basic Financial Statements

CITY OF ALGONA, IOWA

PRIMARY GOVERNMENT
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

Functions/Programs	Program Receipts			
	Disbursements	Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
Governmental activities:				
Public safety	1,099,348	-	111,719	-
Public works	1,280,864	-	835,101	168,643
Health and social services	8,643	-	-	-
Culture and recreation	1,038,213	278,419	1,474	-
Community and economic development	126,692	-	-	-
General government	548,522	-	23,425	-
Debt service	405,699	-	-	-
Capital projects	1,314,552	-	8,856	-
Total government activities	5,822,533	278,419	980,575	168,643
Business type activities:				
Sewer	555,257	416,543	-	-
Ambulance	251,318	255,862	33,294	-
Other	130,983	30,422	-	-
Total business type activities	937,558	702,827	33,294	-
Total	6,760,091	981,246	1,013,869	168,643
General Receipts				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Hotel/Motel tax				
Unrestricted interest on investments				
Bond proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash beginning of year				
Cash end of year				
Cash Basis Net Assets				
Restricted				
Streets				
Downtown Capital Project				
Debt Service				
Other Purposes				
Unrestricted				

See notes to financial statements

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(987,629)	-	(987,629)
(277,120)	-	(277,120)
(8,643)	-	(8,643)
(758,320)	-	(758,320)
(126,692)	-	(126,692)
(525,097)	-	(525,097)
(405,699)	-	(405,699)
(1,305,696)	-	(1,305,696)
(4,394,896)	-	(4,394,896)
-	(138,714)	(138,714)
-	37,838	37,838
-	(100,561)	(100,561)
-	(201,437)	(201,437)
(4,394,896)	(201,437)	(4,596,333)
1,805,131	-	1,805,131
27,690	-	27,690
331,108	-	331,108
421,965	-	421,965
51,230	-	51,230
96,138	-	96,138
3,630,000	-	3,630,000
385,722	-	385,722
43,249	(43,249)	-
6,792,233	(43,249)	6,748,984
2,397,337	(244,686)	2,152,651
3,040,542	973,633	4,014,175
5,437,879	728,947	6,166,826
255,669	-	255,669
2,271,993	-	2,271,993
-	115,023	115,023
1,328,213	-	1,328,213
1,582,004	613,924	2,195,928
5,437,879	728,947	6,166,826

CITY OF ALGONA, IOWA

PRIMARY GOVERNMENT
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
 CHANGES ON CASH BALANCES
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Special Revenue			
	General	Road Use Tax	Employee Benefits	LOST Revenue
Receipts:				
Property tax	\$ 1,245,034	-	519,270	-
Other city tax	108,424	-	-	421,965
Licenses and permits	27,685	-	-	-
Use of money and property	73,050	-	-	6,222
Intergovernmental	493,566	478,153	-	-
Charges for service	278,419	-	-	-
Special assessments	12,951	-	-	-
Miscellaneous	287,892	-	-	-
	<u>2,527,021</u>	<u>478,153</u>	<u>519,270</u>	<u>428,187</u>
Disbursements:				
Public safety	1,058,321	-	-	-
Public works	710,844	400,285	-	-
Health and social services	8,643	-	-	-
Culture and recreation	813,137	-	-	300
Community and economic development	98,879	-	-	-
General government	548,522	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
	<u>3,238,346</u>	<u>400,285</u>	<u>-</u>	<u>300</u>
Excess (deficiency) of receipts over (under) disbursements	(711,325)	77,868	519,270	427,887
Other financing sources (uses):				
Long term debt issued	-	-	-	-
Operating transfers in	698,728	-	-	-
Operating transfers out	-	-	(519,270)	(398,628)
	<u>698,728</u>	<u>-</u>	<u>(519,270)</u>	<u>(398,628)</u>
Excess of receipts and other financing sources over disbursements and othe financing uses	(12,597)	77,868	-	29,259
Balance beginning of year	1,594,601	177,801	-	449,079
Balance end of year	<u>1,582,004</u>	<u>255,669</u>	<u>-</u>	<u>478,338</u>
Cash Basis Fund Balance				
Reserved				
Debt Service	-	-	-	-
Unreserved				
General Fund	1,582,004	-	-	-
Special Revenue Funds	-	255,669	-	478,338
Capital Projects Funds	-	-	-	-
Permanent Funds	-	-	-	-
Total cash basis fund balances	<u>\$ 1,582,004</u>	<u>255,669</u>	<u>-</u>	<u>478,338</u>

See notes to financial statements

Exhibit B

Capital Projects	Other Nonmajor Governmental Funds	Total
Downtown	Funds	Total
-	399,625	2,163,929
-	-	530,389
-	-	27,685
8,856	16,866	104,994
-	168,643	1,140,362
-	-	278,419
-	-	12,951
-	-	287,892
8,856	585,134	4,546,621
-	41,027	1,099,348
-	169,735	1,280,864
-	-	8,643
-	224,776	1,038,213
-	27,813	126,692
-	-	548,522
-	405,699	405,699
1,314,552	-	1,314,552
1,314,552	869,050	5,822,533
(1,305,696)	(283,916)	(1,275,912)
3,630,000	-	3,630,000
36,751	257,218	992,697
-	(31,550)	(949,448)
3,666,751	225,668	3,673,249
2,361,055	(58,248)	2,397,337
(89,062)	908,123	3,040,542
2,271,993	849,875	5,437,879
-	(8,605)	(8,605)
-	-	1,582,004
-	511,662	1,245,669
2,271,993	276,803	2,548,796
-	70,015	70,015
2,271,993	849,875	5,437,879

CITY OF ALGONA, IOWA

Exhibit C

PRIMARY GOVERNMENT
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Sewer	Ambulance	Other Nonmajor	Total
Receipts				
Use of money and property	\$ 8,396	2,603	2,047	13,046
Charges for service	407,153	252,676	-	659,829
Miscellaneous	994	583	28,375	29,952
	<u>416,543</u>	<u>255,862</u>	<u>30,422</u>	<u>702,827</u>
Disbursements				
Total operating disbursements	<u>555,257</u>	<u>251,318</u>	<u>130,983</u>	<u>937,558</u>
	<u>555,257</u>	<u>251,318</u>	<u>130,983</u>	<u>937,558</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	(138,714)	4,544	(100,561)	(234,731)
Non-operating receipts (disbursements):				
Intergovernmental	-	33,294	-	33,294
	<u>-</u>	<u>33,294</u>	<u>-</u>	<u>33,294</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(138,714)</u>	<u>37,838</u>	<u>(100,561)</u>	<u>(201,437)</u>
Other financing sources (uses):				
Long term debt issued	-	-	-	-
Operating transfers in	180,961	-	-	180,961
Operating transfers out	(43,249)	-	(180,961)	(224,210)
	<u>137,712</u>	<u>-</u>	<u>(180,961)</u>	<u>(43,249)</u>
Excess of receipts and other financing sources over disbursements and other financing uses	(1,002)	37,838	(281,522)	(244,686)
Balance beginning of year	<u>228,028</u>	<u>252,083</u>	<u>493,522</u>	<u>973,633</u>
Balance end of year	<u>227,026</u>	<u>289,921</u>	<u>212,000</u>	<u>728,947</u>
Cash Basis Fund Balances				
Reserved for Debt Service	-	-	115,023	115,023
Unreserved	<u>227,026</u>	<u>289,921</u>	<u>96,977</u>	<u>613,924</u>
	<u>\$ 227,026</u>	<u>289,921</u>	<u>212,000</u>	<u>728,947</u>

See notes to financial statements

CITY OF ALGONA, IOWA
PRIMARY GOVERNMENT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(1) **Summary of Significant Accounting Policies**

The City of Algona is a political subdivision of the State of Iowa located in Kossuth County. It was first incorporated in 1872 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, health and social services, culture and recreation, economic development, and general government services. The City also provides sewer, ambulance and housing utilities and services to its citizens.

A. Reporting Entity

For financial reporting purposes, City of Algona has included all funds, organizations, account groups, agencies, boards, commissions and authorities except for Algona Municipal Utilities, a component unit which is a separate entity. The Algona Municipal Utilities have been audited separately, and its financial statements are under a separate cover. The City has also considered all other 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 (GASB) 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. Except for Algona Municipal Utilities, the City has no component units that meet the GASB criteria.

These primary government financial statements include only the primary government of the City of Algona, which consists of all funds, organizations, institutions, agencies, departments, and offices that compromise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which accounting principals generally accepted in the United States of America require to be reported with the financial data of the City's primary government. Accordingly, the primary government financial statements do not present the results of cash transactions and the indebtedness for the entire entity as defined by U. S. generally accepted accounting principles. The component unit has been audited separately and a report has been issued under separate cover as noted above. Audited financial statements of the component unit can be obtained at the utility office.

CITY OF ALGONA, IOWA
PRIMARY GOVERNMENT

NOTES TO FINANCIAL STATEMENTS

(1) **Summary of Significant Accounting Policies - continued**

Jointly Governed Organizations

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 ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Kossuth County Emergency Management Commission, Kossuth County E911 Board, North Iowa Council of Governments Board and the Iowa League of Cities Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets – Cash Basis reports information on all 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.

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

Restricted net assets result when constraints placed on net assets 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.

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.

CITY OF ALGONA, IOWA
PRIMARY GOVERNMENT

NOTES TO THE FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies - continued

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 Employee Benefits Fund is used to account for property tax levied specifically for employee benefits expenditures.

The LOST (Local Option Sales Tax) Fund is utilized to account for the local option sales tax receipts and disbursements.

Capital Projects:

The Capital Projects Downtown Fund is used to account for receipts and disbursements on the reconstruction project of the main street and adjacent sidewalks.

The City reports the following major proprietary funds:

The Ambulance Fund accounts for the operation and maintenance of the City's ambulance system.

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

C. Measurement Focus and Basis of Accounting

The City of Algona 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 the U.S. generally accepted accounting principals.

Proprietary funds distinguish operating receipts and disbursements from non-operating items.

CITY OF ALGONA, IOWA
PRIMARY GOVERNMENT

SEE NOTES TO FINANCIAL STATEMENTS

(1) **Summary of Significant Accounting Policies - continued**

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.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Investments**

The City's deposits at June 30, 2004 (which include certificates of deposit totaling \$2,540,432) 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; and certain joint investment trusts and warrants or improvement certificates of a drainage district.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all category 1, which means that the investments are insured or registered or the services are held by the City or its agent in the City's name.

The City's investments at June 30, 2004 are as follows:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
US Treasury Securities	\$ <u>40,863</u>	\$ <u>41,912</u>

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at amortized cost of \$395,175 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

CITY OF ALGONA, IOWA
PRIMARY GOVERNMENT

NOTES TO FINANCIAL STATEMENTS

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation, urban renewal tax increment financing revenue bonds, revenue notes and other long-term debt are as follows:

Year Ending June 30.	General Obligation Notes		Revenue Bonds		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 310,000	\$ 149,010	\$ 125,000	\$ 93,860	\$ 435,000	\$ 242,870
2006	285,000	138,450	130,000	89,040	415,000	227,490
2007	265,000	129,499	140,000	83,160	405,000	212,659
2008	280,000	120,067	145,000	76,725	425,000	196,792
2009	295,000	110,328	155,000	68,820	450,000	179,148
2010	305,000	99,438	160,000	62,160	465,000	161,598
2011	235,000	88,161	170,000	54,150	405,000	142,311
2012	250,000	80,193	180,000	44,850	430,000	125,043
2013	235,000	71,203	190,000	34,800	425,000	106,003
2014	245,000	63,213	200,000	23,985	445,000	87,198
2015	255,000	54,393	210,000	12,390	465,000	66,783
2016	265,000	44,958	-	-	265,000	44,958
2017	280,000	34,689	-	-	280,000	34,689
2018	290,000	23,769	-	-	290,000	23,769
2019	295,000	12,162	-	-	295,000	12,162
	<u>\$ 4,090,000</u>	<u>\$ 1,219,533</u>	<u>\$ 1,805,000</u>	<u>\$ 643,940</u>	<u>\$ 4,765,000</u>	<u>\$ 1,863,473</u>

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the costs of the construction and equipping of a municipal swimming pool and aquatic center. The bonds are payable solely from the proceeds of the local option sales tax revenues received by the City in accordance with Chapter 422B.12(3) of the Code of Iowa. The bonds are not a general obligation of the City. The debt, however, is subject to the constitutional debt limitation of the City.

The resolutions providing for the issuance of the local option sales and services tax revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future local option sales tax receipts and the bondholders hold a lien on the future local option sales tax receipts.
- (b) Sufficient monthly transfers shall be made to a separate sinking fund for the purpose of making the note principal and interest payments when due.

CITY OF ALGONA, IOWA
PRIMARY GOVERNMENT

NOTES TO FINANCIAL STATEMENTS

(3) Bonds and Notes Payable - continued

- (c) Quarterly transfers, beginning October 1, 1999, of \$12,500 shall be made to a reserve fund until a specific minimum balance has been accumulated. These funds are restricted for the purpose of making the note principal and interest payments when amounts in the sinking fund are insufficient to do so.

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund. However, during the year, \$500,000 of general obligation bond principal was paid from the Capital Projects, Downtown Fund.

(4) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93 and 8.90 respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, and the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2004 2003 and 2002 were \$90,517, \$90,051, and \$89,207 respectively, equal to the required contributions for each year.

The City maintains a pension plan for police personnel hired prior to March 1, 1967 and accounts for the pension in the Trust Fund. The plan is financed by contributions of participants and the City. The plan covers four retired people and has been closed to new participants since March 1, 1967. The actuarial value of vested benefits has not been determined as required by accounting standards generally accepted in United States of America.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and personal leave hours for subsequent use. Earned vacation is paid when used or when employment is terminated upon retirement or death. These accumulations are not recognized as expenditures by the City until

CITY OF ALGONA, IOWA
PRIMARY GOVERNMENT

NOTES TO FINANCIAL STATEMENTS

(5) Compensated Absences - continued

they are paid. The City's approximate maximum liability for unrecognized accrued benefits, primarily relating to the General fund, is \$247,319 based on rates of pay in effect June 30, 2004.

Full-time City employees accumulate sick leave hours for subsequent use based upon past services. However, it cannot be paid out upon termination, retirement or death. The maximum number of days that can be accumulated is 100 days.

(6) Interfund Transfers

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

Transfer In	Transfer From	Amount
General	Special Revenue Fund Employee Benefit LOST	\$ 519,270 136,209
	Enterprise Sewer	43,249
		698,728
Capital Project Downtown	Special Revenue Fund LOST	36,751
Special Revenue Fund LOST Sinking	Special Revenue Fund LOST	225,668
Debt Service	Capital Projects – Pool	31,550
Sewer	Sewer Reserve	180,961
		\$ 1,173,658

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

(7) Local Government Risk Pool

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk sharing pool whose 490 members are from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police

CITY OF ALGONA, IOWA
PRIMARY GOVERNMENT

NOTES TO FINANCIAL STATEMENTS

(7) Local Government Risk Pool - continued

professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operations surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The city's annual contributions to the Pool for the year ended June 30, 2004 were \$126,229.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000 such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inspection.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool.

CITY OF ALGONA, IOWA
PRIMARY GOVERNMENT

NOTES TO FINANCIAL STATEMENTS

(7) Local Government Risk Pool - continued

Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the members' withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation. The airport manager carries coverage for airport manager liability and proof of this coverage is provided to the City. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Property Taxes

Property taxes are recognized as income when received in accordance with the cash basis of accounting. The property tax calendar is as follows for the City of Algona. Property taxes become liens on property as of July 1, 2003 and are payable in September and March of the fiscal year. The valuation for the taxes was based on January 1, 2002 assessed property valuations, and are based on a certified budget from March of 2003.

(9) Accounting Change

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

(10) Deficit Fund Balance

The Debt Service Fund and the Federal Grant Funds had deficit balances of \$8,605 and \$1,092 respectively at June 30, 2004. The deficit balance in the Debt Service Fund was the result of principal and interest payments coming in slightly higher than expected and will be eliminated through property tax askings in 2004-2005. The deficit fund balance in the Federal Grant Fund was the result of the airport project costs exceeding the grants dollars received. This deficit will be eliminated by transfers.

CITY OF ALGONA, IOWA
PRIMARY GOVERNMENT

NOTES TO FINANCIAL STATEMENTS

(11) Litigation

The City is subject to pending litigation seeking unspecified damages. The City plans to vigorously defend themselves and the probability of loss, if any, is undeterminable.

(12) Capital Projects - Downtown

The City of Algona started a downtown main street reconstruction project during the year ended June 30, 2004. The City has signed a construction contract with the general contractor on the job for \$1,567,765. With change orders subsequent to June 30, 2004. The total contract is for \$1,584,966. As of June 30, 2004 payments of \$404,256 have been made for progress payments on the project.

Required Supplementary Information

CITY OF ALGONA, IOWA
 PRIMARY GOVERNMENT
 BUDGETARY COMPARISON SCHEDULE
 OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts:			
Property tax	\$ 2,163,929	-	2,163,929
Other city taxes	530,389	-	530,389
Licenses and permits	27,685	-	27,685
Use of money and property	104,994	13,046	118,040
Intergovernmental	1,140,362	33,294	1,173,656
Charges for service	278,419	659,829	938,248
Special assessments	12,951	-	12,951
Miscellaneous	287,892	29,952	317,844
	<u>4,546,621</u>	<u>736,121</u>	<u>5,282,742</u>
Disbursements:			
Program			
Public safety	1,099,348	-	1,099,348
Public works	1,280,864	-	1,280,864
Health and social services	8,643	-	8,643
Culture and recreation	1,038,213	-	1,038,213
Community and economic development	126,692	-	126,692
General government	548,522	-	548,522
Debt service	405,699	-	405,699
Capital projects	1,314,552	-	1,314,552
Business type activities	-	937,558	937,558
	<u>5,822,533</u>	<u>937,558</u>	<u>6,760,091</u>
Excess (deficiency) of receipts over disbursements	(1,275,912)	(201,437)	(1,477,349)
Other financing sources	<u>3,673,249</u>	<u>(43,249)</u>	<u>3,630,000</u>
Excess (disbursements) of receipts and other financing sources over (under) disbursements and other financing uses	2,397,337	(244,686)	2,152,651
Balance beginning of year	<u>3,040,542</u>	<u>973,633</u>	<u>4,014,175</u>
Balance end of year	<u>\$ 5,437,879</u>	<u>728,947</u>	<u>6,166,826</u>

See accompanying independent auditor's report

Budgeted Amounts		Final to Net Variance
Original	Final	
2,109,393	2,109,393	54,536
635,053	708,848	(178,459)
25,480	25,480	2,205
74,004	97,757	20,283
1,283,022	1,209,376	(35,720)
852,958	891,302	46,946
1,781	13,274	(323)
59,087	102,463	215,381
5,040,778	5,157,893	124,849
1,117,710	1,141,015	41,667
1,111,114	1,311,071	30,207
8,645	8,745	102
1,154,789	1,208,269	170,056
479,014	173,963	47,271
445,007	550,103	1,581
363,216	405,701	2
1,925,000	1,975,000	660,448
859,237	959,360	21,802
7,463,732	7,733,227	973,136
(2,422,954)	(2,575,334)	1,097,985
2,000,000	3,590,901	39,099
(422,954)	1,015,567	1,137,084
3,529,854	4,014,179	(4)
3,106,900	5,029,746	1,137,080

CITY OF ALGONA, IOWA
PRIMARY GOVERNMENT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2004

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$269,495. The budget amendments are reflected in the final budgeted amounts.

Other Supplementary Information

CITY OF ALGONA, IOWA

PRIMARY GOVERNMENT
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Special Revenue Funds					
	LOST Sinking	LOST Reserve	TIF	Library	Grow Algona Trees	Police Pension
Receipts:						
Property tax	\$ -	-	27,690	-	-	40,827
Use of money and property	-	2,817	58	3,446	8	2,006
Intergovernmental	-	-	-	-	-	-
	-	2,817	27,748	3,446	8	42,833
Disbursements:						
Public safety	-	-	-	-	-	41,027
Public works	-	-	-	-	-	-
Culture and recreation	224,698	-	-	78	-	-
General government	-	-	27,813	-	-	-
Debt service	-	-	-	-	-	-
	224,698	-	27,813	78	-	41,027
Excess (deficiency) of receipts over (under) disbursements	(224,698)	2,817	(65)	3,368	8	1,806
Other financing Sources (uses):						
Operating transfers in	225,668	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-
	225,668	-	-	-	-	-
Excess of receipts and other financing sources over disbursements and other financii	970	2,817	(65)	3,368	8	1,806
Balance beginning of year	86,938	248,799	2,404	44,406	410	120,893
Balance end of year	87,908	251,616	2,339	47,774	418	122,699
Cash basis fund balance						
Special Revenue Funds	87,908	251,616	2,339	47,774	418	122,699
Capital Projects Funds	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-
Permanent Funds	-	-	-	-	-	-
	\$ 87,908	251,616	2,339	47,774	418	122,699

See accompanying independent auditor's report

Special Revenue Funds		Capital Projects		Permanent		Total
Federal Grants	Debt Servie	Capital Improvements	Capital Project Aquatic Center	Cemetary	Library	
-	331,108	-	-	-	-	399,625
-	984	-	5,122	2,425	-	16,866
168,643	-	-	-	-	-	168,643
168,643	332,092	-	5,122	2,425	-	585,134
-	-	-	-	-	-	41,027
169,735	-	-	-	-	-	169,735
-	-	-	-	-	-	224,776
-	-	-	-	-	-	27,813
-	405,699	-	-	-	-	405,699
169,735	405,699	-	-	-	-	869,050
(1,092)	(73,607)	-	5,122	2,425	-	(283,916)
-	31,550	-	-	-	-	257,218
-	-	-	(31,550)	-	-	(31,550)
-	31,550	-	(31,550)	-	-	225,668
(1,092)	(42,057)	-	(26,428)	2,425	-	(58,248)
-	33,452	2,687	300,544	27,590	40,000	908,123
(1,092)	(8,605)	2,687	274,116	30,015	40,000	849,875
(1,092)	-	-	-	-	-	511,662
-	-	2,687	274,116	-	-	276,803
-	(8,605)	-	-	-	-	(8,605)
-	-	-	-	30,015	40,000	70,015
(1,092)	(8,605)	2,687	274,116	30,015	40,000	849,875

CITY OF ALGONA, IOWA

Schedule 2

PRIMARY GOVERNMENT
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
 IN CASH BALANCES
 NONMAJOR PROPRIETARY FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Sewer Reserve	Housing	Total
Receipts			
Use of money and property	\$ -	2,047	2,047
Charges for service	-	-	-
Miscellaneous	-	28,375	28,375
	-	30,422	30,422
Disbursements			
Total operating disbursements	-	130,983	130,983
	-	130,983	130,983
Excess (deficiency) of operating receipts over (under) operating disbursements	-	(100,561)	(100,561)
Non-operating receipts (disbursements):			
Intergovernmental	-	-	-
Excess (deficiency) of receipts over (under) disbursements	-	(100,561)	(100,561)
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	(180,961)	-	(180,961)
	(180,961)	-	(180,961)
Excess of receipts and other financing sources over disbursements and other financing uses	(180,961)	(100,561)	(281,522)
Balance beginning of year	295,984	197,538	493,522
Balance end of year	115,023	96,977	212,000
Cash Basis Fund Balances			
Enterprise funds	115,023	197,538	312,561
Total cash basis fund balances	\$ 115,023	197,538	312,561

See accompanying independent auditor's report

CITY OF ALGONA, IOWA
 SCHEDULE OF INDEBTNESS
 YEAR ENDED JUNE 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Emergency medical facility	September 1, 1992	6.15 - 6.25 %	\$ 380,000
General purpose	December 1, 1994	4.70 - 5.75 %	425,000
Swimming pool and parking lot	December 1, 1995	4.40 - 5.20 %	600,000
Fire department and general equipment	February 1, 2003	3.00 - 4.80%	355,000
Downtown construction	January 15, 2004	3.00 - 4.125 %	3,135,000
Fire department and general equipment	January 15, 2004	3.00 - 4.80 %	495,000
Revenue bonds			
LOST swimming pool	October 13, 1999	4.65 - 5.90 %	<u>\$ 2,325,000</u>

See accompanying independent auditor's report

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
200,000	-	200,000	-	6,521	-
300,000	-	300,000	-	9,781	-
450,000	-	55,000	395,000	22,408	-
315,000	-	45,000	270,000	13,000	-
-	3,135,000	-	3,135,000	41,772	-
-	495,000	205,000	290,000	5,610	-
1,265,000	3,630,000	805,000	4,090,000	99,092	-
1,925,000	-	120,000	1,805,000	104,698	-

CITY OF ALGONA, IOWA

Schedule 4

BOND AND NOTE MATURITIES

JUNE 30, 2004

Year Ending June 30,	GO Capital Loan		Swimming Pool & Parking Lot		Downtown Construction	
	Issued Feb 1, 2003		Issued Oct 13, 1999		Issued Jan 15, 2004	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2005	3.75%	\$ 45,000	4.80%	\$ 60,000	3.00%	-
2006	4.00	50,000	4.90	60,000	3.00	90,000
2007	4.20	25,000	5.00	65,000	3.00	175,000
2008	4.40	25,000	5.05	65,000	3.00	190,000
2009	4.50	30,000	5.10	70,000	3.00	195,000
2010	4.60	30,000	5.00	75,000	3.00	200,000
2011	4.70	30,000	-	-	3.20	205,000
2012	4.80	35,000	-	-	3.40	215,000
2013	-	-	-	-	3.40	235,000
2014	-	-	-	-	3.60	245,000
2015	-	-	-	-	3.70	255,000
2016	-	-	-	-	3.88	265,000
2017	-	-	-	-	3.90	280,000
2018	-	-	-	-	4.00	290,000
2019	-	-	-	-	4.13	295,000
		<u>\$ 270,000</u>		<u>\$ 395,000</u>		<u>\$ 3,135,000</u>

Year Ending June 30,	Refunding Notes Series 2004		Total GO Notes	Swimming Pool	
	Issued Jan 15, 2004			Issued Oct 13, 1999	
	Interest Rates	Amount		Interest Rates	Amount
2005	3.00%	\$ 205,000	\$ 310,000	5.20%	125,000
2006	3.00	85,000	285,000	5.30	130,000
2007	-	-	265,000	5.40	140,000
2008	-	-	280,000	5.50	145,000
2009	-	-	295,000	5.55	155,000
2010	-	-	305,000	5.60	160,000
2011	-	-	235,000	5.70	170,000
2012	-	-	250,000	5.75	180,000
2013	-	-	235,000	5.80	190,000
2014	-	-	245,000	5.85	200,000
2015	-	-	255,000	5.90	210,000
2016	-	-	265,000		
2017	-	-	280,000		
2018	-	-	290,000		
2019	-	-	295,000		
		<u>\$ 290,000</u>	<u>\$ 4,090,000</u>		<u>\$ 1,805,000</u>

See accompanying independent auditor's report

CITY OF ALGONA, IOWA

Schedule 5

PRIMARY GOVERNMENT
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS

FOR THE TWO YEARS ENDED JUNE 30:

	2004	2003
Receipts		
Property tax	\$ 2,136,239	2,013,960
Tax increment financing collections	27,690	-
Other city tax	530,389	476,878
Licenses and permits	27,685	28,901
Use of money and property	104,994	95,177
Intergovernmental	1,140,362	1,415,445
Charges for service	278,419	247,576
Special assessments	12,951	4,165
Miscellaneous	287,892	182,045
	<u>\$ 4,546,621</u>	<u>4,464,147</u>
Disbursements:		
Operating:		
Public safety	\$ 1,099,348	1,275,436
Public works	1,280,864	1,239,214
Health and social services	8,643	8,794
Culture and recreation	1,038,213	1,077,611
Community and economic development	126,692	225,860
General government	548,522	453,399
Debt service	405,699	367,576
Capital projects	1,314,552	82,773
	<u>\$ 5,822,533</u>	<u>4,730,663</u>

See accompanying independent auditor's report

CITY OF ALGONA, IOWA

Schedule 6

SCUEDULE OF FINANCIAL INFORMATION

June 30, 2004

1/1/02 Valuations (taxes payable July 1, 2003 to June 30, 2004)

	100% Actual Value	Taxable Value (with Rollback)
Residential	\$ 137,786,549	70,337,283
Commercial	49,511,252	49,511,252
Industrial	20,080,889	20,080,889
Railroad	521,677	521,677
Utilities w/o gas & electric	1,505,448	1,505,448
Gross valuation	209,405,815	141,956,549
Less military exemption	(966,744)	(966,744)
Net valuation	208,439,071	140,989,805
TIF increment (used to compute debt service levies and constitutional debt limit)	961,789	961,789
Taxed Separately		
Ag land	652,480	652,480
Ag building	0	0
Gas & electricity utility property	2,091,977	2,091,977

2002 Gross Taxable Valuation by Class of Property

	100% Actual Value	Percent Total
Residential	\$ 70,337,283	48.83%
Commercial, Industrial, Utility*	73,189,566	50.81
Railroad	521,677	0.36
Total gross taxable valuation	144,048,526	100.00%

* includes gas and electric utility property but excludes TIF increment, Ag land and Ag buildings.

TREND OF VALUATIONS

Assessment Year	Payable Fiscal Year	100% Actual Valuation	Taxable Valuation (with Rollback)	TIF Increment
1998	1999-00	\$ 180,609,489	\$ 125,712,620	\$ 6,389,468
1999	2000-01	204,116,455	134,870,349	8,013,268
2000	2001-02	206,904,991	147,622,429	0
2001	2002-03	208,126,558	140,957,271	0
2002	2003-04	212,145,317	143,081,782	961,789

CITY OF ALGONA, IOWA

Schedule 6

SCUEDULE OF FINANCIAL INFORMATION

June 30, 2004

The 100% Actual Valuations, before rollback and after the reduction of military exemption, include agricultural land and buildings, TIF increment and gas and electric valuation. The Taxable Valuations, with the rollback and after the reduction of military exemption includes gas and electric valuation and excludes agricultural land and buildings and TIF increment. Iowa cities certify operating levies against taxable value excluding TIF increment and debt service levies are certified against taxable value including TIF increment.

LARGER TAXPAYERS

Taxpayer	Type of Property/Business	1/1/02 Actual Valuation	1/1/02 Taxable Valuation
Snap-On Tools	Industrial	\$ 5,191,975	\$ 5,191,975
Pioneer Hi Bred Corn Co.	Industrial	4,981,881	4,981,881
Hormel & Co.	Industrial	3,186,961	3,186,961
Hjelmeland Family, L.P.	Commercial & Residential	1,903,177	1,890,652
Heritage Investment Prop.	Commercial	1,835,767	1,835,767
Kock Materials Co.	Industrial	1,709,957	1,709,957
Richard, Stephen D. et al	Commercial	1,531,895	1,531,895
Qwest	Utilities	1,457,799	1,457,799
Nde-I Limited Part.	Commercial	1,376,935	1,376,935
Druggists Mutual Ins., Co	Commercial	1,326,589	1,326,589

DIRECT DEBT

General Obligation Debt

Date of Issue	Original Amount	Purpose	Final Maturity	Principal Outstanding As of 11/1/03
12/94	\$ 380,000	EMS Facility	6/03	\$ 0 ¹⁾
12/95	425,000	Street/Airport Improvements		0 ²⁾
10/99	600,000	Pool/Street Improvements		450,000
02/00	355,000	Municipal Equipment		315,000
12/03	3,630,000	Street Imp/Refunding		3,630,000
Subtotal				<u>\$4,395,000</u>

- 1) The 2004 and 2005 maturities will be refunded by the Bonds.
- 2) The 2004 through 2006 maturities will be refunded by the Bonds.

Local Option Sales Tax Revenue Debt

CITY OF ALGONA, IOWA

Schedule 6

SCUEDULE OF FINANCIAL INFORMATION

June 30, 2004

The City has revenue debt outstanding payable solely from sales tax revenues and subject to the City's debt limit as follows:

Date of Issue	Original Amount	Purpose	Security	Final Maturity	Principal Outstanding As of 11/1/03
10/99	\$ 2,325,000	Pool	Sales Tax Receipts	10/14	\$ 1,805,000

INDIRECT GENERAL OBIGATION DEBT

	1/1/02 Taxable Valuation	Percent in City	G.O. Debt	City's Proportionate Share
Kossuth County	\$ 919,808,028	15.56%	\$ 5,080,000	\$ 790,448
Algona Community School District	395,232,996	36.20%	0	0
Iowa Lakes Community College	3,684,807,487	3.88%	8,200,000	318,160
City share of total overlapping debt				<u>\$ 1,108,608</u>

DEBT RATIOS

	G.O. Debt	Debt/Actual Market Value (\$ 212,145,317)	Debt/5,741 Population
General Obligation Debt	\$ 4,395,000	2.07%	\$ 765.55
City's share of overlapping debt	1,108,608	0.52%	193.10

TAX RATES

	FY 99-00 \$/1,000	FY 00-01 \$/1,000	FY 01-02 \$/1,000	FY 02-03 \$/1,000	FY 03-04 \$/1,000
Kossuth County	4.05046	4.29207	4.74810	4.75794	5.28383
City of Algona	13.81728	14.23009	13.99585	14.34746	14.93259
Algona Comm. School District	10.74290	10.99992	11.77140	12.36131	12.79524
Area II Comm. College	0.59521	0.68552	0.68550	0.77150	0.73807
County Assessor	0.25589	0.24488	0.39906	0.17321	0.28640
Hospital	0.35712	0.34198	0.32603	0.32860	0.32398
Ag. Extension	0.08988	0.08607	0.08206	0.08270	0.08154
State of Iowa	0.00500	0.00500	0.00500	0.00400	0.00400
Total Tax Rate City Resident	<u>29.91374</u>	<u>30.88553</u>	<u>32.01300</u>	<u>32.82672</u>	<u>34.44565</u>

T.P. ANDERSON & COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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HUMBOLDT, IOWA 50548

515-332-3466

Independent Auditor's Report on Compliance And on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the primary government of the City of Algona, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 29, 2004. Our report expressed a qualified opinion (for lack of required defined benefit plan disclosure) on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. The primary government financial statements do not include the transactions of the Algona Municipal Utilities and as such do not include all transactions of the entity as defined by accounting principles generally accepted on the United States. We conducted our audit in accordance with U. S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for III-A-04.

Internal Control Over Financial Reporting

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, we believe the reportable condition described at II-A-04 is a material weakness. Prior year reportable conditions have all been resolved except II-A-04.

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

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the City of Algona during the course of our audit. Should you have any questions concerning any of the above matters, we would be pleased to discuss them with you at your convenience.

T.P. Anderson & Company, P.C.

September 29, 2004

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part I: Summary of the Independent Auditor's Results:

- (a) A qualified opinion for lack of required defined benefit plan disclosure was issued on the primary government financial statements which 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.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipt function and the recording of the cash receipts is on occasion handled by the same person.

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

Response - We believe that we are close to the maximum degree of segregation of duties possible with the limited number of office employees. We will investigate additional procedures to cost effectively improve internal control.

Conclusion - The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part III: Other Findings Related to Statutory Reporting:

III-A-04 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2004.

Recommendation – The Code of Iowa Section 12C.2 states in part “the approval of a financial institution as a depository of public funds for a public body shall be by written resolution or order that shall be entered of record in the minutes of the approving board and that shall distinctly name each depository approved, and specify the maximum amount that may be kept on deposit in each depository.” The depository resolution should be reviewed periodically and the maximum deposit limits should be adjusted when appropriate.

Response – The depository resolution will be reviewed and updated, if applicable.

Conclusion – Response accepted.

III-B-04 Certified Budget - Disbursements during the year ended June 30, 2004 were within the budgeted limits in all programs.

III-C-04 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-04 Travel Expense - No disbursements of City money for travel expense of spouses of City officials or employees were noted.

III-E-04 Business Transactions - No business transactions between the City and its officials or employees were noted.

Name, Title, and Business connection	Transaction Description	Amount
Cole and Peggy O'Donnell	Housing assistance loan	\$ 4,925

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part III: Other Findings Related to Statutory Reporting:

III-F-04 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-G-04 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

III-H-04 General Obligation Notes – Not all General Obligation Notes were paid from the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa

Recommendation- The Code of Iowa Section 384.4 states that all general obligation bonds and notes are to be paid from the Debt Service Fund. The City should transfer the funds used to pay the general obligation bonds to the Debt Service Fund and pay the obligations from that fund in order to comply with the Code of Iowa.

Response – The City will pay all general obligation bonds and notes from the Debt Service Fund in the future.

Conclusion – Response accepted.

III-I-04 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.