

**CITY OF ALGONA, IOWA
PRIMARY GOVERNMENT**

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

JUNE 30, 2006

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

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CITY OF ALGONA, IOWA
PRIMARY GOVERNMENT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Lynn Kueck	Mayor	Jan 2010
Howard Esser	Council Member	Jan 2010
Tim Lighter	Council Member	Jan 2010
Harley Kohlhaas	Council Member	Jan 2010
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

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, 2006, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards 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.

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 do not include financial data for the City's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component unit. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the cash basis net assets, receipts, and disbursements of the discretely presented component unit would have been presented as \$6,102,806, \$11,157,111, and \$10,025,002 respectively.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1, the cash basis financial position of the discretely presented component unit of the City of Algona, as of June 30, 2006, or the changes in cash basis financial position thereof for the year then ended.

In addition, in our opinion, except for the effects of omitting the required disclosure for the defined benefit police pension plan as discussed above, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of the aggregate remaining fund information of the City of Algona, as of June 30, 2006, and the changes in cash basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Further, 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 the governmental activities, the business type activities, and each major fund of the City of Algona, Iowa as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2006, 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 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 or 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 10 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the Primary Government of the City of Algona's basic financial statements. 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 three years ended June 30, 2005 (none of which are presented herein). We expressed qualified opinions on the primary government financial statements for the three years ended June 30, 2005. The other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the primary government's basic 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 22, 2006

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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 16%, or approximately \$782,000, from fiscal 2005 to fiscal 2006. Property tax increased approximately \$120,000 while operating and capital grants increased by \$632,000.
- Disbursements increased 1.0%, or approximately \$47,000, in fiscal 2006 from fiscal 2005. Public works disbursements increased 42% in the current year and community and economic development disbursements increased by 65% and capital projects decreased by 62%.
- The City's total cash basis net assets decreased 1%, or approximately \$39,000 from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased approximately \$351,000 and the assets of the business type activities increased by approximately \$312,000.

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 Net Assets – Cash Basis. 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.

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 sanitary sewer system, the ambulance service, and the housing program fund. 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. 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.

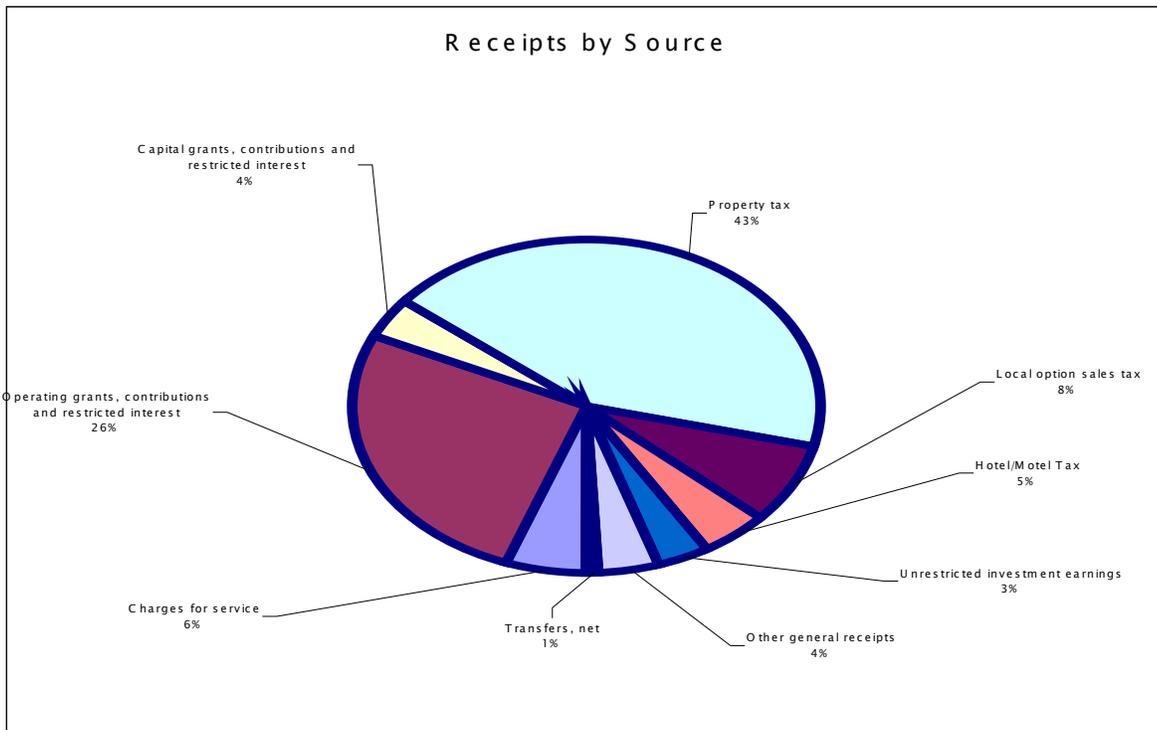
The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

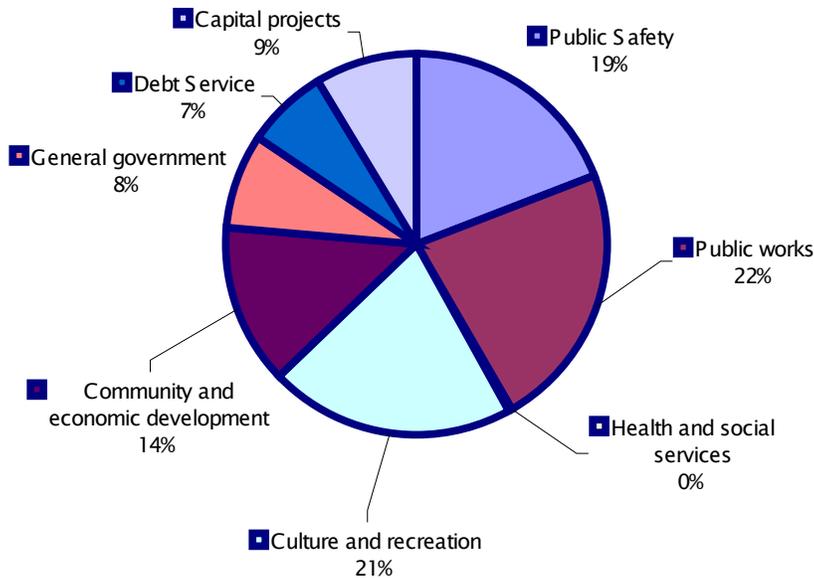
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$4.352 million to \$4.001 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	Year ended June 30,	
	2006	2005
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 310	\$ 273
Operating grants, contributions and restricted interest	1,478	958
Capital grants, contributions and restricted interest	217	105
General receipts:		
Property tax	2,390	2,270
Local option sales tax	435	448
Hotel/Motel tax	275	245
Unrestricted investment earnings	189	146
Bond proceeds	-	-
Other general receipts	242	307
Transfers, net	42	44
Total receipts and transfers	<u>5,578</u>	<u>4,796</u>
Disbursements:		
Public safety	1,117	1,114
Public works	1,350	954
Health and social services	9	9
Culture and recreation	1,238	1,071
Community and economic development	810	490
General government	472	443
Debt service	426	462
Capital projects	507	1,339
Transfers, net	-	-
Total disbursements	<u>5,929</u>	<u>5,882</u>
(Decrease) in cash basis net assets	(351)	(1,086)
Cash basis net assets beginning of year	<u>4,352</u>	<u>5,438</u>
Cash basis net assets end of year	<u>\$ 4,001</u>	<u>\$ 4,352</u>



Disbursements by Function



The City's total receipts for governmental activities increased by 16%, or \$782,000. The total cost of all programs and services increased by approximately \$47,000, or 1%, with no new programs added this year. The significant increase in receipts was primarily the result of operating grants received in 2006.

The cost of all governmental activities this year was \$5.929 million compared to \$5.882 million last year. However, as shown in the Statement of Activities and Net Assets on page 11, the amount taxpayers ultimately financed for these activities was only \$3.925 million because some of the cost was paid by those directly benefited from the programs (\$310,000) or by other governments and organizations that subsidized certain programs with grants, receipts, including intergovernmental aid and fees for service (\$1,695,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$3,100,000 in taxes (some of which could only be used for certain programs), 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,	
	2006	2005
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 690	\$ 415
Ambulance	335	330
Housing	57	48
Operating grants, contributions and restricted interest	26	16
Miscellaneous	10	3
Total receipts	1,118	812

Disbursements and transfers:			
Sewer		438	429
Ambulance		271	299
Housing		55	60
Transfers		42	44
Total disbursements and transfers		<u>806</u>	<u>832</u>
Increase (decrease) in cash balance		312	(20)
Cash basis net assets beginning of year		<u>709</u>	<u>729</u>
Cash basis net assets end of year		<u>\$ 1,021</u>	<u>\$ 709</u>

Total business type activities receipts for the fiscal year were \$1,118,000 compared to \$812,000 last year. An increase in sewer rates resulted in an increase in sewer fees received of \$275,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As The City of Algona completed the year, its governmental funds reported a combined fund balance of \$4,000,491, a decrease of \$351,178 from last year's total of \$4,351,669. 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 increased \$174,208 to \$1,822,048 at June 30, 2006. The increase is due to delaying certain capital outlays and franchise tax receipts being higher than expected.
- The Road Use Tax Fund cash balance increased by \$39,525 to \$498,705 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 from \$177,001 to \$766,541 during the fiscal year. This increase is attributed to \$20,000 which was paid back by the chamber of commerce for Ragbrai and the regular budgeting process.
- The Grants cash fund balance decreased \$34,000 during the fiscal year. This reduction was due to the timing of grant reimbursements received under the airport grant awarded to the city.
- The Debt Service cash fund balance increased \$5,984 from the prior year. The increase is due to the regular budgeting process.
- The Capital Projects Downtown decreased \$480,045 to \$579,125 during the fiscal year. The decrease in the cash balance was due to expenditures being made during the current fiscal year while the bond proceeds received to pay for the project were received during a previous fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance increased by \$233,206 to \$530,388, due primarily to the regular operations of the fund. Sewer rates were increased at the beginning of the fiscal year to address operating deficits.
- The Ambulance Fund cash balance increased by \$73,798 to \$399,268, due primarily to increased Medicare rates and increased services calls during the year ended June 30, 2006.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on January 3, 2006 resulting in an increase in operating disbursements related to public works and community and economic development. The second amendment was approved on May 15, 2006 increasing budgeted expenditures by \$5,678 for various line items. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$5,045,000 in bonds and other long-term debt, compared to approximately \$5,460,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	Year ended June 30,	
	2006	2005
General obligation bonds	\$ 3,495	\$ 3,780
Revenue notes	1,550	1,680
Total	\$ 5,045	\$ 5,460

Debt decreased as a result of paying outstanding bond obligations as scheduled in the bond amortization schedules.

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 \$3,495,000 is significantly below its constitutional debt limit of \$12.001 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In completing the FY 2007 budget the elected and appointed officials of Algona examined certain economic conditions to help determine revenue estimates and expenditure projections. Algona's economy has remained steady and city officials are optimistic for the future with and anticipated expansion at Snap-On Tools. The expansion will anchor Snap-On in Algona for 10-20 years.

Unemployment for Kossuth County decreased from one year ago. The current rate is 2.7% versus 3.3% in 2005. The county average is well below the state average of 3.6%. Health insurance continues to rise at a rate that exceeds inflation. The City will be evaluating its health insurance plan on a regular basis to control the cost of premiums.

For FY 2007 budget revenues are estimated to increase 15.6%. This is a direct result of a sewer rate increase and additional grant funds. The General Fund is expected to receive 2.25% less in revenue, but the decrease is due to a one time revenue transfer from Algona Municipal Utilities in FY 2006.

Operating expenditures are projected to increase by 3.41% though the increase is directly due to a CDBG housing rehabilitation grant. General fund operating expenses will decrease by 8.46% as a one time economic development project has been completed.

The overall tax levy for the City increased from \$15.06/\$1,000 to \$15.41/\$1,000. The increase was due to additional health insurance premiums and a slight decrease in residential valuations. Residential properties are subject to a state mandated residential rollback. This mechanism continues to reduce residential valuations state wide.

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, 2006

Functions/Programs	Disbursements	Program Receipts		
		Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 1,117,298	-	118,239	-
Public works	1,350,070	-	480,668	217,379
Health and social services	8,715	-	-	-
Culture and recreation	1,238,448	309,657	2,312	-
Community and economic development	809,924	-	420,000	-
General government	471,960	-	440,048	-
Debt service	425,935	-	16,305	-
Capital projects	507,361	-	-	-
Total government activities	<u>5,929,711</u>	<u>309,657</u>	<u>1,477,572</u>	<u>217,379</u>
Business type activities:				
Sewer	437,671	689,620	-	-
Ambulance	271,351	335,196	-	-
Housing	54,701	56,712	-	-
Total business type activities	<u>763,723</u>	<u>1,081,528</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 6,693,434</u>	<u>1,391,185</u>	<u>1,477,572</u>	<u>217,379</u>
General Receipts				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Hotel/Motel tax				
Unrestricted interest on investments				
Miscellaneous				
Contributions - Library endowment				
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
\$	(999,059)	-	\$ (999,059)
	(652,023)	-	(652,023)
	(8,715)	-	(8,715)
	(926,479)	-	(926,479)
	(389,924)	-	(389,924)
	(31,912)	-	(31,912)
	(409,630)	-	(409,630)
	(507,361)	-	(507,361)
	(3,925,103)	-	(3,925,103)
	-	251,949	251,949
	-	63,845	63,845
	-	2,011	2,011
	-	317,805	317,805
	(3,925,103)	317,805	(3,607,298)
	1,986,812	-	1,986,812
	56,343	-	56,343
	347,041	-	347,041
	434,940	-	434,940
	275,163	-	275,163
	189,380	26,327	215,707
	242,470	9,800	252,270
	-	-	-
	41,776	(41,776)	-
	3,573,925	(5,649)	3,568,276
	(351,178)	312,156	(39,022)
	4,351,669	709,185	5,060,854
\$	4,000,491	1,021,341	\$ 5,021,832
\$	498,705	-	\$ 498,705
	579,125	-	579,125
	363,481	-	363,481
	737,132	-	737,132
	1,822,048	1,021,341	2,843,389
\$	4,000,491	1,021,341	\$ 5,021,832

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, 2006

	Special Revenue			
	General	Road Use Tax	Employee Benefits	LOST
Receipts:				
Property tax	\$ 1,370,688	-	572,599	-
Other city tax	275,163	-	-	434,940
Licenses and permits	29,319	-	-	-
Use of money and property	121,986	-	-	18,601
Intergovernmental	729,810	480,668	-	-
Charges for service	309,657	-	-	-
Special assessments	1,304	-	-	-
Miscellaneous	211,847	-	-	-
	<u>3,049,774</u>	<u>480,668</u>	<u>572,599</u>	<u>453,541</u>
Disbursements:				
Public safety	1,073,019	-	-	-
Public works	657,063	441,143	-	-
Health and social services	8,715	-	-	-
Culture and recreation	1,016,455	-	-	221,993
Community and economic development	503,830	-	-	-
General government	471,960	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
	<u>3,731,042</u>	<u>441,143</u>	<u>-</u>	<u>221,993</u>
Excess (deficiency) of receipts over (under) disbursements	(681,268)	39,525	572,599	231,548
Other financing sources (uses):				
Operating transfers in	915,026	-	-	28,000
Operating transfers out	(59,550)	-	(572,599)	(82,547)
	<u>855,476</u>	<u>-</u>	<u>(572,599)</u>	<u>(54,547)</u>
Excess of receipts and other financing sources over disbursements and othe financing uses	174,208	39,525	-	177,001
Balance beginning of year	1,647,840	459,180	-	589,540
Balance end of year	<u>\$ 1,822,048</u>	<u>498,705</u>	<u>-</u>	<u>766,541</u>
Cash Basis Fund Balance				
Reserved				
Debt Service	\$ -	-	-	357,548
Unreserved				
General Fund	1,822,048	-	-	-
Special Revenue Funds	-	498,705	-	408,993
Capital Projects Funds	-	-	-	-
Permanent Funds	-	-	-	-
Total cash basis fund balances	<u>\$ 1,822,048</u>	<u>498,705</u>	<u>-</u>	<u>766,541</u>

See notes to financial statements

<u>Special Revenue</u>		<u>Capital Projects</u>		Other	
Grants	Debt Service	Downtown	Nonmajor Governmental Funds	Total	
-	347,041	-	99,868	\$	2,390,196
-	-	-	-		710,103
-	-	-	-		29,319
-	4,476	27,316	17,001		189,380
468,168	16,305	-	-		1,694,951
-	-	-	-		309,657
-	-	-	-		1,304
-	-	-	-		211,847
468,168	367,822	27,316	116,869		5,536,757
789	-	-	43,490		1,117,298
251,864	-	-	-		1,350,070
-	-	-	-		8,715
-	-	-	-		1,238,448
250,000	-	-	56,094		809,924
-	-	-	-		471,960
-	425,935	-	-		425,935
-	-	507,361	-		507,361
502,653	425,935	507,361	99,584		5,929,711
(34,485)	(58,113)	(480,045)	17,285		(392,954)
-	64,097	-	-		1,007,123
-	-	-	(250,651)		(965,347)
-	64,097	-	(250,651)		41,776
(34,485)	5,984	(480,045)	(233,366)		(351,178)
(4,138)	(51)	1,059,170	600,128		4,351,669
(38,623)	5,933	579,125	366,762	\$	4,000,491
-	5,933	-	-	\$	363,481
-	-	-	-		1,822,048
(38,623)	-	-	190,772		1,059,847
-	-	579,125	-		579,125
-	-	-	175,990		175,990
(38,623)	5,933	579,125	366,762	\$	4,000,491

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, 2006

	Sewer	Ambulance	Housing	Total
Receipts				
Use of money and property	\$ 13,233	9,953	3,141	\$ 26,327
Charges for service	689,620	335,196	56,712	1,081,528
Miscellaneous	9,800			9,800
	<u>712,653</u>	<u>345,149</u>	<u>59,853</u>	<u>1,117,655</u>
Disbursements				
Total operating disbursements	437,671	271,351	54,701	763,723
	<u>437,671</u>	<u>271,351</u>	<u>54,701</u>	<u>763,723</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>274,982</u>	<u>73,798</u>	<u>5,152</u>	<u>353,932</u>
Other financing sources (uses):				
Operating transfers out	(41,776)	-	-	(41,776)
	<u>(41,776)</u>	<u>-</u>	<u>-</u>	<u>(41,776)</u>
Excess of receipts and other financing sources over disbursements and other financing uses	233,206	73,798	5,152	312,156
Balance beginning of year	<u>297,182</u>	<u>325,470</u>	<u>86,533</u>	<u>709,185</u>
Balance end of year	<u>\$ 530,388</u>	<u>399,268</u>	<u>91,685</u>	<u>\$ 1,021,341</u>
Cash Basis Fund Balances				
Unreserved	<u>\$ 530,388</u>	<u>399,268</u>	<u>91,685</u>	<u>\$ 1,021,341</u>
	<u>\$ 530,388</u>	<u>399,268</u>	<u>91,685</u>	<u>\$ 1,021,341</u>

See notes to financial statements

CITY OF ALGONA, IOWA
PRIMARY GOVERNMENT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(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 legal 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.

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 OF ALGONA, IOWA
PRIMARY GOVERNMENT

NOTES TO FINANCIAL STATEMENTS

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

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.

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.

CITY OF ALGONA, IOWA
PRIMARY GOVERNMENT

NOTES TO THE FINANCIAL STATEMENTS

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

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.

The Grant fund which is used to account for state and federal grant monies received and disbursed by the City of Algona.

Debt Service:

The debt service fund is used to account for the property tax levied to pay the city's general Obligation indebtedness and the actual payments on it's indebtedness.

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.

The Housing Fund accounts for the receipts and disbursements for the housing assistance programs made available to citizens of Algona.

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 principal.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis bet assets available to finance the program.

CITY OF ALGONA, IOWA
PRIMARY GOVERNMENT

SEE NOTES TO FINANCIAL STATEMENTS

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

It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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.

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 in banks at June 30, 2006 (which include certificates of deposit totaling \$2,484,937) 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.

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.

Credit Rate Risk - The City's investment in the Iowa Public Agency Investment Trust is unrated.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

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>
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	<u>295,000</u>	<u>12,162</u>	<u>-</u>	<u>-</u>	<u>295,000</u>	<u>12,162</u>
	<u>\$ 3,495,000</u>	<u>\$ 932,073</u>	<u>\$ 1,550,000</u>	<u>\$ 461,040</u>	<u>\$ 5,045,000</u>	<u>\$ 1,393,113</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. As of June 30, 2006 the City has \$92,062 set aside in the bond sinking fund for future principal and interest payments as they mature. These funds are included with Cash Basis-Net Assets reserved for Debt Service on the Statement of Cash Receipts, Disbursements, and Changes in Cash Balances-Governmental Funds and as Cash Basis Net Assets restricted for Debt Service on the Statement of Activities and Net Assets-Cash Basis at June 30, 3006.

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. As of June 30, 2006 the City has \$265,486 accumulated in the bond reserve fund for future principal and interest payments as they mature. These funds are included with Cash Basis-Net Assets reserved for Debt Service on the Statement of Cash Receipts, Disbursements, and Changes in Cash Balances-Governmental Funds and as Cash Basis Net Assets restricted for Debt Service on the Statement of Activities and Net Assets-Cash Basis at June 30, 3006.

(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.

Most regular 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. Certain employees in special risk occupations and the City contribute an actuarially determined rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$92,295, \$90,871, and \$90,517 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 they are paid. The City's approximate maximum liability for unrecognized accrued benefits, primarily relating to the General fund, is \$319,685 based on rates of pay in effect June 30, 2006.

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.

CITY OF ALGONA, IOWA
PRIMARY GOVERNMENT

NOTES TO FINANCIAL STATEMENTS

(6) Interfund Transfers

The detail of interfund transfers, for the year ended June 30, 2006 is as follows:

Transfer In	Transfer From	Amount
General	Special Revenue Fund	
	Employee Benefit	\$572,599
	LOST	50,000
	Enterprise	
	Sewer	41,776
	Capital Projects-Pool	247,964
	Capital Projects-Snap On	2,687
		<u>915,026</u>
LOST	General	28,000
Special Revenue Fund	Special Revenue Fund	
LOST Sinking	LOST	226,992
Debt Service	General	31,550
	Special Revenue Fund	
	LOST	32,547
		<u>64,097</u>
		<u>\$1,234,115</u>

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 531 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 professional liability, 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.

CITY OF ALGONA, IOWA
PRIMARY GOVERNMENT

NOTES TO FINANCIAL STATEMENTS

(7) Local Government Risk Pool - continued

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, 2006 were \$149,438.

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 \$350,000 are reinsured in an amount not to exceed \$2,650,000 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 \$100,000 each accident, each location, with excess coverage 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, 2006, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

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. 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. If a member withdraws after the sixth year, the member is refunded 100 percent of its 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.

CITY OF ALGONA, IOWA
PRIMARY GOVERNMENT

NOTES TO FINANCIAL STATEMENTS

(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, 2005 and are payable in September 2005 and March 2006 of the fiscal year. The valuation for the taxes was based on January 1, 2004 assessed property valuations, and are based on a certified budget from March of 2005.

(9) Deficit Fund Balance

The Federal Grant Funds had a deficit balance of \$38,623 respectively at June 30, 2006. 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 future grant receipts.

(10) 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.

(11) Operating Lease

The City leases a copy machine under an operating lease agreement calling for 60 monthly payments of \$141. Future minimum lease payments due on the above operating leases are as follows:

YEAR ENDED JUNE 30:	
2007	\$ 1,697
2008	1,697
2009	1,697
2010	1,697
2011	<u>141</u>
	<u>\$ 6,929</u>

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, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts:			
Property tax	\$ 2,390,196		2,390,196
Other city taxes	710,103		710,103
Licenses and permits	29,319		29,319
Use of money and property	189,380	26,327	215,707
Intergovernmental	1,694,951		1,694,951
Charges for service	309,657	1,081,528	1,391,185
Special assessments	1,304		1,304
Miscellaneous	211,847	9,800	221,647
	<u>5,536,757</u>	<u>1,117,655</u>	<u>6,654,412</u>
Disbursements:			
Program			
Public safety	1,117,298		1,117,298
Public works	1,350,070		1,350,070
Health and social services	8,715		8,715
Culture and recreation	1,238,448		1,238,448
Community and economic development	809,924		809,924
General government	471,960		471,960
Debt service	425,935		425,935
Capital projects	507,361		507,361
Business type activities		763,723	763,723
	<u>5,929,711</u>	<u>763,723</u>	<u>6,693,434</u>
Excess (deficiency) of receipts over disbursements	(392,954)	353,932	(39,022)
Other financing sources	41,776	(41,776)	-
Excess (disbursements) of receipts and other financing sources over (under) disbursements and other financing uses	(351,178)	312,156	(39,022)
Balance beginning of year	<u>4,351,669</u>	<u>709,185</u>	<u>5,060,854</u>
Balance end of year	<u>\$ 4,000,491</u>	<u>1,021,341</u>	<u>5,021,832</u>

See accompanying independent auditor's report

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Budgeted Amounts		Final to Net Variance
Original	Final	
2,286,440	2,286,440	103,756
730,081	793,574	(83,471)
23,120	25,872	3,447
94,556	207,849	7,858
1,620,609	2,003,378	(308,427)
878,329	1,040,185	351,000
1,130	1,303	1
140,451	256,143	(34,496)
5,774,716	6,614,744	39,668
1,209,145	1,217,967	100,669
1,625,196	1,537,961	187,891
8,784	8,823	108
1,300,609	1,313,127	74,679
633,807	823,348	13,424
489,074	495,725	23,765
426,236	426,236	301
660,000	660,325	152,964
851,098	943,438	179,715
7,203,949	7,426,950	733,516
(1,429,233)	(812,206)	773,184
-	-	-
(1,429,233)	(812,206)	773,184
4,443,336	5,060,971	(117)
3,014,103	4,248,765	773,067

CITY OF ALGONA, IOWA
PRIMARY GOVERNMENT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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 \$223,001. 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, 2006

	TIF	Library	Grow Algona Trees	Police Pension
Receipts:				
Property tax	\$ 56,343	-	-	43,525
Use of money and property	954	5,140	21	7,050
Intergovernmental	-	-	-	-
	<u>57,297</u>	<u>5,140</u>	<u>21</u>	<u>50,575</u>
Disbursements:				
Public safety	-	-	-	43,490
Public works	-	-	-	-
Community and economic development	56,094	-	-	-
	<u>56,094</u>	<u>-</u>	<u>-</u>	<u>43,490</u>
Excess (deficiency) of receipts over (under) disbursements	1,203	5,140	21	7,085
Other financing Sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of receipts and other financing sources over disbursements and other financing uses	1,203	5,140	21	7,085
Balance beginning of year	<u>2,161</u>	<u>49,654</u>	<u>423</u>	<u>125,085</u>
Balance end of year	<u>\$ 3,364</u>	<u>54,794</u>	<u>444</u>	<u>132,170</u>
Cash basis fund balance				
Special Revenue Funds	\$ 3,364	54,794	444	132,170
Permanent Funds	-	-	-	-
	<u>\$ 3,364</u>	<u>54,794</u>	<u>444</u>	<u>132,170</u>

See accompanying independent auditor's report

Capital Projects		Permanent		
Capital Improvements	Capital Project Aquatic Center	Cemetery	Library	Total
-	-	-	-	\$ 99,868
-	886	2,950	-	17,001
-	-	-	-	-
-	886	2,950	-	116,869
-	-	-	-	43,490
-	-	-	-	-
-	-	-	-	56,094
-	-	-	-	99,584
-	886	2,950	-	17,285
-	-	-	-	-
(2,687)	(247,964)	-	-	(250,651)
(2,687)	(247,964)	-	-	(250,651)
(2,687)	(247,078)	2,950	-	(233,366)
2,687	247,078	33,040	140,000	600,128
-	-	35,990	140,000	\$ 366,762
-	-	-	-	\$ 190,772
-	-	35,990	140,000	175,990
-	-	35,990	140,000	\$ 366,762

CITY OF ALGONA, IOWA
 SCHEDULE OF INDEBTNESS
 YEAR ENDED JUNE 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Swimming pool and parking lot	December 1, 1995	5.00 - 5.20 %	600,000
Fire department and general equipment	February 1, 2002	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	5.40 - 5.90 %	\$ 2,325,000

See accompanying independent auditor's report

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
335,000		60,000	275,000	16,943	-
225,000		50,000	175,000	9,970	-
3,135,000		90,000	3,045,000	110,573	-
85,000		85,000	-	2,550	-
3,780,000	-	285,000	3,495,000	140,036	-
1,680,000	-	130,000	1,550,000	91,693	-

CITY OF ALGONA, IOWA

Schedule 3

BOND AND NOTE MATURITIES

JUNE 30, 2006

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		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
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	5.20	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>\$ 175,000</u>		<u>\$ 275,000</u>		<u>\$ 3,045,000</u>

Total GO Notes	Swimming Pool	
	Issued Oct 13, 1999	
	Interest	
	Rates	Amount
265,000	5.40	140,000
280,000	5.50	145,000
295,000	5.55	155,000
305,000	5.60	160,000
235,000	5.70	170,000
250,000	5.75	180,000
235,000	5.80	190,000
245,000	5.85	200,000
255,000	5.90	210,000
265,000		
280,000		
290,000		
295,000		
<u>\$ 3,495,000</u>		<u>\$ 1,550,000</u>

See accompanying independent auditor's report

CITY OF ALGONA, IOWA

Schedule 4

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

FOR THE FOUR YEARS ENDED JUNE 30:

	2006	2005	2004	2003
Receipts				
Property tax	\$ 2,333,853	\$ 2,220,318	\$ 2,136,239	\$ 2,013,960
Tax increment financing collections	56,343	49,579	27,690	-
Other city tax	710,103	692,992	530,389	476,878
Licenses and permits	29,319	30,038	27,685	28,901
Use of money and property	189,380	145,867	104,994	95,177
Intergovernmental	1,694,951	1,062,995	1,140,362	1,415,445
Charges for service	309,657	273,012	278,419	247,576
Special assessments	1,304	1,261	12,951	4,165
Miscellaneous	211,847	275,771	287,892	182,045
	<u>\$ 5,536,757</u>	<u>\$ 4,751,833</u>	<u>\$ 4,546,621</u>	<u>\$ 4,464,147</u>
Disbursements:				
Operating:				
Public safety	\$ 1,117,298	\$ 1,114,164	\$ 1,099,348	\$ 1,275,436
Public works	1,350,070	953,509	1,280,864	1,239,214
Health and social services	8,715	8,777	8,643	8,794
Culture and recreation	1,238,448	1,071,059	1,038,213	1,077,611
Community and economic development	809,924	490,037	126,692	225,860
General government	471,960	442,872	548,522	453,399
Debt service	425,935	461,951	405,699	367,576
Capital projects	507,361	1,339,544	1,314,552	82,773
	<u>\$ 5,929,711</u>	<u>\$ 5,881,913</u>	<u>\$ 5,822,533</u>	<u>\$ 4,730,663</u>

See accompanying independent auditor's report

CITY OF ALGONA, IOWA

Schedule 5

SCHEDULE OF FINANCIAL INFORMATION

June 30, 2006

1/1/04 Valuations (taxes payable July 1, 2005 to June 30, 2006)

	100% Actual Value	Taxable Value (with Rollback)
Residential	\$ 162,836,215	78,103,087
Commercial	50,837,107	50,837,107
Industrial	19,978,764	19,978,764
Railroad	644,255	644,255
Utilities w/o gas & electric	2,805,948	2,805,948
Gross valuation	237,102,289	152,369,161
Less military exemption	(870,440)	(870,440)
Net valuation	236,231,849	151,498,721
TIF increment (used to compute debt service levies and constitutional debt limit)	1,742,646	1,742,646
Taxed Separately		
Ag land	511,789	511,789
Ag building	0	0
Gas & electricity utility property	2,046,595	2,046,595

2004 Gross Taxable Valuation by Class of Property

	100% Actual Value	Percent Total
Residential	\$ 78,103,087	50.58%
Commercial, Industrial, Utility*	75,668,414	49.00
Railroad	644,255	0.42
Total gross taxable valuation	154,415,756	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
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
2003	2004-05	234,314,859	149,817,985	1,637,765
2004	2005-06	239,356,724	153,545,316	1,742,646

CITY OF ALGONA, IOWA

Schedule 5

SCHEDULE OF FINANCIAL INFORMATION

June 30, 2006

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	1/1/05 Actual Valuation	1/1/05 Taxable Valuation
Pioneer Hi Bred Corn Co.	Industrial	\$ 5,229,973	\$ 5,229,973
Snap-On Tools	Industrial	5,191,975	5,191,975
Druggists Mutual Ins., Co.	Commercial	2,425,756	2,405,159
Hormel & Co.	Industrial	2,121,732	2,121,548
Flint Hills Resources, LP	Industrial	2,104,715	2,104,715
Hjelmeland Family, LP	Commercial & Residential	2,075,760	2,044,254
Richard, Stephen D. et al	Commercial	1,585,693	1,572,229
Sbemco International	Commercial	1,570,168	1,570,168
NDC – 1 Limited Partnership	Commercial	1,384,447	1,372,692
Fareway	Commercial	1,279,723	1,268,857

DIRECT DEBT

General Obligation Debt

Date of Issue	Original Amount	Purpose	Final Maturity	Principal Outstanding As of 6/30/06
10/99	600,000	Pool/Street Improvements	6/10	275,000
02/00	355,000	Municipal Equipment	1/12	175,000
12/03	3,630,000	Street Imp/Refunding	6/19	3,045,000
Subtotal				<u>\$3,495,000</u>

Local Option Sales Tax Revenue Debt

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 6/30/06
10/99	\$ 2,325,000	Pool	Sales Tax Receipts	10/14	\$ 1,550,000

CITY OF ALGONA, IOWA

Schedule 5

SCHEDULE OF FINANCIAL INFORMATION

June 30, 2006

INDIRECT GENERAL OBLIGATION DEBT

	1/1/04 Taxable Valuation	Percent in City	G.O. Debt	City's Proportionate Share
Kossuth County	\$ 838,894,529	15.56%	\$ -	\$ -
Algona Community School District	381,022,251	36.20%	-	-
Iowa Lakes Community College	3,477,892,492	3.88%	8,835,000	342,798
City share of total overlapping debt				<u>\$ 342,798</u>

DEBT RATIOS

	G.O. Debt	Debt/Actual Market Value (\$ 239,356,724)	Debt/5,741 Population
General Obligation Debt	\$ 3,495,000	1.46%	\$ 608.78
City's share of overlapping debt	342,798	0.13%	\$ 59.71

TAX RATES

	FY 01-02 \$/\$1,000	FY 02-03 \$/\$1,000	FY 03-04 \$/\$1,000	FY 04-05 \$/\$1,000	FY 05-06 \$/\$1,000
Kossuth County	4.74810	4.75794	5.28383	6.89024	6.77451
City of Algona	13.99585	14.34746	14.93259	14.87301	15.05648
Algona Comm. School District	11.77140	12.36131	12.79524	12.38939	11.63098
Area II Comm. College	0.68550	0.77150	0.73807	.71942	.77966
County Assessor	0.39906	0.17321	0.28640	.33052	.28237
Hospital	0.32603	0.32860	0.32398	.36362	.35749
Ag. Extension	0.08206	0.08270	0.08154	.09152	.08997
State of Iowa	0.00500	0.00400	0.00400	.00400	.00400
Total Tax Rate City Resident	<u>32.01300</u>	<u>32.82672</u>	<u>34.44565</u>	<u>35.66172</u>	<u>34.97546</u>

Independent Auditor's Report on Compliance 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:

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 primary government of the City of Algona as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated September 22, 2006. Our report expressed an adverse opinion resulting from not including the discretely presented component unit and a qualified opinion (for lack of required defined benefit plan disclosures) 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City'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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-06 and II-B-06 are material weaknesses. Prior year reportable conditions have been resolved except for II-A-06.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Algona's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings. Prior year compliance issues have been resolved.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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

September 22, 2006

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2006

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

- (a) An adverse opinion was issued for failure to include the discretely presented component unit. 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 material to the financial statements.

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2006

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-06 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.

II-B-06 Bank Reconciliation – We noted that procedures put in place to reconcile the bank accounts monthly were not being completed regularly.

Recommendation – We recommend the bank be reconciled monthly and reviewed by a responsible official to ensure accuracy and completeness.

Response – We have put in place procedures to reconcile our bank accounts and have them reviewed by an appropriate official.

Conclusion – Response accepted.

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2006

Part III: Other Findings Related to Statutory Reporting:

III-A-06 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2006.

III-B-06 Certified Budget - Disbursements during the year ended June 30, 2006 were within the budgeted limits in all programs.

We noted a clerical error on the final amended budget approved May 15, 2006 that increased the budgeted revenue from Intergovernmental sources by \$217,323.

Recommendation – While the City’s property tax askings did not increase between the published version and the certified version, the revenues on the certified budget should not have increased from that which was published for citizen review.

Response – There was a clerical error with the budget published for citizen review. We will review future items to be published in order to avoid similar issues in the future.

Conclusion – Response accepted.

III-C-06 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-06 Travel Expense - No disbursements of City money for travel expense of spouses of City officials or employees were noted.

III-E-06 Business Transactions - No business transactions between the City and its officials or employees were noted.

III-F-06 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-06 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2006

Part III: Other Findings Related to Statutory Reporting:

- III-H-06 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.
- III-I-06 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.
- III-J-06 Telecommunications Utility - Algona Municipal Utilities, a component unit of the City, provides telecommunication services to residents of the City. Algona Municipal Utilities has been audited separately and its financial statements are under a separate cover. The report dated May 17, 2006 indicated that no instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.