

CITY OF ALGONA, IOWA

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

JUNE 30, 2008

**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		4-10
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	11
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	12
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	13
Notes to Financial Statements		14-24
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
Schedule of Indebtedness	2	28
Bond and Note Maturities	3	29
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4	30
Schedule of Financial Information	5	31-33
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards		34-35
Schedule of Findings		36-38

CITY OF ALGONA, IOWA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeff Gilmore	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 2012
Teri VonRuden	Council Member	Jan 2012
Kim Weaver	Council Member	Jan 2012
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

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, 2008, which collectively comprise the City's basic financial statements 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.

As described in Note 12, the City has chosen to present condensed financial information for its discretely presented component unit since complete financial statements for the component unit for the year ended December 31, 2007, which was also audited by us, is available. The report, dated April 22, 2008, expressed an unqualified opinion on the financial statements.

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, each major fund, and the aggregate remaining information of the City of Algona as of June 30, 2008, 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 November 21, 2008 on our consideration of the City of Algona's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting 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 25 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise 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, 2007 (none of which are presented herein). We expressed qualified opinions on the primary government financial statements for the two years ended June 30, 2007 and 2005 and an adverse opinion for the one year ended June 30, 2006. The other supplementary information included in Schedules 1 through 4 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. The other supplementary information included in Schedules 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 not been audited and we express no opinion on it.

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

November 21, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Algona, Iowa provides this Management's Discussion and Analysis of its primary government financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 1%, or approximately \$45,000, from fiscal 2007 to fiscal 2008. Property tax increased approximately \$1,000 and other city tax increased \$44,000 while operating and capital grants decreased by \$92,000.
- Disbursements decreased 9.0%, or approximately \$458,000, in fiscal 2008 from fiscal 2007. Public works disbursements decreased 36% in the current year while community and economic development disbursements increased by 152% and capital projects decreased by 95%.
- The City's total cash basis net assets increased approximately \$394,000 from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities increased approximately \$398,000 and the assets of the business type activities decreased by approximately \$4,000.

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 storm 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 four Enterprise Funds to provide separate information for the sewer, storm sewer, ambulance, and housing funds.

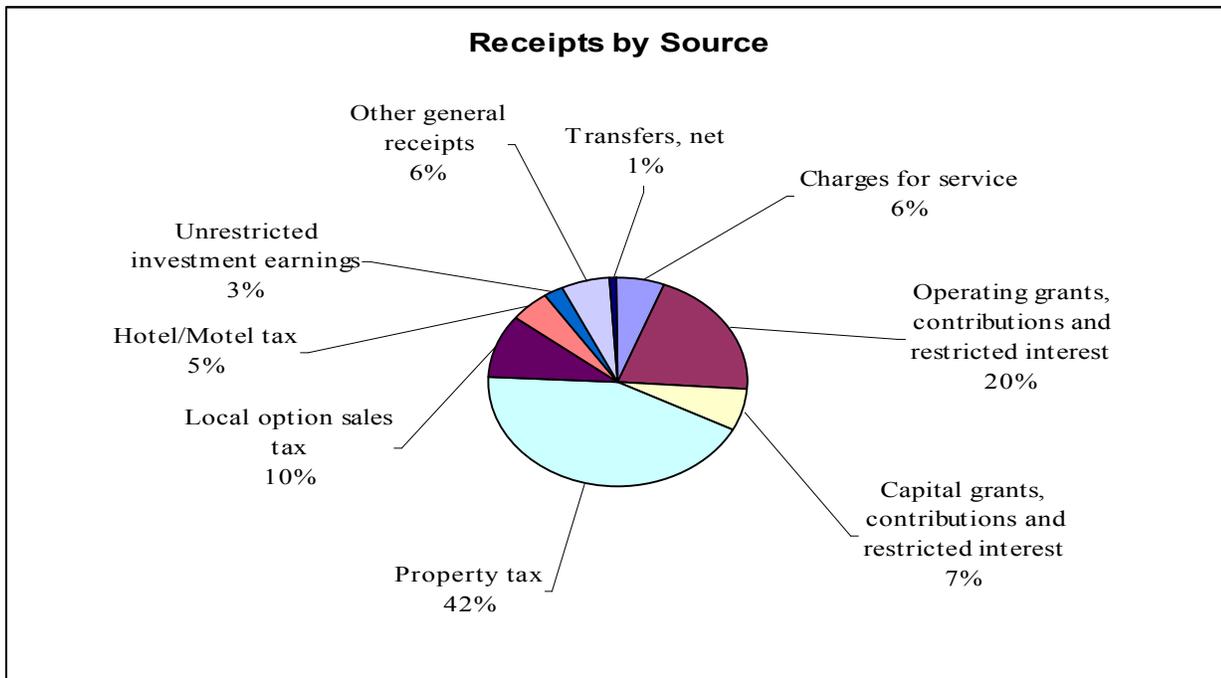
The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

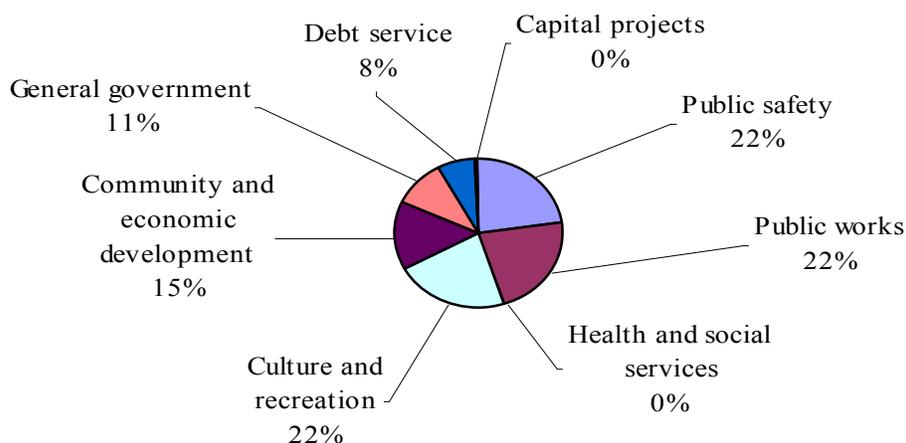
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$3.985 million to \$4.383 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

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

	Year ended June 30,	
	2008	2007
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 342	\$ 293
Operating grants, contributions and restricted interest	1,146	1,155
Capital grants, contributions and restricted interest	379	462
General receipts:		
Property tax	2,425	2,424
Local option sales tax	559	544
Hotel/Motel tax	287	258
Unrestricted investment earnings	152	193
Other general receipts	346	329
Transfers, net	43	65
Total receipts and transfers	<u>5,679</u>	<u>5,723</u>
Disbursements:		
Public safety	1,202	1,194
Public works	1,159	2,116
Health and social services	9	8
Culture and recreation	1,162	1,101
Community and economic development	774	226
General government	564	502
Debt service	401	396
Capital projects	10	196
Total disbursements	<u>5,281</u>	<u>5,739</u>
 (Decrease) in cash basis net assets	 398	 (16)
 Cash basis net assets beginning of year	 <u>3,985</u>	 <u>4,001</u>
 Cash basis net assets end of year	 <u>4,383</u>	 <u>\$ 3,985</u>



Disbursements by Function



The City's total receipts for governmental activities decreased by 1%, or \$44,000. The total cost of all programs and services decreased by approximately \$458,000, or 8%, with no new programs added this year.

The cost of all governmental activities this year was \$5.281 million compared to \$5.739 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 \$3.414 million because some of the cost was paid by those directly benefited from the programs (\$342,000) or by other governments and organizations that subsidized certain programs with grants, receipts, including intergovernmental aid and fees for service (\$1,525,121). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$3,271,000 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,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 771	\$ 761
Storm Sewer	113	
Ambulance	513	348
Housing	57	73
Operating grants, contributions and restricted interest	-	8
Unrestricted interest on investments	53	46
Miscellaneous	-	2
Total receipts	1,507	1,238

Disbursements and transfers:		
Sewer	\$ 825	\$ 724
Storm Sewer	73	
Ambulance	509	346
Housing	62	85
Transfers	43	65
Total disbursements and transfers	<u>1,512</u>	<u>1,220</u>
Increase (decrease) in cash balance	(5)	18
Cash basis net assets beginning of year	<u>1,039</u>	<u>1,021</u>
Cash basis net assets end of year	<u>\$ 1,034</u>	<u>\$ 1,039</u>

Total business type activities receipts for the fiscal year were approximately \$1,507,000 compared to \$1,238,000 last year. Increased usage of the sewer and ambulance services and the addition of the storm sewer rental provided the increase in revenues recognized during the year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As The City of Algona completed the year, its governmental funds reported a combined fund balance of \$4,383,265, an increase of \$397,953 from last year's total of \$3,985,312. 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 \$30,800 to \$2,239,997 at June 30, 2008. 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 \$72,068 to \$129,051 during the fiscal year. This increase was attributable to planned results due to timing of future projects.
- The LOST (Local Option Sales Tax) Revenue Fund increased from \$1,055,761 to \$1,227,209 during the fiscal year. This increase is attributed to increased collections of \$15,000 of Local Option Sales Tax and the regular budgeting process.
- The Grants cash fund balance increased \$118,986 during the fiscal year. This increase was due to the timing of grant reimbursements received under various grants awarded to the city.
- The Debt Service cash fund balance increased \$4,408 from the prior year. The increase is due to the regular budgeting process.
- The Capital Projects Downtown increased \$7,227 to \$418,089 during the fiscal year. The increase in the cash balance was due to the regular budgeting process.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance decreased by \$82,862 to \$444,288, due primarily to the regular operations of the fund.
- The Ambulance Fund cash balance increased by \$20,826 to \$448,386, due primarily to increased Medicare rates and increased services calls during the year ended June 30, 2008.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on October 1, 2007 resulting in an increase in operating disbursements related to capital projects. The second amendment was approved on April 21, 2008 decreasing budgeted revenues and expenditures for public works. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2008, the City had approximately \$4,215,000 in bonds and other long-term debt, compared to approximately \$4,640,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	Year ended June 30,	
	2008	2007
General obligation bonds	\$ 2,950	\$ 3,230
Revenue notes	1,265	1,410
Total	\$ 4,215	\$ 4,640

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 \$2,950,000 is significantly below its constitutional debt limit of \$13.174 million.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

In completing the FY 2010 budget the elected and appointed officials of Algona will examine certain economic conditions to help determine revenue estimates and expenditure projections. Algona’s economy has remained steady and several large employers have completed expansions.

Unemployment for Kossuth County increased from one year ago. The current rate is 3.8% versus 3.6% in 2007. The county average is well below the state average of 4.2%. The increase in gas and oil prices is taking an effect on budgets as additional resources must be committed to meet the rising cost. The City will continue to evaluate operations in an attempt to increase efficiencies and lower fuel usage.

For FY 2009 budget revenues are estimated to decrease 4.33%. This is attributed to the reduction in federal funds from the one time CDBG housing grant. The general fund is expected to receive 8.51% more in revenue. Slightly more than 50% of this increase is expected from a one time grant for street improvements. The additional revenues come from increased property tax collections and franchise fees.

Operating expenditures are projected to decrease by 10.41% as a result of the end of the one time CDBG housing grant project. General fund operating expenses are expected to decrease by 3.48% with all of the decrease resulting from not making an economic development loan made to Snap-On Tools in FY 2008.

The overall tax levy for the City decreased from \$15.09/\$1,000 to \$14.82/\$1,000. The decrease was due to increased property tax valuations couples with moderate increases in debt service and health 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

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Disbursements	Program Receipts		
		Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
Governmental activities:				
Public safety	1,202,407	-	118,874	-
Public works	1,158,560	-	502,983	379,403
Health and social services	8,513	-	-	-
Culture and recreation	1,161,790	341,674	3,055	-
Community and economic development	773,642	-	-	-
General government	564,402	-	505,340	-
Debt service	401,195	-	15,466	-
Capital projects	10,443	-	-	-
Total government activities	<u>5,280,952</u>	<u>341,674</u>	<u>1,145,718</u>	<u>379,403</u>
Business type activities:				
Sewer	825,228	771,107	246	-
Storm Sewer	73,096	112,806	-	-
Ambulance	508,397	512,828	-	-
Housing	61,911	56,792	-	-
Total business type activities	<u>1,468,632</u>	<u>1,453,533</u>	<u>246</u>	<u>-</u>
Total	<u>\$ 6,749,584</u>	<u>\$ 1,795,207</u>	<u>1,145,964</u>	<u>379,403</u>

General Receipts

Property tax levied for:
General purposes
Tax increment financing
Debt service
Local option sales tax
Hotel/Motel and Franchise tax
Unrestricted interest on investments
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

Exhibit A

Net (Disbursements) Receipts and Changes in Cash

Governmental Activities	Business Type Activities	Total
\$ (1,083,533)	-	\$ (1,083,533)
(276,174)	-	(276,174)
(8,513)	-	(8,513)
(817,061)	-	(817,061)
(773,642)	-	(773,642)
(59,062)	-	(59,062)
(385,729)	-	(385,729)
(10,443)	-	(10,443)
<u>(3,414,157)</u>	<u>-</u>	<u>(3,414,157)</u>
-	(53,875)	(53,875)
-	39,710	39,710
-	4,431	4,431
-	(5,119)	(5,119)
<u>-</u>	<u>(14,853)</u>	<u>(14,853)</u>
<u>(3,414,157)</u>	<u>(14,853)</u>	<u>(3,429,010)</u>
1,995,241	-	1,995,241
76,675	-	76,675
353,537	-	353,537
558,872	-	558,872
286,725	-	286,725
161,085	53,440	214,525
337,099	-	337,099
42,877	(42,877)	-
<u>3,812,111</u>	<u>10,563</u>	<u>3,822,674</u>
397,954	(4,290)	393,664
<u>3,985,312</u>	<u>1,038,651</u>	<u>5,023,963</u>
<u>\$ 4,383,266</u>	<u>1,034,361</u>	<u>\$ 5,417,627</u>
\$ 129,051	-	\$ 129,051
418,089	-	418,089
17,013	-	17,013
1,579,116	-	1,579,116
<u>2,239,997</u>	<u>1,034,361</u>	<u>3,274,358</u>
<u>\$ 4,383,266</u>	<u>1,034,361</u>	<u>\$ 5,417,627</u>

CITY OF ALGONA, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES ON CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	Special Revenue				
	General	Road Use Tax	Employee Benefits	LOST	Grants
Receipts:					
Property tax	\$ 1,387,715	-	573,921	-	-
Other city tax	286,725	-	-	558,872	-
Licenses and permits	37,173	-	-	-	-
Use of money and property	165,740	-	-	46,120	-
Intergovernmental	637,349	491,847	-	-	380,459
Charges for service	341,674	-	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	205,401	-	-	-	-
	<u>3,061,777</u>	<u>491,847</u>	<u>573,921</u>	<u>604,992</u>	<u>380,459</u>
Disbursements:					
Public safety	1,166,213	-	-	-	-
Public works	682,129	419,778	-	-	56,653
Health and social services	8,513	-	-	-	-
Culture and recreation	914,686	-	-	222,000	-
Community and economic dev	491,826	-	-	-	204,820
General government	564,402	-	-	-	-
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	-
	<u>3,827,769</u>	<u>419,778</u>	<u>-</u>	<u>222,000</u>	<u>261,473</u>
Excess (deficiency) of receipts over (under) disbursements	(765,992)	72,069	573,921	382,992	118,986
Other financing sources (uses):					
Operating transfers in	871,798	-	-	23,456	-
Operating transfers out	(75,006)	-	(573,921)	(235,000)	-
	<u>796,792</u>	<u>-</u>	<u>(573,921)</u>	<u>(211,544)</u>	<u>-</u>
Net change in cash balances	30,800	72,069	-	171,448	118,986
Balance beginning of year	<u>2,209,197</u>	<u>56,982</u>	<u>-</u>	<u>1,055,761</u>	<u>(124,318)</u>
Balance end of year	<u>\$ 2,239,997</u>	<u>129,051</u>	<u>-</u>	<u>1,227,209</u>	<u>(5,332)</u>
Cash Basis Fund Balance					
Reserved					
Debt Service	\$ -	-	-	393,892	-
Unreserved					
General Fund	2,239,997	-	-	-	-
Special Revenue Funds	-	129,051	-	833,317	(5,332)
Capital Projects Funds	-	-	-	-	-
Permanent Funds	-	-	-	-	-
Total cash basis fund balance	<u>\$ 2,239,997</u>	<u>129,051</u>	<u>-</u>	<u>1,227,209</u>	<u>(5,332)</u>

See notes to financial statements

Exhibit B

Debt Service	Capital Projects		Other Nonmajor Governmental Funds	Total
	Downtown			
353,537	-		110,280	\$ 2,425,453
-	-		-	845,597
-	-		-	37,173
5,050	17,670		21,030	255,610
15,466	-		-	1,525,121
-	-		-	341,674
-	-		-	-
-	-		-	205,401
<u>374,053</u>	<u>17,670</u>		<u>131,310</u>	<u>5,636,029</u>
-	-		36,194	1,202,407
-	-		-	1,158,560
-	-		-	8,513
-	-		25,104	1,161,790
-	-		76,996	773,642
-	-		-	564,402
401,195	-		-	401,195
-	10,443		-	10,443
<u>401,195</u>	<u>10,443</u>		<u>138,294</u>	<u>5,280,952</u>
(27,142)	7,227		(6,984)	355,077
31,550	-		-	926,804
-	-		-	(883,927)
<u>31,550</u>	<u>-</u>		<u>-</u>	<u>42,877</u>
4,408	7,227		(6,984)	397,954
12,605	410,862		364,223	3,985,312
<u>17,013</u>	<u>418,089</u>		<u>357,239</u>	<u>\$ 4,383,266</u>
17,013	-		-	\$ 410,905
-	-		175,689	2,415,686
-	-		-	957,036
-	418,089		-	418,089
-	-		181,550	181,550
<u>17,013</u>	<u>418,089</u>		<u>357,239</u>	<u>\$ 4,383,266</u>

CITY OF ALGONA, IOWA

Exhibit C

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	Sewer	Storm Sewer	Ambulance	Housing	Total
Receipts					
Charges for service	771,107	112,806	512,828	56,792	1,453,533
Intergovernmental	246	-	-	-	246
	<u>771,352</u>	<u>112,806</u>	<u>512,828</u>	<u>56,792</u>	<u>1,453,778</u>
Disbursements					
Total operating disbursements	825,228	73,096	508,397	61,911	1,468,632
	<u>825,228</u>	<u>73,096</u>	<u>508,397</u>	<u>61,911</u>	<u>1,468,632</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(53,875)</u>	<u>39,710</u>	<u>4,431</u>	<u>(5,119)</u>	<u>(14,853)</u>
Non-operating receipts (disbursements):					
Interest on investments	33,801	369	16,394	2,876	53,440
	<u>33,801</u>	<u>369</u>	<u>16,394</u>	<u>2,876</u>	<u>53,440</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(20,074)</u>	<u>40,079</u>	<u>20,825</u>	<u>(2,243)</u>	<u>38,587</u>
Other financing sources (uses):					
Operating transfers in	-	-	-	20,000	20,000
Operating transfers out	(62,877)	-	-	-	(62,877)
	<u>(62,877)</u>	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>(42,877)</u>
Net Change in cash balances	(82,951)	40,079	20,825	17,757	(4,290)
Balance beginning of year	527,149	-	427,560	83,942	1,038,651
Balance end of year	<u>\$ 444,198</u>	<u>\$ 40,079</u>	<u>448,385</u>	<u>101,699</u>	<u>\$ 1,034,361</u>
Cash Basis Fund Balances					
Unreserved	<u>\$ 444,198</u>	<u>\$ 40,079</u>	<u>\$ 448,385</u>	<u>\$ 101,699</u>	<u>\$ 1,034,361</u>
	<u>\$ 444,198</u>	<u>\$ 40,079</u>	<u>448,385</u>	<u>101,699</u>	<u>\$ 1,034,361</u>

See notes to financial statements

CITY OF ALGONA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

(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, community and 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. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (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.

Discretely Presented Component Unit

The Algona Municipal Utilities Board, established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Municipal Utilities is governed by a five-member board appointed by the Mayor and approved by the City Council. In accordance with the criteria set by the Governmental Accounting Standards Board, the Utility meets the definition of a component unit which should be discretely presented. Condensed financial statements presented in Note 12 were prepared on the accrual basis of accounting in conformity with US generally accepted accounting principles. Complete financial statements, for the year ended December 31, 2007, can be obtained from the Municipal Utilities administration office, PO Box 10, 104 West Call St., Algona, IA 50511

Jointly Governed Organizations

The City 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

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

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.

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 principles.

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

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, 2008 (which include certificates of deposit totaling \$1,500,000) 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 (IPAIT) 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. 7% of the City's total cash and investments at June 30, 2008 were invested with IPAIT.

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

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>
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>\$ 2,950,000</u>	<u>\$ 682,507</u>	<u>\$ 1,265,000</u>	<u>\$ 301,155</u>	<u>\$ 4,215,000</u>	<u>\$ 936,682</u>

Revenue Notes

The City has pledged future local option sales tax receipts to repay \$2,325,000 in sales tax revenue noted issued in October 1999. Proceeds from the notes provided financing for the aquatic center construction. The notes are payable solely from local option sales tax receipts and are payable through 2015. The total principal and interest remaining to be paid on the notes is \$1,566,155. For the current year, principal and interest and total local option sales tax receipts were \$221,700 and \$558,872 respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future local option sales tax receipts and the bond holders 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 bond principal and interest payments when due. As of June 30, 2008 the City has \$95,678 set aside in the bond sinking fund for future 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, 2008.

CITY OF ALGONA, IOWA

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, 2008 the City has \$298,214 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, 3008.

(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 3.90% of their annual salary and the City is required to contribute 6.05% 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, 2008, 2007 and 2006 were \$105,157, \$100,555, and \$92,295 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 two 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 used or paid. The City's approximate liability for earned vacation and sick leave payments payable to employees at June 30, 2008, primarily relating to the General Fund, is as follows:

CITY OF ALGONA, IOWA

NOTES TO FINANCIAL STATEMENTS

(5) Compensated Absences - continued

Type of Benefit	Amount
Vacation	\$ 76,206
Sick Leave	295,425
	<u>\$ 371,631</u>

This liability has been computed based on rates of pay in effect at June 30, 2008.

(6) Interfund Transfers

The detail of interfund transfers, for the year ended June 30, 2008 is as follows:

Transfer In	Transfer From	Amount
General	Special Revenue Fund	
	Employee Benefit	\$ 573,921
	LOST	235,000
	Enterprise	
	Sewer	62,877
		<u>871,798</u>
LOST	General	<u>23,456</u>
Debt Service	General	<u>31,550</u>
Enterprise		
Housing	General	<u>20,000</u>
		<u>\$ 946,804</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 563 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.

CITY OF ALGONA, IOWA

NOTES TO FINANCIAL STATEMENTS

(7) Local Government Risk Pool - continued

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 200 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, 2008 were \$169,831.

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 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000 such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, 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, 2008, 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. 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.

CITY OF ALGONA, IOWA

NOTES TO FINANCIAL STATEMENTS

(7) Local Government Risk Pool – continued

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, 2007 and are payable in September 2007 and March 2008 of the fiscal year. The valuation for the taxes was based on January 1, 2006 assessed property valuations, and are based on a certified budget from March of 2007.

(9) Deficit Fund Balance

The Federal Grant Fund had a deficit balance of \$5,332 at June 30, 2008. 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) Contracts/Commitments

The City had signed contracts for replacing the Sewer Digester Cover and for making improvements to the storm sewer prior to June 30, 2008. The total remaining commitment on these separate projects totaled \$364,037 at June 30, 2008.

The City agreed to contribute \$200,000 over the next five years to assist the local YMCA in a \$4.0 million dollar project to construct a new indoor swimming pool. In years prior to fiscal year 2008, the City agreed to assist the local YMCA financially with the childcare project and the Phase III addition project. The City's commitment remaining on these projects was \$20,000 and \$40,000 respectively at June 30, 2008. The commitments are each paid with annual installments of \$10,000.

CITY OF ALGONA, IOWA

NOTES TO FINANCIAL STATEMENTS

(12) 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:

2009	1,697
2010	1,697
2011	141
	<u>\$ 3,535</u>

(13) Algona Municipal Utilities

The Algona Municipal Utilities (Utility) provides water, electric, and communication services for the City of Algona, Iowa. As permitted by GASB Statement No. 34, the City has opted to present condensed financial information for its discretely presented component unit. Following is the condensed financial information for the Utility for the year ended December 31, 2007.

Condensed Statements of Net Assets			
	Electric Department	Water Department	Communications Department
Assets:			
Current assets	\$ 4,241,441	\$ 362,458	\$ 747,201
Capital assets, net of accumulated depreciation	20,784,023	2,177,843	4,001,378
Other	4,853,282	3,215	24,756
Total assets	<u>29,878,746</u>	<u>2,543,516</u>	<u>4,773,335</u>
Liabilities			
Current liabilities	1,002,678	50,655	913,967
Other liabilities	3,465,514	3,215	4,888,132
Total liabilities	<u>4,468,192</u>	<u>53,870</u>	<u>5,802,099</u>
Net Assets			
Invested in capital assets, net of related debt	17,464,023	2,177,843	561,378
Restricted - expendable	500,000	-	-
Unrestricted	7,446,531	311,803	(1,590,142)
Total net assets	<u>25,410,554</u>	<u>2,489,646</u>	<u>(1,028,764)</u>

CITY OF ALGONA, IOWA

NOTES TO FINANCIAL STATEMENTS

(13) Algona Municipal Utilities - continued

Condensed Statements of Income			
	Electric Department	Water Department	Communications Department
Operating revenues:			
Electric sales	\$ 7,197,686	\$ -	\$ -
Water sales	-	726,656	-
Communication sales	-	-	2,689,126
Total operating revenues	7,197,686	726,656	2,689,126
Operating expenses:			
Production– Power/water/programming	3,300,063	161,391	1,180,666
Transmission and distribution	279,977	121,205	157,149
General and administrative	2,955,215	349,656	1,110,283
Total operating expenses	6,535,255	632,252	2,448,098
Operating income	662,431	94,404	241,028
Non-operating revenues (expenses):			
Interest income	\$ 378,746	\$ 9,197	\$ 11,063
Interest expense	(190,536)	-	(258,312)
Other non-operating expenses	(277,708)	(12,800)	(105,139)
Total non-operating revenues (expenses)	(89,498)	(3,603)	(352,388)
Net income (loss)	572,933	90,801	(111,360)

Condensed Statements of Changes in Net Assets			
	Electric Department	Water Department	Communications Department
Net assets (deficit) beginning of year	\$ 24,837,621	\$ 2,398,845	\$ (917,404)
Net income (loss)	572,933	90,801	(111,360)
Transfers in (out)	-	-	-
Net assets end of year	\$ 25,410,554	\$ 2,489,646	\$ (1,028,764)

Required Supplementary Information

CITY OF ALGONA, IOWA

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, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts:			
Property tax	\$ 2,425,453	-	2,425,453
Other city taxes	845,597	-	845,597
Licenses and permits	37,173	-	37,173
Use of money and property	255,610	53,440	309,050
Intergovernmental	1,525,121	246	1,525,367
Charges for service	341,674	1,453,533	1,795,207
Special assessments	-	-	-
Miscellaneous	205,401	-	205,401
	<u>5,636,029</u>	<u>1,507,218</u>	<u>7,143,248</u>
Disbursements:			
Program			
Public safety	1,202,407	-	1,202,407
Public works	1,158,560	-	1,158,560
Health and social services	8,513	-	8,513
Culture and recreation	1,161,790	-	1,161,790
Community and economic development	773,642	-	773,642
General government	564,402	-	564,402
Debt service	401,195	-	401,195
Capital projects	10,443	-	10,443
Business type activities	-	1,468,632	1,468,632
	<u>5,280,952</u>	<u>1,468,632</u>	<u>6,749,584</u>
Excess (deficiency) of receipts over disbursements	355,077	38,587	393,664
Other financing sources	42,877	(42,877)	-
Excess (disbursements) of receipts and other financing sources over (under) disbursements and other financing uses	397,954	(4,290)	393,664
Balance beginning of year	<u>3,985,312</u>	<u>1,038,651</u>	<u>5,023,963</u>
Balance end of year	<u>\$ 4,383,266</u>	<u>1,034,361</u>	<u>5,417,627</u>

See accompanying independent auditor's report

Budgeted Amounts		Final to Net Variance
Original	Final	
2,392,039	2,392,039	33,414
575,729	819,429	26,168
24,960	25,210	11,963
236,114	276,343	32,707
2,364,245	1,566,695	(41,328)
1,351,391	1,588,387	206,820
780	780	(780)
210,760	283,563	(78,162)
<u>7,156,018</u>	<u>6,952,446</u>	<u>190,802</u>

1,196,502	1,234,526	32,119
1,159,623	1,168,501	9,941
8,541	8,541	28
1,143,387	1,167,414	5,624
1,712,319	825,913	52,271
512,807	564,668	266
401,196	401,196	1
-	29,064	18,621
982,658	1,537,333	68,701

<u>7,117,033</u>	<u>6,937,156</u>	<u>187,572</u>
------------------	------------------	----------------

38,985	15,290	378,374
--------	--------	---------

-	-	-
---	---	---

38,985	15,290	378,374
--------	--------	---------

<u>4,620,578</u>	<u>5,023,963</u>	<u>-</u>
------------------	------------------	----------

<u>4,659,563</u>	<u>5,039,253</u>	<u>378,374</u>
------------------	------------------	----------------

CITY OF ALGONA, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2008

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 decreased budgeted disbursements by \$179,877. The budget amendments are reflected in the final budgeted amounts.

Other Supplementary Information

CITY OF ALGONA, IOWA

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	Special Revenue		
	TIF	Library	Grow Algona Trees
Receipts:			
Property tax	\$ 76,675	-	-
Use of money and property	1,553	8,922	16
	<u>78,228</u>	<u>8,922</u>	<u>16</u>
Disbursements:			
Public safety	-	-	-
Culture and recreation	-	25,104	-
Community and economic development	76,996	-	-
	<u>76,996</u>	<u>25,104</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	1,232	(16,182)	16
Balance beginning of year	<u>5,341</u>	<u>53,939</u>	<u>460</u>
Balance end of year	<u>\$ 6,573</u>	<u>\$ 37,757</u>	<u>\$ 476</u>
Cash basis fund balance			
Special Revenue Funds	\$ 6,573	37,757	476
Permanent Funds	-	-	-
	<u>\$ 6,573</u>	<u>37,757</u>	<u>476</u>

See accompanying independent auditor's report

Schedule 1

Special Revenue	Permanent		
Police Pension	Cemetery	Library	Total
33,605	-	-	\$ 110,280
8,039	2,500	-	21,030
41,644	2,500	-	131,310
36,194	-	-	36,194
-	-	-	25,104
-	-	-	76,996
36,194	-	-	138,294
5,450	2,500	-	(6,984)
125,433	39,050	140,000	364,223
\$ 130,883	\$ 41,550	\$ 140,000	\$ 357,239
130,883	-	-	\$ 175,689
-	41,550	140,000	181,550
130,883	41,550	140,000	\$ 357,239

CITY OF ALGONA, IOWA
 SCHEDULE OF INDEBTNESS
 YEAR ENDED JUNE 30, 2008

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Swimming pool and parking lot	October 13, 1999	5.05 - 5.20 %	\$ 600,000
Fire department and general equipment	February 1, 2002	4.40 - 4.80%	355,000
Downtown construction	January 15, 2004	3.00 - 4.12 %	3,135,000
Revenue bonds			
LOST swimming pool	October 13, 1999	5.50 - 5.90 %	\$ 2,325,000

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
\$ 210,000		65,000	145,000	10,753	\$ -
150,000		25,000	125,000	6,920	-
2,870,000		190,000	2,680,000	102,622	-
<u>3,230,000</u>	-	<u>280,000</u>	<u>2,950,000</u>	<u>120,295</u>	-
\$ 1,410,000	-	145,000	1,265,000	76,700	\$ -

CITY OF ALGONA, IOWA

Schedule 3

BOND AND NOTE MATURITIES

JUNE 30, 2008

Year Ending June 30,	GO Capital Loan Issued Feb 1, 2003		Swimming Pool & Issued Oct 13, 1999		Downtown Construction Issued Jan 15, 2004		Total GO Notes
	Rates	Amount	Rates	Amount	Rates	Amount	
2009	4.50	30,000	5.10	70,000	3.00	195,000	295,000
2010	4.60	30,000	5.20	75,000	3.00	200,000	305,000
2011	4.70	30,000	-	-	3.20	205,000	235,000
2012	4.80	35,000	-	-	3.40	215,000	250,000
2013	-	-	-	-	3.40	235,000	235,000
2014	-	-	-	-	3.60	245,000	245,000
2015	-	-	-	-	3.70	255,000	255,000
2016	-	-	-	-	3.88	265,000	265,000
2017	-	-	-	-	3.90	280,000	280,000
2018	-	-	-	-	4.00	290,000	290,000
2019	-	-	-	-	4.13	295,000	295,000
		<u>\$ 125,000</u>		<u>\$ 145,000</u>		<u>\$ 2,680,000</u>	<u>\$ 2,950,000</u>

Year Ending June 30,	Swimming Pool Issued Oct 13, 1999	
	Rates	Amount
2009	5.55	155,000
2010	5.60	160,000
2011	5.70	170,000
2012	5.75	180,000
2013	5.80	190,000
2014	5.85	200,000
2015	5.90	210,000
		<u>\$ 1,265,000</u>

See accompanying independent auditor's report

CITY OF ALGONA, IOWA

Schedule 4

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

FOR THE FOUR YEARS ENDED JUNE 30:

	2008	2007	2006	2005
Receipts				
Property tax	-	\$ 2,345,875	\$ 2,333,853	\$ 2,220,318
Tax increment financing collections	-	78,557	56,343	49,579
Other city tax	845,597	802,527	710,103	692,992
Licenses and permits	37,173	35,972	29,319	30,038
Use of money and property	255,610	246,927	189,380	145,867
Intergovernmental	1,525,121	1,617,236	1,694,951	1,062,995
Charges for service	341,674	292,661	309,657	273,012
Special assessments	-	867	1,304	1,261
Miscellaneous	205,401	238,570	211,847	275,771
	<u>3,210,576</u>	<u>\$ 5,659,192</u>	<u>\$ 5,536,757</u>	<u>\$ 4,751,833</u>
Disbursements:				
Operating:				
Public safety	1,202,407	\$ 1,193,898	\$ 1,117,298	\$ 1,114,164
Public works	1,158,560	2,115,829	1,350,070	953,509
Health and social services	8,513	8,536	8,715	8,777
Culture and recreation	1,161,790	1,101,488	1,238,448	1,071,059
Community and economic developme	773,642	226,215	809,924	490,037
General government	564,402	501,743	471,960	442,872
Debt service	401,195	395,745	425,935	461,951
Capital projects	10,443	195,709	507,361	1,339,544
	<u>5,280,952</u>	<u>\$ 5,739,163</u>	<u>\$ 5,929,711</u>	<u>\$ 5,881,913</u>

See accompanying independent auditor's report

CITY OF ALGONA, IOWA

Schedule 5

SCHEDULE OF FINANCIAL INFORMATION
(UNAUDITED)
June 30, 2008

1/1/06 Valuations (taxes payable July 1, 2007 to June 30, 2008)

	100% Actual Value	Taxable Value (with Rollback)
Residential	\$ 165,431,155	75,369,801
Commercial	53,944,957	53,944,957
Industrial	21,207,873	21,207,873
Railroad	702,027	702,027
Utilities w/o gas & electric	2,552,263	2,552,263
Gross valuation	243,838,275	153,776,921
Less military exemption	(866,736)	(866,736)
Net valuation	242,971,539	152,910,185
TIF increment (used to compute debt service levies and constitutional debt limit)	2,435,229	2,435,229
Taxed Separately		
Ag land	533,135	533,135
Ag building	-	-
Gas & electricity utility property	2,342,532	2,342,532

2006 Gross Taxable Valuation by Class of Property

	100% Actual Value	Percent Total
Residential	\$ 75,369,801	49.01%
Commercial, Industrial, Utility*	77,705,093	50.53
Railroad	702,027	0.46
Total gross taxable valuation	153,776,921	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
2001	2002-03	208,126,558	140,957,271	-
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
2005	2006-07	242,328,824	152,249,866	2,417,969
2006	2007-08	246,806,639	155,878,549	2,435,229

CITY OF ALGONA, IOWA

Schedule 5

SCHEDULE OF FINANCIAL INFORMATION
(UNAUDITED)
June 30, 2008

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	1/1/07 Actual Valuation	1/1/07 Taxable Valuation
Pioneer Hi Bred Corn Co.	Industrial	\$ 5,482,807	\$ 5,482,807
Snap-On Tools	Industrial	5,529,846	5,529,301
Druggists Mutual Ins., Co.	Commercial	3,097,413	3,089,087
Flint Hills Resources, LP	Industrial	2,112,907	2,112,830
Hormel & Co.	Industrial	2,150,021	2,149,960
Hjelmeland Family, LP	Commercial & Residential	2,423,471	2,402,422
Sears, Roebuck and Co	Commercial	1,877,410	1,872,363
Sbemco International	Commercial	1,734,788	1,734,788
Algona Medical Clinic I, LLC	Commercial	1,660,911	1,656,446
Fareway Stores, Inc	Commercial	1,333,906	1,330,321

DIRECT DEBT

General Obligation Debt

Date of Issue	Original Amount	Purpose	Final Maturity	Principal Outstanding As of 6/30/08
10/99	600,000	Pool/Street Improvements	6/10	145,000
02/02	355,000	Municipal Equipment	1/12	125,000
1/04	3,135,000	Street Imp/Refunding	6/19	2,680,000
Subtotal				<u>\$2,950,000</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 6/30/08
10/99	\$ 2,325,000	Pool	Sales Tax Receipts	10/14	\$ 1,265,000

CITY OF ALGONA, IOWA

Schedule 5

SCHEDULE OF FINANCIAL INFORMATION
(UNAUDITED)
June 30, 2008

INDIRECT GENERAL OBLIGATION DEBT

	1/1/06 Taxable Valuation	Percent in City	G.O. Debt	City's Proportionate Share
Kossuth County	\$ 876,694,239	15.56%	\$ -	\$ -
Algona Community School District	388,454,089	36.20%	959,000	347,158
Iowa Lakes Community College	3,477,892,492	3.88%	8,973,000	390,832
City share of total overlapping debt				<u>\$ 737,990</u>

DEBT RATIOS

	G.O. Debt	Debt/Actual Market Value (\$ 263,474,090)	Debt/5,478 Population
General Obligation Debt	\$ 2,950,000	1.12%	\$ 538.52
City's share of overlapping debt	737990	0.21%	\$ 134.71

TAX RATES

	FY 02-03 \$/ \$1,000	FY 03-04 \$/ \$1,000	FY 04-05 \$/ \$1,000	FY 05-06 \$/ \$1,000	FY 06-07 \$/ \$1,000	FY 07-08 \$/ \$1,000
Kossuth County	4.75794	5.28383	6.89024	6.77451	5.95434	5.99245
City of Algona	14.34746	14.93259	14.87301	15.05648	15.41274	15.09369
Algona Comm. School District	12.36131	12.79524	12.38939	11.63098	10.91056	11.03732
Area II Comm. College	0.77150	0.73807	.71942	.77966	.83196	.73979
County Assessor	0.17321	0.28640	.33052	.28237	.32936	.31187
Hospital	0.32860	0.32398	.36362	.35749	.34218	.33932
Ag. Extension	0.08270	0.08154	.09152	.08997	.08612	.08540
State of Iowa	0.00400	0.00400	.00400	.00400	.00400	.0035
Total Tax Rate City Resident	<u>32.82672</u>	<u>34.44565</u>	<u>35.66172</u>	<u>34.97546</u>	<u>33.87126</u>	<u>33.60334</u>



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council:

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, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 21, 2008. Our report expressed 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. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Algona's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency, item II-A-08, is a material weakness. Prior year reportable conditions have been resolved except for II-A-08.

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 matters have been resolved.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 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.

The City of Algona's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses we did not audit the City of Algona's responses and, accordingly, we express no opinion on them.

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.

November 21, 2008

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2008

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 basic 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) Significant deficiencies 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, 2008

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

II-A-08 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, 2008

Part III: Other Findings Related to Statutory Reporting:

- III-A-08 Certified Budget - Disbursements during the year ended June 30, 2008 were within the budgeted limits in all programs.
- III-B-08 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-C-08 Travel Expense - No disbursements of City money for travel expense of spouses of City officials or employees were noted.
- III-D-08 Business Transactions - No business transactions between the City and its officials or employees were noted.
- III-E-08 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-F-08 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-G-08 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.
- III-H-08 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-I-08 Telecommunications Utility - Algona Municipal Utilities, a component unit of the City, has been audited separately and its financial statements are under a separate cover. The report dated April 22,2008 indicated that no instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.
- III-J-08 Financial Condition – The Grants Fund had a deficit balance at June 30, 2008 of \$5,332.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – The deficit was due to construction costs incurred prior to receipt of a Federal Grant. The deficit was subsequently eliminated.

Conclusion – Response accepted.