

**CITY OF ALGONA, IOWA**

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

**JUNE 30, 2009**

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

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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

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### 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, 2009, 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 principles.

As described in Note 13, 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, 2008, which was also audited by us, is available. The report, dated June 15, 2009, 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, 2009, 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 16, 2009 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. 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 financial statements for the six years ended June 30, 2008 (none of which are presented herein). We expressed qualified opinions on the financial statements for the years ended June 30, 2008 and 2007 and an adverse opinion for the one year ended June 30, 2006. We expressed qualified opinions for the years ended June 30 2005, 2004 and 2003. The financial statements were prepared in conformity with an other comprehensive basis of accounting for each of the six years ended June 30, 2008. The other supplementary information included in Schedules 1 through 4 has been subjected to the auditing procedures applied in the audits of the aforementioned basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole. The other supplementary information included in Schedules 5 has not been subjected to the auditing procedures applied in the audits of the basic financial statements and accordingly, we express no opinion on it.

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

November 16, 2009

## **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, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2009 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities decreased 2%, or approximately \$110,000, from fiscal 2008 to fiscal 2009. Property tax increased approximately \$168,000 and operating and capital grants increased by \$30,000, while unrestricted investment earnings decreased by approximately \$89,000 and net transfers out increased by \$200,000.
- Disbursements increased 4.0%, or approximately \$215,000, in fiscal 2009 from fiscal 2008. Public works disbursements increased 28% in the current year, while community and economic development disbursements decreased by 51%.
- The City's total cash basis net assets increased approximately \$206,000 from June 30, 2008 to June 30, 2009. Of this amount, the assets of the governmental activities increased approximately \$73,000 and the assets of the business type activities decreased by approximately \$133,000.

### **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.

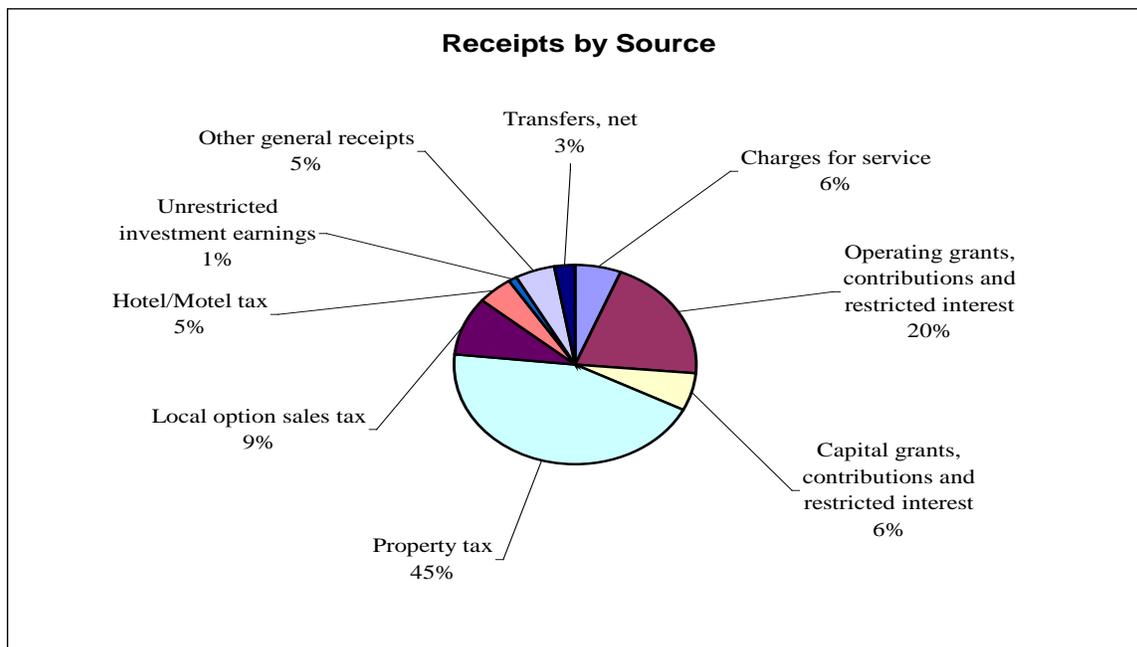
The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

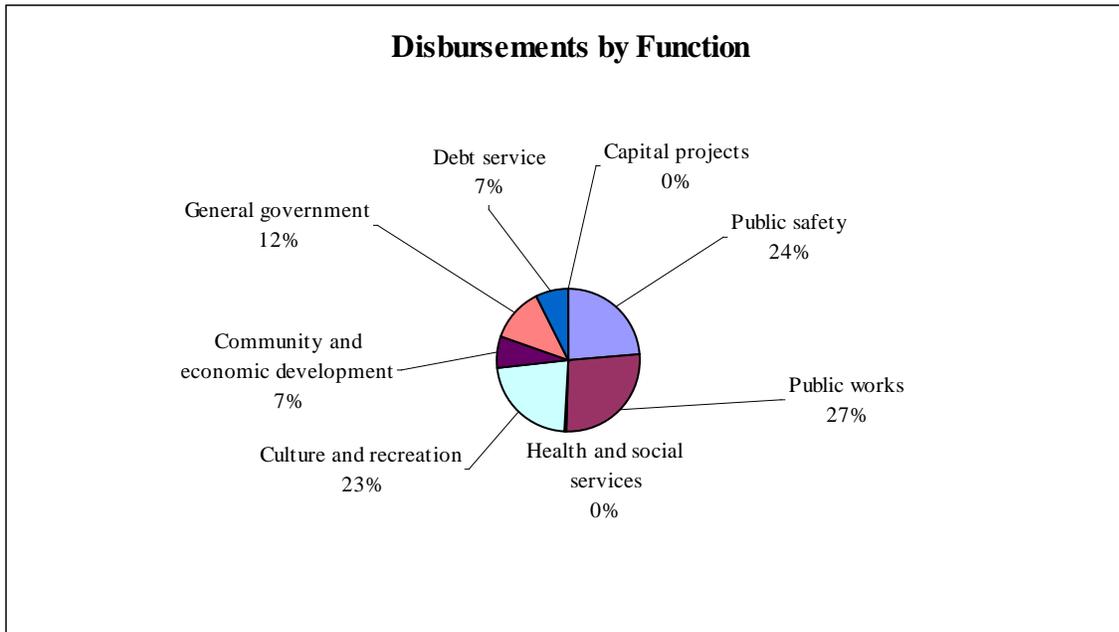
## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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 \$4.383 million to \$4.456 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,	
	2009	2008
<b>Receipts and transfers:</b>		
Program receipts:		
Charges for service	\$ 363	\$ 342
Operating grants, contributions and restricted interest	1,184	1,146
Capital grants, contributions and restricted interest	371	379
General receipts:		
Property tax	2,593	2,425
Local option sales tax	547	559
Hotel/Motel tax	284	287
Unrestricted investment earnings	63	152
Other general receipts	321	346
Transfers, net	(157)	43
Total receipts and transfers	5,569	5,679
<b>Disbursements:</b>		
Public safety	1,297	1,202
Public works	1,488	1,159
Health and social services	10	9
Culture and recreation	1,237	1,162
Community and economic development	378	774
General government	680	564
Debt service	406	401
Capital projects	0	10
Total disbursements	5,496	5,281
 (Decrease) in cash basis net assets	 73	 398
 Cash basis net assets beginning of year	 4,383	 3,985
 Cash basis net assets end of year	 \$ 4,456	 \$ 4,383





The City's total receipts for governmental activities decreased by 2%, or \$110,000. The total cost of all programs and services increased by approximately \$215,000, or 4%, with no new programs added this year.

The cost of all governmental activities this year was \$5.5 million compared to \$5.3 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 \$3.578 million because some of the cost was paid by those directly benefited from the programs (\$363,649) or by other governments and organizations that subsidized certain programs with grants, receipts, including intergovernmental aid and fees for service (\$1,555,051). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$3,425,000 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,	
	2009	2008
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 749	\$ 771
Storm Sewer	121	113
Ambulance	460	513
Housing	50	57
Operating grants, contributions and restricted interest	-	-
Unrestricted interest on investments	17	53
Miscellaneous	-	-
Total receipts	1,397	1,507

Disbursements and transfers:		
Sewer	\$ 571	\$ 825
Storm Sewer	371	73
Ambulance	414	509
Housing	65	62
Transfers	(157)	43
Total disbursements and transfers	<u>1,264</u>	<u>1,512</u>
Increase (decrease) in cash balance	133	(5)
Cash basis net assets beginning of year	<u>1,034</u>	<u>1,039</u>
Cash basis net assets end of year	<u>\$ 1,167</u>	<u>\$ 1,034</u>

Total business type activities receipts for the fiscal year were approximately \$1,397,000 compared to \$1,507,000 last year. Decreased usage of the sewer, ambulance and a decrease in interest income provided the decrease 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 \$4,455,855, an increase of \$72,590 from last year's total of \$4,383,265. 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 \$64,083 to \$2,304,080 at June 30, 2008. The increase is due to property tax receipts being higher than expected.
- The Road Use Tax Fund cash balance increased by \$60,672 to \$189,723 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 decreased from \$1,227,209 to \$1,209,436 during the fiscal year. The decrease is due mainly to reduced LOST collections. LOST receipts declined \$12,000 from FY 2008.
- The Grants cash fund balance decreased \$45,342 during the fiscal year. This decrease was due to the timing of grant reimbursements received under various grants awarded to the city.
- The Debt Service cash fund balance increased \$1,882 from the prior year. The increase is due to the regular budgeting process.
- The Capital Projects Downtown increased \$8,521 to \$426,610 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 increased by \$125,817 to \$570,015, due primarily to a decrease in operating disbursements of the fund.
- The Ambulance Fund cash balance increased by \$49,297 to \$497,682. Despite decreased revenues an increase in cash was achieved as a result of reduced expenditures. Expenditures decreased as a result of the purchase of an ambulance in FY 2008.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget two times. The first amendment was approved on March 16, 2009 resulting in an increase in operating disbursements related to general government and business type/enterprises funds and decreasing operating disbursements for public works. The second amendment was approved on May 18, 2009 increasing budgeted revenues for grants, franchise fees, LOST, ambulance charges, other refunds and decreasing interest income. This amendment also increased budgeted expenditures for fuel cost, vehicle and building maintenance and attorney expenses. The City had sufficient cash balances to absorb these additional costs.

**COMPONENT UNIT**

The City has a component unit and has chosen to present condensed financial information for it (see footnote 13). Complete financial statements for the component unit for the year ended December 31, 2008, which was also audited by us, are available at 104 W Call Street, Algona, Iowa.

**DEBT ADMINISTRATION**

At June 30, 2009, the City had approximately \$3,765,000 in bonds and other long-term debt, compared to approximately \$4,215,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	Year ended June 30,	
	2009	2008
General obligation bonds	\$ 2,655	\$ 2,950
Revenue notes	1,110	1,265
Total	\$ 3,765	\$ 4,215

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 \$2,655,000 is significantly below its constitutional debt limit of \$13.626 million.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

In completing the FY 2011 budget the elected and appointed officials of Algona will examine certain economic conditions to help determine revenue estimates and expenditure projections. Even during the current economic downturn Algona’s economy has remained steady with few mandatory layoffs and no shutdowns.

Unemployment for Kossuth County increased from one year ago. The current rate is 5.6% versus 3.8% in 2008. The county average is well below the state average of 6.7%. Despite the increase in unemployment revenues tied to the economy remained steady. Local option sales tax receipts are projected to meet estimates. Additionally, current changes in Iowa Code on utility franchise fees have assured that these revenues will remain a consistent revenue stream for the City of Algona.

For FY 2010 budget revenues are estimated to increase by 7.18%. This is attributed to the possible sale of bonds for essential building improvements. The general fund is expected to receive 7.03% more in revenue. The majority of the increase is due to a one time transfer of funds from the municipal utilities for economic development activity. The additional revenues come from increased property tax collections and franchise fees.

Operating expenditures are projected to increase 18.90%. This is a result of the City calling bonds for the Aquatic Center Project four years early. Cash reserves from local option sales tax will be used to pay the bonds. General fund operating expenses are expected to increase by 8.64%. A major portion of the increase is due to projected higher fuel costs.

The overall tax levy for the City decreased from \$14.82/\$1,000 to \$14.67/\$1,000. The decrease was due to increased property tax valuations coupled 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, 2009

Functions/Programs	Disbursements	Program Receipts		
		Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
Governmental activities:				
Public safety	1,296,767	-	124,605	129,348
Public works	1,488,279	-	481,967	170,507
Health and social services	9,922	-	-	-
Culture and recreation	1,237,609	363,649	59,880	-
Community and economic development	377,632	-	-	71,593
General government	680,519	-	499,813	-
Debt service	406,113	-	17,338	-
Total government activities	5,496,841	363,649	1,183,603	371,448
Business type activities:				
Sewer	571,490	749,185	-	-
Storm Sewer	371,446	120,440	-	-
Ambulance	414,190	459,959	-	-
Housing	64,572	50,222	-	-
Total business type activities	1,421,698	1,379,806	-	-
Total	\$ 6,918,539	1,743,455	1,183,603	371,448

**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

<u>Net (Disbursements) Receipts and Changes in</u>		
<u>Governmental</u>	<u>Business Type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
(1,042,814)	-	(1,042,814)
(835,805)	-	(835,805)
(9,922)	-	(9,922)
(814,080)	-	(814,080)
(306,039)	-	(306,039)
(180,706)	-	(180,706)
(388,775)	-	(388,775)
<u>(3,578,141)</u>	<u>-</u>	<u>(3,578,141)</u>
-	177,695	177,695
-	(251,006)	(251,006)
-	45,769	45,769
-	(14,350)	(14,350)
<u>-</u>	<u>(41,892)</u>	<u>(41,892)</u>
<u>(3,578,141)</u>	<u>(41,892)</u>	<u>(3,620,033)</u>
2,070,937	-	2,070,937
165,357	-	165,357
356,894	-	356,894
547,303	-	547,303
283,990	-	283,990
62,557	17,345	79,902
321,043	335	321,378
(157,351)	157,351	-
<u>3,650,730</u>	<u>175,031</u>	<u>3,825,761</u>
72,589	133,139	205,728
<u>4,383,266</u>	<u>1,034,361</u>	<u>5,417,627</u>
<u>\$ 4,455,855</u>	<u>1,167,500</u>	<u>\$ 5,623,355</u>
\$ 189,723	-	\$ 189,723
426,610	-	426,610
735,819	-	735,819
799,623	-	799,623
<u>2,304,080</u>	<u>1,167,500</u>	<u>3,471,580</u>
<u>\$ 4,455,855</u>	<u>1,167,500</u>	<u>\$ 5,623,355</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, 2009

	Special Revenue			
	General	Road Use Tax	Employee Benefits	LOST
<b>Receipts:</b>				
Property tax	1,452,289	-	596,730	-
Other city tax	283,990	-	-	547,303
Licenses and permits	23,795	-	-	-
Use of money and property	138,266	-	-	16,653
Intergovernmental	689,936	476,329	-	-
Charges for service	363,649	-	-	-
Special assessments	757	-	-	-
Miscellaneous	183,547	-	-	-
	<u>3,136,229</u>	<u>476,329</u>	<u>596,730</u>	<u>563,956</u>
<b>Disbursements:</b>				
Public safety	1,269,572	-	-	-
Public works	730,264	415,657	-	-
Health and social services	9,922	-	-	-
Culture and recreation	1,011,001	-	-	223,710
Community and economic dev	136,716	-	-	-
General government	680,519	-	-	-
Debt service	-	-	-	-
	<u>3,837,994</u>	<u>415,657</u>	<u>-</u>	<u>223,710</u>
Excess (deficiency) of receipts over (under) disbursements	(701,765)	60,672	596,730	340,246
<b>Other financing sources (uses):</b>				
Operating transfers in	837,879	-	-	40,481
Operating transfers out	(72,031)	-	(596,730)	(398,500)
	<u>765,848</u>	<u>-</u>	<u>(596,730)</u>	<u>(358,019)</u>
Net change in cash balances	64,083	60,672	-	(17,773)
Balance beginning of year	<u>2,239,997</u>	<u>129,051</u>	<u>-</u>	<u>1,227,209</u>
Balance end of year	<u>2,304,080</u>	<u>189,723</u>	<u>-</u>	<u>1,209,436</u>
<b>Cash Basis Fund Balance</b>				
Reserved				
Debt Service	-	-	-	716,924
Unreserved				
General Fund	2,304,080	-	-	-
Special Revenue Funds	-	189,723	-	492,512
Capital Projects Funds	-	-	-	-
Permanent Funds	-	-	-	-
Total cash basis fund balance	<u>2,304,080</u>	<u>189,723</u>	<u>-</u>	<u>1,209,436</u>

See notes to financial statements

Grants	Debt Service	Capital Projects Downtown	Other Nonmajor Governmental Funds	Total
-	356,894	-	187,275	2,593,188
-	-	-	-	831,293
-	-	-	-	23,795
-	2,213	8,521	9,848	175,501
371,448	17,338	-	-	1,555,051
-	-	-	-	363,649
-	-	-	-	757
-	-	-	-	183,547
371,448	376,445	8,521	197,123	5,726,781
-	-	-	27,195	1,296,767
342,358	-	-	-	1,488,279
-	-	-	-	9,922
-	-	-	2,898	1,237,609
74,432	-	-	166,484	377,632
-	-	-	-	680,519
-	406,113	-	-	406,113
416,790	406,113	-	196,577	5,496,841
(45,342)	(29,668)	8,521	546	229,940
-	31,550	-	-	909,910
-	-	-	-	(1,067,261)
-	31,550	-	-	(157,351)
(45,342)	1,882	8,521	546	72,589
(5,332)	17,013	418,089	357,239	4,383,266
(50,674)	18,895	426,610	357,785	4,455,855
-	18,895	-	-	735,819
-	-	-	174,935	2,479,015
(50,674)	-	-	-	631,561
-	-	426,610	-	426,610
-	-	-	182,850	182,850
(50,674)	18,895	426,610	357,785	4,455,855

## 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, 2009

	Sewer	Storm Sewer	Ambulance	Housing	Total
Receipts					
Charges for service	749,185	120,440	459,959	50,222	1,379,806
Disbursements					
Total operating disbursements	477,762	62,938	391,052	64,572	996,324
	477,762	62,938	391,052	64,572	996,324
Excess (deficiency) of operating receipts over (under) operating disbursements	271,423	57,502	68,907	(14,350)	383,482
Non-operating receipts (disbursements):					
Interest on investments	12,936	65	3,528	816	17,345
Miscellaneous	335	-	-	-	335
Capital Expenditures	(93,728)	(308,508)	(23,138)	-	(425,374)
Net non-operating receipts (disbursements)	(80,457)	(308,443)	(19,610)	816	(407,695)
Excess (deficiency) of receipts over (under) disbursements	190,966	(250,941)	49,297	(13,534)	(24,212)
Other financing sources (uses):					
Operating transfers in	-	222,500	-	-	222,500
Operating transfers out	(65,149)	-	-	-	(65,149)
	(65,149)	222,500	-	-	157,351
Net Change in cash balances	125,817	(28,441)	49,297	(13,534)	133,139
Balance beginning of year	444,198	40,079	448,385	101,699	1,034,361
Balance end of year	\$ 570,015	\$ 11,638	497,682	88,165	\$ 1,167,500
Cash Basis Fund Balances					
Unreserved	\$ 570,015	\$ 11,638	\$ 497,682	\$ 88,165	\$ 1,167,500
	\$ 570,015	\$ 11,638	497,682	88,165	\$ 1,167,500

See notes to financial statements

CITY OF ALGONA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

**(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, 2008, 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. Included with this fund are the sinking and reserve funds established in accordance with the covenants of the LOST revenue bonds. These funds had balances at June 30, 2009 of \$414,932 and \$301,990 respectively.

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 its 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 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, 2009 (which include certificates of deposit totaling \$1,000,000) 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, 2009 were invested with IPAIT.

Credit 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 Algona’s general obligation bonds and revenue bonds 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>
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>\$ 2,655,000</u>	<u>\$ 572,179</u>	<u>\$ 1,110,000</u>	<u>\$ 232,335</u>	<u>\$ 3,765,000</u>	<u>\$ 804,514</u>

Revenue Notes

The City has pledged future local option sales tax receipts to repay \$2,325,000 in sales tax revenue notes 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 \$1,342,335. For the current year, principal and interest paid and total local option sales tax receipts were \$223,411 and \$547,303 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, 2009 the City has \$414,932 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, 2009.

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, 2009 the City has \$301,991 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, 2009.

A summary of changes in long-term debt for the year ended June 30, 2009 is as follows:

	General Obligation Bonds	Revenue Bonds	Total
Balance, beginning of year	\$ 2,950,000	1,265,000	\$ 4,215,000
Decreases	<u>295,000</u>	<u>155,000</u>	<u>450,000</u>
Balance, end of year	<u>\$ 2,655,000</u>	<u>1,110,000</u>	<u>\$ 3,765,000</u>

Interest rates on the general obligation bonds range from 3.0-5.20%. Interest rates on the revenue bonds ranged from 5.5-5.9%.

**(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 4.10% of their annual salary and the City is required to contribute 6.35% 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, 2009, 2008 and 2007 were \$110,847, \$105,157, and \$100,555 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.

CITY OF ALGONA, IOWA

NOTES TO FINANCIAL STATEMENTS

**(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, 2009, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 76,372
Sick Leave	326,588
	<u>\$ 402,960</u>

This liability has been computed based on rates of pay in effect at June 30, 2009.

**(6) Interfund Transfers**

The detail of interfund transfers, for the year ended June 30, 2009 is as follows:

Transfer In	Transfer From	Amount
General	Special Revenue Fund	
	Employee Benefit	\$ 596,730
	LOST	176,000
	Enterprise Sewer	<u>65,149</u>
		837,879
LOST	General	<u>40,481</u>
Debt Service	General	<u>31,550</u>
Enterprise Storm Sewer	Special Revenue LOST	<u>222,500</u>
		<u>\$ 1,132,410</u>

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

**(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 577 members include from various governmental entities throughout the State of Iowa. The Pool was formed in

CITY OF ALGONA, IOWA

NOTES TO FINANCIAL STATEMENTS

**(7) Local Government Risk Pool - continued**

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 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, 2009 were \$166,669.

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 by The Travelers Insurance Company.

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, 2009, 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.

CITY OF ALGONA, IOWA

NOTES TO FINANCIAL STATEMENTS

**(7) Local Government Risk Pool – continued**

Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

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

**(8) Property Taxes**

Property taxes are recognized as income when received in accordance with the cash basis of accounting. The property tax calendar is as follows for the City of Algona. Property taxes become liens on property as of July 1, 2008 and are payable in September 2008 and March 2009 of the fiscal year. The valuation for the taxes was based on January 1, 2007 assessed property valuations, and are based on a certified budget from March of 2008.

**(9) Deficit Fund Balance**

The Federal Grant Fund had a deficit balance of \$50,674 at June 30, 2009. 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) Subsequent Events**

The City settled litigation related to the downtown construction project subsequent to June 30, 2009. The settlement called for the city to pay \$148,613.42 plus interest (estimated to be \$30,000) from October 13, 2006.

**(11) Contracts/Commitments**

The City agreed in 2008 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. The City's commitment remaining on this project was \$160,000 at June 30, 2009. In years prior to fiscal year 2009, 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 \$15,000 and \$35,000 respectively at June 30, 2009. 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:

2010	1,697
2011	<u>141</u>
	<u>\$ 1,838</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, 2008.

Condensed Statements of Net Assets			
	Electric Department	Water Department	Communications Department
<b>Assets:</b>			
Current assets	\$ 6,783,340	\$ 420,910	\$ 505,311
Capital assets, net of accumulated depreciation	20,834,471	2,283,852	3,896,070
Other	4,616,269	4,819	153,400
<b>Total assets</b>	<b>32,234,080</b>	<b>2,709,581</b>	<b>4,554,781</b>
<b>Liabilities</b>			
Current liabilities	1,849,816	58,159	931,212
Other liabilities	5,314,189	4,819	4,695,900
<b>Total liabilities</b>	<b>7,164,005</b>	<b>62,978</b>	<b>5,627,112</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	17,995,551	2,283,852	456,070
Restricted - expendable	273,500	-	-
Unrestricted (deficit)	6,801,024	362,751	(1,528,401)
<b>Total net assets</b>	<b>25,070,075</b>	<b>2,646,603</b>	<b>(1,072,331)</b>

CITY OF ALGONA, IOWA

NOTES TO FINANCIAL STATEMENTS

(13) Algona Municipal Utilities - continued

Condensed Statements of Income			
	Electric Department	Water Department	Communications Department
<b>Operating revenues:</b>			
Electric sales	\$ 7,530,051	\$ -	\$ -
Water sales	-	765,496	-
Communication sales	-	-	2,814,078
Total operating revenues	7,530,051	765,496	2,814,078
<b>Operating expenses:</b>			
Production– Power/water/programming	4,017,640	49,122	1,247,541
Transmission and distribution	399,292	132,491	167,696
General and administrative	3,160,822	420,761	1,094,845
Total operating expenses	7,577,754	602,374	2,510,082
Operating income	(47,703)	163,122	303,996
Non-operating revenues (expenses):			
Interest income	\$ 255,609	\$ 8,284	\$ 4,280
Interest expense	(230,656)	-	(230,720)
Other non-operating expenses	(317,729)	(14,449)	(121,123)
Total non-operating revenues (expenses)	(292,776)	(6,165)	(347,563)
Net income (loss)	(340,479)	156,957	(43,567)

Condensed Statements of Changes in Net Assets			
	Electric Department	Water Department	Communications Department
Net assets (deficit) beginning of year	\$ 25,410,554	\$ 2,489,646	\$ (1,028,764)
Net income (loss)	(340,479)	156,957	(43,567)
Transfers in (out)	-	-	-
Net assets end of year	\$ 25,070,075	\$ 2,646,603	\$ (1,072,331)

**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, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts:			
Property tax	\$ 2,593,188	-	2,593,188
Other city taxes	831,293	-	831,293
Licenses and permits	23,795	-	23,795
Use of money and property	175,501	17,345	192,846
Intergovernmental	1,555,051	-	1,555,051
Charges for service	363,649	1,379,806	1,743,455
Special assessments	757	-	757
Miscellaneous	183,547	335	183,882
	<u>5,726,781</u>	<u>1,397,486</u>	<u>7,124,267</u>
Disbursements:			
Program			
Public safety	1,296,767	-	1,296,767
Public works	1,488,279	-	1,488,279
Health and social services	9,922	-	9,922
Culture and recreation	1,237,609	-	1,237,609
Community and economic development	377,632	-	377,632
General government	680,519	-	680,519
Debt service	406,113	-	406,113
Capital projects	-	-	-
Business type activities	-	1,421,698	1,421,698
	<u>5,496,841</u>	<u>1,421,698</u>	<u>6,918,539</u>
Excess (deficiency) of receipts over disbursements	229,940	(24,212)	205,728
Other financing sources	<u>(157,351)</u>	<u>157,351</u>	<u>-</u>
Excess (disbursements) of receipts and other financing sources over (under) disbursements and other financing uses	72,589	133,139	205,728
Balance beginning of year	<u>4,383,266</u>	<u>1,034,361</u>	<u>5,417,627</u>
Balance end of year	<u>\$ 4,455,855</u>	<u>1,167,500</u>	<u>5,623,355</u>

See accompanying independent auditor's report

Budgeted Amounts		Final to Net Variance
Original	Final	
2,555,935	2,555,935	37,253
712,192	864,530	(33,237)
24,277	24,277	(482)
244,929	169,321	23,525
1,610,947	1,729,353	(174,302)
1,357,171	1,494,144	249,311
728	728	29
214,737	280,442	(96,560)
6,720,916	7,118,730	5,537
1,414,890	1,452,278	155,511
1,763,857	1,616,165	127,886
10,041	10,041	119
1,246,030	1,256,679	19,070
441,822	441,822	64,190
599,811	681,473	954
406,113	406,113	-
-	-	-
1,269,354	1,556,812	135,114
7,151,918	7,421,383	502,844
(431,002)	(302,653)	508,381
-	-	-
(431,002)	(302,653)	508,381
5,163,515	5,417,627	-
4,732,513	5,114,974	508,381

CITY OF ALGONA, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2009

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 \$269,465. 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, 2009

	Special Revenue		
	TIF	Library	Grow Algona Trees
Receipts:			
Property tax	\$ 165,357	-	-
Use of money and property	620	5,461	11
	<u>165,977</u>	<u>5,461</u>	<u>11</u>
Disbursements:			
Public safety	-	-	-
Culture and recreation	-	2,898	-
Community and economic development	166,484	-	-
	<u>166,484</u>	<u>2,898</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	(507)	2,563	11
Balance beginning of year	<u>6,573</u>	<u>37,757</u>	<u>476</u>
Balance end of year	<u>\$ 6,066</u>	<u>\$ 40,320</u>	<u>\$ 487</u>
Cash basis fund balance			
Special Revenue Funds	\$ 6,066	40,320	487
Permanent Funds	-	-	-
	<u>\$ 6,066</u>	<u>40,320</u>	<u>487</u>

See accompanying independent auditor's report

Schedule 1

Special Revenue	Permanent		
Police Pension	Cemetery	Library	Total
21,918	-	-	\$ 187,275
2,456	1,300	-	9,848
24,374	1,300	-	197,123
27,195	-	-	27,195
-	-	-	2,898
-	-	-	166,484
27,195	-	-	196,577
(2,821)	1,300	-	546
130,883	41,550	140,000	357,239
\$ 128,062	\$ 42,850	\$ 140,000	\$ 357,785
128,062	-	-	\$ 174,935
-	42,850	140,000	182,850
128,062	42,850	140,000	\$ 357,785

CITY OF ALGONA, IOWA  
 SCHEDULE OF INDEBTEDNESS  
 YEAR ENDED JUNE 30, 2009

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
\$ 145,000		70,000	75,000	7,470	\$ -
125,000		30,000	95,000	5,820	-
2,680,000		195,000	2,485,000	96,923	-
2,950,000	-	295,000	2,655,000	110,213	-
\$ 1,265,000	-	155,000	1,110,000	68,411	\$ -

CITY OF ALGONA, IOWA

Schedule 3

BOND AND NOTE MATURITIES

JUNE 30, 2009

Year Ending June 30,	<u>GO Capital Loan</u> <u>Issued Feb 1, 2003</u>		<u>Swimming Pool &amp;</u> <u>Issued Oct 13, 1999</u>		<u>Downtown Construction</u> <u>Issued Jan 15, 2004</u>		<b>Total GO Notes</b>
	Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	
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>\$ 95,000</u>		<u>\$ 75,000</u>		<u>\$ 2,485,000</u>	<u>\$ 2,655,000</u>

Year Ending June 30,	<u>Swimming Pool</u> <u>Issued Oct 13, 1999</u>	
	Interest	
	Rates	Amount
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>\$ 1,110,000</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 SEVEN YEARS ENDED JUNE 30:

	2009	2008	2007	2006	2005	2004	2003
<b>Receipts</b>							
Property tax	\$ 2,427,831	\$ 2,348,778	\$ 2,345,875	\$ 2,333,853	\$ 2,220,318	\$ 2,136,239	\$ 2,013,960
Tax increment financing collections	165,357	76,675	78,557	56,343	49,579	27,690	-
Other city tax	831,293	845,597	802,527	710,103	692,992	530,389	476,878
Licenses and permits	23,795	37,173	35,972	29,319	30,038	27,685	28,901
Use of money and property	175,501	255,610	246,927	189,380	145,867	104,994	95,177
Intergovernmental	1,555,051	1,525,121	1,617,236	1,694,951	1,062,995	1,140,362	1,415,445
Charges for service	363,649	341,674	292,661	309,657	273,012	278,419	247,576
Special assessments	757	-	867	1,304	1,261	12,951	4,165
Miscellaneous	183,547	205,401	238,570	211,847	275,771	287,892	182,045
	<u>\$ 5,726,780</u>	<u>\$ 5,636,029</u>	<u>\$ 5,659,192</u>	<u>\$ 5,536,757</u>	<u>\$ 4,751,833</u>	<u>\$ 4,546,621</u>	<u>\$ 4,464,147</u>
<b>Disbursements:</b>							
<b>Operating:</b>							
Public safety	\$ 1,296,767	\$ 1,202,407	\$ 1,193,898	\$ 1,117,298	\$ 1,114,164	\$ 1,099,348	\$ 1,275,436
Public works	1,488,279	1,158,560	2,115,829	1,350,070	953,509	1,280,864	1,239,214
Health and social services	9,922	8,513	8,536	8,715	8,777	8,643	8,794
Culture and recreation	1,237,609	1,161,790	1,101,488	1,238,448	1,071,059	1,038,213	1,077,611
Community and economic development	377,632	773,642	226,215	809,924	490,037	126,692	225,860
General government	680,519	564,402	501,743	471,960	442,872	548,522	453,399
Debt service	406,113	401,195	395,745	425,935	461,951	405,699	367,576
Capital projects	-	10,443	195,709	507,361	1,339,544	1,314,552	82,773
	<u>\$ 5,496,841</u>	<u>\$ 5,280,952</u>	<u>\$ 5,739,163</u>	<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  
(UNAUDITED)  
June 30, 2009

1/1/07 Valuations (taxes payable July 1, 2008 to June 30, 2009)

	100% Actual Value	Taxable Value (with Rollback)
Residential	\$ 182,454,816	80,426,612
Commercial	61,150,001	60,985,631
Industrial	16,452,303	16,452,303
Railroad	886,521	884,138
Utilities w/o gas & electric	2,530,449	2,530,449
Gross valuation	263,474,090	161,279,133
Less military exemption	(853,402)	(853,402)
Net valuation	262,620,688	160,425,731
TIF increment (used to compute debt service levies and constitutional debt limit)	5,308,925	5,308,925
Taxed Separately		
Ag land	602,859	602,859
Ag building	-	-
Gas & electricity utility property	2,530,449	2,530,449

2007 Gross Taxable Valuation by Class of Property

		<u>Percent Total</u>
Residential	\$ 80,426,612	49.87%
Commercial, Industrial, Utility*	79,968,383	49.58
Railroad	884,138	0.55
Total gross taxable valuation	161,279,133	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
2007	2008-09	269,385,874	166,337,515	5,308,825

CITY OF ALGONA, IOWA

Schedule 5

SCHEDULE OF FINANCIAL INFORMATION  
(UNAUDITED)  
June 30, 2009

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	1/1/08 Actual Valuation	1/1/08 Taxable Valuation
Snap-On Tools	Industrial	6,925,539	6,925,539
Pioneer Hi Bred Corn Co.	Industrial	5,482,807	5,482,807
Druggists Mutual Ins., Co.	Commercial	3,097,413	3,097,413
Hjelmeland Family, LP	Commercial & Residential	2,423,471	2,409,261
Flint Hills Resources, LP	Industrial	2,152,715	2,152,715
Hormel & Co.	Industrial	2,150,021	2,150,021
Sears, Roebuck and Co	Commercial	1,877,410	1,877,410
Sbemco International	Commercial	1,734,788	1,734,788
Algona Medical Clinic I, LLC	Commercial	1,660,911	1,660,911
Fareway Stores, Inc	Commercial	1,333,906	1,330,906

DIRECT DEBT

General Obligation Debt

Date of Issue	Original Amount	Purpose	Final Maturity	Principal Outstanding As of 6/30/09
10/99	600,000	Pool/Street Improvements	6/10	75,000
02/02	355,000	Municipal Equipment	1/12	95,000
1/04	3,135,000	Street Imp/Refunding	6/19	2,485,000
Subtotal				<u>\$2,655,000</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 6/30/09
10/99	\$ 2,325,000	Pool	Sales Tax Receipts	10/14	\$ 1,110,000

CITY OF ALGONA, IOWA

Schedule 5

SCHEDULE OF FINANCIAL INFORMATION  
(UNAUDITED)  
June 30, 2009

INDIRECT GENERAL OBLIGATION DEBT

	1/1/07 Taxable Valuation	Percent in City	G.O. Debt	City's Proportionate Share
Kossuth County	\$ 919,171,591	15.56%	\$ -	\$ -
Algona Community School District	416,837,794	36.20%	500,000	181,000
Iowa Lakes Community College	4,254,103,300	3.88%	4,760,000	184,688
City share of total overlapping debt				<u>\$ 365,688</u>

DEBT RATIOS

	G.O. Debt	Debt/Actual Market Value (\$ 272,527,214)	Debt/5,478 Population
General Obligation Debt	\$ 2,655,000	0.97%	\$ 484.67
City's share of overlapping debt	365,688	0.13%	\$ 66.76

TAX RATES

	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	FY 08-09 \$/1,000
Kossuth County	5.28383	6.89024	6.77451	5.95434	5.99245	6.02397
City of Algona	14.93259	14.87301	15.05648	15.41274	15.09369	14.81426
Algona Comm. School District	12.79524	12.38939	11.63098	10.91056	11.03732	12.37567
Area II Comm. College	0.73807	.71942	.77966	.83196	.73979	.75850
County Assessor	0.28640	.33052	.28237	.32936	.31187	.31975
Hospital	0.32398	.36362	.35749	.34218	.33932	.32818
Ag. Extension	0.08154	.09152	.08997	.08612	.08540	.08259
State of Iowa	0.00400	.00400	.00400	.00400	.0035	.00350
Total Tax Rate City Resident	<u>34.44565</u>	<u>35.66172</u>	<u>34.97546</u>	<u>33.87126</u>	<u>33.60334</u>	<u>34.70642</u>



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

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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, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 16, 2009. 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 deficiencies, items II-A-09 and II-B-09, are material weakness. Prior year reportable conditions have been resolved except for II-A-09.

#### 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, 2009 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. 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 16, 2009

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2009

**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, 2009

**Part II: Findings Related to the Financial Statements**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**SIGNIFICANT DEFICIENCIES:**

II-A-09      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-09      Segregation of Duties – We noted that the year end bank reconciliation did not tie the City’s bank balances to the bank statement.

Recommendation - We recommend the bank reconciliation be prepared timely every month and that the completed reconciliation be reviewed by management.

Response - We have procedures in place to reconcile all City accounts monthly. We will implement a monitoring program to ensure the accuracy of the reconciliations.

Conclusion – Response accepted.

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2009

**Part III: Other Findings Related to Statutory Reporting:**

- III-A-09 Certified Budget - Disbursements during the year ended June 30, 2009 were within the budgeted limits in all programs.
- III-B-09 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-09 Travel Expense - No disbursements of City money for travel expense of spouses of City officials or employees were noted.
- III-D-09 Business Transactions - No business transactions between the City and its officials or employees were noted.
- III-E-09 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-09 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-G-09 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.
- III-H-09 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-09 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 June 15, 2009 indicated that no instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.
- III-J-09 Financial Condition – The Grants Fund had a deficit balance at June 30, 2009 of \$50,674.

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. Future grant reimbursements will eliminate this deficit.

Conclusion – Response accepted.