

CITY OF ALGONA, IOWA

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

JUNE 30, 2010

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

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CITY OF ALGONA, IOWA

OFFICIALS

(Before January 2010)

<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

(After January 2010)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Lynn Kueck	Mayor	Jan 2012
Chad Besch	Council Member	Jan 2011
Sara Curtis	Council Member	Jan 2011
Kim Weaver	Council Member	Jan 2011
Josh Aanonson	Council Member	Jan 2013
Harley Kohlhaas	Council Member	Jan 2013
Rick Remy	Council Member	Jan 2013
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, 2010, 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 14, 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, 2009, which was also audited by us, are available. The report, dated May 12, 2010, 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, 2010, 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 January 12, 2011 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 26 through 27 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 inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 seven years ended June 30, 2009 (none of which are presented herein). We expressed qualified opinions on the financial statements for the years ended June 30, 2009, 2008 and 2007 and an adverse opinion for the one year ended June 30, 2006. We expressed qualified opinions for the years ended 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, 2009. 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.

January 12, 2011

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, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 1%, or approximately \$44,000, from fiscal 2009 to fiscal 2010. Property tax increased approximately \$43,000 and unrestricted interest on investments decreased by \$29,000, while charges for service decreased by \$78,000, operating and capital grants decreased by \$101,000, and other general receipts decreased by \$25,000.
- Disbursements increased 20%, or approximately \$1.1 million in fiscal 2010 from fiscal 2009. Debt service increased approximately \$1.1 million and capital projects increased by approximately \$178,000.
- The City's total cash basis net assets decreased approximately \$377,000 from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities decreased approximately \$778,000 and the assets of the business type activities increased by approximately \$401,000.

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, health and social services, 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 services. 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

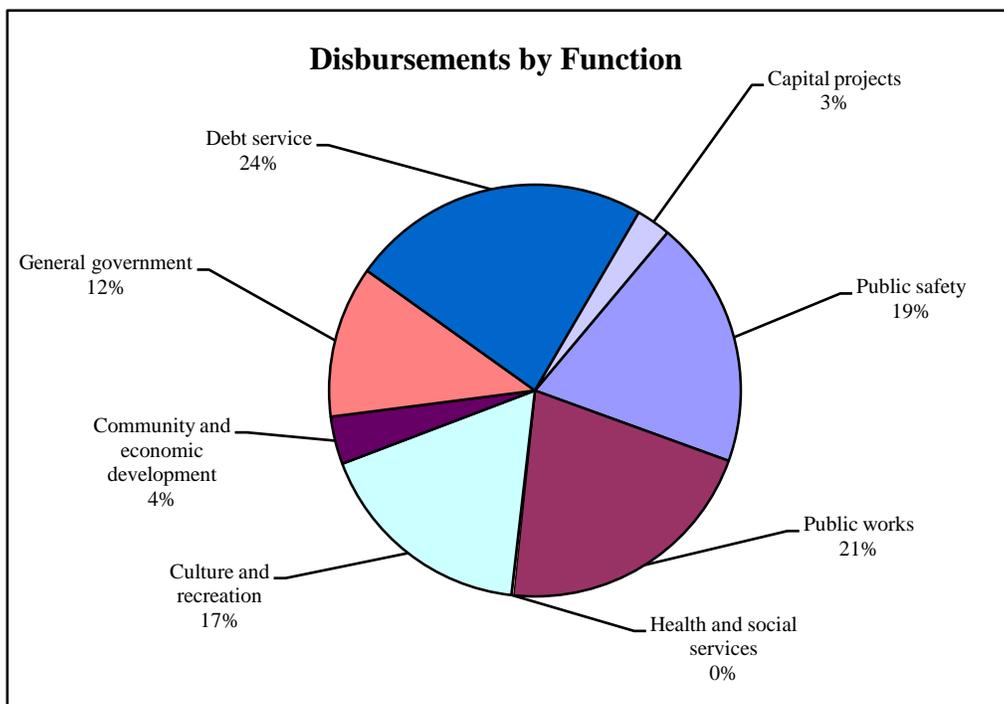
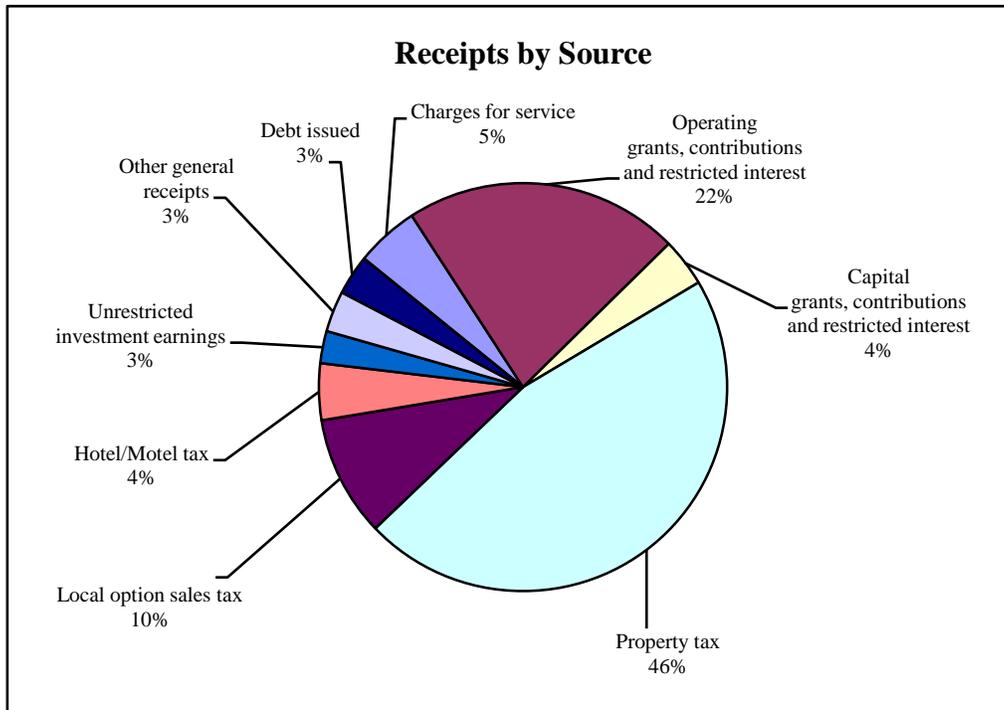
business-type activities. The City maintains four Enterprise Funds to provide separate information for the sewer, storm sewer, ambulance, and housing funds.

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 decreased from a year ago, decreasing from \$4.5 million to \$3.7 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,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service	\$ 285	\$ 363
Operating grants, contributions and restricted interest	1,238	1,184
Capital grants, contributions and restricted interest	216	371
General receipts:		
Property tax	2,636	2,593
Local option sales tax	543	547
Hotel/motel tax	254	284
Unrestricted interest on investment	34	63
Other general receipts	296	321
Debt issued	180	-
Total receipts and transfers	<u>5,682</u>	<u>5,726</u>
Disbursements:		
Public safety	1,279	1,297
Public works	1,390	1,488
Health and social services	10	10
Culture and recreation	1,143	1,237
Community and economic development	247	378
General government	784	680
Debt service	1,547	406
Capital projects	178	-
Total disbursements	<u>6,578</u>	<u>5,496</u>
Increase (decrease) in cash basis net assets before transfers	(896)	230
Transfers, net	<u>118</u>	<u>(157)</u>
Increase (decrease) in cash basis net assets	(778)	73
Cash basis net assets beginning of year	<u>4,456</u>	<u>4,383</u>
Cash basis net assets end of year	<u>\$ 3,678</u>	<u>\$ 4,456</u>



The City's total receipts for governmental activities increased by 1%, or \$44,000. The total cost of all programs and services increased by approximately \$1.1 million or 20%, with no new programs added this year.

The cost of all governmental activities this year was approximately \$6.6 million compared to \$5.5 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 \$4.838 million because some of the cost was paid by those

directly benefited from the programs (\$285,298) or by other governments and organizations that subsidized certain programs with grants, receipts, including intergovernmental aid and fees for service (\$1,454,755). The City paid for the remaining “public benefit” portion of governmental activities with approximately \$3.4 million 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,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 788	749
Storm Sewer	118	121
Ambulance	510	460
Housing	40	50
General receipts:		
Unrestricted interest on investments	17	17
Miscellaneous	1	-
Debt issued	240	-
Total receipts	<u>1,714</u>	<u>1,397</u>
Disbursements:		
Sewer	660	571
Storm Sewer	40	371
Ambulance	454	414
Housing	40	65
Total disbursements and transfers	<u>1,194</u>	<u>1,421</u>
Increase in cash basis net assets before transfers	520	(24)
Transfers	<u>(118)</u>	<u>157</u>
Increase in cash basis net assets	402	133
Cash basis net assets beginning of year	<u>1,167</u>	<u>1,034</u>
Cash basis net assets end of year	<u>\$ 1,569</u>	<u>1,167</u>

Total business type activities receipts for the fiscal year were approximately \$1.7 million compared to \$1.4 last year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Algona completed the year, its governmental funds reported a combined fund balance of \$3,677,635, a decrease of \$778,220 from last year’s total of \$4,455,855. 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 \$143,064 to \$2,447,144 at June 30, 2010. The increase is due to increased transfers in.

- The Road Use Tax Fund cash balance increased by \$59,771 to \$249,494 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 \$1,209,436 to \$352,690 during the fiscal year. The decrease of \$856,746 is due mainly to the retirement of the swimming pool debt.
- The Debt Service cash fund balance increased \$901 from the prior year. The increase is due to the regular budgeting process.
- The Capital Projects Downtown decreased \$154,013 to \$272,597 during the fiscal year. The decrease in the cash balance was due to settling on the downtown street contract.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance increased by \$308,547 to \$878,562, due primarily to the issuance of bonds to finance the planning of a major improvement project to the City’s wastewater treatment facilities.
- The Ambulance Fund cash balance increased by \$57,804 to \$555,486, due primarily to an increase in revenues.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 17, 2010 resulted in an increase in operating disbursements related to general government and business type/enterprises funds and decreased operating disbursements for public works and capital projects. The amendment also increased budgeted revenues for LOST and recorded additional revenues from other financing sources. The City did not exceed budgeted amounts during the fiscal year ended June 30, 2010.

COMPONENT UNIT

The City has a component unit and has chosen to present condensed financial information for it (see Note 14). Complete financial statements for the component unit for the year ended December 31, 2009, which was also audited by us, are available at 104 West Call Street, Algona, Iowa.

DEBT ADMINISTRATION

At June 30, 2010, the City had approximately \$2,770,000 in bonds and other long-term debt, compared to approximately \$3,765,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	Year ended June 30, 2010	2009
General obligation bonds	\$ 2,530	\$ 2,655
Revenue notes	240	1,110

Total

\$ 2,770 \$ 3,765

Debt decreased as a result of redeeming the Local Option Sales Tax revenue bonds early and continuing to pay the City's remaining 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 \$2,530,000 is significantly below its constitutional debt limit of \$15.228 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In completing the fiscal year 2012 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 decreased from one year ago. The current rate is 4.2% versus 5.6% in 2009. The county average is well below the state average of 6.2%. During the year 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.

Budget projections for Fiscal Year 2012 have not yet been completed. However, revenues in the General Fund are expected to rise slightly or remain steady. Taxable valuations have increased by 3.19% which is greater than expected. Road Use Tax revenues are expected to see little increase due to reduced gas tax revenues from the State of Iowa. Capital projects for streets and roads will receive subsidy from the City's Local Option Sales Tax fund.

It is expected that the property tax levy will decrease for Fiscal Year 2012 as debt issuances are retired. However, the City plans a major capital project to replace the current City Hall. The full effect upon the levy is not yet known but will increase the rate beyond its current level.

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, 2010

Functions/Programs	Disbursements	Program Receipts		
		Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 1,278,908	-	115,401	188,480
Public works	1,390,527	-	507,470	27,790
Health and social services	9,835	-	-	-
Culture and recreation	1,142,288	285,298	42,308	-
Community and economic development	247,162	-	-	-
General government	784,199	-	555,968	-
Debt service	1,547,398	-	17,338	-
Capital projects	177,795	-	-	-
Total government activities	6,578,112	285,298	1,238,485	216,270
Business type activities:				
Sewer	659,816	787,991	-	-
Storm Sewer	40,178	117,760	-	-
Ambulance	454,075	509,401	-	-
Housing	40,392	40,366	-	-
Total business type activities	1,194,461	1,455,518	-	-
Total	\$ 7,772,573	1,740,816	1,238,485	216,270

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
 Debt issued
 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
 Nonexpendable:
 Cemetery perpetual care
 Library endowment
 Expendable
 Streets
 Debt Service
 Other purposes
 Unrestricted

See notes to financial statements

Exhibit A

Net (Disbursements) Receipts and Changes in Cash
Basis Net Assets

Governmental Activities	Business Type Activities	Total
(975,027)	-	(975,027)
(855,267)	-	(855,267)
(9,835)	-	(9,835)
(814,682)	-	(814,682)
(247,162)	-	(247,162)
(228,231)	-	(228,231)
(1,530,060)	-	(1,530,060)
(177,795)	-	(177,795)
<u>(4,838,059)</u>	<u>-</u>	<u>(4,838,059)</u>
-	128,175	128,175
-	77,582	77,582
-	55,326	55,326
-	(26)	(26)
<u>-</u>	<u>261,057</u>	<u>261,057</u>
<u>(4,838,059)</u>	<u>261,057</u>	<u>(4,577,002)</u>
2,183,398	-	2,183,398
97,021	-	97,021
356,022	-	356,022
543,002	-	543,002
253,890	-	253,890
34,303	17,091	51,394
294,641	1,034	295,675
180,000	240,000	420,000
117,562	(117,562)	-
<u>4,059,839</u>	<u>140,563</u>	<u>4,200,402</u>
(778,220)	401,620	(376,600)
<u>4,455,855</u>	<u>1,167,500</u>	<u>5,623,355</u>
<u>\$ 3,677,635</u>	<u>1,569,120</u>	<u>5,246,755</u>
\$ 44,250	-	44,250
140,000	-	140,000
249,494	-	249,494
19,796	-	19,796
776,951	-	776,951
<u>2,447,144</u>	<u>1,569,120</u>	<u>4,016,264</u>
<u>3,677,635</u>	<u>1,569,120</u>	<u>5,246,755</u>

CITY OF ALGONA, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	Special Revenue			
	General	Road Use Tax	Employee Benefits	LOST
Receipts:				
Property tax	\$ 1,543,592	-	625,986	-
Other city tax	253,890	-	-	543,002
Licenses and permits	32,830	-	-	-
Use of money and property	121,410	-	-	4,498
Intergovernmental	741,467	507,470	-	-
Charges for service	285,298	-	-	-
Special assessments	692	-	-	-
Miscellaneous	150,740	-	-	-
	<u>3,129,919</u>	<u>507,470</u>	<u>625,986</u>	<u>547,500</u>
Disbursements:				
Public safety	1,250,890	-	-	-
Public works	786,245	447,699	-	-
Health and social services	9,835	-	-	-
Culture and recreation	1,140,409	-	-	1,142,358
Community and economic development	151,165	-	-	-
General government	784,199	-	-	-
Debt service	-	-	-	-
Capital projects	17,728	-	-	-
	<u>4,140,471</u>	<u>447,699</u>	<u>-</u>	<u>1,142,358</u>
Excess (deficiency) of receipts over (under) disbursements	(1,010,552)	59,771	625,986	(594,858)
Other financing sources (uses):				
Debt issued	180,000	-	-	-
Operating transfers in	1,036,778	-	-	76,112
Operating transfers out	(63,162)	-	(625,986)	(338,000)
	<u>1,153,616</u>	<u>-</u>	<u>(625,986)</u>	<u>(261,888)</u>
Net change in cash balances	143,064	59,771	-	(856,746)
Balance beginning of year	<u>2,304,080</u>	<u>189,723</u>	<u>-</u>	<u>1,209,436</u>
Balance end of year	<u>2,447,144</u>	<u>249,494</u>	<u>-</u>	<u>352,690</u>
Cash Basis Fund Balance				
Reserved for Debt Service	\$ -	-	-	-
Unreserved				
General Fund	2,447,144	-	-	-
Special Revenue Funds	-	249,494	-	352,690
Capital Projects Funds	-	-	-	-
Permanent Funds	-	-	-	-
Total cash basis fund balances	<u>\$ 2,447,144</u>	<u>249,494</u>	<u>-</u>	<u>352,690</u>

See notes to financial statements.

Exhibit B

Debt Service	Capital Projects		Other Nonmajor Governmental Funds	Total
	Downtown			
356,022	-		110,841	2,636,441
-	-		-	796,892
-	-		-	32,830
1,334	6,054		11,386	144,682
17,338	-		188,480	1,454,755
-	-		-	285,298
-	-		-	692
-	-		-	150,740
<u>374,694</u>	<u>6,054</u>		<u>310,707</u>	<u>5,502,330</u>
-	-		28,018	1,278,908
-	-		156,583	1,390,527
-	-		-	9,835
-	-		1,576	2,284,343
-	-		95,997	247,162
-	-		-	784,199
405,343	-		-	405,343
-	160,067		-	177,795
<u>405,343</u>	<u>160,067</u>		<u>282,174</u>	<u>6,578,112</u>
(30,649)	(154,013)		28,533	(1,075,782)
-	-		-	180,000
31,550	-		1,412	1,145,852
-	-		(1,142)	(1,028,290)
<u>31,550</u>	<u>-</u>		<u>270</u>	<u>297,562</u>
901	(154,013)		28,803	(778,220)
<u>18,895</u>	<u>426,610</u>		<u>307,111</u>	<u>4,455,855</u>
<u>19,796</u>	<u>272,597</u>		<u>335,914</u>	<u>3,677,635</u>
19,796	-		-	19,796
-	-		-	2,447,144
-	-		151,664	753,848
-	272,597		184,250	456,847
-	-		-	-
<u>19,796</u>	<u>272,597</u>		<u>335,914</u>	<u>3,677,635</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, 2010

	Sewer	Storm Sewer	Ambulance	Housing	Total
Receipts					
Charges for service	\$ 787,991	117,760	509,401	40,366	1,455,518
Disbursements					
Total operating disbursements	656,641	23,656	423,101	40,392	1,143,790
	656,641	23,656	423,101	40,392	1,143,790
Excess (deficiency) of operating receipts over (under) operating disbursements	131,350	94,104	86,300	(26)	311,728
Non-operating receipts (disbursements):					
Interest on investments	11,969	572	3,890	660	17,091
Miscellaneous	1,034	-	-	-	1,034
Capital Expenditures	(3,175)	(16,522)	(30,974)	-	(50,671)
Net non-operating receipts (disbursements)	9,828	(15,950)	(27,084)	660	(32,546)
Excess of receipts over disbursements	141,178	78,154	59,216	634	279,182
Other financing sources (uses):					
Debt issued	240,000	-	-	-	240,000
Operating transfers in	-	981	-	-	981
Operating transfers out	(72,631)	(44,500)	(1,412)	-	(118,543)
	167,369	(43,519)	(1,412)	-	122,438
Net change in cash balances	308,547	34,635	57,804	634	401,620
Balance beginning of year	570,015	11,638	497,682	88,165	1,167,500
Balance end of year	\$ 878,562	\$ 46,273	555,486	88,799	\$ 1,569,120
Cash Basis Fund Balances					
Unreserved	\$ 878,562	\$ 46,273	\$ 555,486	\$ 88,799	\$ 1,569,120
	\$ 878,562	\$ 46,273	555,486	88,799	\$ 1,569,120

See notes to financial statements.

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

(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, the 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 14 were prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Complete financial statements, for the year ended December 31, 2009, can be obtained from the Municipal Utilities administration office, P.O. 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 officials are members of the following boards and commissions: Kossuth County Emergency

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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 - Cash Basis 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 FINANCIAL STATEMENTS

June 30, 2010

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. Both of these funds had a balance of \$-0- at June 30, 2010.

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

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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.

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, 2010 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. 7.53% of the City's total cash and investments at June 30, 2010 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

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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.

(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	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	332,116	95,598	240,000	7,200	572,116	102,798
2012	282,188	83,302	-	-	282,188	83,302
2013	268,538	72,963	-	-	268,538	72,963
2014	262,158	63,569	-	-	262,158	63,569
2015	255,000	54,393	-	-	255,000	54,393
2016	265,000	44,958	-	-	265,000	44,958
2017	280,000	34,689	-	-	280,000	34,689
2018	290,000	23,769	-	-	290,000	23,769
2019	295,000	12,169	-	-	295,000	12,169
	<u>\$ 2,530,000</u>	<u>\$ 485,410</u>	<u>\$ 240,000</u>	<u>\$ 7,200</u>	<u>\$ 2,770,000</u>	<u>\$ 492,610</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. These notes were redeemed in their entirety during the year ended June 30, 2010.

A summary of changes in long-term debt for the year ended June 30, 2010 is as follows:

	General Obligation Bonds	Revenue Bonds	Total
Balance, beginning of year	\$ 2,655,000	\$ 1,110,000	\$ 3,765,000
Increases	180,000	240,000	420,000
Decreases	305,000	1,110,000	1,415,000
Balance, end of year	<u>\$ 2,530,000</u>	<u>\$ 240,000</u>	<u>\$ 2,770,000</u>

Interest rates on the general obligation bonds range from 3.20-4.80%. Interest rates on the revenue bonds were 3.00%.

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

(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 4.30% of their annual salary and the City is required to contribute 6.65% 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, 2010, 2009, and 2008 were \$125,401, \$110,847, and \$105,157 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. Unused sick leave is not paid out at retirement. The City's approximate liability for earned vacation and unused sick leave payments payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 74,965
Sick Leave	<u>328,774</u>
Balance at June 30, 2010	<u>\$ 403,739</u>

This liability has been computed based on rates of pay in effect at June 30, 2010.

(6) Interfund Transfers

The detail of interfund transfers, for the year ended June 30, 2010 is as follows:

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Transfer In	Transfer From	Amount
General	Special Revenue Fund-Employee Benefits	\$ 625,986
	Special Revenue Fund-LOST	338,000
	Special Revenue Fund – Police Pension	1,142
	Enterprise-Sewer	<u>71,650</u>
		1,036,778
LOST	Enterprise-Storm Sewer	44,500
	General	<u>31,612</u>
		76,112
Debt Service	General	<u>31,550</u>
Enterprise-Storm Sewer	Enterprise-Sewer	<u>981</u>
Special Revenue Fund Police Pension	Enterprise-Ambulance	<u>1,412</u>
		<u>\$ 1,146,795</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 634 members include 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, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 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.

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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, 2010 were \$174,026.

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 \$150,000 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 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, 2010, 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 member's withdrawal. 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 casualty 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 in the amount of \$57,666. 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

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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, 2009 and are payable in September 2009 and March 2010 of the fiscal year. The valuation for the taxes was based on January 1, 2008 assessed property valuations, and are based on a certified budget from March of 2009.

(9) Deficit Fund Balance

The Federal Grant Fund had a deficit balance of \$18,777 at June 30, 2010. This balance improved \$31,897 from last year. 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 entered into a construction contract in July 2010 to make improvements to the Wastewater Treatment Plant. The contract was for a fixed fee of \$2,117,000 and will be financed with Sewer Revenue Bonds issued in October 2010 and described in the following paragraph.

In October 2010, the City entered into a revenue bond agreement to finance construction related to the Wastewater Treatment System. Total loan amount is \$2,151,000 at 3% interest, with payment due over twenty years, ending in June 2031. The loan will be repaid solely from the net revenues of the wastewater treatment system.

Annual debt service requirements to maturity for these revenue bonds are as follows:

Year Ending June 30.	Revenue Bonds	
	<u>Principal</u>	<u>Interest</u>
2011	-	20,580
2012	78,000	64,530
2013	80,000	62,190
2014	83,000	59,790
2015	86,000	57,300
2016	89,000	54,720
2017	92,000	52,050
2018	95,000	49,390
2019	98,000	46,440

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Year Ending June 30.	Revenue Bonds	
2020	101,000	43,500
2021	104,000	40,470
2022	107,000	37,350
2023	111,000	34,140
2024	115,000	30,810
2025	118,000	27,360
2026	122,000	23,820
2027	126,000	20,160
2028	130,000	16,380
2029	134,000	12,480
2030	139,000	8,460
2031	<u>143,000</u>	<u>4,290</u>
	<u>\$ 2,151,000</u>	<u>\$ 7,200</u>

(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 \$120,000 at June 30, 2010. In years prior to fiscal year 2010, 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 \$10,000 and \$20,000 respectively at June 30, 2010. The commitments are each paid with annual installments of \$10,000.

(12) Operating Leases

The City leases a copy machine under an operating lease agreement calling for 60 monthly payments of \$141. The City also leases medical equipment under an operating lease agreement calling for five annual payments of \$11,622. Future minimum lease payments due on the above operating leases are as follows:

<u>Year Ended June 30.</u>	<u>Amount</u>
2011	<u>\$ 11,763</u>
Total	<u>\$ 11,763</u>

(13) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are 38 active and 2 inactive members in the plan. Participants must be age 55 or older at retirement.

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

The medical benefits are provided through a fully-insured plan with TrueNorth. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are approximately \$340 for single coverage and approximately \$1,042 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$303,261 and plan members eligible for benefits contributed approximately \$47,300 to the plan.

(14) 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, 2009.

Condensed Statements of Net Assets			
	Electric Department	Water Department	Communications Department
Assets			
Current assets	\$ 2,967,260	\$ 430,566	\$ 417,887
Capital assets, net of accumulated depreciation	20,494,337	2,347,033	3,704,734
Other	<u>4,448,993</u>	<u>3,332</u>	<u>113,946</u>
Total assets	<u>27,910,590</u>	<u>2,780,931</u>	<u>4,236,567</u>
Liabilities			
Current liabilities	1,127,589	75,453	1,436,674
Other liabilities	<u>2,001,992</u>	<u>10,964</u>	<u>4,060,211</u>
Total liabilities	<u>3,129,581</u>	<u>83,417</u>	<u>5,496,885</u>
Net assets			
Invested in capital assets, net of related debt	18,250,062	2,347,033	264,734
Restricted – expendable	273,500	-	-
Unrestricted (deficit)	<u>6,257,447</u>	<u>350,481</u>	<u>(1,525,052)</u>
Total net assets	<u>\$ 24,781,009</u>	<u>\$ 2,697,514</u>	<u>\$ (1,260,318)</u>

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Condensed Statements of Income			
	Electric Department	Water Department	Communications Department
Operating revenues:			
Electric sales	\$ 9,105,975	\$ -	\$ -
Water sales	-	813,619	-
Communication sales	-	-	2,879,141
Total operating revenues	<u>\$ 9,105,975</u>	<u>\$ 813,619</u>	<u>\$ 2,879,141</u>
Operating expenses:			
Production – power/water/programming	\$ 5,219,716	\$ 195,261	\$ 1,393,465
Transmission and distribution	465,457	114,721	177,545
General and administrative	3,309,433	435,794	1,182,232
Total operating expenses	<u>8,994,606</u>	<u>745,776</u>	<u>2,753,242</u>
Operating income	<u>111,369</u>	<u>67,843</u>	<u>125,899</u>
Non-operating revenues (expenses):			
Interest income	169,055	3,754	1,223
Interest expense	(104,625)	-	(197,465)
Other non-operating expenses	(464,865)	(20,686)	(117,644)
Total non-operating expenses	<u>(400,435)</u>	<u>(16,932)</u>	<u>(313,886)</u>
Net income (loss)	<u>\$ (289,066)</u>	<u>\$ 50,911</u>	<u>\$ (187,987)</u>

Condensed Statements of Changes in Net Assets			
	Electric Department	Water Department	Communications Department
Net assets (deficit) beginning of year	\$ 25,070,075	\$ 2,646,603	\$ (1,072,331)
Net income (loss)	(289,066)	50,911	(187,987)
Net assets end of year	<u>\$ 24,781,009</u>	<u>\$ 2,697,514</u>	<u>\$ (1,260,318)</u>

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, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts:			
Property tax	\$ 2,636,441	-	2,636,441
Other city taxes	796,892	-	796,892
Licenses and permits	32,830	-	32,830
Use of money and property	144,682	17,091	161,773
Intergovernmental	1,454,755	-	1,454,755
Charges for service	285,298	1,455,518	1,740,816
Special assessments	692	-	692
Miscellaneous	150,740	1,034	151,774
	<u>5,502,330</u>	<u>1,473,643</u>	<u>6,975,973</u>
Disbursements:			
Program			
Public safety	1,278,908	-	1,278,908
Public works	1,390,527	-	1,390,527
Health and social services	9,835	-	9,835
Culture and recreation	2,284,343	-	2,284,343
Community and economic development	247,162	-	247,162
General government	784,199	-	784,199
Debt service	405,343	-	405,343
Capital projects	177,795	-	177,795
Business type activities	-	1,194,461	1,194,461
	<u>6,578,112</u>	<u>1,194,461</u>	<u>7,772,573</u>
Excess (deficiency) of receipts over disbursements	(1,075,782)	279,182	(796,600)
Other financing sources	<u>297,562</u>	<u>122,438</u>	<u>420,000</u>
Excess of receipts and other financing sources over (under) disbursements and other financing uses	(778,220)	401,620	(376,600)
Balance beginning of year	<u>4,455,855</u>	<u>1,167,500</u>	<u>5,623,355</u>
Balance end of year	<u>\$ 3,677,635</u>	<u>1,569,120</u>	<u>5,246,755</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
2,509,522	2,509,522	126,919
810,780	867,780	(70,888)
22,855	22,855	9,975
144,107	130,020	31,753
1,538,758	1,542,622	(87,867)
1,646,833	1,647,833	92,983
675	675	17
164,170	228,167	(76,393)
6,837,700	6,949,474	26,499
1,315,333	1,319,204	40,296
1,789,897	1,637,405	246,878
9,840	9,840	5
2,296,059	2,320,805	36,462
248,049	260,249	13,087
737,789	824,855	40,656
405,343	405,343	-
300,000	200,068	22,273
1,164,807	1,245,574	51,113
8,267,117	8,223,343	450,770
(1,429,417)	(1,273,869)	477,269
500,000	788,000	(368,000)
(929,417)	(485,869)	109,269
5,037,869	5,623,355	-
4,108,452	5,137,486	109,269

CITY OF ALGONA, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2010

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, one budget amendment increased budgeted revenues by \$111,774 and decreased budgeted disbursements by \$43,774. The amendment also increased budgeted receipts from other financing sources by \$288,000. The budget amendment is reflected in the final budgeted amounts. The City did not exceed budgeted amounts during the fiscal year ended June 30, 2010.

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, 2010

	Special Revenue		
	TIF	Library	Grow Algona Trees
Receipts:			
Property tax	\$ 97,021	-	-
Use of money and property	613	4,232	9
Intergovernmental	-	-	-
	<u>97,634</u>	<u>4,232</u>	<u>9</u>
Disbursements:			
Public safety	-	-	-
Public works	-	-	-
Culture and recreation	-	1,576	-
Community and economic development	95,997	-	-
	<u>95,997</u>	<u>1,576</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	1,637	2,656	9
Other financing sources (uses):			
Operating transfers in			
Operating transfers out			
	<u>1,637</u>	<u>2,656</u>	<u>9</u>
Balance beginning of year	6,066	40,319	487
Balance end of year	<u>\$ 7,703</u>	<u>42,975</u>	<u>496</u>
Cash Basis Fund Balance			
Special Revenue Funds	\$ 7,703	42,975	496
Permanent Funds	-	-	-
	<u>\$ 7,703</u>	<u>42,975</u>	<u>496</u>

See accompanying independent auditor's report.

Special Revenue		Permanent		Total
Grants	Police Pension	Cemetery	Library	
-	13,820	-	-	110,841
-	5,132	1,400	-	11,386
188,480	-	-	-	188,480
188,480	18,952	1,400	-	310,707
-	28,018	-	-	28,018
156,583	-	-	-	156,583
-	-	-	-	1,576
-	-	-	-	95,997
156,583	28,018	-	-	282,174
31,897	(9,066)	1,400	-	28,533
	1,412			1,412
	(1,142)			(1,142)
31,897	(8,796)	1,400	-	28,803
(50,674)	128,063	42,850	140,000	307,111
(18,777)	119,267	44,250	140,000	335,914
(18,777)	119,267	-	-	151,664
	-	44,250	140,000	184,250
(18,777)	119,267	44,250	140,000	335,914

CITY OF ALGONA, IOWA
 SCHEDULE OF INDEBTEDNESS
 YEAR ENDED JUNE 30, 2010

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	4.70 - 4.80%	355,000
Downtown construction	January 15, 2004	3.20 - 4.13 %	3,135,000
Fire truck	March 1, 2010	4.15%	180,000
Revenue bonds:			
LOST swimming pool	October 13, 1999	5.50 - 5.90 %	\$ 2,325,000
Sewer Revenue interim financing	July 29, 2009	3.00%	240,000

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
75,000	-	75,000	-	3,900	-
95,000	-	30,000	65,000	4,470	-
2,485,000	-	200,000	2,285,000	91,073	-
-	180,000	-	180,000	-	-
<u>\$ 2,655,000</u>	<u>180,000</u>	<u>305,000</u>	<u>2,530,000</u>	<u>99,443</u>	<u>-</u>
\$ 1,110,000	-	1,110,000	-	32,055	-
-	240,000	-	240,000	-	-
<u>\$ 1,110,000</u>	<u>240,000</u>	<u>1,110,000</u>	<u>240,000</u>	<u>32,055</u>	<u>-</u>

CITY OF ALGONA, IOWA

Schedule 3

BOND AND NOTE MATURITIES

JUNE 30, 2010

Year Ending June 30,	GO Capital Loan Issued Feb 1, 2003		GO Capital Loan Issued Mar 1, 2010		Downtown Construction Issued Jan 15, 2004		Total GO Notes
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2011	4.70	\$ 30,000	4.15	\$ 97,116	3.20	\$ 205,000	332,116
2012	4.80	35,000	4.15	32,188	3.40	215,000	282,188
2013		-	4.15	33,538	3.40	235,000	268,538
2014		-	4.15	17,158	3.60	245,000	262,158
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>\$ 65,000</u>		<u>\$ 180,000</u>		<u>\$ 2,285,000</u>	<u>2,530,000</u>

Year Ending June 30,	Sewer Revenue Interim Financing Issued Jul 29, 2009	
	Interest Rates	Amount
2010	3.00	<u>\$ 240,000</u>
		<u>\$ 240,000</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 EIGHT YEARS ENDED JUNE 30:

	2010	2009	2008	2007	2006	2005	2004	2003
Receipts								
Property tax	\$ 2,539,420	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	97,021	165,357	76,675	78,557	56,343	49,579	27,690	-
Other city tax	796,892	831,293	845,597	802,527	710,103	692,992	530,389	476,878
Licenses and permits	32,830	23,795	37,173	35,972	29,319	30,038	27,685	28,901
Use of money and property	144,682	175,501	255,610	246,927	189,380	145,867	104,994	95,177
Intergovernmental	1,454,755	1,555,051	1,525,121	1,617,236	1,694,951	1,062,995	1,140,362	1,415,445
Charges for service	285,298	363,649	341,674	292,661	309,657	273,012	278,419	247,576
Special assessments	692	757	-	867	1,304	1,261	12,951	4,165
Miscellaneous	150,740	183,547	205,401	238,570	211,847	275,771	287,892	182,045
	<u>\$ 5,502,330</u>	<u>5,726,781</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>
Disbursements								
Operating:								
Public safety	\$ 1,278,908	1,296,767	1,202,407	1,193,898	1,117,298	1,114,164	1,099,348	1,275,436
Public works	1,390,527	1,488,279	1,158,560	2,115,829	1,350,070	953,509	1,280,864	1,239,214
Health and social services	9,835	9,922	8,513	8,536	8,715	8,777	8,643	8,794
Culture and recreation	2,284,343	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	247,162	377,632	773,642	226,215	809,924	490,037	126,692	225,860
General government	784,199	680,519	564,402	501,743	471,960	442,872	548,522	453,399
Debt service	405,343	406,113	401,195	395,745	425,935	461,951	405,699	367,576
Capital projects	177,795	-	10,443	195,709	507,361	1,339,544	1,314,552	82,773
	<u>\$ 6,578,112</u>	<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 OF FINANCIAL INFORMATION
(UNAUDITED)
June 30, 2010

Schedule 5

January 1, 2008 Valuations (taxes payable July 1, 2009 to June 30, 2010)		
	100% Actual Value	Taxable Value (with Rollback)
Residential	\$ 185,997,048	\$ 84,794,683
Commercial	59,202,774	59,202,774
Industrial	23,794,203	23,794,203
Railroad	1,024,587	1,024,587
Utilities	<u>2,508,602</u>	<u>2,508,602</u>
Gross valuation	272,527,214	171,324,849
Less military exemption	<u>(833,400)</u>	<u>(833,400)</u>
Net valuation	\$ <u>271,693,814</u>	\$ <u>170,491,449</u>
TIF increment (used to compute debt service levies and constitutional debt limit)	2,976,528	2,976,528
Taxed separately		
Agricultural land	600,324	563,433
Agricultural buildings	-	-
Gas and electricity utility property	2,508,602	2,508,602

2008 Gross Taxable Valuation by Class of Property		
		Percent Total
Residential	\$ 84,794,683	49.49%
Commercial, Industrial, Utility*	85,505,579	49.91%
Railroad	<u>1,024,587</u>	<u>.60%</u>
Total gross taxable valuation	\$ <u>171,324,849</u>	<u>100.00%</u>

* Includes gas and electric utility property but excludes TIF increment, agricultural land and agricultural buildings.

CITY OF ALGONA, IOWA

SCHEDULE OF FINANCIAL INFORMATION
(UNAUDITED)
June 30, 2010

TREND OF VALUATIONS

Assessment Year	Payable Fiscal Year	100% Actual Valuation	Taxable Valuation (with Rollback)	TIF Increment
2001	2002-03	207,007,532	138,858,537	
2002	2003-04	211,020,084	140,989,805	961,789
2003	2004-05	233,517,198	147,382,559	1,637,765
2004	2005-06	239,356,724	151,498,721	1,742,646
2005	2006-07	242,328,824	149,283,934	2,417,969
2006	2007-08	246,806,639	152,910,185	2,435,229
2007	2008-09	269,385,874	160,425,731	5,308,825
2008	2009-10	276,104,066	170,491,449	2,976,528

The 100% Actual Valuations, before rollback, 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	01/01/09 Actual Valuation	01/01/09 Taxable Valuation
Snap-On Tools	Industrial & Agricultural	6,157,004	6,154,183
Pioneer Hi-Bred Corn Co.	Industrial	5,679,591	5,679,591
Druggists Mutual Insurance Co.	Commercial	3,783,471	3,783,471
Sears, Roebuck and Co.	Commercial	2,736,864	2,736,864
Hjelmeland Family, LP	Commercial & Residential	2,575,345	2,561,480
Flint Hills Resources, LP	Industrial & Commercial	2,245,010	2,245,010
Hormel & Co.	Industrial & Commercial	2,168,217	2,168,217
Schlitz, Sharon K.	Residential & Industrial	2,057,391	1,523,871
Algona Medical Clinic LLC	Commercial	1,975,143	1,975,143
Sbemco International	Industrial	1,931,319	1,931,319

DIRECT DEBT

General Obligation Debt

Date of Issue	Original Amount	Purpose	Final Maturity	Principal Outstanding as of 06/30/10
02/02	355,000	Municipal Equipment	01/12	65,000
01/04	3,135,000	Street Imp/Refunding	06/19	2,285,000
03/10	180,000	Municipal Equipment	03/14	180,000
Subtotal				2,530,000

CITY OF ALGONA, IOWA

SCHEDULE OF FINANCIAL INFORMATION
(UNAUDITED)
June 30, 2010

The City has revenue debt outstanding payable solely from sewer revenues. This debt is not subject to the City's debt limit. The balance outstanding is as follows:

Date of Issue	Original Amount	Purpose	Security	Final Maturity	Principal Outstanding as of 06/30/10
07/09	240,000	Sewer bond	Sewer revenue	07/10	240,000

INDIRECT GENERAL OBLIGATION DEBT

	01/01/09 Taxable Valuation	Percent in City	General Obligation Debt	City's Proportionate Share
Kossuth County	1,038,263,963	15.56%	-	-
Algona Community School District	482,221,246	36.20%	-	-
Iowa Lakes Community College	964,770,722	3.88%	715,000	<u>24,742</u>
City share of total overlapping debt				<u>24,742</u>

DEBT RATIOS

	General Obligation Debt	Debt/Actual Market Value (\$272,527,214)	Debt / 5,282 Population
General Obligation Debt	2,530,000	0.92%	478.99
City's share of overlapping debt	24,742	-0%	5.25

TAX RATES

	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	FY 09-10 /\$1,000
Kossuth County	6.89024	6.77451	5.95434	5.99245	6.02397	5.82217
City of Algona	14.87301	15.05648	15.41274	15.09369	14.81426	14.44359
Algona Comm School District	12.38939	11.63098	10.91056	11.03732	12.37567	12.38999
Area II Community College	.71942	.77966	.83196	.73979	.75850	.78134
County Assessor	.33052	.28237	.32936	.31187	.31975	.36632
Hospital	.36362	.35749	.34218	.33932	.32818	.33932
Agricultural Extension	.09152	.08997	.08612	.08540	.08259	.07224
State of Iowa	.00400	.00400	.00400	.00350	.00350	.00340
Total Tax Rate City Resident	<u>35.66172</u>	<u>34.97546</u>	<u>33.87126</u>	<u>33.60334</u>	<u>34.70642</u>	<u>34.21837</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, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 12, 2011. 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 an 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in I-A-10 and I-B-10 in the Schedule of Findings to be material weaknesses.

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 II of the accompanying Schedule of Findings.

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

This report, 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.

January 12, 2011

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2010

Part I: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

I-A-10 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.

I-B-10 Monitoring – 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, 2010

Part II: Other Findings Related to Statutory Reporting:

- II-A-10 Certified Budget - Disbursements during the year ended June 30, 2010 were within the budgeted limits in all programs.
- II-B-10 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.
- II-C-10 Travel Expense - No disbursements of City money for travel expense of spouses of City officials or employees were noted.
- II-D-10 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Kim Weaver, Council Member Owner of Weavers	Revolving Loan Fund Clothing	\$ 9,000 862
Rick Remy, Council Member Owner of Sign Works, Ink	Screen printing (prior to election to council) Screen printing (after election to council)	2,238 2,861

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Councilmember Weaver do not appear to represent conflicts of interest since the purchase of clothing was less than \$1,500 during the year, and Council Member Weaver abstained from voting on the revolving loan fund proceeds.

The transactions with Council Member Remy appear to be in violation of Chapter 362.5(10). Paragraph 7 of this Code section allows for the continuation of a contract made prior to the time the officer was elected, but does not allow for a renewal of the contract without following competitive bid procedures. While the City did not have a formal contract with Council Member Remy, it has a long history of purchasing clothing for the Parks and Recreation program from the Sign Works, Ink business.

Recommendation – The City should consult with your attorney to see what if any action needs to be taken to remedy this situation.

Response – We will consult with our attorney.

Conclusion – Response accepted.

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2010

II-E-10 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.

II-F-10 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not. We noted more that the council entered a closed session on more than one occasion without documenting the affirmative roll call vote in the minutes as required by Chapter 21.5 of the Code of Iowa.

Recommendation – We recommend that when entering a closed session, the city council use an affirmative roll call vote as required by Chapter 21.5 of the Code of Iowa.

Response – We believe that we followed the guidance as detailed in Chapter 21.5 of the Code of Iowa except that the roll call vote was not documented in the minutes.

Conclusion – Response accepted.

II-G-10 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.

II-H-10 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.

II-I-10 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 May 12, 2010 indicated that no instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

II-J-10 Financial Condition – The Grants Fund had a deficit balance at June 30, 2010 of \$18,777.

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 will be eliminated by future grant receipts.

Conclusion – Response accepted.