

**CITY OF ALGONA, IOWA**

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

**JUNE 30, 2011**

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

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CITY OF ALGONA, IOWA

OFFICIALS

**(Before January 2011)**

<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

**(After January 2011)**

Lynn Kueck	Mayor	Jan 2012
Chad Besch	Council Member	Jan 2014
Sara Curtis	Council Member	Jan 2014
Josh Aanonson	Council Member	Jan 2013
Harley Kohlhaas	Council Member	Jan 2013
Rick Remy	Council Member	Jan 2013
Paige Hollinger	Council Member	Jan 2014
Cole O'Donnell	City Administrator	through Nov 2011
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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Algona, Iowa, as of and for the year ended June 30, 2011, 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 auditing standards generally accepted in the United States 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 accounting principles generally accepted in the United States.

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 accounting principles generally accepted in the United States.

As described in Note 14, the City has chosen to present condensed financial information for its discretely presented component unit since complete financial statements presented in accordance with accounting principles generally accepted in the United States of America for the component unit for the year ended December 31, 2010, which was also audited by us, are available. The report, dated April 25, 2011, 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, the discretely presented component unit, each major fund, and the aggregate remaining information of the City of Algona as of June 30, 2011, 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 21, 2012 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 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 eight years ended June 30, 2010 (none of which are presented herein). We expressed qualified opinions on the financial statements for the years ended June 30, 2010, 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 another comprehensive basis of accounting for each of the eight years ended June 30, 2010. 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 21, 2012

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Algona, Iowa (the City) 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, 2011. We encourage readers to consider this information in conjunction with the City of Algona's financial statements, which follow.

### **2011 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities increased 9.6%, or approximately \$545,000, from fiscal 2010 to fiscal 2011. Property tax increased approximately \$232,000 and local option sales tax increased by approximately \$86,000.
- Disbursements decreased 5.3%, or approximately \$350,000 in fiscal 2011 from fiscal 2010. Debt service decreased approximately \$1.1 million and public works increased by approximately \$577,000.
- The City's total cash basis net assets increased \$366,443 from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities increased approximately \$111,000 and the assets of the business type activities increased by approximately \$255,000.

### **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 accounting principles generally accepted in the United States. 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.

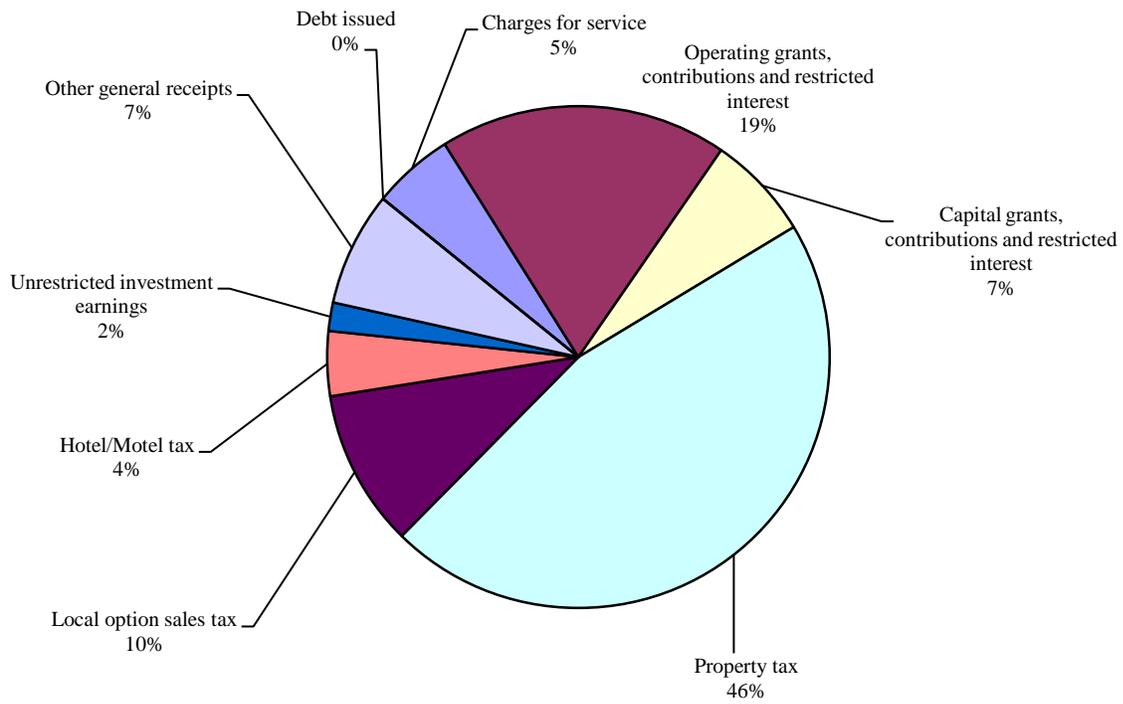
## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$3.7 million to \$3.8 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

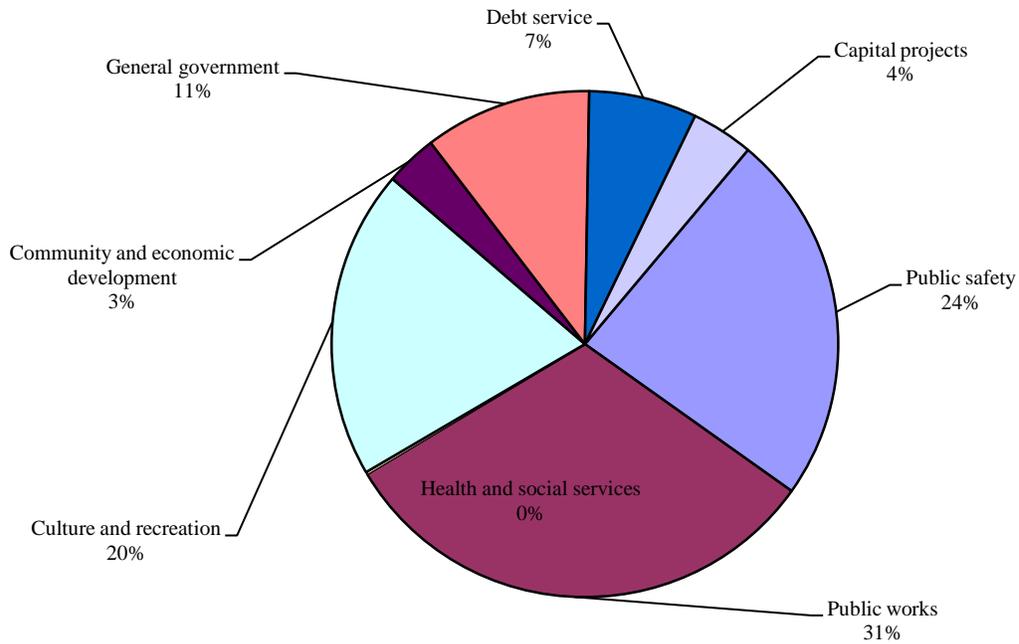
Changes in Cash Basis Net Assets of Governmental Activities  
(Expressed in Thousands)

	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service	\$ 326	\$ 285
Operating grants, contributions and restricted interest	1,155	1,238
Capital grants, contributions and restricted interest	419	216
General receipts:		
Property tax	2,868	2,636
Local option sales tax	629	543
Hotel/motel tax	259	254
Unrestricted interest on investment	114	34
Other general receipts	457	296
Debt issued	-	180
Total receipts	<u>6,227</u>	<u>5,682</u>
Disbursements:		
Public safety	1,478	1,279
Public works	1,967	1,390
Health and social services	9	10
Culture and recreation	1,229	1,143
Community and economic development	205	247
General government	665	784
Debt service	429	1,547
Capital projects	246	178
Total disbursements	<u>6,228</u>	<u>6,578</u>
(Decrease) in cash basis net assets before transfers	(1)	(896)
Transfers, net	<u>112</u>	<u>118</u>
Increase (decrease) in cash basis net assets	111	(778)
Cash basis net assets beginning of year	<u>3,678</u>	<u>4,456</u>
Cash basis net assets end of year	<u>\$ 3,789</u>	<u>\$ 3,678</u>

### Receipts by Source



### Disbursements by Function



The City's total receipts for governmental activities increased by 9.6%, or approximately \$545,000. The total cost of all programs and services decreased by approximately \$350,000 or 5.3%, with no new programs added this year.

The cost of all governmental activities this year was approximately \$6.2 million compared to \$6.6 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 \$4.3 million because some of the cost was paid by those directly benefited from the programs (\$326,000) or by other governments and organizations that subsidized certain programs with grants, receipts, including intergovernmental aid and fees for service (\$1,574,373). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$3.7 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,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 783	788
Storm Sewer	121	118
Ambulance	680	510
Housing	61	40
General receipts:		
Unrestricted interest on investments	11	17
Intergovernmental (sewer)	619	-
Miscellaneous	11	1
Debt issued	1,162	240
Total receipts	<u>3,448</u>	<u>1,714</u>
Disbursements:		
Sewer	2,312	660
Storm Sewer	65	40
Ambulance	692	454
Housing	12	40
Total disbursements and transfers	<u>3,081</u>	<u>1,194</u>
Increase in cash basis net assets before transfers	367	520
Transfers	<u>(112)</u>	<u>(118)</u>
Increase in cash basis net assets	255	402
Cash basis net assets beginning of year	<u>1,569</u>	<u>1,167</u>
Cash basis net assets end of year	<u>\$ 1,824</u>	<u>1,569</u>

Total business type activities receipts for the fiscal year were approximately \$3.4 million compared to \$1.7 last year.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Algona completed the year, its governmental funds reported a combined fund balance of \$3,788,641, an increase of \$111,006 from last year's total of \$3,677,635. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased by \$1,910 to \$2,445,234 as a result of regular City operations during the year.
- The LOST (Local Option Sales Tax) Revenue Fund increased from \$352,690 to \$656,305 during the fiscal year. The increase of \$303,615 resulted from tax collections exceeding the requirements against this fund, as planned.
- The Employee Benefits Fund Balance collected \$675,550 in property tax which was used in its entirety to pay for City employee benefits.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Sewer Fund cash balance increased by \$202,510 to \$1,081,072, due primarily to the issuance of bonds to finance the planning of a major improvement project to the City's wastewater treatment facilities. The improvement project has \$764,153 in work to complete and for the City to pay as of June 30, 2011.
- The Ambulance Fund had a decrease in fund balance of \$9,727 despite adding a new ambulance at a cost of approximately \$103,000.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The amendment was approved on May 16, 2011 and resulted in an increase in operating disbursements related to public safety, public works, culture and recreation and business type/enterprises funds and decreased operating disbursements for capital projects. The amendment also increased budgeted revenues for intergovernmental and miscellaneous receipts and recorded additional revenues from other financing sources. The City exceeded budgeted amounts in the Debt Service function during the fiscal year ended June 30, 2011.

## **COMPONENT UNIT**

The City has chosen to present condensed financial information for its component unit, Algona Municipal Utilities (see Note 14). Complete financial statements for the component unit for the year ended December 31, 2010, which was also audited by us, are available at 104 West Call Street, Algona, Iowa.

## **DEBT ADMINISTRATION**

At June 30, 2011, the City had approximately \$3,377,000 in bonds and other long-term debt, compared to approximately \$2,770,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	Year ended June 30,	
	2011	2010
General obligation bonds	\$ 2,215	\$ 2,530
Revenue notes	1,162	240
<b>Total</b>	<b>\$ 3,377</b>	<b>\$ 2,770</b>

Debt increased \$607,000 as a result of issuing approximately \$1,162,000 for sewer revenue bonds. The City's outstanding general obligation debt was paid as originally planned.

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 \$2,215,574 is significantly below its constitutional debt limit of \$15.3 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 3.4% versus 3.9% in 2011. The county average is well below the state average of 2.7%. 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, 2011

Functions/Programs	Disbursements	Program Receipts		
		Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
<b>Governmental activities:</b>				
Public safety	\$ 1,476,767	-	126,326	9,920
Public works	1,967,196	-	451,074	409,408
Health and social services	9,836	-	-	-
Culture and recreation	1,229,391	325,814	40,326	-
Community and economic development	204,887	-	-	-
General government	665,255	-	517,655	-
Debt service	429,332	-	19,663	-
Capital projects	245,709	-	-	-
<b>Total government activities</b>	<b>6,228,373</b>	<b>325,814</b>	<b>1,155,044</b>	<b>419,328</b>
<b>Business type activities:</b>				
Sewer	2,311,174	782,699	-	618,939
Storm Sewer	65,156	121,568	-	-
Ambulance	692,312	679,789	-	-
Housing	12,119	61,297	-	-
<b>Total business type activities</b>	<b>3,080,761</b>	<b>1,645,353</b>	<b>-</b>	<b>618,939</b>
<b>Total</b>	<b>\$ 9,309,134</b>	<b>1,971,167</b>	<b>1,155,044</b>	<b>1,038,267</b>
<b>General Receipts</b>				
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				
<b>Total general receipts and transfers</b>				
Change in cash basis net assets				
Cash beginning of year				
Cash end of year				
<b>Cash Basis Net Assets</b>				
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
(1,340,521)	-	(1,340,521)
(1,106,714)	-	(1,106,714)
(9,836)	-	(9,836)
(863,251)	-	(863,251)
(204,887)	-	(204,887)
(147,600)	-	(147,600)
(409,669)	-	(409,669)
(245,709)	-	(245,709)
(4,328,187)	-	(4,328,187)
-	(909,536)	(909,536)
-	56,412	56,412
-	(12,523)	(12,523)
-	49,178	49,178
-	(816,469)	(816,469)
(4,328,187)	(816,469)	(5,144,656)
2,416,996	-	2,416,996
57,154	-	57,154
394,564	-	394,564
629,138	-	629,138
258,957	-	258,957
113,532	11,356	124,888
457,256	10,567	467,823
-	1,161,579	1,161,579
111,596	(111,596)	-
4,439,193	1,071,906	5,511,099
111,006	255,437	366,443
3,677,635	1,569,120	5,246,755
\$ 3,788,641	1,824,557	5,613,198
\$ 45,750	-	45,750
140,000	-	140,000
208,482	-	208,482
9,439	-	9,439
1,117,908	-	1,117,908
2,267,062	1,824,557	4,091,619
\$ 3,788,641	1,824,557	5,613,198

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, 2011

	General	Special Revenue	
		Employee Benefits	LOST
Receipts:			
Property tax	\$ 1,727,125	675,660	-
Other city tax	258,956	-	629,139
Licenses and permits	27,437	-	-
Use of money and property	108,033	-	3,176
Intergovernmental	652,736	-	-
Charges for service	325,814	-	-
Special assessments	8,872	-	-
Miscellaneous	134,091	-	250,000
	<u>3,243,064</u>	<u>675,660</u>	<u>882,315</u>
Disbursements:			
Public safety	1,448,217	-	-
Public works	1,038,318	-	-
Health and social services	9,836	-	-
Culture and recreation	1,229,391	-	-
Community and economic development	148,360	-	-
General government	665,255	-	-
Debt service	-	-	-
Capital projects	245,709	-	-
	<u>4,785,086</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	(1,542,022)	675,660	882,315
Other financing sources (uses):			
Sale of Assets	28,000	-	-
Debt issued	-	-	-
Operating transfers in	1,534,612	-	67,000
Operating transfers out	(22,500)	(675,660)	(645,700)
	<u>1,540,112</u>	<u>(675,660)</u>	<u>(578,700)</u>
Net change in cash balances	(1,910)	-	303,615
Balance beginning of year	<u>2,447,144</u>	<u>-</u>	<u>352,690</u>
Balance end of year	<u>2,445,234</u>	<u>-</u>	<u>656,305</u>
Cash basis fund balance			
Nonspendable	-	-	-
Restricted for:			
Debt service	-	-	-
Streets	-	-	-
Capital projects	65,271	-	-
Other purposes	108,231	-	656,305
Committed	413,322	-	-
Assigned	214,475	-	-
Unassigned	1,643,935	-	-
Total cash basis fund balances	<u>\$ 2,445,234</u>	<u>-</u>	<u>656,305</u>

See notes to financial statements.

Exhibit B

Other Nonmajor Governmental Funds	Total
465,929	2,868,714
-	888,095
-	27,437
11,179	122,388
921,636	1,574,372
-	325,814
-	8,872
-	384,091
<u>1,398,744</u>	<u>6,199,783</u>
28,550	1,476,767
928,878	1,967,196
-	9,836
-	1,229,391
56,527	204,887
-	665,255
429,332	429,332
-	245,709
<u>1,443,287</u>	<u>6,228,373</u>
(44,543)	(28,590)
-	28,000
-	-
3,903	1,605,515
(150,059)	(1,493,919)
<u>(146,156)</u>	<u>139,596</u>
(190,699)	111,006
877,801	3,677,635
<u>687,102</u>	<u>3,788,641</u>
185,750	185,750
9,439	9,439
208,482	208,482
124,513	189,784
163,588	928,124
-	413,322
-	214,475
(4,670)	1,639,265
<u>687,102</u>	<u>3,788,641</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, 2011

	Sewer	Ambulance	Other Nonmajor Proprietary Funds	Total
Receipts				
Charges for service	\$ 782,699	679,789	182,865	1,645,353
Disbursements				
Total operating disbursements	549,249	544,973	70,135	1,164,357
	549,249	544,973	70,135	1,164,357
Excess (deficiency) of operating receipts over (under) operating disbursements	233,450	134,816	112,730	480,996
Non-operating receipts (disbursements):				
Interest on investments	6,996	2,796	1,564	11,356
Intergovernmental	618,939	-	-	618,939
Miscellaneous	10,567	-	-	10,567
Debt Service	(240,000)	-	-	(240,000)
Capital Expenditures	(1,521,925)	(147,339)	(7,140)	(1,676,404)
Net non-operating receipts (disbursements)	(1,125,423)	(144,543)	(5,576)	(1,275,542)
Excess of receipts over disbursements	(891,973)	(9,727)	107,154	(794,546)
Other financing sources (uses):				
Debt issued	1,161,579	-	-	1,161,579
Operating transfers out	(67,096)	-	(44,500)	(111,596)
	1,094,483	-	(44,500)	1,049,983
Net change in cash balances	202,510	(9,727)	62,654	255,437
Balance beginning of year	878,562	555,486	135,072	1,569,120
Balance end of year	\$ 1,081,072	545,759	197,726	1,824,557
Cash Basis Fund Balances				
Unrestricted	\$ 1,081,072	545,759	197,726	1,824,557
	\$ 1,081,072	545,759	197,726	1,824,557

See notes to financial statements.

CITY OF ALGONA, IOWA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**(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, storm sewer, and ambulance 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. The City has a component unit, Algona Municipal Utilities, meeting this definition and is described in the following paragraph. .

**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 accounting in conformity with accounting principles generally accepted in the United States. Complete financial statements, for the year ended December 31, 2010, 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 Management Commission, Kossuth County E911 Board, and the North Iowa Council of Governments.

**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

CITY OF ALGONA, IOWA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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 the following categories/components:

*Nonexpendable restricted net assets* are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

*Expendable restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding categories. 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 from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

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

CITY OF ALGONA, IOWA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

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 accounting principles generally accepted in the United States.

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. 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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less restrictive classifications - committed, assigned, and then unassigned fund balances.

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. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

*Nonspendable* – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

*Restricted* – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

CITY OF ALGONA, IOWA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

*Committed* – Amounts restricted to specific purposes when constraints placed on the use of resources are internally imposed in formal action by the City Council.

*Assigned* – Amounts the Council intends to use for specific purposes.

*Unassigned* – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

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

F. Subsequent Events

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through January 21, 2012, the date the financial statements were issued.

(2) **Cash and Investments**

The City's deposits in banks at June 30, 2011 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. More than 5% of the City's total cash and investments at June 30, 2011 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

June 30, 2011

**(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>
2012	281,897	83,593	78,000	64,530	359,897	148,123
2013	267,897	73,603	80,000	62,190	347,897	135,793
2014	280,780	64,276	83,000	59,790	363,780	124,066
2015	255,000	54,393	86,000	57,300	341,000	111,693
2016	265,000	44,958	89,000	54,720	354,000	99,678
2017-2021	865,000	70,627	490,000	231,750	1,355,000	302,377
2022-2026	-	-	573,000	153,480	573,000	153,480
2027-2031	-	-	672,000	61,770	672,000	61,770
	<u>\$ 2,215,574</u>	<u>\$ 391,450</u>	<u>\$ 2,151,000</u>	<u>\$ 745,530</u>	<u>\$ 4,366,574</u>	<u>\$ 1,136,980</u>

The principal and interest due on the sewer revenue notes as listed above is presented as though the City has been advanced the entire \$2,151,000 authorized under the bond agreement. The loan funds are reimbursed as the City incurs expenses for the sewer improvement project. As of June 30, 2011 the City had only received \$1,161,579 in advances under this agreement.

Revenue Notes

The City has pledged future sewer customer receipts new of specific operating disbursements to repay \$2,151,000 in revenue bonds issued in September 2010. Proceeds from the notes provided financing for the improvements to the wastewater treatment system. The revenue bonds bear interest at 3%, and are due on June 1 and December 1 beginning in 2011 and continuing until June, 2031. Advances on this revenue note at June 30, 2011 are \$1,161,579.

A summary of changes in long-term debt for the year ended June 30, 2011 is as follows:

	General Obligation Bonds	Revenue Bonds	Total
Balance, beginning of year	\$ 2,530,000	240,000	2,770,000
Increases	-	1,161,579	1,161,579
Decreases	<u>314,426</u>	<u>240,000</u>	<u>554,426</u>
Balance, end of year	<u>\$ 2,215,574</u>	<u>1,161,579</u>	<u>3,377,153</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, 2011

**(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 4.50% of their annual salary and the City is required to contribute 6.95% 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, 2011, 2010, and 2009 were \$143,272, \$125,401, and \$110,847 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) 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 1 inactive member in the plan. Participants must be age 55 or older at retirement.

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 \$328 for single coverage and approximately \$1,005 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$349,613 and plan members eligible for benefits contributed approximately \$45,057 to the plan.

**(6) 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.

Certain unused sick leave, while not payable to a City employee upon retirement, may be credited to a “benefit account”. Amounts credited to the “benefit account” are based on an employee’s pay rate, their accumulated sick leave hours, and their years of service. Funds deposited to these accounts may be used by a former employee for certain health care related expenses.

CITY OF ALGONA, IOWA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

The City's approximate liability for earned vacation and unused accumulated sick leave at June 30, 2011, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 82,682
Sick Leave	<u>375,271</u>
Balance at June 30, 2011	<u>\$ 457,953</u>

This liability has been computed based on rates of pay in effect at June 30, 2011.

**(7) Interfund Transfers**

The detail of interfund transfers, for the year ended June 30, 2011 is as follows:

Transfer In	Transfer From	Amount
General	Capital Projects-Downtown	\$ 150,060
	Local Option Sales Tax	645,700
	Trust and Agency-Employee Benefits	675,660
	Enterprise-Sewer	<u>63,192</u>
		1,534,612
LOST	Enterprise-Storm Sewer	44,500
	General	<u>22,500</u>
		67,000
Debt Service	Enterprise-Sewer	<u>3,903</u>
		<u>\$ 1,605,515</u>

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

**(8) 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 645 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

CITY OF ALGONA, IOWA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

years of membership and are maintained to equal 150 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, 2011 were \$173,009.

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. For members requiring specific coverage from \$3,000,000 to \$12,000,000, 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, 2011, 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. 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.

**(9) 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

CITY OF ALGONA, IOWA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

of July 1, 2010 and are payable in September 2010 and March 2011 of the fiscal year. The valuation for the taxes was based on January 1, 2009 assessed property valuations, and was based on a certified budget from March of 2010.

**(10) Deficit Fund Balance**

The Federal Grant Fund had a deficit balance of \$4,670 at June 30, 2011. This balance improved \$14,107 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.

**(11) Committed and Assigned Fund Balance**

The general fund included committed funds of \$413,322 and assigned funds of \$214,475 at June 30, 2011. The detail of these amounts is as follows:

Committed	Amount
TV Grant	\$ 133,894
Revolving Loan Fund	272,326
Sick Leave Conversion	<u>7,102</u>
Balance at June 30, 2011	<u>\$ 413,322</u>
Assigned	Amount
Drug Abuse Education	\$ 17,294
Self Insurance	81,402
Airport - FAA	10,084
Aquatic Center	<u>105,695</u>
Balance at June 30, 2011	<u>\$ 214,475</u>

**(12) 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 \$80,000 at June 30, 2011. 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 \$-0- and \$10,000 respectively at June 30, 2011. The commitments are each paid with annual installments of \$10,000. In 2008, the City agreed to contribute \$30,000 to the Kossuth County Nature Center over a period of five years. The amount remaining on this commitment is \$6,000.

The City entered into a construction contract to make improvements to its wastewater treatment system. The total contract was for \$2.1 million dollars with approximately \$764,000 in work remaining to be completed and paid for as of June 30, 2011.

**(13) Operating Leases**

The City leases a copy machine under an operating lease agreement calling for 60 monthly payments of \$232. Future minimum lease payments due on this above operating lease is as follows:

CITY OF ALGONA, IOWA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Year Ended June 30,	Amount
2012	\$ 2,784
2013	2,784
2014	2,784
2015	2,784
2016	232
Total	<u>\$ 11,368</u>

**(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, from the Utility's financial statements which were prepared in accordance with accounting principles generally accepted in the United States of America, for its discretely presented component unit. Following is the condensed financial information for the Utility for the year ended December 31, 2010.

Condensed Statements of Net Assets			
	Electric Department	Water Department	Communications Department
<b>Assets</b>			
Current assets	\$ 3,774,789	1,785,421	1,361,830
Capital assets, net of accumulated depreciation	19,691,005	2,342,371	3,684,120
Other	4,672,628	138,262	170,811
<b>Total assets</b>	<u>28,138,422</u>	<u>4,266,054</u>	<u>5,216,761</u>
<b>Liabilities</b>			
Current liabilities	1,079,022	127,983	921,585
Other liabilities	1,566,559	1,324,567	5,666,793
<b>Total liabilities</b>	<u>2,645,581</u>	<u>1,452,550</u>	<u>6,588,378</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	17,866,005	2,347,033	244,120
Restricted – expendable	273,500	124,680	-
Unrestricted (deficit)	7,353,336	341,791	(1,615,737)
<b>Total net assets</b>	<u>\$ 25,492,841</u>	<u>2,813,504</u>	<u>(1,371,617)</u>

Condensed Statements of Income			
	Electric Department	Water Department	Communications Department
<b>Operating revenues:</b>			
Electric sales	\$ 10,146,870	-	-
Water sales	-	892,410	-
Communication sales	-	-	3,095,578
<b>Total operating revenues</b>	<u>\$ 10,146,870</u>	<u>892,410</u>	<u>3,095,578</u>

CITY OF ALGONA, IOWA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**Operating expenses:**

Production – power/water/programming	\$ 6,207,028	166,748	1,487,335
Depreciation	1,315,506	113,470	362,321
Transmission and distribution	382,288	127,026	163,167
General and administrative	<u>1,587,189</u>	<u>351,972</u>	<u>876,548</u>
<b>Total operating expenses</b>	<u>9,492,011</u>	<u>759,216</u>	<u>2,889,371</u>
<b>Operating income</b>	<u>654,859</u>	<u>133,194</u>	<u>206,207</u>

**Non-operating revenues (expenses):**

Interest income	144,226	5,873	(179)
Interest expense	(81,938)	(6,850)	(188,891)
Other non-operating expenses	<u>(5,315)</u>	<u>(16,227)</u>	<u>(128,436)</u>
<b>Total non-operating expenses</b>	<u>56,973</u>	<u>(17,204)</u>	<u>(317,506)</u>

<b>Net income (loss)</b>	<u>\$ 711,832</u>	<u>115,990</u>	<u>(111,299)</u>
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**Condensed Statements of Changes in Net Assets**

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	<u>Electric Department</u>	<u>Water Department</u>	<u>Communications Department</u>
Net assets (deficit) beginning of year	\$ 24,781,009	\$ 2,697,514	\$ (1,260,318)
Net income (loss)	<u>711,832</u>	<u>115,990</u>	<u>(111,299)</u>
<b>Net assets end of year</b>	<u>\$ 25,492,841</u>	<u>\$ 2,813,504</u>	<u>\$ (1,371,617)</u>

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**Condensed Statements of Cash Flows**

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	<u>Electric Department</u>	<u>Water Department</u>	<u>Communications Department</u>
Cash flows from operating activities	\$ 2,121,527	\$ 249,365	\$ 620,356
Cash flows from non-capital financing activities	(493,205)	(38,050)	(20,834)
Cash flows from capital and related financing activities	(726,994)	1,261,192	555,953
Cash flows from investing activities	<u>127,632</u>	<u>19,722</u>	<u>(47,168)</u>
Increase in cash	1,028,960	1,492,229	1,008,307
Cash - beginning of year	<u>1,159,684</u>	<u>280,003</u>	<u>148,990</u>
Cash – end of year	<u>\$ 2,188,644</u>	<u>\$ 1,772,232</u>	<u>\$ 1,157,297</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, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts:			
Property tax	\$ 2,868,714	-	2,868,714
Other city taxes	888,095	-	888,095
Licenses and permits	27,437	-	27,437
Use of money and property	122,388	11,356	133,744
Intergovernmental	1,574,372	618,939	2,193,311
Charges for service	325,814	1,645,353	1,971,167
Special assessments	8,872	-	8,872
Miscellaneous	384,091	10,567	394,658
	<u>6,199,783</u>	<u>2,286,215</u>	<u>8,485,998</u>
Disbursements:			
Program			
Public safety	1,476,767	-	1,476,767
Public works	1,967,196	-	1,967,196
Health and social services	9,836	-	9,836
Culture and recreation	1,229,391	-	1,229,391
Community and economic development	204,887	-	204,887
General government	665,255	-	665,255
Debt service	429,332	-	429,332
Capital projects	245,709	-	245,709
Business type activities	-	3,080,761	3,080,761
	<u>6,228,373</u>	<u>3,080,761</u>	<u>9,309,134</u>
Excess (deficiency) of receipts over disbursements	(28,590)	(794,546)	(823,136)
Other financing sources	139,596	1,049,983	1,189,579
Excess of receipts and other financing sources over (under) disbursements and other financing uses	111,006	255,437	366,443
Balance beginning of year	<u>3,677,635</u>	<u>1,569,120</u>	<u>5,246,755</u>
Balance end of year	<u>\$ 3,788,641</u>	<u>1,824,557</u>	<u>5,613,198</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
2,777,859	2,777,859	90,855
862,613	986,112	(98,017)
23,695	24,749	2,688
106,347	113,339	20,405
1,840,097	2,078,511	114,800
1,573,896	1,646,034	325,133
4,643	8,543	329
193,507	558,226	(163,568)
<u>7,382,657</u>	<u>8,193,373</u>	<u>292,625</u>
1,558,229	1,605,575	128,808
2,073,075	2,237,865	270,669
9,840	9,840	4
1,150,272	1,272,394	43,003
216,325	219,655	14,768
743,977	753,523	88,268
394,435	412,705	(16,627)
460,000	388,939	143,230
3,807,694	4,019,963	939,202
<u>10,413,847</u>	<u>10,920,459</u>	<u>1,611,325</u>
(3,031,190)	(2,727,086)	1,903,950
<u>3,400,000</u>	<u>3,400,000</u>	<u>(2,210,421)</u>
368,810	672,914	(306,471)
<u>4,567,521</u>	<u>5,246,755</u>	<u>-</u>
<u><u>4,936,331</u></u>	<u><u>5,919,669</u></u>	<u><u>(306,471)</u></u>

CITY OF ALGONA, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2011

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 functional 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 \$810,716 and increased budgeted disbursements by \$506,612. The budget amendment is reflected in the final budgeted amounts. The City exceeded the amount budgeted for debt service by \$16,627 during the fiscal year ended June 30, 2011.

## **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, 2011

	Special Revenue				
	TIF	Road Use Tax	Library	Grow Algona Trees	Grants
Receipts:					
Property tax	\$ 57,154	-	-	-	-
Use of money and property	208	-	2,324	4	-
Intergovernmental	-	517,655	-	-	384,318
	<u>57,362</u>	<u>517,655</u>	<u>2,324</u>	<u>4</u>	<u>384,318</u>
Disbursements:					
Public safety	-	-	-	-	-
Public works	-	558,667	-	-	370,211
Community and economic development	56,527	-	-	-	-
Debt Service	-	-	-	-	-
	<u>56,527</u>	<u>558,667</u>	<u>-</u>	<u>-</u>	<u>370,211</u>
Excess (deficiency) of receipts over (under) disbursements	835	(41,012)	2,324	4	14,107
	<u>835</u>	<u>(41,012)</u>	<u>2,324</u>	<u>4</u>	<u>14,107</u>
Other financing sources (uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balance	835	(41,012)	2,324	4	14,107
Balance beginning of year	7,703	249,494	42,975	496	(18,777)
Balance end of year	<u>\$ 8,538</u>	<u>\$ 208,482</u>	<u>45,299</u>	<u>500</u>	<u>(4,670)</u>
Cash Basis Fund Balance					
Nonspendable	\$ -	-	-	-	-
Restricted for:					
Streets	-	208,482	-	-	-
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	-
Other purposes	8,538.00	-	45,299	500	-
Unassigned	-	-	-	-	(4,670)
	<u>\$ 8,538</u>	<u>\$ 208,482</u>	<u>45,299</u>	<u>500</u>	<u>(4,670)</u>

See accompanying independent auditor's report.

<u>Special Revenue</u>		<u>Capital Projects</u>	<u>Permanent</u>		
<u>Police Pension</u>	<u>Debt Service</u>	<u>Downtown</u>	<u>Cemetery</u>	<u>Library</u>	<u>Total</u>
14,211	394,564	-	-	-	465,929
4,323	845	1,975	1,500	-	11,179
-	19,663	-	-	-	921,636
<u>18,534</u>	<u>415,072</u>	<u>1,975</u>	<u>1,500</u>	<u>-</u>	<u>1,398,744</u>
28,550	-	-	-	-	28,550
-	-	-	-	-	928,878
-	-	-	-	-	56,527
-	429,332	-	-	-	429,332
<u>28,550</u>	<u>429,332</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,443,287</u>
(10,016)	(14,260)	1,975	1,500	-	(44,543)
<u>(10,016)</u>	<u>(14,260)</u>	<u>1,975</u>	<u>1,500</u>	<u>-</u>	<u>(44,543)</u>
-	3,903	-	-	-	3,903
-	-	(150,059)	-	-	(150,059)
<u>-</u>	<u>3,903</u>	<u>(150,059)</u>	<u>-</u>	<u>-</u>	<u>(146,156)</u>
(10,016)	(10,357)	(148,084)	1,500	- -	(190,699)
<u>119,267</u>	<u>19,796</u>	<u>272,597</u>	<u>44,250</u>	<u>140,000</u>	<u>877,801</u>
<u>109,251</u>	<u>9,439</u>	<u>124,513</u>	<u>45,750</u>	<u>140,000</u>	<u>687,102</u>
-	-	-	45,750	140,000	185,750
-	-	-	-	-	208,482
-	9,439	-	-	-	9,439
-	-	124,513	-	-	124,513
109,251	-	-	-	-	163,588
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,670)</u>
<u>109,251</u>	<u>9,439</u>	<u>124,513</u>	<u>45,750</u>	<u>140,000</u>	<u>687,102</u>

CITY OF ALGONA, IOWA

Schedule 2

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
NONMAJOR PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Storm Sewer	Housing	Total
Receipts:			
Charges for service	121,568	61,297	182,865
	<u>121,568</u>	<u>61,297</u>	<u>182,865</u>
Disbursements:			
Operating	58,016	12,119	70,135
Total operating disbursements	<u>58,016</u>	<u>12,119</u>	<u>70,135</u>
Excess (deficiency) of receipts over (under) disbursements	<u>63,552</u>	<u>49,178</u>	<u>112,730</u>
	63,552	49,178	112,730
Non-operating receipts (disbursements)			
Interest on investments	795	769	1,564
Capital expenditures	(7,140)	-	(7,140)
	<u>(6,345)</u>	<u>769</u>	<u>(5,576)</u>
Excess of receipts over disbursements	57,207	49,947 -	107,154
Other financing sources (uses):			
Operating transfers out	(44,500)	-	(44,500)
	<u>(44,500)</u>	<u>-</u>	<u>(44,500)</u>
Net change in cash balances	12,707	49,947	62,654
Balance beginning of year	<u>46,273</u>	<u>88,799</u>	<u>135,072</u>
Balance end of year	<u><u>58,980</u></u>	<u><u>138,746</u></u>	<u><u>197,726</u></u>
Cash Basis Fund Balance			
Unrestricted	<u>58,980</u>	<u>138,746</u>	<u>197,726</u>
	<u><u>58,980</u></u>	<u><u>138,746</u></u>	<u><u>197,726</u></u>

See accompanying independent auditor's report.

CITY OF ALGONA, IOWA  
 SCHEDULE OF INDEBTEDNESS  
 YEAR ENDED JUNE 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Fire department and general equipment	February 1, 2002	4.40 - 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:			
Sewer revenue	October 13, 2010	3.00%	\$ 2,151,000
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
\$ 65,000	-	30,000	35,000	3,090	-
2,285,000	-	205,000	2,080,000	85,073	-
180,000	-	79,426	100,574	7,574	-
<u>\$ 2,530,000</u>	<u>-</u>	<u>314,426</u>	<u>2,215,574</u>	<u>95,737</u>	<u>-</u>
\$ -	1,161,579	-	1,161,579	13,192	-
240,000	-	240,000	-	-	-
<u>\$ 240,000</u>	<u>1,161,579</u>	<u>240,000</u>	<u>1,161,579</u>	<u>13,192</u>	<u>-</u>

CITY OF ALGONA, IOWA

Schedule 4

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	
2012	4.80	\$ 35,000	4.15	\$ 31,897	3.40	\$ 215,000	281,897
2013		-	4.15	32,897	3.40	235,000	267,897
2014		-	4.15	35,780	3.60	245,000	280,780
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>\$ 35,000</u>		<u>\$ 100,574</u>		<u>\$ 2,080,000</u>	<u>2,215,574</u>

Year Ending June 30,	Sewer Revenue Note Issued Oct 13, 2010	
	Interest Rates	Amount
2012	3.00	\$ 78,000
2013	3.00	80,000
2014	3.00	83,000
2015	3.00	86,000
2016	3.00	89,000
2017	3.00	92,000
2018	3.00	95,000
2019	3.00	98,000
2020	3.00	101,000
2021	3.00	104,000
2022	3.00	107,000
2023	3.00	111,000
2024	3.00	115,000
2025	3.00	118,000
2026	3.00	122,000
2027	3.00	126,000
2028	3.00	130,000
2029	3.00	134,000
2030	3.00	139,000
2031	3.00	143,000

\$ 2,151,000 \*\* (Presented as though the City had received all of the Sewer Revenues as of June 30, 2011)

See accompanying independent auditor's report.

CITY OF ALGONA, IOWA

Schedule 5

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

FOR THE NINE YEARS ENDED JUNE 30:

	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Receipts</b>									
Property tax	\$ 2,811,560	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	57,154	97,021	165,357	76,675	78,557	56,343	49,579	27,690	-
Other city tax	888,095	796,892	831,293	845,597	802,527	710,103	692,992	530,389	476,878
Licenses and permits	27,437	32,830	23,795	37,173	35,972	29,319	30,038	27,685	28,901
Use of money and property	122,388	144,682	175,501	255,610	246,927	189,380	145,867	104,994	95,177
Intergovernmental	1,574,372	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	325,814	285,298	363,649	341,674	292,661	309,657	273,012	278,419	247,576
Special assessments	8,872	692	757	-	867	1,304	1,261	12,951	4,165
Miscellaneous	412,091	150,740	183,547	205,401	238,570	211,847	275,771	287,892	182,045
	<u>\$ 6,227,783</u>	<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>
<b>Disbursements</b>									
<b>Operating:</b>									
Public safety	\$ 1,476,767	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	1,967,196	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	9,836	9,835	9,922	8,513	8,536	8,715	8,777	8,643	8,794
Culture and recreation	1,229,391	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	204,887	247,162	377,632	773,642	226,215	809,924	490,037	126,692	225,860
General government	665,255	784,199	680,519	564,402	501,743	471,960	442,872	548,522	453,399
Debt service	429,332	405,343	406,113	401,195	395,745	425,935	461,951	405,699	367,576
Capital projects	245,709	177,795	-	10,443	195,709	507,361	1,339,544	1,314,552	82,773
	<u>\$ 6,228,373</u>	<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, 2011

Schedule 6

January 1, 2009 Valuations (taxes payable July 1, 2010 to June 30, 2011)		
	100% Actual Value	Taxable Value (with Rollback)
Residential	\$ 210,565,525	\$ 98,775,115
Commercial	67,960,880	67,960,880
Industrial	22,344,247	22,344,247
Railroad	1,115,141	1,115,141
Utilities	<u>2,572,536</u>	<u>2,572,536</u>
Gross valuation	304,558,329	192,767,919
Less military exemption	<u>(808,907)</u>	<u>(808,907)</u>
Net valuation	\$ <u>303,749,422</u>	\$ <u>191,959,012</u>
TIF increment (used to compute debt service levies and constitutional debt limit)	1,735,178	1,735,178
Taxed separately		
Agricultural land	893,309	587,179
Agricultural buildings	-	-
Gas and electricity utility property	2,572,536	2,572,536

2009 Gross Taxable Valuation by Class of Property		
		Percent Total
Residential	\$ 98,775,115	51.24%
Commercial, Industrial, Utility*	92,877,663	48.18%
Railroad	<u>1,115,141</u>	<u>.58%</u>
Total gross taxable valuation	\$ <u>192,767,919</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, 2011

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	-0-
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
2009	2010-11	304,558,329	191,959,012	1,735,178

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	01/01/10 Actual Valuation	01/01/10 Taxable Valuation
Snap-On Tools	Industrial & Agricultural	6,157,004	6,154,412
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	2,691,800	2,691,800
Hormel & Co.	Industrial & Commercial	2,217,719	2,217,719
Flint Hills Resources, LP	Industrial & Commercial	2,215,855	2,215,855
Algona Medical Clinic LLC	Commercial	1,975,143	1,975,143
SBEMCO International	Industrial	1,931,319	1,931,319
HDC-1 Limited Partnership	Commercial	1,488,237	1,488,237

DIRECT DEBT

General Obligation Debt

Date of Issue	Original Amount	Purpose	Principal Final Maturity	Outstanding as of 06/30/11
02/02	355,000	Municipal Equipment	01/12	35,000
01/04	3,135,000	Street Imp/Refunding	06/19	2,080,000
03/10	180,000	Municipal Equipment	03/14	100,574
Subtotal				2,215,574

CITY OF ALGONA, IOWA

SCHEDULE OF FINANCIAL INFORMATION  
(UNAUDITED)  
June 30, 2011

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 06/30/11
10/10	2,151,000	Sewer bond	Sewer revenue	10/30	1,161,579

INDIRECT GENERAL OBLIGATION DEBT

	01/01/10 Taxable Valuation	Percent in City	General Obligation Debt	City's Proportionate Share
Kossuth County	1,052,551,879	15.56%	-	-
Algona Community School District	491,691,725	36.20%	-	-
Iowa Lakes Community College	976,451,858	3.88%	-	-
City share of total overlapping debt				-

DEBT RATIOS

	General Obligation Debt	Debt/Actual Market Value (\$193,695,899)	Debt / 5,560 Population
General Obligation Debt	2,215,574	1.14%	398.48
City's share of overlapping debt	-	-0%	-0-

TAX RATES

	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	FY 10-11 /\$1,000
Kossuth County	6.77451	5.95434	5.99245	6.02397	5.82217	5.73605
City of Algona	15.05648	15.41274	15.09369	14.81426	14.44359	14.03743
Algona Comm School District	11.63098	10.91056	11.03732	12.37567	12.38999	12.26228
Area II Community College	.77966	.83196	.73979	.75850	.78134	.76886
County Assessor	.28237	.32936	.31187	.31975	.36632	.48113
Hospital	.35749	.34218	.33932	.32818	.33932	.33932
Agricultural Extension	.08997	.08612	.08540	.08259	.07224	.06956
State of Iowa	.00400	.00400	.00350	.00350	.00340	.00320
Total Tax Rate City Resident	34.97546	33.87126	33.60334	34.70642	34.21837	33.69783



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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Algona, Iowa as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 21, 2012. Our report expressed a qualified opinion (for lack of required defined benefit plan disclosures) on the financial statements which were prepared in conformity with the cash receipts and disbursements method 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 deficiency described in I-A-11 in the Schedule of Findings to be a material weakness.

### 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 21, 2012

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2011

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**SIGNIFICANT DEFICIENCIES:**

I-A-11      Segregation of Duties – There is a lack of segregation of duties with respect to cash receipts and disbursements.

Criteria - 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.

Cause – The City of Algona is not a large municipality; therefore their staff includes a small number of office employees.

Effect – The lack of a proper segregation of duties is a material weakness that may result in a material misstatement of the financial statements, and provides greater opportunity for fraudulent activity to go undetected.

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

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

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

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2011

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

II-A-11 Certified Budget – Disbursements exceeded the budget by \$16, 627 in the Debt Service program for the year ending June 30, 2011.

Criteria – Chapter 384.20 of the Code of Iowa states, in part, “Public Monies may not be expended or encumbered except under a continuing appropriation.”

Cause – A clerical oversight on the budget form.

Effect – The City’s disbursements in the debt service function exceeded the amount budgeted.

Recommendation – The budget should be amended prior to allowing disbursements to exceed the amount budgeted.

Response – We will amend the budget in the future if needed.

Conclusion – Response accepted.

II-B-11 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-11 Travel Expense - No disbursements of City money for travel expense of spouses of City officials or employees were noted.

II-D-11 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Rick Remy, Council Member Owner of Sign Works, Ink	Screen printing and supplies	\$ 6,652

Criteria – Chapter 362.5(10) of the Code of Iowa prohibits any city officer or employee from having a contract or job of work with the City. Exceptions are made to this regulation if the total annual purchase is less than \$1,500, or if the work was contracted under a competitive bid. The transactions with Council Member Remy appear to be in violation of the Iowa Code, and are not covered under either of the aforementioned exceptions.

Cause – There are a limited number of merchants who are able to provide screen printing services.

Effect – Failure to bid the work properly may result in the City paying too much for a service, thereby failing to adequately fulfill their obligation to expend public money properly.

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

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2011

Response – We will consult with our attorney.

Conclusion – Response accepted.

- II-E-11 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-11 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-11 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-11 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.
- II-I-11 Telecommunications Utility - Algona Municipal Utilities, a component unit of the City, has been audited separately and its financial statements are under a separate cover. The report dated April 25, 2011 indicated that no instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.
- II-J-11 Financial Condition – The Grants Fund had a deficit balance at June 30, 2011 of \$4,670.

Criteria – A cash basis fund balance should not have a deficit fund balance in order to be considered in sound financial position.

Cause – The timing of grant reimbursements causes a deficit fund balance in the Grant Fund from time to time.

Effect – A fund that does not appear to be in sound financial position.

Recommendation – The City should investigate all alternatives available to eliminate the deficit fund balance.

Response – We will review alternatives to eliminate the deficit balance.

Conclusion – Response accepted.