

**CITY OF ALGONA, IOWA**

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

**JUNE 30, 2012**

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

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CITY OF ALGONA, IOWA

OFFICIALS

**(Before January 2012)**

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

**(After January 2012)**

Lynn Kueck	Mayor	Jan 2014
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
Keri Navratil	City Administrator	Indefinite
Rexann McEnroe	Clerk	Indefinite
Paul Doster	Attorney	Indefinite



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

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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2012, 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, 2011, which was also audited by us, are available. The report, dated May 18, 2012, 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, 2012, 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 2, 2013 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.

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 nine years ended June 30, 2011 (none of which are presented herein). We expressed qualified opinions on the financial statements for the years ended June 30, 2011, 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 an other comprehensive basis of accounting for each of the nine years ended June 30, 2011. The Supplementary Information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with an other comprehensive basis of accounting. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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. Management's Discussion and Analysis, the Budgetary Comparison Information, and the Schedule of Financial Information on pages 4 through 10, 26 through 27 and 33 through 35, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

January 2, 2013

## **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, 2012. We encourage readers to consider this information in conjunction with the City of Algona's financial statements, which follow.

### **2012 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities increased 7%, or approximately \$422,000, from fiscal 2011 to fiscal 2012. Property tax increased approximately \$80,000 and local option sales tax decreased by approximately \$74,000. The net effect of the 2012 bonding increased receipts by approximately \$639,000.
- Disbursements decreased approximately \$444,000 in fiscal 2012 from fiscal 2011. Debt service decreased approximately \$142,000 and public works decreased by approximately \$58,000.
- The City's total cash basis net assets increased \$895,000 from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased approximately \$1,129,000 and the assets of the business type activities decreased by approximately \$234,000.

### **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.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year; it also provides detailed property tax information.

Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness.

### **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 – Cash Basis reports information which helps answer this question.

The Statement of Activities and Net Assets – Cash Basis 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.

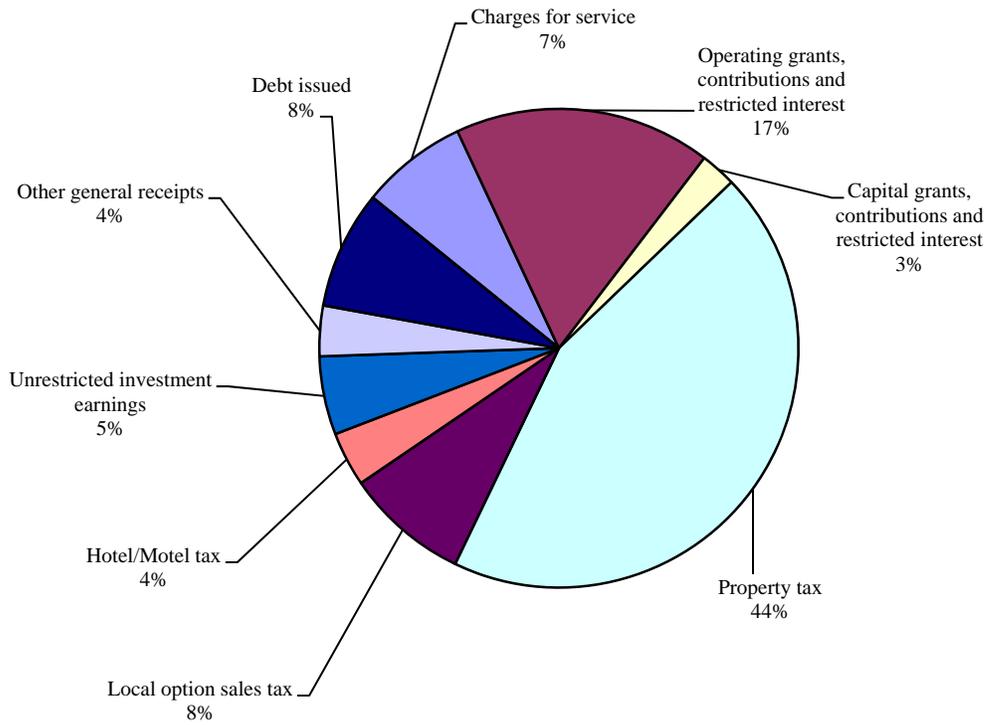
## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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 \$3.8 million to \$4.9 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

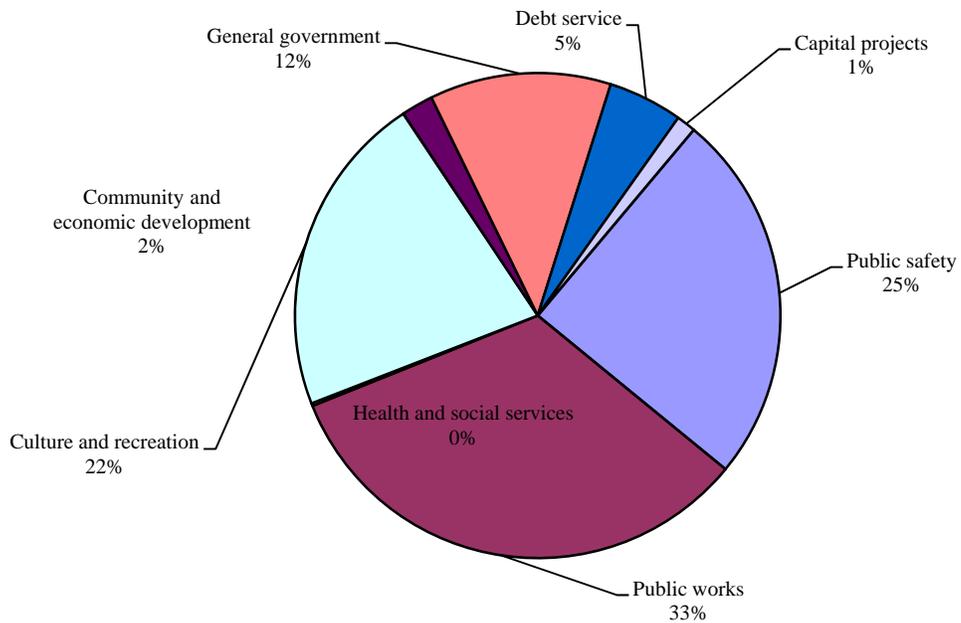
Changes in Cash Basis Net Assets of Governmental Activities  
(Expressed in Thousands)

	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service	\$ 480	\$ 326
Operating grants, contributions and restricted interest	808	1,155
Capital grants, contributions and restricted interest	161	419
General receipts:		
Property tax	2,916	2,868
Local option sales tax	555	629
Hotel/motel tax	244	259
Grants and contributions not restricted to specific purposes	451	-
Unrestricted interest on investment	134	114
Other general receipts	261	457
Debt issued	639	-
Total receipts	<u>6,649</u>	<u>6,227</u>
Disbursements:		
Public safety	1,435	1,478
Public works	1,909	1,967
Health and social services	10	9
Culture and recreation	1,247	1,229
Community and economic development	123	205
General government	699	665
Debt service	287	429
Capital projects	74	246
Total disbursements	<u>5,784</u>	<u>6,228</u>
Increase (decrease) in cash basis net assets before transfers	865	(1)
Transfers, net	<u>264</u>	<u>112</u>
Increase in cash basis net assets	1,129	111
Cash basis net assets beginning of year	<u>3,789</u>	<u>3,678</u>
Cash basis net assets end of year	<u>\$ 4,918</u>	<u>\$ 3,789</u>

### Receipts by Source



### Disbursements by Function



The City's total receipts for governmental activities increased by 7%, or approximately \$422,000. The total cost of all programs and services decreased by approximately \$444,000 or 7%, with no new programs added this year.

The cost of all governmental activities this year was approximately \$5.7 million compared to \$6.2 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 (\$480,143) or by other governments and organizations that subsidized certain programs with grants, receipts, including intergovernmental aid and fees for service (\$969,604). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$3.7 million in taxes (some of which could only be used for certain programs), and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business-Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 809	783
Storm Sewer	122	121
Ambulance	541	680
Housing	41	61
General receipts:		
Unrestricted interest on investments	3	11
Intergovernmental (sewer)	51	619
Miscellaneous	7	11
Debt issued	657	1,162
Total receipts	<u>2,231</u>	<u>3,448</u>
Disbursements:		
Sewer	1,508	2,312
Storm Sewer	113	65
Ambulance	553	692
Housing	26	12
Total disbursements and transfers	<u>2,200</u>	<u>3,081</u>
Increase in cash basis net assets before transfers	31	367
Transfers	<u>(264)</u>	<u>(112)</u>
Increase (decrease) in cash basis net assets	(233)	255
Cash basis net assets beginning of year	<u>1,824</u>	<u>1,569</u>
Cash basis net assets end of year	<u>\$ 1,591</u>	<u>1,824</u>

Total business type activities receipts for the fiscal year were approximately \$2.2 million compared to \$3.4 last year mainly due to grant and bond proceeds received in FY 2011.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Algona completed the year, its governmental funds reported a combined fund balance of \$4,917,998, an increase of \$1,129,357 from last year's total of \$3,788,641. 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 by \$197,000 to \$2,642,000, primarily due to budgeted expectations.
- The Employee Benefits Fund Balance collected \$675,326 in property tax which was used in its entirety to pay for City employee benefits.
- The Local Option Sales Tax Revenue Fund (LOST) increased from \$656,305 to \$792,403 during the fiscal year. The increase of \$136,000 resulted from tax collections exceeding the requirements against this fund, as planned.
- The Capital Project fund balance increased \$631,000 due to receiving bond proceeds in their entirety while the project is being paid for as the work progresses.

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

- The Sewer Fund cash balance decreased by \$202,000 to \$879,000, due primarily to the capital expenditures for the City's wastewater treatment facilities.
- The Ambulance Fund had a decrease in fund balance of 11,000, which included \$35,000 in capital expenditures.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The amendment was approved on May 21, 2012 and resulted in an increase in operating disbursements in several budgeted areas, most significantly in debt service and capital projects. The amendment also increased budgeted revenues for intergovernmental, charges for service, special assessments and recorded additional revenues from other financing sources. The City did not exceed budgeted amounts, as amended, in the fiscal year ended June 30, 2012.

## **COMPONENT UNIT**

Condensed financial information has been presented for Algona Municipal Utilities (see Note 14). Complete financial statements for Algona Municipal Utilities for the year ended December 31, 2011 are available at 104 West Call Street, Algona, Iowa.

## **DEBT ADMINISTRATION**

At June 30, 2011, the City had approximately \$4.5 million in bonds and other long-term debt, compared to approximately \$3.4 million last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	Year ended June 30,	
	2011	2011
General obligation bonds	\$ 2,787	\$ 2,215
Revenue notes	1,741	1,162
<b>Total</b>	<b>\$ 4,528</b>	<b>\$ 3,377</b>

Debt increased due to bonds being issued for capital projects. These projects were sidewalk replacement for council wards 1 and 3 and for replacing infrastructure and concrete in an eight block downtown corridor. The downtown project was a joint project between the City of Algona and Algona Municipal Utilities.

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 \$2,787,317 is significantly below its constitutional debt limit of \$15.6 million.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

In completing the fiscal year 2013 budget the elected and appointed officials of Algona examined economic conditions to help determine revenue estimates and expenditures projects. The current economy in Algona has remained steady with no layoffs or shutdowns that have plagued other communities in the county.

Unemployment for Kossuth County decreased from one year ago. The current rate is 3.3% versus 3.6% in 2011. The county average is well below the state average of 5.1%. 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 2013 have not yet been completed. However, revenues in the General Fund are expected to remain steady. Taxable valuations have risen slightly by approximately 2.2%. Road Use Tax revenues are expected to remain the same due to 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 2013 as debt issuances are retired. However, the City will continue planning for a new city hall and to remodel the library.

### **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, 2012

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	\$ 1,435,578	-	122,823	-
Public works	1,909,507	-	648,287	160,867
Health and social services	9,837	-	-	-
Culture and recreation	1,246,870	480,143	19,876	-
Community and economic development	122,506	-	-	-
General government	698,829	-	-	-
Debt service	286,575	-	17,751	-
Capital projects	74,199	-	-	-
<b>Total government activities</b>	<b>5,783,901</b>	<b>480,143</b>	<b>808,737</b>	<b>160,867</b>
<b>Business type activities:</b>				
Sewer	1,508,396	808,765	-	51,061
Storm Sewer	113,323	121,375	-	-
Ambulance	552,746	541,341	-	-
Housing	26,112	41,237	-	-
<b>Total business type activities</b>	<b>2,200,577</b>	<b>1,512,718</b>	<b>-</b>	<b>51,061</b>
<b>Total</b>	<b>\$ 7,984,478</b>	<b>1,992,861</b>	<b>808,737</b>	<b>211,928</b>

**General Receipts**

Property tax levied for:
General purposes
Tax increment financing
Debt service
Local option sales tax
Hotel/motel and franchise tax
Grants and contributions not restricted to specific purposes
Unrestricted interest on investments
Miscellaneous
Debt issued
Debt refunded
Transfers
<b>Total general receipts and transfers</b>

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
(1,312,755)	-	(1,312,755)
(1,100,353)	-	(1,100,353)
(9,837)	-	(9,837)
(746,851)	-	(746,851)
(122,506)	-	(122,506)
(698,829)	-	(698,829)
(268,824)	-	(268,824)
(74,199)	-	(74,199)
<u>(4,334,154)</u>	<u>-</u>	<u>(4,334,154)</u>
-	(648,570)	(648,570)
-	8,052	8,052
-	(11,405)	(11,405)
-	15,125	15,125
<u>-</u>	<u>(636,798)</u>	<u>(636,798)</u>
<u>(4,334,154)</u>	<u>(636,798)</u>	<u>(4,970,952)</u>
2,494,847	-	2,494,847
70,701	-	70,701
350,756	-	350,756
554,800	-	554,800
244,288	-	244,288
451,043	-	451,043
134,016	2,564	136,580
259,822	7,591	267,413
2,718,874	657,324	3,376,198
(2,080,000)	-	(2,080,000)
264,364	(264,364)	-
<u>5,463,511</u>	<u>403,115</u>	<u>5,866,626</u>
1,129,357	(233,683)	895,674
<u>3,788,641</u>	<u>1,824,557</u>	<u>5,613,198</u>
<u>\$ 4,917,998</u>	<u>1,590,874</u>	<u>6,508,872</u>
\$ 49,050	-	49,050
140,000	-	140,000
365,734	-	365,734
22,282	-	22,282
2,529,648	-	2,529,648
1,811,284	1,590,874	3,402,158
<u>\$ 4,917,998</u>	<u>1,590,874</u>	<u>6,508,872</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, 2012

	Special Revenue			Capital Project	Other Nonmajor Governmental Funds
	General	Employee Benefits	Local Option Sales Tax		
Receipts:					
Property tax	\$ 1,788,487	675,326	-	-	436,014
Other city tax	244,288	-	554,800	-	-
Licenses and permits	33,571	-	-	-	-
Use of money and property	123,271	-	1,032	552	9,161
Intergovernmental	714,657	-	-	-	705,990
Charges for service	480,143	-	-	-	-
Special assessments	16,477	-	-	-	-
Miscellaneous	217,474	-	-	-	-
	3,618,368	675,326	555,832	552	1,151,165
Disbursements:					
Public safety	1,406,509	-	-	-	29,069
Public works	1,378,913	-	-	-	530,594
Health and social services	9,837	-	-	-	-
Culture and recreation	1,176,195	-	-	-	70,675
Community and economic development	122,506	-	-	-	-
General government	698,829	-	-	-	-
Debt service	-	-	-	-	286,575
Capital projects	-	-	-	74,199	-
	4,792,789	-	-	74,199	916,913
Excess (deficiency) of receipts over (under) disbursements	(1,174,421)	675,326	555,832	(73,647)	234,252
Other financing sources (uses):					
Loan proceeds	108,874	-	-	706,060	-
Sale of Assets	8,777	-	-	-	-
Proceeds of refunding bonds	1,903,940	-	-	-	-
Retirement of refunded bond	-	-	-	-	(2,080,000)
Operating transfers in	1,244,843	-	74,500	-	2,014,409
Operating transfers out	(1,895,000)	(675,326)	(494,234)	(1,050)	(3,778)
	1,371,434	(675,326)	(419,734)	705,010	(69,369)
Net change in cash balances	197,013	-	136,098	631,363	164,883
Balance beginning of year	2,445,234	-	656,305	124,513	562,589
Balance end of year	\$ 2,642,247	-	792,403	755,876	727,472
Cash basis fund balance					
Nonspendable	\$ -	-	-	-	189,050
Restricted for:					
Debt service	-	-	-	-	22,282
Streets	-	-	-	-	365,734
Capital projects	-	-	-	755,876	-
Other purposes	158,644	-	792,403	-	150,406
Committed	494,874	-	-	-	-
Assigned	181,390	-	-	-	-
Unassigned	1,807,339	-	-	-	-
Total cash basis fund balances	\$ 2,642,247	-	792,403	755,876	727,472

See notes to financial statements.

Exhibit B

<u>Total</u>
2,899,827
799,088
33,571
134,016
1,420,647
480,143
16,477
217,474
<u>6,001,243</u>
1,435,578
1,909,507
9,837
1,246,870
122,506
698,829
286,575
74,199
<u>5,783,901</u>
217,342
814,934
8,777
1,903,940
(2,080,000)
3,333,752
<u>(3,069,388)</u>
<u>912,015</u>
1,129,357
<u>3,788,641</u>
<u>4,917,998</u>
189,050
22,282
365,734
755,876
1,101,453
494,874
181,390
1,807,339
<u>4,917,998</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, 2012

	Sewer	Ambulance	Other Nonmajor Proprietary Funds	Total
Receipts				
Charges for service	\$ 808,765	541,341	162,612	1,512,718
Disbursements				
Total operating disbursements	530,369	518,140	56,295	1,104,804
	530,369	518,140	56,295	1,104,804
Excess (deficiency) of operating receipts over (under) operating disbursements	278,396	23,201	106,317	407,914
Non-operating receipts (disbursements):				
Interest on investments	1,378	768	418	2,564
Intergovernmental	51,061	-	-	51,061
Miscellaneous	4,091	-	-	4,091
Capital Expenditures	(978,027)	(34,606)	(83,140)	(1,095,773)
Net non-operating receipts (disbursements)	(921,497)	(33,838)	(82,722)	(1,038,057)
Excess of receipts over disbursements	(643,101)	(10,637)	23,595	(630,143)
Other financing sources (uses):				
Sale of assets	3,500	-	-	3,500
Debt issued	657,324	-	-	657,324
Operating transfers out	(219,864)	-	(44,500)	(264,364)
	440,960	-	(44,500)	396,460
Net change in cash balances	(202,141)	(10,637)	(20,905)	(233,683)
Balance beginning of year	1,081,072	545,759	197,726	1,824,557
Balance end of year	\$ 878,931	535,122	176,821	1,590,874
Cash Basis Fund Balances				
Unrestricted	\$ 878,931	535,122	176,821	1,590,874
	\$ 878,931	535,122	176,821	1,590,874

See notes to financial statements.

CITY OF ALGONA, IOWA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**(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, 2011, can be obtained from the Municipal Utilities administration office, P.O. Box 10, 104 West Call Street, 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, 2012

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.

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

CITY OF ALGONA, IOWA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Capital Project Fund:

This fund is used to account for the debt issued and expenditures incurred by the City in completing the downtown alleyway project.

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,

CITY OF ALGONA, IOWA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

*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 Other Information.

F. Subsequent Events

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through January 2, 2013, the date the financial statements were issued.

**(2) Cash and Investments**

The City's deposits in banks at June 30, 2012 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 6% of the City's total cash and investments at June 30, 2012 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, 2012

**(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>
2013	334,486	30,644	80,000	62,190	414,486	92,834
2014	382,135	28,011	83,000	59,790	465,135	87,801
2015	351,589	24,968	86,000	57,300	437,589	82,268
2016	356,589	22,286	89,000	54,720	445,589	77,006
2017	366,589	18,888	92,000	52,050	458,589	70,938
2018-2022	995,929	32,936	505,000	217,050	1,500,929	249,986
2023-2027	-	-	592,000	136,290	592,000	136,290
2028-2031	-	-	546,000	41,610	546,000	41,610
	<u>\$ 2,787,317</u>	<u>\$ 157,733</u>	<u>\$ 2,073,000</u>	<u>\$ 681,000</u>	<u>\$ 4,860,317</u>	<u>\$ 838,733</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, 2012 the City had only received \$1,818,903 in advances under this agreement and had repaid \$78,000 of a principal balance.

Revenue Notes

The City has pledged future sewer customer receipts net 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.

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

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- (b) The notes require the system generate net revenues sufficient to 110% of the current year principal and interest installment.

CITY OF ALGONA, IOWA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

A summary of changes in long-term debt for the year ended June 30, 2012 is as follows:

	General Obligation Bonds	Revenue Bonds	Total
Balance, beginning of year	\$ 2,215,574	1,161,579	3,377,153
Increases	2,718,874	657,324	3,376,198
Decreases	<u>2,147,131</u>	<u>78,000</u>	<u>2,225,131</u>
Balance, end of year	<u>\$ 2,787,317</u>	<u>1,740,903</u>	<u>4,528,220</u>

Interest rates on the general obligation bonds range from 0.00 to 4.15%. Interest rates on the revenue bonds were 3.00%.

**(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 5.38% of their annual salary and the City is required to contribute 8.07% 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, 2012, 2011, and 2010 were \$154,850, \$143,272, and \$125,401 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 39 active members and 3 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 \$409 for single coverage and approximately \$1,257 for family coverage. The same monthly premiums apply to retirees.

CITY OF ALGONA, IOWA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

For the year ended June 30, 2012, the City contributed \$379,161 and plan members eligible for benefits contributed approximately \$68,368 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.

The City’s approximate liability for earned vacation and unused accumulated sick leave at June 30, 2012, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 74,010
Sick Leave	<u>349,127</u>
Balance at June 30, 2012	<u>\$ 423,137</u>

This liability has been computed based on rates of pay in effect at June 30, 2012.

**(7) Interfund Transfers**

The detail of interfund transfers, for the year ended June 30, 2012 is as follows:

Transfer In	Transfer From	Amount
General	Debt Service	\$ 3,778
	Local Option Sales Tax	494,234
	Trust and Agency-Employee Benefits	675,326
	Capital Project	1,050
	Enterprise-Sewer	<u>70,455</u>
		1,244,843
LOST	General	30,000
	Enterprise-Storm Sewer	<u>44,500</u>
		74,500
Debt Service	General	1,865,000
	Enterprise-Sewer	<u>149,409</u>
		2,014,409
		<u>\$ 3,333,752</u>

CITY OF ALGONA, IOWA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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 663 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 150% 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, 2012 were \$173,794.

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, 2012, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing

CITY OF ALGONA, IOWA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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 responsibility for workers compensation liability claims in excess of the coverage limitation of \$1,000,000. 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 of July 1, 2011 and are payable in September 2011 and March 2012 of the fiscal year. The valuation for the taxes was based on January 1, 2010 assessed property valuations, and was based on a certified budget from March of 2011.

**(10) Deficit Fund Balance**

The Federal Grant Fund had a deficit balance of \$4,277 at June 30, 2012. This balance improved \$393 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 \$494,874 and assigned funds of \$181,390 at June 30, 2012. The detail of these amounts is as follows:

<u>Committed</u>	<u>Amount</u>
TV Grant	\$ 147,144
Revolving Loan Fund	332,957
Sick Leave Conversion	<u>14,772</u>
Balance at June 30, 2012	<u>\$ 494,873</u>
<hr/>	
<u>Assigned</u>	<u>Amount</u>
Drug Abuse Education	\$ 18,828
Self Insurance	81,001
Airport - FAA	10,103
Aquatic Center	<u>71,458</u>
Balance at June 30, 2012	<u>\$ 181,390</u>

CITY OF ALGONA, IOWA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**(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 \$40,000 at June 30, 2012. In 2012, the City agreed to contribute \$30,000 to the Motor Sports Museum over a period of five years. The amount remaining on this commitment is \$24,000 at June 30, 2012.

**(13) Operating Leases**

The City leases a copy machine under an operating lease agreement signed in August 2010 calling for 60 monthly payments of \$232. Future minimum lease payments due on this above operating lease is as follows:

Year Ended June 30,	Amount
2013	\$ 2,784
2014	2,784
2015	2,784
2016	232
Total	<u>\$ 8,554</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, 2011.

Condensed Statements of Net Assets			
	Electric Department	Water Department	Communications Department
<b>Assets</b>			
Current assets	\$ 3,532,912	856,787	1,327,902
Capital assets, net of accumulated depreciation	19,818,805	3,137,425	3,474,074
Other	<u>19,179,227</u>	<u>313,514</u>	<u>225,916</u>
<b>Total assets</b>	<u>42,530,944</u>	<u>4,307,726</u>	<u>5,027,892</u>
<b>Liabilities</b>			
Current liabilities	2,150,816	155,276	986,393
Other liabilities	<u>15,039,451</u>	<u>1,257,246</u>	<u>5,476,725</u>
<b>Total liabilities</b>	<u>17,190,267</u>	<u>1,412,522</u>	<u>6,463,118</u>

CITY OF ALGONA, IOWA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**Net assets**

Invested in capital assets, net of related debt	18,473,805	2,007,425	34,074
Restricted – expendable	442,304	134,164	-
Unrestricted (deficit)	<u>6,424,568</u>	<u>753,615</u>	<u>(1,469,300)</u>
<b>Total net assets</b>	<b><u>\$ 25,340,677</u></b>	<b><u>2,895,204</u></b>	<b><u>(1,435,226)</u></b>

**Condensed Statements of Income**

	<u>Electric Department</u>	<u>Water Department</u>	<u>Communications Department</u>
<b>Operating revenues:</b>			
Electric sales	\$ 10,255,483	-	-
Water sales	-	913,847	-
Communication sales	-	-	<u>3,323,662</u>
<b>Total operating revenues</b>	<b><u>\$ 10,255,483</u></b>	<b><u>913,847</u></b>	<b><u>3,323,662</u></b>
<b>Operating expenses:</b>			
Production – power/water/programming	\$ 6,555,504	177,594	1,477,563
Depreciation	1,413,598	124,605	405,627
Transmission and distribution	408,999	127,275	147,959
Other	<u>1,822,077</u>	<u>324,255</u>	<u>912,560</u>
<b>Total operating expenses</b>	<b><u>10,200,178</u></b>	<b><u>753,729</u></b>	<b><u>2,943,709</u></b>
<b>Operating income</b>	<b><u>55,305</u></b>	<b><u>160,118</u></b>	<b><u>379,953</u></b>
<b>Non-operating revenues (expenses):</b>			
Interest income	134,552	5,633	3,349
Interest expense	(68,698)	-	(215,869)
Other non-operating expenses	<u>(273,323)</u>	<u>(84,051)</u>	<u>(231,042)</u>
<b>Total non-operating expenses</b>	<b><u>(207,469)</u></b>	<b><u>(78,418)</u></b>	<b><u>(443,562)</u></b>
<b>Net income (loss)</b>	<b><u>\$ (152,164)</u></b>	<b><u>81,700</u></b>	<b><u>(63,609)</u></b>

**Condensed Statements of Changes in Net Assets**

	<u>Electric Department</u>	<u>Water Department</u>	<u>Communications Department</u>
Net assets (deficit) beginning of year	\$ 25,492,841	\$ 2,813,504	\$ (1,371,617)
Net income (loss)	<u>(152,164)</u>	<u>81,700</u>	<u>(63,609)</u>
<b>Net assets end of year</b>	<b><u>\$ 25,340,677</u></b>	<b><u>\$ 2,895,204</u></b>	<b><u>\$ (1,435,226)</u></b>

CITY OF ALGONA, IOWA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Condensed Statements of Cash Flows			
	Electric Department	Water Department	Communications Department
Cash flows from operating activities	\$ 1,835,403	\$ 310,413	\$ 774,903
Cash flows from non-capital Financing activities	(365,414)	(28,892)	(136,461)
Cash flows from capital and related Financing activities	12,007,801	(1,100,768)	(671,248)
Cash flows from investing activities	<u>260,235</u>	<u>30,723</u>	<u>(42,632)</u>
Increase in cash	13,738,025	(788,524)	(75,438)
Cash - beginning of year	<u>2,188,644</u>	<u>1,772,232</u>	<u>1,157,297</u>
Cash – end of year	<u>\$ 15,926,669</u>	<u>\$ 983,708</u>	<u>\$ 1,081,859</u>

## **Other 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

OTHER INFORMATION

YEAR ENDED JUNE 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts:			
Property tax	\$ 2,899,827	-	2,899,827
Other city taxes	799,088	-	799,088
Licenses and permits	33,571	-	33,571
Use of money and property	134,016	2,564	136,580
Intergovernmental	1,420,647	51,061	1,471,708
Charges for service	480,143	1,512,718	1,992,861
Special assessments	16,477	-	16,477
Miscellaneous	217,474	4,091	221,565
	<u>6,001,243</u>	<u>1,570,434</u>	<u>7,571,677</u>
Disbursements:			
Program			
Public safety	1,435,578	-	1,435,578
Public works	1,909,507	-	1,909,507
Health and social services	9,837	-	9,837
Culture and recreation	1,246,870	-	1,246,870
Community and economic development	122,506	-	122,506
General government	698,829	-	698,829
Debt service	286,575	-	286,575
Capital projects	74,199	-	74,199
Business type activities	-	2,200,577	2,200,577
	<u>5,783,901</u>	<u>2,200,577</u>	<u>7,984,478</u>
Excess (deficiency) of receipts over disbursements	217,342	(630,143)	(412,801)
Other financing sources	912,015	396,460	1,308,475
Excess of receipts and other financing sources over (under) disbursements and other financing uses	1,129,357	(233,683)	895,674
Balance beginning of year	<u>3,788,641</u>	<u>1,824,557</u>	<u>5,613,198</u>
Balance end of year	<u>\$ 4,917,998</u>	<u>1,590,874</u>	<u>6,508,872</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
2,857,022	2,856,982	42,845
792,158	814,463	(15,375)
22,902	28,297	5,274
95,886	104,530	32,050
1,482,009	1,676,532	(204,824)
1,608,267	1,702,783	290,078
8,510	16,352	125
215,950	343,802	(122,237)
<u>7,082,704</u>	<u>7,543,741</u>	<u>27,936</u>
1,463,808	1,526,841	91,263
2,103,722	2,295,583	386,076
9,840	9,840	3
1,279,521	1,356,205	109,335
205,060	216,077	93,571
765,278	721,078	22,249
514,742	2,379,742	2,093,167
300,000	706,060	631,861
<u>2,653,112</u>	<u>2,731,240</u>	<u>530,663</u>
<u>9,295,083</u>	<u>11,942,666</u>	<u>3,958,188</u>
(2,212,379)	(4,398,925)	3,986,124
<u>300,000</u>	<u>3,256,794</u>	<u>(1,948,319)</u>
(1,912,379)	(1,142,131)	2,037,805
<u>6,201,954</u>	<u>5,613,198</u>	<u>-</u>
<u><u>4,289,575</u></u>	<u><u>4,471,067</u></u>	<u><u>2,037,805</u></u>

CITY OF ALGONA, IOWA

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

June 30, 2012

The budgetary comparison is presented as 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 nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. 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 \$5,343,134 and increased budgeted disbursements by \$4,572,886. The budget amendment is reflected in the final budgeted amounts. The City did not exceed the budget during the fiscal year ended June 30, 2012.

## **Supplementary Information**

CITY OF ALGONA, IOWA

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
 CHANGES IN CASH BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	Special Revenue				
	TIF	Road Use Tax	Library	Grow Algona Trees	Grants
<b>Receipts:</b>					
Property tax	\$ 70,701	-	-	-	-
Use of money and property	72	-	4,244	2	-
Intergovernmental	-	527,372	-	-	160,867
	<u>70,773</u>	<u>527,372</u>	<u>4,244</u>	<u>2</u>	<u>160,867</u>
<b>Disbursements:</b>					
Public safety	-	-	-	-	-
Public works	-	370,120	-	-	160,474
Community and economic development	70,675	-	-	-	-
Debt Service	-	-	-	-	-
	<u>70,675</u>	<u>370,120</u>	<u>-</u>	<u>-</u>	<u>160,474</u>
Excess (deficiency) of receipts over (under) disbursements	98	157,252	4,244	2	393
<b>Other financing sources (uses):</b>					
Retirement of refunded bond	-	-	-	-	-
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balance	98	157,252	4,244	2	393
Balance beginning of year	8,538	208,482	45,299	500	(4,670)
Balance end of year	<u>\$ 8,636</u>	<u>365,734</u>	<u>49,543</u>	<u>502</u>	<u>(4,277)</u>
<b>Cash Basis Fund Balance</b>					
Nonspendable	\$ -	-	-	-	-
Restricted for:					
Streets	-	365,734	-	-	-
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	-
Other purposes	8,636	-	49,543	502	-
Unassigned	-	-	-	-	(4,277)
	<u>\$ 8,636</u>	<u>365,734</u>	<u>49,543</u>	<u>502</u>	<u>(4,277)</u>

See accompanying independent auditor's report.

Special Revenue	Debt Service	Permanent		Total
		Cemetery	Library	
Police Pension				
14,557	350,756	-	-	436,014
1,263	280	3,300	-	9,161
-	17,751	-	-	705,990
15,820	368,787	3,300	-	1,151,165
29,069	-	-	-	29,069
-	-	-	-	530,594
-	-	-	-	70,675
-	286,575	-	-	286,575
29,069	286,575	-	-	916,913
(13,249)	82,212	3,300	-	234,252
-	(2,080,000)	-	-	(2,080,000)
-	2,014,409	-	-	2,014,409
-	(3,778)	-	-	(3,778)
-	(69,369)	-	-	(69,369)
(13,249)	12,843	3,300	-	164,883
109,251	9,439	45,750	140,000	562,589
96,002	22,282	49,050	140,000	727,472
-	-	49,050	140,000	189,050
-	-	-	-	365,734
-	22,282	-	-	22,282
-	-	-	-	-
96,002	-	-	-	154,683
-	-	-	-	(4,277)
96,002	22,282	49,050	140,000	727,472

## CITY OF ALGONA, IOWA

Schedule 2

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
NONMAJOR PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	Storm Sewer	Housing	Total
Receipts:			
Charges for service	121,375	41,237	162,612
	<u>121,375</u>	<u>41,237</u>	<u>162,612</u>
Disbursements:			
Operating	30,183	26,112	56,295
Total operating disbursements	<u>30,183</u>	<u>26,112</u>	<u>56,295</u>
Excess (deficiency) of receipts over (under) disbursements	<u>91,192</u>	<u>15,125</u>	<u>106,317</u>
	91,192	15,125	106,317
Non-operating receipts (disbursements)			
Interest on investments	142	276	418
Capital expenditures	(83,140)	-	(83,140)
	<u>(82,998)</u>	<u>276</u>	<u>(82,722)</u>
Excess of receipts over disbursements	8,194	15,401	- 23,595
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	(36,306)	15,401	(20,905)
Balance beginning of year	<u>58,980</u>	<u>138,746</u>	<u>197,726</u>
Balance end of year	<u><u>22,674</u></u>	<u><u>154,147</u></u>	<u><u>176,821</u></u>
Cash Basis Fund Balance			
Unrestricted	<u>22,674</u>	<u>154,147</u>	<u>176,821</u>
	<u><u>22,674</u></u>	<u><u>154,147</u></u>	<u><u>176,821</u></u>

See accompanying independent auditor's report.

CITY OF ALGONA, IOWA  
 SCHEDULE OF INDEBTEDNESS  
 YEAR ENDED JUNE 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds/notes:			
Fire department and general equipment	February 1, 2002	4.40 - 4.80%	\$ 355,000
Downtown construction	January 15, 2004	3.00 - 4.13 %	3,135,000
Fire truck	March 1, 2010	4.15%	180,000
Capital Loan Notes 2012	May 27, 2012	0.40 - 2.00%	2,160,000
LED Street Lighting	June 30, 2012	0.00%	108,874
Revenue bonds:			
Sewer revenue	October 13, 2010	3.00%	\$ 2,151,000

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
\$ 35,000	-	35,000	-	1,680	-
2,080,000	-	2,080,000	-	78,513	-
100,574	-	32,131	68,443	3,909	-
-	2,610,000	-	2,610,000	-	-
-	108,874	-	108,874	-	-
<u>\$ 2,215,574</u>	<u>2,718,874</u>	<u>2,147,131</u>	<u>2,787,317</u>	<u>84,102</u>	<u>-</u>
\$ 1,161,579	657,324	78,000	1,740,903	51,365	-
<u>\$ 1,161,579</u>	<u>657,324</u>	<u>78,000</u>	<u>1,740,903</u>	<u>51,365</u>	<u>-</u>

CITY OF ALGONA, IOWA

Schedule 4

BOND AND NOTE MATURITIES

JUNE 30, 2012

Year Ending June 30,	GO Capital Loan Issued Mar 1, 2010		GO Capital Loan Issued May 27, 2012		LED AMU Loan Issued June 30, 2012		Total GO Notes
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2013	4.15	\$ 32,897	0.40	\$ 285,000	0.00	\$ 16,589	334,486
2014	4.15	35,546	0.60	330,000	0.00	16,589	382,135
2015	-	-	0.80	335,000	0.00	16,589	351,589
2016	-	-	1.00	340,000	0.00	16,589	356,589
2017	-	-	1.15	350,000	0.00	16,589	366,589
2018	-	-	1.30	350,000	0.00	16,589	366,589
2019	-	-	1.50	350,000	0.00	9,340	359,340
2020	-	-	1.75	135,000	0.00	-	135,000
2021	-	-	2.00	135,000	0.00	-	135,000
		<u>\$ 68,443</u>		<u>\$ 2,610,000</u>		<u>\$ 108,874</u>	<u>2,787,317</u>

Year Ending June 30,	Sewer Revenue Note Issued Oct 13, 2010	
	Interest Rates	Amount
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
		<u>\$ 2,073,000</u>

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:

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Receipts</b>										
Property tax	\$ 2,829,126	\$ 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	70,701	57,154	97,021	165,357	76,675	78,557	56,343	49,579	27,690	-
Other city tax	799,088	888,095	796,892	831,293	845,597	802,527	710,103	692,992	530,389	476,878
Licenses and permits	33,571	27,437	32,830	23,795	37,173	35,972	29,319	30,038	27,685	28,901
Use of money and property	134,016	122,388	144,682	175,501	255,610	246,927	189,380	145,867	104,994	95,177
Intergovernmental	1,420,647	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	480,143	325,814	285,298	363,649	341,674	292,661	309,657	273,012	278,419	247,576
Special assessments	16,477	8,872	692	757	-	867	1,304	1,261	12,951	4,165
Miscellaneous	217,474	412,091	150,740	183,547	205,401	238,570	211,847	275,771	287,892	182,045
	<u>\$ 6,001,243</u>	<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	\$ 1,435,578	\$ 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	1,909,509	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	9,837	9,836	9,835	9,922	8,513	8,536	8,715	8,777	8,643	8,794
Culture and recreation	1,246,870	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	122,506	204,887	247,162	377,632	773,642	226,215	809,924	490,037	126,692	225,860
General government	698,826	665,255	784,199	680,519	564,402	501,743	471,960	442,872	548,522	453,399
Debt service	286,575	429,332	405,343	406,113	401,195	395,745	425,935	461,951	405,699	367,576
Capital projects	74,199	245,709	177,795	-	10,443	195,709	507,361	1,339,544	1,314,552	82,773
	<u>\$ 5,783,900</u>	<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, 2012

January 1, 2010 Valuations (taxes payable July 1, 2011 to June 30, 2012)		
	100% Actual Value	Taxable Value (with Rollback)
Residential	\$ 213,124,428	\$ 103,429,153
Commercial	68,843,365	68,843,365
Industrial	25,066,840	25,066,840
Railroad	1,136,644	1,136,644
Utilities	2,617,914	2,617,914
Gross valuation	310,789,191	201,093,916
Less military exemption	(785,248)	(785,248)
Net valuation	\$ 310,003,943	\$ 200,308,668
TIF increment (used to compute debt Service levies and constitutional debt limit)	2,217,349	2,217,349
Taxed separately		
Agricultural land	884,508	610,446
Agricultural buildings	-	-
Gas and electricity utility property	2,148,437	2,148,437

2010 Gross Taxable Valuation by Class of Property		
		Percent Total
Residential	\$ 103,429,153	51.43%
Commercial, Industrial, Utility*	96,528,119	48.00%
Railroad	1,136,644	.57%
Total gross taxable valuation	\$ 201,093,916	100.00%

\* 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, 2012

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
2010	2011-12	313,169,791	203,067,551	2,217,349
2011	2012-13	304,528,219	204,084,859	1,433,762

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	01/01/11 Actual Valuation	01/01/11 Taxable Valuation
Snap-On Tools	Industrial & Agricultural	6,159,597	6,154,944
Pioneer Hi-Bred Corn Co.	Industrial	5,679,591	5,679,591
Druggists Mutual Insurance Co.	Commercial	3,783,471	3,783,471
Hjelmeland Family, LP	Commercial & Residential	3,221,494	3,221,494
Sears, Roebuck and Co.	Commercial	2,736,864	2,736,864
Hormel & Co.	Industrial & Commercial	2,217,719	2,217,719
Flint Hills Resources, LP	Industrial & Commercial	2,215,855	2,215,855
Evang Luth Good Samaritan Society	Residential	2,135,628	1,083,870
Algona Medical Clinic LLC	Commercial	1,975,143	1,975,143
SBEMCO International	Industrial	1,931,319	1,931,319

CITY OF ALGONA, IOWA

SCHEDULE OF FINANCIAL INFORMATION  
(UNAUDITED)  
June 30, 2012

DIRECT DEBT

General Obligation Debt

Date of Issue	Original Amount	Purpose	Principal Final Maturity	Outstanding as of 06/30/12
Apr 2010	180,000	Municipal Equipment	Mar 2014	68,455
May 2012	2,610,000	Street Improvement/Refunding	Jun 2021	2,610,000
June 2012	108,874	LED Street Lighting	Jun 2019	108,874
Subtotal				2,787,329

Revenue Debt

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	Principal Final Maturity	Outstanding as of 06/30/12
Oct 2010	2,151,000	Sewer bond	Sewer revenue	Oct 2030	1,740,903

INDIRECT GENERAL OBLIGATION DEBT

	01/01/11 Taxable Valuation	Percent in City	General Obligation Debt	City's Proportionate Share
Kossuth County	1,147,307,980	15.56%	-	-
Algona Community School District	518,898,100	36.20%	-	-
Iowa Lakes Community College	1,033,169,281	3.88%	-	-
City share of total overlapping debt				-

DEBT RATIOS

	General Obligation Debt	Debt/Actual Market Value (\$202,457,105)	Debt / 5,560 Population
General Obligation Debt	2,787,329	1.37%	501.31
City's share of overlapping debt	-	-0%	-0-

TAX RATES

	FY 07-08 /\$1,000	FY 08-09 /\$1,000	FY 09-10 /\$1,000	FY 10-11 /\$1,000	FY 11-12 /\$1,000	FY 12-13 /\$1,000
Kossuth County	5.95434	5.99245	6.02397	5.82217	5.73605	5.26795
Agricultural Extension	.08612	.08540	.08259	.07224	.06956	.06583
Hospital	.34218	.33932	.32818	.33932	.33932	.33932
County Assessor	.32936	.31187	.31975	.36632	.48113	.32189
State of Iowa	.00400	.00350	.00350	.00340	.00320	.00330
Algona Comm School District	10.91056	11.03732	12.37567	12.38999	12.26228	11.76000
Area II Community College	.83196	.73979	.75850	.78134	.76886	.76795
City of Algona	15.41274	15.09369	14.81426	14.44359	14.03743	14.39940
Total Tax Rate City Resident	33.87126	33.60334	34.70642	34.21837	33.69783	32.92564



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, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 2, 2013. 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 auditing standards generally accepted in the United States of America 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

The management of the City of Algona is responsible for establishing and maintaining effective 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 a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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-12 in the Schedule of Findings to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in I-B-12 in the Schedule of Findings to be a significant deficiency.

## 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.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements for the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Algona and other parties to whom the City of Algona may report, including federal awarding agencies and pass-through entities, and 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 2, 2013

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2012

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**SIGNIFICANT DEFICIENCIES:**

I-A-12      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.

Condition- We noted that the cash receipt function and the recording of the cash receipts is on occasion handled by the same person. There is a lack of segregation of duties with respect to cash receipts and disbursements.

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.

I-B-12      Credit Cards – A proper control system provides protection for City assets. One method of safeguarding assets is to regulate and monitor the use of City credit cards through the use of a formal written policy approved by the Council.

Condition- We noted that the City has approved a credit card policy that establishes \$5,000 as the maximum credit limit. The City's credit card account includes five cards, each with a \$10,000 credit limit.

Cause – City personnel were not aware of the limit stated in the policy.

Effect – Credit cards with a credit limit in excess of the limit set by Council approval provides an opportunity for an employee to create a substantial liability for the City without proper approval.

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2012

Recommendation - We recommend that the credit card account be brought into conformity with the City's written policy.

Response – The credit card policy was reviewed by the City Council and guidelines were set and approved by resolution on October 15, 2012.

Conclusion – Response accepted.

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2012

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

- II-A-12 Certified Budget – Disbursements did not exceed the budget for the year ending June 30, 2012.
- II-B-12 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-12 Travel Expense - No disbursements of City money for travel expense of spouses of City officials or employees were noted.
- II-D-12 Business Transactions - 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. 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	\$ 4,911

Condition – 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.

Response – We will consult with our attorney.

Conclusion – Response accepted.

- II-E-12 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-12 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-12 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-12 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2012

II-I-12 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 18, 2012 indicated that no instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

II-J-12 Financial Condition – A cash basis fund balance should not have a deficit fund balance in order to be considered in sound financial position.

Condition – The Grants Fund had a deficit balance at June 30, 2012 of \$4,277.

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

Effect – The City reports on its financial statements 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 – Many grants the City receives do not correspond within the City’s fiscal year. Depending upon the grant and when the City is reimbursed, there may be a deficiency. We will review alternatives to eliminate the deficit.

Conclusion – Response accepted.