

CITY OF HEDRICK, IOWA

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

JUNE 30, 2004

CITY OF HEDRICK, IOWA

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CITY OF HEDRICK, IOWA

OFFICIALS  
JUNE 30, 2004

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
J. W. Mefford	Mayor	December 2005
Kathryn Cernic	Council Member	December 2007
LaVern Cavin	Council Member	December 2005
Jean Sackett	Council Member	December 2005
Allan Lanman	Council Member	December 2007
Robert Crawford	Council Member	December 2005
Ann Spilman	Clerk	Appointed
Tom Kintigh	Attorney	Appointed

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members  
of the City Council  
City of Hedrick, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hedrick, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Hedrick, Iowa's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at June 30, 2003.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at June 30, 2003, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hedrick, Iowa as of June 30, 2004, 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.

As described in Note 11, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated October 14, 2004 on our consideration of the City of Hedrick, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 19 through 21 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Hedrick, Iowa's basic financial statements. Other 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 has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
October 14, 2004

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Hedrick, Iowa, provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

### 2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 25.4%, or approximately \$74,891, from fiscal 2003 to fiscal 2004. Intergovernmental revenues decreased \$59,558 and miscellaneous revenues decreased \$9,677.
- Governmental disbursements decreased 26.7%, or approximately \$80,912, in fiscal 2004 from fiscal 2003. Public safety, public works and culture and recreation disbursements decreased approximately \$29,351, \$43,689 and \$11,563, respectively.
- The City's total cash basis net assets increased 9.2%, or approximately \$17,933 from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities decreased approximately \$1,647 and the assets of the business type activities decreased by approximately \$16,286.

### 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. This statement provides information about the activities of the City as a whole and presents an overall view 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 and proprietary funds.

### Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- **Governmental Activities** include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- **Business Type Activities** include the waterworks and the sanitary sewer system. 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, and 2) the Special Revenue Funds, such as Road Use Tax and 3) the Debt Service 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 two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City. Also included in proprietary funds are two smaller ancillary funds that are related to the operations of the sewer fund.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$(33,519) to \$(35,166). The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Receipts:		
Program receipts:		
Charges for service	\$ 37,926	\$ 39,038
Operating grants, contributions and restricted interest	93,677	158,604
General receipts:		
Property tax	82,951	86,759
Unrestricted investment earnings	508	1,059
Other general receipts	<u>5,487</u>	<u>9,980</u>
Total receipts	<u>220,549</u>	<u>295,440</u>
Disbursements:		
Public safety	13,038	42,389
Public works	110,203	153,892
Health and social services	740	1,735
Culture and recreation	28,343	39,906
General government	69,872	63,427
Capital projects	<u>-</u>	<u>1,759</u>
Total disbursements	<u>222,196</u>	<u>303,108</u>
Decrease in cash basis net assets	(1,647)	(7,668)
Cash basis net assets beginning of year	<u>(33,519)</u>	<u>(25,851)</u>
Cash basis net assets end of year	<u>\$(35,166)</u>	<u>\$(33,519)</u>

The City's total receipts for governmental activities decreased by 25.4%, or \$74,891. The total cost of all programs and services decreased by approximately \$80,912, or 26.7%, with no new programs added this year. The decrease in receipts was primarily the result of the completion of the rehab housing grant during the fiscal year ended June 30, 2003.

The City increased property tax rates for 2004 by an average of .14%. The City's property tax receipts decreased by approximately \$4,357 in 2004. Based on changes in the total assessed valuation, property tax receipts are budgeted to decrease by \$5,390 next year compared to the final 2004 budget.

The cost of all governmental activities this year was \$222,196 compared to \$303,108 last year. However, as shown in the Statement of Activities and Net Assets on pages 9 and 10, the amount taxpayers ultimately financed for these activities was only \$90,593 because some of the cost was paid by those directly benefited from the programs \$(37,926) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest \$(93,677). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2004 from approximately \$197,642 to approximately \$131,603, principally due to the completion of the rehab housing grant during the fiscal year ended June 30, 2003. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$82,951 in tax (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

	<u>Year ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 86,183	\$ 78,793
Sewer	71,180	71,035
Operating grants, contributions and restricted interest	<u>419</u>	<u>11,774</u>
Total receipts	<u>157,782</u>	<u>161,602</u>
Disbursements:		
Water	94,019	72,523
Sewer	64,588	58,903
Non-major funds	<u>15,461</u>	<u>17,313</u>
Total disbursements	<u>174,068</u>	<u>148,739</u>
Increase (decrease) in cash balance	(16,286)	12,863
Cash basis net assets beginning of year	<u>229,376</u>	<u>216,513</u>
Cash basis net assets end of year	\$ <u>213,090</u>	\$ <u>229,376</u>

Total business type activities receipts for the fiscal year were \$157,782 compared to \$161,602 last year. The cash balance decreased by approximately \$16,286 from the prior year because of an increase in water fund expenditures and a decrease in interest income. Total disbursements for the fiscal year increased by 17% to a total of \$174,064

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Hedrick, Iowa completed the year, its governmental funds reported a combined fund balance of \$(35,166), a decrease of \$1,647 from last year's total of \$(33,519). 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 \$24,521 from the prior year to \$(148,491). The decrease results from the decrease in revenues because of state budget cuts and the prior year completion of the weather radio grant project.
- The Road Use Tax Fund cash balance increased by \$14,199 to \$47,784 during the fiscal year. This increase was attributable to a decrease in the amount spent for public works expenditures in the current year. The City intends to use this money to upgrade the condition of City roads.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance decreased by \$9,144 to \$52,602, due primarily to an increase in water fund disbursements.
- The Sewer Fund cash balance decreased by \$2,229 to \$88,563 due primarily to a slight increase in sewer fund disbursements.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The amendment was approved on May 10, 2004 and resulted in a decrease in public safety disbursements and an increase in business-type disbursements. The City had sufficient cash balances to absorb these additional costs.

## DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$323,581 in revenue notes and other long-term debt, compared to approximately \$363,506 last year, as shown below.

### Outstanding Debt at Year End

	<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>
Revenue notes	\$ 155,841	\$ 163,570
Anticipatory warrants	<u>167,740</u>	<u>199,936</u>
Total	\$ <u>323,581</u>	\$ <u>363,506</u>

Debt decreased as a result of principal retirement.

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 has no outstanding general obligation debt and its general obligation constitutional debt limit is \$380,699.

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

The City of Hedrick, Iowa's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. Unemployment in the City now stands at 6.6%, versus 5.7% a year ago. This compares with the State's unemployment rate of 4.7% and the national rate of 5.6%.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 2.5% for fiscal year 2004 compared with the national rate of 3.0%.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are \$388,232, a decrease of less than 1% from the final 2004 budget. Budgeted disbursements are expected to decrease by \$18,058. Decreases in business-type expenditures account for the majority of this decrease. The City has added no major new programs or initiatives to the 2005 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$3,015 by the close of 2005.

## 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 City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ann Spilman, City Clerk, 109 North Main Street, Hedrick, Iowa.

FINANCIAL STATEMENTS

CITY OF HEDRICK, IOWA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

Functions/Programs	Program Receipts		
	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>
Governmental activities:			
Public safety	\$ 13,038	\$ -	\$ -
Public works	110,203	31,097	69,712
Health and social services	740	-	-
Culture and recreation	28,343	4,439	5,099
General government	<u>69,872</u>	<u>2,390</u>	<u>18,866</u>
Total governmental activities	<u>222,196</u>	<u>37,926</u>	<u>93,677</u>
Business type activities:			
Water	94,019	86,183	-
Sewer	64,588	71,180	-
Non-major	<u>15,461</u>	<u>-</u>	<u>419</u>
Total business type activities	<u>174,068</u>	<u>157,363</u>	<u>419</u>
Total	<u>\$ 396,264</u>	<u>\$ 195,289</u>	<u>\$ 94,096</u>

General Receipts:

Property tax levied for:

General purposes

Unrestricted interest on investments

Miscellaneous

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Streets

Other purposes

Debt service

Unrestricted:

Total cash basis net assets

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

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Governmental Activities	Business Type Activities	Total
\$ (13,038)	\$ -	\$ (13,038)
(9,394)	-	(9,394)
(740)	-	(740)
(18,805)	-	(18,805)
<u>(48,616)</u>	<u>-</u>	<u>(48,616)</u>
<u>(90,593)</u>	<u>-</u>	<u>(90,593)</u>
-	(7,836)	(7,836)
-	6,592	6,592
-	<u>(15,042)</u>	<u>(15,042)</u>
-	<u>(16,286)</u>	<u>(16,286)</u>
<u>(90,593)</u>	<u>(16,286)</u>	<u>(106,879)</u>
82,951	-	82,951
508	-	508
<u>5,487</u>	<u>-</u>	<u>5,487</u>
<u>88,946</u>	<u>-</u>	<u>88,946</u>
(1,647)	(16,286)	(17,933)
<u>(33,519)</u>	<u>229,376</u>	<u>195,857</u>
\$ <u>(35,166)</u>	\$ <u>213,090</u>	\$ <u>177,924</u>
\$ 47,784	\$ -	\$ 47,784
65,541	-	65,541
-	71,925	71,925
<u>(148,491)</u>	<u>141,165</u>	<u>(7,326)</u>
\$ <u>(35,166)</u>	\$ <u>213,090</u>	\$ <u>177,924</u>

## CITY OF HEDRICK, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Special Revenue Road Use Tax</u>	<u>Non-Major</u>	<u>Total</u>
<u>RECEIPTS:</u>				
Property tax	\$ 82,951	\$ -	\$ 18,866	\$ 101,817
Licenses and permits	465	-	-	465
Use of money and property	6,872	-	-	6,872
Intergovernmental	9,354	69,712	-	79,066
Charges for service	31,097	-	-	31,097
Miscellaneous	1,232	-	-	1,232
Total receipts	<u>131,971</u>	<u>69,712</u>	<u>18,866</u>	<u>220,549</u>
<u>DISBURSEMENTS:</u>				
Operating:				
Public safety	13,038	-	-	13,038
Public works	54,690	55,513	-	110,203
Health and social services	740	-	-	740
Culture and recreation	28,343	-	-	28,343
General government	59,681	-	10,191	69,872
Total disbursements	<u>156,492</u>	<u>55,513</u>	<u>10,191</u>	<u>222,196</u>
Net change in cash balances	(24,521)	14,199	8,675	(1,647)
<u>CASH BALANCE</u> - Beginning of year	<u>(123,970)</u>	<u>33,585</u>	<u>56,866</u>	<u>(33,519)</u>
<u>CASH BALANCE</u> - End of year	\$ <u>(148,491)</u>	\$ <u>47,784</u>	\$ <u>65,541</u>	\$ <u>(35,166)</u>
<u>Cash Basis Fund Balances</u>				
Reserved:				
Debt service	\$ -	\$ -	\$ 8,020	\$ 8,020
Rehabilitation projects	-	-	3,073	3,073
Employee benefits	-	-	54,448	54,448
Unreserved:				
General fund	(148,491)	-	-	(148,491)
Special revenue	<u>-</u>	<u>47,784</u>	<u>-</u>	<u>47,784</u>
Total cash basis fund balances	\$ <u>(148,491)</u>	\$ <u>47,784</u>	\$ <u>65,541</u>	\$ <u>(35,166)</u>

## CITY OF HEDRICK, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Proprietary Funds			
	<u>Water</u>	<u>Sewer</u>	<u>Non-Major</u>	<u>Total</u>
<u>Operating receipts:</u>				
Charges for service	\$ 86,173	\$ 71,180	\$ -	\$ 157,353
<u>Operating disbursements:</u>				
Business-type activities	<u>94,019</u>	<u>64,588</u>	<u>-</u>	<u>158,607</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(7,846)</u>	<u>6,592</u>	<u>-</u>	<u>(1,254)</u>
<u>Non-operating receipts (disbursements):</u>				
Interest on investments	10	-	419	429
Debt service	<u>-</u>	<u>-</u>	<u>(15,461)</u>	<u>(15,461)</u>
Total non-operating receipts (disbursements)	<u>10</u>	<u>-</u>	<u>(15,042)</u>	<u>(15,032)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(7,836)</u>	<u>6,592</u>	<u>(15,042)</u>	<u>(16,286)</u>
<u>Operating transfers:</u>				
Operating transfers in	1,975	3,822	10,668	16,465
Operating transfers out	<u>(3,283)</u>	<u>(12,643)</u>	<u>(539)</u>	<u>(16,465)</u>
Total operating transfers	<u>(1,308)</u>	<u>(8,821)</u>	<u>10,129</u>	<u>-</u>
Net change in cash balances	(9,144)	(2,229)	(4,913)	(16,286)
<u>CASH BALANCES</u> - Beginning of year	<u>61,746</u>	<u>90,792</u>	<u>76,838</u>	<u>229,376</u>
<u>CASH BALANCES</u> - End of year	\$ <u>52,602</u>	\$ <u>88,563</u>	\$ <u>71,925</u>	\$ <u>213,090</u>
<u>Cash Basis Fund Balances</u>				
Reserved for:				
Debt service	\$ -	\$ -	\$ 71,925	\$ 71,925
Unreserved	<u>52,602</u>	<u>88,563</u>	<u>-</u>	<u>141,165</u>
Total cash basis fund balances	\$ <u>52,602</u>	\$ <u>88,563</u>	\$ <u>71,925</u>	\$ <u>213,090</u>

## CITY OF HEDRICK, IOWA

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hedrick, Iowa is a political subdivision of the State of Iowa located in Keokuk County. It was first incorporated in 1873 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 nonpartisan 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 water and sewer utilities for its citizens.

#### A. Reporting Entity

For financial reporting purposes, the City of Hedrick, Iowa has included all funds, organizations, 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 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 of Hedrick, Iowa has no component units which meet the Governmental Accounting Standards Board criteria.

#### 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: Keokuk County Emergency Management Commission and Keokuk County Joint E911 Service Board.

#### B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*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 that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

CITY OF HEDRICK, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and proprietary funds are aggregated and reported as either nonmajor governmental funds or nonmajor proprietary funds.

The City reports the following major governmental funds:

The General fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

**C. Measurement Focus and Basis of Accounting**

The City of Hedrick, Iowa maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**D. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the general government function.

**NOTE 2: CASH AND POOLED INVESTMENTS**

The City's deposits in banks at June 30, 2004, 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; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all category 1 which means that the investments are insured or registered or the securities are held by the City or its agent in the City's name.

CITY OF HEDRICK, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 2: CASH AND POOLED INVESTMENTS (Continued)

The City's investments at June 30, 2004 are as follows:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Certificate of deposit	\$ 5,000	\$ 5,000
Savings accounts	\$ 78,143	\$78,143

NOTE 3: NOTES PAYABLE

Annual debt service requirements to maturity for the City's revenue capital loan notes are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 2,895	\$ 8,606
2006	3,030	8,471
2007	3,173	8,328
2008	3,322	8,179
2009	3,478	8,023
2010	3,641	7,860
2011	3,813	7,689
2012	3,992	7,509
2013	4,180	7,321
2014	4,376	7,125
2015	4,581	6,920
2016	4,798	6,703
2017	5,024	6,477
2018	5,260	6,241
2019	5,508	5,993
2020	5,767	5,734
2021	6,039	5,462
2022	6,324	5,177
2023	6,621	4,880
2024	6,934	4,567
2025	7,260	4,241
2026	7,602	3,899
2027	7,961	3,540
2028	8,337	3,164
2029	8,730	2,771
2030	9,144	2,357
2031	9,575	1,926
2032	4,476	900
Total	\$ <u>155,841</u>	\$ <u>160,063</u>

The resolutions providing for the issuance of the revenue capital loan notes 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 funds.
- b. Sufficient monthly transfers shall be made to a separate sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.
- c. Additional monthly transfers to a sewer revenue reserve account shall be made until specific minimum balances have been accumulated. This account is restricted for the purpose of paying for principal and interest if the balance in the sewer sinking fund is insufficient

CITY OF HEDRICK, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 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 IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$4,491, \$5,234 and \$6,563, respectively equal to the required contributions for each year.

NOTE 5: COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation for subsequent use, or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2004, is \$2,005. This liability has been computed based on rates of pay in effect at June 30, 2004.

NOTE 6: RISK MANAGEMENT

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 490 members include 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 members' 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 300 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 operating 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, 2004 were \$10,602.

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 \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

CITY OF HEDRICK, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 6: RISK MANAGEMENT (Continued)

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2004, 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 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 capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. 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.

NOTE 7: DEFICIT FUND BALANCE

The General Fund had a deficit fund balance of \$148,491 at June 30, 2004.

NOTE 8: ANTICIPATORY WARRANTS

Anticipatory warrants are warrants which are legally drawn on City funds but are not paid for lack of funds, in accordance with Chapter 74 of the Code of Iowa. The warrants bear interest at rates in effect at the time the warrants are first presented for redemption.

Outstanding anticipatory warrants as of June 30, 2004 are as follows:

<u>Date Issued</u>	<u>Originally Issued</u>	<u>Balance June 30, 2003</u>	<u>Redeemed During the Current Year</u>	<u>Balance June 30, 2004</u>
November 5, 1999	\$ 101,768	\$ 68,573	\$ -	\$ 68,573
August 7, 2001	46,381	20,391	13,671	6,720
September 11, 2001	75,504	75,504	2,126	73,378
September 11, 2001	21,069	21,069	2,000	19,069
October 2, 2001	<u>14,628</u>	<u>14,399</u>	<u>14,399</u>	<u>-</u>
Total	\$ <u>259,350</u>	\$ <u>199,936</u>	\$ <u>32,196</u>	\$ <u>167,740</u>

NOTE 9: RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials, totaling \$767 during the year ended June 30, 2004.

CITY OF HEDRICK, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 10: INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer In:		Transfer Out:	
Enterprise:		Enterprise:	
Water	\$ 1,975	Sewer	\$ 1,975
Sewer	3,283	Water	3,283
Sewer Reserve	1,164		
Sewer Sinking	9,504	Sewer	10,668
Sewer	<u>539</u>	Sewer Sinking	<u>539</u>
	<u>\$ 16,465</u>		<u>\$ 16,465</u>

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

NOTE 11: ACCOUNTING CHANGE AND RESTATEMENTS:

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

CITY OF HEDRICK, IOWA

BUDGETARY COMPARISON SCHEDULE  
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2004

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	<u>Total</u>
<u>RECEIPTS:</u>			
Property tax	\$ 101,817	\$ -	\$ 101,817
Licenses and permits	465	-	465
Use of money and property	6,872	429	7,301
Intergovernmental	79,066	-	79,066
Charges for service	31,097	157,353	188,450
Miscellaneous	1,232	-	1,232
Total receipts	<u>220,549</u>	<u>157,782</u>	<u>378,331</u>
<u>DISBURSEMENTS:</u>			
Public safety	13,038	-	13,038
Public works	110,203	-	110,203
Health and social services	740	-	740
Culture and recreation	28,343	-	28,343
General government	69,872	-	69,872
Business type activities	-	174,068	174,068
Total disbursements	<u>222,196</u>	<u>174,068</u>	<u>396,264</u>
Excess (deficiency) of receipts over (under) disbursements	(1,647)	(16,286)	(17,933)
<u>BALANCES - Beginning of year</u>	<u>(33,519)</u>	<u>229,376</u>	<u>195,857</u>
<u>BALANCES - End of year</u>	\$ <u>(35,166)</u>	\$ <u>213,090</u>	\$ <u>177,924</u>

<u>Budgeted Amounts</u>		<u>Final</u>	<u>Final</u>
<u>Original</u>			<u>to Net</u>
			<u>Variance</u>
\$ 103,747	\$ 103,747	\$	(1,930)
640	640		(175)
16,168	16,168		(8,867)
83,462	83,462		(4,396)
182,750	182,750		5,700
3,000	3,000		(1,768)
<u>389,767</u>	<u>389,767</u>		<u>(11,436)</u>
40,400	15,400		2,362
118,000	118,000		7,797
1,000	1,000		260
29,675	29,675		1,332
58,200	58,200		(11,672)
<u>140,000</u>	<u>181,000</u>		<u>6,932</u>
<u>387,275</u>	<u>403,275</u>		<u>7,011</u>
2,492	(13,508)		(4,425)
<u>299,022</u>	<u>195,856</u>		<u>1</u>
\$ <u>301,514</u>	\$ <u>182,348</u>	\$	<u>(4,424)</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HEDRICK, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

JUNE 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$16,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the general government function.

OTHER SUPPLEMENTAL INFORMATION

CITY OF HEDRICK, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>Special Revenue</u>			<u>Total</u>
	<u>Employee Benefits</u>	<u>Rehab Housing</u>	<u>Debt Service</u>	
<u>RECEIPTS:</u>				
Property tax	\$ 18,866	\$ -	\$ -	\$ 18,866
<u>DISBURSEMENTS:</u>				
General government	<u>10,191</u>	<u>-</u>	<u>-</u>	<u>10,191</u>
Net change in cash balances	8,675	-	-	8,675
<u>CASH BALANCES - Beginning of year</u>	<u>45,773</u>	<u>3,073</u>	<u>8,020</u>	<u>56,866</u>
<u>CASH BALANCES - End of year</u>	\$ <u>54,448</u>	\$ <u>3,073</u>	\$ <u>8,020</u>	\$ <u>65,541</u>

CITY OF HEDRICK, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NONMAJOR PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	<u>Sewer Sinking</u>	<u>Sewer Reserve</u>	<u>Total</u>
<u>NON-OPERATING RECEIPTS (DISBURSEMENTS):</u>			
Interest on investments	\$ 371	\$ 48	\$ 419
Debt service	<u>(15,461)</u>	<u>-</u>	<u>(15,461)</u>
Total-non operating receipts (disbursements)	<u>(15,090)</u>	<u>48</u>	<u>(15,042)</u>
<u>OTHER FINANCING SOURCES (USES):</u>			
Operating transfer in	9,504	1,164	10,668
Operating transfer out	<u>(539)</u>	<u>-</u>	<u>(539)</u>
Total other financing sources (uses)	<u>8,965</u>	<u>1,164</u>	<u>10,129</u>
Net change in cash balances	(6,125)	1,212	(4,913)
<u>CASH BALANCES</u> - Beginning of year	<u>66,220</u>	<u>10,618</u>	<u>76,838</u>
<u>CASH BALANCES</u> - End of year	\$ <u>60,095</u>	\$ <u>11,830</u>	\$ <u>71,925</u>

CITY OF HEDRICK, IOWA

SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2004

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance June 30, 2003</u>	<u>Issued During Year</u>
<u>ANTICIPATORY WARRANTS:</u>					
Street construction	August 7, 2001	6.00%	\$ 46,381	\$ 20,391	\$ -
Street construction	September 11, 2001	6.00%	75,504	75,504	-
Street construction	September 11, 2001	6.00%	21,069	21,069	-
Street construction	November 5, 1999	6.00%	101,768	68,573	-
Street construction	October 2, 2001	6.00%	<u>14,628</u>	<u>14,399</u>	-
Total			\$ <u>259,350</u>	\$ <u>199,936</u>	\$ -
<u>LOAN NOTES:</u>					
Sewer construction	March 6, 1995	4.50%	\$ 125,000	\$ 100,999	\$ -
Sewer construction	March 6, 1995	4.50%	19,500	15,757	-
Sewer construction	March 6, 1995	5.25%	<u>57,000</u>	<u>46,814</u>	-
Total			\$ <u>201,500</u>	\$ <u>163,570</u>	\$ -

SCHEDULE 3

<u>Redeemed</u> <u>During</u> <u>Year</u>	<u>Balance</u> <u>June 30,</u> <u>2004</u>	<u>Interest</u> <u>Paid</u>	<u>Interest</u> <u>Due and</u> <u>Unpaid</u>
\$ 13,671	\$ 6,720	\$ 768	\$ -
2,126	73,378	4,592	-
2,000	19,069	1,281	-
-	68,573	-	3,179
<u>14,399</u>	<u>-</u>	<u>1,163</u>	<u>-</u>
\$ <u>32,196</u>	\$ <u>167,740</u>	\$ <u>7,804</u>	\$ <u>3,179</u>
\$ 4,849	\$ 96,150	\$ 4,557	\$ -
756	15,001	711	-
<u>2,124</u>	<u>44,690</u>	<u>2,464</u>	<u>-</u>
\$ <u>7,729</u>	\$ <u>155,841</u>	\$ <u>7,732</u>	\$ <u>-</u>

CITY OF HEDRICK, IOWA

NOTE MATURITIES  
JUNE 30, 2004

Year Ending June 30	Loan Notes										Total
	Sewer Construction Issued March 6, 1995			Sewer Construction Issued March 6, 1995			Sewer Construction Issued March 6, 1995				
	Interest Rate	Amount		Interest Rate	Amount		Interest Rate	Amount			
2005	5.25 %	\$	754	4.50 %	\$	1,852	4.50 %	\$	289	\$	2,895
2006	5.25		793	4.50		1,935	4.50		302		3,030
2007	5.25		835	4.50		2,022	4.50		316		3,173
2008	5.25		879	4.50		2,113	4.50		330		3,322
2009	5.25		925	4.50		2,208	4.50		345		3,478
2010	5.25		973	4.50		2,307	4.50		361		3,641
2011	5.25		1,025	4.50		2,411	4.50		377		3,813
2012	5.25		1,078	4.50		2,520	4.50		394		3,992
2013	5.25		1,135	4.50		2,633	4.50		412		4,180
2014	5.25		1,194	4.50		2,752	4.50		430		4,376
2015	5.25		1,257	4.50		2,875	4.50		449		4,581
2016	5.25		1,323	4.50		3,005	4.50		470		4,798
2017	5.25		1,393	4.50		3,140	4.50		491		5,024
2018	5.25		1,466	4.50		3,281	4.50		513		5,260
2019	5.25		1,543	4.50		3,429	4.50		536		5,508
2020	5.25		1,624	4.50		3,583	4.50		560		5,767
2021	5.25		1,709	4.50		3,745	4.50		585		6,039
2022	5.25		1,799	4.50		3,913	4.50		612		6,324
2023	5.25		1,893	4.50		4,089	4.50		639		6,621
2024	5.25		1,993	4.50		4,273	4.50		668		6,934
2025	5.25		2,097	4.50		4,465	4.50		698		7,260
2026	5.25		2,207	4.50		4,666	4.50		729		7,602
2027	5.25		2,323	4.50		4,876	4.50		762		7,961
2028	5.25		2,445	4.50		5,096	4.50		796		8,337
2029	5.25		2,573	4.50		5,325	4.50		832		8,730
2030	5.25		2,709	4.50		5,565	4.50		870		9,144
2031	5.25		2,851	4.50		5,815	4.50		909		9,575
2032	5.25		1,894	4.50		2,256	4.50		326		4,476
Total		\$	<u>44,690</u>		\$	<u>96,150</u>		\$	<u>15,001</u>	\$	<u>155,841</u>

CITY OF HEDRICK, IOWA

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

FOR THE PAST YEAR TWO YEARS

	<u>2004</u>	<u>2003</u>
<b><u>RECEIPTS:</u></b>		
Property tax	\$ 101,817	\$ 106,174
Licenses and permits	465	565
Use of money and property	6,872	8,571
Intergovernmental	79,066	138,624
Charges for service	31,097	30,597
Miscellaneous	<u>1,232</u>	<u>10,909</u>
Total	\$ <u>220,549</u>	\$ <u>295,440</u>
<b><u>DISBURSEMENTS:</u></b>		
Operating:		
Public safety	\$ 13,038	\$ 42,389
Public works	110,203	153,892
Health and social services	740	1,735
Culture and recreation	28,343	39,906
General government	69,872	63,427
Capital projects	<u>-</u>	<u>1,759</u>
Total	\$ <u>222,196</u>	\$ <u>303,108</u>

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING

To the Honorable Mayor and  
Members of the City Council  
City of Hedrick, Iowa

We have audited the financial statements of the City of Hedrick, Iowa as of and for the year ended June 30, 2004, and have issued our report thereon dated October 4, 2004. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Hedrick, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statements 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior statutory comments have been resolved except for items 04-III-B and 04-III-J.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hedrick, Iowa's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Hedrick, Iowa's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 04-II-A is a material weakness. Prior reportable conditions have been resolved except for item 04-II-A.

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 Hedrick, Iowa and other parties to whom the City of Hedrick, Iowa may report. 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 Hedrick, Iowa 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.

ANDERSON, LARKIN & CO P.C

Ottumwa, Iowa  
October 4, 2004

CITY OF HEDRICK, IOWA

SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditor's Results

- 04-I-A An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- 04-I-B Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- 04-I-C The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

Instances of Noncompliance:

No matters were noted.

Reportable Conditions:

04-II-A Segregation of Duties:

Comment - 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 receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

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

Response - The internal policies will be reviewed on a regular basis.

Conclusion - Response accepted.

Part III: Other Findings Related to Statutory Reporting

04-III-A Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

04-III-B Certified Budget – Disbursements during the year ended June 30, 2004, exceeded the amounts budgeted in the general government function.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – In the future, we will amend our budget prior to over expenditure.

Conclusion – Response accepted.

04-III-C Questionable Disbursements – Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

CITY OF HEDRICK, IOWA

SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004

Part III: Other Findings Related to Statutory Reporting (Continued)

04-III-C Questionable Disbursements (Continued)

<u>Purpose</u>	<u>Amount</u>
Easter egg hunt donation	\$ 25
Fireworks donation	100
Baseball/softball donation	100

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin

Recommendation – The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

04-III-D Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

04-III-E Business Transaction – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Glen Sackett, Spouse of Council Member Owner of Glen's Trucking	Contract Labor – Hauling	\$ 767

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council member do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year.

04-III-F 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.

04-III-G Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

On February 2, 2004, the Council voted to abate taxes on a building owned by a family member of a Council member. The Council member did not abstain from voting on this issue.

Recommendation – To avoid a potential conflict of interest, Council members should abstain from voting on issues that deal with related parties.

Response – We will do so in the future.

Conclusion – Response accepted.

04-III-H Revenue Notes – The City has complied with the revenue note resolutions.

CITY OF HEDRICK, IOWA

SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004

Part III: Other Findings Related to Statutory Reporting (Continued)

04-III-I 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.

04-III-J Financial Condition – The General Fund had a deficit balance at June 30, 2004 of \$148,491.

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

Response – We will do so.

Conclusion – Response accepted.