

***City Of Henderson
Henderson, Iowa***

Independent Auditors' Reports

**Basic Financial Statements, Required Supplemental Information, Other
Supplemental Information and Schedule of Findings**

Year Ended June 30, 2004

Prepared By:

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Certified Public Accountants
10842 John Galt Boulevard
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CITY OF HENDERSON

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Bill Harbor	Mayor	Jan 2004
Charles Haack	Council Member	Jan 2004
Mike Baumfalk	Council Member	Jan 2004
Bette Byers	Council Member	Jan 2006
Nancy Van Pelt	Council Member	Jan 2006
John Green	Council Member	Jan 2004
(After January 2004)		
Nancy Van Pelt	Mayor	Jan 2006
Charles Haack	Council Member	Jan 2008
Mike Baumfalk	Council Member	Jan 2004
Bette Byers	Council Member	Resigned Aug 2004
John Green	Council Member	Jan 2008
Bill Harbor	Council Member	Jan 2008
Kenny Van Pelt	Council Member (appointed)	Jan 2006
Bonnie Frink	City Clerk	Indefinite
Alice Brown	City Treasurer	Indefinite
Tom Stamets	City Attorney	Indefinite

Laurence A. Lanphier Jr.
Steven G. Vandenberg
Lorraine M. Kol asinski

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Accountants

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Certified Publ ic
Accountants

Independent Auditors' Report

To The Honorable Mayor
and Members of The City Council
City of Henderson, 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 Henderson, 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 the City of Henderson'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 of America, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in the 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 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 of America. 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 July 1, 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 July 1, 2003, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of 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 Henderson, Iowa, as of and for the year ended June 30, 2004, and the respective change 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 12 to the financial statements, during the year ended June 30, 2004, the City Henderson 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 reports dated November 29, 2004, on our consideration of the City of Henderson’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

Management’s Discussion and Analysis and Budgetary Comparison Information on pages 6 through 12 and 22 through 23 are not required parts of the basis financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Henderson’s basic financial statements. Other supplementary information included in Schedules 1 through 3, 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.

Omaha, Nebraska
November 29, 2004

LANPHIER, VANDENBERG & KOLASINSKI, PC

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Henderson 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.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased by \$143,895, from fiscal 2003 to fiscal 2004. Property tax increased \$2,029.
- Disbursements of the City's governmental activities increased by \$306,968, in fiscal 2004 from fiscal 2003. Debt Service began in 2004 and was \$11,923. This was the first payment on the \$150,000 bond issue. Capital Project disbursements of \$285,790 were in 2004, because of the completion of our new building.
- The City's total cash basis net assets decreased by \$217,833, from June 30 2003 to June 30, 2004. Of this amount, the assets of the governmental activities decreased \$218,316 and the assets of the business type activities increased by approximately \$483.

USING THIS AUDIT REPORT

This audit 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 non major governmental funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this audit 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 project. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer, and solid waste. 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, 3) the Debt Service Fund, and 4) the Capital Project 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 three Enterprise funds to provide separate information for the water and sewer, and garbage funds, considered to be major funds of the City.

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.

GOVERNMENTAL FUNDS

The changes in cash basis net assets is presented in the Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Governmental Funds included in the financial statements.

The City's total receipts were \$137,251. The total cost of all programs and services was \$355,567, with no new programs added this year. The \$218,316 difference between revenues and disbursements came from cash balances and grants received.

The City did not increase the property tax rate for 2004. The increase in property tax received was due to increased assessed evaluation.

The cost of all governmental activities this year was \$355,567. As shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for the activities was \$288,331. Some of the costs were paid for with \$67,237 in grants.

PROPRIETARY FUNDS

The changes in cash basis net assets is presented in the Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Proprietary Funds included in the financial statements.

Total business type activities receipts for the fiscal year were \$32,568 compared to \$32,116 last year. Total disbursements and transfers for the fiscal year were \$32,085 compared to \$33,259 last year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Henderson completed the year, its governmental funds reported a combined fund balance of \$45,790, a decrease of \$218,316 from last year's total of \$264,106. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The Road Use Tax Fund cash balance decreased by \$8,943 to \$13,205 during the fiscal year due to street work that was done.
- The Capital Project Fund cash balance decreased by \$225,529 to \$4,032 during the fiscal year. This was due to disbursements made to finish the community building/city hall/library.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$5,254 to \$19,658, due to an increase in water rates and less repair.
- The Sewer Fund cash balance decreased by \$3,675 to \$95,584, due to lift station repairs.
- The Garbage Fund cash balance decreased by \$1,096 to \$6,883.

BUDGETARY HIGHLIGHTS

Over the course of the year, the budget was amended one time on February 9, 2004. The amendment provided for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2004, the City had \$145,000 in debt in General Obligation Bonds, compared to \$150,000 last year.

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 \$145,000 is over the City's debt limit of \$122,551. With a couple of more payments we will be within our limit.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Henderson's elected and appointed officials, in setting the fiscal year 2005 budget, did not increase the tax rate. They agreed to be very conservative in their spending and did not intend to incur any more debt.

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 Bonnie Frink, City Clerk, at 306 Maple Street, Henderson, Iowa.

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

Exhibit A

	Disbursements	Program Receipts		Net (Disbursements) Receipts and Change in Cash Basis Net Assets			
		Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
FUNCTIONS/PROGRAMS							
GOVERNMENTAL ACTIVITIES							
Public safety	\$ 6,733	0	0	0	(6,733)	0	(6,733)
Public works	26,268	0	0	0	(26,268)	0	(26,268)
Culture and recreation	2,894	0	0	0	(2,894)	0	(2,894)
General government	21,960	0	0	0	(21,960)	0	(21,960)
Debt service	11,923	0	0	0	(11,923)	0	(11,923)
Capital projects	285,790	0	0	67,237	(218,553)	0	(218,553)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 355,568	0	0	67,237	(288,331)	0	(288,331)
BUSINESS TYPE ACTIVITIES							
Water	\$ 8,151	13,245	0	0	0	5,094	5,094
Sewer	14,756	10,018	0	0	0	(4,738)	(4,738)
Garbage	9,178	8,082	0	0	0	(1,096)	(1,096)
TOTAL BUSINESS TYPE ACTIVITIES	\$ 32,085	31,345	0	0	0	(740)	(740)
TOTAL	\$ 387,653	31,345	0	67,237	(288,331)	(740)	(289,071)
GENERAL RECEIPTS							
Property tax levied for							
General purposes	\$				19,604	0	19,604
Special revenues					4,833	0	4,833
Local option sales tax					9,181	0	9,181
Unrestricted interest on investments					1,759	1,063	2,822
Miscellaneous					34,638	160	34,798
TOTAL GENERAL RECEIPTS AND TRANSFERS	\$				70,015	1,223	71,238
CHANGE IN CASH BASIS NET ASSETS	\$				(218,316)	483	(217,833)
CASH BASIS NET ASSETS BEGINNING OF YEAR	\$				264,106	121,642	385,748
CASH BASIS NET ASSETS END OF YEAR	\$				45,790	122,125	167,915
CASH BASIS NET ASSETS							
RESTRICTED							
Streets	\$				13,205		13,205
Capital project					4,032		4,032
Debt service					925		925
Other purposes					3,011		3,011
UNRESTRICTED					24,617	122,125	146,742
TOTAL CASH BASIS NET ASSETS	\$				45,790	122,125	167,915

See Notes to Financial Statements

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

Exhibit B

	GENERAL	SPECIAL REVENUE		DEBT SERVICE	CAPITAL PROJECT	NONMAJOR FUNDS	TOTAL
		ROAD USE TAX	LOCAL OPTION SALES TAX		COMMUNITY BUILDING		
RECEIPTS							
Property tax	\$ 19,604	0	0	0	0	4,833	24,437
Other city tax	0	0	9,181	0	0	0	9,181
Use of money and property	1,759	0	0	0	0	0	1,759
Intergovernmental	0	14,242	5,000	925	41,397	2,775	64,339
Miscellaneous	3,780	0	0	0	33,755	0	37,535
TOTAL RECEIPTS	\$ 25,143	14,242	14,181	925	75,152	7,608	137,251
DISBURSEMENTS							
Operating							
Public safety	\$ 6,733	0	0	0	0	0	6,733
Public works	3,083	23,184	0	0	0	0	26,267
Culture and recreation	1,430	0	0	0	0	1,464	2,894
General government	15,052	0	0	0	0	6,908	21,960
Debt service	0	0	0	11,923	0	0	11,923
Capital projects	0	0	0	0	285,790	0	285,790
TOTAL DISBURSEMENTS	\$ 26,298	23,184	0	11,923	285,790	8,372	355,567
EXCESS OF RECEIPTS OVER DISBURSEMENTS	\$ (1,155)	(8,942)	14,181	(10,998)	(210,638)	(764)	(218,316)
OTHER FINANCING SOURCES (USES)							
Operating transfers in	28,689	427	0	11,923	4,617	3,348	49,004
Operating transfers out	(15,315)	0	(14,181)	0	(19,508)	0	(49,004)
TOTAL OTHER FINANCING SOURCES (USES)	\$ 13,374	427	(14,181)	11,923	(14,891)	3,348	0
NET CHANGE IN CASH BALANCES	\$ 12,219	(8,515)	0	925	(225,529)	2,584	(218,316)
CASH BALANCE BEGINNING OF YEAR	12,398	21,720	0	0	229,561	427	264,106
CASH BALANCE END OF YEAR	\$ 24,617	13,205	0	925	4,032	3,011	45,790
CASH BASIS FUND BALANCES							
RESERVED							
Debt service	\$ 0	0	0	925	0	0	925
UNRESERVED							
General fund	24,617	0	0	0	0	0	24,617
Special revenue funds	0	13,205	0	0	0	3,011	16,216
Capital projects fund	0	0	0	0	4,032	0	4,032
TOTAL CASH BASIS FUND BALANCES	\$ 24,617	13,205	0	925	4,032	3,011	45,790

See Notes to Financial Statements

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

Exhibit C

	ENTERPRISE FUNDS			
	WATER	SEWER	GARBAGE	TOTAL
OPERATING RECEIPTS				
Use of money and property	\$ 0	1,063	0	1,063
Charges for services	13,245	10,018	8,082	31,345
Miscellaneous	160	0	0	160
TOTAL OPERATING RECEIPTS	\$ 13,405	11,081	8,082	32,568
OPERATING DISBURSEMENTS				
Business type	\$ 8,151	14,756	9,178	32,085
TOTAL OPERATING DISBURSEMENTS	\$ 8,151	14,756	9,178	32,085
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	\$ 5,254	(3,675)	(1,096)	483
OPERATING TRANSFERS OUT	\$ 0	0	0	0
NET CHANGE IN CASH BALANCES	\$ 5,254	(3,675)	(1,096)	483
CASH BALANCE BEGINNING OF YEAR	\$ 14,404	99,259	7,979	121,642
CASH BALANCE END OF YEAR	\$ 19,658	95,584	6,883	122,125
CASH BASIS FUND BALANCES				
Reserved	\$ 1,930	71,262	0	73,192
Unreserved	17,728	24,322	6,883	48,933
TOTAL CASH BASIS FUND BALANCES	\$ 19,658	95,584	6,883	122,125

See Notes to Financial Statements

CITY OF HENDERSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1

Summary Of Significant Accounting Policies

The City of Henderson is a political subdivision of the State of Iowa located in Mills County. It was first incorporated in 1893 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 water, sewer and garbage utilities for its citizens.

Reporting Entity

For financial reporting purposes, City of Henderson 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 board, 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 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 associations: Iowa League of Cities, MAPA, and Southwest Planning Council.

Basis of Presentation

Government-wide Financial Statements

The Statement of Activities and Net Assets reports information on all the non-fiduciary 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 non-fiduciary 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.

CITY OF HENDERSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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, service 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 of 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 non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are 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 through other funds.

Special Revenue

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

The Local Option Sales Tax Fund is used to account for the local option sales tax received.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation long-term debt.

Capital Projects

The Community Building capital project is utilized to account for the resources used in the construction of a new community building.

The City reports the following major proprietary funds:

The Water Fund is utilized to finance and account for the acquisition, operation, and maintenance of the City's water system that is supported by user charges.

CITY OF HENDERSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

The Sewer Fund is utilized to finance and account for the acquisition, operation, and maintenance of the City's sewer system that is supported by user charges.

The Garbage Fund is utilized to finance and account for the acquisition, operation, and maintenance of the City's garbage service that is supported by user charges.

The City also reports the following additional non-major funds:

Special Revenue

The Benefit Levy Fund is utilized to account for the tax levy to support the City's employee's benefits.

The Tort Liability Fund is utilized to account for the tax levy to support the City's legal costs.

The Library Fund is utilized to account for the funds to support the City's library in the community building.

The FEMA Fund is utilized to account for the funds to support the City's FEMA project.

Measurement Focus and Basis of Accounting

The City of Henderson 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 of America.

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.

Budgets and Budgetary Accounting

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

NOTE 2

Deposits and Investments:

The City's deposits 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.

CITY OF HENDERSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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.

The City invested solely in certificates of deposit during the current fiscal year. The City had two certificates of deposit that are held at one institution in the City's name for a total of \$71,262 at June 30, 2004.

NOTE 3

General Obligation Notes Payable

Annual debt service requirements to maturity for general obligation revenue notes are as follows:

Year Ending June 30	General Obligation Notes	
	Principal	Interest
2005	\$ 10,000.00	\$ 5,872.50
2006	10,000.00	5,617.50
2007	10,000.00	5,325.00
2008	10,000.00	5,000.00
2009	10,000.00	4,645.00
2010	10,000.00	4,260.00
2011	10,000.00	3,850.00
2012	10,000.00	3,420.00
2013	10,000.00	2,972.50
2014	10,000.00	2,510.00
2015	10,000.00	2,032.50
2016	10,000.00	1,540.00
2017	10,000.00	1,035.00
2018	15,000.00	390.00
Total	<u>\$ 145,000.00</u>	<u>\$ 48,470.00</u>

The Code of Iowa requires that principal and interest on general obligation notes be paid from the debt service fund.

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

CITY OF HENDERSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2004 was \$872 equal to the required contribution for the year. Covered payroll for the year ended June 30, 2004 was \$15,178 and the total payroll for the year ended June 30, 2004 was \$16,578.

NOTE 5 Property Taxes

Property taxes attach as an enforceable lien on property as of August 1. Taxes are levied on July 1, and payable in two installments on October 1 and April 1. The County bills and collects property taxes and remits them to the City monthly.

NOTE 6 Interfund Transfers

The following operating transfers were made to move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources: \$4,617. from the General Fund to Capital Project, Community Building, \$5,000 from General Fund to Debt Service Fund, \$3,623 from General Fund to Special Revenue, Library Fund, \$1,917 from General Fund to Special Revenue, Tort Liability Fund, \$158 from General Fund to Special Revenue, Employee Benefits Fund, \$9,181 from the Special Revenue, Local Option Sales Tax Fund to the General Fund, \$5,000 from the Special Revenue, Local Option Sales Tax Fund to Debt Service, \$19,507 from Capital Project, Community Building to General Fund, and \$1,923 from Special Revenue, Library to Debt Service, and \$427 from Special Revenue, FEMA to Special Revenue, Road Use Fund.

NOTE 7 Risk Management

The City of Henderson is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 8 Capital Project - Community Center

During the past two fiscal years, the City has constructed a new community center. The total cost of the project was \$305,297. This project was completed in August of 2004. The following grants were received towards the cost of construction.

Roy J. Carver Charitable Trust

During fiscal year 2002/3003, the City received a grant in the amount of \$60,000 from the Roy J. Carver Charitable Trust. Of this amount \$50,000 was designated to support construction and \$10,000 was for the purchase of materials and technology for the new Henderson library located in the Community Center.

CITY OF HENDERSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Vision Iowa

On March 13, 2002, the City was awarded a Community Attraction and Tourism grant in the amount of \$60,000 from Iowa Department of Economic Development, Vision Iowa. The City received partial payment of grant in the fiscal year 2002/2003 and the remaining amount \$41,397 in November of 2003.

Iowa West Foundation

During 2002, the City was awarded a matching grant in the amount of \$24,840 from the Iowa West Foundation. This payment was received in November of 2003.

MidAmerican Energy

During 2004, the City was awarded a grant in the amount of \$1,000 towards the planting of trees. This grant was received March of 2004.

NOTE 9 Law Enforcement Service Contract

The City has a Law Enforcement Services Contract with Mills County. The contract is payable in two installments of \$1,346 on December 1, 2003 and June 1, 2004.

NOTE 10 Trash Service Contract

The City has a trash removal contract with Steve Konfrst Trash Service, Inc. The contractor will provide trash removal service for all households within the city limits for a fee of \$720 per month. The terms of the contract include October 1, 2003 through September 30, 2004. The contract is subject to renewal for two additional one-year periods upon mutual agreement of both parties

NOTE 11 Subsequent Events

Iowa West Foundation Grant

The City received a matching grant of \$10,000 for exterior improvements to the Community Center. This project has not been completed and no funds have been received to date.

NOTE 12 Accounting Change

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 Government: Omnibus; and 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. Non-major funds are presented in total in one column.

The government-wide financial statement reports the City’s governmental and business type activities.

CITY OF HENDERSON
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES
 IN BALANCES – BUDGET AND ACTUAL – CASH BASIS
 ALL GOVERNMENTAL AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE, 2004

	GOVERNMENTAL FUNDS		PROPRIETARY FUNDS	BUDGETED AMOUNTS		FINAL TO TOTAL VARIANCE
	FUNDS ACTUAL	FUNDS ACTUAL	TOTAL	ORIGINAL	FINAL	
RECEIPTS						
Property tax	\$ 24,437	0	24,437	23,058	23,058	1,379
Other city tax	9,181	0	9,181	11,741	11,741	(2,560)
Use of money and property	1,759	1,063	2,822	2,300	2,300	522
Intergovernmental	64,339	0	64,339	219,073	219,073	(154,734)
Charges for services	0	31,345	31,345	29,292	32,292	(947)
Miscellaneous	37,535	160	37,695	2,050	2,050	35,645
TOTAL RECEIPTS	\$ 137,251	32,568	169,819	287,514	290,514	(120,695)
DISBURSEMENTS						
Public safety	\$ 6,733	0	6,733	7,027	7,027	294
Public works	26,267	0	26,267	31,050	31,050	4,783
Culture and recreation	2,894	0	2,894	4,850	4,850	1,956
General government	21,960	0	21,960	23,534	28,534	6,574
Debt service	11,923	0	11,923	0	11,923	0
Capital projects	285,790	0	285,790	278,000	300,000	14,210
Business type activities	0	32,085	32,085	57,000	57,000	24,915
TOTAL DISBURSEMENTS	\$ 355,567	32,085	387,652	401,461	440,384	52,732
EXCESS OF RECEIPTS OVER DISBURSEMENTS	\$ (218,316)	483	(217,833)	(113,947)	(149,870)	67,963
OTHER FINANCING SOURCES, NET	\$ 0	0	0	0	0	0
EXCESS OF RECEIPTS AND OTHER FINANCING SOURCES OVER DISBURSEMENTS AND OTHER FINANCING USES	\$ (218,316)	483	(217,833)	(113,947)	(149,870)	67,963
BALANCE BEGINNING OF YEAR	\$ 264,106	121,642	385,748	217,015	385,748	0
BALANCE END OF YEAR	\$ 45,790	122,125	167,915	103,068	235,878	67,963

See Accompanying Independent Auditors' Report

CITY OF HENDERSON
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, a budget amendment increased budgeted disbursements by \$38,923. The budget amendment is reflected in the final budget amounts.

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

Schedule 1

	SPECIAL REVENUE					
	TORT LIABILITY	EMPLOYEE BENEFIT		LIBRARY	FEMA	TOTAL
		LEVY				
RECEIPTS						
Property tax	\$ 2,960	1,873	0	0		4,833
Intergovernmental	0	0	2,775	0		2,775
TOTAL RECEIPTS	\$ 2,960	1,873	2,775	0		7,608
DISBURSEMENTS						
Culture and recreation	0	0	1,464	0		1,464
General government	4,877	2,031	0	0		6,908
TOTAL DISBURSEMENTS	\$ 4,877	2,031	1,464	0		8,372
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	\$ (1,917)	(158)	1,311	0		(764)
OPERATING TRANSFERS IN (OUT)	\$ 1,917	158	1,700	(427)		3,348
NET CHANGE IN CASH BALANCES	\$ 0	0	3,011	(427)		2,584
CASH BALANCE BEGINNING OF YEAR	\$ 0	0	0	427		427
CASH BALANCE END OF YEAR	\$ 0	0	3,011	0		3,011
CASH BASIS FUND BALANCES						
Special revenue funds	\$ 0	0	3,011	0		3,011
TOTAL CASH BASIS FUND BALANCES	\$ 0	0	3,011	0		3,011

See Accompanying Independent Auditors' Report

CITY OF HENDERSON
 SCHEDULE OF INDEBTEDNESS
 FOR THE YEAR ENDED JUNE 30, 2004

Schedule 2

OBLIGATION	DATE OF ISSUE	INTEREST RATES	AMOUNT ORIGINALLY ISSUED	BALANCE BEG OF YEAR	ISSUED DURING YEAR	REDEEMED DURING YEAR	BALANCE END OF YEAR	INTEREST PAID	INTEREST DUE AND UNPAID
GENERAL OBLIGATION NOTES									
COMMUNITY BUILDING	MAY 1, 2003	2.00% to 5.20%	\$ 150,000	150,000	0	5,000	145,000	6,598	0
				150,000	0	5,000	145,000	6,598	0

See Accompanying Independent Auditors' Report

CITY OF HENDERSON
NOTE MATURITIES
JUNE 30, 2004

Schedule 3

GENERAL OBLIGATION NOTES		
	COMMUNITY BUILDING	
	Issued May 1, 2003	
YEAR END JUNE 30	INTEREST RATE	AMOUNT
2005	2.35%	10,000
2006	2.75%	10,000
2007	3.10%	10,000
2008	3.40%	10,000
2009	3.70%	10,000
2010	4.00%	10,000
2011	4.20%	10,000
2012	4.40%	10,000
2013	4.55%	10,000
2014	4.70%	10,000
2015	4.85%	10,000
2016	5.00%	10,000
2017	5.10%	10,000
2018	5.20%	15,000
TOTAL		\$ 145,000

See Accompanying Independent Auditors' Report

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of Certified Publ ic
Accountants

Nebraska Society of
Certified Publ ic
Accountants

Independent Auditors' Report On Compliance
and on Internal Control over Financial Reporting

To The Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Henderson, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated November 29, 2004. Our report expresses an qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 Henderson's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Henderson'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 financing 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 City of Henderson'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 the 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 the 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 II-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information of and use of the officials, employees and citizens of the City of Henderson and other parties to whom the City of Henderson 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 Henderson 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.

November 29, 2004

LANPHIER, VANDENBERG & KOLASINSKI, PC

CITY OF HENDERSON
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) A qualified 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 generally accepted accounting principles in the United States of America. We were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties

One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that significantly all transactions and reports, 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 control procedures to obtain the maximum internal control possible under the circumstances.

Response

We are continuing to implement procedures to maximize control.

Conclusion

Response acknowledged. 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. The City Treasurer and Council should continue to provide oversight to the Clerks' duties.

CITY OF HENDERSON
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part III: Other Findings Related to Statutory Reporting

III-A-04 Official Depositories

A resolution naming official depositories and maximum deposit amounts has been approved by the City. The maximum deposit amounts stated in the resolution were exceeded briefly during the year ended June 30, 2004.

Recommendation

The City should monitor its account balances to ensure they do not exceed the maximum deposit amounts stated in the resolution.

Response

The maximum deposit amounts were exceeded briefly due to the receipt of grant money on Capital Project and disbursed during the fiscal year.

Conclusion

Response accepted.

III-B-04 Certified Budget

Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted in any function.

III-C-04 Questionable Disbursements

No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-04 Travel Expense

No disbursements of City money for travel expenses of spouses of City Officials or employees were noted.

III-E-04 Business Transactions

No business transactions between the City and City officials were noted.

III-F-04 Bond Coverage

Surety bond coverage of City Officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-G-04 Council Minutes

One transaction was found that we believe should have been approved in the Council minutes but was not.

Recommendation

Council should approve all disbursements for payment in the Council minutes.

Response

We accept this recommendation.

CITY OF HENDERSON
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Conclusion

Response accepted.

We noted several instances where the Council minutes were not signed.

Recommendation

According to Chapter 380.7 of the Code of Iowa Council minutes should be properly signed.

Response

We accept this recommendation.

Conclusion

Response accepted.

III-H-04 Deposits and Investments

The City has not adopted a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Recommendation

The City should adopt a written investment policy.

Response

We will consider adopting a written investment policy.

Conclusion

Response accepted.

III-I-04 Revenue Bonds and Notes

The City's indebtedness is not within the Constitutional limits of 5% on the value of taxable property.

Recommendation

According to the Article XI.3 of the Iowa Constitution no municipal corporation shall be allowed to become indebted in any manner, or for any purpose, to an amount, in the aggregate, exceeding five per centum on the value of the taxable property within such county or corporation.

Response

We are aware that the City's indebtedness is not within the Constitutional limits at this time; however, after two fiscal years of payments the debt will be within the limit.

Conclusion

Response accepted.

CITY OF HENDERSON
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

III-J-04 Disbursements

We noted that accounts payable invoices did not show evidence of council review.

Recommendation

The Mayor or a Council member should review all paid invoices and evidence of that review should be placed on the invoice.

Response

All invoices are now reviewed and by the Mayor and Council. We will implement procedures to make evidence of that review.

Conclusion

Response accepted.

We noted that the individual disbursements were listed in the minutes but the total of the disbursements were not presented.

Recommendation

The Clerk should show the total disbursements in the minutes.

Response

We will implement this recommendation.

Conclusion

We accept this response.