



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

March 23, 2012

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Shenandoah, Iowa.

The City's receipts totaled \$10,070,574 for the year ended June 30, 2011, a 4% decrease from the prior year. The receipts included \$2,154,411 in property and other city tax, \$266,193 from tax increment financing, \$533,180 from local option sales tax, \$45,446 from hotel/motel tax, \$2,757,552 from charges for service, \$1,175,736 from operating grants, contributions and restricted interest, \$1,039,728 from capital grants, contributions and restricted interest, \$3,515 from unrestricted interest on investments, \$1,964,399 from note proceeds, \$64,420 from the sale of real property and other general receipts of \$65,994.

Disbursements for the year totaled \$9,153,873, an 18% decrease from the prior year, and included \$1,888,876 for capital projects, \$1,343,202 for public works and \$1,193,934 for public safety. Also, disbursements for business type activities totaled \$2,082,622.

A copy of the audit report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1120-0681-B00F.pdf>.

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CITY OF SHENANDOAH

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

JUNE 30, 2011

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City of Shenandoah

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Hunt	Mayor	Jan 2014
Rod Nester	Mayor Pro tem	Jan 2014
Robert Burchett	Council Member	Jan 2012
James Davey	Council Member	Jan 2012
Marvin Adcock	Council Member	Jan 2014
Don Gibson	Council Member	Jan 2014
Byron Harris	Administrator	Jan 2013
Marcia McKay	Clerk/Treasurer	Jan 2013
Robert Norris	Attorney	Jan 2013

City of Shenandoah



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shenandoah, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Shenandoah's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

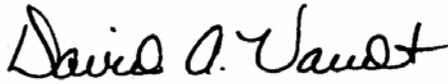
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, 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 Shenandoah as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated February 21, 2012 on our consideration of the City of Shenandoah's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 13 and 32 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 21, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2011 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 10.6%, or approximately \$932,000, from fiscal year 2010 to fiscal year 2011. The increase in governmental activities receipts is related to increased grant revenue for the CDBG program and Airport Improvement program. Note proceeds decreased approximately \$1,800,000 and capital grants, contributions and restricted interest receipts increased approximately \$608,000.
- Governmental activities disbursements decreased 24.7%, or approximately \$2,324,000, from fiscal year 2010 to fiscal year 2011. Debt service function disbursements decreased approximately \$206,000. Capital projects disbursements decreased approximately \$583,000.
- The City's total cash basis net assets increased 21%, or approximately \$917,000, from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities increased approximately \$769,000 and the assets of the business type activities increased approximately \$148,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. 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 financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

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, readers 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 water system and the wastewater treatment and sanitary sewer system. These activities are financed primarily by user fees.

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, Employee Benefits and Local Option Sales Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Funds. 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 statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

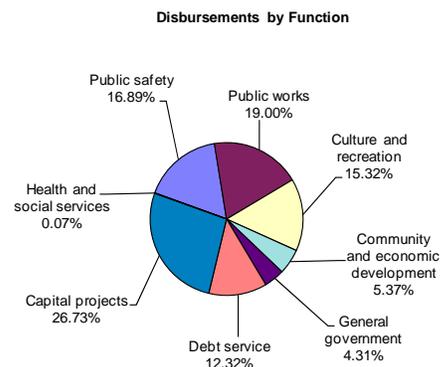
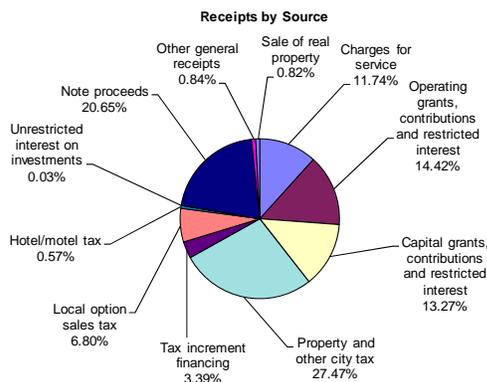
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from approximately \$4.12 million to approximately \$4.89 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service	\$ 920	849
Operating grants, contributions and restricted interest	1,130	1,205
Capital grants, contributions and restricted interest	1,040	432
General receipts:		
Property and other city tax	2,154	2,082
Tax increment financing	266	236
Local option sales tax	533	466
Hotel/motel tax	45	34
Unrestricted interest on investments	2	2
Note proceeds	1,619	3,419
Sale of real property	64	-
Other general receipts	66	46
Total receipts	<u>7,839</u>	<u>8,771</u>
Disbursements:		
Public safety	1,194	1,085
Public works	1,343	1,234
Health and social services	5	-
Culture and recreation	1,083	1,028
Community and economic development	380	114
General government	305	284
Debt service	871	1,077
Capital projects	1,889	2,472
General obligation notes refunded	-	2,100
Total disbursements	<u>7,070</u>	<u>9,394</u>
Change in cash basis net assets before transfers	769	(623)
Transfers, net	-	47
Change in cash basis net assets	769	(576)
Cash basis net assets beginning of year, as restated	4,124	4,700
Cash basis net assets end of year	<u>\$ 4,893</u>	<u>4,124</u>



The total business type activities cash balance increased from approximately \$199 thousand a year ago to approximately \$347 thousand. The analysis that follows focuses on the changes in cash basis net assets of business type activities.

Changes in Cash Basis Net Assets of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 1,218	1,105
Sewer	619	584
Operating grants, contributions and restricted interest:		
Water	35	18
Sewer	11	9
Capital grants, contributions and restricted interest:		
Sewer	-	3
General receipts:		
Unrestricted interest on investments	2	1
Note proceeds	346	-
Total receipts	<u>2,231</u>	<u>1,720</u>
Disbursements:		
Water	1,478	1,115
Sewer	605	686
Total disbursements	<u>2,083</u>	<u>1,801</u>
Change in cash basis net assets before transfers	148	(81)
Transfers, net	-	(47)
Change in cash basis net assets	148	(128)
Cash basis net assets beginning of year	199	327
Cash basis net assets end of year	<u>\$ 347</u>	<u>199</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Shenandoah completed the fiscal year, its governmental funds reported a combined fund balance of \$4,892,903, an increase of approximately \$769,000 from last year's total of \$4,124,330. The following are the major reasons for the changes in fund balances of the major funds from the prior year and the changes in total receipts and disbursements.

The General Fund cash balance was \$379,012 at the end of fiscal year 2011 and \$90,933 at the end of fiscal year 2010 before restatement. The City's overall disbursements in the General Fund increased from \$2,257,250 in fiscal year 2010 to \$2,592,731 in fiscal year 2011, an increase of \$335,481, or 15%. Disbursements for public safety, public works and culture and recreation increased in fiscal year 2011. The overall increase in the General Fund cash balance is attributed to the reclassification of eight funds from Special Revenue Funds to a part of the General Fund for fiscal year 2011.

The Special Revenue, Road Use Tax Fund cash balance at the end of fiscal year 2011 increased \$10,129 from the prior year end to \$130,488. Disbursements increased \$40,657, or 9%. The increase in disbursements was due to an increase in road project work in fiscal year 2011.

The Special Revenue, Employee Benefits Fund receipts decreased \$140,747 and disbursements decreased \$4,926 from the respective prior year amounts. Tax collections decreased \$132,985.

The Special Revenue, Local Option Sales Tax Fund receipts increased \$74,338 in fiscal year 2011 from \$472,662 in fiscal year 2010. Disbursements increased \$26,304, or 29%, from the prior year as a result of more community and economic development projects.

By a referendum, the local option sales tax is allocated into four categories: 60% for property tax relief, 20% for community betterment, 10% for community planning and 10% for economic development. The following is a breakdown of fiscal year 2011 receipts:

Property tax relief	\$ 319,908
Community betterment	106,636
Community planning	53,318
Economic development	53,318
Total	<u>\$ 533,180</u>

Most of the funds are transferred to supplement the General Fund. The portion for community planning is used to help finance the City's metal recycling program. All of the portion received for economic development goes to the Shenandoah Chamber and Industry Association. All monies transferred from the Special Revenue, Local Option Sales Tax Fund to other City funds are used for, or are a form of, property tax relief.

The Special Revenue, Tax Increment Financing Fund was established in fiscal year 2003 for the construction of a new theater and was used in 2004 for Iowa Western Community College improvements. The cash balance decreased from \$216,418 at the end of fiscal year 2010 to \$210,189 at the end of fiscal year 2011. The note resolution requires a sinking fund reserve of \$195,500.

The Special Revenue, Simons Trust - Library Fund was established several years ago when a former resident bequeathed approximately \$250,000 to the City Library. The Library Board of Trustees has been working with architects on plans to construct a major addition adjacent to our library. The cash balance did not change significantly from the prior year.

The Special Revenue, Library Foundation Fund is a component unit of the City. The cash balance increased \$34,988 over the prior year to a balance of \$446,303.

The Debt Service Fund cash balance of \$1,230 at year end is a decrease of \$1,661 from the prior year balance of \$2,891. The City made transfers from other funds sufficient to cover all debt payments not covered by property tax.

The Capital Projects Fund cash balance of \$1,645,806 is a significant increase from the prior year balance of \$893,520. The City received \$1,618,475 of note proceeds for the library remodeling project in fiscal year 2011.

The Permanent, Snook Trust Fund accounts for a \$980,000 bequest received in 2009 to establish an endowment and an additional \$175,000 bequest received in 2010. The income on the Trust is to be distributed in equal shares to five charities as discussed in Note 1 to the financial statements.

The Permanent, Cemetery Perpetual Care Fund cash balance of \$160,889 did not change significantly from the prior year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

Water Fund operating receipts increased \$130,155 in fiscal year 2011 over fiscal year 2010. Non-operating receipts increased primarily due to the proceeds of an interim project note for improvements to the water system. Disbursements increased \$363,394 in fiscal year 2011 over fiscal year 2010, primarily due to the capital outlays for the water system improvements. The increase in revenue was due to an increase in water rates in April 2011.

Sewer Fund operating receipts increased \$33,869 in fiscal year 2011 from fiscal year 2010 due to more usage of the utility system. Operating disbursements increased nominally in fiscal year 2011 over fiscal year 2010.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 24, 2011 and resulted in increases in receipts of \$610,598, other financing sources of \$988,616 and disbursements of \$1,902,253. Budgeted disbursements increased as a result of increased costs associated with the airport improvement project and the CDBG sewer project. The receipts increased significantly due to the receipt of the 2010 general obligation notes for the library expansion project.

The City's receipts were \$550,199 less than budgeted. This was primarily due to lower than expected receipts from intergovernmental sources.

With the budget amendment, total disbursements were \$867,530 less than the amended budget. The City exceeded the budget for the public safety and business type activities functions.

DEBT ADMINISTRATION

At June 30, 2011, the City had approximately \$10,161,000 in notes and other long-term debt outstanding, compared to approximately \$9,154,000 last year. The chart below segregates the City's debt into its component parts.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2011	2010
General obligation notes	\$ 6,195	5,090
Swimming pool revenue notes	29	59
Sewer revenue capital loan notes	2,279	2,389
Urban renewal revenue notes	1,140	1,280
Special assessment bonds/notes	66	131
Capital lease purchase agreements	61	160
Interim water project notes	391	45
Total	\$ 10,161	9,154

Debt payments in fiscal year 2011 reduced outstanding debt approximately \$989,000 and debt issuances increased outstanding debt approximately \$1,996,000.

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 \$6,195,000, urban renewal revenue notes of \$1,140,000 and capital lease purchase agreements of \$61,130, a total of \$7,396,130, is significantly below the City's constitutional debt limit of approximately \$10,000,000. Additional information about the City's long-term debt is presented in Notes 3 and 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Shenandoah's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities. One of those factors is the economy.

These factors were taken into account when adopting the budget for fiscal year 2012. Amounts available for appropriation in the operating budget are approximately \$10.5 million, a decrease of 3% from the final fiscal year 2011 budget. The City expects to receive more state and federal funds in fiscal year 2012 for Airport Projects and a Neighborhood Stabilization Program as well as other projects. Budgeted local option sales tax is expected to increase slightly, but interest rates on investments will most likely remain low. Receipts are expected to decrease and disbursements will be slightly more than receipts due to the completion of capital projects for which note proceeds were received in fiscal year 2011. Budgeted disbursements are expected to increase approximately \$1.9 million, or just over 22%.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$1.9 million, or 40%, by the close of fiscal year 2012 due to the completion of major capital projects.

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 Byron Harris, City Administrator, by mail at 500 W. Clarinda Avenue, Shenandoah, Iowa 51601-0338 or by phone at (712) 246-4411.

City of Shenandoah

Basic Financial Statements

City of Shenandoah

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2011

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,193,934	19,903	103,505	24,800
Public works	1,343,202	584,570	532,902	-
Health and social services	4,844	38	-	-
Culture and recreation	1,083,166	293,741	250,323	-
Community and economic development	380,355	-	56,591	-
General government	305,423	21,810	168,377	-
Debt service	871,451	-	18,331	71,663
Capital projects	1,888,876	-	-	943,265
Total governmental activities	7,071,251	920,062	1,130,029	1,039,728
Business type activities:				
Water	1,478,108	1,217,942	34,877	-
Sewer	604,514	619,548	10,830	-
Total business type activities	2,082,622	1,837,490	45,707	-
Total	\$ 9,153,873	2,757,552	1,175,736	1,039,728
General Receipts:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Unrestricted interest on investments				
Note proceeds, net of \$31,525 discount				
Note proceeds				
Sale of real property				
Miscellaneous				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year, as restated				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Nonexpendable:				
Snook Trust				
Cemetery perpetual care				
Esden Trust				
Expendable:				
Streets				
Employee benefits				
Local option sales tax				
Tax increment financing				
Simons Trust - Library				
Library Foundation				
Debt service				
Capital projects				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(1,045,726)	-	(1,045,726)
(225,730)	-	(225,730)
(4,806)	-	(4,806)
(539,102)	-	(539,102)
(323,764)	-	(323,764)
(115,236)	-	(115,236)
(781,457)	-	(781,457)
(945,611)	-	(945,611)
(3,981,432)	-	(3,981,432)
-	(225,289)	(225,289)
-	25,864	25,864
-	(199,425)	(199,425)
(3,981,432)	(199,425)	(4,180,857)
1,648,997	-	1,648,997
505,414	-	505,414
266,193	-	266,193
533,180	-	533,180
45,446	-	45,446
1,886	1,629	3,515
1,618,475	-	1,618,475
-	345,924	345,924
64,420	-	64,420
65,994	-	65,994
4,750,005	347,553	5,097,558
768,573	148,128	916,701
4,124,330	198,509	4,322,839
\$ 4,892,903	346,637	5,239,540
\$ 1,151,862	-	1,151,862
160,889	-	160,889
20,469	-	20,469
130,488	-	130,488
314,528	-	314,528
57,028	-	57,028
210,189	-	210,189
140,413	-	140,413
446,303	-	446,303
224,835	118,539	343,374
1,645,806	-	1,645,806
234,686	-	234,686
155,407	228,098	383,505
\$ 4,892,903	346,637	5,239,540

City of Shenandoah

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2011

	Special Revenue				
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax	Tax Increment Financing
Receipts:					
Property tax	\$1,131,218	-	421,906	-	-
Tax increment financing	-	-	-	-	266,193
Other city tax	128,540	-	24,930	533,180	-
Licenses and permits	20,774	-	-	-	-
Use of money and property	66,186	-	-	1,256	2,151
Intergovernmental	70,280	494,189	-	-	-
Charges for service	719,461	-	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	305,258	-	36,166	12,564	-
Total receipts	2,441,717	494,189	483,002	547,000	268,344
Disbursements:					
Operating:					
Public safety	817,263	-	311,265	-	-
Public works	651,147	484,060	114,299	-	-
Health and social services	-	-	-	-	-
Culture and recreation	796,991	-	138,111	-	-
Community and economic development	48,324	-	-	115,518	216,513
General government	279,006	-	5,417	-	-
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	2,592,731	484,060	569,092	115,518	216,513
Excess (deficiency) of receipts over (under) disbursements	(151,014)	10,129	(86,090)	431,482	51,831
Other financing sources (uses):					
Note proceeds, net of \$31,525 discount	-	-	-	-	-
Sale of real property	-	-	-	-	-
Operating transfers in	329,530	-	-	-	-
Operating transfers out	(111,345)	-	-	(415,682)	(58,060)
Total other financing sources (uses)	218,185	-	-	(415,682)	(58,060)
Net change in cash balances	67,171	10,129	(86,090)	15,800	(6,229)
Cash balances beginning of year, as restated	311,841	120,359	400,618	41,228	216,418
Cash balances end of year	\$ 379,012	130,488	314,528	57,028	210,189
Cash Basis Fund Balances					
Nonspendable:					
Permanent Funds	\$ -	-	-	-	-
Revolving Fund	87,849	-	-	-	-
Restricted for:					
Employee benefits	-	-	314,528	-	-
Streets	-	130,488	-	-	-
Local option sales tax	-	-	-	57,028	-
Urban renewal purposes	-	-	-	-	14,689
Simons Trust - Library	-	-	-	-	-
Library foundation purposes	-	-	-	-	-
Debt service	28,105	-	-	-	195,500
Capital projects	-	-	-	-	-
Other purposes	1,509	-	-	-	-
Assigned for economic development	10,778	-	-	-	-
Unassigned	250,771	-	-	-	-
Total cash basis fund balances	\$ 379,012	130,488	314,528	57,028	210,189

See notes to financial statements.

Simons Trust - Library		Debt Service	Capital Projects	Permanent		Nonmajor	Total
Library	Foundation			Snook Trust	Cemetery Perpetual Care		
-	-	505,414	-	-	-	29,922	2,088,460
-	-	-	-	-	-	-	266,193
-	-	18,260	-	-	-	1,068	705,978
-	-	-	-	-	-	-	20,774
95	9,274	1,171	36,763	9,289	1,337	1,862	129,384
-	-	-	906,503	-	-	54,273	1,525,245
-	-	-	-	-	-	-	719,461
-	-	71,663	-	-	-	-	71,663
-	56,482	17,160	71	-	-	202,140	629,841
95	65,756	613,668	943,337	9,289	1,337	289,265	6,156,999
-	-	-	-	9,689	-	55,717	1,193,934
-	-	-	-	-	-	93,696	1,343,202
-	-	-	-	4,844	-	-	4,844
10,816	30,768	-	-	9,689	-	96,791	1,083,166
-	-	-	-	-	-	-	380,355
-	-	-	-	-	-	21,000	305,423
-	-	871,451	-	-	-	-	871,451
-	-	-	1,888,876	-	-	-	1,888,876
10,816	30,768	871,451	1,888,876	24,222	-	267,204	7,071,251
(10,721)	34,988	(257,783)	(945,539)	(14,933)	1,337	22,061	(914,252)
-	-	-	1,618,475	-	-	-	1,618,475
-	-	-	64,350	-	-	-	64,350
-	-	256,122	15,000	-	-	29,435	630,087
-	-	-	-	-	-	(45,000)	(630,087)
-	-	256,122	1,697,825	-	-	(15,565)	1,682,825
(10,721)	34,988	(1,661)	752,286	(14,933)	1,337	6,496	768,573
151,134	411,315	2,891	893,520	1,166,795	159,552	248,659	4,124,330
140,413	446,303	1,230	1,645,806	1,151,862	160,889	255,155	4,892,903
-	-	-	-	1,151,862	160,889	20,469	1,333,220
-	-	-	-	-	-	-	87,849
-	-	-	-	-	-	-	314,528
-	-	-	-	-	-	-	130,488
-	-	-	-	-	-	-	57,028
-	-	-	-	-	-	-	14,689
140,413	-	-	-	-	-	-	140,413
-	446,303	-	-	-	-	-	446,303
-	-	1,230	-	-	-	-	224,835
-	-	-	1,645,806	-	-	-	1,645,806
-	-	-	-	-	-	234,686	236,195
-	-	-	-	-	-	-	10,778
-	-	-	-	-	-	-	250,771
140,413	446,303	1,230	1,645,806	1,151,862	160,889	255,155	4,892,903

Exhibit C

City of Shenandoah

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2011

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 1,217,942	619,548	1,837,490
Miscellaneous	34,877	10,830	45,707
Total operating receipts	1,252,819	630,378	1,883,197
Operating disbursements:			
Business type activities	1,055,365	416,871	1,472,236
Excess of operating receipts over operating disbursements	197,454	213,507	410,961
Non-operating receipts (disbursements):			
Interest on investments	1,147	482	1,629
Note proceeds	345,924	-	345,924
Debt service	-	(187,643)	(187,643)
Capital outlay	(422,743)	-	(422,743)
Total non-operating receipts (disbursements)	(75,672)	(187,161)	(262,833)
Excess of receipts over disbursements	121,782	26,346	148,128
Cash balances beginning of year	128,424	70,085	198,509
Cash balances end of year	\$ 250,206	96,431	346,637
Cash Basis Fund Balances			
Restricted for debt service	\$ 74,113	44,426	118,539
Unrestricted	176,093	52,005	228,098
Total cash basis fund balances	\$ 250,206	96,431	346,637

See notes to financial statements.

City of Shenandoah

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

The City of Shenandoah is a political subdivision of the State of Iowa located in Page and Fremont Counties. It was first incorporated in 1871 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 and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Shenandoah 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.

These financial statements present the City of Shenandoah (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

The Shenandoah Public Library Foundation (Library Foundation) is legally separate from the City but is so intertwined with the City it is, in substance, part of the City. The Library Foundation was organized under Chapter 504A of the Code of Iowa as a non-profit corporation. The Library Foundation collects donations which are used to purchase items not included in the City's budget. The financial transactions have been reported as a Special Revenue Fund of the City.

Jointly Governed Organizations

The City also participates in 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: Page County Assessor's Conference Board, Page County Emergency Management Commission, Page County Joint E911 Service Board and the Page County Landfill Association.

Related Organization

City Council Members are responsible for appointing the members of the Low Rent Housing Board, but the City's accountability for this organization does not extend beyond making the appointments.

B. Basis of Presentation

Government-wide Financial Statement – 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 service.

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

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

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

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

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

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Employee Benefits Fund is used to account for property tax and other receipts to be used for employee pensions and other benefits.

The Local Option Sales Tax Fund is used to account for local option sales tax received and its use for purposes designated on the ballot which authorized the tax.

The Tax Increment Financing Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Simons Trust - Library Fund is used to account for the trust receipts and disbursements.

The Library Foundation Fund is used to account for donations received by the Shenandoah Public Library Foundation to be used for library purposes.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities.

Permanent:

The Snook Trust Fund is utilized to account for the funds received from a bequest. Net income from investments is to be divided in equal shares between the following five organizations: the Public Library of Shenandoah, the Shenandoah Fire Department for the purchase of needed equipment, the Shenandoah Rescue Unit for the purchase of needed equipment, the Park System of Shenandoah and the Shenandoah Memorial Hospital with the direction 70% is to be used for the purchase of equipment and 30% is to be used for Elm Heights Home for Senior Citizens.

The Cemetery Perpetual Care Fund is used to account for funds collected to be used for the perpetual care of the cemetery.

The City reports the following major proprietary funds:

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

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and 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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are incurred, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

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

D. Governmental Cash Basis Fund Balances

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

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

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

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public safety and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$702,960 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

The Shenandoah Public Library has received a donation of stock with a carrying and fair market value of \$24,761 at June 30, 2011.

(3) Notes Payable

Annual debt service requirements to maturity for general obligation notes, revenue notes and special assessment notes are as follows:

Year Ending June 30,	General Obligation Notes		Swimming Pool Revenue Notes		Sewer Revenue Capital Loan Notes	
	Principal	Interest	Principal	Interest *	Principal	Interest
2012	695,000	225,107	29,292	565	113,000	68,370
2013	775,000	182,791	-	-	116,000	64,980
2014	760,000	192,904	-	-	120,000	61,500
2015	790,000	134,612	-	-	124,000	57,900
2016	815,000	109,935	-	-	127,000	54,180
2017-2021	2,300,000	226,804	-	-	696,000	211,350
2022-2027	60,000	2,460	-	-	983,000	105,720
Total	\$ 6,195,000	1,074,613	29,292	565	2,279,000	624,000

* The interest rate is variable and could change once a year.

Year Ending June 30,	Urban Renewal Revenue Notes		Special Assessment Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	145,000	66,663	65,000	3,412	1,047,292	364,117
2013	150,000	59,285	-	-	1,041,000	307,056
2014	160,000	51,360	-	-	1,040,000	305,764
2015	165,000	42,632	-	-	1,079,000	235,144
2016	120,000	33,392	-	-	1,062,000	197,507
2017-2021	400,000	53,208	-	-	3,396,000	491,362
2022-2027	-	-	-	-	1,043,000	108,180
Total	\$ 1,140,000	306,540	65,000	3,412	9,708,292	2,009,130

General Obligation Notes

On October 28, 2010, the City issued \$1,650,000 of general obligation notes with interest rates ranging from .95% to 3.05% to provide funds for the cost of remodeling the city library. During the year, there were no payments on this debt issuance.

Swimming Pool Revenue Notes

The City has pledged future swimming pool customer receipts, net of specified operating disbursements, and future Wilson Trust earnings to repay \$720,000 of swimming pool revenue notes issued in August 1997. Proceeds from the notes provided financing for the construction of the Municipal Swimming Pool and Aquatic Center (Center). The notes are payable from swimming pool customer net receipts and future Wilson Trust earnings and are payable through 2012. Annual principal and interest payments on the notes are expected to require less than 37% of net receipts. The total principal and interest remaining to be paid on the notes is \$29,857. For the current year, principal and interest paid and total customer net receipts and Wilson Trust earnings were \$29,435 and \$79,981, respectively.

The resolution providing for the issuance of the swimming pool revenue notes includes the following provisions:

- (a) The notes will be redeemed from the future earnings of the Center and from Wilson Trust revenues and the note holders hold a lien on the future earnings of the funds. Wilson Trust revenues represent payments from the Trust under an agreement between the City and the Trust pursuant to Iowa Code Chapter 28E which, by the terms of the agreement, are restricted to the payment of the notes.
- (b) Future earnings of the Center will be distributed as follows:
 - (1) First to an operations and maintenance account for the payment of current expenses. The City accounts for this activity in a separate account of the General Fund.
 - (2) Next to an improvement account at the rate of \$200 each June, July and August, to a maximum of \$5,000, for the purpose of making the note principal and interest payments when the sinking account is insufficient and to pay the cost of extraordinary maintenance, repair and replacements not included in the annual budget, as well as rentals, enterprise property and capital improvements.

Sewer Revenue Capital Loan Notes – On July 10, 2007, the city entered into a loan agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources (DNR) for the issuance of sewer revenue notes of up to \$2,700,000 with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the municipal wastewater treatment system.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,700,000 of sewer revenue capital loan notes issued in July 2007. Proceeds from the notes provided financing for improvements to the municipal sewer utility. The notes are payable solely from sewer customer net receipts. Annual principal and interest payments on the notes are expected to require less than 86% of net receipts. The total principal and interest remaining to be paid on the notes is \$2,903,000. For the current year, principal and interest paid and total customer net receipts were \$181,670 and \$213,507, respectively.

The resolution providing for the issuance of the sewer revenue capital loan notes includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to a sewer revenue note sinking account for the purpose of making principal and interest payments when due.
- (c) After all other accounts have sufficient balances, the net revenues available after making the required principal and interest payments should be credited to a sewer surplus fund for operation of the utility.
- (d) Sewer user rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the average annual installments of principal and interest on the note falling due in the same year.

Urban Renewal Revenue Notes

The urban renewal revenue notes were issued for the purpose of paying costs of an urban renewal project, consisting of demolition, renovation and equipment for the Community Theatre Project. The notes are payable solely from the income and proceeds of the urban renewal project in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal revenue notes shall be expended only for purposes consistent with the plans of the City's urban renewal area. The notes are not a general obligation of the City, but the debt is subject to the constitutional debt limitation of the City. The resolution providing for the issuance of the notes includes the following provisions:

- (a) A separate sinking account shall be established for the purpose of paying interest and principal coming due during the fiscal year. The City accounts for this activity within the Special Revenue, Tax Increment Financing Fund.
- (b) A separate reserve account shall be established to maintain a required debt service reserve. The City is to deposit note proceeds of \$195,500 into this reserve account. This account is restricted for the purpose of paying principal and interest when funds in the sinking account are inadequate. The City accounts for these proceeds within the Special Revenue, Tax Increment Financing Fund.

Interim Water Project Notes

On January 17, 2008, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, N.A. for issuance of interest free interim project notes of \$45,000. The principal on the notes is payable at maturity on December 29, 2013. The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the costs of planning and designing improvements and extensions to the municipal water system. The City receives drawdowns from the Trustee for costs as they are incurred. At June 30, 2011, the balance outstanding on the notes was \$45,000.

On December 29, 2010, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, N.A. for issuance of interest free interim project notes of \$1,385,000. The principal on the notes is payable at maturity on December 29, 2013. The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the costs of planning and designing improvements and extensions to the municipal water system. The City receives drawdowns from the Trustee for costs as they are incurred. At June 30, 2011, the City had drawn \$345,924 of the \$1,385,000 authorized. Wells Fargo Bank, N.A. has the remaining funds held in trust, which the City will request as the project progresses.

(4) Capital Lease Purchase Agreement

In May 2002, the City entered into a capital lease purchase agreement to acquire a fire truck. The following is a schedule of the future minimum lease payments, including interest at 5.56% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2011:

Year Ending June 30,	Amount
2012	\$ 64,529
Less amount representing interest	<u>(3,399)</u>
Present value of net minimum lease payments	<u>\$ 61,130</u>

During the year ended June 30, 2011, \$64,529 was paid under the fire truck capital lease purchase agreement. The final lease payments of \$18,288 under the backhoe lease purchase agreement and \$24,733 under the wheel loader lease purchase agreement were also made during the year ended June 30, 2011.

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$124,372, \$114,991 and \$103,710, respectively, equal to the required contributions for each year.

(6) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/vision insurance benefits for employees and retirees and their spouses. There are 43 active members and 2 retired members in the plan. Retired participants must be age 65 or older at retirement.

The medical insurance coverage is provided through a fully-insured plan with BlueCross/Blue Shield while Avesis is the City's vision insurance provider. Retirees pay the same premium for the coverage as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$448 for employee coverage, \$848 for employee/child coverage, \$916 for employee/spouse coverage and \$1,372 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$400,318 and plan members eligible for benefits contributed \$55,026 to the plan.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees separated from City employment are paid for unused vacation leave earned. However, sick leave days are lost upon resignation, 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, 2011, primarily relating to the General Fund, was \$71,000. This liability has been computed based on rates of pay in effect at June 30, 2010.

(8) Interfund Transfers

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

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 299,530
	Wilson Trust - Library	30,000
		<u>329,530</u>
Special Revenue:		
Pool Revenue Note Sinking	General	<u>29,435</u>
Debt Service	General	81,910
	Special Revenue:	
	Local Option Sales Tax	116,152
	Tax Increment Financing	58,060
		<u>256,122</u>
Capital Projects	Special Revenue:	
	Memorial Building	<u>15,000</u>
Total		<u>\$ 630,087</u>

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

(9) Hospital Facilities Refunding Revenue Bonds

On May 21, 2005, the City issued \$3,300,000 of Hospital Facilities Revenue Bonds under the provisions of Chapter 419 of the Code for Iowa for the purpose of paying for the Shenandoah Medical Center project. The bonds and the related interest were paid in full on April 30, 2011.

(10) Risk Management

The City 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.

(11) Economic Development Revolving Loan Fund

Conditions of the loans are determined by the Loan Review Committee on a case by case basis, with final approval by the City Council. Current loans are for a period of five to fifteen years, bear interest at rates ranging from 1% to 4% and are to be repaid in either monthly or quarterly installments. During the year ended June 30, 2011, the City had one new loan approved for economic development projects and collections of \$41,432 of principal and \$6,793 of interest were received. The outstanding loan principal balance at June 30, 2011 was \$87,849.

(12) Accounting Change/Restatements

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is displayed below.

In addition, the beginning governmental activities net assets and the beginning cash balance of the General Fund were restated to include the June 30, 2010 balance for the Shenandoah Rural Fire Account, a separately maintained account.

	Balances June 30, 2010, as previously reported	Effect of Change in fund type classification per implementation of GASB Statement No. 54	To Report Shenandoah Rural Fire Association	Balances July 1, 2010, as restated
Governmental activities	\$ 4,087,979	-	36,351	4,124,330
Funds:				
General	90,933	184,557	36,351	311,841
Special Revenue:				
Emergency	38,985	(38,985)	-	-
Hotel/Motel	10,725	(10,725)	-	-
Wilson Trust - Other	23,295	(23,295)	-	-
Revolving Loan	80,467	(80,467)	-	-
Tree Board	1,499	(1,499)	-	-
Senior Center Trust	3,069	(3,069)	-	-
Exercise Facility	26,519	(26,519)	-	-
Esden Trust	20,888	(20,888)	-	-
Permanent:				
Esden Trust	-	20,888	-	20,888

Required Supplementary Information

City of Shenandoah

Budgetary Comparison Schedule
of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted
Receipts:			
Property tax	\$ 2,088,460	-	-
Tax increment financing	266,193	-	-
Other city tax	705,978	-	-
Licenses and permits	20,774	-	-
Use of money and property	129,384	1,629	9,274
Intergovernmental	1,525,245	-	-
Charges for service	719,461	1,837,490	-
Special assessments	71,663	-	-
Miscellaneous	629,841	45,707	56,482
Total receipts	<u>6,156,999</u>	<u>1,884,826</u>	<u>65,756</u>
Disbursements:			
Public safety	1,193,934	-	-
Public works	1,343,202	-	-
Health and social services	4,844	-	-
Culture and recreation	1,083,166	-	30,768
Community and economic development	380,355	-	-
General government	305,423	-	-
Debt service	871,451	-	-
Capital projects	1,888,876	-	-
Business type activities	-	2,082,622	-
Total disbursements	<u>7,071,251</u>	<u>2,082,622</u>	<u>30,768</u>
Excess (deficiency) of receipts over (under) disbursements	(914,252)	(197,796)	34,988
Other financing sources (uses), net	<u>1,682,825</u>	<u>345,924</u>	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	768,573	148,128	34,988
Balances beginning of year, as restated	<u>4,124,330</u>	<u>198,509</u>	<u>411,315</u>
Balances end of year	<u>\$ 4,892,903</u>	<u>346,637</u>	<u>446,303</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
2,088,460	2,063,932	2,063,932	24,528
266,193	272,773	272,773	(6,580)
705,978	637,819	637,819	68,159
20,774	53,400	53,400	(32,626)
121,739	70,525	76,625	45,114
1,525,245	1,620,348	2,029,091	(503,846)
2,556,951	2,711,456	2,711,456	(154,505)
71,663	71,663	71,663	-
619,066	413,754	609,509	9,557
<u>7,976,069</u>	<u>7,915,670</u>	<u>8,526,268</u>	<u>(550,199)</u>
1,193,934	1,150,200	1,181,396	(12,538)
1,343,202	1,261,145	1,422,932	79,730
4,844	2,200	5,045	201
1,052,398	992,030	1,078,458	26,060
380,355	353,013	392,513	12,158
305,423	281,159	341,128	35,705
871,451	875,704	875,704	4,253
1,888,876	1,415,750	2,846,278	957,402
2,082,622	1,757,181	1,847,181	(235,441)
<u>9,123,105</u>	<u>8,088,382</u>	<u>9,990,635</u>	<u>867,530</u>
(1,147,036)	(172,712)	(1,464,367)	317,331
<u>2,028,749</u>	<u>1,683,075</u>	<u>2,671,691</u>	<u>(642,942)</u>
881,713	1,510,363	1,207,324	(325,611)
<u>3,911,524</u>	<u>3,621,073</u>	<u>3,676,753</u>	<u>234,771</u>
<u><u>4,793,237</u></u>	<u><u>5,131,436</u></u>	<u><u>4,884,077</u></u>	<u><u>(90,840)</u></u>

City of Shenandoah

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the 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 \$1,902,253. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public safety and business type activities functions.

Other Supplementary Information

City of Shenandoah

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2011

	Rapp Trust Library	Rapp Trust Other	Gidley Park Trust	Reed Estate Trust	Special Pool Revenue Note Sinking
Receipts:					
Property tax	\$ -	-	-	-	-
Other city tax	-	-	-	-	-
Use of money and property	7	-	69	7	-
Intergovernmental	-	-	-	-	-
Miscellaneous	-	61,000	32,235	-	-
Total receipts	7	61,000	32,304	7	-
Disbursements:					
Operating:					
Public safety	-	-	-	-	-
Public works	-	40,000	-	-	-
Culture and recreation	-	-	25,970	-	29,435
General government	-	21,000	-	-	-
Total disbursements	-	61,000	25,970	-	29,435
Excess (deficiency) of receipts over (under) disbursements	7	-	6,334	7	(29,435)
Other financing sources (uses):					
Operating transfers in	-	-	-	-	29,435
Operating transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	29,435
Net change in cash balances	7	-	6,334	7	-
Cash balances beginning of year	11,677	-	58,539	11,677	-
Cash balances end of year	\$ 11,684	-	64,873	11,684	-
Cash Basis Fund Balances					
Nonspendable - Esden Trust	\$ -	-	-	-	-
Restricted for other purposes	11,684	-	64,873	11,684	-
Total cash basis fund balances	\$ 11,684	-	64,873	11,684	-

See accompanying independent auditor's report.

Revenue									Permanent	
Wilson Trust - Library	Kay M. Anderson Foundation	Forgotten Angels Cemetery Trust	Friends of the Library	Volunteer Fire Department	Veteran Museum	I JOBS	Memorial Building	Esden Trust	Total	
-	-	-	-	-	-	-	29,922	-	29,922	
-	-	-	-	-	-	-	1,068	-	1,068	
145	-	21	978	29	-	-	-	606	1,862	
-	-	-	-	24,800	-	29,473	-	-	54,273	
38,893	20,000	-	-	45,224	610	-	4,178	-	202,140	
39,038	20,000	21	978	70,053	610	29,473	35,168	606	289,265	
-	-	-	-	55,717	-	-	-	-	55,717	
-	-	-	-	-	-	53,696	-	-	93,696	
-	20,000	-	-	-	1,504	-	18,857	1,025	96,791	
-	-	-	-	-	-	-	-	-	21,000	
-	20,000	-	-	55,717	1,504	53,696	18,857	1,025	267,204	
39,038	-	21	978	14,336	(894)	(24,223)	16,311	(419)	22,061	
-	-	-	-	-	-	-	-	-	29,435	
(30,000)	-	-	-	-	-	-	(15,000)	-	(45,000)	
(30,000)	-	-	-	-	-	-	(15,000)	-	(15,565)	
9,038	-	21	978	14,336	(894)	(24,223)	1,311	(419)	6,496	
76,960	-	3,307	-	31,041	1,669	24,223	8,675	20,888	248,656	
85,998	-	3,328	978	45,377	775	-	9,986	20,469	255,152	
-	-	-	-	-	-	-	-	20,469	20,469	
85,998	-	3,328	978	45,377	775	-	9,986	-	234,683	
85,998	-	3,328	978	45,377	775	-	9,986	20,469	255,152	

City of Shenandoah
Schedule of Indebtedness
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
General corporate purpose	Jul 1, 2000	5.95%	\$ 400,000
Essential corporate purpose	Jun 15, 2001	5.95	110,000
Essential corporate purpose	Sep 1, 2002	4.80	115,000
Essential corporate purpose	Jul 15, 2004	3.60-4.75	540,000
Essential corporate purpose	Dec 15, 2006	4.00-4.20	110,000
Essential corporate purpose	Jul 15, 2007	4.85-5.20	915,000
Essential corporate purpose	Dec 27, 2007	4.85-5.20	90,000
Essential corporate purpose and refunding	Aug 27, 2009	2.50-4.10	3,460,000
Essential corporate purpose	Oct 28, 2010	.95-3.05	1,650,000
Total			
Swimming pool revenue notes	Aug 11, 1997	* 2.14-2.55%	\$ 720,000
Sewer revenue capital loan notes	Jul 10, 2007	** 3.00%	\$ 2,700,000
Urban renewal revenue notes			
Community Theatre	Mar 1, 2003	3.00-6.60%	\$ 1,485,000
Community Theatre	Jul 15, 2004	2.90-4.80	470,000
Total			
Special assessment bonds:			
Street improvement	Dec 1, 1980	9.50-9-75%	\$ 43,000
Special assessment notes:			
Street improvement	Aug 1, 2002	3.25-5.25%	\$ 624,000
Capital lease purchase agreements:			
Fire truck	May 17, 2002	5.56%	\$ 485,000
Backhoe	Sep 13, 2006	5.25	80,088
Wheel loader	Sep 13, 2006	5.25	108,308
Total			
Interim water project notes:			
Water system improvements	Jan 17, 2008	-	\$ 45,000
Water system improvements	Dec 29, 2010	-	1,385,000
Total			

* The interest rate is variable and could change once a year.

** The City is required to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Bonds Due and Unpaid	Interest Due and Unpaid
150,000	-	25,000	125,000	8,925	-	-
30,000	-	15,000	15,000	1,785	-	-
45,000	-	15,000	30,000	2,160	-	-
435,000	-	55,000	380,000	19,270	-	-
70,000	-	20,000	50,000	2,908	-	-
915,000	-	60,000	855,000	39,395	-	-
60,000	-	20,000	40,000	3,060	-	-
3,385,000	-	335,000	3,050,000	110,008	-	-
-	1,650,000	-	1,650,000	-	-	-
\$ 5,090,000	1,650,000	545,000	6,195,000	187,511	-	-
58,584	-	29,292	29,292	143	-	-
2,389,000	-	110,000	2,279,000	71,670	-	-
1,020,000	-	90,000	930,000	61,688	-	-
260,000	-	50,000	210,000	11,825	-	-
\$ 1,280,000	-	140,000	1,140,000	73,513	-	-
1,000	-	-	1,000	-	1,000	195
130,000	-	65,000	65,000	6,663	-	-
119,041	-	57,911	61,130	6,618	-	-
17,356	-	17,356	-	932	-	-
23,471	-	23,471	-	1,262	-	-
\$ 159,868	-	98,738	61,130	8,812	-	-
45,000	-	-	45,000	-	-	-
-	345,924	-	345,924	-	-	-
\$ 45,000	345,924	-	390,924	-	-	-

City of Shenandoah

Note Maturities

June 30, 2011

Year Ending June 30,	General Obligation Notes							
	General		Essential		Essential		Essential	
	Corporate Purpose		Corporate Purpose		Corporate Purpose		Corporate Purpose	
	Issued Jul 1, 2000		Issued Jun 15, 2001		Issued Sep 1, 2002		Issued Jul 15, 2004	
	Interest		Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount
2012	5.95%	\$ 25,000	5.95%	\$ 15,000	4.80%	\$ 15,000	4.15%	\$ 55,000
2013	5.95	25,000	-	-	4.80	15,000	4.30	60,000
2014	5.95	25,000	-	-	-	-	4.45	60,000
2015	5.95	25,000	-	-	-	-	4.55	65,000
2016	-	25,000	-	-	-	-	4.65	70,000
2017	-	-	-	-	-	-	4.75	70,000
2018	-	-	-	-	-	-	-	-
2019	-	-	-	-	-	-	-	-
2020	-	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-	-
2022	-	-	-	-	-	-	-	-
Total		<u>\$ 125,000</u>		<u>\$ 15,000</u>		<u>\$ 30,000</u>		<u>\$ 380,000</u>

Year Ending June 30,	General Obligation Notes				Swimming Pool		Sewer Revenue	
	Essential			Total	Revenue Notes		Capital Loan Notes	
	Corporate Purpose				Issued Aug 11, 1997		Issued July 10, 2007	
	Issued Oct 28, 2010			Interest		Interest		
	Rates	Amount		Rates	Amount	Rates	Amount	
2012	0.95%	\$ 135,000	695,000	2.55%	\$ 29,292	3.00%	\$ 113,000	
2013	1.10	155,000	775,000	-	-	3.00	116,000	
2014	1.35	160,000	760,000	-	-	3.00	120,000	
2015	1.70	160,000	790,000	-	-	3.00	124,000	
2016	2.00	165,000	815,000	-	-	3.00	127,000	
2017	2.30	165,000	540,000	-	-	3.00	131,000	
2018	2.50	170,000	490,000	-	-	3.00	135,000	
2019	2.70	175,000	500,000	-	-	3.00	139,000	
2020	2.90	180,000	525,000	-	-	3.00	143,000	
2021	3.05	185,000	245,000	-	-	3.00	148,000	
2022	-	-	60,000	-	-	3.00	152,000	
2023	-	-	-	-	-	3.00	157,000	
2024	-	-	-	-	-	3.00	161,000	
2025	-	-	-	-	-	3.00	166,000	
2026	-	-	-	-	-	3.00	171,000	
2027	-	-	-	-	-	3.00	176,000	
2028	-	-	-	-	-	-	-	
2029	-	-	-	-	-	-	-	
Total		<u>\$1,650,000</u>	<u>6,195,000</u>		<u>\$ 29,292</u>		<u>\$2,279,000</u>	

See accompanying independent auditor's report.

Essential Corporate Purpose Issued Dec 15, 2006		Essential Corporate Purpose Issued Jul 15, 2007		Essential Corporate Purpose Issued Dec 27, 2007		Essential Corporate Purpose and Refunding Issued Aug 27, 2009	
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
4.15%	\$ 25,000	5.10%	\$ 60,000	5.40%	\$ 20,000	3.00%	\$ 345,000
4.20	25,000	5.20	125,000	5.20	20,000	3.00	350,000
-	-	5.20	160,000	-	-	3.00	355,000
-	-	5.20	250,000	-	-	-	290,000
-	-	5.20	260,000	-	-	-	295,000
-	-	-	-	-	-	-	305,000
-	-	-	-	-	-	-	320,000
-	-	-	-	-	-	-	325,000
-	-	-	-	-	-	-	345,000
-	-	-	-	-	-	-	60,000
-	-	-	-	-	-	-	60,000
	<u>\$ 50,000</u>		<u>\$ 855,000</u>		<u>\$ 40,000</u>		<u>\$ 3,050,000</u>

Urban Renewal Revenue Notes				Total	Special Assessment Notes Street Improvement Issued Aug 1, 2002	
Issued Mar 1, 2003		Issued Jul 15, 2004			Interest Rates	Amount
Interest Rates	Amount	Interest Rates	Amount			
5.45%	\$ 95,000	4.40%	\$ 50,000	145,000	5.25%	\$ 65,000
5.65	100,000	4.55	50,000	150,000	-	-
5.85	105,000	4.70	55,000	160,000	-	-
-	110,000	-	55,000	165,000	-	-
-	120,000	-	-	120,000	-	-
-	125,000	-	-	125,000	-	-
-	135,000	-	-	135,000	-	-
-	140,000	-	-	140,000	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
	<u>\$ 930,000</u>		<u>\$210,000</u>	<u>1,140,000</u>		<u>\$ 65,000</u>

City of Shenandoah

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Nine Years

	2011	2010	2009	2008
Receipts:				
Property tax	\$ 2,088,460	2,001,119	2,081,913	1,827,595
Tax increment financing	266,193	235,993	233,062	310,639
Other city tax	705,978	619,349	617,677	661,772
Licenses and permits	20,774	15,621	52,901	15,112
Use of money and property	129,384	110,732	84,675	163,952
Intergovernmental	1,525,245	811,721	1,142,938	1,030,719
Charges for service	719,461	728,724	748,737	626,313
Special assessments	71,663	74,750	77,675	80,438
Miscellaneous	629,841	754,172	1,603,580	1,456,303
Total	\$ 6,156,999	5,352,181	6,643,158	6,172,843
Disbursements:				
Operating:				
Public safety	1,193,934	1,084,848	1,131,516	1,043,289
Public works	1,343,202	1,234,191	1,207,154	1,051,117
Health and social services	4,844	119	100	647
Culture and recreation	1,083,166	1,027,767	982,908	1,009,515
Community and economic development	380,355	113,578	215,171	232,403
General government	305,423	284,343	356,454	301,128
Debt service	871,451	1,077,300	998,027	1,074,654
Capital projects	1,888,876	2,472,320	1,475,101	3,686,201
Total	\$ 7,071,251	7,294,466	6,366,431	8,398,954

See accompanying independent auditor's report.

2007	2006	2005	2004	2003
1,737,689	1,693,590	1,706,276	1,673,768	1,704,048
296,773	230,021	163,168	120,739	-
636,673	634,961	568,095	539,173	545,968
17,023	32,010	11,434	57,889	12,526
127,611	122,296	101,079	100,862	54,474
503,308	585,786	1,104,118	941,313	1,670,128
557,200	538,671	514,281	513,341	529,365
77,837	80,088	82,187	84,138	67,587
1,145,048	450,013	353,661	424,246	326,125
5,099,162	4,367,436	4,604,299	4,455,469	4,910,221
927,647	1,000,813	871,126	912,467	1,134,110
1,069,262	989,441	921,685	973,336	1,113,585
6,789	3,303	21,004	40,784	29,668
912,149	845,644	834,049	928,728	929,600
133,723	191,545	496,577	98,963	39,801
240,817	273,752	232,789	213,220	217,675
1,035,985	1,013,990	934,264	910,661	772,934
980,436	81,216	1,158,590	1,949,805	2,130,394
5,306,808	4,399,704	5,470,084	6,027,964	6,367,767

City of Shenandoah

City of Shenandoah
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2011

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Transportation: Federal Aviation Administration: Airport Improvement Program	20.106	3-19-0082-09	\$ 318,395
U.S Department of Homeland Security: Federal Emergency Management Agency: Assistance to Firefighters Grant	97.044	EMW-2009-FO-06932	24,800
Total direct			<u>343,195</u>
Indirect:			
U.S. Department of Housing and Urban Development: Iowa Department of Economic Development: Community Development Block Grants/State's Program	14.228	08-NSP-015	490,170
Community Development Block Grants/State's Program	14.228	08-OT-006	366,139
			<u>856,309</u>
U.S. Department of Homeland Security: Iowa Department of Public Defense: Homeland Security and Emergency Management Division: Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	145-72525-00 DR-1763	18,291
Total indirect			<u>874,600</u>
Total			<u>\$ 1,217,795</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Shenandoah and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

City of Shenandoah

**Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

City of Shenandoah



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STATE OF IOWA

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Auditor of State

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shenandoah, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 21, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Shenandoah is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Shenandoah's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Shenandoah's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Shenandoah's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Shenandoah's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-11 and II-B-11 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-C-11 through II-F-11 to be significant deficiencies.

Compliance and Other Matters

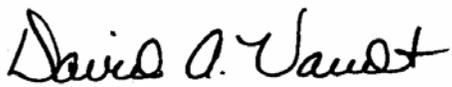
As part of obtaining reasonable assurance about whether the City of Shenandoah's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 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.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Shenandoah and other parties to whom the City of Shenandoah may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Shenandoah 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 21, 2012



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA

Auditor of State

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Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the City of Shenandoah, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Shenandoah's major federal program for the year ended June 30, 2011. The City of Shenandoah's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Shenandoah's management. Our responsibility is to express an opinion on the City of Shenandoah's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Shenandoah's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Shenandoah's compliance with those requirements.

In our opinion, the City of Shenandoah complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the City of Shenandoah is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Shenandoah's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Shenandoah's internal control over compliance.

A deficiency in the City's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses, as defined above.

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 Shenandoah and other parties to whom the City of Shenandoah may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 21, 2012

City of Shenandoah
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were 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.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 14.228 – Community Development Block Grants/State's Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) City of Shenandoah did not qualify as a low-risk auditee.

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-11 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are not incompatible. For the separately maintained records of the Library Foundation, the cash receipts listing, bank deposits, the posting of cash receipts to the cash receipts journal, disbursement preparation and check signing are all performed by the same person. Also, the bank account is not reconciled by a person who does not sign checks and no evidence of review of the bank reconciliation is noted.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City and Library Foundation should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations prepared should be performed and the review should be documented by the initials or signature of the reviewer and the date of the review.

Response – The City and the Library Foundation will explore possibilities in order to assure that more than one person is participating in the reconciliation of the Foundation's financials. Perhaps an Officer for the Foundation can sign off on bank reconciliations on a monthly basis.

We are now receiving copies of the monthly reconciliations and bank balances and include them with the monthly financials for the council to review.

The majority of their funds will be greatly diminished following the completion of the Library Project.

Conclusion – Response accepted.

II-B-11 Financial Reporting – During the audit, we identified material amounts of receipts and disbursements recorded to an incorrect fund in the City's accounting records. This was properly adjusted for reporting purposes.

Recommendation – The City should implement procedures to ensure all receipts and disbursements are properly recorded in the City's accounting records and financial statements.

Response – It is noted that our water project should have been in an enterprise fund rather than a capital project fund. The activity has been moved on the City's general ledger.

Conclusion – Response accepted.

II-C-11 Approval of Pay Increase – The City Council approved a pay increase for the City Manager in March 2010 with the approval of the fiscal year 2011 budget. The Manager had requested pay increases of \$5,000 for each of the next three fiscal years. The pay increase was to be effective July 1, 2010. Chapter 21.02 of the City code of ordinances states, "The City manager shall receive salary as the Council shall establish by resolution, and payment shall be made from the treasury of the City, in

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

the manner provided for paying other officers and employees.” The salary increase was not established by resolution of the City Council documenting the final decision regarding the salary increase.

In addition, the City Manager’s first salary increase of 6.7% was applied to the March 18, 2010 pay period. There is no written documentation available to support the pay increase starting prior to July 1, 2010. The City Manager has also received pay increases of 7.4%, effective July 8, 2010, and 7.1%, effective July 7, 2011.

Recommendation – The City should ensure pay increases are established by City Council resolution before the pay increase goes into effect and the City should ensure written documentation is maintained for pay increases given to City employees.

Response – The pay increase was approved by the Budget Committee and recommended by them to the Council for approval. The Budget for FY11 was approved by Resolution on March 9, 2010. The City Council will approve a Resolution Ratifying and Confirming the Salary Adjustments. In the future, the City Council will only consider employee compensation adjustments by specific resolution and in accordance with the City Code of Ordinances.

Conclusion – Response accepted.

II-D-11 Employee use of Airport Property – The City’s Airport Manager is allowed to use hangar space at the City airport facility for his airplane inspection business. The City does not require the Airport Manager to pay rent for the use of the hangar space.

Recommendation – The City should develop an agreement with the airport manager for the use of the airport hangar space.

Response – The City will have the legal counsel prepare an agreement with the Airport Manager for his use of the airport hangar for inspections. He has provided the City proof of liability insurance.

Conclusion – Response accepted.

II-E-11 Airport Accounts Receivables – The City airport maintains and sells aviation fuel for purchase by pilots using the airport. The airport contracts with the aviation fuel company to provide a credit card payment service at the pump for pilots purchasing fuel. The fuel company processes the receipts daily and electronically deposits the receipts owed to the City in the City’s checking account. The airport also provides an “inhouse card” to each pilot who leases hangar space at the airport to use to purchase fuel. At the end of the month, the Airport Manager mails invoices to pilots who use the “inhouse cards” to purchase fuel. Currently, the City does not reconcile to daily fuel sales and the subsequent deposit of fuel sales receipts into the City’s checking account by the fuel company. The City also does not maintain an accounts receivable listing for the amount billed to pilots who use the “inhouse cards” to purchase aviation fuel.

Recommendation – The City should develop procedures to ensure an accounts receivable listing is maintained for the pilots who use the “inhouse cards” to purchase aviation fuel.

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Response – The City will ask the airport manager for a weekly report as to the use of the “inhouse” cards and monitor the accounts receivable through these weekly reports.

Conclusion – Response accepted.

- II-F-11 Separately Maintained Records – The Shenandoah Library Foundation and the Shenandoah Rural Fire Association maintain separate accounting records pertaining to these operations. Although monthly financial reports are prepared by the Shenandoah Rural Fire Association and provided to the City, the activity is not included in the City’s computer system or in the City’s accounting records or financial reports. Monthly financial reports are not prepared and provided to the City by the Shenandoah Library Foundation.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, the Library Foundation and the Rural Fire Association accounts should be included in the City’s accounting records and reported to the Council.

Response – The Library Foundation gives the City a copy of its Annual Report, but is now providing a monthly reconciliation of their accounts which are being provided to the Council with the other monthly City financials. The City included the Rural Fire Association in its accounting records which will be included monthly to the Council as well.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Shenandoah
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

PART III – Findings and Questioned Costs for Federal Awards

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over the major program were noted.

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-11 Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the public safety and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The public safety function was only over budget after including the Shenandoah Rural Fire Association and the Shenandoah Volunteer Fire Association’s financials with the City’s normal financial information. The City has now included both the Rural Fire and the Volunteer Fire Associations within the City accounting records. The business type function exceeded the amount budgeted due to the reclassification of the water project to the Enterprise, Water Fund from the Capital Project Fund where amounts were budgeted for fiscal year 2011. In the future, activity for the water project will be budgeted for in the Enterprise, Water Fund.

Conclusion – Response accepted.

IV-B-11 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

IV-C-11 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-11 Business Transactions – 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>
Darrel Saner, Assistant Police Chief, owner of Shenweld	Welding and maintenance	\$ 2,165

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the welding and maintenance transactions with Shenweld may represent conflicts of interest because the total cumulative amount was greater than \$1,500 during the fiscal year.

Recommendation – The City Council should consult legal counsel to determine the disposition of this matter.

Response – The City is now using other vendors as well as Shenweld to stay within the limitation set forth by the Code of Iowa. There are times when emergency situations dictate a rapid response.

Conclusion – Response accepted.

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

IV-E-11 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-11 Council Minutes – Except as noted in item II-C-11, no transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-11 Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Response – The City will continue efforts to develop an acceptable, workable investment policy by the end of the current fiscal year.

Conclusion – Response accepted.

IV-H-11 Revenue Notes – No instances of noncompliance with the resolutions providing for the issuance of the swimming pool revenue notes, sewer revenue capital loan notes and urban renewal revenue notes were noted.

IV-I-11 Revolving Loan - The City has implemented a loan process within the City to help new businesses become established in town by providing access to lower interest rate loans. The City enters into a loan agreement with the business, which includes a debt repayment schedule. However, the City is not following up on the repayment schedule and, in fiscal year 2011, the City did not pursue a missed balloon payment on a revolving loan.

Recommendation - The City should track debt repayments according to the schedule and should actively pursue non-compliance of repayment by the recipient of the loan.

Response – An attempt will be made to re-write this particular loan agreement.

Conclusion – Response accepted.

City of Shenandoah
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

IV-J-11 Other Information Required by the Revenue Note Resolution

Insurance – The following insurance policies were in force at June 30, 2011:

Insurer	Description	Amount	Expiration Date
Employers Mutual Casualty Company	Property coverage: Buildings	\$ 35,216,776	Jul 1, 2012
Employers Mutual Casualty Company	Comprehensive general liability: Each occurrence Aggregate	1,000,000 2,000,000	Jul 1, 2012
Employers Mutual Casualty Company	Inland marine: Contractors' equipment Electronic data processing equipment Property floater	958,305 147,546 58,490	Jul 1, 2012
Employers Mutual Casualty Company	Automobile coverage: Liability Uninsured motorists	1,000,000 40,000	Jul 1, 2012
Employers Mutual Casualty Company	Linebacker: Each loss Aggregate	1,000,000 1,000,000	Jul 1, 2012
Employers Mutual Casualty Company	Workers' compensation	500,000	Jul 1, 2012
Employers Mutual Casualty Company	Commercial umbrella: Retained Each occurrence Aggregate	10,000 5,000,000 5,000,000	Jul 1, 2012
Employers Mutual Casualty Company	Employee dishonesty: Blanket bond Alteration	100,000 10,000	Jul 1, 2012
Employers Mutual Casualty Company	Commercial crime: Inside premises Outside premises	10,000 10,000	Apr 1, 2012

Statistical Information:

Description	Amount
Swimming pool customers served in 2011 season	11,572
Swimming pool rates in effect at June 30, 2011:	
Daily admission	\$ 5
Single season pass	60
Family plan	150

City of Shenandoah

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager
Michael J. Hackett, Senior Auditor
Tracey L. Gerrish, Staff Auditor
Justin M. Scherrman, Assistant Auditor
Hannah K. Haas, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State