



**OFFICE OF AUDITOR OF STATE  
STATE OF IOWA**

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**NEWS RELEASE**

FOR RELEASE \_\_\_\_\_ March 1, 2006

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 \$6,743,981 for the year ended June 30, 2005, a 7 percent increase over 2004. The receipts included \$1,947,696 in property and other city tax, \$451,350 from local option sales tax, \$1,684,056 from charges for service, \$793,792 from operating grants, contributions and restricted interest, \$752,447 from capital grants, contributions and restricted interest, \$988,820 from note proceeds, \$3,545 from unrestricted interest on investments and \$122,275 from other general receipts.

Disbursements for the year totaled \$6,626,222, 6 percent decrease from the prior year, and included \$1,158,590 for capital projects, \$934,264 for debt service and \$921,685 for public works. Also, disbursements for business type activities totaled \$1,156,138.

A copy of the 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/reports.htm>.

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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, 2005**

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**City of Shenandoah**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
	<b>(After January 2005)</b>	
Gregg Connell	Mayor	Jan 2006
Raymond Bryant	Mayor Pro tem	Jan 2006
Lee Gingery	Council Member	Jan 2006
Marvin Adcock	Council Member	Jan 2006
E. J. Teachout	Council Member	Jan 2008
Robert Burchett	Council Member	Jan 2008
Byron Harris	Administrator	Jan 2006
Merrill J. Kruse	Clerk	Jan 2006
James Winegardner	Treasurer	Jan 2006
Robert Norris	Attorney	Jan 2006

**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, 2005, 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.

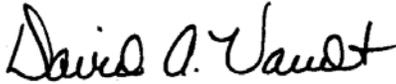
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

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, 2005, 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 September 19, 2005 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 internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 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 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 of Shenandoah'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 two years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. 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

September 19, 2005

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

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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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2005 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental funds increased 3.3%, or approximately \$149,000, from fiscal 2004 to fiscal 2005. Property tax increased approximately \$33,000 and intergovernmental receipts increased approximately \$163,000.
- Governmental funds disbursements decreased 9.3%, or approximately \$558,000, in fiscal 2005 from fiscal 2004. Community and economic development increased approximately \$398,000 and capital projects decreased approximately \$791,000.
- The City's total cash basis net assets increased 10.6%, or approximately \$118,000, from June 30, 2004 to June 30, 2005.

### **USING THIS ANNUAL REPORT**

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

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

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds. 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, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water system and the waste water 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 Employee Benefits, Local Option Sales Tax and Tax Increment Financing, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial 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 three Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City, and the swimming pool note sinking fund.

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

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

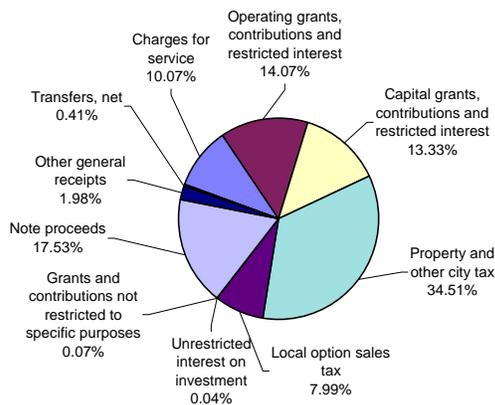
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from approximately \$945 thousand to \$1,118 thousand. The analysis that follows focuses on the changes in cash balances for governmental activities.

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

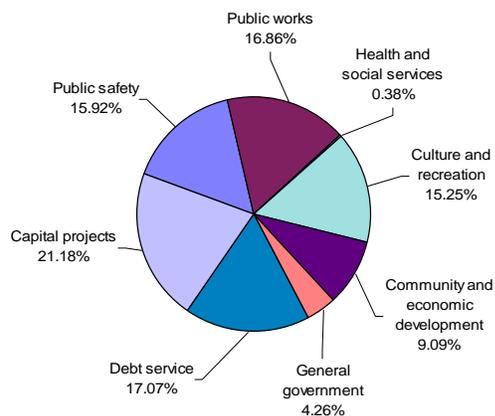
	Year ended June 30,	
	2005	2004
<b>Receipts and transfers:</b>		
Program receipts:		
Charges for service	\$ 568	580
Operating grants, contributions and restricted interest	794	750
Capital grants, contributions and restricted interest	752	676
General receipts:		
Property and other city tax	1,948	1,875
Local option sales tax	451	458
Grants and contributions not restricted to specific purposes	4	3
Unrestricted interest on investment	2	2
Note proceeds	989	689
Other general receipts	112	158
Transfers, net	23	7
<b>Total receipts and transfers</b>	<b>5,643</b>	<b>5,198</b>
<b>Disbursements:</b>		
Public safety	871	912
Public works	922	973
Health and social services	21	41
Culture and recreation	834	929
Community and economic development	497	99
General government	233	213
Debt service	934	911
Capital projects	1,158	1,950
<b>Total disbursements</b>	<b>5,470</b>	<b>6,028</b>
Increase (decrease) in cash basis net assets	173	(830)
Cash basis net assets beginning of year, as restated	945	1,602
Cash basis net assets end of year	\$ 1,118	772

Beginning of year cash basis net assets for the year ended June 30, 2005 was restated to include the financial activity and balances of the Shenandoah Public Library Foundation. Financial information was not available for the Shenandoah Public Library Foundation for the fiscal year ended June 30, 2004.

**Receipts by Source**



**Disbursements by Function**



Total business type activities cash balance decreased from a year ago, decreasing from approximately \$168 thousand to \$114 thousand. The analysis that follows focuses on the changes in cash balances for business type activities.

Changes in Cash Basis Net Assets of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2005	2004
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 709	690
Sewer	407	408
General receipts:		
Unrestricted interest on investments	2	1
Miscellaneous	6	11
Total receipts	<u>1,124</u>	<u>1,110</u>
Disbursements and transfers:		
Water	726	716
Sewer	379	322
Swimming pool note sinking	50	-
Transfers	23	7
Total disbursements and transfers	<u>1,178</u>	<u>1,045</u>
Increase (decrease) in cash balance	(54)	65
Cash basis net assets beginning of year	<u>168</u>	<u>103</u>
Cash basis net assets end of year	<u>\$ 114</u>	<u>168</u>

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Shenandoah completed the fiscal year, its governmental funds reported a combined fund balance of \$1,117,843, an increase of \$172,464 above last year's total of \$945,379. 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 at the end of fiscal 2004 was \$32,518 and at the end of fiscal 2005 was \$86,683. The City generated more receipts by increasing service charges and fees. Also, transfers were made to the General Fund from the Special Revenue, Rapp Trust Other Fund, which is provided by bequest for capital outlay items. The City's overall disbursements in the General Fund decreased from \$1,861,871 in fiscal 2004 to \$1,860,023 in fiscal 2005, a decrease of \$1,848, or 0.1%. The Mayor and the Council were committed to holding the line on disbursements in fiscal 2005, which was done very effectively.

The Special Revenue, Road Use Tax Fund had no significant changes from the prior year.

The Special Revenue, Employee Benefits Fund receipts decreased by \$6,236 and disbursements decreased by \$27,045. With fewer employees, the tax levy was down as well as disbursements.

The Special Revenue, Local Option Sales Tax Fund receipts decreased to \$455,351 in fiscal 2005 from \$466,647 in fiscal 2004, which is not considered to be a significant change.

By a referendum, the local option tax was put 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 2005 receipts:

Property tax relief	\$ 270,810
Community betterment	90,270
Community planning	45,135
Economic development	45,135

Most of the funds are transferred to supplement the General Fund. The portion for community betterment is used to pay principal and interest on bonds sold to help finance the construction of a new swimming pool. Also, the portion for community planning is used to help finance the City 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 (TIF) was established in fiscal year 2003 for the construction of a new theater. \$470,000 in urban renewal revenue notes were sold to assist in economic development disbursements. TIF collections of \$163,168 were used for principal and interest payments. The cash balance increased from \$154,037 at the end of fiscal 2004 to \$241,774 at the end of fiscal 2005. The note resolution requires a sinking fund reserve of \$152,740.

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 have been working with architects on plans to construct a major addition adjacent to our library. The cash balance decreased from \$135,515 at the end of fiscal 2004 to \$133,973 at the end of fiscal 2005. A small amount of Simons funds was used for the Centennial celebration.

The Special Revenue, Library Foundation Fund is a component unit of the City. As previously noted, the Foundation did not provide financial information to the City in previous years.

The Debt Service Fund cash balance of \$6,102 did not change significantly from the prior year.

Several capital projects were either completed or continued in fiscal 2005. The Shenandoah Lake Project is continuing, with disbursements of \$17,497 in fiscal 2005 (law suits have this project on hold.) The 2004 Asphalt Street Improvement Program was carried over in 2005 with disbursements of \$632,736. The Turnbull Child Care Center was completed with disbursements of \$191,495 in fiscal 2005. The cash balance of the Capital Projects Fund decreased from \$13,811 at the end of fiscal 2004 to a deficit \$15,049 at the end of fiscal 2005 due to project costs.

The Permanent, Cemetery Perpetual Care Fund cash balance of \$144,546 did not change significantly from the prior year.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

Water receipts increased in fiscal 2005 by \$14,371 from fiscal 2004. Disbursements also increased in fiscal 2005 by \$10,683. The receipts increased due to the meter replacement program. Disbursements increased due to increased material costs, such as for hydrants, valves, meters and chemicals.

Sewer receipts decreased from fiscal 2004 by \$1,202. Disbursements increased by \$57,447 during fiscal 2005 due to various plant improvements.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on June 20, 2005 and resulted in an increase in receipts and other financing sources of \$1,472,652 and an increase in disbursements of \$792,353. The increase in receipts includes approximately \$462,000 in intergovernmental receipts and \$990,000 in note proceeds. Disbursements increased due to an increase in capital projects.

## DEBT ADMINISTRATION

At June 30, 2005, the City had approximately \$6,202,000 in bonds and other long-term debt, compared to approximately \$5,886,000 last year. The chart below segregates the City's debt into its component parts.

Outstanding Debt at Year-End		
(Expressed in Thousands)		
	June 30, 2005	June 30, 2004
General obligation bonds/notes	\$ 3,085	2,960
Water revenue bonds	70	90
Local option sales and services tax revenue bonds	145	190
Swimming pool revenue notes	205	247
Urban renewal revenue notes	1,885	1,485
Special assessment bonds/notes	446	506
Capital lease purchase agreement	366	408
Total	\$ 6,202	5,886

City debt payments in fiscal 2005 reduced outstanding debt by approximately \$694,000. However, issuance of new debt of \$1,010,000 increased the net outstanding debt by \$316,000.

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 debt included in the debt limit totaled \$5,481,000 and the constitutional debt limit is approximately \$8,728,064.

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

The City of Shenandoah's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates and fees charged for various City activities.

These factors were taken into account when adopting the budget for fiscal year 2006. Amounts available for appropriation in the operating budget are \$5.7 million, a decrease of 18% from the final 2005 budget. The City does not expect to receive as many state grants and other funding in fiscal 2006. Budgeted disbursements are expected to decrease by approximately \$800,000. The decrease is due to a reduction in capital project disbursements.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$119,000 by the close of 2006.

## **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, 2005

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 871,126	12,587	10,103	40,758
Public works	921,685	404,434	481,396	-
Health and social services	21,004	2,993	1,406	-
Culture and recreation	834,049	138,637	112,776	37,352
Community and economic development	496,577	-	44,166	-
General government	232,789	9,249	125,834	-
Debt service	934,264	-	17,670	82,188
Capital projects	1,158,590	-	441	592,149
Total governmental activities	5,470,084	567,900	793,792	752,447
Business type activities:				
Water	726,647	713,410	-	-
Sewer	379,572	409,051	-	-
Swimming pool	49,919	-	-	-
Total business type activities	1,156,138	1,122,461	-	-
Total	\$ 6,626,222	1,690,361	793,792	752,447

**General Receipts:**

Property and other city tax levied for:	
General purposes	
Tax increment financing	
Debt service	
Local option sales tax	
Grants and contributions not restricted to specific purpose	
Unrestricted interest on investments	
Note proceeds	
Miscellaneous	
Sale of assets	
Transfers	
Total general receipts and transfers	
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:
Streets
Employee benefits
Local option sales tax
Tax increment financing
Simons Trust - Library
Library Foundation
Meter deposits
Debt service
Cemetery perpetual care
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
(807,678)	-	(807,678)
(35,855)	-	(35,855)
(16,605)	-	(16,605)
(545,284)	-	(545,284)
(452,411)	-	(452,411)
(97,706)	-	(97,706)
(834,406)	-	(834,406)
(566,000)	-	(566,000)
(3,355,945)	-	(3,355,945)
-	(13,237)	(13,237)
-	29,479	29,479
-	(49,919)	(49,919)
-	(33,677)	(33,677)
(3,355,945)	(33,677)	(3,389,622)
1,398,728	-	1,398,728
163,168	-	163,168
385,800	-	385,800
451,350	-	451,350
4,266	-	4,266
1,744	1,801	3,545
988,820	-	988,820
85,104	-	85,104
26,600	-	26,600
22,829	(22,829)	-
3,528,409	(21,028)	3,507,381
172,464	(54,705)	117,759
945,379	168,346	1,113,725
\$ 1,117,843	113,641	1,231,484
\$ 12,117	-	12,117
46,704	-	46,704
88,870	-	88,870
241,774	-	241,774
133,973	-	133,973
193,948	-	193,948
-	48,517	48,517
6,102	112,973	119,075
144,546	-	144,546
178,175	-	178,175
71,634	(47,849)	23,785
\$ 1,117,843	113,641	1,231,484

City of Shenandoah

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

As of and for the year ended June 30, 2005

	Special			
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax
<b>Receipts:</b>				
Property tax	\$ 831,115	-	462,510	-
Tax increment financing	-	-	-	-
Other city tax	77,003	-	21,448	451,350
Licenses and permits	11,434	-	-	-
Use of money and property	33,096	-	-	1,231
Intergovernmental	18,634	461,127	-	2,770
Charges for service	511,606	-	-	-
Special assessments	-	-	-	-
Miscellaneous	72,940	-	37,667	-
Total receipts	1,555,828	461,127	521,625	455,351
<b>Disbursements:</b>				
Operating:				
Public safety	604,573	-	233,773	-
Public works	428,790	425,288	67,607	-
Health and social services	5,778	-	12,646	-
Culture and recreation	636,814	-	152,677	-
Community and economic development	-	-	-	72,116
General government	184,068	-	48,721	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	1,860,023	425,288	515,424	72,116
Excess (deficiency) of receipts over (under) disbursements	(304,195)	35,839	6,201	383,235
<b>Other financing sources (uses):</b>				
General obligation note proceeds (net of \$11,220 discount)	-	-	-	-
Urban renewal revenue capital loan note proceeds (net of \$9,960 discount)	-	-	-	-
Sale of capital assets	24,600	-	-	-
Operating transfers in	333,760	-	-	25,000
Operating transfers out	-	-	-	(403,343)
Total other financing sources (uses)	358,360	-	-	(378,343)
Net change in cash balances	54,165	35,839	6,201	4,892
Cash balances beginning of year, as restated	32,518	(23,722)	40,503	83,978
Cash balances end of year	\$ 86,683	12,117	46,704	88,870
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ -	-	-	-
Unreserved:				
General fund	86,683	-	-	-
Special revenue funds	-	12,117	46,704	88,870
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 86,683	12,117	46,704	88,870

See notes to financial statements.

Revenue			Permanent				Nonmajor Special Revenue	Total
Tax Increment Financing	Simons Trust - Library	Library Foundation	Debt Service	Capital Projects	Cemetery Perpetual Care			
-	-	-	385,800	-	-	26,851	1,706,276	
163,168	-	-	-	-	-	-	163,168	
-	-	-	17,049	-	-	1,245	568,095	
-	-	-	-	-	-	-	11,434	
4,061	1,281	4,224	2,391	11,320	-	43,475	101,079	
-	-	-	-	580,829	-	40,758	1,104,118	
-	-	-	-	-	2,675	-	514,281	
-	-	-	82,187	-	-	-	82,187	
751	-	42,493	15,280	7,579	-	176,951	353,661	
167,980	1,281	46,717	502,707	599,728	2,675	289,280	4,604,299	
-	-	-	-	-	-	32,780	871,126	
-	-	-	-	-	-	-	921,685	
-	-	-	-	-	-	2,580	21,004	
-	2,823	25,861	-	-	-	15,874	834,049	
372,069	-	-	-	-	-	52,392	496,577	
-	-	-	-	-	-	-	232,789	
168,214	-	-	766,050	-	-	-	934,264	
-	-	-	-	1,158,590	-	-	1,158,590	
540,283	2,823	25,861	766,050	1,158,590	-	103,626	5,470,084	
(372,303)	(1,542)	20,856	(263,343)	(558,862)	2,675	185,654	(865,785)	
-	-	-	-	528,780	-	-	528,780	
460,040	-	-	-	-	-	-	460,040	
-	-	-	-	2,000	-	-	26,600	
-	-	-	259,767	19,550	-	-	638,077	
-	-	-	-	(20,328)	-	(191,577)	(615,248)	
460,040	-	-	259,767	530,002	-	(191,577)	1,038,249	
87,737	(1,542)	20,856	(3,576)	(28,860)	2,675	(5,923)	172,464	
154,037	135,515	173,092	9,678	13,811	141,871	184,098	945,379	
241,774	133,973	193,948	6,102	(15,049)	144,546	178,175	1,117,843	
152,740	-	-	6,102	-	-	-	158,842	
-	-	-	-	-	-	-	86,683	
89,034	133,973	193,948	-	-	-	178,175	742,821	
-	-	-	-	(15,049)	-	-	(15,049)	
-	-	-	-	-	144,546	-	144,546	
241,774	133,973	193,948	6,102	(15,049)	144,546	178,175	1,117,843	

**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, 2005

	Enterprise Funds			Total
	Water	Sewer	Nonmajor - Swimming Pool Note Sinking	
Operating receipts:				
Charges for service	\$ 690,520	400,721	-	1,091,241
Miscellaneous	22,890	8,330	-	31,220
Total operating receipts	713,410	409,051	-	1,122,461
Operating disbursements:				
Business type activities	704,622	379,572	-	1,084,194
Excess of operating receipts over operating disbursements	8,788	29,479	-	38,267
Non-operating receipts (disbursements):				
Interest on investments	1,009	16	776	1,801
Debt service	(22,025)	-	(49,919)	(71,944)
Total non-operating receipts (disbursements)	(21,016)	16	(49,143)	(70,143)
Excess (deficiency) of receipts over (under) disbursements	(12,228)	29,495	(49,143)	(31,876)
Operating transfers in	49,000	-	49,919	98,919
Operating transfers out	(72,748)	(49,000)	-	(121,748)
Total operating transfers	(23,748)	(49,000)	49,919	(22,829)
Net change in cash balances	(35,976)	(19,505)	776	(54,705)
Cash balances beginning of year	64,344	53,589	50,413	168,346
Cash balances end of year	\$ 28,368	34,084	51,189	113,641
<b>Cash Basis Fund Balances</b>				
Reserved for:				
Debt service	\$ 61,784	-	51,189	112,973
Meter deposits	48,517	-	-	48,517
Unreserved	(81,933)	34,084	-	(47,849)
Total cash basis fund balances	\$ 28,368	34,084	51,189	113,641

See notes to financial statements.

City of Shenandoah

Notes to Financial Statements

June 30, 2005

**(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 is legally separate from the City but is so intertwined with the City it is, in substance, part of the City. The Shenandoah Public Library Foundation was organized under Chapter 504A of the Code of Iowa as a non-profit corporation. The 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 a jointly governed organization that provides goods or services to the citizenry of the City but does 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

The 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 two categories:

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

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

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

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 road construction and Maintenance.

The Employee Benefits Fund is used to account for employee pensions and other benefits.

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

The Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

The Simons Trust - Library Fund is used to account for the trust and uses of money collected.

The Library Foundation Fund is used to account for donations to the Shenandoah Public Library.

The Debt Service Fund is utilized to account 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.

The Permanent Fund is used to account for funds collected for the perpetual care of the cemetery.

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

The City of Shenandoah 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.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the community and economic development and business type activities functions. Also, the capital projects function budget was exceeded prior to amendment.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2005 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 \$495,653 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

The Shenandoah Public Library Foundation's investments at June 30, 2005 consist of stock mutual funds with a fair value of \$39,674. Disclosure of concentration of credit risk and interest rate risk do not apply to these investments.

The City had two certificates of deposit from a depository outside the State of Iowa.

**(3) Bonds and Notes Payable**

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

Year Ending June 30,	General Obligation Bonds		General Obligation Notes		Water Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 85,000	13,400	335,000	129,835	20,000	3,150
2007	90,000	9,223	335,000	114,950	25,000	2,250
2008	95,000	4,760	345,000	99,865	25,000	1,125
2009	-	-	400,000	83,740	-	-
2010	-	-	430,000	65,380	-	-
2011-2015	-	-	805,000	142,837	-	-
2016-2020	-	-	165,000	11,397	-	-
Total	\$ 270,000	27,383	2,815,000	648,004	70,000	6,525

Year Ending June 30,	Local Option Sales and Services Tax Revenue Bonds		Swimming Pool Revenue Notes	
	Principal	Interest	Principal	Interest *
2006	\$ 45,000	7,543	29,292	5,228
2007	50,000	5,225	29,292	4,482
2008	50,000	2,625	29,292	3,735
2009	-	-	29,292	2,988
2010	-	-	29,292	2,241
2011-2015	-	-	58,584	2,341
2016-2020	-	-	-	-
Total	\$ 145,000	15,393	205,044	21,015

\* 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
	2006	\$ 115,000	98,475	60,000	20,087	689,292
2007	115,000	94,615	60,000	17,838	704,292	248,583
2008	120,000	90,200	65,000	15,437	729,292	217,747
2009	125,000	85,160	65,000	12,675	619,292	184,563
2010	130,000	79,627	65,000	9,750	654,292	156,998
2011-2015	760,000	293,453	130,000	10,075	1,753,584	448,706
2016-2020	520,000	86,600	-	-	685,000	97,997
Total	\$ 1,885,000	828,130	445,000	85,862	5,835,044	1,632,312

### Revenue Bonds

The resolution providing for the issuance of the water revenue bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate water bond sinking account for the purpose of making the bond principal and interest payments when due.
- (c) A separate water sinking reserve account shall be established with a specific established balance. This account is restricted for the purpose of paying principal and interest when funds in the water bond sinking account are inadequate.
- (d) Monthly transfers of \$2,000 shall be made to a water improvement reserve account until \$100,000 has been accumulated. This account is restricted for the purpose of paying for capital improvements and extensions to the municipal water utility or for principal and interest payments which the sinking and reserve accounts might be unable to make.
- (e) The City will provide for the collection of rates to produce gross revenues at least sufficient to pay the expenses of operation and maintenance of the utility and to have a balance of net revenues equal to at least 125% of the principal and interest due on the bonds each fiscal year.

The City did not provide for the collection of rates to provide a balance of net revenues equal to at least 125% of the principal and interest due on the bonds each fiscal year.

### Local Option Sales and Services Tax Revenue Bonds

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the costs of constructing and equipping a municipal swimming pool and aquatic center. The bonds are payable solely from the proceeds of the local option sales tax received by the City in accordance with Chapter 422B.12(3) of the Code of Iowa. The bonds 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 local option sales and services tax revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the local option sales tax received by the City and the bond holders hold a lien on the future revenues received.
- (b) Sufficient quarterly deposits shall be made to a separate revenue sinking account for the purpose of making the bond principal and interest payments when due.
- (c) Additional quarterly deposits of \$3,750 shall be made to a reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of correcting any deficiencies in the revenue sinking account.

#### Revenue Notes

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 enterprise activity 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 enterprise activity 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 up 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 enterprise budget, as well as rentals, enterprise property and capital improvements. The City accounts for this activity in the Enterprise, Swimming Pool Note Sinking Fund.
  - (3) Next to a separate sinking account for the purpose of making the note principal and interest payments when due. The City accounts for this activity in the Enterprise, Swimming Pool Note Sinking Fund.

#### 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 fund 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 fund shall be established to maintain a required debt service reserve. The City is to deposit note proceeds of \$152,740 into this reserve fund. This fund is restricted for the purpose of paying principal and interest when funds in the sinking fund are inadequate. The City accounts for these proceeds in the Special Revenue, Tax Increment Financing Fund.

Capital Lease Purchase Agreement

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, 2005:

Year Ending June 30,	Amount
2006	\$ 64,529
2007	64,529
2008	64,529
2009	64,529
2010	64,529
2011-2012	129,059
	<hr/>
Total minimum lease payments	451,704
Less amount representing interest	(85,775)
	<hr/>
Present value of net minimum lease payments	<u>\$ 365,929</u>

During the year ended June 30, 2005, \$64,529 was paid under the capital lease purchase agreement.

**(4) Pension and Retirement Benefits**

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

Most plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% 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, 2005, 2004 and 2003 were \$88,652, \$88,727 and \$94,229, respectively, equal to the required contributions for each year.

**(5) 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, 2005, primarily relating to the General Fund, was \$80,000. This liability has been computed based on rates of pay in effect at June 30, 2005.

**(6) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax	\$ 242,500
	Emergency	22,000
	Rapp Trust - Other	39,260
	Wilson Trust - Library	30,000
		<u>333,760</u>
Special Revenue:	Enterprise:	
Local Option Sales Tax	Water	<u>25,000</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	98,881
	Emergency	15,653
	Wilson Trust-Other	77,157
	Capital Projects	20,328
	Enterprise:	
	Water	47,748
		<u>160,886</u>
Capital Projects	Special Revenue:	
	Local Option Sales Tax	12,043
	Wilson Trust - Other	7,507
		<u>19,550</u>
Enterprise:	Enterprise:	
Water	Sewer	<u>49,000</u>
Swimming Pool Note Sinking	Special Revenue:	
	Local Option Sales Tax	49,919
Total		<u>\$ 638,115</u>

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

**(7) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$59,683 during the year ended June 30, 2005.

**(8) Hospital Facilities Refunding Revenue Bonds**

On November 1, 2002, the City issued \$2,560,000 of Hospital Facilities Refunding Revenue Bonds under the provisions of Chapter 419 of the Code of Iowa. The bonds were used for the purpose of paying the cost of refunding the industrial development refunding revenue bonds of the hospital. The bonds, of which \$1,580,000 is outstanding at June 30, 2005, and related interest are payable solely from the future earnings of the hospital and do not constitute liabilities of the City.

On May 21, 2005, the City issued \$3,300,000 of Hospital Facilities Revenue Bonds for the purpose of paying for the Shenandoah Medical Center project. All of the funds are outstanding at June 30, 2005.

**(9) 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.

**(10) Deficit Balance**

The Capital Projects Fund had a deficit balance of \$15,049. The deficit balance will be eliminated once the pending lawsuit is resolved regarding the Shenandoah Lake Reservoir project.

**(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, 2005, the City approved four loans totaling \$45,500 for economic development projects and collections of \$33,934 of principal and \$5,408 of interest were received. Three loans totaling \$53,170 were considered insolvent and uncollectible. The outstanding loan principal balance at June 30, 2005 was \$225,846.

**(12) Pending Litigation**

The City has adopted a resolution authorizing the issuance of \$110,000 of general obligation bonds for essential corporate purposes to construct an artificial body of water in Page County. The issuance is subject to a lawsuit in which the Page County District Court granted the City’s motion for Summary Judgment. The decision was appealed and is now pending before the Iowa Supreme Court.

Also, the County is a defendant in another lawsuit seeking a specified amount of damages. The probability and amount of loss, if any, is indeterminable.

**(13) Restatement**

Beginning net assets of the governmental activities have been restated to include the Shenandoah Public Library Foundation, a blended component unit of the City which is legally separate from the City and was not previously included, as follows:

	<u>Governmental Activities</u>
Cash basis net assets June 30, 2004, as previously reported	\$ 772,287
Shenandoah Public Library Foundation	<u>173,092</u>
Cash basis net assets July 1, 2004, as restated	<u><u>\$ 945,379</u></u>

**City of Shenandoah**

**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, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted
<b>Receipts:</b>			
Property tax	\$ 1,706,276	-	-
Tax increment financing	163,168	-	-
Other city tax	568,095	-	-
Licenses and permits	11,434	-	-
Use of money and property	101,079	1,801	4,224
Intergovernmental	1,104,118	-	-
Charges for service	514,281	1,091,241	-
Special assessments	82,187	-	-
Miscellaneous	353,661	31,220	42,493
Total receipts	4,604,299	1,124,262	46,717
<b>Disbursements:</b>			
Public safety	871,126	-	-
Public works	921,685	-	-
Health and social services	21,004	-	-
Culture and recreation	834,049	-	25,861
Community and economic development	496,577	-	-
General government	232,789	-	-
Debt service	934,264	-	-
Capital projects	1,158,590	-	-
Business type activities	-	1,156,138	-
Total disbursements	5,470,084	1,156,138	25,861
Excess (deficiency) of receipts over (under) disbursements	(865,785)	(31,876)	20,856
Other financing sources, net	1,038,249	(22,829)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	172,464	(54,705)	20,856
Balances beginning of year, as restated	945,379	168,346	173,092
Balances end of year	\$ 1,117,843	113,641	193,948

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to
	Original	Final	Total Variance
1,706,276	1,708,313	1,708,313	(2,037)
163,168	155,000	155,000	8,168
568,095	544,619	544,619	23,476
11,434	12,200	12,200	(766)
98,656	138,209	138,209	(39,553)
1,104,118	661,436	1,123,837	(19,719)
1,605,522	1,703,345	1,703,345	(97,823)
82,187	82,188	82,188	(1)
342,388	332,201	352,031	(9,643)
5,681,844	5,337,511	5,819,742	(137,898)
871,126	880,293	880,293	9,167
921,685	972,368	972,368	50,683
21,004	46,556	46,556	25,552
808,188	1,014,411	1,014,411	206,223
496,577	67,099	67,099	(429,478)
232,789	237,906	237,906	5,117
934,264	948,608	948,608	14,344
1,158,590	910,000	1,702,353	543,763
1,156,138	1,093,980	1,093,980	(62,158)
6,600,361	6,171,221	6,963,574	363,213
(918,517)	(833,710)	(1,143,832)	225,315
1,015,420	-	990,421	24,999
96,903	(833,710)	(153,411)	250,314
940,633	2,397,095	940,632	1
1,037,536	1,563,385	787,221	250,315

City of Shenandoah

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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 blended component units. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund 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 \$792,353. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the community and economic development and business type activities functions. Also, disbursements exceeded the amounts budgeted prior to amendment in the capital projects function.

**Other Supplementary Information**

City of Shenandoah

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Special Revenue Funds

As of and for the year ended June 30, 2005

	Emergency	Gidley Park Trust	Esden Trust	Holiday Dinners	Rapp Trust Library
Receipts:					
Property tax	\$ 26,851	-	-	-	-
Other city tax	1,245	-	-	-	-
Use of money and property	513	765	437	179	155
Intergovernmental	40,758	-	-	-	-
Miscellaneous	-	5,000	1,216	2,948	-
Total receipts	69,367	5,765	1,653	3,127	155
Disbursements:					
Operating:					
Public safety	32,780	-	-	-	-
Health and social services	-	-	-	2,580	-
Culture and recreation	-	1,878	1,917	-	-
Community and economic development	-	-	-	-	-
Total disbursements	32,780	1,878	1,917	2,580	-
Excess (deficiency) of receipts over (under) disbursements	36,587	3,887	(264)	547	155
Other financing uses:					
Operating transfers out	(37,653)	-	-	-	-
Net change in cash balances	(1,066)	3,887	(264)	547	155
Cash balances beginning of year	9,948	48,075	21,168	3,082	10,044
Cash balances end of year	\$ 8,882	51,962	20,904	3,629	10,199
<b>Cash Basis Fund Balances</b>					
Unreserved:					
Special revenue funds	\$ 8,882	51,962	20,904	3,629	10,199

See accompanying independent auditor's report.

Rapp Trust Other	Reed Estate Trust	Vision Iowa Trust	Wilson Trust - Library	Wilson Trust - Other	Kay M. Anderson Foundation	Revolving Loan	Tree Board	Total
-	-	-	-	-	-	-	-	26,851
-	-	-	-	-	-	-	-	1,245
-	155	142	891	-	16	39,964	258	43,475
-	-	-	-	-	-	-	-	40,758
39,260	-	-	37,352	84,664	5,161	350	1,000	176,951
39,260	155	142	38,243	84,664	5,177	40,314	1,258	289,280
-	-	-	-	-	-	-	-	32,780
-	-	-	-	-	-	-	-	2,580
-	-	-	3,157	-	4,700	-	4,222	15,874
-	-	-	-	-	-	52,392	-	52,392
-	-	-	3,157	-	4,700	52,392	4,222	103,626
39,260	155	142	35,086	84,664	477	(12,078)	(2,964)	185,654
(39,260)	-	-	(30,000)	(84,664)	-	-	-	(191,577)
-	155	142	5,086	-	477	(12,078)	(2,964)	(5,923)
-	10,044	2,457	16,607	-	63	57,463	5,147	184,098
-	10,199	2,599	21,693	-	540	45,385	2,183	178,175
-	10,199	2,599	21,693	-	540	45,385	2,183	178,175

City of Shenandoah  
Schedule of Indebtedness  
Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Essential and general corporate purpose	Jun 1, 1997	4.75-5.05%	\$ 575,000
Essential corporate purpose	Oct 1, 1997	4.60-4.90	200,000
Total			
General obligation notes:			
Essential corporate purpose	May 1, 1999	4.10-4.55%	\$ 1,500,000
Essential corporate purpose	Jul 1, 1999	6.60-7.30	210,000
Essential corporate purpose	Jun 1, 2000	5.20-5.70	345,000
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	Sep 1, 2003	2.10-4.35	700,000
Essential corporate purpose	Jul 15, 2004	3.60-4.75	540,000
Total			
Revenue bonds:			
Water	Feb 1, 1998	4.50%	\$ 200,000
Local option sales and services tax revenue bonds	Jun 1, 1997	4.90-5.25%	\$ 450,000
Revenue notes:			
Swimming pool	Aug 11, 1997	* 2.14-2.55%	\$ 720,000
Urban renewal revenue notes	Mar 1, 2003	3.00-6.60%	\$ 1,485,000
Urban renewal revenue notes	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 agreement:			
Fire truck	May 17, 2002	5.56%	\$ 485,000

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

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
260,000	-	60,000	200,000	12,943	-	-
90,000	-	20,000	70,000	4,347	-	-
<b>\$ 350,000</b>	<b>-</b>	<b>80,000</b>	<b>270,000</b>	<b>17,290</b>	<b>-</b>	<b>-</b>
1,040,000	-	175,000	865,000	45,593	-	-
135,000	-	20,000	115,000	9,697	-	-
230,000	-	35,000	195,000	12,748	-	-
300,000	-	25,000	275,000	17,850	-	-
95,000	-	10,000	85,000	5,631	-	-
110,000	-	10,000	100,000	5,280	-	-
700,000	-	60,000	640,000	24,415	-	-
-	540,000	-	540,000	20,329	-	-
<b>\$ 2,610,000</b>	<b>540,000</b>	<b>335,000</b>	<b>2,815,000</b>	<b>141,543</b>	<b>-</b>	<b>-</b>
90,000	-	20,000	70,000	4,050	-	-
190,000	-	45,000	145,000	9,838	-	-
246,951	-	41,907	205,044	5,015	-	-
1,485,000	-	70,000	1,415,000	81,255	-	-
-	470,000	-	470,000	16,959	-	-
<b>\$ 1,485,000</b>	<b>470,000</b>	<b>70,000</b>	<b>1,885,000</b>	<b>98,214</b>	<b>-</b>	<b>-</b>
1,000	-	-	1,000	-	1,000	195
505,000	-	60,000	445,000	22,187	-	-
407,785	-	41,856	365,929	22,673	-	-

City of Shenandoah  
Bond and Note Maturities  
June 30, 2005

General Obligation Bonds							
Year Ending June 30,	Essential and General Corporate Purpose			Essential Corporate Purpose			Total
	Issued Jun 1, 1997			Issued Oct 1, 1997			
	Interest			Interest			
	Rates	Amount		Rates	Amount		
2006	4.95%	\$ 65,000		4.80%	\$ 20,000		\$ 85,000
2007	5.00	65,000		4.85	25,000		90,000
2008	5.05	70,000		4.90	25,000		95,000
2009		-			-		-
2010		-			-		-
2011		-			-		-
2012		-			-		-
2013		-			-		-
2014		-			-		-
2015		-			-		-
2016		-			-		-
2017		-			-		-
Total		<u>\$ 200,000</u>			<u>\$ 70,000</u>		<u>\$ 270,000</u>

Year Ending June 30,	Revenue Bonds Water		Local Option Sales and Services Tax Revenue Bonds		Revenue Notes Swimming Pool	
	Issued Feb 1, 1998		Issued Jun 1, 1997		Issued Aug 11, 1997	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2006	4.50%	\$ 20,000	5.15%	\$ 45,000	* 2.55%	\$ 29,292
2007	4.50	25,000	5.20	50,000	2.55	29,292
2008	4.50	25,000	5.25	50,000	2.55	29,292
2009		-		-	2.55	29,292
2010		-		-	2.55	29,292
2011		-		-	2.55	29,292
2012		-		-	2.55	29,292
2013		-		-		-
2014		-		-		-
2015		-		-		-
2016		-		-		-
2017		-		-		-
2018		-		-		-
2019		-		-		-
Total		<u>\$ 70,000</u>		<u>\$ 145,000</u>		<u>\$ 205,044</u>

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

See accompanying independent auditor's report.



**Schedule 3**

City of Shenandoah  
 Bond and Note Maturities  
 June 30, 2005

General Obligation Notes									
Year Ending June 30,	Essential Corporate Purpose Issued Jun 15, 2001		Essential Corporate Purpose Issued Sep 1, 2002		Essential Corporate Purpose Issued Sep 1, 2003		Essential Corporate Purpose Issued Jul 15, 2004		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2006	5.95%	\$ 10,000	4.80%	\$ 10,000	2.45%	\$ 60,000	\$ -	-	335,000
2007	5.95	10,000	4.80	10,000	2.80	65,000	-	-	335,000
2008	5.95	10,000	4.80	10,000	3.10	65,000	-	-	345,000
2009	5.95	10,000	4.80	10,000	3.40	70,000	3.60%	50,000	400,000
2010	5.95	15,000	4.80	15,000	3.70	70,000	3.80	55,000	430,000
2011	5.95	15,000	4.80	15,000	3.90	75,000	4.00	55,000	185,000
2012	5.95	15,000	4.80	15,000	4.10	75,000	4.15	55,000	185,000
2013	-	-	4.80	15,000	4.25	80,000	4.30	60,000	180,000
2014	-	-	-	-	4.35	80,000	4.45	60,000	165,000
2015	-	-	-	-	-	-	4.55	65,000	90,000
2016	-	-	-	-	-	-	4.65	70,000	95,000
2017	-	-	-	-	-	-	4.75	70,000	70,000
<b>Total</b>		<u>\$ 85,000</u>		<u>\$ 100,000</u>		<u>\$ 640,000</u>		<u>\$ 540,000</u>	<u>2,815,000</u>

## City of Shenandoah

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

For the Last Three Years

	2005	2004	2003
Receipts:			
Property tax	\$ 1,706,276	1,673,768	1,704,048
Tax increment financing	163,168	120,739	-
Other city tax	568,095	539,173	545,968
Licenses and permits	11,434	57,889	12,526
Use of money and property	101,079	100,862	54,474
Intergovernmental	1,104,118	941,313	1,670,128
Charges for service	514,281	513,341	529,365
Special assessments	82,187	84,138	67,587
Miscellaneous	353,661	424,246	326,125
	<hr/>		
Total	\$ 4,604,299	4,455,469	4,910,221
<hr/>			
Disbursements:			
Operating:			
Public safety	\$ 871,126	912,467	1,134,110
Public works	921,685	973,336	1,113,585
Health and social services	21,004	40,784	29,668
Culture and recreation	834,049	928,728	929,600
Community and economic development	496,577	98,963	39,801
General government	232,789	213,220	217,675
Debt service	934,264	910,661	772,934
Capital projects	1,158,590	1,949,805	2,130,394
	<hr/>		
Total	\$ 5,470,084	6,027,964	6,367,767
<hr/>			

See accompanying independent auditor's report.

**Schedule 5**

City of Shenandoah  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2005

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Transportation Federal Aviation Administration Airport Improvement Program	20.106	3-19-0082-04	\$ 178,771
Indirect:			
U.S. Department of Housing and Urban Development: Iowa Department of Economic Development: Community Development Block Grants	14.228	03-CF-001	191,495
U.S. Department of Transportation: Iowa Department of Transportation: Highway Planning and Construction	20.205	STP-U-6965(604)--70-73	160,206
U.S. Department of Homeland Security: Iowa Department of Public Defense: Public Assistance	97.036		1,928
	Total Indirect		353,629
Total Federal Financial Assistance			\$ 532,400

**Basis of Presentation** – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Shenandoah and is presented in conformity with an other comprehensive basis of accounting. The information on 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.



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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, 2005, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated September 19, 2005. Our report expressed an unqualified opinion 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

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

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

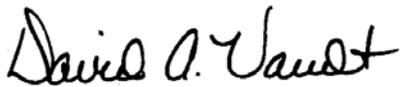
## Compliance and Other Matters

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 that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 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.

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. This report is not intended to be and should not be used by anyone other than these specified parties.

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

September 19, 2005

**Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133**

**City of Shenandoah**



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Independent Auditor's Report on Compliance with Requirements  
Applicable to 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 compliance of the City of Shenandoah, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. The City of Shenandoah's major federal programs are 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 each of its major federal programs 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 non-compliance 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.

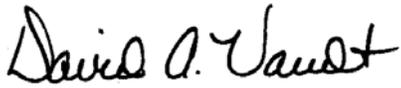
In our opinion, the City of Shenandoah complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

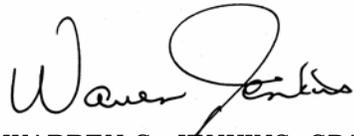
The management of the City of Shenandoah is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Shenandoah's 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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. This report 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

September 19, 2005

City of Shenandoah  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2005

**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) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, which was considered to be a material weakness.
- (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 programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each 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 programs were as follows:
  - CFDA Number 20.106 – Airport Improvement Program
  - CFDA Number 14.228 – Community Development Block Grants
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Shenandoah did not qualify as a low risk auditee.

City of Shenandoah  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2005

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITION:**

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. A listing of receipts is not prepared by the mail opener.

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

Response – We do what we can to establish internal control with the limited number of office personnel and we will continue to review our control procedures.

Conclusion – Response accepted.

City of Shenandoah  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2005

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITION:**

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

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

**Part IV: Other Findings Related to Required Statutory Reporting:**

IV-A-05 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

The City had two certificates of deposit from a depository outside the State of Iowa.

Recommendation – Chapters 12C.4 and 12C.5 of the Code of Iowa require deposits be held in the county in which the city is located or an adjoining county unless the deposits are refused, in which case the deposits must be held in depositories within the State of Iowa. The City should deposit funds in allowable depositories.

Response – We will discuss with the City Attorney and request the City Treasurer discontinue purchasing investments from out of state.

Conclusion – Responses accepted.

IV-B-05 Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the community and economic development 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.” Also, the capital projects function budget was exceeded prior to amendment.

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 – We will amend the budget in the future, if applicable.

Conclusion – Response accepted.

IV-C-05 Questionable Disbursements – The City paid \$55,716 to the Shenandoah Chamber and Industry Association during fiscal year 2005. These payments may not be an appropriate expenditure of public funds since the public benefits to be derived have not been clearly documented.

According to Chapter 15A of the Code of Iowa and an Attorney General’s opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses specific criteria to be considered in documenting the public purpose.

Recommendation – The Council should document the public purpose served by the disbursement before authorizing further payments. Documentation should include how the funds are to be used to accomplish economic development activities.

Response – The City will retain a copy of the Shenandoah Chamber and Industry Association Budget, and have it available for audit purposes. The City will also receive documentation from the Chamber on how the funds are used for Economic Development activities. This information will also be available for audit purposes.

Conclusion – Response accepted.

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

IV-D-05 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-05 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Darrel Saner, Assistant Police Chief, owner of Shenweld	Welding and maintenance	\$ 3,399
Shelly Anderson, wife of Police Officer, owner of Signs & Shines	Signs and lettering	568
Gregg Connell, Mayor, Shenandoah Chamber and Industry Association (SCIA) director	Allocation of local option sales tax, dues and membership	55,716

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Shelly Anderson do not appear to represent a conflict of interest since total transactions were less than \$1,500 during the fiscal year.

The transactions exceeding \$1,500 may represent conflicts of interest.

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

Response – We will obtain bids for items if the total is expected to exceed \$1500. We believe that the transactions with SCIA is not a conflict of interest. The City is required to spend a portion of local option sales tax for economic development.

Conclusion – Response acknowledged. As recommended, the City should consult legal counsel to determine the disposition of this matter, including the appearance of a conflict of interest for the transactions between the SCIA and the City since the Director of SCIA also serves as Mayor.

IV-F-05 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

IV-G-05 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-H-05 Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. Also, the City does not receive copies of the back of electronically retained checks from the bank as required by Chapter 554D.114(5) of the Code of Iowa.

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City should obtain from the bank electronic copies of the backs of checks in accordance with Chapter 554D.114(5) of the Code of Iowa.

Response – We will adopt a policy and obtain copies of the backs of checks.

Conclusion – Response accepted.

- IV-I-05 Revenue Bonds and Notes – Except as follows, the City is in compliance with the resolutions providing for the issuance of the water revenue bonds, local option sales and services tax revenue bonds, swimming pool revenue notes and urban renewal revenue notes.

The water revenue bonds resolution states the City will provide for the collection of rates to produce gross revenues at least sufficient to pay the expenses of operation and maintenance of the utility and to have a balance of net revenues equal to at least 125% of the principal and interest due on the bonds each fiscal year. The City has not complied with this provision.

Recommendation - The City should periodically review the Enterprise, Water Fund to ensure established rates will result in sufficient funds to meet future obligations.

Response – The City is reviewing rates and establishing a bulk user that the City believes will provide adequate funds.

Conclusion – Response accepted.

- IV-J-05 City Code of Ordinances – The City Code of Ordinances has not been re-codified since 1997.

Recommendation – Chapter 380.8(1)(c) of the Code of Iowa requires the City Code of Ordinances be recodified at least once every five years.

Response – The City will update our Code.

Conclusion – Response accepted.

- IV-K-05 Financial Condition – The Capital Projects Fund had a deficit balance of \$15,049.

Recommendation – The City should evaluate the reason for the deficit and investigate alternatives to eliminate the deficit in order to return the fund to a sound financial position.

Response – The City is aware of the deficit balance and will resolve the deficit balance after the pending lawsuit is resolved.

Conclusion – Response accepted.

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

IV-L-05 Interfund Transfers – The City makes numerous transfers between funds and accounts during the year. The transfers are not always approved in the minutes and the purpose of the transfer is not always documented.

Recommendation – Except as authorized by the City Council through the budgetary process, transfers between funds should only be made upon the authority of the City Council through resolution detailing the amounts to be transferred to/from the funds involved, along with the reason for each transfer.

Response – The City will seek a resolution from City Council for these transfers not covered by budget and other means.

Conclusion – Response accepted.

IV-M-05 Local Option Sales Tax – The ballot for the local option sales tax authorizes the City to collect the tax and to allocate 60% for property tax relief, 20% for community betterment, 10% for community planning and 10% for economic development. The City transfers from the Local Option Sales Tax Fund to other funds for reimbursement of disbursements. However, the City does not document the purpose of these transfers for compliance with the local option sales tax ballot.

Recommendation – The City should establish procedures to document the purpose of local option sales tax transfers to other funds to demonstrate compliance with ballot requirements.

Response – Most transfers from the Local Option Sales Tax Fund are authorized by approval of the City Budget. However, any transfers made will be documented, that are not already authorized.

Conclusion – Response acknowledged. However, the City should also document the purpose of local option sales tax transfers to other funds to demonstrate compliance with ballot requirements.

City of Shenandoah  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2005

IV-N-05 Other Information Required by the Revenue Bond and Note Resolutions

Insurance – The following insurance policies were in force at June 30, 2005:

Insurer	Description	Amount	Expiration Date
Employers Mutual Casualty Company	Property coverage: Buildings	\$ 18,782,762	Apr 1, 2006
Employers Mutual Casualty Company	Comprehensive general liability: Each occurrence Aggregate	1,000,000 2,000,000	Apr 1, 2006
Employers Mutual Casualty Company	Inland Marine: Contractors' equipment Electronic data processing equipment Property floater	275,965 147,546 58,490	Apr 1, 2006
Employers Mutual Casualty Company	Automobile coverage: Liability Uninsured motorists	1,000,000 40,000	Apr 1, 2006
Employers Mutual Casualty Company	Linebacker - each loss and Each loss Aggregate	1,000,000 1,000,000	Apr 1, 2006
Employers Mutual Casualty Company	Workers' compensation	500,000	Apr 1, 2006
Employers Mutual Casualty Company	Commercial umbrella Retained Each occurrence Aggregate	10,000 5,000,000 5,000,000	Apr 1, 2006
Employers Mutual Casualty Company	Employee dishonesty Blanket bond Alteration	100,000 10,000	Apr 1, 2006
Employers Mutual Casualty Company	Commercial crime: inside premises outside premises	10,000 10,000	Apr 1, 2006

Statistical Information:

Description	Amount
Swimming pool customers served in 2005 season	17,123
Swimming pool rates in effect at June 30, 2005:	
Daily admission	\$ 4
Single season pass	50
Family plan	125

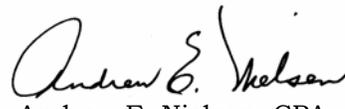
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City of Shenandoah

Staff

This audit was performed by:

K. David Voy, CPA, Manager  
Paul F. Kearney, CGFM, Senior Auditor  
Nicole B. Tenges, Staff Auditor  
Marta M. Sobieszkoda, 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