



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

December 29, 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 \$5,554,117 for the year ended June 30, 2006, an 18 percent decrease from 2005. The receipts included \$1,999,397 in property and other city tax, \$519,759 from local option sales tax, \$1,785,677 from charges for service, \$900,724 from operating grants, contributions and restricted interest, \$233,212 from capital grants, contributions and restricted interest, \$7,461 from unrestricted interest on investments and \$107,887 from other general receipts. The significant decrease in receipts is due primarily to the sale of notes during the year ended June 30, 2005.

Disbursements for the year totaled \$5,567,420, a 16 percent decrease from the prior year, and included \$1,013,990 for debt service, \$1,000,813 for public safety and \$ 989,441 for public works. Also, disbursements for business type activities totaled \$1,167,716. The significant decrease in disbursements is due to capital projects during the year ended June 30, 2005.

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

JUNE 30, 2006

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City of Shenandoah

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
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
(After January 2006)		
Richard Hunt	Mayor	Jan 2010
Jeff Hiser	Mayor Pro tem	Jan 2010
E. J. Teachout	Council Member	Jan 2008
Robert Burchett	Council Member	Jan 2008
Don Gibson	Council Member	Jan 2010
Marvin Adcock	Council Member	Jan 2010
Byron Harris	Administrator	Jun 2006
Merrill J. Kruse	Clerk	Jun 2006
James Winegardner	Treasurer	Jun 2006
Robert Norris	Attorney	Jan 2007

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, 2006, 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.

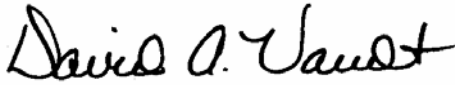
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

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, 2006, 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.

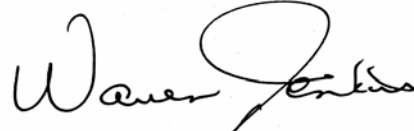
In accordance with Government Auditing Standards, we have also issued our report dated August 16, 2006 on our consideration of the City of Shenandoah's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City 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 three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 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

August 16, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Shenandoah provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

As discussed in Note 12 to the financial statements, the City restated the beginning balance to include the Shenandoah Volunteer Fire Department, a separately maintained department of the City which was not previously included. Also, the City reclassified the Swimming Pool Note Sinking fund from a business type activity to a governmental activity and changed the name of the account to the Local Option Sales Tax Bond Sinking account. To facilitate and enhance comparability in this discussion and analysis, fiscal year 2005 amounts have been revised to reflect the changes as if they had been made in the prior year.

2006 FINANCIAL HIGHLIGHTS

- Receipts and transfers of the City's governmental activities decreased 23.5%, or approximately \$1,338,000, from fiscal 2005 to fiscal 2006. Note proceeds decreased approximately \$989,000 and operating and capital grants, contributions and restricted interest receipts decreased approximately \$412,000.
- Governmental activities disbursements decreased 20.3%, or approximately \$1,020,000, in fiscal 2006 from fiscal 2005. Community and economic development decreased approximately \$305,000 and capital projects decreased approximately \$1,077,000.
- The City's total cash basis net assets decreased 1%, or approximately \$13,000, from June 30, 2005 to June 30, 2006.

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.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water system and the 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 Road Use Tax, 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.

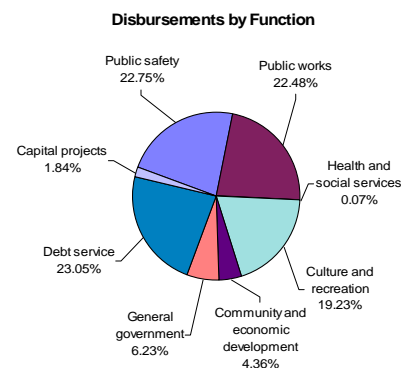
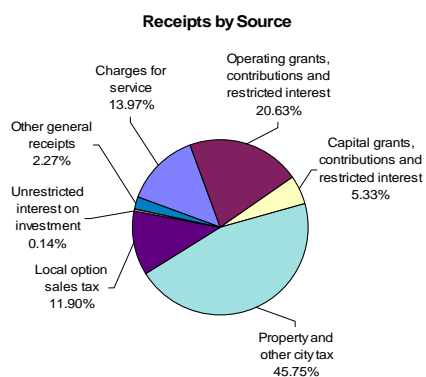
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from approximately \$1,180 thousand to \$1,148 thousand. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2006	2005
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 610	568
Operating grants, contributions and restricted interest	901	794
Capital grants, contributions and restricted interest	233	752
General receipts:		
Property and other city tax	1,999	1,948
Local option sales tax	520	451
Grants and contributions not restricted to specific purposes	-	4
Unrestricted interest on investment	6	3
Note proceeds	-	989
Other general receipts	99	123
Transfers, net	-	73
Total receipts and transfers	4,368	5,705
Disbursements:		
Public safety	1,001	871
Public works	989	922
Health and social services	3	21
Culture and recreation	846	834
Community and economic development	192	497
General government	274	233
Debt service	1,014	984
Capital projects	81	1,158
Total disbursements	4,400	5,520
Increase (decrease) in cash basis net assets	(32)	185
Cash basis net assets beginning of year, as restated	1,180	995
Cash basis net assets end of year	\$ 1,148	1,180



Total business type activities cash balance increased from a year ago, increasing from approximately \$62 thousand to \$81 thousand. The analysis that follows focuses on the changes in cash basis net assets of business type activities.

Changes in Cash Basis Net Assets of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2006	2005
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 784	709
Sewer	401	407
General receipts:		
Unrestricted interest on investments	2	1
Miscellaneous	-	5
Total receipts	<u>1,187</u>	<u>1,122</u>
Disbursements and transfers:		
Water	771	726
Sewer	397	379
Transfers	-	73
Total disbursements and transfers	<u>1,168</u>	<u>1,178</u>
Increase (decrease) in cash balance	19	(56)
Cash basis net assets beginning of year as restated	<u>62</u>	<u>118</u>
Cash basis net assets end of year	<u>\$ 81</u>	<u>62</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Shenandoah completed the fiscal year, its governmental funds reported a combined fund balance of \$1,148,161, a decrease of \$31,880 below last year's restated total of \$1,180,041. 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 2005 was \$86,683 and at the end of fiscal 2006 was \$51,427. The City's overall disbursements in the General Fund increased from \$1,860,023 in fiscal 2005 to \$1,968,741 in fiscal 2006, an increase of \$108,718, or 5.8%. The increase was due, in part, to the purchase of police and street department vehicles and an increase in landfill fees.

The Special Revenue, Road Use Tax Fund cash balance at the end of fiscal 2006 increased \$30,354 over the prior year end to \$42,471. Disbursements increased by \$12,685, primarily due to an increase in street department wages. Also, fiscal 2006 receipts exceeded disbursements by \$26,369.

The Special Revenue, Employee Benefits Fund receipts increased by \$40,087 and disbursements increased by \$8,569 over the respective prior year amounts. Tax collections increased by \$33,376 and liability insurance premium disbursements increased from \$20,989 in fiscal 2005 to \$45,956 in fiscal 2006.

The Special Revenue, Local Option Sales Tax Fund receipts increased to \$524,539 in fiscal 2006 from \$455,351 in fiscal 2005, which was caused by an increase in sales tax collections over the prior year. Disbursements increased by \$96,499 over the prior year for various community and economic development projects.

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 fiscal 2006 receipts:

Property tax relief	\$ 311,855
Community betterment	103,952
Community planning	51,976
Economic development	51,976
	<hr/>
Total	\$ 519,759
	<hr/>

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. TIF collections of \$213,475 were used for principal and interest payments. The cash balance increased from \$241,774 at the end of fiscal 2005 to \$252,085 at the end of fiscal 2006. The note resolution requires a sinking fund reserve of \$163,330.

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

The Special Revenue, Library Foundation Fund is a component unit of the City. The cash balance increased \$10,418 from fiscal 2005 to a current balance of \$204,366.

The Debt Service Fund cash balance of \$(16,917) changed significantly from the prior year balance of \$6,102. The City did not make transfers sufficient to cover all the debt payments.

The Permanent, Cemetery Perpetual Care Fund cash balance of \$146,921 did not change significantly from the prior year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

Water Fund receipts increased in fiscal 2006 by \$71,249 over fiscal 2005. Disbursements also increased by \$44,013 in fiscal 2006. Water rates were increased in April 2006. Disbursements increased due to increased material costs, such as for hydrants, valves, meters and chemicals.

Sewer Fund receipts decreased from fiscal 2005 by \$8,109. There were no significant changes in receipts and disbursements.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 30, 2006 and resulted in an increase in receipts and other financing sources of \$250,500 and an increase in disbursements of \$250,500. The increase in budgeted receipts includes approximately \$43,697 in other city tax receipts and \$171,094 in miscellaneous. Budgeted disbursements increased due to an increase in employee insurance costs, fuel and other materials. Capital projects disbursements were less than budgeted due to the City not collecting certain grants and donations included in the budgeted intergovernmental and miscellaneous receipts.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$5,469,000 in bonds and other long-term debt outstanding, compared to approximately \$6,202,000 last year. The chart below segregates the City's debt into its component parts.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2006	2005
General obligation bonds/notes	\$ 2,665	3,085
Water revenue bonds	50	70
Local option sales and services tax revenue bonds	100	145
Swimming pool revenue notes	176	205
Urban renewal revenue notes	1,770	1,885
Special assessment bonds/notes	386	446
Capital lease purchase agreement	322	366
Total	\$ 5,469	6,202

Debt payments in fiscal 2006 reduced outstanding debt by approximately \$733,000.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$4,857,000 is significantly below the constitutional debt limit of \$8,718,577.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Shenandoah's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates and fees charged for various City activities.

These factors were taken into account when adopting the budget for fiscal year 2007. Amounts available for appropriation in the operating budget are \$5.3 million, a decrease of 9.6% from the final 2006 budget. The City does not expect to receive as many state grants and other funding in fiscal 2007. Budgeted disbursements are expected to decrease by approximately \$573,000. The decrease is due to a reduction in general government and capital project disbursements.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$219,000 by the close of fiscal 2007.

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, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,000,813	16,295	38,435	73,849
Public works	989,441	417,111	492,345	-
Health and social services	3,303	2,720	190	-
Culture and recreation	845,644	144,226	123,064	37,895
Community and economic development	191,545	-	54,249	-
General government	273,752	29,408	173,826	-
Debt service	1,013,990	-	18,615	80,088
Capital projects	81,216	-	-	41,380
Total governmental activities	4,399,704	609,760	900,724	233,212
Business type activities:				
Water	770,660	783,669	-	-
Sewer	397,056	400,958	-	-
Total business type activities	1,167,716	1,184,627	-	-
Total	\$ 5,567,420	1,794,387	900,724	233,212

General Receipts:

Property and other city tax levied for:
General purposes
Tax increment financing
Debt service
Local option sales tax
Unrestricted interest on investments
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
(872,234)	-	(872,234)
(79,985)	-	(79,985)
(393)	-	(393)
(540,459)	-	(540,459)
(137,296)	-	(137,296)
(70,518)	-	(70,518)
(915,287)	-	(915,287)
(39,836)	-	(39,836)
(2,656,008)	-	(2,656,008)
-	13,009	13,009
-	3,902	3,902
-	16,911	16,911
(2,656,008)	16,911	(2,639,097)
1,386,424	-	1,386,424
230,021	-	230,021
382,952	-	382,952
519,759	-	519,759
5,462	1,999	7,461
99,122	-	99,122
55	-	55
333	(333)	-
2,624,128	1,666	2,625,794
(31,880)	18,577	(13,303)
1,180,041	62,452	1,242,493
\$ 1,148,161	81,029	1,229,190
\$ 42,471	-	42,471
89,521	-	89,521
35,555	-	35,555
88,755	-	88,755
137,207	-	137,207
204,366	-	204,366
-	53,173	53,173
213,330	80,436	293,766
146,921	-	146,921
196,333	-	196,333
(6,298)	(52,580)	(58,878)
\$ 1,148,161	81,029	1,229,190

City of Shenandoah

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

As of and for the year ended June 30, 2006

	General	Road Use Tax	Employee Benefits
Receipts:			
Property tax	\$ 788,206	-	495,886
Tax increment financing	-	-	-
Other city tax	75,328	-	22,658
Licenses and permits	32,010	-	-
Use of money and property	33,856	-	-
Intergovernmental	17,674	464,342	-
Charges for service	536,296	-	-
Special assessments	-	-	-
Miscellaneous	78,576	-	43,168
Total receipts	1,561,946	464,342	561,712
Disbursements:			
Operating:			
Public safety	650,441	-	243,762
Public works	489,191	437,973	62,277
Health and social services	497	-	-
Culture and recreation	634,664	-	148,950
Community and economic development	-	-	-
General government	193,948	-	69,004
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	1,968,741	437,973	523,993
Excess (deficiency) of receipts over (under) disbursements	(406,795)	26,369	37,719
Other financing sources (uses):			
Sale of capital assets	-	-	-
Operating transfers in	393,574	3,985	5,098
Operating transfers out	(22,035)	-	-
Total other financing sources (uses)	371,539	3,985	5,098
Net change in cash balances	(35,256) [█]	30,354	42,817
Cash balances beginning of year, as restated	86,683	12,117	46,704
Cash balances end of year	\$ 51,427 [█]	42,471	89,521
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	51,427	-	-
Special revenue funds	-	42,471	89,521
Debt service fund	-	-	-
Capital projects fund	-	-	-
Permanent fund	-	-	-
Total cash basis fund balances	\$ 51,427	42,471	89,521

See notes to financial statements.

Special Revenue				Permanent				Total
Local Option Sales Tax	Tax Increment Financing	Simons Trust - Library	Library Foundation	Debt Service	Cemetery Perpetual Care	Nonmajor		
-	-	-	-	382,952	-	26,546	1,693,590	
-	230,021	-	-	-	-	-	230,021	
519,759	-	-	-	16,339	-	877	634,961	
-	-	-	-	-	-	-	32,010	
4,780	8,236	3,234	4,205	3,815	-	64,170	122,296	
-	-	-	-	-	-	103,770	585,786	
-	-	-	-	-	2,375	-	538,671	
-	-	-	-	80,088	-	-	80,088	
-	-	-	40,768	14,800	-	272,701	450,013	
524,539	238,257	3,234	44,973	497,994	2,375	468,064	4,367,436	
-	-	-	-	-	-	106,610	1,000,813	
-	-	-	-	-	-	-	989,441	
-	-	-	-	-	-	2,806	3,303	
-	-	-	34,555	-	-	27,475	845,644	
116,072	14,471	-	-	-	-	61,002	191,545	
-	-	-	-	-	-	10,800	273,752	
52,543	213,475	-	-	747,972	-	-	1,013,990	
-	-	-	-	-	-	81,216	81,216	
168,615	227,946	-	34,555	747,972	-	289,909	4,399,704	
355,924	10,311	3,234	10,418	(249,978)	2,375	178,155	(32,268)	
-	-	-	-	-	-	55	55	
-	-	-	-	226,959	-	-	629,616	
(410,428)	-	-	-	-	-	(196,820)	(629,283)	
(410,428)	-	-	-	226,959	-	(196,765)	388	
(54,504)	10,311	3,234	10,418	(23,019)	2,375	(18,610)	(31,880)	
140,059	241,774	133,973	193,948	6,102	144,546	174,135	1,180,041	
85,555	252,085	137,207	204,366	(16,917)	146,921	155,525	1,148,161	
50,000	163,330	-	-	-	-	-	213,330	
-	-	-	-	-	-	-	51,427	
35,555	88,755	137,207	204,366	-	-	196,333	794,208	
-	-	-	-	(16,917)	-	-	(16,917)	
-	-	-	-	-	-	(40,808)	(40,808)	
-	-	-	-	-	146,921	-	146,921	
85,555	252,085	137,207	204,366	(16,917)	146,921	155,525	1,148,161	

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, 2006

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 757,220	397,771	1,154,991
Miscellaneous	26,449	3,187	29,636
Total operating receipts	783,669	400,958	1,184,627
Operating disbursements:			
Business type activities	747,510	397,056	1,144,566
Excess of operating receipts over operating disbursements	36,159	3,902	40,061
Non-operating receipts (disbursements):			
Interest on investments	1,999	-	1,999
Debt service	(23,150)	-	(23,150)
Total non-operating receipts (disbursements)	(21,151)	-	(21,151)
Excess of receipts over disbursements	15,008	3,902	18,910
Operating transfers in	70,176	17,349	87,525
Operating transfers out	(45,858)	(42,000)	(87,858)
Total operating transfers	24,318	(24,651)	(333)
Net change in cash balances	39,326	(20,749)	18,577
Cash balances beginning of year	28,368	34,084	62,452
Cash balances end of year	\$ 67,694	13,335	81,029
Cash Basis Fund Balances			
Reserved for:			
Debt service	\$ 80,436	-	80,436
Meter deposits	53,173	-	53,173
Unreserved	(65,915)	13,335	(52,580)
Total cash basis fund balances	\$ 67,694	13,335	81,029

See notes to financial statements.

City of Shenandoah

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Shenandoah is a political subdivision of the State of Iowa located in Page and Fremont Counties. It was first incorporated in 1871 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Shenandoah has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

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

Blended Component Unit

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

Jointly Governed Organizations

The City also participates in jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Page County Assessor's Conference Board, Page County Emergency Management Commission, Page County Joint E911 Service Board and the Page County Landfill Association.

Related Organization

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

B. Basis of Presentation

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

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

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

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, 2006, disbursements exceeded the amounts budgeted in the public safety, health and social services and community and economic development functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 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 \$488,296 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, 2006 consist of stock mutual funds with a fair value of \$41,783. Disclosure of concentration of credit risk and interest rate risk do not apply to these investments.

The City had five 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		Local Option Sales and Services Tax Revenue Bonds		Swimming Pool Revenue Notes	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest *
2007	\$ 90,000	9,223	335,000	114,950	25,000	2,250	50,000	5,225	29,292	4,482
2008	95,000	4,760	345,000	99,865	25,000	1,125	50,000	2,625	29,292	3,735
2009	-	-	400,000	83,740	-	-	-	-	29,292	2,988
2010	-	-	430,000	65,380	-	-	-	-	29,292	2,241
2011	-	-	185,000	45,020	-	-	-	-	29,292	1,494
2012-2016	-	-	715,000	105,889	-	-	-	-	29,292	847
2017-2019	-	-	70,000	3,325	-	-	-	-	-	-
Total	\$ 185,000	13,983	2,480,000	518,169	50,000	3,375	100,000	7,850	175,752	15,787

* 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
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	140,000	73,513	65,000	6,663	419,292	126,690
2012-2016	740,000	253,333	65,000	3,412	1,549,292	363,481
2017-2019	400,000	53,207	-	-	470,000	56,532
Total	\$ 1,770,000	729,655	385,000	65,775	5,145,752	1,354,594

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

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 provided 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. However, the balance in the Water Fund remains in a deficit position at year end.

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

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 \$163,330 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

In May 2002, the City entered into a capital lease purchase agreement to acquire a fire truck. The following is a schedule of the future minimum lease payments, including interest at 5.56% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2006:

<u>Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 64,529
2008	64,529
2009	64,529
2010	64,529
2011	64,529
2012	64,529
Total minimum lease payments	387,174
Less amount representing interest	(65,429)
Present value of net minimum lease payments	<u>\$ 321,745</u>

During the year ended June 30, 2006, \$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, 2006, 2005 and 2004 were \$88,025, \$88,652 and \$88,727, 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, 2006, primarily relating to the General Fund, was \$81,000. This liability has been computed based on rates of pay in effect at June 30, 2006.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 320,000
	Rapp Trust Other	43,574
	Wilson Trust - Library	30,000
		<u>393,574</u>
Special Revenue:	General	
Road Use Tax		<u>3,985</u>
Employee Benefits	General	<u>5,098</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	90,428
	Emergency	15,057
	Wilson Trust-Other	75,616
	Enterprise:	
	Water	45,858
		<u>226,959</u>
Enterprise:	General	
Water		8,203
	Special Revenue:	
	Rapp Trust Other	19,973
	Enterprise:	
	Sewer	42,000
		<u>70,176</u>
Enterprise:	General	
Sewer		4,749
	Special Revenue:	
	Rapp Trust Other	12,600
		<u>17,349</u>
Total		<u>\$ 717,141</u>

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

(7) 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 \$1,070,000 is outstanding at June 30, 2006, 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 bonds are outstanding at June 30, 2006.

(8) 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.

(9) Deficit Balances

The Debt Service Fund had a deficit balance of \$16,917 at June 30, 2006. The deficit balance will be eliminated when all the transfers from other funds are made to fund the debt payments.

The Capital Projects Fund had a deficit balance of \$40,808 at June 30, 2006. The deficit balance will be eliminated once the pending lawsuit is resolved regarding the Shenandoah Lake Reservoir project.

(10) 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, 2006, the City approved one loan totaling \$40,000 for economic development projects and collections of \$40,467 of principal and \$4,215 of interest were received. One loan totaling \$40,000 was considered uncollectible and written off. The outstanding loan principal balance at June 30, 2006 was \$185,379.

(11) 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.

(12) Restatement

Beginning net assets of the governmental activities have been restated to include the Shenandoah Volunteer Fire Department, a separately maintained department of the City which was not previously included.

Also, the City reclassified the Swimming Pool Note Sinking Fund from a business type activity to a governmental activity and changed the name of the account to the Local Option Sales Tax Bond Sinking Account.

	<u>Governmental Activities</u>
Cash basis net assets June 30, 2005, as previously reported	\$ 1,117,843
Volunteer Fire Department	11,009
Swimming Pool Note Sinking	51,189
Cash basis net assets July 1, 2005, as restated	<u>\$ 1,180,041</u>

	<u>Business Type Activities</u>
Cash basis net assets June 30, 2005, as previously reported	\$ 113,641
Swimming Pool Note Sinking	(51,189)
Cash basis net assets July 1, 2005, as restated	<u>\$ 62,452</u>

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, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted
Receipts:			
Property tax	\$ 1,693,590	-	-
Tax increment financing	230,021	-	-
Other city tax	634,961	-	-
Licenses and permits	32,010	-	-
Use of money and property	122,296	1,999	4,205
Intergovernmental	585,786	-	-
Charges for service	538,671	1,154,991	-
Special assessments	80,088	-	-
Miscellaneous	450,013	29,636	40,768
Total receipts	<u>4,367,436</u>	<u>1,186,626</u>	<u>44,973</u>
Disbursements:			
Public safety	1,000,813	-	-
Public works	989,441	-	-
Health and social services	3,303	-	-
Culture and recreation	845,644	-	34,555
Community and economic development	191,545	-	-
General government	273,752	-	-
Debt service	1,013,990	-	-
Capital projects	81,216	-	-
Business type activities	-	1,167,716	-
Total disbursements	<u>4,399,704</u>	<u>1,167,716</u>	<u>34,555</u>
Excess (deficiency) of receipts over (under) disbursements	(32,268)	18,910	10,418
Other financing sources, net	388	(333)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(31,880)	18,577	10,418
Balances beginning of year, as restated	1,180,041	62,452	193,948
Balances end of year	<u>\$ 1,148,161</u>	<u>81,029</u>	<u>204,366</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to
	Original	Final	Total Variance
1,693,590	1,686,873	1,686,873	6,717
230,021	220,000	220,000	10,021
634,961	552,977	596,674	38,287
32,010	12,600	12,600	19,410
120,090	127,995	142,995	(22,905)
585,786	907,157	927,866	(342,080)
1,693,662	1,760,457	1,760,457	(66,795)
80,088	80,088	80,088	-
438,881	481,709	652,803	(213,922)
5,509,089	5,829,856	6,080,356	(571,267)
1,000,813	898,805	948,805	(52,008)
989,441	1,004,492	1,054,492	65,051
3,303	2,600	3,100	(203)
811,089	834,786	834,786	23,697
191,545	53,082	103,082	(88,463)
273,752	351,052	351,052	77,300
1,013,990	1,016,741	1,016,741	2,751
81,216	412,600	412,600	331,384
1,167,716	1,136,741	1,236,741	69,025
5,532,865	5,710,899	5,961,399	428,534
(23,776)	118,957	118,957	(142,733)
55	-	-	55
(23,721)	118,957	118,957	(142,678)
1,048,545	990,788	990,788	57,757
1,024,824	1,109,745	1,109,745	(84,921)

City of Shenandoah

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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 \$250,500. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, health and social services and community and economic development functions.

Other Supplementary Information

City of Shenandoah

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

As of and for the year ended June 30, 2006

	Emergency	Gidley Park Trust	Esden Trust	Holiday Dinners	Rapp Trust Library
Receipts:					
Property tax	\$ 26,546	-	-	-	-
Other city tax	877	-	-	-	-
Use of money and property	682	1,884	686	187	366
Intergovernmental	-	-	-	-	-
Miscellaneous	-	5,884	-	2,708	-
Total receipts	28,105	7,768	686	2,895	366
Disbursements:					
Operating:					
Public safety	12,222	-	-	-	-
Health and social services	-	-	-	2,806	-
Culture and recreation	-	8,685	1,407	-	-
Community and economic development	-	-	-	-	-
General government	-	-	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	12,222	8,685	1,407	2,806	-
Excess (deficiency) of receipts over (under) disbursements	15,883	(917)	(721)	89	366
Other financing sources (uses):					
Sale of property	-	-	-	-	-
Operating transfers out	(15,057)	-	-	-	-
Total other financing sources (uses)	(15,057)	-	-	-	-
Net change in cash balances	826	(917)	(721)	89	366
Cash balances beginning of year, as restated	8,882	51,962	20,904	3,629	10,199
Cash balances end of year	\$ 9,708	51,045	20,183	3,718	10,565
Cash Basis Fund Balances					
Unreserved:					
Special revenue funds	\$ 9,708	51,045	20,183	3,718	10,565
Capital projects fund	-	-	-	-	-
Total	\$ 9,708	51,045	20,183	3,718	10,565

See accompanying independent auditor's report.

Special Revenue										
Rapp Trust Other	Reed Estate Trust	Vision Iowa Trust	Wilson Trust - Library	Wilson Trust - Other	Kay M. Anderson Foundation	Revolving Loan	Tree Board	Volunteer Fire Department	Capital Projects	Total
-	-	-	-	-	-	-	-	-	-	26,546
-	-	-	-	-	-	-	-	-	-	877
-	366	137	2,221	-	43	45,877	201	61	11,459	64,170
-	-	-	-	-	-	-	-	73,849	29,921	103,770
86,947	-	-	37,895	85,895	11,316	2,146	3,017	22,871	14,022	272,701
86,947	366	137	40,116	85,895	11,359	48,023	3,218	96,781	55,402	468,064
-	-	-	-	-	-	-	-	94,388	-	106,610
-	-	-	-	-	-	-	-	-	-	2,806
-	-	-	4,640	-	11,518	-	1,225	-	-	27,475
-	-	-	-	-	-	61,002	-	-	-	61,002
10,800	-	-	-	-	-	-	-	-	-	10,800
-	-	-	-	-	-	-	-	-	81,216	81,216
10,800	-	-	4,640	-	11,518	61,002	1,225	94,388	81,216	289,909
76,147	366	137	35,476	85,895	(159)	(12,979)	1,993	2,393	(25,814)	178,155
-	-	-	-	-	-	-	-	-	55	55
(76,147)	-	-	(30,000)	(75,616)	-	-	-	-	-	(196,820)
(76,147)	-	-	(30,000)	(75,616)	-	-	-	-	55	(196,765)
-	366	137	5,476	10,279	(159)	(12,979)	1,993	2,393	(25,759)	(18,610)
-	10,199	2,599	21,693	-	540	45,385	2,183	11,009	(15,049)	174,135
-	10,565	2,736	27,169	10,279	381	32,406	4,176	13,402	(40,808)	155,525
-	10,565	2,736	27,169	10,279	381	32,406	4,176	13,402	-	196,333
-	-	-	-	-	-	-	-	-	(40,808)	(40,808)
-	10,565	2,736	27,169	10,279	381	32,406	4,176	13,402	(40,808)	155,525

City of Shenandoah
Schedule of Indebtedness
Year ended June 30, 2006

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			
Water revenue bonds	Feb 1, 1998	4.50%	\$ 200,000
Local option sales and services tax revenue bonds	Jun 1, 1997	4.90-5.25%	\$ 450,000
Swimming pool revenue notes	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
200,000	-	65,000	135,000	10,003	-	-
70,000	-	20,000	50,000	3,397	-	-
\$ 270,000	-	85,000	185,000	13,400	-	-
865,000	-	175,000	690,000	38,156	-	-
115,000	-	20,000	95,000	8,287	-	-
195,000	-	35,000	160,000	10,857	-	-
275,000	-	25,000	250,000	16,310	-	-
85,000	-	10,000	75,000	5,058	-	-
100,000	-	10,000	90,000	4,800	-	-
640,000	-	60,000	580,000	23,155	-	-
540,000	-	-	540,000	23,160	-	-
\$ 2,815,000	-	335,000	2,480,000	129,783	-	-
70,000	-	20,000	50,000	3,150	-	-
145,000	-	45,000	100,000	7,542	-	-
205,044	-	29,292	175,752	5,229	-	-
1,415,000	-	75,000	1,340,000	79,155	-	-
470,000	-	40,000	430,000	19,320	-	-
\$ 1,885,000	-	115,000	1,770,000	98,475	-	-
1,000	-	-	1,000	-	1,000	195
445,000	-	60,000	385,000	20,087	-	-
365,929	-	44,184	321,745	20,346	-	-

City of Shenandoah
Bond and Note Maturities
June 30, 2006

Year Ending June 30,	General Obligation Bonds						Total
	Essential and General Corporate Purpose			Essential Corporate Purpose			
	Issued Jun 1, 1997			Issued Oct 1, 1997			
	Interest Rates		Amount	Interest Rates		Amount	
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		\$ 135,000		\$ 50,000	185,000		

Year Ending June 30,	Water Revenue Bonds		Local Option Sales and Services Tax Revenue Bonds		Swimming Pool Revenue Notes	
	Issued Feb 1, 1998		Issued Jun 1, 1997		Issued Aug 11, 1997	
	Interest Rates		Amount	Interest Rates		Amount
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
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		\$ 50,000		\$ 100,000		\$ 175,752

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

See accompanying independent auditor's report.

General Obligation Notes							
Essential Corporate Purpose		Essential Corporate Purpose		Essential Corporate Purpose		General Corporate Purpose	
Issued May 1, 1999		Issued Jul 1, 1999		Issued Jun 1, 2000		Issued Jul 1, 2000	
Interest Rates		Interest Rates		Interest Rates		Interest Rates	
Amount		Amount		Amount		Amount	
170,000	4.35%	20,000	7.15%	35,000	5.50%	25,000	5.95%
170,000	4.40	25,000	7.20	40,000	5.55	25,000	5.95
170,000	4.45	25,000	7.25	40,000	5.60	25,000	5.95
180,000	4.55	25,000	7.30	45,000	5.70	25,000	5.95
-		-		-		25,000	5.95
-		-		-		25,000	5.95
-		-		-		25,000	5.95
-		-		-		25,000	5.95
-		-		-		25,000	5.95
-		-		-		25,000	5.95
-		-		-		25,000	5.95
-		-		-		25,000	5.95
-		-		-		-	
<u>\$ 690,000</u>		<u>\$ 95,000</u>		<u>\$ 160,000</u>		<u>\$ 250,000</u>	

Urban Renewal Revenue Notes					Special Assessment Notes	
Issued Mar 1, 2003		Issued Jul 15, 2004		Total	Street Improvement	
Issued Aug 1, 2002				Total		
Interest Rates		Interest Rates			Interest Rates	
Amount		Amount			Amount	
75,000	4.10%	40,000	3.35%	115,000	60,000	4.00%
80,000	4.50	40,000	3.60	120,000	65,000	4.25
80,000	4.75	45,000	3.85	125,000	65,000	4.50
85,000	5.05	45,000	4.05	130,000	65,000	4.75
90,000	5.25	50,000	4.25	140,000	65,000	5.00
95,000	5.45	50,000	4.40	145,000	65,000	5.25
100,000	5.65	50,000	4.55	150,000	-	-
105,000	5.85	55,000	4.70	160,000	-	-
110,000	6.00	55,000	4.80	165,000	-	-
120,000	6.20	-		120,000	-	-
125,000	6.35	-		125,000	-	-
135,000	6.50	-		135,000	-	-
140,000	6.60	-		140,000	-	-
<u>\$ 1,340,000</u>		<u>\$ 430,000</u>		<u>1,770,000</u>	<u>\$ 385,000</u>	

Schedule 3

City of Shenandoah
 Bond and Note Maturities
 June 30, 2006

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		
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	
Total		<u>\$ 75,000</u>		<u>\$ 90,000</u>		<u>\$ 580,000</u>		<u>\$ 540,000</u>	<u>2,480,000</u>	

City of Shenandoah

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

For the Last Four Years

	2006	2005	2004	2003
Receipts:				
Property tax	\$ 1,693,590	1,706,276	1,673,768	1,704,048
Tax increment financing	230,021	163,168	120,739	-
Other city tax	634,961	568,095	539,173	545,968
Licenses and permits	32,010	11,434	57,889	12,526
Use of money and property	122,296	101,079	100,862	54,474
Intergovernmental	585,786	1,104,118	941,313	1,670,128
Charges for service	538,671	514,281	513,341	529,365
Special assessments	80,088	82,187	84,138	67,587
Miscellaneous	450,013	353,661	424,246	326,125
Total	\$ 4,367,436	4,604,299	4,455,469	4,910,221
Disbursements:				
Operating:				
Public safety	\$ 1,000,813	871,126	912,467	1,134,110
Public works	989,441	921,685	973,336	1,113,585
Health and social services	3,303	21,004	40,784	29,668
Culture and recreation	845,644	834,049	928,728	929,600
Community and economic development	191,545	496,577	98,963	39,801
General government	273,752	232,789	213,220	217,675
Debt service	1,013,990	934,264	910,661	772,934
Capital projects	81,216	1,158,590	1,949,805	2,130,394
Total	\$ 4,399,704	5,470,084	6,027,964	6,367,767

See accompanying independent auditor's report.

City of Shenandoah



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shenandoah, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated August 16, 2006. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Shenandoah's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings.

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, of the reportable conditions described above, we believe item (A) is a material weakness.

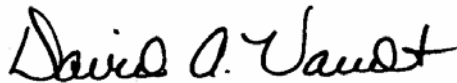
Compliance and Other Matters

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 the accompanying Schedule of Findings.

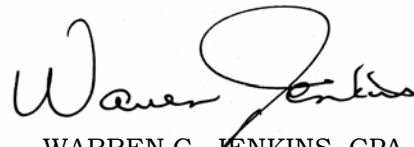
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions 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. 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

August 16, 2006

City of Shenandoah
Schedule of Findings
Year ended June 30, 2006

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

- (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. Payroll is prepared and distributed by one person with no independent review.

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, including documentation of independent review by initialing and dating payroll registers and timesheets.

Conclusion – Response accepted.

- (B) Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – We will establish a policy which addresses all of these recommendations and will require a review of all credit card bills.

Conclusion – Response accepted.

- (C) Monthly Journal Entry Review – Monthly journal entries are prepared by the assistant City Clerk and did not have any evidence of review by an independent person.

Recommendation – To improve financial accountability and control, the monthly journal entries should be reviewed by an independent person and evidence of this review should be documented.

Response – We will have the City Administrator review, initial and date all journal entries.

Conclusion – Response accepted.

City of Shenandoah

Schedule of Findings

Year ended June 30, 2006

- (D) Separately Maintained Records – The Shenandoah Volunteer Fire Department maintains separate accounting records pertaining to its operation. The financial transactions and resulting balances are not included in the City’s accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the Council on a monthly basis.

Response – We will get monthly financial reports from the fire department and include with city financial reports.

Conclusion – Response accepted.

- (E) Overtime Policy – The City’s personnel policy includes a policy for review and approval of overtime. One employee received overtime that was not authorized.

Recommendation – The City should follow its policy for review and approval of all overtime paid.

Response – The City will make a more concerted effort to enforce the current policy as stated under Section 4.1 concerning overtime in the City Personnel Manual which states the following:

Authorized overtime shall be that time worked by non-exempt employees over forty (40) hours in a seven (7) day work period or over eight (8) hours in a day with approval of the Supervisor of the department and the City Manager.

The City Manager in the future will also receive a report each payroll reflecting this information.

Conclusion – Response accepted.

- (F) Electronic Data Processing Systems – The City does not have a written policy for its computer based system to require passwords to be changed at least every 60 to 90 days

Recommendation – The City should develop written policies to require passwords to be changed at least every 60 to 90 days in order to improve the City’s control over computer-based systems.

Response – The City will implement a plan to change the passwords to access entry into each computer. These passwords will then be kept confidential.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Shenandoah
 Schedule of Findings
 Year ended June 30, 2006

Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the public safety, health and social services and community and economic development functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

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

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) 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	\$ 1,530
Shelly Anderson, wife of Police Officer, owner of Signs & Shines	Signs and lettering	795
Gregg Connell, Mayor, Shenandoah Chamber and Industry Association	Allocation of local option sales tax, dues and membership	31,477

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 and will monitor purchases to keep the total under \$1,500 annually. Gregg Connell is no longer Mayor.

Conclusion – Response acknowledged. However, the City should consult legal council to determine the disposition of this matter.

City of Shenandoah

Schedule of Findings

Year ended June 30, 2006

- (5) 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.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

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

Response – We will adopt a policy as soon as possible.

Conclusion – Response accepted.

- (8) 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.

The swimming pool revenue notes resolution states, in part, the City will establish a sinking fund to pay debt when due. The City uses the Debt Service Fund for this debt and receives reimbursement from the Special Revenue, Wilson Trust – Other Fund.

Recommendation – The City should periodically review the Enterprise, Water Fund to ensure established rates will result in sufficient funds to meet future obligations. The City should establish a swimming pool revenue note sinking fund and transfer trust funds to this sinking fund and pay debt from the fund.

Response – The City has increased water rates which are now sufficient and plan to call these bonds next year.

The City will establish a Swimming Pool Revenue Sinking Fund in order to make payment toward debt from this fund. Upon receipt of the Wilson Trust Fund, the portion for the Swimming Pool Revenue Note (August 11, 1997) will be transferred to this fund.

Conclusion – Response accepted.

City of Shenandoah

Schedule of Findings

Year ended June 30, 2006

- (9) Financial Condition – The Debt Service Fund had a deficit balance of \$16,917 and the Capital Projects Fund had a deficit balance of \$40,808 at June 30, 2006.

Recommendation – The City should evaluate the reasons for the deficits and investigate alternatives to eliminate the deficits in order to return the funds to a sound financial position.

Response – The City is aware of the deficit balances and will resolve the deficit balances after the pending lawsuit is resolved for the Capital Projects Fund and will transfer more into the Debt Service Fund to eliminate that deficit.

Conclusion – Response accepted.

- (10) 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 – Requests for transfers will be submitted for City Council approval by including transfer information and purposes on the monthly abstract of claims.

Conclusion – Response accepted.

- (11) 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. We will include the purposes as part of the transfer information on the monthly abstract of claims.

Conclusion – Response accepted.

- (12) Official Depositories – The City had five certificates of deposit from depositories outside the State of Iowa.

Recommendation – Prior to June 30, 2006, Chapters 12C.4 and 12C.5 of the Code of Iowa required 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. However, effective July 1, 2006 this is no longer required due to legislation enacted through House File 537.

City of Shenandoah
Schedule of Findings
Year ended June 30, 2006

Response – The City’s current plan is to move the certificates of deposit as they mature.

Conclusion – Response accepted.

(13) Other Information Required by the Revenue Bond and Note Resolutions

Insurance – The following insurance policies were in force at June 30, 2006:

Statistical Information:

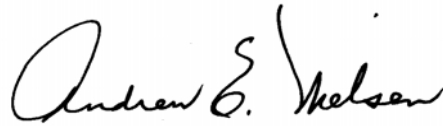
Insurer	Description	Amount	Expiration Date
Employers Mutual Casualty Company	Property coverage: Buildings	\$ 21,740,418	Apr 1, 2007
Employers Mutual Casualty Company	Comprehensive general liability: Each occurrence Aggregate	1,000,000 2,000,000	Apr 1, 2007
Employers Mutual Casualty Company	Inland Marine: Contractors' equipment Electronic data processing equipment Property floater	454,040 147,546 58,490	Apr 1, 2007
Employers Mutual Casualty Company	Automobile coverage: Liability Uninsured motorists	1,000,000 40,000	Apr 1, 2007
Employers Mutual Casualty Company	Linebacker - each loss and Each loss Aggregate	1,000,000 1,000,000	Apr 1, 2007
Employers Mutual Casualty Company	Workers' compensation	500,000	Apr 1, 2007
Employers Mutual Casualty Company	Commercial umbrella Retained Each occurrence Aggregate	10,000 5,000,000 5,000,000	Apr 1, 2007
Employers Mutual Casualty Company	Employee dishonesty Blanket bond Alteration	100,000 10,000	Apr 1, 2007
Employers Mutual Casualty Company	Commercial crime: inside premises outside premises	10,000 10,000	Apr 1, 2007

City of Shenandoah

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Paul F. Kearney, CGFM, Senior Auditor
Melissa M. Wellhausen, CPA, Staff Auditor
Anna R. Thede, Intern 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 a distinct 'E'.

Andrew E. Nielsen, CPA
Deputy Auditor of State