



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

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**NEWS RELEASE**

FOR RELEASE

February 19, 2009

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 \$11,051,803 for the year ended June 30, 2008, a 67 percent increase over 2007. The receipts included \$1,909,291 in property and other city tax, \$310,639 from tax increment financing, \$512,684 from local option sales tax, \$28,543 from hotel/motel tax, \$2,510,981 from charges for service, \$1,519,407 from operating grants, contributions and restricted interest, \$1,078,363 from capital grants, contributions and restricted interest, \$16,313 from unrestricted interest on investments, note proceeds of \$3,041,276 and \$124,306 from other general receipts. The significant increase in receipts is due primarily to the sale of notes and federal grants received.

Disbursements for the year totaled \$9,854,524, a 48 percent increase over the prior year, and included \$1,051,117 for public works, \$1,074,654 for debt service and \$3,686,201 for capital projects. Also, disbursements for business type activities totaled \$1,455,570. The significant increase in disbursements is due to an increase in capital project activity for a wastewater treatment plant.

A copy of the audit report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reprts.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, 2008**

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**City of Shenandoah**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2008)</b>		
Richard Hunt	Mayor	Jan 2010
Jeff Hiser	Mayor Pro tem	Jan 2010
Robert Burchett	Council Member	Jan 2008
E. J. Teachout	Council Member	Jan 2008
Marvin Adcock	Council Member	Jan 2010
Don Gibson	Council Member	Jan 2010
Byron Harris	Administrator	Jun 2008
Marcia McKay	Clerk/Treasurer	Jun 2008
Robert Norris	Attorney	Jun 2008
<b>(After January 2008)</b>		
Richard Hunt	Mayor	Jan 2010
Jeff Hiser	Mayor Pro tem	Jan 2010
Marvin Adcock	Council Member	Jan 2010
Don Gibson	Council Member	Jan 2010
Robert Burchett	Council Member	Jan 2012
James Davey	Council Member	Jan 2012
Byron Harris	Administrator	Jun 2009
Marcia McKay	Clerk/Treasurer	Jun 2009
Robert Norris	Attorney	Jun 2009

**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, 2008, 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.

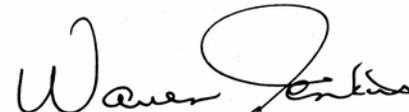
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shenandoah as of June 30, 2008, 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 January 13, 2009 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'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 five years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 13, 2009

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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, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2008 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities increased 76.5%, or approximately \$3.99 million, from fiscal 2007 to fiscal 2008. Note proceeds increased approximately \$2.93 million and operating grants, contributions and restricted interest receipts increased approximately \$620,000.
- Governmental activities disbursements increased 58.3%, or approximately \$3.09 million, from fiscal 2007 to fiscal 2008. Capital projects disbursements increased approximately \$2,705,000.
- The City's total cash basis net assets increased 99%, or approximately \$1,197,000, from June 30, 2007 to June 30, 2008.

### **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 and the City's debt. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

## **BASIS OF ACCOUNTING**

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

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

### *Government-wide Financial Statement*

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water system and the wastewater treatment and sanitary sewer system. These activities are financed primarily by user fees.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Employee Benefits and Local Option Sales Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent 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.

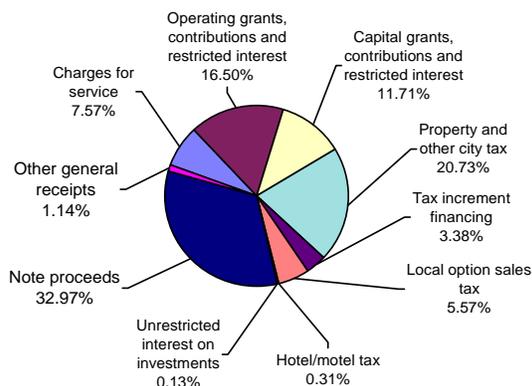
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

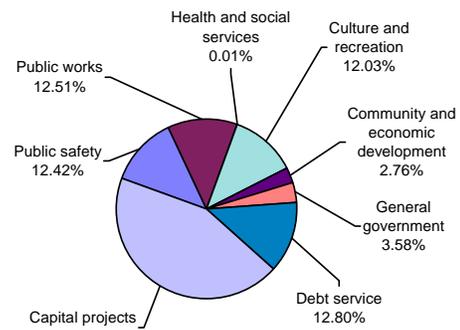
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from approximately \$1.11 million to approximately \$2.0 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2008	2007
<b>Receipts:</b>		
Program receipts:		
Charges for service	\$ 697	632
Operating grants, contributions and restricted interest	1,519	899
Capital grants, contributions and restricted interest	1,078	807
General receipts:		
Property and other city tax	1,909	1,820
Tax increment financing	311	296
Local option sales tax	513	516
Hotel/motel tax	29	-
Unrestricted interest on investments	12	5
Note proceeds	3,035	106
Other general receipts	105	136
<b>Total receipts</b>	<b>9,208</b>	<b>5,217</b>
<b>Disbursements:</b>		
Public safety	1,043	928
Public works	1,051	1,069
Health and social services	1	7
Culture and recreation	1,010	912
Community and economic development	232	133
General government	301	241
Debt service	1,075	1,036
Capital projects	3,686	981
<b>Total disbursements</b>	<b>8,399</b>	<b>5,307</b>
Change in cash basis net assets before transfers	809	(90)
Transfers, net	81	52
Change in cash basis net assets	890	(38)
Cash basis net assets beginning of year	1,110	1,148
Cash basis net assets end of year	\$ 2,000	1,110

**Receipts by Source**



**Disbursements by Function**



The total business type activities cash balance increased from a year ago, increasing from approximately \$102,000 to approximately \$409,000. 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,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 1,152	975
Sewer	662	414
Capital grants, contributions and restricted interest:		
Sewer	1	-
General receipts:		
Unrestricted interest on investments	5	3
Note proceeds	6	-
Miscellaneous	18	14
Total receipts	<u>1,844</u>	<u>1,406</u>
Disbursements:		
Water	980	995
Sewer	476	338
Total disbursements	<u>1,456</u>	<u>1,333</u>
Change in cash basis net assets before transfers	388	73
Transfers, net	(81)	(52)
Change in cash basis net assets	307	21
Cash basis net assets beginning of year	102	81
Cash basis net assets end of year	<u>\$ 409</u>	<u>102</u>

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Shenandoah completed the fiscal year, its governmental funds reported a combined fund balance of \$2,000,283, an increase of approximately \$890,000 over last year's total of \$1,110,285. 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 2007 was \$28,852 and at the end of fiscal 2008 was \$9,876. The City's overall disbursements in the General Fund increased from \$1,987,161 in fiscal 2007 to \$2,134,452 in fiscal 2008, an increase of \$147,291, or 7.4%. The increase was primarily due to the purchase of two police cars financed through bonding, the hiring of two police chiefs, officer training and associated costs.

The Special Revenue, Road Use Tax Fund cash balance at the end of fiscal 2008 increased \$15,955 from the prior year end to \$39,477. Disbursements decreased \$22,050, or 4.6%. The decrease was not significant.

The Special Revenue, Employee Benefits Fund receipts increased \$137,274 and disbursements decreased \$34,762 from the respective prior year amounts. Tax collections increased \$125,880.

The Special Revenue, Local Option Sales Tax Fund receipts increased to \$523,269 in fiscal 2008 from \$521,924 in fiscal 2007. Disbursements decreased \$29,972, or 16.7%, from the prior year as a result of less 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 2007 receipts:

Property tax relief	\$ 307,611
Community betterment	102,537
Community planning	51,268
Economic development	<u>51,268</u>
Total	<u>\$ 512,684</u>

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 was established in fiscal year 2003 for the construction of a new theater and in 2004 for Iowa Western Community College improvements. The cash balance increased from \$350,732 at the end of fiscal 2007 to \$394,640 at the end of fiscal 2008. The note resolution requires a sinking fund reserve of \$195,500.

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

The Special Revenue, Library Foundation Fund is a component unit of the City. The cash balance increased \$76,617 over fiscal 2007 to a current balance of \$293,287.

The Debt Service Fund cash balance of \$18,665 is an increase of \$8,442 over the prior year balance of \$10,223. The City made transfers sufficient to cover all the debt payments.

The Capital Projects Fund cash balance of \$346,276 is a significant increase over the prior year balance of (\$192,265). The City started a wastewater treatment plant project in 2007 and received \$2,082,744 in state and federal loan assistance during 2008 to help fund this project.

The Permanent, Cemetery Perpetual Care Fund cash balance of \$152,359 did not change significantly from the prior year.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

Water Fund operating receipts increased \$175,848 in fiscal 2008 over fiscal 2007. Disbursements decreased \$15,322 in fiscal 2008. Receipts increased due to a substantial increase in water usage. Disbursements remained relatively the same in each fiscal year.

Sewer Fund operating receipts increased \$250,903 in fiscal 2008 over fiscal 2007 and disbursements increased \$137,553 in 2008. Sewer rates were increased during fiscal year 2008. Disbursements increased due to a principal and interest payment made for the wastewater treatment plant improvements.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on June 16, 2008 and resulted in an increase in receipts and other financing sources of \$4,760,002 and an increase in disbursements of \$4,423,961. The increase in budgeted receipts includes \$2,269,110 in intergovernmental receipts and \$912,739 in other financing sources. Budgeted disbursements increased due to the Wastewater Treatment Plant, Nishna Road, Library Demolition and Airport project repairs. Also, the City purchased three new vehicles with bond funds and the increase in fuel costs was not anticipated.

The City's receipts were \$2,219,839 less than budgeted. This was primarily due to the City budgeting for sewer revenue note proceeds as intergovernmental as well as not receiving as much miscellaneous revenue as anticipated, even after the amendment. The majority of the miscellaneous receipts were a reimbursement of costs for a wastewater treatment project received from a private company.

With the budget amendment, total disbursements were \$345,608 less than the amended budget.

The City exceeded the amounts budgeted in the health and social services, culture and recreation and debt service functions for the year ended June 30, 2008. The most significant overages were in the debt service and culture and recreation functions. In the debt service function, certain debt principal was paid in advance.

## DEBT ADMINISTRATION

At June 30, 2008, the City had approximately \$7,153,000 in bonds and other long-term debt outstanding, compared to approximately \$4,953,000 last year. The chart below segregates the City's debt into its component parts.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2008	2007
General obligation bonds/notes	\$ 2,915	2,350
Sewer revenue capital loan notes	1,983	-
Local option sales and services tax revenue bonds	-	50
Swimming pool revenue notes	117	146
Urban renewal revenue notes	1,535	1,655
Special assessment bonds/notes	261	326
Capital lease purchase agreement	342	426
Total	\$ 7,153	4,953

Debt payments in fiscal 2008 reduced outstanding debt approximately \$888,000 and debt issuances increased outstanding debt approximately \$3,088,000.

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 \$4,792,205 is significantly below the City's constitutional debt limit of \$8,652,700.

## **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 2009 budget, tax rates and fees charged for various City activities.

These factors were taken into account when adopting the budget for fiscal year 2009. Amounts available for appropriation in the operating budget are approximately \$8.5 million, a decrease of 33% from the final 2008 budget. The City expects to receive more state grants and other funding in fiscal 2009. However, budgeted local option sales tax and interest on investments are expected to decrease. In addition, both receipts and disbursements are expected to decrease due to the completion of the wastewater treatment improvement project and other capital projects. Budgeted disbursements are expected to decrease approximately \$3,190,000.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$137,000 by the close of fiscal 2009.

## **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, 2008

	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	\$ 1,043,289	21,317	47,711	47,132
Public works	1,051,117	475,876	493,115	-
Health and social services	647	38	-	-
Culture and recreation	1,009,515	187,444	239,564	43,442
Community and economic development	232,403	-	77,173	-
General government	301,128	12,468	166,212	-
Debt service	1,074,654	-	17,190	80,438
Capital projects	3,686,201	-	478,442	906,497
Total governmental activities	8,398,954	697,143	1,519,407	1,077,509
Business type activities:				
Water	979,883	1,151,559	-	-
Sewer	475,687	662,279	-	854
Total business type activities	1,455,570	1,813,838	-	854
Total	\$ 9,854,524	2,510,981	1,519,407	1,078,363
<b>General Receipts:</b>				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Hotel/motel tax				
Unrestricted interest on investments				
Note proceeds, net of \$46,468 discount and fees				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Streets				
Employee benefits				
Tax increment financing				
Simons Trust - Library				
Library Foundation				
Debt service				
Capital projects				
Cemetery perpetual care				
Other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(927,129)	-	(927,129)
(82,126)	-	(82,126)
(609)	-	(609)
(539,065)	-	(539,065)
(155,230)	-	(155,230)
(122,448)	-	(122,448)
(977,026)	-	(977,026)
(2,301,262)	-	(2,301,262)
(5,104,895)	-	(5,104,895)
-	171,676	171,676
-	187,446	187,446
-	359,122	359,122
(5,104,895)	359,122	(4,745,773)
1,582,333	-	1,582,333
310,639	-	310,639
326,958	-	326,958
512,684	-	512,684
28,543	-	28,543
11,787	4,526	16,313
3,034,983	6,293	3,041,276
105,840	18,466	124,306
81,126	(81,126)	-
5,994,893	(51,841)	5,943,052
889,998	307,281	1,197,279
1,110,285	102,308	1,212,593
\$ 2,000,283	409,589	2,409,872
\$ 39,477	-	39,477
328,641	-	328,641
199,140	-	199,140
149,049	-	149,049
293,287	-	293,287
214,165	270,808	484,973
346,276	-	346,276
152,359	-	152,359
286,050	-	286,050
(8,161)	138,781	130,620
\$ 2,000,283	409,589	2,409,872

City of Shenandoah

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

As of and for the year ended June 30, 2008

	Special			
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax
<b>Receipts:</b>				
Property tax	\$ 794,041	-	680,881	-
Tax increment financing	-	-	-	-
Other city tax	74,331	-	31,448	512,684
Licenses and permits	15,112	-	-	-
Use of money and property	30,511	-	-	10,585
Intergovernmental	18,797	475,085	-	-
Charges for service	591,453	-	-	-
Special assessments	-	-	-	-
Miscellaneous	83,685	-	60,023	-
Total receipts	<u>1,607,930</u>	<u>475,085</u>	<u>772,352</u>	<u>523,269</u>
<b>Disbursements:</b>				
Operating:				
Public safety	762,460	-	235,466	-
Public works	466,135	459,130	118,821	-
Health and social services	647	-	-	-
Culture and recreation	696,642	-	160,301	-
Community and economic development	-	-	-	96,731
General government	208,568	-	52,186	-
Debt service	-	-	-	52,625
Capital projects	-	-	-	-
Total disbursements	<u>2,134,452</u>	<u>459,130</u>	<u>566,774</u>	<u>149,356</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(526,522)</u>	<u>15,955</u>	<u>205,578</u>	<u>373,913</u>
<b>Other financing sources (uses):</b>				
Note proceeds, net of \$46,468 discount and fees	77,500	-	-	-
Operating transfers in	430,046	-	-	-
Operating transfers out	-	-	-	(408,095)
Total other financing sources (uses)	<u>507,546</u>	<u>-</u>	<u>-</u>	<u>(408,095)</u>
Net change in cash balances	(18,976)	15,955	205,578	(34,182)
Cash balances beginning of year	28,852	23,522	123,063	55,984
Cash balances end of year	<u>\$ 9,876</u>	<u>39,477</u>	<u>328,641</u>	<u>21,802</u>
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ -	-	-	-
Unreserved:				
General fund	9,876	-	-	-
Special revenue funds	-	39,477	328,641	21,802
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	<u>\$ 9,876</u>	<u>39,477</u>	<u>328,641</u>	<u>21,802</u>

See notes to financial statements.

Revenue					Permanent			
Tax	Simons				Cemetery			
Increment	Trust -	Library	Debt	Capital	Perpetual			Total
Financing	Library	Foundation	Service	Projects	Care	Nonmajor		
-	-	-	326,958	-	-	25,715		1,827,595
310,639	-	-	-	-	-	-		310,639
-	-	-	13,600	-	-	29,709		661,772
-	-	-	-	-	-	-		15,112
12,587	5,589	-	3,350	29,338	-	71,992		163,952
-	-	-	-	488,704	-	48,133		1,030,719
-	-	-	-	-	2,100	32,760		626,313
-	-	-	80,438	-	-	-		80,438
-	-	127,811	13,840	866,896	-	304,048		1,456,303
323,226	5,589	127,811	438,186	1,384,938	2,100	512,357		6,172,843
-	-	-	-	-	-	45,363		1,043,289
-	-	-	-	-	-	7,031		1,051,117
-	-	-	-	-	-	-		647
-	-	51,194	-	-	-	101,378		1,009,515
83,191	-	-	-	-	-	52,481		232,403
-	-	-	-	-	-	40,374		301,128
211,402	-	-	735,564	-	-	75,063		1,074,654
-	-	-	-	3,686,201	-	-		3,686,201
294,593	-	51,194	735,564	3,686,201	-	321,690		8,398,954
28,633	5,589	76,617	(297,378)	(2,301,263)	2,100	190,667		(2,226,111)
87,200	-	-	-	2,870,283	-	-		3,034,983
80,000	-	-	305,820	4,101	-	35,063		855,030
(151,925)	-	-	-	(34,580)	-	(179,304)		(773,904)
15,275	-	-	305,820	2,839,804	-	(144,241)		3,116,109
43,908	5,589	76,617	8,442	538,541	2,100	46,426		889,998
350,732	143,460	216,670	10,223	(192,265)	150,259	199,785		1,110,285
394,640	149,049	293,287	18,665	346,276	152,359	246,211		2,000,283
195,500	-	-	18,665	-	-	-		214,165
-	-	-	-	-	-	-		9,876
199,140	149,049	293,287	-	-	-	246,211		1,277,607
-	-	-	-	346,276	-	-		346,276
-	-	-	-	-	152,359	-		152,359
394,640	149,049	293,287	18,665	346,276	152,359	246,211		2,000,283

**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, 2008

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 1,123,339	662,181	1,785,520
Miscellaneous	40,109	7,529	47,638
Total operating receipts	1,163,448	669,710	1,833,158
Operating disbursements:			
Business type activities	978,876	346,085	1,324,961
Excess of operating receipts over operating disbursements	184,572	323,625	508,197
Non-operating receipts (disbursements):			
Interest on investments	1,192	3,334	4,526
Debt service	(1,007)	(129,602)	(130,609)
Total non-operating receipts (disbursements)	185	(126,268)	(126,083)
Excess of receipts over disbursements	184,757	197,357	382,114
Other financing sources (uses):			
Note proceeds	-	6,293	6,293
Operating transfers in	-	80,000	80,000
Operating transfers out	(62,025)	(99,101)	(161,126)
Total other financing sources (uses)	(62,025)	(12,808)	(74,833)
Net change in cash balances	122,732	184,549	307,281
Cash balances beginning of year	50,300	52,008	102,308
Cash balances end of year	\$ 173,032	236,557	409,589
<b>Cash Basis Fund Balances</b>			
Reserved for debt service	\$ 92,444	178,364	270,808
Unreserved	80,588	58,193	138,781
Total cash basis fund balances	\$ 173,032	236,557	409,589

See notes to financial statements.

City of Shenandoah

Notes to Financial Statements

June 30, 2008

**(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 tax increment financing collections and principal and interest on debt incurred for urban renewal projects.

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 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 wastewater 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, 2008, disbursements exceeded the amounts budgeted in the health and social services, culture and recreation and debt service functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2008 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 \$1,105,845 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, 2008 consist of stock mutual funds with a fair value of \$40,468. Disclosure of concentration of credit risk and interest rate risk do not apply to these investments.

**(3) Bonds and Notes Payable**

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

Year Ending June 30,	General Obligation Notes		Swimming Pool Revenue Notes	
	Principal	Interest	Principal	Interest *
2009	\$ 435,000	134,109	29,292	2,988
2010	465,000	112,288	29,292	2,241
2011	285,000	90,382	29,292	1,494
2012	290,000	77,901	29,292	747
2013	350,000	64,873	-	-
2014-2018	1,090,000	107,009	-	-
2019	-	-	-	-
<b>Total</b>	<b>\$ 2,915,000</b>	<b>586,562</b>	<b>117,168</b>	<b>7,470</b>

\* 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
2009	\$ 125,000	85,160	65,000	12,675	654,292	234,932
2010	130,000	79,628	65,000	9,750	689,292	203,907
2011	140,000	73,513	65,000	6,663	519,292	172,052
2012	145,000	66,663	65,000	3,412	529,292	148,723
2013	150,000	59,285	-	-	500,000	124,158
2014-2018	705,000	171,352	-	-	1,795,000	278,361
2019	140,000	9,240	-	-	140,000	9,240
<b>Total</b>	<b>\$ 1,535,000</b>	<b>544,841</b>	<b>260,000</b>	<b>32,500</b>	<b>4,827,168</b>	<b>1,171,373</b>

Swimming Pool Revenue Notes

The City has pledged future swimming pool customer receipts, net of specified operating disbursements, and future Wilson Trust earnings to repay \$720,000 of swimming pool revenue notes issued in August 1997. Proceeds from the notes provided financing for the construction of the Municipal Swimming Pool and Aquatic Center (Center). The notes are payable from swimming pool customer net receipts and future Wilson Trust earnings and are payable through 2012. Annual principal and interest payments on the notes are expected to require less than 35 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$124,638. For the current year, principal and interest paid and total customer net receipts and Wilson Trust earnings were \$35,063 and \$101,840, respectively.

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

- (a) The notes will be redeemed from the future earnings of the Center and from Wilson Trust revenues and the note holders hold a lien on the future earnings of the funds. Wilson Trust revenues represent payments from the Trust under an agreement between the City and the Trust pursuant to Iowa Code Chapter 28E which, by the terms of the agreement, are restricted to the payment of the notes.

(b) Future earnings of the Center will be distributed as follows:

- (1) First to an operations and maintenance account for the payment of current expenses. The City accounts for this activity in a separate account of the General Fund.
- (2) Next to an improvement account at the rate of \$200 each June, July and August, to a maximum of \$5,000, for the purpose of making the note principal and interest payments when the sinking account is insufficient and to pay the cost of extraordinary maintenance, repair and replacements not included in the annual budget, as well as rentals, enterprise property and capital improvements.
- (3) Next to a separate sinking account for the purpose of making the note principal and interest payments when due.

Sewer Revenue Capital Loan Notes – On July 10, 2007, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$2,700,000 of sewer revenue capital loan notes with interest at 3.0% per annum. The notes were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa to pay the cost of acquiring and constructing improvements and extensions to the City's sewer system. The City will draw down funds from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2008, the City had drawn \$2,082,744, including a \$27,000 initiation fee, of the \$2,700,000 authorized. Wells Fargo Bank Iowa, N.A., has the remaining balance of \$617,256 held in trust, which the City will request as the project progresses. A formal repayment schedule has not yet been adopted.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,700,000 of sewer revenue capital loan notes issued in July 2007. The notes are payable solely from sewer customer net receipts. Annual principal and interest payments on the notes are expected to require less than 57 percent of net receipts. For the current year, principal and interest paid and total customer net receipts were \$125,946 and \$323,625, respectively.

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

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to a sewer revenue note sinking fund for the purpose of making principal and interest payments when due.
- (c) After all other accounts have sufficient balances, the net revenues available after making the required principal and interest payments should be credited to a sewer surplus fund for operation of the utility.

#### 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 \$195,500 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 Agreements

In May 2002, the City entered into a capital lease purchase agreement to acquire a fire truck. In September 2006, the City entered into capital lease purchase agreements to purchase a backhoe and wheel loader. The following is a schedule of the future minimum lease payments, including interest at 5.56% (fire truck) and 5.25% (backhoe and wheel loader) per annum, and the present value of net minimum lease payments under the agreements in effect at June 30, 2008:

Year Ending June 30,	Fire Truck	Backhoe	Wheel Loader	Total
2009	\$ 64,529	18,289	24,733	107,551
2010	64,529	18,289	24,733	107,551
2011	64,529	18,289	24,733	107,551
2012	64,529	-	-	64,529
Total minimum lease payments	258,116	54,867	74,199	387,182
Less amount representing interest	(32,244)	(5,413)	(7,320)	(44,977)
Present value of net minimum lease payments	<u>\$ 225,872</u>	<u>49,454</u>	<u>66,879</u>	<u>342,205</u>

During the year ended June 30, 2008, \$64,529 was paid under the fire truck capital lease purchase agreement, \$18,288 was paid under the backhoe lease purchase agreement and \$24,733 was paid under the wheel loader 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 regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% 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, 2008, 2007 and 2006 were \$96,202, \$89,138 and \$88,025, 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, 2008, primarily relating to the General Fund, was \$76,000. This liability has been computed based on rates of pay in effect at June 30, 2008.

**(6) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Emergency	\$ 39,235
	Local Option Sales Tax	315,060
	Wilson Trust - Library	30,000
	Wilson Trust - Other	15,751
	Enterprise:	
	Water	15,000
	Sewer	15,000
		<u>430,046</u>
Special Revenue:	Special Revenue:	
Pool Revenue Note Sinking	Wilson Trust - Other	<u>35,063</u>
Special Revenue:	Enterprise:	
Tax Increment Financing	Sewer	<u>80,000</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	93,035
	Tax Increment Financing	71,925
	Emergency	13,868
	Wilson Trust - Other	45,387
	Capital Projects	34,580
	Enterprise:	
	Water	47,025
		<u>305,820</u>
Capital Projects	Enterprise:	
	Sewer	<u>4,101</u>
Enterprise:	Special Revenue:	
Sewer	Tax Increment Financing	<u>80,000</u>
Total		<u>\$ 935,030</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 May 21, 2005, the City issued \$3,300,000 of Hospital Facilities Revenue Bonds under the provisions of Chapter 419 of the Code for Iowa for the purpose of paying for the Shenandoah Medical Center project. The bonds, of which \$3,300,000 are outstanding at June 30, 2008, and the related interest are payable solely from future earnings of the Hospital and do not constitute liabilities of the City.

**(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) 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, 2008, the City approved one loan totaling \$25,000 for economic development projects and collections of \$55,921 of principal and \$6,598 of interest were received. The outstanding loan principal balance at June 30, 2008 was \$126,767.

**(10) Deficit Balance**

The Special Revenue, Rapp Trust Other Fund had a deficit balance of \$5,347 at June 30, 2008. The deficit balance will be eliminated upon reimbursement from the Special Revenue, Local Option Sales Tax Fund or the Special Revenue, Hotel/Motel Fund.

The Special Revenue, Exercise Facility Fund had a deficit balance of \$12,690 at June 30, 2008. The deficit balance will be eliminated upon receipt of future membership dues.

**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, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted
<b>Receipts:</b>			
Property tax	\$ 1,827,595	-	-
Tax increment financing	310,639	-	-
Other city tax	661,772	-	-
Licenses and permits	15,112	-	-
Use of money and property	163,952	4,526	-
Intergovernmental	1,030,719	-	-
Charges for service	626,313	1,785,520	-
Special assessments	80,438	-	-
Miscellaneous	1,456,303	47,638	127,811
Total receipts	<u>6,172,843</u>	<u>1,837,684</u>	<u>127,811</u>
<b>Disbursements:</b>			
Public safety	1,043,289	-	-
Public works	1,051,117	-	-
Health and social services	647	-	-
Culture and recreation	1,009,515	-	51,194
Community and economic development	232,403	-	-
General government	301,128	-	-
Debt service	1,074,654	130,609	-
Capital projects	3,686,201	-	-
Business type activities	-	1,324,961	-
Total disbursements	<u>8,398,954</u>	<u>1,455,570</u>	<u>51,194</u>
Excess (deficiency) of receipts over (under) disbursements	(2,226,111)	382,114	76,617
Other financing sources, net	3,116,109	(74,833)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	889,998	307,281	76,617
Balances beginning of year	1,110,285	102,308	216,670
Balances end of year	<u>\$ 2,000,283</u>	<u>409,589</u>	<u>293,287</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to
	Original	Final	Total Variance
1,827,595	1,855,830	1,855,830	(28,235)
310,639	210,900	310,638	1
661,772	590,381	609,381	52,391
15,112	16,300	56,300	(41,188)
168,478	125,530	98,924	69,554
1,030,719	840,622	3,109,732	(2,079,013)
2,411,833	2,192,831	2,488,403	(76,570)
80,438	80,438	80,438	-
1,376,130	342,460	1,492,909	(116,779)
<u>7,882,716</u>	<u>6,255,292</u>	<u>10,102,555</u>	<u>(2,219,839)</u>
1,043,289	992,279	1,044,247	958
1,051,117	1,098,654	1,098,654	47,537
647	580	580	(67)
958,321	943,040	906,995	(51,326)
232,403	91,304	299,095	66,692
301,128	328,632	436,704	135,576
1,205,263	954,619	1,074,851	(130,412)
3,686,201	36,100	3,867,664	181,463
1,324,961	1,279,769	1,420,148	95,187
<u>9,803,330</u>	<u>5,724,977</u>	<u>10,148,938</u>	<u>345,608</u>
(1,920,614)	530,315	(46,383)	(1,874,231)
<u>3,041,276</u>	-	912,739	<u>2,128,537</u>
1,120,662	530,315	866,356	254,306
995,923	1,243,527	1,243,527	(247,604)
<u>2,116,585</u>	<u>1,773,842</u>	<u>2,109,883</u>	<u>6,702</u>

City of Shenandoah

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent 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 \$4,423,961. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the health and social services, culture and recreation and debt service 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, 2008

	Emergency	Hotel/ Motel	Gidley Park Trust	Esden Trust	Rapp Trust Library	Rapp Trust Other	Special Reed Estate Trust
<b>Receipts:</b>							
Property tax	\$ 25,715	-	-	-	-	-	-
Other city tax	1,166	28,543	-	-	-	-	-
Use of money and property	1,202	-	2,044	1,190	432	-	432
Intergovernmental	47,133	-	-	-	-	-	-
Charges for service	-	-	-	-	-	-	-
Miscellaneous	-	-	40,661	-	-	70,011	-
Total receipts	75,216	28,543	42,705	1,190	432	70,011	432
<b>Disbursements:</b>							
Operating:							
Public safety	4,387	-	-	-	-	-	-
Public works	7,031	-	-	-	-	-	-
Culture and recreation	-	-	47,737	95	-	-	-
Community and economic development	-	11,561	-	-	-	-	-
General government	425	4,591	-	-	-	35,358	-
Debt service	-	-	-	-	-	40,000	-
Capital projects	-	-	-	-	-	-	-
Total disbursements	11,843	16,152	47,737	95	-	75,358	-
Excess (deficiency) of receipts over (under) disbursements	63,373	12,391	(5,032)	1,095	432	(5,347)	432
<b>Other financing sources (uses):</b>							
Operating transfers in	-	-	-	-	-	-	-
Operating transfers out	(53,103)	-	-	-	-	-	-
Total other financing sources (uses)	(53,103)	-	-	-	-	-	-
Net change in cash balances	10,270	12,391	(5,032)	1,095	432	(5,347)	432
Cash balances beginning of year	19	-	60,518	21,465	11,084	-	11,084
Cash balances end of year	\$ 10,289	12,391	55,486	22,560	11,516	(5,347)	11,516
<b>Cash Basis Fund Balances</b>							
Unreserved:							
Special revenue funds	\$ 10,289	12,391	55,486	22,560	11,516	(5,347)	11,516
Total	\$ 10,289	12,391	55,486	22,560	11,516	(5,347)	11,516

See accompanying independent auditor's report.

Revenue											
Pool	Vision	Wilson	Wilson	Kay M.	Revolving	Tree	Senior	Forgotten	Exercise	Volunteer	Total
Revenue	Iowa	Trust -	Trust -	Anderson	Loan	Board	Center	Angels	Facility	Fire	
Sinking	Trust	Library	Other	Foundation			Trust	Cemetery		Department	
								Trust			
-	-	-	-	-	-	-	-	-	-	-	25,715
-	-	-	-	-	-	-	-	-	-	-	29,709
-	329	314	-	-	64,258	575	1,145	-	-	71	71,992
-	-	-	-	-	-	-	-	-	1,000	-	48,133
-	-	-	-	-	-	-	-	-	32,760	-	32,760
-	-	42,442	96,201	6,000	2,685	2,300	-	-	43	43,705	304,048
-	329	42,756	96,201	6,000	66,943	2,875	1,145	-	33,803	43,776	512,357
-	-	-	-	-	-	-	-	-	-	40,976	45,363
-	-	-	-	-	-	-	-	-	-	-	7,031
-	-	-	-	6,000	-	973	80	-	46,493	-	101,378
-	196	-	-	-	40,724	-	-	-	-	-	52,481
-	-	-	-	-	-	-	-	-	-	-	40,374
35,063	-	-	-	-	-	-	-	-	-	-	75,063
-	-	-	-	-	-	-	-	-	-	-	-
35,063	196	-	-	6,000	40,724	973	80	-	46,493	40,976	321,690
(35,063)	133	42,756	96,201	-	26,219	1,902	1,065	-	(12,690)	2,800	190,667
35,063	-	-	-	-	-	-	-	-	-	-	35,063
-	-	(30,000)	(96,201)	-	-	-	-	-	-	-	(179,304)
35,063	-	(30,000)	(96,201)	-	-	-	-	-	-	-	(144,241)
-	133	12,756	-	-	26,219	1,902	1,065	-	(12,690)	2,800	46,426
-	2,813	6,154	-	-	57,664	3,519	711	2,800	-	21,954	199,785
-	2,946	18,910	-	-	83,883	5,421	1,776	2,800	(12,690)	24,754	246,211
-	2,946	18,910	-	-	83,883	5,421	1,776	2,800	(12,690)	24,754	246,211
-	2,946	18,910	-	-	83,883	5,421	1,776	2,800	(12,690)	24,754	246,211

City of Shenandoah  
Schedule of Indebtedness  
Year ended June 30, 2008

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
Essential corporate purpose	Dec 15, 2006	4.00-4.20	110,000
Essential corporate purpose	Jul 15, 2007	4.85-5.20	915,000
Essential corporate purpose	Dec 27, 2007	4.85-5.20	90,000
Total			
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
Sewer revenue capital loan notes	Jul 10, 2007	3.00%	\$ 2,700,000
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 agreements:			
Fire truck	May 17, 2002	5.56%	\$ 485,000
Backhoe	Sep 13, 2006	5.25	80,088
Wheel loader	Sep 13, 2006	5.25	108,308
Total			

\* 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
70,000	-	70,000	-	1,925	-	-
25,000	-	25,000	-	1,225	-	-
<b>\$ 95,000</b>	<b>-</b>	<b>95,000</b>	<b>-</b>	<b>3,150</b>	<b>-</b>	<b>-</b>
520,000	-	170,000	350,000	23,235	-	-
75,000	-	25,000	50,000	5,438	-	-
125,000	-	40,000	85,000	7,025	-	-
225,000	-	25,000	200,000	13,388	-	-
65,000	-	10,000	55,000	3,868	-	-
80,000	-	10,000	70,000	3,840	-	-
515,000	-	65,000	450,000	19,865	-	-
540,000	-	-	540,000	23,160	-	-
110,000	-	-	110,000	6,601	-	-
-	915,000	-	915,000	34,580	-	-
-	90,000	-	90,000	-	-	-
<b>\$ 2,255,000</b>	<b>1,005,000</b>	<b>345,000</b>	<b>2,915,000</b>	<b>141,000</b>	<b>-</b>	<b>-</b>
50,000	-	50,000	-	2,625	-	-
146,460	-	29,292	117,168	5,771	-	-
-	2,082,744	100,000	1,982,744	25,946	-	-
1,265,000	-	80,000	1,185,000	73,380	-	-
390,000	-	40,000	350,000	16,820	-	-
<b>\$ 1,655,000</b>	<b>-</b>	<b>120,000</b>	<b>1,535,000</b>	<b>90,200</b>	<b>-</b>	<b>-</b>
1,000	-	-	1,000	-	1,000	195
325,000	-	65,000	260,000	15,438	-	-
275,105	-	49,233	225,872	15,296	-	-
64,285	-	14,831	49,454	3,457	-	-
86,936	-	20,057	66,879	4,676	-	-
<b>\$ 426,326</b>	<b>-</b>	<b>84,121</b>	<b>342,205</b>	<b>23,429</b>	<b>-</b>	<b>-</b>

City of Shenandoah

Note Maturities

June 30, 2008

Year Ending June 30,	General Obligation Notes									
	Essential Corporate Purpose		Essential Corporate Purpose		Essential Corporate Purpose		General Corporate Purpose		Essential Corporate Purpose	
	Issued May 1, 1999		Issued Jul 1, 1999		Issued Jun 1, 2000		Issued Jul 1, 2000		Issued Jun 15, 2001	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2009	4.45%	\$170,000	7.25%	\$ 25,000	5.60%	\$ 40,000	5.95%	\$ 25,000	5.95%	\$ 10,000
2010	4.55	180,000	7.30	25,000	5.70	45,000	5.95	25,000	5.95	15,000
2011	-	-	-	-	-	-	5.95	25,000	5.95	15,000
2012	-	-	-	-	-	-	5.95	25,000	5.95	15,000
2013	-	-	-	-	-	-	-	25,000	-	-
2014	-	-	-	-	-	-	-	25,000	-	-
2015	-	-	-	-	-	-	-	25,000	-	-
2016	-	-	-	-	-	-	-	25,000	-	-
2017	-	-	-	-	-	-	-	-	-	-
Total		<u>\$350,000</u>		<u>\$ 50,000</u>		<u>\$ 85,000</u>		<u>\$ 200,000</u>		<u>\$ 55,000</u>

Year Ending June 30,	Swimming Pool Revenue Notes		Urban Renewal Revenue Notes				Total
	Issued Aug 11, 1997		Issued Mar 1, 2003		Issued Jul 15, 2004		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2009	* 2.55%	\$ 29,292	4.75%	\$ 80,000	3.85%	\$ 45,000	\$ 125,000
2010	2.55	29,292	5.05	85,000	4.05	45,000	130,000
2011	2.55	29,292	5.25	90,000	4.25	50,000	140,000
2012	2.55	29,292	5.45	95,000	4.40	50,000	145,000
2013	-	-	5.65	100,000	4.55	50,000	150,000
2014	-	-	5.85	105,000	4.70	55,000	160,000
2015	-	-	6.00	110,000	4.80	55,000	165,000
2016	-	-	6.20	120,000	-	-	120,000
2017	-	-	6.35	125,000	-	-	125,000
2018	-	-	6.50	135,000	-	-	135,000
2019	-	-	6.60	140,000	-	-	140,000
Total		<u>\$117,168</u>		<u>\$ 1,185,000</u>		<u>\$ 350,000</u>	<u>\$ 1,535,000</u>

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

See accompanying independent auditor's report.

General Obligation Notes												
Essential Corporate Purpose Issued Sep 1, 2002		Essential Corporate Purpose Issued Sep 1, 2003		Essential Corporate Purpose Issued Jul 15, 2004		Essential Corporate Purpose Issued Dec 15, 2006		Essential Corporate Purpose Issued Jul 15, 2007		Essential Corporate Purpose Issued Dec 27, 2007		Total
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
4.8%	\$ 10,000	3.40%	\$ 70,000	3.60%	\$ 50,000	4.00%	\$ 20,000		\$ -	4.85%	\$ 15,000	435,000
4.8	15,000	3.70	70,000	3.80	55,000	4.05	20,000		-	4.90	15,000	465,000
4.8	15,000	3.90	75,000	4.00	55,000	4.10	20,000	4.10%	60,000	5.00	20,000	285,000
4.8	15,000	4.10	75,000	4.15	55,000	4.15	25,000	4.15	60,000	5.10	20,000	290,000
4.8	15,000	4.25	80,000	4.30	60,000	4.20	25,000	4.20	125,000	5.20	20,000	350,000
-	-	4.35	80,000	4.45	60,000	-	-	4.30	160,000	-	-	325,000
-	-	-	-	4.55	65,000	-	-	4.35	250,000	-	-	340,000
-	-	-	-	4.65	70,000	-	-	4.40	260,000	-	-	355,000
-	-	-	-	4.75	70,000	-	-	-	-	-	-	70,000
	<u>\$ 70,000</u>		<u>\$450,000</u>		<u>\$540,000</u>		<u>\$110,000</u>		<u>\$915,000</u>		<u>\$ 90,000</u>	<u>2,915,000</u>

Special Assessment Notes

Street Improvement

Issued Aug 1, 2002

Interest Rates	Amount
4.50%	\$ 65,000
4.75	65,000
5.00	65,000
5.25	65,000
-	-
-	-
-	-
-	-
-	-
-	-
	<u>\$260,000</u>

**Schedule 4**

## City of Shenandoah

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

For the Last Six Years

	2008	2007	2006	2005	2004	2003
Receipts:						
Property tax	\$ 1,827,595	1,737,689	1,693,590	1,706,276	1,673,768	1,704,048
Tax increment financing	310,639	296,773	230,021	163,168	120,739	-
Other city tax	661,772	636,673	634,961	568,095	539,173	545,968
Licenses and permits	15,112	17,023	32,010	11,434	57,889	12,526
Use of money and property	163,952	127,611	122,296	101,079	100,862	54,474
Intergovernmental	1,030,719	503,308	585,786	1,104,118	941,313	1,670,128
Charges for service	626,313	557,200	538,671	514,281	513,341	529,365
Special assessments	80,438	77,837	80,088	82,187	84,138	67,587
Miscellaneous	1,456,303	1,145,048	450,013	353,661	424,246	326,125
Total	\$ 6,172,843	5,099,162	4,367,436	4,604,299	4,455,469	4,910,221
Disbursements:						
Operating:						
Public safety	\$ 1,043,289	927,647	1,000,813	871,126	912,467	1,134,110
Public works	1,051,117	1,069,262	989,441	921,685	973,336	1,113,585
Health and social services	647	6,789	3,303	21,004	40,784	29,668
Culture and recreation	1,009,515	912,149	845,644	834,049	928,728	929,600
Community and economic development	232,403	133,723	191,545	496,577	98,963	39,801
General government	301,128	240,817	273,752	232,789	213,220	217,675
Debt service	1,074,654	1,035,985	1,013,990	934,264	910,661	772,934
Capital projects	3,686,201	980,436	81,216	1,158,590	1,949,805	2,130,394
Total	\$ 8,398,954	5,306,808	4,399,704	5,470,084	6,027,964	6,367,767

See accompanying independent auditor's report.

City of Shenandoah  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2008

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Justice:			
Bulletproof Vest Partnership Program	16.607	None	\$ 1,748
U.S. Department of Transportation:			
Federal Aviation Administration:			
Airport Improvement Program	20.106	3-19-0082-05	<u>91,306</u>
Total direct			<u>93,054</u>
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program	14.228	07-HSG-024	<u>45,773</u>
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-U-6965(605)--70-73	<u>200,000</u>
Environmental Protection Agency:			
Iowa Finance Authority:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS192337	<u>505,490</u>
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Homeland Security and Emergency Management Division:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	145-72525-00 DR-1705 145-72525-00 DR-1737	29,116 <u>16,852</u> <u>45,968</u>
Total indirect			<u>797,231</u>
Total			<u>\$ 890,285</u>

**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.

**City of Shenandoah**



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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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, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 13, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Shenandoah's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Shenandoah's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including a deficiency we consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Shenandoah's ability to initiate, authorize, record, process or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Shenandoah's financial statements that is more than inconsequential will not be prevented or detected by the City of Shenandoah's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Shenandoah's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-08 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 and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Shenandoah and other parties to whom the City of Shenandoah may report, including federal awarding agencies and pass through entities. 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

January 13, 2009

**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 its major federal program for the year ended June 30, 2008. The City of Shenandoah's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Shenandoah's management. Our responsibility is to express an opinion on the City of Shenandoah's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether 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 its major federal program for the year ended June 30, 2008.

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'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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Shenandoah and other parties to whom the City of Shenandoah may report, including federal awarding agencies and pass-through entities. 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

January 13, 2009

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

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

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including 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 program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA 66.458 – Capitalization Grants for Clean Water State Revolving Funds.
- (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, 2008

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

**SIGNIFICANT DEFICIENCIES:**

II-A-08 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. Checks are signed by the computer system and are not all reviewed for propriety. The final payroll register is not reconciled to the approved payroll. There is not an independent review of the checks written to the approved vouchers. Also, journal entries were not independently approved.

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. Checks issued should be initialed and dated to document review by an independent person. The final payroll register should be reconciled to the approved payroll. There should be evidence of an independent review of checks written to approved vouchers. Also, evidence of an independent review of journal entries should be documented.

Response – The City will have each person issuing checks have a co-worker sign off on every check. As for payroll, the City will check with the software support staff to find the correct report that will reflect the necessary information for reconciliation of the payroll register with the approved payroll. With the issue of reviewing checks to approved vouchers, there is a review. The City now will document this by signature. Journal entries in the future will be signed off by both the City Clerk and the City Administrator. Currently, the City Clerk writes a detailed explanation of why the journal entries are made.

Conclusion – Response accepted.

II-B-08 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 – Currently, the Shenandoah Fire Department gives the City a monthly report of receipts, disbursements and ending balances. These reports are copied and included in Council packets and also kept in a file at City Hall.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Shenandoah  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2008

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**SIGNIFICANT DEFICIENCIES:**

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

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

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

IV-A-08 Certified Budget – Disbursements during the year ended June 30, 2008 exceeded the amounts budgeted in the health and social services, culture and recreation and debt service 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 – There were extenuating circumstances that made it difficult for the City Clerk to keep track of budget balances. To alleviate this problem in the future, the software support staff will be consulted regarding a report format to make it easier to track these funds by function and allow the City Clerk to more easily monitor the balances in order to file the Budget Amendment more timely.

Conclusion – Response accepted.

IV-B-08 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

IV-C-08 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-08 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Darrel Saner, Assistant Police Chief, owner of Shenweld	Welding and maintenance	\$ 3,850
Shelly Anderson, wife of Police Officer, owner of Signs & Shines	Signs and lettering	1,571

In accordance with Chapter 362.5(10) of the Code of Iowa, the welding and maintenance from Shenweld and the signs and lettering with Signs and Shines may represent conflicts of interest because the total cumulative transactions were greater than \$1,500 during the fiscal year.

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

Response – Legal counsel has been contacted, but there is no hard copy of the opinion for our records. We will obtain that as soon as possible in reference to the welding shop. In regards to the other business, that police officer has since retired and it will no longer be an issue.

Conclusion – Response accepted.

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

- IV-E-08 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-F-08 Council Minutes – Except for the following, no transactions were found that we believe should have been approved in the Council minutes but were not:  
Council minutes do not list the reason for claims as required by Chapter 372.13(6) of the Code of Iowa.  
Recommendation – Board minutes should list the reason for claims as required by Chapter 372.13(6) of the Code of Iowa.  
Response – In the future we will include the “reason” for the claim when publishing the abstract of claims.  
Conclusion – Response accepted.
- IV-G-08 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.
- IV-H-08 Revenue Bonds and Notes – No instances of noncompliance with the resolutions providing for the issuance of the swimming pool revenue notes, sewer revenue capital loan notes and urban renewal revenue notes were noted.
- IV-I-08 Financial Condition – The Special Revenue, Rapp Trust Other Fund and the Special Revenue, Exercise Facility Fund had deficit balances of \$5,347 and \$12,690, respectively, at June 30, 2008.  
Recommendation – The City should evaluate the reasons for the deficits and investigate alternatives to eliminate these deficits in order to return the funds to a sound financial position.  
Response – The City was misinformed as to the source of reimbursement for Christmas decorations. The Rapp Trust will not issue funds for this expense and Council approval will be sought to transfer funds from either the Special Revenue, Local Option Sales Tax Fund or the Special Revenue, Hotel/Motel Fund to eliminate this deficit. The collection of future membership dues will eliminate the deficit in the Special Revenue, Exercise Facility Fund.  
Conclusion – Response accepted.
- IV-J-08 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 Special Revenue, 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.

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

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 – The City is currently identifying amounts for Property Tax Relief, Community Betterment and Community Planning which are going into the General Fund to cover expenses paid from the General Fund impacting these areas. A more detailed description will be provided in the future.

Conclusion – Response accepted.

IV-K-08 Other Information Required by the Revenue Note Resolution

Insurance – The following insurance policies were in force at June 30, 2008:

Insurer	Description	Amount	Expiration Date
Employers Mutual Casualty Company	Property coverage: Buildings	\$ 22,859,745	Apr 1, 2009
Employers Mutual Casualty Company	Comprehensive general liability: Each occurrence Aggregate	1,000,000 2,000,000	Apr 1, 2009
Employers Mutual Casualty Company	Inland Marine: Contractors' equipment Electronic data processing equipment Property floater	543,861 147,546 58,490	Apr 1, 2009
Employers Mutual Casualty Company	Automobile coverage: Liability Uninsured motorists	1,000,000 40,000	Apr 1, 2009
Employers Mutual Casualty Company	Linebacker - each loss and Each loss Aggregate	1,000,000 1,000,000	Apr 1, 2009
Employers Mutual Casualty Company	Workers' compensation	500,000	Apr 1, 2009
Employers Mutual Casualty Company	Commercial umbrella Retained Each occurrence Aggregate	10,000 5,000,000 5,000,000	Apr 1, 2009
Employers Mutual Casualty Company	Employee dishonesty Blanket bond Alteration	100,000 10,000	Apr 1, 2009
Employers Mutual Casualty Company	Commercial crime: inside premises outside premises	10,000 10,000	Apr 1, 2009

City of Shenandoah  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2008

Statistical Information:

Description	Amount
Swimming pool customers served in 2008 season	15,009
Swimming pool rates in effect at June 30, 2008	
Daily admission	\$    5
Single season pass	60
Family plan	150

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City of Shenandoah

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager  
Kay F. Dunn, CPA, Manager  
Melissa M. Wellhausen, CPA, Senior Auditor  
Lori M. Dinville, Assistant Auditor  
Jeana M. Mulbauer, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive, flowing style.

Andrew E. Nielsen, CPA  
Deputy Auditor of State