



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE March 30, 2004

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

The City's receipts totaled \$7,818,246 for the year ended June 30, 2003, a 19% percent increase from 2002. The receipts included \$1,704,048 in property tax, \$436,484 in local option sales tax, \$1,670,128 from other governments and \$27,812 in interest on investments. The increase in receipts was due primarily to receipt of a Federal Aviation Administration grant. The City also received general obligation, urban renewal revenue and special assessment note proceeds totaling \$2,197,270 that are reported as other financing sources.

Disbursements for the year totaled \$9,313,686, a 16.5 percent increase from the prior year, and included \$2,130,394 for capital projects, \$1,155,410 for business type activities, \$1,134,110 for public safety and \$1,790,509 for non-program. The significant increase in disbursements was due primarily to current year capital projects activity, including the airport improvement and community theatre projects.

The report contains recommendations to the City Council and other City officials. For example, the City should comply with the resolutions providing for the issuance of revenue notes and bonds. The City did not establish the reserve and sinking accounts, did not make the transfers required by the bond and note resolutions, and did not make debt service payments from the appropriate accounts. In addition, the City did not adequately review the utility revenues to ensure the established rates result in sufficient funds to meet the water revenue bond obligations. The report also recommended the City investigate alternatives to eliminate deficits in certain Special Revenue, Capital Projects and Enterprise Funds. The City responded favorably to the recommendations.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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CITY OF SHENANDOAH

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

JUNE 30, 2003

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City of Shenandoah

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gregg Connell	Mayor	Jan 2006
Raymond Bryant	Mayor Pro tem	Jan 2006
E. J. Teachout	Council Member	Jan 2004
Robert Burchett	Council Member	Jan 2004
Lee Gingery	Council Member	Jan 2006
Marvin Adcock	Council Member	Jan 2006
Byron Harris	Administrator	Jan 2004
Merrill J. Kruse	Manager/Clerk	Jan 2004
James Winegardner	Treasurer	Jan 2004
Robert Norris	Attorney	Jan 2004

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 primary government financial statements, listed as exhibits in the table of contents of this report, of the City of Shenandoah, Iowa, as of and for the year ended June 30, 2003. These financial statements are the responsibility of the City of Shenandoah's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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.

As discussed in note 14, the City of Shenandoah intends to implement Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures, for the fiscal year ending June 30, 2004. The effects of these statements are expected to significantly impact the presentation of the City's financial statements and related notes in the year of implementation. The revised requirements include an analytical overview of the City's financial activities in the Management's Discussion and Analysis introduction to the financial statements.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. In our opinion, the aforementioned primary government financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the primary government of the City of Shenandoah as of and for the year ended June 30, 2003, and its indebtedness at June 30, 2003, on the basis of accounting described in note 1.

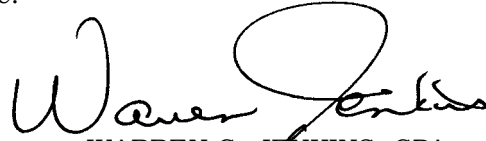
However, the primary government financial statements, because they do not include the financial data of the component unit of the City of Shenandoah, do not purport to, and do not, present fairly the results of the cash transactions of the funds of the City of Shenandoah as of and for the year ended June 30, 2003, and its indebtedness at June 30, 2003, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated October 22, 2003 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 grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the three years ended June 30, 2002 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 10, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the aforementioned financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 22, 2003

Financial Statements

City of Shenandoah
 Combined Statement of Cash Transactions
 All Fund Types
 Year ended June 30, 2003

	Governmental	
	General	Special Revenue
Receipts:		
Property tax	\$ 812,253	490,427
Other city tax	69,740	458,336
Licenses and permits	12,526	-
Use of money and property	17,873	1,641
Intergovernmental	136,550	451,517
Charges for service	526,090	-
Special assessments	-	-
Miscellaneous	59,803	35,981
Total receipts	1,634,835	1,437,902
Disbursements:		
Public safety	694,688	259,233
Public works	447,464	666,121
Health and social services	29,668	-
Culture and recreation	602,434	119,647
General government	166,897	90,579
Debt service	-	40,745
Capital projects	-	-
Business type activities	-	-
Non-program	-	-
Total disbursements	1,941,151	1,176,325
Excess (deficiency) of receipts over (under) disbursements	(306,316)	261,577
Other financing sources (uses):		
Note proceeds (net of \$26,730 discount)	-	98,860
Operating transfers in	256,999	30,649
Operating transfers out	-	(410,811)
Total other financing sources (uses)	256,999	(281,302)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(49,317)	(19,725)
Balance beginning of year	127,246	132,982
Balance end of year	\$ 77,929	113,257

See notes to financial statements.

Fund Types		Proprietary Fund Types		Fiduciary	Total
Debt Service	Capital Projects	Enterprise	Internal Service	Fund Type Trust	(Memorandum Only)
401,368	-	-	-	-	1,704,048
17,892	-	-	-	-	545,968
-	-	-	-	-	12,526
1,583	12,947	1,179	-	20,430	55,653
-	1,082,061	-	-	-	1,670,128
-	-	1,057,029	-	3,275	1,586,394
67,587	-	-	-	-	67,587
-	91,608	59,277	1,790,540	138,733	2,175,942
488,430	1,186,616	1,117,485	1,790,540	162,438	7,818,246
-	-	-	-	180,189	1,134,110
-	-	-	-	-	1,113,585
-	-	-	-	-	29,668
-	-	-	-	207,519	929,600
-	-	-	-	-	257,476
732,189	-	-	-	-	772,934
-	2,130,394	-	-	-	2,130,394
-	-	1,155,410	-	-	1,155,410
-	-	-	1,790,509	-	1,790,509
732,189	2,130,394	1,155,410	1,790,509	387,708	9,313,686
(243,759)	(943,778)	(37,925)	31	(225,270)	(1,495,440)
-	1,983,410	-	-	115,000	2,197,270
246,545	41,105	163,055	-	56,689	795,042
-	(98,777)	(144,000)	-	(141,454)	(795,042)
246,545	1,925,738	19,055	-	30,235	2,197,270
2,786	981,960	(18,870)	31	(195,035)	701,830
41,296	(493,073)	121,863	177	1,072,803	1,003,294
44,082	488,887	102,993	208	877,768	1,705,124

City of Shenandoah

Comparison of Receipts, Disbursements and Changes in Balances-

Actual to Budget – Primary Government

Year ended June 30, 2003

	<u>Actual</u>
Receipts:	
Property tax	\$ 1,704,048
Other city tax	545,968
Licenses and permits	12,526
Use of money and property	55,653
Intergovernmental	1,670,128
Charges for service	1,586,394
Special assessments	67,587
Miscellaneous	2,175,942
Total receipts	<u>7,818,246</u>
Disbursements:	
Public safety	1,134,110
Public works	1,113,585
Health and social services	29,668
Culture and recreation	929,600
Community and economic development	-
General government	257,476
Debt service	772,934
Capital projects	2,130,394
Business type activities	1,155,410
Non-program	1,790,509
Total disbursements	<u>9,313,686</u>
Excess (deficiency) of receipts over (under) disbursements	(1,495,440)
Other financing sources, net	<u>2,197,270</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	701,830
Balance beginning of year	<u>1,003,294</u>
Balance end of year	<u>\$ 1,705,124</u>

See notes to financial statements.

Less Funds Not Required to be Budgeted	Net	Amended Budget	Variance Favorable (Unfavorable)	Net as % of Amended Budget
-	1,704,048	1,684,848	19,200	101%
-	545,968	502,475	43,493	109%
-	12,526	12,275	251	102%
6,645	49,008	700,070	(651,062)	7%
-	1,670,128	1,049,801	620,327	159%
3,275	1,583,119	1,677,380	(94,261)	94%
-	67,587	67,587	-	100%
1,790,540	385,402	1,032,292	(646,890)	37%
1,800,460	6,017,786	6,726,728	(708,942)	89%
-	1,134,110	1,173,562	39,452	97%
-	1,113,585	1,225,216	111,631	91%
-	29,668	42,996	13,328	69%
-	929,600	905,849	(23,751)	103%
-	-	42,543	42,543	0%
-	257,476	348,839	91,363	74%
-	772,934	752,380	(20,554)	103%
-	2,130,394	852,000	(1,278,394)	250%
-	1,155,410	1,312,193	156,783	88%
1,790,509	-	-	-	-
1,790,509	7,523,177	6,655,578	(867,599)	113%
9,951	(1,505,391)	71,150		
(6,645)	2,203,915	272,505		
3,306	698,524	343,655		
135,671	867,623	867,800		
138,977	1,566,147	1,211,455		

City of Shenandoah
Statement of Indebtedness
Year ended June 30, 2003

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Essential corporate purpose	Jun 1, 1992	5.75%	\$ 900,000
Essential corporate purpose	Jun 1, 1995	4.90-5.00	410,000
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	4.10-4.55	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
Total			
Revenue bonds:			
Water	Feb 1, 1998	4.50%	\$ 200,000
Local option sales and services tax revenue bonds			
	Jun 1, 1997	4.90-5.25%	\$ 450,000
Revenue notes:			
Swimming pool	Aug 11, 1997	Varies	\$ 720,000
Urban renewal revenue notes	Mar 1, 2003	3.00-6.60%	\$ 1,485,000
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:			
Street sweeper	Jun 10, 1999	5.10%	\$ 77,031
Fire truck	May 17, 2002	5.56	485,000
Total			

See notes to financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Bonds Due and Unpaid	Interest Due and Unpaid
145,000	-	145,000	-	8,337	-	-
150,000	-	60,000	90,000	7,470	-	-
375,000	-	55,000	320,000	18,493	-	-
130,000	-	20,000	110,000	6,207	-	-
\$ 800,000	-	280,000	520,000	40,507	-	-
1,305,000	-	100,000	1,205,000	56,672	-	-
175,000	-	20,000	155,000	12,478	-	-
290,000	-	30,000	260,000	15,942	-	-
350,000	-	25,000	325,000	20,825	-	-
110,000	-	5,000	105,000	6,545	-	-
-	115,000	-	115,000	4,140	-	-
\$ 2,230,000	115,000	180,000	2,165,000	116,602	-	-
130,000	-	20,000	110,000	5,850	-	-
275,000	-	40,000	235,000	14,110	-	-
293,775	-	22,803	270,972	16,217	-	-
-	1,485,000	-	1,485,000	20,314	-	-
1,000	-	-	1,000	-	1,000	195
-	624,000	59,000	565,000	8,587	-	-
16,163	-	16,163	-	837	-	-
485,000	-	37,563	447,437	26,966	-	-
\$ 501,163	-	53,726	447,437	27,803	-	-

City of Shenandoah

Notes to Financial Statements

June 30, 2003

(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, general government and business type activities.

A. Reporting Entity

Except as discussed below, 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 exclude all component units. The component unit discussed below is not included in the City's reporting entity although its operational or financial relationship with the City is significant.

Excluded Component Unit

The Shenandoah Public Library Foundation (Foundation) was incorporated under Chapter 504A of the Code of Iowa to receive donations for the benefit of the Shenandoah Public Library. The donations are to be used to purchase items which are not included in the City's budget. The financial transactions of this component unit have not been displayed because they were not made available.

Jointly Governed Organizations

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

Related Organization

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

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and balances. The various funds and their designated purposes are as follows:

Governmental Funds

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

Special Revenue Funds – The Special Revenue Funds are utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

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

Capital Projects Funds – The Capital Projects Funds are utilized to account for all resources used in the acquisition and construction of capital facilities with the exception of those that are financed through Enterprise Funds.

Proprietary Funds

Enterprise Funds – The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

Internal Service Funds – The Internal Service Funds are utilized to account for the financing of goods or services provided by one department or agency to other departments or agencies of a government, or to other governments, on a cost-reimbursement basis.

Fiduciary Funds

Trust Funds – The Trust Funds are used to account for monies and properties received and held by the City in a trustee capacity. These include Expendable Trust Funds and a Non-Expendable Trust Fund.

C. 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.

D. Budgets and Budgetary Accounting

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 for Internal Service and Non-Expendable Trust Funds. 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 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.

E. Total (Memorandum Only)

The total column on the combined statement of cash transactions is captioned "Memorandum Only" to indicate it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2003 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.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$837,611 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

The City had three certificates of deposit that were held in depositories outside the State of Iowa.

(3) Long-term Debt

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

Year Ending June 30,	General Obligation Bonds		General Obligation Notes		Water Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 170,000	25,640	255,000	109,147	20,000	4,950
2005	80,000	17,290	275,000	96,820	20,000	4,050
2006	85,000	13,400	275,000	83,520	20,000	3,150
2007	90,000	9,223	270,000	70,105	25,000	2,250
2008	95,000	4,760	280,000	56,840	25,000	1,125
2009	-	-	280,000	42,730	-	-
2010	-	-	305,000	28,550	-	-
2011	-	-	55,000	12,870	-	-
2012	-	-	55,000	9,793	-	-
2013	-	-	40,000	6,670	-	-
2014	-	-	25,000	4,462	-	-
2015	-	-	25,000	2,975	-	-
2016	-	-	25,000	1,492	-	-
2017	-	-	-	-	-	-
2018	-	-	-	-	-	-
2019	-	-	-	-	-	-
Total	\$ 520,000	70,313	2,165,000	525,974	110,000	15,525

Year Ending June 30,	Local Option Sales and Services Tax Revenue Bonds		Swimming Pool Revenue Notes	
	Principal	Interest	Principal	Interest
2004	\$ 45,000	12,110	24,021	14,999
2005	45,000	9,837	25,388	13,632
2006	45,000	7,543	26,790	12,230
2007	50,000	5,225	28,268	10,752
2008	50,000	2,625	29,803	9,216
2009	-	-	31,474	7,546
2010	-	-	33,211	5,809
2011	-	-	35,044	3,975
2012	-	-	36,973	2,047
2013	-	-	-	-
2014	-	-	-	-
2015	-	-	-	-
2016	-	-	-	-
2017	-	-	-	-
2018	-	-	-	-
2019	-	-	-	-
Total	\$ 235,000	37,340	270,972	80,206

Year Ending June 30,	Urban Renewal Revenue Notes		Special Assessment Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ -	81,255	60,000	24,137	574,021	272,238
2005	70,000	81,255	60,000	22,188	575,388	245,072
2006	75,000	79,155	60,000	20,087	586,790	219,085
2007	75,000	76,455	60,000	17,838	598,268	191,848
2008	80,000	73,380	65,000	15,437	624,803	163,383
2009	80,000	69,780	65,000	12,675	456,474	132,731
2010	85,000	65,980	65,000	9,750	488,211	110,089
2011	90,000	61,687	65,000	6,663	245,044	85,195
2012	95,000	56,963	65,000	3,412	251,973	72,215
2013	100,000	51,785	-	-	140,000	58,455
2014	105,000	46,135	-	-	130,000	50,597
2015	110,000	39,992	-	-	135,000	42,967
2016	120,000	33,393	-	-	145,000	34,885
2017	125,000	25,952	-	-	125,000	25,952
2018	135,000	18,015	-	-	135,000	18,015
2019	140,000	9,240	-	-	140,000	9,240
Total	\$ 1,485,000	870,422	565,000	132,187	5,350,972	1,731,967

Revenue Bonds

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

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

The City did not make the required transfers to the Enterprise, Water Improvement Reserve Fund during the year ended June 30, 2003. The City also did not provide for the collection of rates to provide a balance of net revenues equal to at least 125% of the principal and interest due on the bonds each fiscal year.

Local Option Sales and Services Tax Revenue Bonds

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the costs of the construction and equipping of a municipal swimming pool and aquatic center. The bonds are payable solely from the proceeds of the local option sales tax revenues received by the City in accordance with Chapter 422B.12(3) of the Code of Iowa. The bonds are not a general obligation of the City, but the debt is subject to the constitutional debt limitation of the City.

The resolution providing for the issuance of the local option sales and services tax revenue bonds include the following provisions:

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

The City did not make the required transfers to the reserve account and did not make the required principal and interest payments from the revenue sinking account since the Special Revenue, Local Option Sales Tax (LOST) Bond Sinking and Bond Reserve Funds were closed during the year ended June 30, 2002 and transferred to the Enterprise, Swimming Pool Revenue Sinking Fund. The City accounted for this activity within the Enterprise, Swimming Pool Revenue Sinking Fund during the year ended June 30, 2003.

Revenue Notes

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

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

- (3) Next to a separate sinking account for the purpose of making the note principal and interest payments when due. The City accounts for this activity within the Enterprise, Swimming Pool Revenue Sinking Fund.

The City did not maintain a separate improvement account since this account was closed during the year ended June 30, 2002 and transferred to the Enterprise, Swimming Pool Revenue Sinking Fund. Also, the City did not make the required transfers of earnings of swimming pool enterprise activity to the Enterprise, Swimming Pool Revenue Sinking Fund during the year ended June 30, 2003. The note principal and interest payments were made from the Debt Service Fund with revenues provided, in part, from the Trust, Wilson Trust Other Fund.

Urban Renewal Revenue Notes

The urban renewal revenue notes were issued for the purpose of paying costs of an urban renewal project, consisting of demolition, renovation and equipment for the Community Theatre Project. The notes are payable solely from the income and proceeds of the urban renewal project in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal revenue notes shall be expended only for purposes which are 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, TIF Note Sinking Fund.
- (b) A separate reserve fund shall be established to maintain a required debt service reserve. The City is to deposit note proceeds of \$148,500 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 did not establish the separate reserve fund for the deposit of the \$148,500 note proceeds. The City has accounted for these proceeds in the Capital Projects, Theatre Project Fund.

Capital Lease Purchase Agreement

The City entered into a capital lease purchase agreement to acquire a fire truck. The following is a schedule of the future minimum lease payments, including interest at 5.56% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2003:

Year Ending June 30,	Fire Truck
2004	\$ 64,529
2005	64,529
2006	64,529
2007	64,529
2008	64,529
2009	64,529
2010	64,529
2011	64,529
2012	<u>64,530</u>
Total minimum lease payments	580,762
Less amount representing interest	<u>(133,325)</u>
Present value of net minimum lease payments	<u>\$ 447,437</u>

During the year ended June 30, 2003, \$64,529 was paid under the fire truck capital lease purchase agreement. Also, \$17,000 was paid under the street sweeper capital lease purchase agreement which was paid in full as of June 30, 2003.

(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.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2003, 2002, and 2001 were \$94,229, \$89,377 and \$86,537, 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, 2003, primarily relating to the General Fund, was \$65,000. This liability has been computed based on rates of pay in effect at June 30, 2003.

(6) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2003, disbursements in the culture and recreation, debt service and capital projects functions exceeded the amounts budgeted.

(7) Hospital Facilities Refunding Revenue Bonds

On November 1, 2002, the City issued \$2,610,000 of Hospital Facilities Refunding Revenue Bonds under the provisions of Chapter 419 of the Code of Iowa. The bonds were used for the purpose of paying the cost of refunding the industrial development refunding revenue bonds of the hospital. The bonds, of which \$2,610,000 is outstanding at June 30, 2003, and related interest are payable solely from the future earnings of the hospital and do not constitute liabilities of the City.

(8) Risk Management

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

(9) Deficit Balances

At June 30, 2003, the City had deficit balances in the following funds:

Fund	Balance
Special Revenue:	
Road Use Tax	\$ (29,276)
Shenandoah Acquisition Demolition and Clearing	(1,500)
Capital Projects:	
Miscellaneous Property Demolition	(22,204)
Shenandoah Lake Reservoir	(40,809)
Enterprise:	
Water	(5,215)
Water Bond Sinking	(105,006)
Sewer Rental	(47,655)
Sewer Bond Sinking	(63,312)
Internal Service:	
Payroll Revolving	(19)

The deficit balances will be eliminated through future collection of road use tax funds from the State, receipt of grant proceeds, issuance of general obligation notes and from the increase in revenues as a result of increases in water and sewer rates.

(10) Commitments

The City has entered into construction contracts totaling approximately \$900,000. As of June 30, 2003, costs of approximately \$544,000 had been paid on the contracts. The remaining \$356,000 will be paid as work on these projects progresses.

The City received and reported an overpayment of grant funds of \$41,652 from the Federal Aviation Administration for the Airport Improvement Program project. The overpayment was reimbursed to the Federal Aviation Administration in October 2003.

(11) Economic Development Revolving Loan Fund

During fiscal year 2003, the City approved a \$40,000 loan for an economic development project. 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 rates that range from 1% to 4%, and are to be repaid in either monthly or quarterly installments. During the year ended June 30, 2003, collections of \$30,737 of principal and \$6,282 of interest were received. The outstanding loan principal balance at June 30, 2003 was \$274,663.

(12) Subsequent Event

In August 2003, the City issued \$700,000 in general obligation notes for a street improvement project and building demolition projects. The amount of the street improvement contract approved by the Council was \$516,600.

(13) Pending Litigation

The City has adopted a resolution authorizing the issuance of \$110,000 of general obligation bonds for essential corporate purposes to construct an artificial body of water in Page County. The issuance is subject to a lawsuit in which the Page County District Court ruling to dismiss has been appealed to the Iowa Supreme Court.

The City, with the City of Clarinda, has proposed construction of a new water utility that would include a reservoir, water treatment facility and distribution system. The cities have also proposed to acquire land for the proposed site of the reservoir which would also be used as a public recreation facility. The total cost of approximately \$47,000,000 is proposed to be financed with revenue bonds, funds from a Vision Iowa grant and other grants. The proposed project is subject to a lawsuit in which the Page County District Court ruling to dismiss has been appealed to the Iowa Supreme Court.

(14) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures. These statements will be implemented for the year ending June 30, 2004. The effects are expected to significantly impact the presentation of the City’s financial statements in the year of implementation. The revised minimum reporting requirements include Management’s Discussion and Analysis to introduce the financial statements and to provide an analytical overview of the City’s financial activities.

City of Shenandoah

Supplemental Information

Schedule 1

City of Shenandoah
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

	General	Tree Board	Total
Receipts:			
Property tax	\$ 812,253	-	812,253
Other city tax:			
Utility tax replacement excise tax	36,198	-	36,198
Mobile home tax	1,368	-	1,368
Cable franchise fees	32,174	-	32,174
	69,740	-	69,740
Licenses and permits:			
Building	1,379	-	1,379
Cigarette	1,200	-	1,200
Beer	2,078	-	2,078
Business	165	-	165
Dog	2,896	-	2,896
Liquor	4,808	-	4,808
	12,526	-	12,526
Use of money and property:			
Interest on investments	-	452	452
Rent:			
Parking lot	3,290	-	3,290
Equipment	6,508	-	6,508
Hangar	4,050	-	4,050
Community room	1,250	-	1,250
Armory	2,263	-	2,263
Park	60	-	60
	17,421	452	17,873
Intergovernmental:			
State allocation	84,138	-	84,138
Bank franchise tax	17,517	-	17,517
Library open-access program	8,575	-	8,575
Township library allocation	14,089	-	14,089
County veterans funding	2,397	-	2,397
Underground storage tank reimbursement	1,190	-	1,190
Economic development program grant	8,644	-	8,644
	136,550	-	136,550

City of Shenandoah
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

	General	Tree Board	Total
Receipts (continued):			
Charges for service:			
Police fees	5,841	-	5,841
Grave openings	28,810	-	28,810
Landfill fees	390,119	-	390,119
Swimming pool	65,190	-	65,190
Recreation fees	30,681	-	30,681
Library fees	5,449	-	5,449
	526,090	-	526,090
Miscellaneous:			
Sale of equipment and materials	16,381	-	16,381
Sale of cemetery lots	13,100	-	13,100
Refunds and reimbursements	16,132	-	16,132
Insurance settlements	435	-	435
Donations	7,615	-	7,615
Miscellaneous	6,140	-	6,140
	59,803	-	59,803
Total receipts	1,634,383	452	1,634,835
Disbursements:			
Public safety:			
Police:			
Personal services	423,054	-	423,054
Services and commodities	76,756	-	76,756
Capital outlay	2,452	-	2,452
	502,262	-	502,262
Fire:			
Personal services	81,425	-	81,425
Services and commodities	44,951	-	44,951
Capital outlay	1,500	-	1,500
	127,876	-	127,876
Ambulance	64,550	-	64,550
	694,688	-	694,688

Schedule 1

City of Shenandoah
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

	General	Tree Board	Total
Disbursements (continued):			
Public works:			
Airport:			
Personal services	21,139	-	21,139
Services and commodities	42,357	-	42,357
	<u>63,496</u>	-	<u>63,496</u>
Landfill:			
Services and commodities	383,968	-	383,968
	<u>447,464</u>	-	<u>447,464</u>
Health and social services:			
Chemical dependency coordinator:			
Personal services	23,288	-	23,288
Services and commodities	6,380	-	6,380
	<u>29,668</u>	-	<u>29,668</u>
Culture and recreation:			
Armory:			
Personal services	23,470	-	23,470
Services and commodities	13,286	-	13,286
	<u>36,756</u>	-	<u>36,756</u>
Library:			
Personal services	133,034	-	133,034
Services and commodities	87,837	-	87,837
Capital outlay	12,927	-	12,927
	<u>233,798</u>	-	<u>233,798</u>
Cemetery:			
Personal services	54,827	-	54,827
Services and commodities	40,509	-	40,509
Capital outlay	6,091	-	6,091
	<u>101,427</u>	-	<u>101,427</u>
Park:			
Personal services	87,295	-	87,295
Services and commodities	45,938	-	45,938
Capital outlay	1,280	-	1,280
	<u>134,513</u>	-	<u>134,513</u>

City of Shenandoah
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

	General	Tree Board	Total
Disbursements (continued):			
Culture and recreation:			
Swimming pool:			
Personal services	38,884	-	38,884
Services and commodities	25,835	-	25,835
	<u>64,719</u>	<u>-</u>	<u>64,719</u>
Miscellaneous:			
Personal services	15,693	-	15,693
Services and commodities	14,334	1,194	15,528
	<u>30,027</u>	<u>1,194</u>	<u>31,221</u>
	<u>601,240</u>	<u>1,194</u>	<u>602,434</u>
General government:			
Personal services	30,416	-	30,416
Services and commodities	136,071	-	136,071
Capital outlay	410	-	410
	<u>166,897</u>	<u>-</u>	<u>166,897</u>
Total disbursements	<u>1,939,957</u>	<u>1,194</u>	<u>1,941,151</u>
Deficiency of receipts under disbursements	<u>(305,574)</u>	<u>(742)</u>	<u>(306,316)</u>
Other financing sources:			
Operating transfers in:			
Special Revenue:			
Emergency	20,000	-	20,000
Local Option Sales Tax (LOST):			
Property Tax Relief	163,288	-	163,288
Community Betterment	15,000	-	15,000
Community Planning	15,000	-	15,000
Capital Projects:			
Cemetery Development	6,091	-	6,091
School Street Project	295	-	295
USDA Well Rehabilitation	522	-	522
Police/Fire Equipment	158	-	158

Schedule 1

City of Shenandoah
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

	General	Tree Board	Total
Other financing sources (continued):			
Operating transfers in:			
Non-expendable Trust:			
Cemetery Perpetual Care	6,645	-	6,645
Expendable Trust:			
Wilson Trust - Library	30,000	-	30,000
Total other financing sources	<u>256,999</u>	<u>-</u>	<u>256,999</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(48,575)	(742)	(49,317)
Balance beginning of year	<u>119,914</u>	<u>7,332</u>	<u>127,246</u>
Balance end of year	<u>\$ 71,339</u>	<u>6,590</u>	<u>77,929</u>

See accompanying independent auditor's report.

City of Shenandoah

City of Shenandoah
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2003

	Road Use Tax	Employees' Benefits	Emergency	Shenandoah Acquisition Demolition and Clearing
Receipts:				
Property tax	\$ -	463,359	27,068	-
Other city tax:				
Utility tax replacement excise tax	-	20,646	1,206	-
Local option sales tax	-	-	-	-
	-	20,646	1,206	-
Use of money and property:				
Interest on investments	-	-	852	-
Intergovernmental:				
Road use tax allocation	451,517	-	-	-
Miscellaneous:				
Refunds and reimbursements	-	33,022	-	-
Accrued interest on notes sold	-	-	-	-
	-	33,022	-	-
Total receipts	451,517	517,027	29,126	-
Disbursements:				
Public safety:				
Personal services	-	80,642	-	-
Services and commodities	-	175,549	-	-
	-	256,191	-	-
Public works:				
Personal services	224,744	39,443	-	-
Services and commodities	242,400	102,453	901	1,500
Capital outlay	11,148	-	-	-
	478,292	141,896	901	1,500
Culture and recreation:				
Personal services	-	35,287	-	-
Services and commodities	-	84,360	-	-
	-	119,647	-	-
General government:				
Personal services	-	5,633	-	-
Services and commodities	-	41,060	-	-
	-	46,693	-	-

Local Option Sales Tax (LOST)					
Property Tax Relief	Community Betterment	Community Planning	Economic Development	TIF Bond Sinking	Total
-	-	-	-	-	490,427
-	-	-	-	-	21,852
261,891	87,297	43,648	43,648	-	436,484
261,891	87,297	43,648	43,648	-	458,336
428	215	146	-	-	1,641
-	-	-	-	-	451,517
-	250	-	-	-	33,272
-	-	-	-	2,709	2,709
-	250	-	-	2,709	35,981
262,319	87,762	43,794	43,648	2,709	1,437,902
-	-	-	-	-	80,642
-	-	3,042	-	-	178,591
-	-	3,042	-	-	259,233
-	-	-	-	-	264,187
2,369	8,102	19,500	-	-	377,225
3,340	10,221	-	-	-	24,709
5,709	18,323	19,500	-	-	666,121
-	-	-	-	-	35,287
-	-	-	-	-	84,360
-	-	-	-	-	119,647
-	-	-	-	-	5,633
-	-	4,085	39,801	-	84,946
-	-	4,085	39,801	-	90,579

City of Shenandoah
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2003

	Road Use Tax	Employees' Benefits	Emergency	Shenandoah Acquisition Demolition and Clearing
Disbursements (continued):				
Debt service:				
Principal redeemed	16,163	-	-	-
Interest paid	837	-	3,281	-
Registrar fee	-	-	-	-
	17,000	-	3,281	-
Total disbursements	495,292	564,427	4,182	1,500
Excess (deficiency) of receipts over (under) disbursements	(43,775)	(47,400)	24,944	(1,500)
Other financing sources (uses):				
Urban renewal revenue note proceeds (net of \$1,871 discount)	-	-	-	-
Operating transfers in (out):				
General:				
General	-	-	(20,000)	-
Debt Service	-	-	(14,758)	-
Capital Projects:				
Public Safety Center	-	-	-	-
School Street Project	-	-	-	-
Theatre Project	-	-	-	-
Shenandoah Lake Reservoir	-	-	-	-
Enterprise:				
Water	-	-	-	-
Swimming Pool Revenue Sinking	-	-	-	-
Total other financing sources (uses)	-	-	(34,758)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(43,775)	(47,400)	(9,814)	(1,500)
Balance beginning of year	14,499	60,061	11,425	-
Balance end of year	\$ (29,276)	12,661	1,611	(1,500)

See accompanying independent auditor's report.

Local Option Sales Tax (LOST)					
Property Tax Relief	Community Betterment	Community Planning	Economic Development	TIF Bond Sinking	Total
-	-	-	-	-	16,163
-	-	-	-	20,314	24,432
-	-	-	-	150	150
-	-	-	-	20,464	40,745
5,709	18,323	26,627	39,801	20,464	1,176,325
256,610	69,439	17,167	3,847	(17,755)	261,577
-	-	-	-	98,860	98,860
(163,288)	(15,000)	(15,000)	-	-	(213,288)
(95,750)	(7,205)	-	-	-	(117,713)
-	2,094	-	-	-	2,094
8,091	-	-	-	-	8,091
-	-	-	-	20,464	20,464
-	(2,400)	(5,355)	-	-	(7,755)
(19,000)	(6,000)	-	-	-	(25,000)
-	(47,055)	-	-	-	(47,055)
(269,947)	(75,566)	(20,355)	-	119,324	(281,302)
(13,337)	(6,127)	(3,188)	3,847	101,569	(19,725)
18,672	14,578	10,606	3,141	-	132,982
5,335	8,451	7,418	6,988	101,569	113,257

Schedule 3

City of Shenandoah
Schedule of Cash Transactions
Debt Service Fund
Year ended June 30, 2003

Receipts:	
Property tax	\$ 401,368
Other city tax:	
Utility tax replacement excise tax	17,892
Use of money and property:	
Interest on investments	1,583
Special assessments	67,587
Total receipts	<u>488,430</u>
Disbursements:	
Debt service:	
Principal redeemed	541,803
Interest paid	185,686
Registrar fee	4,700
Total disbursements	<u>732,189</u>
Deficiency of receipts under disbursements	<u>(243,759)</u>
Other financing sources:	
Operating transfers in:	
Special Revenue:	
Emergency	14,758
Local Option Sales Tax (LOST):	
Property Tax Relief	95,750
Community Betterment	7,205
Enterprise:	
Water Bond Sinking	23,171
Sewer Bond Sinking	23,171
Swimming Pool Revenue Sinking	10,658
Expendable Trust:	
Rural Fire Truck Trust	4,140
Wilson Trust - Other	67,692
Total other financing sources	<u>246,545</u>
Excess of receipts and other financing sources over disbursements	2,786
Balance beginning of year	<u>41,296</u>
Balance end of year	<u><u>\$ 44,082</u></u>

See accompanying independent auditor's report.

City of Shenandoah

City of Shenandoah
Combining Schedule of Cash Transactions
Capital Projects Funds
Year ended June 30, 2003

	Airport Improve- ment Bond	Revolving Loan	Rural/ Community Planning and Development	Cemetery Development	Public Safety Center	Aquatic Center Park	Shenandoah Magic Downtown Development
Receipts:							
Use of money and property:							
Interest on investments	\$ 94	86	-	50	122	943	-
Rent	10,420	-	-	-	-	-	-
	<u>10,514</u>	<u>86</u>	<u>-</u>	<u>50</u>	<u>122</u>	<u>943</u>	<u>-</u>
Intergovernmental:							
Federal airport improvement program grant	846,000	-	-	-	-	-	-
State airport improvement program grant	53,846	-	-	-	-	-	-
USDA well rehabilitation grant	-	-	-	-	-	-	-
FEMA airport buy-out program	-	-	-	-	-	-	-
State rural enterprise grant	-	-	2,100	-	-	-	-
	<u>899,846</u>	<u>-</u>	<u>2,100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Miscellaneous:							
Economic development loan repayments	-	37,019	-	-	-	-	-
Accrued interest on notes sold	-	-	-	-	-	-	-
Donations	-	-	-	-	5,000	8,000	24,000
Miscellaneous	-	-	-	-	-	-	-
	<u>-</u>	<u>37,019</u>	<u>-</u>	<u>-</u>	<u>5,000</u>	<u>8,000</u>	<u>24,000</u>
Total receipts	<u>910,360</u>	<u>37,105</u>	<u>2,100</u>	<u>50</u>	<u>5,122</u>	<u>8,943</u>	<u>24,000</u>
Disbursements:							
Capital projects:							
Services and commodities	75,366	40,000	2,100	-	20,109	2,544	8,826
Capital outlay	827,170	-	-	-	9,153	16,980	7,596
Total disbursements	<u>902,536</u>	<u>40,000</u>	<u>2,100</u>	<u>-</u>	<u>29,262</u>	<u>19,524</u>	<u>16,422</u>
Excess (deficiency) of receipts over (under) disbursements	<u>7,824</u>	<u>(2,895)</u>	<u>-</u>	<u>50</u>	<u>(24,140)</u>	<u>(10,581)</u>	<u>7,578</u>

School Street Project	Airport FEMA A/D/S	West Ridge Water and Sewer Improvement	Theatre Project	Miscellaneous Property Demolition	USDA Well Rehabilitation	Shenandoah Lake Reservoir	Police/Fire Equipment	Total
-	-	-	1,232	-	-	-	-	2,527
-	-	-	-	-	-	-	-	10,420
-	-	-	1,232	-	-	-	-	12,947
-	-	-	-	-	-	-	-	846,000
-	-	-	-	-	-	-	-	53,846
-	-	-	-	-	74,290	-	-	74,290
-	105,825	-	-	-	-	-	-	105,825
-	-	-	-	-	-	-	-	2,100
-	105,825	-	-	-	74,290	-	-	1,082,061
-	-	-	-	-	-	-	-	37,019
2,004	-	-	-	-	-	-	-	2,004
-	-	-	-	-	-	-	-	37,000
12,480	-	-	-	-	-	3,105	-	15,585
14,484	-	-	-	-	-	3,105	-	91,608
14,484	105,825	-	1,232	-	74,290	3,105	-	1,186,616
12,480	5,977	-	184,462	5,834	4,720	80,476	-	442,894
-	-	-	762,607	18,704	45,290	-	-	1,687,500
12,480	5,977	-	947,069	24,538	50,010	80,476	-	2,130,394
2,004	99,848	-	(945,837)	(24,538)	24,280	(77,371)	-	(943,778)

City of Shenandoah
Combining Schedule of Cash Transactions
Capital Projects Funds
Year ended June 30, 2003

	Airport Improve- ment Bond	Revolving Loan	Rural/ Community Planning and Development	Cemetery Development	Public Safety Center	Aquatic Center Park	Shenandoah Magic Downtown Development
Other financing sources (uses):							
Special assessment note proceeds	-	-	-	-	-	-	-
Urban renewal revenue note proceeds (net of \$24,859 discount)	-	-	-	-	-	-	-
Operating transfers in (out):							
General:							
General	-	-	-	(6,091)	-	-	-
Special Revenue:							
Local Option Sales Tax (LOST):							
Property Tax Relief	-	-	-	-	-	-	-
Community Betterment	-	-	-	-	(2,094)	-	-
Community Planning	-	-	-	-	-	-	-
TIF Bond Sinking	-	-	-	-	-	-	-
Capital Projects:							
Airport Improvement Bond	-	-	-	-	-	-	-
Airport FEMA A/D/S	2,209	-	-	-	-	-	-
Enterprise:							
Swimming Pool Revenue Sinking	-	-	-	-	-	-	-
Expendable Trust:							
Wilson Trust - Other	-	-	-	-	-	-	-
Bricker Trust	-	-	-	-	-	-	-
Total other financing sources (uses)	2,209	-	-	(6,091)	(2,094)	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	10,033	(2,895)	-	(6,041)	(26,234)	(10,581)	7,578
Balance beginning of year	(6,272)	23,258	-	6,258	26,234	21,082	22,511
Balance end of year	\$ 3,761	20,363	-	217	-	10,501	30,089

See accompanying independent auditor's report.

School Street Project	Airport FEMA A/D/S	West Ridge Water and Sewer Improvement	Theatre Project	Miscellaneous Property Demolition	USDA Well Rehabilitation	Shenandoah Lake Reservoir	Police/Fire Equipment	Total
624,000	-	-	-	-	-	-	-	624,000
-	-	-	1,359,410	-	-	-	-	1,359,410
(295)	-	-	-	-	(522)	-	(158)	(7,066)
(8,091)	-	-	-	-	-	-	-	(8,091)
-	-	-	-	-	-	2,400	-	306
-	-	-	-	-	-	5,355	-	5,355
-	-	-	(20,464)	-	-	-	-	(20,464)
-	(2,209)	-	-	-	-	-	-	(2,209)
-	-	-	-	-	-	-	-	2,209
(4,000)	-	-	-	-	-	-	-	(4,000)
-	-	-	-	-	-	6,367	-	6,367
(54,853)	-	-	-	2,334	-	22,440	-	(30,079)
556,761	(2,209)	-	1,338,946	2,334	(522)	36,562	(158)	1,925,738
558,765	97,639	-	393,109	(22,204)	23,758	(40,809)	(158)	981,960
(558,765)	(10,300)	1,316	-	-	(18,553)	-	158	(493,073)
-	87,339	1,316	393,109	(22,204)	5,205	(40,809)	-	488,887

City of Shenandoah
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2003

	Water	Water Bond Sinking	Water Sinking Reserve	Water Improve- ment Reserve
Receipts:				
Use of money and property:				
Interest on investments	\$ -	543	-	-
Charges for service:				
Sale of water	632,845	4,029	-	-
Meter repair	2,480	-	-	-
Taps	188	-	-	-
Customer deposits	-	-	-	-
Sewer rental fees	-	-	-	-
	<u>635,513</u>	<u>4,029</u>	<u>-</u>	<u>-</u>
Miscellaneous:				
Sales tax collected	47,718	-	-	-
Merchandise sales	1,863	-	-	-
Insurance settlement	3,990	-	-	-
Miscellaneous	1,276	-	-	-
	<u>54,847</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total receipts	<u>690,360</u>	<u>4,572</u>	<u>-</u>	<u>-</u>
Disbursements:				
Business type activities:				
Operating:				
Personal services	284,439	-	-	-
Services and commodities	389,385	-	-	-
Capital outlay	6,223	-	-	-
	<u>680,047</u>	<u>-</u>	<u>-</u>	<u>-</u>

Meter Deposit	Sewer Rental	Sewer Bond Sinking	Sewer Sinking Reserve	Swimming Pool Revenue Sinking	Total
-	-	169	-	467	1,179
-	-	-	-	-	636,874
-	-	-	-	-	2,480
-	-	-	-	-	188
16,310	-	-	-	-	16,310
-	401,177	-	-	-	401,177
16,310	401,177	-	-	-	1,057,029
-	-	-	-	-	47,718
-	-	-	-	-	1,863
-	1,680	-	-	-	5,670
-	2,750	-	-	-	4,026
-	4,430	-	-	-	59,277
16,310	405,607	169	-	467	1,117,485
-	183,987	-	-	-	468,426
10,986	204,261	-	-	-	604,632
-	3,074	-	-	-	9,297
10,986	391,322	-	-	-	1,082,355

City of Shenandoah
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2003

	Water	Water Bond Sinking	Water Sinking Reserve	Water Improve- ment Reserve
Disbursements (continued):				
Business type activities:				
Debt service:				
Principal redeemed	-	10,000	-	-
Interest paid	-	2,925	-	-
Bond registrar fees	-	75	-	-
	-	13,000	-	-
Total disbursements	680,047	13,000	-	-
Excess (deficiency) of receipts over (under) disbursements	10,313	(8,428)	-	-
Other financing sources (uses):				
Operating transfers in (out):				
Special Revenue:				
Local Option Sales Tax (LOST):				
Property Tax Relief	19,000	-	-	-
Community Betterment	6,000	-	-	-
Debt Service	-	(23,171)	-	-
Capital Projects:				
School Street Project	-	-	-	-
Enterprise:				
Water	-	39,000	-	-
Water Bond Sinking	(39,000)	-	-	-
Sewer Rental	-	-	-	-
Sewer Bond Sinking	-	-	-	-
Total other financing sources (uses)	(14,000)	15,829	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(3,687)	7,401	-	-
Balance beginning of year	(1,528)	(112,407)	62,072	87,211
Balance end of year	\$ (5,215)	(105,006)	62,072	87,211

See accompanying independent auditor's report.

Meter Deposit	Sewer Rental	Sewer Bond Sinking	Sewer Sinking Reserve	Swimming Pool Revenue Sinking	Total
-	-	10,000	-	40,000	60,000
-	-	2,925	-	7,055	12,905
-	-	75	-	-	150
-	-	13,000	-	47,055	73,055
10,986	391,322	13,000	-	47,055	1,155,410
5,324	14,285	(12,831)	-	(46,588)	(37,925)
-	-	-	-	-	19,000
-	-	-	-	47,055	53,055
-	-	(23,171)	-	(10,658)	(57,000)
-	-	-	-	4,000	4,000
-	-	-	-	-	39,000
-	-	-	-	-	(39,000)
-	-	42,000	-	-	42,000
-	(42,000)	-	-	-	(42,000)
-	(42,000)	18,829	-	40,397	19,055
5,324	(27,715)	5,998	-	(6,191)	(18,870)
39,462	(19,940)	(69,310)	80,000	56,303	121,863
44,786	(47,655)	(63,312)	80,000	50,112	102,993

City of Shenandoah

City of Shenandoah
Combining Schedule of Cash Transactions
Internal Service Funds
Year ended June 30, 2003

	Payroll Revolving	Supply Revolving	Total
Receipts:			
Miscellaneous:			
Postage reimbursements from operating funds	\$ -	10,670	10,670
Personal service costs from operating funds	1,779,870	-	1,779,870
Total receipts	<u>1,779,870</u>	<u>10,670</u>	<u>1,790,540</u>
Disbursements:			
Non-program:			
Personal services	1,779,959	-	1,779,959
Services and commodities	-	10,550	10,550
Total disbursements	<u>1,779,959</u>	<u>10,550</u>	<u>1,790,509</u>
Excess (deficiency) of receipts over (under) disbursements	(89)	120	31
Balance beginning of year	70	107	177
Balance end of year	<u>\$ (19)</u>	<u>227</u>	<u>208</u>

See accompanying independent auditor's report.

City of Shenandoah
 Combining Schedule of Cash Transactions

Trust Funds

Year ended June 30, 2003

	Non-Expendable Trust							Expendable ¶
	Cemetery Perpetual Care	Gidley Park Trust	Esden Trust	Holiday Dinners	Rapp Library Trust	Reed Estate Trust	Ambulance Trust	
Receipts:								
Use of money and property:								
Interest on investments	\$ 6,645	571	1,376	17	-	-	2	
Charges for service:								
Perpetual care payments	3,275	-	-	-	-	-	-	
Miscellaneous:								
Donations	-	5,935	-	2,144	10,000	10,000	-	
Total receipts	<u>9,920</u>	<u>6,506</u>	<u>1,376</u>	<u>2,161</u>	<u>10,000</u>	<u>10,000</u>	<u>2</u>	
Disbursements:								
Public safety:								
Capital outlay	-	-	-	-	-	-	660	
Culture and recreation:								
Services and commodities	-	18,300	1,376	1,581	-	-	-	
Capital outlay	-	-	-	-	-	-	-	
Total disbursements	<u>-</u>	<u>18,300</u>	<u>1,376</u>	<u>1,581</u>	<u>-</u>	<u>-</u>	<u>660</u>	
Excess (deficiency) of receipts over (under) disbursements	<u>9,920</u>	<u>(11,794)</u>	<u>-</u>	<u>580</u>	<u>10,000</u>	<u>10,000</u>	<u>(658)</u>	
Other financing sources (uses):								
General obligation note proceeds	-	-	-	-	-	-	-	
Operating transfers in (out):								
General:								
General	(6,645)	-	-	-	-	-	-	
Debt Service	-	-	-	-	-	-	-	
Capital Projects:								
School Street Project	-	-	-	-	-	-	-	
Miscellaneous Property Demolition	-	-	-	-	-	-	-	
Shenandoah Lake Reservoir	-	-	-	-	-	-	-	
Expendable Trusts:								
Gidley Park Trust	-	-	-	-	-	-	-	
Ambulance Trust	-	-	-	-	-	-	-	
Bricker Trust	-	-	-	-	-	-	375	
CABA Trust	-	1,461	-	-	-	-	-	
Total other financing sources (uses)	<u>(6,645)</u>	<u>1,461</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>375</u>	
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>3,275</u>	<u>(10,333)</u>	<u>-</u>	<u>580</u>	<u>10,000</u>	<u>10,000</u>	<u>(283)</u>	
Balance beginning of year	<u>135,494</u>	<u>63,537</u>	<u>22,947</u>	<u>784</u>	<u>-</u>	<u>-</u>	<u>283</u>	
Balance end of year	<u>\$ 138,769</u>	<u>53,204</u>	<u>22,947</u>	<u>1,364</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>	

See accompanying independent auditor's report.

Trusts								
Rural Fire Truck Trust	Vision Iowa Trust	Wilson Trust		Bricker Trust	CABA Trust	Kay M. Anderson Foundation	Simons Trust Library	Total
		Library	Other					
161	-	755	37	6,193	32	-	4,641	20,430
-	-	-	-	-	-	-	-	3,275
8,160	2,350	29,855	67,672	2,617	-	-	-	138,733
8,321	2,350	30,610	67,709	8,810	32	-	4,641	162,438
115,000	-	-	-	64,529	-	-	-	180,189
-	-	-	2,295	89,942	-	-	12,465	125,959
-	-	-	-	81,560	-	-	-	81,560
-	-	-	2,295	171,502	-	-	12,465	207,519
115,000	-	-	2,295	236,031	-	-	12,465	387,708
(106,679)	2,350	30,610	65,414	(227,221)	32	-	(7,824)	(225,270)
115,000	-	-	-	-	-	-	-	115,000
-	-	(30,000)	-	-	-	-	-	(36,645)
(4,140)	-	-	(67,692)	-	-	-	-	(71,832)
-	-	-	-	54,853	-	-	-	54,853
-	-	-	-	(2,334)	-	-	-	(2,334)
-	-	-	(6,367)	(22,440)	-	-	-	(28,807)
-	-	-	-	-	(1,461)	-	-	(1,461)
-	-	-	-	(375)	-	-	-	(375)
-	-	-	-	-	-	-	-	375
-	-	-	-	-	-	-	-	1,461
110,860	-	(30,000)	(74,059)	29,704	(1,461)	-	-	30,235
4,181	2,350	610	(8,645)	(197,517)	32	-	(7,824)	(195,035)
-	-	76,897	8,645	518,856	1,429	63	243,868	1,072,803
4,181	2,350	77,507	-	321,339	1,461	63	236,044	877,768

City of Shenandoah
Bond and Note Maturities
June 30, 2003

Year Ending June 30,	General Obligation Bonds							Total
	Essential Corporate Purpose		Essential and General Corporate Purpose		Essential Corporate Purpose			
	Issued Jun 1, 1995		Issued Jun 1, 1997		Issued Oct 1, 1997			
	Interest		Interest		Interest			
Rates	Amount	Rates	Amount	Rates	Amount			
2004	5.00%	\$ 90,000	4.85%	\$ 60,000	4.70%	\$ 20,000	170,000	
2005		-	4.90	60,000	4.75	20,000	80,000	
2006		-	4.95	65,000	4.80	20,000	85,000	
2007		-	5.00	65,000	4.85	25,000	90,000	
2008		-	5.05	70,000	4.90	25,000	95,000	
2009		-		-		-	-	
2010		-		-		-	-	
2011		-		-		-	-	
2012		-		-		-	-	
2013		-		-		-	-	
2014		-		-		-	-	
2015		-		-		-	-	
2016		-		-		-	-	
Total		<u>\$ 90,000</u>		<u>\$ 320,000</u>		<u>\$ 110,000</u>	<u>520,000</u>	

Year Ending June 30,	General Obligation Notes					Total
	Essential Corporate Purpose		Essential Corporate Purpose			
	Issued June 15, 2001		Issued Sep 1, 2002			
	Interest		Interest			
Rates	Amount	Rates	Amount			
2004	5.95%	\$ 10,000	4.80%	\$ 5,000	255,000	
2005	5.95	10,000	4.80	10,000	275,000	
2006	5.95	10,000	4.80	10,000	275,000	
2007	5.95	10,000	4.80	10,000	270,000	
2008	5.95	10,000	4.80	10,000	280,000	
2009	5.95	10,000	4.80	10,000	280,000	
2010	5.95	15,000	4.80	15,000	305,000	
2011	5.95	15,000	4.80	15,000	55,000	
2012	5.95	15,000	4.80	15,000	55,000	
2013		-	4.80	15,000	40,000	
2014		-		-	25,000	
2015		-		-	25,000	
2016		-		-	25,000	
Total		<u>\$ 105,000</u>		<u>\$ 115,000</u>	<u>2,165,000</u>	

See accompanying independent auditor's report.

Schedule 9

City of Shenandoah

Comparison of Taxes and Intergovernmental Receipts

	Years ended June 30,			
	2003	2002	2001	2000
Property tax	\$ 1,704,048	1,671,233	1,567,907	1,592,847
Tax increment financing collections	-	26,000	281,921	274,731
Other city tax:				
Local option sales tax	436,484	421,228	449,519	463,926
Utility tax replacement excise tax	75,942	77,126	76,048	-
Cable franchise fees	32,174	30,072	29,847	29,566
Other	1,368	-	-	-
	545,968	528,426	555,414	493,492
Intergovernmental:				
Road use tax allocation	451,517	444,222	449,124	455,055
State allocation	84,138	88,705	95,750	104,216
Grants	1,091,895	87,457	357,465	141,118
Other	42,578	33,031	29,357	33,499
	1,670,128	653,415	931,696	733,888
Total	\$ 3,920,144	2,879,074	3,336,938	3,094,958

See accompanying independent auditor's report.

City of Shenandoah
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2003

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expendi- tures
Direct:			
U.S. Department of Transportation:			
Federal Aviation Administration:			
Airport Improvement Program	20.106	3-19-0082-03	\$ 804,348
U.S. Department of Agriculture:			
Emergency Community Water Assistance Grants	10.763	101.0153.09	<u>50,532</u>
Total direct			<u>854,880</u>
Indirect:			
Federal Emergency Management Agency:			
Iowa Department of Public Defense:			
Emergency Management Division:			
Hazard Mitigation Grant	83.548	1230-73-01	<u>8,186</u>
Total			<u><u>\$ 863,066</u></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 financial statements.

See accompanying independent auditor's report.

City of Shenandoah



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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the primary government financial statements of the City of Shenandoah, Iowa, as of and for the year ended June 30, 2003, and have issued our report thereon dated October 22, 2003. Our report expressed an unqualified opinion on the primary government financial statements which were prepared in accordance with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Shenandoah's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in 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, 2003 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items IV-A-03, IV-B-03, IV-H-03, IV-I-03, IV-J-03 and IV-K-03.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Shenandoah's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily report all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

October 22, 2003

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance**

City of Shenandoah



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance

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, 2003. 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 grants 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, Chapter 11 of the Code of Iowa, 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 provisions 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 that 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, 2003.

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 grants applicable to federal programs. In planning and performing our audit, we considered the City of Shenandoah's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 22, 2003

City of Shenandoah

Schedule of Findings and Questioned Costs

Year Ended June 30, 2003

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

- (a) An unqualified opinion was issued on the primary government 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) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 20.106 – Airport Improvement Program.
- (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, 2003

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over financial reporting were noted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

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

Part IV: Findings Related to Required Statutory Reporting:

- IV-A-03 Official Depositories – A resolution naming official depositories has been adopted by the Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2003.

The City had three certificates of deposit from depositories outside the State of Iowa.

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

Response – We will demand that the Treasurer discontinue purchasing investments from out of state.

Conclusion – Response accepted.

- IV-B-03 Certified Budget – Disbursements during the year ended June 30, 2003 exceeded the amounts budgeted in the culture and recreation, debt service and capital projects functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

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

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

IV-C-03 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-D-03 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-03 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Darrel Saner, Assistant Fire Chief, owner of Shenweld	Welding and maintenance, per bid	\$ 1,517

In accordance with Chapter 362.5(10) of the Code of Iowa, this transaction does not appear to represent a conflict of interest since it was entered into through competitive bidding.

IV-F-03 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-G-03 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-H-03 Deposits and Investments – In addition to the finding noted in item IV-A-03, 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 to comply with Chapter 12B of the Code of Iowa.

Conclusion – Response accepted.

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

IV-I-03 Revenue Bonds and Notes – The City is in compliance with the resolutions providing for the issuance of the water revenue bonds, local option sales and services tax revenue bonds, swimming pool revenue notes and urban renewal revenue notes except for the following:

- (a) Local option sales and services tax revenue bonds of \$40,000 and interest of \$7,055 were paid from the Enterprise, Swimming Pool Revenue Sinking Fund. Swimming pool revenue notes of \$22,803 and interest of \$7,055 were paid from the Debt Service Fund. The resolutions providing for these revenue bonds and notes require debt payments be paid from separate sinking accounts.
- (b) The water revenue bonds and swimming pool revenue notes resolutions require separate reserve and improvement accounts. The City did not make the required transfers to the Enterprise, Water Improvement Reserve Fund and closed the Special Revenue, Local Option Sales Tax (LOST) Bond Sinking and Bond Reserve Funds and the Enterprise, Swimming Pool Improvement Fund to other accounts during the ended June 30, 2002.
- (c) Also, the water revenue bonds resolution states the City will provide for the collection of rates to produce gross revenues at least sufficient to pay the expenses of operation and maintenance of the utility and to have a balance of net revenues equal to at least 125% of the principal and interest due on the bonds each fiscal year. The City has not complied with this provision.
- (d) The urban renewal revenue notes require the establishment of a Reserve Fund into which \$148,500 of the note proceeds was to be placed.

Recommendation –

- (a) The City should transfer the required funding contributions from the Expendable Trust, Wilson Trust – Other Fund to the Enterprise, Swimming Pool Revenue Sinking Fund for the swimming pool revenue notes. The City should re-establish the Special Revenue, Local Option Sales Tax (LOST) Bond Sinking Fund and transfer the required funding contribution to it from the Special Revenue, Local Option Sales Tax (LOST) Community Betterment Fund. The principal and interest should then be paid from the appropriate sinking account. The City made a transfer that corrected the payments for the local option sales and services tax revenue bonds.
- (b) The City should also make the required transfers to the Enterprise, Water Improvement Reserve Fund and re-establish the Special Revenue, Local Option Sales Tax (LOST) Bond Reserve Fund with a balance of \$45,000 and the Enterprise, Swimming Pool Improvement Fund with a balance of \$5,000 for amounts previously closed into the Enterprise, Swimming Pool Revenue Sinking Fund.
- (c) In addition, the City should periodically review the Enterprise, Water Fund to ensure established rates will result in sufficient funds to meet future obligations.
- (d) The City should establish a Special Revenue, Urban Renewal Reserve Fund and transfer the \$148,500 that has been accounted for in the Capital Projects, Theatre Project Fund.

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Response – We will pay debt from the proper sinking accounts, will establish and make the appropriate transfers to the required reserve and improvement accounts and will periodically review the enterprise accounts for sufficient rates.

Conclusion – Response accepted.

IV-J-03 Corrective Transfer – Certain water revenue bond principal and interest were paid from the Enterprise, Sewer Bond Sinking Fund. All water revenue bonds should be paid from the Enterprise, Water Bond Sinking Fund. Accrued interest of \$2,004 from the sale of special assessment notes was recorded in the Capital Projects, School Street Project Fund rather than in the Debt Service Fund as required by the special assessment note provisions. Transfers of \$19,000 and \$6,000 were made from the Special Revenue, Local Option Sales Tax (LOST) Property Tax Relief and Community Betterment Funds to the Enterprise, Water Fund which did not comply with the LOST referendum.

In addition, as reported in the prior year, insurance levy receipts were deposited to the General Fund, but the associated insurance payments were paid from the Special Revenue, Employees' Benefits Fund. A corrective transfer has not been made.

Recommendation – The City should transfer \$13,000 for the current year and \$13,500 for the prior year from the Enterprise, Water Bond Sinking Fund to the Enterprise, Sewer Bond Sinking Fund. Bond principal and interest should be paid from the Enterprise, Water Bond Sinking Fund in the future. The Enterprise, Sewer Bond Sinking and Sewer Sinking Reserve Funds should be closed since the sewer revenue bonds have been paid. The City should transfer \$2,004 from the Capital Projects, School Street Project Fund to the Debt Service Fund as required by the special assessment note provisions. The transfers from the Special Revenue, LOST Property Tax Relief and Community Betterment Funds should be corrected since the tax revenues should be expended in compliance with the LOST referendum.

In addition, the City should transfer \$35,000 to the Special Revenue, Employees' Benefits Fund from the General Fund.

Response – We intended to pay revenue bond debt from both sinking accounts due to the benefit to both water and sewer. We will make the School Street Project Account transfer.

Conclusion – Response acknowledged. The water revenue bond resolution requires payment from net revenues of the water operation. The City should also make the corrective transfers from the Enterprise, Water Fund for the amounts transferred from local option sales tax and the corrective transfer from the General Fund to the Special Revenue, Employees' Benefits Fund.

City of Shenandoah
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2003

IV-K-03 Financial Condition – The City had deficit balances as follows:

Fund	Balance	
	June 30, 2003	June 30, 2002
Special Revenue:		
Road Use Tax	\$ (29,276)	14,499
Shenandoah Acquisition Demolition and Clearing	(1,500)	-
Capital Projects:		
Miscellaneous Property Demolition	(22,204)	-
Shenandoah Lake Reservoir	(40,809)	-
Enterprise:		
Water	(5,215)	(1,528)
Water Bond Sinking	(105,006)	(112,407)
Sewer Rental	(47,655)	(19,940)
Sewer Bond Sinking	(63,312)	(69,310)
Internal Service:		
Payroll Revolving	(19)	70

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

Response – Water and sewer rates have recently been increased. Also, general obligation notes will be sold.

Conclusion – Response accepted.

IV-L-03 Other Information Required by the Revenue Bond and Note Resolutions

Insurance – The following insurance policies were in force at June 30, 2003:

Insurer	Description	Amount	Expiration Date
Employers Mutual Casualty Company	Property coverage: 01, 02 and 03 buildings	\$ 18,263,849	Apr 1, 2004
Employers Mutual Casualty Company	Comprehensive general liability: Each occurrence Aggregate	1,000,000 2,000,000	Apr 1, 2004
Employers Mutual Casualty Company	Inland marine: Contractors' equipment Electronic data processing equipment Property floater	591,154 128,286 58,490	Apr 1, 2004

City of Shenandoah
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2003

Insurer	Description	Amount	Expiration Date
Employers Mutual Casualty Company	Automobile coverage: Liability Uninsured motorists	500,000 40,000	Apr 1, 2004
Employers Mutual Casualty Company	Linebacker - each loss and in aggregate	1,000,000	Apr 1, 2004
Employers Mutual Casualty Company	Workers' compensation	500,000	Apr 1, 2004
Employers Mutual Casualty Company	Commercial umbrella: Retained Each occurrence Aggregate	10,000 5,000,000 5,000,000	Apr 1, 2004
Employers Mutual Casualty Company	Employee dishonesty: Blanket bond Alteration	100,000 10,000	Apr 1, 2004
Employers Mutual Casualty Company	Commercial crime: inside/outside premises	10,000	Apr 1, 2004

Statistical Information:

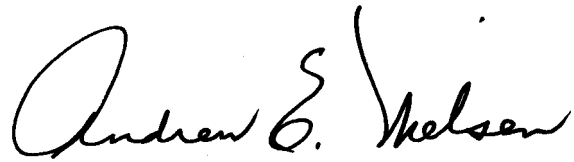
Description	Amount
Swimming pool customers served in 2003 season	20,217
Swimming pool rates in effect at June 30, 2003:	
Daily admission	\$ 4
Single season pass	45
Family plan	100-125

City of Shenandoah

Staff

This audit was performed by:

Ronald D. Swanson, CPA, Manager
Paul F. Kearney, CGFM, Senior Auditor
Gary D. Van Lengen, CPA, Staff Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State