



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

February 21, 2013

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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 \$10,418,621 for the year ended June 30, 2012, a 3.5% increase over the prior year. The receipts included \$2,268,773 in property and other city tax, \$263,995 from tax increment financing, \$474,783 from local option sales tax, \$74,594 from hotel/motel tax, \$3,216,539 from charges for service, \$996,898 from operating grants, contributions and restricted interest, \$1,077,865 from capital grants, contributions and restricted interest, \$39,014 from unrestricted interest on investments, \$1,868,777 from note proceeds and other general receipts of \$137,383.

Disbursements for the year totaled \$11,232,588, a 22.7% increase over the prior year, and included \$2,532,991 for capital projects, \$1,434,911 for public safety and \$1,259,864 for public works. Also, disbursements for business type activities totaled \$2,627,769.

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/1220-0681-B00F.pdf>.

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CITY OF SHENANDOAH

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

JUNE 30, 2012

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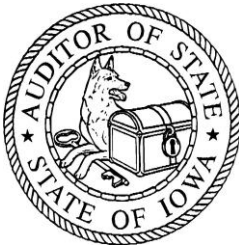
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City of Shenandoah

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2012)		
Richard Hunt	Mayor	Jan 2014
Rod Nester	Mayor Pro tem	Jan 2014
Robert Burchett	Council Member	Jan 2012
James Davey	Council Member	Jan 2012
Marvin Adcock	Council Member	Jan 2014
Don Gibson	Council Member	Jan 2014
Byron Harris	Administrator	Jan 2013
Marcia McKay	Clerk/Treasurer	Jan 2013
Robert Norris	Attorney	Jan 2014
(After January 2012)		
Richard Hunt	Mayor	Jan 2014
Marvin Adcock	Council Member	Jan 2014
Don Gibson	Council Member	Jan 2014
Rod Nester	Council Member	Jan 2014
Robert Burchett	Council Member	Jan 2016
Aaron Green	Council Member	Jan 2016
Byron Harris	Administrator	Jan 2013
Marcia McKay	Clerk/Treasurer	(Resigned May 2012)
Mary Smith (Began May 2012)	Clerk/Treasurer	Jan 2013
Robert Norris	Attorney	Jan 2014

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, 2012, 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.

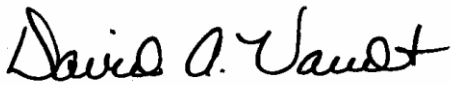
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shenandoah as of June 30, 2012, 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 8, 2013 on our consideration of the City of Shenandoah's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

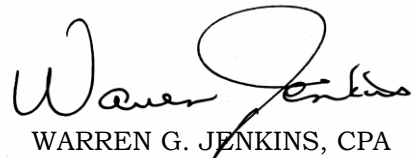
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Shenandoah's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2011 (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. The 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Shenandoah's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 13 and 32 through 34 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 8, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Shenandoah provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 7.8%, or approximately \$612,000, from fiscal year 2011 to fiscal year 2012. The decrease in governmental activities receipts is primarily due to a decrease in note proceeds of approximately \$619,000.
- Governmental activities disbursements increased 21.7%, or approximately \$1,535,000, from fiscal year 2011 to fiscal year 2012. Debt service function disbursements increased approximately \$521,000. Capital projects function disbursements increased approximately \$644,000.
- The City's total cash basis net assets decreased 15.6%, or approximately \$814,000, from June 30, 2011 to June 30, 2012. Of this amount, the cash basis net assets of the governmental activities decreased approximately \$1,377,000 and the cash basis net assets of the business type activities increased approximately \$563,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Employee Benefits and Local Option Sales Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

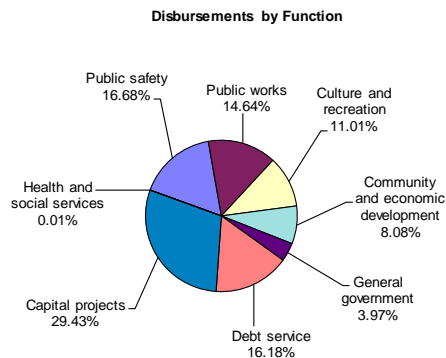
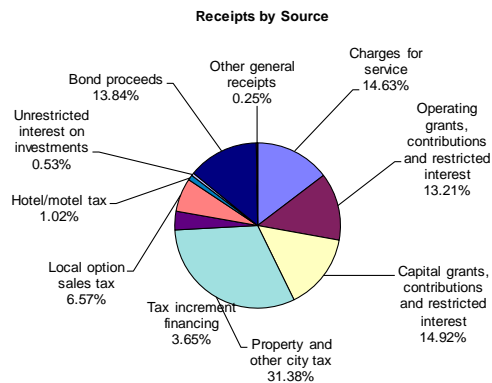
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from approximately \$4.89 million to approximately \$3.52 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,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service	\$ 1,057	920
Operating grants, contributions and restricted interest	955	1,130
Capital grants, contributions and restricted interest	1,078	1,040
General receipts:		
Property and other city tax	2,268	2,154
Tax increment financing	264	266
Local option sales tax	475	533
Hotel/motel tax	74	45
Unrestricted interest on investments	38	2
Note proceeds	1,000	1,619
Sale of real property	-	64
Other general receipts	18	66
Total receipts	7,227	7,839
Disbursements:		
Public safety	1,435	1,194
Public works	1,260	1,343
Health and social services	1	5
Culture and recreation	947	1,083
Community and economic development	695	380
General government	342	305
Debt service	1,392	871
Capital projects	2,533	1,889
Total disbursements	8,605	7,070
Change in cash basis net assets	(1,378)	769
Cash basis net assets beginning of year	4,893	4,124
Cash basis net assets end of year	\$ 3,515	4,893



The total business type activities cash balance increased from approximately \$347 thousand a year ago to approximately \$910 thousand. The analysis that follows focuses on the changes in cash basis net assets of business type activities.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 1,552	1,218
Sewer	608	619
Operating grants, contributions and restricted interest:		
Water	33	35
Sewer	9	11
General receipts:		
Unrestricted interest on investments	1	2
Note proceeds	869	346
Miscellaneous	119	-
Total receipts	<u>3,191</u>	<u>2,231</u>
Disbursements:		
Water	1,996	1,478
Sewer	632	605
Total disbursements	<u>2,628</u>	<u>2,083</u>
Change in cash basis net assets	563	148
Cash basis net assets beginning of year	<u>347</u>	<u>199</u>
Cash basis net assets end of year	<u>\$ 910</u>	<u>347</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Shenandoah completed the fiscal year, its governmental funds reported a combined fund balance of \$3,515,407, a decrease of \$1,377,496 from last year's total of \$4,892,903. The following are the major reasons for the changes in fund balances of the major funds from the prior year and the changes in total receipts and disbursements.

The General Fund cash balance was \$410,050 at the end of fiscal year 2012 and \$379,012 at the end of fiscal year 2011. The City's overall disbursements in the General Fund increased from \$2,592,731 in fiscal year 2011 to \$2,720,899 in fiscal year 2012, an increase of \$128,168, or 4.9%.

The Special Revenue, Road Use Tax Fund cash balance at the end of fiscal year 2012 increased \$24,358 from the prior year end to \$154,846. Disbursements decreased \$19,935, or 4.1%. The decrease in disbursements was due to a decrease in snow removal work in fiscal year 2012.

The Special Revenue, Employee Benefits Fund receipts decreased \$42,563 and disbursements increased \$16,706 from the respective prior year amounts. Tax collections decreased \$33,863.

The Special Revenue, Local Option Sales Tax Fund receipts decreased \$61,819 in fiscal year 2012 from \$547,000 in fiscal year 2011. Disbursements decreased \$862, or less than one percent from the prior year.

By a referendum, the local option sales tax is allocated into four categories: 60% for property tax relief, 20% for community betterment, 10% for community planning and 10% for economic development. The following is a breakdown of fiscal year 2012 receipts:

Property tax relief	\$ 284,870
Community betterment	94,957
Community planning	47,478
Economic development	47,478
	<hr/>
Total	<u>\$ 474,783</u>

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

The Special Revenue, Tax Increment Financing Fund was established in fiscal year 2003 for the construction of a new theater and was used in 2004 for Iowa Western Community College improvements. The cash balance decreased from \$210,189 at the end of fiscal year 2011 to \$144,562 at the end of fiscal year 2012. The note resolution requires a sinking fund reserve of \$148,500.

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 was \$124,673 at the end of fiscal year 2012 and \$140,413 at the end of fiscal year 2011.

The Special Revenue, Library Foundation Fund is a component unit of the City. The cash balance increased \$59,450 over the prior year to a balance of \$505,753.

The Debt Service Fund cash balance decreased \$1,230 from the prior year balance of \$1,230. The City made transfers from other funds sufficient to cover all debt payments not covered by property tax.

The Capital Projects Fund cash balance of \$462,268 is a significant decrease from the prior year balance of \$1,645,806. The City had increased disbursements for the library remodeling project in fiscal year 2012.

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

The Permanent, Cemetery Perpetual Care Fund cash balance of \$160,889 at June 30, 2011 increased \$2,081 over the prior year to a balance of \$162,970.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

Enterprise, Water Fund operating receipts increased \$332,406 in fiscal year 2012 over fiscal year 2011. Non-operating receipts increased primarily due to note proceeds for improvements to the water system and a reimbursement from Walmart on the water project. Disbursements increased \$517,592 in fiscal year 2012 over fiscal year 2011, primarily due to the capital outlays for the water system improvements.

Enterprise, Sewer Fund operating receipts decreased \$13,694 in fiscal year 2012 from fiscal year 2011. Operating disbursements increased \$33,828 in fiscal year 2012 over fiscal year 2011.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 8, 2012 and resulted in increases in receipts of \$1,404,008, other financing sources of \$1,028,640 and disbursements of \$2,544,372. Budgeted disbursements increased as a result of increased costs associated with the airport improvement project, CDBG projects and the library expansion project. The receipts increased significantly due to the receipt of the 2012 general obligation refunding notes.

The City's receipts were \$1,223,742 less than budgeted. This was primarily due to lower than expected receipts from intergovernmental sources.

With the budget amendment, total disbursements were \$2,401,532 less than the amended budget. The City exceeded the budget for the community and economic development and the debt service functions.

DEBT ADMINISTRATION

At June 30, 2012, the City had approximately \$10,437,000 of notes and other long-term debt outstanding, compared to approximately \$10,161,000 last year. The chart below segregates the City's debt into its component parts.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2012	2011
General obligation notes	\$ 6,175	6,195
Swimming pool revenue notes	-	29
Sewer revenue capital loan notes	2,166	2,279
Urban renewal revenue notes	835	1,140
Special assessment bonds/notes	1	66
Capital lease purchase agreements	-	61
Interim water project notes	1,260	391
Total	\$ 10,437	10,161

Debt payments in fiscal year 2012 reduced outstanding debt approximately \$1,593,000 and debt issuances increased outstanding debt approximately \$1,869,000, or a net increase of approximately \$276,000.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$6,175,000 and urban renewal revenue notes of \$835,000, a total \$7,010,000, is significantly below the City's constitutional debt limit of approximately \$10,000,000. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Shenandoah's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates and fees charged for various City activities. One of those factors is the economy.

These factors were taken into account when adopting the budget for fiscal year 2013. Amounts available for appropriation in the operating budget are approximately \$15.7 million, an increase of 50% from the final fiscal year 2012 budget. The City expects to receive more state and federal funds in fiscal year 2013 for airport projects and a Neighborhood Stabilization Program, as well as other projects. Budgeted local option sales tax is expected to increase slightly, but interest rates on investments will most likely remain low. Receipts are expected to decrease and disbursements will be slightly more than receipts due to the completion of capital projects for which note proceeds were received in fiscal year 2012. Budgeted disbursements are expected to increase approximately \$3.4 million, or just over 27%.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$1.9 million, or 40%, by the close of fiscal year 2013 due to the completion of major capital projects.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Byron Harris, City Administrator, by mail at 500 W. Clarinda Avenue, Shenandoah, Iowa 51601-0338 or by phone at (712) 246-4411.

City of Shenandoah

Basic Financial Statements

City of Shenandoah

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2012

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,434,911	49,794	79,586	226,100
Public works	1,259,864	649,436	506,669	-
Health and social services	1,396	39	-	-
Culture and recreation	947,213	303,854	227,588	-
Community and economic development	694,860	-	44,025	-
General government	341,893	53,480	95,659	-
Debt service	1,391,691	-	1,398	68,413
Capital projects	2,532,991	-	-	783,352
Total governmental activities	8,604,819	1,056,603	954,925	1,077,865
Business type activities:				
Water	1,995,700	1,552,079	33,146	-
Sewer	632,069	607,857	8,827	-
Total business type activities	2,627,769	2,159,936	41,973	-
Total	\$ 11,232,588	3,216,539	996,898	1,077,865
General Receipts:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Unrestricted interest on investments				
Note proceeds				
Miscellaneous				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Nonexpendable:				
Snook Trust				
Cemetery perpetual care				
Esden Trust				
Expendable:				
Streets				
Employee benefits				
Tax increment financing				
Simons Trust - Library				
Library Foundation				
Debt service				
Capital projects				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
(1,079,431)	-	(1,079,431)
(103,759)	-	(103,759)
(1,357)	-	(1,357)
(415,771)	-	(415,771)
(650,835)	-	(650,835)
(192,754)	-	(192,754)
(1,321,880)	-	(1,321,880)
(1,749,639)	-	(1,749,639)
(5,515,426)	-	(5,515,426)
-	(410,475)	(410,475)
-	(15,385)	(15,385)
-	(425,860)	(425,860)
(5,515,426)	(425,860)	(5,941,286)
1,624,947	-	1,624,947
643,826	-	643,826
263,995	-	263,995
474,783	-	474,783
74,594	-	74,594
37,539	1,475	39,014
1,000,000	868,777	1,868,777
18,246	119,137	137,383
4,137,930	989,389	5,127,319
(1,377,496)	563,529	(813,967)
4,892,903	346,637	5,239,540
\$ 3,515,407	910,166	4,425,573
\$ 1,150,048	-	1,150,048
162,970	-	162,970
20,588	-	20,588
154,846	-	154,846
169,169	-	169,169
144,562	-	144,562
124,673	-	124,673
505,753	-	505,753
-	635,313	635,313
462,268	-	462,268
210,480	-	210,480
410,050	274,853	684,903
\$ 3,515,407	910,166	4,425,573

City of Shenandoah

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

As of and for the year ended June 30, 2012

	Special Revenue				
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax	Tax Increment Financing
Receipts:					
Property tax	\$ 1,125,514	-	388,043	-	-
Tax increment financing	-	-	-	-	263,995
Other city tax	117,912	-	15,356	474,783	-
Licenses and permits	100,420	-	-	-	-
Use of money and property	71,609	-	-	406	1,070
Intergovernmental	44,923	488,483	-	-	-
Charges for service	788,421	-	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	325,128	-	37,040	9,992	-
Total receipts	2,573,927	488,483	440,439	485,181	265,065
Disbursements:					
Operating:					
Public safety	861,453	-	310,074	-	-
Public works	670,919	464,125	124,820	-	-
Health and social services	-	-	-	-	-
Culture and recreation	799,648	-	144,774	-	-
Community and economic development	53,116	-	-	114,656	383,132
General government	335,763	-	6,130	-	-
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	2,720,899	464,125	585,798	114,656	383,132
Excess (deficiency) of receipts over (under) disbursements	(146,972)	24,358	(145,359)	370,525	(118,067)
Other financing sources (uses):					
Note proceeds	-	-	-	-	115,000
Sale of real property	-	-	-	-	-
Operating transfers in	297,713	-	-	-	-
Operating transfers out	(119,703)	-	-	(427,553)	(62,560)
Total other financing sources (uses)	178,010	-	-	(427,553)	52,440
Net change in cash balances	31,038	24,358	(145,359)	(57,028)	(65,627)
Cash balances beginning of year	379,012	130,488	314,528	57,028	210,189
Cash balances end of year	\$ 410,050	154,846	169,169	-	144,562
Cash Basis Fund Balances					
Nonspendable:					
Permanent Funds	\$ -	-	-	-	-
Revolving Fund	82,770	-	-	-	-
Restricted for:					
Employee benefits	-	-	169,169	-	-
Streets	-	154,846	-	-	-
Simons Trust - Lbrary	-	-	-	-	-
Library Foundation	-	-	-	-	-
Debt service	-	-	-	-	148,500
Capital projects	-	-	-	-	-
Other purposes	1,563	-	-	-	-
Assigned for economic development	15,914	-	-	-	-
Unassigned	309,803	-	-	-	(3,938)
Total cash basis fund balances	\$ 410,050	154,846	169,169	-	144,562

See notes to financial statements.

Simons		Permanent					Nonmajor	Total
Trust - Library	Library Foundation	Debt Service	Capital Projects	Snook Trust	Cemetery Perpetual Care			
-	-	643,826	-	-	-	27,608	2,184,991	
-	-	-	-	-	-	-	263,995	
-	-	24,014	-	-	-	1,094	633,159	
-	-	-	-	-	-	-	100,420	
26	9,384	678	19,350	5,164	-	239	107,926	
-	-	-	758,503	-	-	226,100	1,518,009	
-	-	-	-	-	2,081	-	790,502	
-	-	68,413	-	-	-	-	68,413	
-	80,488	719	5,950	-	-	99,941	559,258	
26	89,872	737,650	783,803	5,164	2,081	354,982	6,226,673	
-	-	-	-	2,791	-	260,593	1,434,911	
-	-	-	-	-	-	-	1,259,864	
-	-	-	-	1,396	-	-	1,396	
-	-	-	-	2,791	-	-	947,213	
15,766	30,422	-	-	-	-	97,768	694,860	
-	-	-	-	-	-	-	341,893	
-	-	1,391,691	-	-	-	-	1,391,691	
-	-	-	2,532,991	-	-	-	2,532,991	
15,766	30,422	1,391,691	2,532,991	6,978	-	358,361	8,604,819	
(15,740)	59,450	(654,041)	(1,749,188)	(1,814)	2,081	(3,379)	(2,378,146)	
-	-	-	-	-	-	-	-	
-	-	340,000	545,000	-	-	-	1,000,000	
-	-	-	650	-	-	-	650	
-	-	312,811	20,000	-	-	29,292	659,816	
-	-	-	-	-	-	(50,000)	(659,816)	
-	-	652,811	565,650	-	-	(20,708)	1,000,650	
(15,740)	59,450	(1,230)	(1,183,538)	(1,814)	2,081	(24,087)	(1,377,496)	
140,413	446,303	1,230	1,645,806	1,151,862	160,889	255,155	4,892,903	
124,673	505,753	-	462,268	1,150,048	162,970	231,068	3,515,407	
-	-	-	-	1,150,048	162,970	20,588	1,333,606	
-	-	-	-	-	-	-	82,770	
-	-	-	-	-	-	-	169,169	
-	-	-	-	-	-	-	154,846	
124,673	-	-	-	-	-	-	124,673	
-	505,753	-	-	-	-	-	505,753	
-	-	-	-	-	-	-	148,500	
-	-	-	462,268	-	-	-	462,268	
-	-	-	-	-	-	210,480	212,043	
-	-	-	-	-	-	-	15,914	
-	-	-	-	-	-	-	305,865	
124,673	505,753	-	462,268	1,150,048	162,970	231,068	3,515,407	

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, 2012

	Enterprise		Total
	Water	Sewer	
Operating receipts:			
Charges for service	\$ 1,552,079	607,857	2,159,936
Miscellaneous	33,146	8,827	41,973
Total operating receipts	1,585,225	616,684	2,201,909
Operating disbursements:			
Business type activities	955,722	450,699	1,406,421
Excess of operating receipts over operating disbursements	629,503	165,985	795,488
Non-operating receipts (disbursements):			
Interest on investments	1,211	264	1,475
Note proceeds	868,777	-	868,777
Project reimbursements	119,137	-	119,137
Debt service	-	(181,370)	(181,370)
Capital outlay	(1,039,978)	-	(1,039,978)
Total non-operating receipts (disbursements)	(50,853)	(181,106)	(231,959)
Excess (deficiency) of receipts over (under) disbursements	578,650	(15,121)	563,529
Cash balances beginning of year	250,206	96,431	346,637
Cash balances end of year	\$ 828,856	81,310	910,166
Cash Basis Fund Balances			
Restricted for debt service	\$ 603,520	31,793	635,313
Unrestricted	225,336	49,517	274,853
Total cash basis fund balances	\$ 828,856	81,310	910,166

See notes to financial statements.

City of Shenandoah

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

Blended Component Unit

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

Jointly Governed Organizations

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

Related Organization

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

B. Basis of Presentation

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

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

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

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

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

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

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

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

Permanent:

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

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

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

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

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the community and economic development and the debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 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 \$559,021 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Investment Trust is unrated.

The Shenandoah Public Library has received a donation of stock with a carrying and fair market value of \$54,762 at June 30, 2012.

(3) Notes Payable

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

Year Ending June 30,	General Obligation Notes		Sewer Revenue Capital Loan Notes		Urban Renewal Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 885,000	180,672	116,000	64,980	100,000	51,785	1,101,000	297,437
2014	875,000	190,996	120,000	61,500	105,000	46,135	1,100,000	298,631
2015	850,000	134,324	124,000	57,900	110,000	39,992	1,084,000	232,216
2016	870,000	112,076	127,000	54,180	120,000	33,392	1,117,000	199,648
2017	595,000	82,772	131,000	50,370	125,000	25,953	851,000	159,095
2018-2022	2,100,000	165,347	717,000	190,470	275,000	27,255	3,092,000	383,072
2023-2027	-	-	831,000	76,230	-	-	831,000	76,230
Total	\$ 6,175,000	866,187	2,166,000	555,630	835,000	224,512	9,176,000	1,646,329

General Obligation Refunding Notes

On April 12, 2012, the City issued \$1,000,000 of general obligation notes with interest rates ranging from .50% to 2.20% per annum which mature on June 1, 2017. Included in this issue were \$485,000 of refunding notes. These refunding notes were issued to currently refund the remaining outstanding balances of \$325,000 of the general obligation notes and \$160,000 of the urban renewal revenue notes, both of which were issued July 15, 2004.

The City obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$36,000.

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

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,700,000 of sewer revenue capital loan notes issued in July 2007. Proceeds from the notes provided financing for improvements to the municipal sewer utility. The notes are payable solely from sewer customer net receipts. Annual principal and interest payments on the notes are expected to require more than 100% of net receipts. The total principal and interest remaining to be paid on the notes is \$2,721,630. For the current year, principal and interest paid and total customer net receipts were \$181,370 and \$165,985, respectively.

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

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

The City has not established user rates which produce and maintain net receipts at the required level.

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 resolutions providing for the issuance of the notes include the following provisions:

- (a) A separate sinking account shall be established for the purpose of paying interest and principal coming due during the fiscal year. The City accounts for this activity within the Special Revenue, Tax Increment Financing Fund.
- (b) A separate reserve account shall be established to maintain a required debt service reserve. The City is to deposit note proceeds of \$148,500 into the reserve account. This account is restricted for the purpose of paying principal and interest when funds in the sinking account are inadequate. The City accounts for these proceeds within the Special Revenue, Tax Increment Financing Fund.

Interim Water Project Notes

On January 17, 2008, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, N.A. for issuance of interest free interim project notes of \$45,000. The principal on the notes is payable at maturity on December 29, 2013. The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the costs of planning and designing improvements and extensions to the municipal water system. The City receives drawdowns from the Trustee for costs as they are incurred. At June 30, 2012, the balance outstanding on the notes was \$45,000.

On December 29, 2010, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, N.A. for issuance of interest free interim project notes of \$1,385,000. The principal on the notes is payable at maturity on December 29, 2013. The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the costs of planning and designing improvements and extensions to the municipal water system. The City receives drawdowns from the Trustee for costs as they are incurred. At June 30, 2012, the City had drawn \$1,214,701 of the \$1,385,000 authorized. Wells Fargo Bank, N.A. has the remaining funds held in trust, which the City will request as the project progresses.

(4) 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 5.38% of their annual covered salary and the City is required to contribute 8.07% 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, 2012, 2011 and 2010 were \$141,432, \$124,372 and \$114,991, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/vision insurance benefits for employees, retirees and their spouses. There are 37 active members and 1 retired member in the plan. Retired participants must be age 65 or older at retirement.

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

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$498 for employee coverage, \$943 for employee/child coverage, \$1,018 for employee/spouse coverage and \$1,525 for family coverage. For the year ended June 30, 2012, the City contributed \$431,247 and plan members eligible for benefits contributed \$56,626 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, sick leave, and compensatory time for subsequent use. Employees separated from City employment are paid for unused vacation leave and compensatory time 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 and compensatory time payable to employees at June 30, 2012, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 64,000
Compensatory time	10,000
Total	<u>\$ 74,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2012.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 267,713
	Wilson Trust - Library	30,000
		<u>297,713</u>
Special Revenue:	General	
Pool Revenue Note Sinking		<u>29,292</u>
Debt Service	General	90,411
	Special Revenue:	
	Local Option Sales Tax	159,840
	Tax Increment Financing	62,560
		<u>312,811</u>
Capital Projects	Special Revenue:	
	Memorial Building	20,000
Total		<u>\$ 659,816</u>

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

(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 Account

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, 2012, the City approved one new loan for economic development projects and collections of \$29,370 of principal and \$3,379 of interest were received. The outstanding loan principal balance within the General Fund was \$82,770 at June 30, 2012.

(10) Subsequent Events

In October 2012, the City issued \$225,000 of general obligation capital loan notes to provide funds to pay the costs of acquisition, construction, reconstruction, enlargement, improvement and equipping a recreation building.

In December 2012, the City finalized the purchase of property at a cost of approximately \$400,000 to be used for the construction of a water treatment facility.

City of Shenandoah

Other 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

Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted
Receipts:			
Property tax	\$ 2,184,991	-	-
Tax increment financing	263,995	-	-
Other city tax	633,159	-	-
Licenses and permits	100,420	-	-
Use of money and property	107,926	1,475	9,384
Intergovernmental	1,518,009	987,914	-
Charges for service	790,502	2,159,936	-
Special assessments	68,413	-	-
Miscellaneous	559,258	41,973	80,488
Total receipts	6,226,673	3,191,298	89,872
Disbursements:			
Public safety	1,434,911	-	-
Public works	1,259,864	-	-
Health and social services	1,396	-	-
Culture and recreation	947,213	-	30,422
Community and economic development	694,860	-	-
General government	341,893	-	-
Debt service	1,391,691	-	-
Capital projects	2,532,991	-	-
Business type activities	-	2,627,769	-
Total disbursements	8,604,819	2,627,769	30,422
Excess (deficiency) of receipts over (under) disbursements	(2,378,146)	563,529	59,450
Other financing sources (uses), net	1,000,650	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(1,377,496)	563,529	59,450
Balances beginning of year	4,892,903	346,637	446,303
Balances end of year	\$ 3,515,407	910,166	505,753

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to
	Original	Final	Total Variance
2,184,991	2,208,755	2,208,755	(23,764)
263,995	274,000	274,000	(10,005)
633,159	669,639	669,639	(36,480)
100,420	59,900	91,900	8,520
100,017	71,430	71,520	28,497
2,505,923	2,347,688	3,505,724	(999,801)
2,950,438	3,023,306	3,026,806	(76,368)
68,413	68,413	68,413	(1)
520,743	424,702	635,084	(114,341)
<u>9,328,099</u>	<u>9,147,833</u>	<u>10,551,841</u>	<u>(1,223,742)</u>
1,434,911	1,210,723	1,510,373	75,462
1,259,864	1,393,423	1,488,923	229,059
1,396	2,000	2,000	604
916,791	1,184,338	1,236,878	320,087
694,860	360,963	520,963	(173,897)
341,893	352,798	377,668	35,775
1,391,691	1,060,490	1,385,490	(6,201)
2,532,991	3,657,250	4,139,464	1,606,473
2,627,769	1,837,341	2,941,939	314,170
<u>11,202,166</u>	<u>11,059,326</u>	<u>13,603,698</u>	<u>2,401,532</u>
(1,874,067)	(1,911,493)	(3,051,857)	1,177,790
1,000,650	1,430,116	2,458,756	(1,458,106)
(873,417)	(481,377)	(593,101)	(280,316)
4,793,237	4,862,177	4,793,237	-
<u>3,919,820</u>	<u>4,380,800</u>	<u>4,200,136</u>	<u>(280,316)</u>

City of Shenandoah

Notes to Other Information – Budgetary Reporting

June 30, 2012

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the Enterprise 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 \$2,544,372. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the community and economic development and the debt service functions.

Supplementary Information

City of Shenandoah

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

As of and for the year ended June 30, 2012

	Rapp Trust Library	Gidley Park Trust	Reed Estate Trust	Pool Revenue Note Sinking	Wilson Trust - Library
Receipts:					
Property tax	\$ -	-	-	-	-
Other city tax	-	-	-	-	-
Use of money and property	2	16	2	-	66
Intergovernmental	-	-	-	-	-
Miscellaneous	-	26,230	-	-	30,000
Total receipts	2	26,246	2	-	30,066
Disbursements:					
Operating:					
Public safety	-	-	-	-	-
Culture and recreation	-	50,436	-	29,292	-
Total disbursements	-	50,436	-	29,292	-
Excess (deficiency) of receipts over (under) disbursements	2	(24,190)	2	(29,292)	30,066
Other financing sources (uses):					
Operating transfers in	-	-	-	29,292	-
Operating transfers out	-	-	-	-	(30,000)
Total other financing sources (uses)	-	-	-	29,292	(30,000)
Net change in cash balances	2	(24,190)	2	-	66
Cash balances beginning of year	11,684	64,873	11,684	-	85,998
Cash balances end of year	\$ 11,686	40,683	11,686	-	86,064
Cash Basis Fund Balances					
Nonspendable - Esden Trust	\$ -	-	-	-	-
Restricted for other purposes	11,686	40,683	11,686	-	86,064
Total cash basis fund balances	\$ 11,686	40,683	11,686	-	86,064

See accompanying independent auditor's report.

Special Revenue						Permanent		
Forgotten Angels Cemetery Trust	LOST Revenue Note Sinking	Friends of the Library	Volunteer Fire Department	Veteran Museum	Memorial Building	Esden Trust	Total	
-	-	-	-	-	27,608	-	27,608	
-	-	-	-	-	1,094	-	1,094	
9	-	-	25	-	-	119	239	
-	-	-	226,100	-	-	-	226,100	
-	90	-	36,787	38	6,796	-	99,941	
9	90	-	262,912	38	35,498	119	354,982	
-	-	-	260,593	-	-	-	260,593	
-	-	-	-	254	17,786	-	97,768	
-	-	-	260,593	254	17,786	-	358,361	
9	90	-	2,319	(216)	17,712	119	(3,379)	
-	-	-	-	-	-	-	29,292	
-	-	-	-	-	(20,000)	-	(50,000)	
-	-	-	-	-	(20,000)	-	(20,708)	
9	90	-	2,319	(216)	(2,288)	119	(24,087)	
3,328	-	978	45,380	775	9,986	20,469	255,155	
3,337	90	978	47,699	559	7,698	20,588	231,068	
-	-	-	-	-	-	20,588	20,588	
3,337	90	978	47,699	559	7,698	-	210,480	
3,337	90	978	47,699	559	7,698	20,588	231,068	

City of Shenandoah
Schedule of Indebtedness
Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
General corporate purpose	Jul 1, 2000	5.95%	\$ 400,000
Essential corporate purpose	Jun 15, 2001	5.95	110,000
Essential corporate purpose	Sep 1, 2002	4.80	115,000
Essential corporate purpose	Jul 15, 2004	3.60-4.75	540,000
Essential corporate purpose	Dec 15, 2006	4.00-4.20	110,000
Essential corporate purpose	Jul 15, 2007	4.85-5.20	915,000
Essential corporate purpose	Dec 27, 2007	4.85-5.20	90,000
Essential corporate purpose and refunding	Aug 27, 2009	2.50-4.10	3,460,000
Essential corporate purpose	Oct 28, 2010	0.95-3.05	1,650,000
Essential corporate purpose and refunding	Apr 12, 2012	0.50-2.20	1,000,000
Total			
Swimming pool revenue notes	Aug 11, 1997	2.14-2.55%	\$ 720,000
Sewer revenue capital loan notes	Jul 10, 2007	* 3.00%	\$ 2,700,000
Urban renewal revenue notes:			
Community Theatre	Mar 1, 2003	3.00-6.60%	\$ 1,485,000
Community Theatre	Jul 15, 2004	2.90-4.80	470,000
Total			
Special assessment bonds:			
Street improvement	Dec 1, 1980	9.50-9-75%	\$ 43,000
Special assessment notes:			
Street improvement	Aug 1, 2002	3.25-5.25%	\$ 624,000
Capital lease purchase agreements:			
Fire truck	May 17, 2002	5.56%	\$ 485,000
Interim water project notes:			
Water system improvements	Jan 17, 2008	-	\$ 45,000
Water system improvements	Dec 29, 2010	-	1,385,000
Total			

* The City is required to annually pay a .25% servicing fee on the outstanding principal balance.
See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Bonds Due and Unpaid	Interest Due and Unpaid
125,000	-	25,000	100,000	7,438	-	-
15,000	-	15,000	-	893	-	-
30,000	-	15,000	15,000	1,440	-	-
380,000	-	380,000	-	17,070	-	-
50,000	-	25,000	25,000	2,088	-	-
855,000	-	60,000	795,000	36,935	-	-
40,000	-	20,000	20,000	2,060	-	-
3,050,000	-	345,000	2,705,000	101,633	-	-
1,650,000	-	135,000	1,515,000	55,390	-	-
-	1,000,000	-	1,000,000			
\$ 6,195,000	1,000,000	1,020,000	6,175,000	224,947	-	-
29,292	-	29,292	-	-	-	-
2,279,000	-	113,000	2,166,000	68,370	-	-
930,000	-	95,000	835,000	56,963	-	-
210,000	-	210,000	-	9,700	-	-
\$ 1,140,000	-	305,000	835,000	66,663	-	-
1,000	-	-	1,000	-	1,000	195
65,000	-	65,000	-	3,413	-	-
61,130	-	61,130	-	3,399	-	-
45,000	-	-	45,000	-	-	-
345,924	868,777	-	1,214,701	-	-	-
\$ 390,924	868,777	-	1,259,701	-	-	-

City of Shenandoah

Note Maturities

June 30, 2012

Year Ending June 30,	General		Essential		General	
	Corporate Purpose		Corporate Purpose		Essential	
	Issued Jul 1, 2000		Issued Sep 1, 2002		Corporate Purpose	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2013	5.95%	\$ 25,000	4.80%	\$ 15,000	4.20%	\$ 25,000
2014	5.95	25,000		-		-
2015	5.95	25,000		-		-
2016	5.95	25,000		-		-
2017		-		-		-
2018		-		-		-
2019		-		-		-
2020		-		-		-
2021		-		-		-
2022		-		-		-
Total		<u>\$ 100,000</u>		<u>\$ 15,000</u>		<u>\$ 25,000</u>

Year Ending June 30,	General Obligation Notes				
	Essential		Essential Corporate		Total
	Corporate Purpose		Purpose and Refunding		
	Interest Rates	Amount	Interest Rates	Amount	
	Issued Oct 28, 2010		Issued Apr 12, 2012		
2013	1.10%	\$ 155,000	0.50%	\$ 170,000	885,000
2014	1.35	160,000	0.60	175,000	875,000
2015	1.70	160,000	0.80	125,000	850,000
2016	2.00	165,000	1.00	125,000	870,000
2017	2.30	165,000	1.20	125,000	595,000
2018	2.50	170,000	1.60	55,000	545,000
2019	2.70	175,000	1.60	55,000	555,000
2020	2.90	180,000	2.20	55,000	580,000
2021	3.05	185,000	2.20	55,000	300,000
2022		-	2.20	60,000	120,000
2023		-		-	-
2024		-		-	-
2025		-		-	-
2026		-		-	-
2027		-		-	-
Total		<u>\$ 1,515,000</u>		<u>\$ 1,000,000</u>	<u>6,175,000</u>

See accompanying independent auditor's report.

Obligation Notes						
Essential Corporate Purpose Issued Jul 15, 2007		Essential Corporate Purpose Issued Dec 27, 2007		Essential Corporate Purpose and Refunding Issued Aug 27, 2009		
Interest Rates		Interest Rates		Interest Rates		
	Amount		Amount			Amount
5.20%	\$ 125,000	5.20%	\$ 20,000	3.00%	\$	350,000
5.20	160,000		-	3.00		355,000
5.20	250,000		-	3.00		290,000
5.20	260,000		-	3.15		295,000
	-		-	3.35		305,000
	-		-	3.55		320,000
	-		-	3.75		325,000
	-		-	3.90		345,000
	-		-	4.10		60,000
	-		-	4.10		60,000
	<u>\$ 795,000</u>		<u>\$ 20,000</u>		<u>\$</u>	<u>2,705,000</u>

Sewer Revenue Capital Loan Notes Issued July 10, 2007		Urban Renewal Revenue Notes Issued Mar 1, 2003	
Interest Rates		Interest Rates	
	Amount		Amount
3.00%	\$ 116,000	5.65%	\$ 100,000
3.00	120,000	5.85	105,000
3.00	124,000		110,000
3.00	127,000		120,000
3.00	131,000		125,000
3.00	135,000		135,000
3.00	139,000		140,000
3.00	143,000		-
3.00	148,000		-
3.00	152,000		-
3.00	157,000		-
3.00	161,000		-
3.00	166,000		-
3.00	171,000		-
3.00	176,000		-
	<u>\$ 2,166,000</u>		<u>\$ 835,000</u>

City of Shenandoah

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

For the Last Ten Years

	2012	2011	2010	2009
Receipts:				
Property tax	\$ 2,184,991	2,088,460	2,001,119	2,081,913
Tax increment financing	263,995	266,193	235,993	233,062
Other city tax	633,159	705,978	619,349	617,677
Licenses and permits	100,420	20,774	15,621	52,901
Use of money and property	107,926	129,384	110,732	84,675
Intergovernmental	1,518,009	1,525,245	811,721	1,142,938
Charges for service	790,502	719,461	728,724	748,737
Special assessments	68,413	71,663	74,750	77,675
Miscellaneous	559,258	629,841	754,172	1,603,580
Total	\$ 6,226,673	6,156,999	5,352,181	6,643,158
Disbursements:				
Operating:				
Public safety	\$ 1,434,911	1,193,934	1,084,848	1,131,516
Public works	1,259,864	1,343,202	1,234,191	1,207,154
Health and social services	1,396	4,844	119	100
Culture and recreation	947,213	1,083,166	1,027,767	982,908
Community and economic development	694,860	380,355	113,578	215,171
General government	341,893	305,423	284,343	356,454
Debt service	1,391,691	871,451	1,077,300	998,027
Capital projects	2,532,991	1,888,876	2,472,320	1,475,101
Total	\$ 8,604,819	7,071,251	7,294,466	6,366,431

See accompanying independent auditor's report.

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

City of Shenandoah

City of Shenandoah
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2012

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Transportation:			
Federal Aviation Administration:			
Airport Improvement Program	20.106	3-19-0082-09	\$ 3,892
Airport Improvement Program	20.106	3-19-0082-10	81,252
Airport Improvement Program	20.106	3-19-0082-11	2,042
			<u>87,186</u>
U.S. Department of Homeland Security:			
Federal Emergency Management Agency:			
Assistance to Firefighters Grant	97.044	EMW-2009-FO-06932	226,100
Total direct			<u>313,286</u>
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Economic Development Authority:			
Community Development Block Grants/State's Program	14.228	08-NSP-015	287,002
Community Development Block Grants/State's Program	14.228	08-OT-006	156,070
			<u>443,072</u>
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Homeland Security and Emergency Management Division:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	145-72525-00 DR-1763	10,149
Total indirect			<u>453,221</u>
Total			<u>\$ 766,507</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 in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

**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**



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shenandoah, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 8, 2013. 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

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

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

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Shenandoah's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-12 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-B-12 to be a significant deficiency.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.


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

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Shenandoah during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 8, 2013



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the City of Shenandoah, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City of Shenandoah's major federal programs for the year ended June 30, 2012. The City of Shenandoah's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of the City of Shenandoah's management. Our responsibility is to express an opinion on the City of Shenandoah's compliance based on our audit.

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

In our opinion, the City of Shenandoah complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

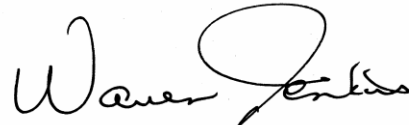
A deficiency in the City's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement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

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

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 8, 2013

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

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

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A significant deficiency and a material weakness 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 programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each of the major programs.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were CFDA Number 14.228 – Community Development Block Grants/State's Program and CFDA Number 97.044 – FEMA – Assistance to Firefighters Grant.
- (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, 2012

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-12 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. For the separately maintained records of the Library Foundation, the cash receipts listing, bank deposits, the posting of cash receipts to the cash receipts journal, disbursement preparation and check signing are all performed by the same person. Also, the bank account is not reconciled by a person who does not sign checks and no evidence of review of the bank reconciliation is noted.

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

Response – The Library Board chairperson will do an annual review and initial. The Librarian and City Clerk will initial the monthly bank statement reconciliation after review.

Conclusion – Response accepted.

II-B-12 Employee use of Airport Property – The City’s Airport Manager is allowed to use hangar space at the City airport for his airplane inspection business. The City does not require the Airport Manager to pay rent for the use of the hangar space.

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

Response – Adopted the airport agreement July 10, 2012.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

PART III – Findings and Questioned Costs for Federal Awards

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

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

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-12 Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the community and economic development 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 many unforeseen issues with fiscal year 2012 so budget was amended at end to pick up all we could and knew about. Will plan appropriately and when budget estimated are done for fiscal year 2013 in preparation for fiscal year 2014 we will amend in March, if necessary.

Conclusion – Response accepted.

IV-B-12 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-12 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-12 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Darrel Saner, Assistant Police Chief, owner of Shenweld	Welding and maintenance	\$ 606

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the welding and maintenance transactions with Shenweld do not appear to represent a conflict of interest because the total cumulative amount was less than \$1,500 during the fiscal year.

IV-E-12 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-12 City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

IV-G-12 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

IV-H-12 Revenue Notes – The sewer revenue note resolution requires the City to establish, levy and collect rents and other charges for the products and services provided by its sewer system, which rents, rates and other charges shall be at least sufficient (A) to meet the operation and maintenance expenses of such sewer system and (B) to produce and maintain net receipts at a level not less than 110% of the amount of principal and interest on the revenue note and any other obligations secured by a pledge of the net receipts falling due in the same year. The City's fiscal year 2012 net operating receipts of \$165,985 is less than 110% of the required debt service payment of \$181,370.

Recommendation – The City should ensure the net receipts are not less than 110% of the amount of annual principal and interest, as required by the sewer note resolution.

Response – The City budgeted to attain the 110% for fiscal year 2012. However, there was an emergency repair at the sewer plant for \$25,830. We have budgeted in fiscal 2014 to ensure the 110% will be achieved as required by the sewer note resolution, and will continue to do so.

Conclusion – Response accepted.

IV-I-12 Water Treatment Plant Committee – In prior years, the City established the Water Treatment Plant Committee (Committee) to research a site for a new plant and to facilitate the design process for the facility. Pursuant to a resolution dated July 13, 2009, the City Council approved the Mayor's appointments to the Committee. We requested, but did not receive, minutes for all of the Committee's meetings. However, in May 2012, the Committee took several actions in regard to the acquisition of a parcel of land for the future site of the water treatment plant. According to the Committee minutes:

- May 2, 2012: Started negotiation of land purchase for the new Water Treatment Plant and moved to complete a formal proposal to the present land owner.
- May 21, 2012: Moved to amend the original proposal, which was signed by Mayor Hunt to be mailed to the land owner.
- May 24, 2012: Moved the land be purchased with the approval of the City Council. The offer was scanned and emailed to the owner.

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Recommendation – Based on the Committee actions described in the available minutes and Chapter 21.2(1)(h) of the Code of Iowa, the Committee appears to be subject to Chapter 21 of the Code of Iowa, also known as the “open meetings” law. The Committee should have posted notice of meetings and the proposed agendas as required by Chapters 21.3 and 21.4 of the Code of Iowa. In addition, minutes of the meetings should have included all elements required by Chapter 21.3 of the Code of Iowa and should have been retained for all meetings. The City should consult legal counsel for additional guidance and clarification, if necessary.

Response – The Water Committee will follow all “open meetings” regulations, post an agenda and keep minutes, as required.

Conclusion – Response accepted

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

IV-J-12 Other Information Required by the Revenue Note Resolution

Insurance – The following insurance policies were in force at June 30, 2012:

Insurer	Description	Amount	Expiration Date
Employers Mutual Casualty Company	Property coverage: Buildings	\$ 35,216,776	Jul 1, 2012
Employers Mutual Casualty Company	Comprehensive general liability: Each occurrence Aggregate	1,000,000 2,000,000	Jul 1, 2012
Employers Mutual Casualty Company	Inland marine: Contractors' equipment Electronic data processing equipment Property floater	969,006 338,000 79,990	Jul 1, 2012
Employers Mutual Casualty Company	Automobile coverage: Liability Uninsured motorists	1,000,000 40,000	Jul 1, 2012
Employers Mutual Casualty Company	Linebacker: Each loss Aggregate	1,000,000 1,000,000	Jul 1, 2012
Employers Mutual Casualty Company	Workers' compensation	500,000	Jul 1, 2012
Employers Mutual Casualty Company	Commercial umbrella: Retained Each occurrence Aggregate	10,000 5,000,000 5,000,000	Jul 1, 2012
Employers Mutual Casualty Company	Employee dishonesty: Blanket bond Alteration	100,000 10,000	Jul 1, 2012
Employers Mutual Casualty Company	Commercial crime: Inside premises Outside premises	10,000 10,000	Jul 1, 2012
Employers Mutual Casualty Company	Law enforcement liability: Each occurrence Aggregate	1,000,000 1,000,000	Jul 1, 2012
Old Republic Insurance Casualty Company	Airport liability: Each occurrence Aggregate	1,000,000 1,000,000	Jan 29, 2013

City of Shenandoah

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager
Jessica P.V. Green, Staff Auditor
Hannah K. Haas, Assistant Auditor
Benjamin P. James, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State