



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

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Auditor of State

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**NEWS RELEASE**

FOR RELEASE

December 23, 2016

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Auditor of State Mary Mosiman today released an audit report on the City of Shenandoah, Iowa.

The City's receipts totaled \$13,173,177 for the year ended June 30, 2016, an 11.2% decrease from the prior year. The receipts included \$2,511,148 in property tax, \$192,579 from tax increment financing, \$429,223 from local option sales tax, \$53,480 from hotel/motel tax, \$3,669,901 from charges for service, \$1,079,993 from operating grants, contributions and restricted interest, \$557,691 from capital grants, contributions and restricted interest, \$10,971 from unrestricted interest on investments, \$51,345 from cable franchise fees, \$115,779 from commercial/industrial tax replacement, \$4,404,838 of note proceeds and other general receipts of \$96,229.

Disbursements for the year totaled \$12,811,015, a 2.5% decrease from the prior year, and included \$1,303,790 for public safety, \$1,234,086 for public works and \$1,180,749 for debt service. The City also refunded \$1,415,000 of general obligation notes during the year. Disbursements for business type activities totaled \$5,578,663.

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 <https://auditor.iowa.gov/reports/1620-0681-B00F>.

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**CITY OF SHENANDOAH**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2016**

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**City of Shenandoah**

**Officials**

**(Before January 2016)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Hunt	Mayor	Jan 2018
Robert Burchett	Council Member	Jan 2016
Aaron Green	Council Member	Jan 2016
Don Gibson	Council Member	Jan 2018
Toni Graham	Council Member	Jan 2018
Kim Swank	Council Member	Jan 2018
James Davey	Administrator	Jan 2016
Karla Gray	City Clerk/Treasurer	Jan 2016
Mahlon Sorensen	Attorney	Indefinite

**(After January 2016)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Hunt	Mayor	Jan 2018
Don Gibson	Council Member	(Deceased Mar 2016)
Rita Gibson (Appointed Apr 2016)	Council Member	Nov 2017
Toni Graham	Council Member	Jan 2018
Kim Swank	Council Member	Jan 2018
Robert Burchett	Council Member	Jan 2020
Aaron Green	Council Member	Jan 2020
James Davey	Administrator	Jan 2018
Karla Gray	City Clerk/Treasurer	Jan 2018
Mahlon Sorensen	Attorney	Indefinite

**City of Shenandoah**



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Shenandoah, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

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, the discretely presented component unit, each major fund and the aggregate remaining fund information of City of Shenandoah as of June 30, 2016, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

## Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

## Other Matters

### *Supplementary and Other Information*

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. The financial statements for the two years ended June 30, 2014 (which are not presented herein) were audited by other auditors who expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2015 and the financial statements for the six years ended June 30, 2012 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic 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.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 8 through 14 and 36 through 42, 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2016 on our consideration of the City of Shenandoah's internal control over financial reporting and on 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 in considering the City of Shenandoah's internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

December 15, 2016

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Shenandoah provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2016 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 10.8%, or approximately \$723,000, from fiscal year 2015 to fiscal year 2016. The increase in governmental activities receipts is primarily due to receipt of a federal grant for an airport project of approximately \$548,000.
- Governmental activities disbursements increased 13.6%, or approximately \$868,000, from fiscal year 2015 to fiscal year 2016. Community and economic development disbursements decreased approximately \$966,000 while debt service disbursements, including payment to refunding note agent, increased approximately \$1,585,000 due to refunding \$1,415,000 of notes during fiscal 2016.
- The City's total cash basis net position increased 7.0%, or approximately \$361,000, from June 30, 2015 to June 30, 2016. Of this amount, the cash basis net position of the governmental activities increased approximately \$200,000 and the cash basis net position of the business type activities increased approximately \$161,000.

### 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 Cash Basis Statement of Activities and Net Position. 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 and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

## **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 Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

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

The Cash Basis Statement of Activities and Net Position 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, Local Option Sales Tax and Urban Renewal Tax Increment Financing, 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.

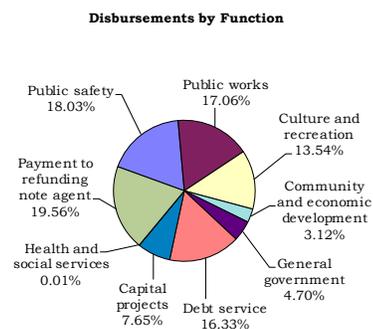
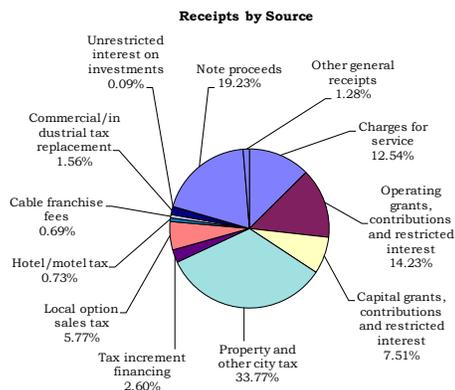
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from approximately \$3.0 million to approximately \$3.2 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service	\$ 932	942
Operating grants, contributions and restricted interest	1,058	977
Capital grants, contributions and restricted interest	558	122
General receipts:		
Property and other city tax	2,511	2,588
Tax increment financing	193	201
Local option sales tax	429	414
Hotel/motel tax	54	48
Cable franchise fees	51	43
Commercial/industrial tax replacement	116	55
Unrestricted interest on investments	7	2
Note proceeds	1,429	1,130
Other general receipts	95	188
<b>Total receipts</b>	<b>7,433</b>	<b>6,710</b>
Disbursements:		
Public safety	1,304	1,364
Public works	1,234	1,170
Health and social services	1	1
Culture and recreation	979	987
Community and economic development	226	1,192
General government	340	337
Debt service	1,181	1,011
Capital projects	553	303
Payment to refunding note agent	1,415	-
<b>Total disbursements</b>	<b>7,233</b>	<b>6,365</b>
Change in cash basis net position	200	345
Cash basis net position beginning of year	3,014	2,669
Cash basis net position end of year	\$ 3,214	3,014



The City's total receipts for governmental activities increased 10.8%, or approximately \$723,000. The total cost of all programs and services increased 13.6%, or approximately \$868,000, with no new programs added this year. The significant increase in receipts was primarily the result of proceeds received from the issuance of general obligation notes. The proceeds were used to refund the outstanding balance of the 2009 general obligation notes. The significant increase in disbursements was primarily due to early retirement of the 2009 general obligation notes.

Property tax receipts decreased approximately \$77,000, or 3.0%. Property tax rates for fiscal year 2016 remained steady while taxable valuations decreased 1.3%. Property tax receipts are budgeted to decrease approximately \$113,000, or 4.7%, next year.

The cost of all governmental activities this year was approximately \$7.233 million compared to approximately \$6.365 million last year. However, as shown in the Cash Basis Statement of Activities and Net Position on pages 16-17, the amount taxpayers ultimately financed for these activities was approximately \$3.269 million because some of the cost was paid by those directly benefited from the programs (approximately \$932,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$1,616,000). The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2016 from approximately \$2,041,000 to \$2,548,000, principally due to receiving grant proceeds for an airport project in the current fiscal year.

The total business type activities cash balance increased from approximately \$2.2 million a year ago to approximately \$2.3 million. The analysis that follows focuses on the changes in cash basis net position of business type activities.

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 2,027	2,030
Sewer	711	727
Operating grants, contributions and restricted interest:		
Water	16	4
Sewer	5	8
General receipts:		
Unrestricted interest on investments	4	3
Note proceeds	2,976	5,293
Miscellaneous	1	-
Other general receipts	-	56
Total receipts	<u>5,740</u>	<u>8,121</u>
Disbursements:		
Water	4,889	6,093
Sewer	690	685
Total disbursements	<u>5,579</u>	<u>6,778</u>
Change in cash basis net position	161	1,343
Cash basis net position beginning of year	<u>2,163</u>	<u>820</u>
Cash basis net position end of year	<u>\$ 2,324</u>	<u>2,163</u>

Total business type activities receipts for the fiscal year were approximately \$5.7 million compared to approximately \$8.1 million last year, a 29.3% decrease. Receipts for water sales remained steady at approximately \$2 million. The City also drew down approximately \$3 million of proceeds from the water revenue capital loan notes, approximately \$2.3 million less than the prior year. The proceeds are being used to fund a new water treatment facility. The cash basis net position increased approximately \$161,000. Total disbursements for the fiscal year decreased 17.7% to approximately \$5.6 million due to fewer water treatment facility project costs than the prior year.

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Shenandoah completed the fiscal year, its governmental funds reported a combined fund balance of \$3,214,369, an increase of \$200,347 from last year’s total of \$3,014,022. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance was \$503,230 at the end of fiscal year 2016 and \$537,178 at the end of fiscal year 2015, a 6.3% decrease. Receipts decreased \$35,163 or 1.4% from the prior year while disbursements increased \$71,820 or 2.6%.

The Special Revenue, Road Use Tax Fund cash balance increased \$171,204 from the prior year to \$542,851. Receipts increased \$100,471, or 18.7%, and disbursements increased \$75,669, or 19.4%. The increase in disbursements was primarily due the purchase of a street sweeper and additional street maintenance costs.

The Special Revenue, Employee Benefits Fund cash balance increased \$45,194, or 25.8%, over the prior year cash balance. Receipts decreased \$64,454, primarily due to a decrease in property and other city tax of approximately \$13,000 and a decrease in miscellaneous receipts of approximately \$65,000. Disbursements decreased \$25,932 or 4.2%, from prior year disbursements.

The Special Revenue, Local Option Sales Tax (LOST) Fund cash balance decreased \$4,993, or 29.9%, from the prior year. LOST Fund receipts were up \$17,389 over the prior year and disbursements increased \$54,223, or 60.7%, over the prior year. The City chose to pay additional costs from this fund in fiscal year 2016.

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 2016 receipts:

Property tax relief	\$ 253,740
Community betterment	90,903
Community planning	42,290
Economic development	42,290
Total	<u>\$ 429,223</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 incinerator program. 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, Urban Renewal Tax Increment Financing Fund cash balance decreased from \$300,942 at the end of fiscal year 2015 to \$247,712 at the end of fiscal year 2016, a 17.7% decrease. Receipts remained constant compared to the prior year while disbursements for scheduled principal and interest payments increased.

The Debt Service Fund cash balance decreased \$48,825 from the prior year to a deficit balance of \$40,188. Property and other city tax decreased \$29,889 from the prior year and fewer transfers were made to the Debt Service Fund from other funds during the year. During the year the City received approximately \$1,429,000 of note proceeds which were used to refund \$1,415,000 of general obligation notes. The City plans to eliminate the deficit fund balance through future transfers from other funds.

The Capital Projects Fund cash balance increased \$100,189 in the current year to \$72,978. Receipts increased \$526,078 and disbursements increased \$250,258. The City had additional receipts and disbursements for the airport runway project in the current year.

The Permanent, Snook Trust Fund cash balance increased \$506 from \$1,149,225 at the end of fiscal year 2015 to \$1,149,731 at the end of fiscal year 2016.

The Permanent, Cemetery Perpetual Care Fund cash balance increased \$2,991 to \$171,053 at the end of the fiscal year 2016.

### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Enterprise, Water Fund cash balance increased \$133,663 over the prior year. Operating receipts remained steady compared to the prior year and operating disbursements increased \$176,989, or 16.2%, over the prior year. Debt service disbursements increased approximately \$328,000 due to an increase in scheduled principal and interest payments while capital outlay disbursements decreased approximately \$1.7 million as work on the water treatment plant progressed.

The Enterprise, Sewer Fund cash balance increased \$28,152 over the prior year balance of \$179,651. Operating receipts decreased \$10,630 or 1.5%, while operating disbursements increased \$6,107, or 1.2%, over the prior fiscal year.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 24, 2016 and resulted in an increase in budgeted disbursements of \$756,700. Budgeted disbursements increased as a result of increased costs associated with a tennis court project, additional insurance and legal expenses.

The City's receipts were \$7,732,799 less than budgeted. This was primarily due to budgeting for water revenue capital loan note proceeds as an intergovernmental receipt rather than an other financing source.

With the budget amendment, total disbursements were \$4,207,397 less than the amended budget. Disbursements during the year ended June 30, 2016 exceeded the amount budgeted in the capital projects function prior to the budget amendment. Disbursements at year end exceeded the amount budgeted in the debt service function.

## DEBT ADMINISTRATION

At June 30, 2016, the City had approximately \$18,434,000 of notes and other long-term debt outstanding, compared to approximately \$16,832,000 last year, as shown below:

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2016	2015
General obligation notes	\$ 2,845	3,730
Revenue notes	14,684	12,085
Urban renewal revenue notes	900	1,010
Capital lease purchase agreements	5	7
Total	\$ 18,434	16,832

During fiscal year 2016, the City drew down \$2,976,176 of the water revenue capital loan notes to fund project costs related to a new water treatment facility and issued \$1,420,000 of general obligation essential corporate purpose notes to refund \$1,415,000 of the 2009 general obligation notes.

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 and TIF debt of \$3,749,828 is significantly below the City's constitutional debt limit of approximately \$9.9 million. 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 2017 budget, tax rates and fees charged for various City activities. One of those factors is the economy.

Other factors that were considered included raising water and sewer rates.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$689,000 or 12%, by the close of fiscal year 2017.

## 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 James Davey, City Administrator, by mail at 500 W. Clarinda Avenue, Shenandoah, Iowa 51601-0338, or by phone at (712) 246-4411.

## **Basic Financial Statements**

City of Shenandoah

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2016

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	
<b>Functions/Programs:</b>				
<b>Primary Government:</b>				
Governmental activities:				
Public safety	\$ 1,303,790	181,543	315,356	-
Public works	1,234,086	513,242	642,383	-
Health and social services	733	-	-	-
Culture and recreation	978,769	227,957	35,558	-
Community and economic development	225,804	-	-	-
General government	340,058	9,710	-	-
Debt service	1,180,749	-	22,205	-
Capital projects	553,363	-	42,715	557,691
Total governmental activities	5,817,352	932,452	1,058,217	557,691
Business type activities:				
Water	4,888,430	2,026,998	16,881	-
Sewer	690,233	710,451	4,895	-
Total business type activities	5,578,663	2,737,449	21,776	-
Total primary government	\$ 11,396,015	3,669,901	1,079,993	557,691
<b>Component Unit:</b>				
Library Foundation	\$ 30,634	-	27,435	-
<b>General Receipts:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Cable franchise fees				
Commercial/industrial tax replacement				
Unrestricted interest on investments				
Note proceeds				
Payment to refunding note agent				
Sale of capital assets				
Miscellaneous				
Total general receipts				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
<b>Cash Basis Net Position</b>				
Restricted:				
Nonexpendable:				
Snook Trust				
Cemetery perpetual care				
Esden Trust				
Expendable:				
Fire				
Streets				
Employee benefits				
Library				
Debt service				
Parks				
Other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			
Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Library Foundation
(806,891)	-	(806,891)	
(78,461)	-	(78,461)	
(733)	-	(733)	
(715,254)	-	(715,254)	
(225,804)	-	(225,804)	
(330,348)	-	(330,348)	
(1,158,544)	-	(1,158,544)	
47,043	-	47,043	
<u>(3,268,992)</u>	<u>-</u>	<u>(3,268,992)</u>	
-	(2,844,551)	(2,844,551)	
-	25,113	25,113	
-	<u>(2,819,438)</u>	<u>(2,819,438)</u>	
<u>(3,268,992)</u>	<u>(2,819,438)</u>	<u>(6,088,430)</u>	
			<u>(3,199)</u>
1,782,561	-	1,782,561	-
728,587	-	728,587	-
192,579	-	192,579	-
429,223	-	429,223	-
53,480	-	53,480	-
51,345	-	51,345	-
115,779	-	115,779	-
6,894	4,077	10,971	-
1,428,662	2,976,176	4,404,838	-
(1,415,000)	-	(1,415,000)	-
46,404	-	46,404	-
48,825	1,000	49,825	-
<u>3,469,339</u>	<u>2,981,253</u>	<u>6,450,592</u>	<u>-</u>
200,347	161,815	362,162	(3,199)
<u>3,014,022</u>	<u>2,162,635</u>	<u>5,176,657</u>	<u>398,168</u>
<u>\$ 3,214,369</u>	<u>2,324,450</u>	<u>5,538,819</u>	<u>394,969</u>
\$ 1,149,731	-	1,149,731	-
171,053	-	171,053	-
20,403	-	20,403	-
90,943	-	90,943	-
542,851	-	542,851	-
220,220	-	220,220	-
199,584	-	199,584	394,969
247,712	85,786	333,498	-
41,187	-	41,187	-
72,512	-	72,512	-
458,173	2,238,664	2,696,837	-
<u>\$ 3,214,369</u>	<u>2,324,450</u>	<u>5,538,819</u>	<u>394,969</u>

City of Shenandoah

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

As of and for the year ended June 30, 2016

	Special Revenue				
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax	Urban Renewal Tax Increment Financing
<b>Receipts:</b>					
Property tax	\$ 1,149,701	-	570,253	-	-
Tax increment financing	-	-	-	-	192,579
Other city tax	95,307	-	20,780	429,223	-
Licenses and permits	54,555	-	-	-	-
Use of money and property	49,696	-	-	-	298
Intergovernmental	113,023	636,433	27,628	-	-
Charges for service	884,286	-	-	-	-
Miscellaneous	107,824	-	24,838	6,322	-
<b>Total receipts</b>	<b>2,454,392</b>	<b>636,433</b>	<b>643,499</b>	<b>435,545</b>	<b>192,877</b>
<b>Disbursements:</b>					
<b>Operating:</b>					
Public safety	924,336	-	353,317	-	-
Public works	655,327	465,229	113,530	-	-
Health and social services	-	-	-	-	-
Culture and recreation	838,574	-	127,949	-	-
Community and economic development	74,432	-	-	143,599	7,773
General government	336,549	-	3,509	-	-
Debt service	-	-	-	-	172,142
Capital projects	-	-	-	-	-
<b>Total disbursements</b>	<b>2,829,218</b>	<b>465,229</b>	<b>598,305</b>	<b>143,599</b>	<b>179,915</b>
Excess (deficiency) of receipts over (under) disbursements	(374,826)	171,204	45,194	291,946	12,962
<b>Other financing sources (uses):</b>					
Note proceeds (plus premium \$32,462 less discount and expense \$23,800)	-	-	-	-	-
Payment to refunding note agent	-	-	-	-	-
Transfers in	355,403	-	-	-	-
Transfers out	(14,525)	-	-	(296,939)	(66,192)
<b>Total other financing sources (uses)</b>	<b>340,878</b>	<b>-</b>	<b>-</b>	<b>(296,939)</b>	<b>(66,192)</b>
Change in cash balances	(33,948)	171,204	45,194	(4,993)	(53,230)
Cash balances beginning of year	537,178	371,647	175,026	16,699	300,942
Cash balances end of year	\$ 503,230	542,851	220,220	11,706	247,712
<b>Cash Basis Fund Balances</b>					
<b>Nonspendable:</b>					
Permanent Funds	\$ -	-	-	-	-
<b>Restricted for:</b>					
Fire	63,730	-	-	-	-
Streets	-	542,851	-	-	-
Employee benefits	-	-	220,220	-	-
Library	-	-	-	-	-
Debt service	-	-	-	-	247,712
Parks	-	-	-	-	-
Other purposes	14,112	-	-	11,706	-
Unassigned	425,388	-	-	-	-
<b>Total cash basis fund balances</b>	<b>\$ 503,230</b>	<b>542,851</b>	<b>220,220</b>	<b>11,706</b>	<b>247,712</b>

See notes to financial statements.

Debt Service	Capital Projects	Permanent		Nonmajor	Total
		Snook Trust	Cemetery Perpetual Care		
704,113	-	-	-	-	2,424,067
-	-	-	-	-	192,579
24,474	-	-	-	-	569,784
-	-	-	-	-	54,555
-	42,715	4,171	16	72	96,968
32,540	557,691	-	-	-	1,367,315
-	-	-	2,975	-	887,261
24,410	53,146	-	-	194,968	411,508
785,537	653,552	4,171	2,991	195,040	6,004,037
-	-	1,466	-	24,671	1,303,790
-	-	-	-	-	1,234,086
-	-	733	-	-	733
-	-	1,466	-	10,780	978,769
-	-	-	-	-	225,804
-	-	-	-	-	340,058
1,008,607	-	-	-	-	1,180,749
-	553,363	-	-	-	553,363
1,008,607	553,363	3,665	-	35,451	5,817,352
(223,070)	100,189	506	2,991	159,589	186,685
1,428,662	-	-	-	-	1,428,662
(1,415,000)	-	-	-	-	(1,415,000)
160,583	-	-	-	-	515,986
-	-	-	-	(138,330)	(515,986)
174,245	-	-	-	(138,330)	13,662
(48,825)	100,189	506	2,991	21,259	200,347
8,637	(27,211)	1,149,225	168,062	313,817	3,014,022
(40,188)	72,978	1,149,731	171,053	335,076	3,214,369
-	-	1,149,731	171,053	20,403	1,341,187
-	-	-	-	27,213	90,943
-	-	-	-	-	542,851
-	-	-	-	-	220,220
-	-	-	-	199,584	199,584
-	-	-	-	-	247,712
-	-	-	-	41,187	41,187
-	-	-	-	46,694	72,512
(40,188)	72,978	-	-	(5)	458,173
(40,188)	72,978	1,149,731	171,053	335,076	3,214,369

**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, 2016

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 2,008,273	702,948	2,711,221
Miscellaneous	35,606	13,398	49,004
Total operating receipts	2,043,879	716,346	2,760,225
Operating disbursements:			
Business type activities	1,270,122	504,538	1,774,660
Excess of operating receipts over operating disbursements	773,757	211,808	985,565
Non-operating receipts (disbursements):			
Interest on investments	2,038	2,039	4,077
Note proceeds	2,976,176	-	2,976,176
Debt service	(476,793)	(185,695)	(662,488)
Capital outlay	(3,141,515)	-	(3,141,515)
Net non-operating receipts (disbursements)	(640,094)	(183,656)	(823,750)
Change in cash balances	133,663	28,152	161,815
Cash balances beginning of year	1,982,984	179,651	2,162,635
Cash balances end of year	\$ 2,116,647	207,803	2,324,450
<b>Cash Basis Fund Balances</b>			
Restricted for debt service	\$ 70,671	15,115	85,786
Unrestricted	2,045,976	192,688	2,238,664
Total cash basis fund balances	\$ 2,116,647	207,803	2,324,450

See notes to financial statements.

City of Shenandoah

Notes to Financial Statements

June 30, 2016

**(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.

Discretely Presented Component Unit

The Shenandoah Public Library Foundation (Library Foundation) is legally separate from 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. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Library Foundation meets the definition of a component unit which should be discretely presented.

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 Cash Basis Statement of Activities and Net Position 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 Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Funds.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position 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 from general and emergency levies 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 payment of employee benefits.

The Local Option Sales Tax Fund is used to account for local option sales tax received from the tax authorized by referendum to be used for community betterment, community planning, economic development and property tax relief.

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

The Debt Service Fund is utilized to account for receipts from the tax authorized by ordinance in the urban renewal area and used to pay indebtedness incurred for urban renewal projects.

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

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, the Shenandoah Ambulance Service, the City of Shenandoah parks system and the Shenandoah Memorial Hospital.

The Cemetery Perpetual Care Fund is used to account for a trust fund for maintenance 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 position 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 are imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2016, disbursements exceeded the amount budgeted in the capital projects function prior to the budget amendment. Disbursements at year end exceeded the amount budgeted in the debt service function.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2016 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 ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had investments in the Iowa Public Agency Investment Trust (IPAIT) which are valued at an amortized cost of \$168,252 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the IPAIT investments. The City's investment in the IPAIT is unrated.

The City had no other investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

### Component Unit

At June 30, 2016, the Shenandoah Library Foundation (Foundation), a discretely presented component unit, had the following investments:

Type	Carrying Amount	Fair Value
Certificate of deposit	\$ 63,000	63,009
Stocks	49,529	41,045
Mutual fund	53,339	59,670
	<u>\$ 165,868</u>	<u>163,724</u>

The Foundation uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, Level 3 inputs are significant unobservable inputs.

The recurring fair value of the Foundation's certificate of deposit was determined using other observable inputs. (Level 2 inputs)

The recurring fair value of the Foundation's stocks and mutual funds were determined using quoted market prices. (Level 1 inputs)

### **(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
2017	\$ 640,000	62,402	131,000	50,370	115,000	37,125	886,000	149,897
2018	570,000	50,888	135,000	46,440	120,000	32,381	825,000	129,709
2019	575,000	38,608	139,000	42,390	120,000	27,431	834,000	108,429
2020	590,000	25,852	143,000	38,220	125,000	22,543	858,000	86,615
2021	325,000	12,072	148,000	33,930	135,000	17,325	608,000	63,327
2022-2026	145,000	3,270	807,000	100,440	285,000	17,737	1,237,000	121,447
2027-2028	-	-	176,000	5,280	-	-	176,000	5,280
Total	<u>\$ 2,845,000</u>	<u>193,092</u>	<u>1,679,000</u>	<u>317,070</u>	<u>900,000</u>	<u>154,542</u>	<u>5,424,000</u>	<u>664,704</u>

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 capital loan 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. The notes are payable solely from sewer customer net receipts. Annual principal and interest payments on the notes are expected to require 86% of net receipts. The total principal and interest remaining to be paid on the notes is \$1,996,070. For the current year, principal and interest paid and total customer net receipts were \$181,180 and \$211,808, 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) 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.

#### Water Revenue Capital Loan Notes

On September 20, 2013, the City entered into an agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources for the issuance of water revenue notes of up to \$14,057,000 with interest at 1.75% 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 water treatment facilities. The City will draw down funds from the Iowa Finance Authority upon request to reimburse the City for costs as they are incurred.

At June 30, 2016, the City had drawn down \$13,254,901 of the authorized amount. An initiation fee of .50% of the authorized borrowing for the water revenue notes was charged by the Iowa Finance Authority. The total initiation fee was withheld from the first proceeds of the water revenue notes drawn by the City during the year ended June 30, 2014. A final repayment schedule has not yet been adopted. However, during the year ended June 30, 2016, the City paid principal and interest of \$250,000 and \$226,793, respectively, on the notes under a preliminary repayment schedule. The balance on the notes at June 30, 2016 was \$13,004,901.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay the water revenue notes. The notes are payable solely from water customer net receipts. The total amount of principal and interest remaining to be paid on the notes at June 30, 2016 is not available since a final repayment schedule has not been adopted. For the current year, principal and interest paid and total customer net receipts were \$476,793 and \$773,757, respectively.

The resolution providing for the issuance of the water 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 water revenue note sinking account for the purpose of making principal and interest payments when due.
- (c) User rates shall be established at a level which produces and maintains net receipts at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

### Urban Renewal Revenue Notes

On November 14, 2014, the City issued \$1,130,000 of urban renewal tax increment financing (TIF) revenue notes with an interest rate of 4.125% per annum. The notes were issued pursuant to the provisions of Chapter 384.24A and 403.9 of the Code of Iowa for the purpose of paying costs of an urban renewal project and currently refunding \$630,000 of the City's 2003 urban renewal revenue notes. The notes are payable solely from the TIF receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Financing Fund pursuant to Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100% of the debt service requirements over the life of the notes. The proceeds of the urban renewal revenue notes shall be expended only for the 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. Total principal and interest remaining on the notes is \$1,054,542, payable through 2023. For the current year, principal and interest paid and total TIF receipts were \$152,357 and \$192,579, respectively.

### General Obligation Refunding Bonds

On June 10, 2016, the City issued \$1,420,000 of general obligation corporate purpose and refunding bonds to currently refund \$1,415,000 of general obligation bonds dated August 27, 2009.

The City refunded the general obligation notes to reduce its total debt service by approximately \$67,900 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$67,300.

#### **(4) Capital Lease Purchase Agreement**

In May 2013, the City entered into a capital lease purchase agreement to acquire a copy machine. The following is a schedule of the future minimum lease payments, including interest at 3.0% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2016:

<u>Year ending</u> <u>June 30,</u>	<u>Amount</u>
2016	\$ 4,694
Less amount representing interest	134
Present value of net minimum lease payments	<u>\$ 4,828</u>

During the year ended June 30, 2016, \$2,836 was paid under this lease purchase agreement.

#### **(5) Pension Plan**

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member’s years of service plus the member’s age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member’s first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member’s monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member’s highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member’s monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member’s highest three-year average salary.

If a member retires before normal retirement age, the member’s monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member’s earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member’s lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member’s beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member’s accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS’ Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the “entry age normal” actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City’s contributions to IPERS for the year ended June 30, 2016 were \$164,267.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the City reported a liability of \$939,833 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on the City’s share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City’s proportion was 0.019023%, which was a decrease of 0.000001% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$98,246, \$238,324 and \$313,413, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation		
(effective June 30, 2014)		3.00% per annum.
Rates of salary increase		4.00 to 17.00% average, including inflation.
(effective June 30, 2010)		Rates vary by membership group.
Long-term investment rate of return		7.50% compounded annually, net of investment
(effective June 30, 1996)		expense, including inflation.
Wage growth		4.00% per annum, based on 3.00% inflation
(effective June 30, 1990)		and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS’ investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 1,896,947	939,833	132,282

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

**(6) Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer health benefit plan which provides medical insurance benefits for employees, retirees and their spouses. There are 34 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 Wellmark. The retiree pays the same premium for the medical/prescription drug benefits as active employees.

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 \$626 for employee coverage, \$1,185 for employee/child coverage, \$1,282 for employee/spouse coverage and \$1,922 for family coverage. For the year ended June 30, 2016, the City contributed \$412,363 and plan members eligible for benefits contributed \$58,391 to the plan.

**(7) 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 time is 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, 2016, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 59,000
Compensatory time	9,000
Total	<u>\$ 68,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2016.

**(8) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Urban Renewal Tax Increment Financing	\$ 13,817
	Local Option Sales Tax	229,000
	Wilson Trust - Library	30,000
	Wilson Trust - City	74,256
	Memorial Building	8,330
		<u>355,403</u>
Debt Service	General	14,525
	Special Revenue:	
	Urban Renewal Tax Increment Financing	52,375
	Local Option Sales Tax	67,939
	Wilson Trust - City	25,744
		<u>160,583</u>
Total		<u>\$ 515,986</u>

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

**(9) Risk Management**

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

**(10) Economic Development Agreements**

In September 2011, the City approved a development agreement with the Shenandoah Iowa Assisted Living Facility, LLC. The agreement requires the City to provide a maximum of \$245,056 of incremental property tax rebate payments to the Developer beginning June 1, 2015 in exchange for infrastructure improvements and development of commercial property. As of June 30, 2016, the City had not rebated any payments to the developer.

In October 2015, the City approved an economic development grant agreement with Southwest Iowa Technology Services, LLC (SWIFT) for \$65,000 to be paid on July 1, 2016. The economic development grant is to encourage SWIFT to expand fiber optic services throughout the City of Shenandoah. The agreement requires SWIFT to maintain a corporate office within the City limits for a minimum of ten years.

**(11) 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, 2016, collections of \$20,797 of principal and \$1,692 of interest were received. The outstanding loan principal balance within the General Fund was \$70,794 at June 30, 2016.

**(12) Commitments**

Water Treatment Plant Construction

In June 2013, the City entered into a contract totaling \$12,465,000 for construction of a new water treatment facility. During the year ended June 30, 2015, the project contractor ceased construction and the surety, Liberty Mutual, took over the project on April 14, 2015 pursuant to a Takeover Agreement. At June 30, 2016, the City had paid a total of \$10,930,120 under the contract, leaving an unpaid balance to complete the project of \$1,534,880, including retainage.

The City continues to work with the surety to complete the water treatment plant. The City may be subject to additional costs to complete the project. The amount of additional costs, if any, are unknown at this time.

Airport Project

In May 2016, the City entered into a contract totaling \$222,079 for construction of a new airport hangar. This contract will be paid as work on the project progresses.

**(13) Deficit Balances**

At June 30, 2016, the Debt Service Fund and the Special Revenue, Rapp Charity Trust Fund had deficit balances of \$40,188 and \$5, respectively. The deficit balances will be eliminated through future transfers from other funds and grant reimbursements.

**(14) Joint Venture**

The City is a member of the Shenandoah Ambulance Service (Ambulance Service), a joint venture established in accordance with the provisions of Chapter 28E of the Code for the purpose of providing ambulance service to the Shenandoah service area. The participating entities are the City and the Shenandoah Medical Center (Medical Center), each with an equal share in the organization.

Under the terms of the agreement, the City will provide an annual subsidy and one ambulance and related equipment to the Ambulance Service. The Medical Center will provide equipment, space and facilities necessary to house the ambulance, receive dispatch calls and perform all administrative recordkeeping and billing services. The Ambulance Service has contracted with the Medical Center to provide personnel, employee benefits and supplies necessary to provide ambulance service.

Upon dissolution of the Ambulance Service, including payment of all indebtedness and bills, the residual remaining funds are to be distributed evenly between the City and Medical Center.

During the year ended June 30, 2016, the City paid \$64,550 to the Ambulance Service pursuant to the agreement.

**(15) Pending Litigation**

The City is a defendant in two lawsuits for which the probability and amount of loss, if any, is indeterminable.

**(16) Subsequent Event**

On September 13, 2016 the City approved the issuance of up to \$2,000,000 of Water Revenue Capital Loan Notes. The notes were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the costs of constructing improvements and extensions to the water treatment facilities. The City will draw funds from the Iowa Finance Authority upon request to reimburse the City for costs as they are incurred.

On November 8, 2016 the City approved a \$290,500 contract to restore the tennis courts in Sportsman Park. The project will be paid from the General Fund.

**(17) New Accounting Pronouncement**

The City of Shenandoah adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

**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, 2016

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 2,424,067	-	2,424,067
Tax increment financing	192,579	-	192,579
Other city tax	569,784	-	569,784
Licenses and permits	54,555	-	54,555
Use of money and property	96,968	4,077	101,045
Intergovernmental	1,367,315	-	1,367,315
Charges for service	887,261	2,711,221	3,598,482
Miscellaneous	411,508	49,004	460,512
Total receipts	6,004,037	2,764,302	8,768,339
Disbursements:			
Public safety	1,303,790	-	1,303,790
Public works	1,234,086	-	1,234,086
Health and social services	733	-	733
Culture and recreation	978,769	-	978,769
Community and economic development	225,804	-	225,804
General government	340,058	-	340,058
Debt service	1,180,749	-	1,180,749
Capital projects	553,363	-	553,363
Business type activities	-	5,578,663	5,578,663
Total disbursements	5,817,352	5,578,663	11,396,015
Excess (deficiency) of receipts over (under) disbursements	186,685	(2,814,361)	(2,627,676)
Other financing sources (uses), net	13,662	2,976,176	2,989,838
Excess of receipts and other financing sources over disbursements and other financing uses	200,347	161,815	362,162
Balances beginning of year	3,014,022	2,162,635	5,176,657
Balances end of year	\$ 3,214,369	2,324,450	5,538,819

See accompanying independent auditor's report.

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Budgeted Amounts		Final to
Original	Final	Total
		Variance
2,417,440	2,417,440	6,627
272,868	272,686	(80,107)
638,968	638,968	(69,184)
63,275	63,275	(8,720)
77,455	77,455	23,590
7,405,293	8,542,793	(7,175,478)
3,738,639	3,738,639	(140,157)
579,382	749,882	(289,370)
15,193,320	16,501,138	(7,732,799)
1,452,833	1,452,833	149,043
1,359,551	1,359,551	125,465
860	860	127
1,003,713	1,033,713	54,944
385,193	385,193	159,389
339,933	544,133	204,075
1,011,866	1,011,866	(168,883)
68,300	590,800	37,437
9,224,463	9,224,463	3,645,800
14,846,712	15,603,412	4,207,397
346,608	897,726	(3,525,402)
1,000	1,000	2,988,838
347,608	898,726	(536,564)
3,595,843	3,562,073	1,614,584
3,943,451	4,460,799	1,078,020

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City of Shenandoah

Notes to Other Information – Budgetary Reporting

June 30, 2016

The budgetary comparison is presented 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. 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 \$756,700. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements exceeded the amount budgeted in the capital projects function prior to the budget amendment. Disbursements at year end exceeded the amount budgeted in debt service function.

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City of Shenandoah

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System  
For the Last Two Years\*  
(In Thousands)

Other Information

	2016	2015
City's proportion of the net pension liability	0.019023%	0.019024%
City's proportionate share of the net pension liability	\$ 940	754
City's covered-employee payroll	\$ 1,778	1,785
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	52.87%	42.24%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

\* In accordance with GASB No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

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City of Shenandoah

Schedule of City Contributions

Iowa Public Employees' Retirement System  
For the Last Ten Years  
(In Thousands)

Other Information

	2016	2015	2014	2013
Statutorily required contribution	\$ 164	165	164	159
Contributions in relation to the statutorily required contribution	(164)	(165)	(164)	(159)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered-employee payroll	\$ 1,815	1,778	1,785	1,764
Contributions as a percentage of covered-employee payroll	9.04%	9.28%	9.19%	9.01%

\* City's covered-employee payroll was not readily available. Therefore, contributions as a percentage of covered-employee payroll could not be calculated.

See accompanying independent auditor's report.

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2012	2011	2010	2009	2008	2007
141	124	115	103	96	89
(141)	(124)	(115)	(103)	(96)	(89)
-	-	-	-	-	-
1,678	1,647	1,607	*	*	*
8.40%	7.53%	7.16%	*	*	*

City of Shenandoah

Notes to Other Information – Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

## **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, 2016

	Special					
	Rapp Trust Library	Rapp Charity Trust	Gidley Park Trust	Reed Estate Trust	Wilson Trust - Library	Wilson Trust - City
Receipts:						
Use of money and property	\$ -	-	5	-	12	-
Miscellaneous	-	-	13,462	-	43,092	97,675
Total receipts	-	-	13,467	-	43,104	97,675
Disbursements:						
Operating:						
Public safety	-	-	-	-	-	-
Culture and recreation	2,501	-	4,701	921	-	-
Total disbursements	2,501	-	4,701	921	-	-
Excess (deficiency) of receipts over (under) disbursements	(2,501)	-	8,766	(921)	43,104	97,675
Other financing uses:						
Transfers out	-	-	-	-	(30,000)	(100,000)
Change in cash balances	(2,501)	-	8,766	(921)	13,104	(2,325)
Cash balances beginning of year	7,585	(5)	32,421	10,389	112,811	29,858
Cash balances end of year	\$ 5,084	(5)	41,187	9,468	125,915	27,533
<b>Cash Basis Fund Balances</b>						
Nonspendable - Esden Trust	\$ -	-	-	-	-	-
Restricted for:						
Fire	-	-	-	-	-	-
Library	5,084	-	-	-	125,915	-
Parks	-	-	41,187	-	-	-
Other purposes	-	-	-	9,468	-	27,533
Unassigned	-	(5)	-	-	-	-
Total cash basis fund balances	\$ 5,084	(5)	41,187	9,468	125,915	27,533

See accompanying independent auditor's report.

Revenue								Permanent	
Forgotten Angels Cemetery Trust	Simons Trust - Library	Friends of the Library	Volunteer Fire Department	Veteran Museum	Memorial Building	Snook Library	Esden Trust	Total	
-	-	-	17	-	-	-	38	72	
-	-	-	25,057	5,919	-	9,763	-	194,968	
-	-	-	25,074	5,919	-	9,763	38	195,040	
-	-	-	24,671	-	-	-	-	24,671	
-	-	924	-	1,733	-	-	-	10,780	
-	-	924	24,671	1,733	-	-	-	35,451	
-	-	(924)	403	4,186	-	9,763	38	159,589	
-	-	-	-	-	(8,330)	-	-	(138,330)	
-	-	(924)	403	4,186	(8,330)	9,763	38	21,259	
3,351	58,822	924	26,810	2,156	8,330	-	20,365	313,817	
3,351	58,822	-	27,213	6,342	-	9,763	20,403	335,076	
-	-	-	-	-	-	-	20,403	20,403	
-	-	-	27,213	-	-	-	-	27,213	
-	58,822	-	-	-	-	9,763	-	199,584	
-	-	-	-	-	-	-	-	41,187	
3,351	-	-	-	6,342	-	-	-	46,694	
-	-	-	-	-	-	-	-	(5)	
3,351	58,822	-	27,213	6,342	-	9,763	20,403	335,076	

City of Shenandoah  
Schedule of Indebtedness  
Year ended June 30, 2016

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	Jul 15, 2007	4.10-4.40	915,000
Essential corporate purpose and refunding	Aug 27, 2009	1.15-4.10	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
Essential corporate purpose	Oct 25, 2012	1.65-3.00	225,000
Essential corporate purpose and refunding	Jun 10, 2016	2.00	1,420,000
Total			
Revenue notes:			
Sewer revenue capital loan notes	Jul 10, 2007	3.00%	* \$ 2,700,000
Water revenue capital loan notes	Sept 20, 2013	1.75	* 14,057,000
Total			
Urban renewal revenue notes:			
Urban renewal revenue capital loan notes	Nov 14, 2014	4.125%	\$ 1,130,000
Capital lease purchase agreements:			
Copier	May 5, 2013	3.00%	\$ 13,150

\* The agreements also require the City 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
25,000	-	25,000	-	1,489
260,000	-	260,000	-	11,440
1,710,000	-	1,710,000	-	62,736
1,040,000	-	165,000	875,000	26,932
530,000	-	125,000	405,000	8,250
165,000	-	20,000	145,000	4,410
-	1,420,000		1,420,000	-
<b>\$ 3,730,000</b>	<b>1,420,000</b>	<b>2,305,000</b>	<b>2,845,000</b>	<b>115,257</b>
1,806,000	-	127,000	1,679,000	54,180
10,278,725	2,976,176	250,000	13,004,901	226,793
<b>\$ 12,084,725</b>	<b>2,976,176</b>	<b>377,000</b>	<b>14,683,901</b>	<b>280,973</b>
1,010,000	-	110,000	900,000	42,357
7,476	-	2,648	4,828	188

**City of Shenandoah**

## City of Shenandoah

## Note Maturities

June 30, 2016

Year Ending June 30,	General Obligation Notes					
	Essential Corporate Purpose Issued Oct 28, 2010		Essential Corporate Purpose and Refunding Issued Apr 12, 2012		Essential Corporate Purpose Issued Oct 25, 2012	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2017	2.30%	\$ 165,000	1.20%	\$ 125,000	1.65%	\$ 20,000
2018	2.50	170,000	1.60	55,000	3.00	25,000
2019	2.70	175,000	1.60	55,000	3.00	25,000
2020	2.90	180,000	2.20	55,000	3.00	25,000
2021	3.05	185,000	2.20	55,000	3.00	25,000
2022		-	2.20	60,000	3.00	25,000
Total		<u>\$ 875,000</u>		<u>\$ 405,000</u>		<u>\$ 145,000</u>

Year Ending June 30,	General Obligation Notes				Revenue Notes			
	Essential Corporate Purpose and Refunding Issued Jun 10, 2016			Total	Sewer Capital Loan Notes Issued July 10, 2007		Urban Renewal Capital Loan Notes Issued Nov 14, 2014	
	Interest				Interest		Interest	
	Rates	Amount		Rates	Amount	Rates	Amount	
2017	2.00%	\$ 330,000	640,000	3.00%	\$ 131,000	4.125%	\$ 115,000	
2018	2.00	320,000	570,000	3.00	135,000	4.125	120,000	
2019	2.00	320,000	575,000	3.00	139,000	4.125	120,000	
2020	2.00	330,000	590,000	3.00	143,000	4.125	125,000	
2021	2.00	60,000	325,000	3.00	148,000	4.125	135,000	
2022	2.00	60,000	145,000	3.00	152,000	4.125	140,000	
2023		-	-	3.00	157,000	4.125	145,000	
2024		-	-	3.00	161,000		-	
2025		-	-	3.00	166,000		-	
2026		-	-	3.00	171,000		-	
2027		-	-	3.00	176,000		-	
Total		<u>\$ 1,420,000</u>	<u>2,845,000</u>		<u>\$ 1,679,000</u>		<u>\$ 900,000</u>	

See accompanying independent auditor's report.

City of Shenandoah

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

For the Last Ten Years

	2016	2015	2014	2013
<b>Receipts:</b>				
Property tax	\$ 2,424,067	2,488,161	2,421,302	2,267,452
Tax increment financing	192,579	200,960	282,353	271,000
Other city tax	569,784	561,875	658,618	748,052
Licenses and permits	54,555	59,741	6,595	7,364
Use of money and property	96,968	87,424	55,406	61,324
Intergovernmental	1,367,315	728,536	892,826	1,276,224
Charges for service	887,261	788,888	927,355	804,247
Special assessments	-	-	-	-
Miscellaneous	411,508	590,526	421,246	648,067
<b>Total</b>	<b>\$ 6,004,037</b>	<b>5,506,111</b>	<b>5,665,701</b>	<b>6,083,730</b>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	\$ 1,303,790	1,363,870	1,288,484	1,265,822
Public works	1,234,086	1,170,151	1,204,316	1,256,709
Health and social services	733	783	861	1,146
Culture and recreation	978,769	987,092	1,070,145	1,160,098
Community and economic development	225,804	1,192,497	380,641	382,075
General government	340,058	336,795	280,622	317,453
Debt service	1,180,749	1,011,315	998,863	1,036,792
Capital projects	553,363	303,125	420,724	1,413,500
<b>Total</b>	<b>\$ 5,817,352</b>	<b>6,365,628</b>	<b>5,644,656</b>	<b>6,833,595</b>

See accompanying independent auditor's report.

2012	2011	2010	2009	2008	2007
2,184,991	2,088,460	2,001,119	2,081,913	1,827,595	1,737,689
263,995	266,193	235,993	233,062	310,639	296,773
633,159	705,978	619,349	617,677	661,772	636,673
100,420	20,774	15,621	52,901	15,112	17,023
107,926	129,384	110,732	84,675	163,952	127,611
1,518,009	1,525,245	811,721	1,142,938	1,030,719	503,308
790,502	719,461	728,724	748,737	626,313	557,200
68,413	71,663	74,750	77,675	80,438	77,837
559,258	629,841	754,172	1,603,580	1,456,303	1,145,048
6,226,673	6,156,999	5,352,181	6,643,158	6,172,843	5,099,162
1,434,911	1,193,934	1,084,848	1,131,516	1,043,289	927,647
1,259,864	1,343,202	1,234,191	1,207,154	1,051,117	1,069,262
1,396	4,844	119	100	647	6,789
947,213	1,083,166	1,027,767	982,908	1,009,515	912,149
694,860	380,355	113,578	215,171	232,403	133,723
341,893	305,423	284,343	356,454	301,128	240,817
1,391,691	871,451	1,077,300	998,027	1,074,654	1,035,985
2,532,991	1,888,876	2,472,320	1,475,101	3,686,201	980,436
8,604,819	7,071,251	7,294,466	6,366,431	8,398,954	5,306,808

**City of Shenandoah**



## OFFICE OF AUDITOR OF STATE

STATE OF IOWA

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Mary Mosiman, CPA

Auditor of State

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 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, the financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Shenandoah, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 15, 2016. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Shenandoah's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Shenandoah's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Shenandoah's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 deficiencies in internal control described in the accompanying Schedule of Findings as items (A) through (D) to be material weaknesses.

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 deficiencies described in the accompanying Schedule of Findings as items (E) through (H) to be significant deficiencies.

#### 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.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 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 of Shenandoah's Responses to the Findings

The City of Shenandoah's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.

  
MARY MOSIMAN, CPA  
Auditor of State

December 15, 2016

City of Shenandoah

Schedule of Findings

Year ended June 30, 2016

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

**(A) Segregation of Duties**

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements.

Condition – Generally, one or two individuals may have control over the following areas for which no compensating controls exist:

- 1) Accounting system – performing all general accounting functions, including journal entries, and having custody of assets.
- 2) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- 3) Utilities – opening mail, billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- 4) Debt – recordkeeping, compliance and debt payment processing.
- 5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.

For the Shenandoah Library Foundation and Fire Department accounts, one individual has control over each of the following areas:

- (1) Receipts – opening mail, collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, check writing, recording and reconciling.
- (3) Cash – handling, reconciling and recording.

Cause – The City, including the Fire Department, and the Library Foundation have a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the City’s and the Library Foundation’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

City of Shenandoah

Schedule of Findings

Year ended June 30, 2016

Recommendation – The City, including the Fire Department, and the Library Foundation should review control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports. Independent reviews of financial transactions reconciliations and reports should be documented by the signature or initials of the reviewer and the date of the review.

Responses –

City – The City staff will work on segregating duties as much as we can with the limited staff available.

Library Foundation – The Library Director collects all monies donated to the Library Foundation. She prepares a deposit slip and asks a staff member to double check and initial the deposit slip. This is a way to check that all checks and cash are accounted for. When the Foundation receives a memorial or gift donation, a different staff member prepares a written thank you note and a notification note to the donor.

Fire Department – The Treasurer pays the bills which are approved at a monthly meeting before they are mailed.

Conclusions –

City – Response accepted.

Library Foundation – Response acknowledged. The Library Foundation should also review controls over opening mail, recording receipts, disbursements and handling cash, including reconciling and recording cash transactions.

Fire Department – Response acknowledged. The Fire Department should also review controls over receipts, disbursements for preparing, check writing, recording and reconciling and handling cash, including reconciling and recording cash transactions.

**(B) Financial Reporting**

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City's financial statements.

Condition – Commercial/industrial tax replacement receipts of \$43,319 were incorrectly reported as property tax receipts rather than intergovernmental receipts in the City's financial statements. In addition, \$22,205 of miscellaneous receipts were incorrectly posted to the Special Revenue, Urban Renewal Tax Increment Financing Fund rather than the Debt Service Fund. Adjustments were subsequently made by the City to properly record the receipts.

Cause – City policies do not require and procedures have not been established to provide for an independent review of receipts to ensure the City's financial statements are accurate.

City of Shenandoah

Schedule of Findings

Year ended June 30, 2016

Effect – Lack of City policies and procedures resulted in City employees not detecting the errors in the normal course of performing their assigned functions. As a result material adjustments to the City’s financial statements were necessary.

Recommendation – The City should establish procedures to ensure all receipts are properly recorded and reported in the City’s financial statements.

Response – The City will review procedures and will consider policies and procedures needed to implement the recommendation.

Conclusion – Response accepted.

**(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts**

Criteria – An effective internal control system provides for internal controls related to reconciling utility billings, collections and delinquent accounts to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent accounts.

Condition – Although the City prepares a monthly reconciliation of utility billings, collections and delinquent accounts, certain reconciling items for the month tested were not supported and “payments received” on the reconciliation did not agree to receipts per the general ledger. In addition, the monthly reconciliations are not reviewed by an independent person.

Cause – Policies have not been established and procedures have not been implemented to ensure all amounts in the utility reconciliation are supported by the City’s financial and utility billing records. Also, policies have not been established to require independent review of the reconciliations.

Effect – Inadequate reconciliations can result in unrecorded or misstated utility receipts and improper or unauthorized adjustments and write-offs.

Recommendation – The City should ensure all amounts on the reconciliations of utility billings, collections and delinquent accounts are properly supported. The City Council or other independent person designated by the City Council should review the reconciliations, document the review by signing or initialing and dating the reconciliation and monitor delinquent accounts.

Response – The City will ensure utility reconciliations are properly supported and reviewed. The reviewer will initial and date to document the review.

Conclusion – Response accepted.

City of Shenandoah

Schedule of Findings

Year ended June 30, 2016

**(D) Shenandoah Library Foundation (Foundation) Bank Reconciliations**

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by reconciling bank and book balances monthly.

Condition – According to Foundation personnel, bank reconciliations are prepared monthly. However, the reconciliations are not retained and are not reviewed by an independent person.

Cause – Foundation policies do not require and procedures have not been established to ensure bank and book balances are reconciled monthly and the reconciliations are retained. Policies and procedures also do not exist to ensure bank reconciliations are independently reviewed.

Effect – Lack of performing and maintaining bank reconciliations and lack of review by an independent person could result in undetected errors or unauthorized activity.

Recommendation – To improve financial accountability and control, monthly bank reconciliations should be performed and variances between book and bank balances should be investigated and resolved timely. The bank reconciliations should be retained and reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review. The reconciliation should be maintained.

Response – The Foundation does not discard paper bank statements. Those are retained in a notebook or folder for the required number of years. A copy of the statement is initialed and scanned to be sent to City Hall via email attachment. Once the bank statement has been reconciled to the Quick Books program, the Library Director will print off a copy of the reconciliation sheet and take it to the monthly Library Board meeting to have the trustees initial that they have seen and checked the reconciliation sheet.

Conclusion – Response acknowledged. The Library Foundation should also retain the approved bank reconciliations.

**(E) Fire Department Debit Cards**

Criteria – Internal controls over safeguarding assets constitute a process, effected by an entity's governing body, management and other personnel designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from error or misappropriation. Such processes include establishing policies addressing proper asset use and proper supporting documentation..

Condition – The Fire Department has debit cards available for use by volunteers while on Department business. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

Cause – Officials have been unaware of the repercussions of allowing the use of debit cards.

Effect – Allowing the use of debit cards could result in unauthorized transactions and the opportunity for misappropriation.

City of Shenandoah

Schedule of Findings

Year ended June 30, 2016

Recommendation – The City Council should prohibit the use of debit cards for City purchases, including purchases by the Fire Department.

Response – The debit card is secured and doesn't leave the Fire Chief's office in the Fire Station. The Fire Chief is the only person that knows the pin number. The Fire Chief has a \$200 spending limit and all charges are approved by voting members at each monthly meeting prior to purchased.

Conclusion – Response acknowledged. The City Council should prohibit the use of debit cards for City purchases, including purchases by the Fire Department.

**(F) Payroll**

Criteria – An effective internal control system provides for controls relating to payroll, including inputting payroll rates into the payroll system. Periodic review of payroll rates by someone independent of preparing payroll can help ensure the accuracy of wages paid.

Condition – The hourly rate paid to one of five employees tested was incorrect.

Cause – Policies have not been established and procedures have not been implemented to require independent review of payroll rates on the City's payroll system.

Effect – The condition resulted in \$480 of under paid wages to one employee during the fiscal year ended June 30, 2016.

Recommendation – The City should establish policies and procedures to ensure payroll rates are periodically reviewed by someone independent of preparing payroll.

Response – The City Clerk/Treasurer will review all pay rates to ensure they are entered correctly by the Payroll Clerk.

Conclusion – Response accepted.

**(G) Accounting Policies and Procedures Manual**

Criteria – Accounting policies and procedures manuals provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

Condition – The City does not have an accounting policies and procedures manual.

Cause -- City Officials have been aware of the need for an accounting policies and procedures manual, but have not had the time to complete the manual.

Effect – Lack of an accounting policies and procedures manual could result in the City's lack of ability to continue operating effectively and efficiently in the event there is accounting staff turnover.

City of Shenandoah

Schedule of Findings

Year ended June 30, 2016

Recommendation – An accounting policies and procedures manual should be developed.

Response – City employees are currently working on manuals/instructions/guides as they become familiar with job duties.

Conclusion – Response accepted.

**(H) Disaster Recovery Plan**

Criteria – A disaster recovery plan for financial continuity should include the following:

- Identification of critical applications.
- Identification of steps for recovery of any operating systems for City operations
- Identification of computer equipment needed for temporary processing.
- Identification of business location(s) which could be used to process critical applications in the event of an emergency, including any applicable written agreements for the use of the locations.
- Requirement to keep a copy of the disaster recovery plan off site.
- Requirement to keep system backups current and off site.
- An inventory of all hardware and components.
- An inventory of all software applications.
- A requirement that copies of all user documentation and policy and procedures manuals be located off site.
- A requirement for extra stock of paper supplies, such as checks, warrants, purchase orders, etc., be located off site.
- Requirement outlining the frequency of testing the disaster recovery plan to identify issues and document the results of testing.

Condition – Although the City has adopted a multi-jurisdictional Hazard Mitigation Plan with Page County, the plan does not cover items specific to the needs of the City for financial continuity.

Cause – Management has not required written disaster recovery policies addressing financial continuity.

Effect – Lack of a disaster recovery plan could result in the City's inability to function in the event of a disaster or continue business without interruption.

Recommendation – A written disaster recovery plan should be developed.

Response – The City will look at implementing a financial continuity disaster recovery plan.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Shenandoah

Schedule of Findings

Year ended June 30, 2016

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

- (1) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amount budgeted in the capital projects function prior to the budget amendment. Disbursements at year end exceeded the amount budgeted in the debt service function. 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 accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The City will amend the budget as required before allowing disbursements to exceed the budget.

Conclusion – Response accepted.

- (2) Questionable Disbursement – In February 2016, the City purchased \$30 of flowers for an employee’s funeral. This disbursement may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by this disbursement before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper public purpose documentation.

Response – The City will determine and document public purpose before authorizing any further payments. The City will consider establishing written policies and procedures regarding the requirement for proper public purpose documentation.

Conclusion – Response accepted.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Darrel Saner, Assistant Police Chief, owner of Shenweld Metals	Welding and maintenance	\$ 480

City of Shenandoah

Schedule of Findings

Year ended June 30, 2016

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with Shenweld Metals do not represent a conflict of interest since the total transactions during the year were less than \$1,500.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council meeting minutes but were not.

Chapter 21.3 of the Code of Iowa requires each governmental body to “keep minutes of all its meeting showing the date, time and place, the members present, and the action taken at each meeting. The minutes shall show the results of each vote taken and information sufficient to indicate the vote of each member present. The vote of each member present shall be made public at the open session. The minutes shall be public records open to public inspection.” The City’s minutes publications do not include the results of each vote taken or information sufficient to indicate the vote of each member present, as required.

Recommendation – The City should comply with the publication requirements of Chapter 21.3 of the Code of Iowa.

Response – The City will publish the required information in the future.

Conclusion – Response accepted.

- (7) 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.
- (8) Revenue Bonds and Notes – No instances of non-compliance with the revenue note resolutions were noted.
- (9) Financial Condition – The Debt Service and the Special Revenue Fund, Rapp Charity Trust Funds had deficit balances of \$40,188 and \$5, respectively, at June 30, 2016.

Recommendation – The City should investigate alternatives to eliminate these deficits to return these funds to a sound financial position.

Response – The City will eliminate the deficit balances as recommended.

Conclusion – Response accepted.

City of Shenandoah

Schedule of Findings

Year ended June 30, 2016

- (10) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor. We noted the following regarding the City’s TIF obligations, certifications to the County Auditor and the Special Revenue, Urban Renewal Tax Increment Financing Fund (TIF Fund) disbursements:
- (a) In November 2014, the City issued \$1,130,000 of urban renewal revenue capital loan notes, in part to refund \$630,000 of urban renewal revenue notes issued in 2003. In November 2014, the City certified the \$1,130,000 urban renewal revenue notes to the County Auditor as a TIF obligation, but did not de-certify the \$630,000 of revenue notes refunded during the year.
  - (b) In November 2013, the City certified \$1,378,969 to the Fremont County Auditor for the principal and interest balance outstanding on July 1, 2007 on its community theatre urban renewal revenue notes. In November 2014 and November 2016, the City certified an additional \$151,135 and \$150,493, respectively, for principal and interest on the note for a total certified on this obligation of \$1,680,597. The balance of principal and interest due on the note at July 1, 2007 was actually \$1,968,758, or \$288,161 more than the City has certified to date. During the year ended June 30, 2015, the City refunded \$630,000 of the remaining principal on the community theatre urban renewal revenue notes. The balance of interest owed at the time of the refunding was \$126,592. At June 30, 2016, it appears the City has potentially under certified \$161,569 (\$288,161 less \$126,592) of past principal and interest paid on this obligation (assuming the City decertifies the \$630,000 refunded principal on the note as recommended in item (a) above).
  - (c) During the current and prior years, the City paid principal and interest on a portion of the 2009 general obligation essential corporate purpose and refunding notes and the 2014 urban renewal revenue capital loan notes from the TIF Fund. However, based on a review of the “Urban Renewal Area TIF Indebtedness/Increment Tax Revenue Reconciliation” prepared by the Page County Auditor, the interest portion of these obligations has not been certified to the County Auditor as a TIF obligation.
  - (d) During the year ended June 30, 2016, the City requested \$26,188 of tax increment financing funding from Fremont County for TIF debt obligations certified to Page County.

City of Shenandoah

Schedule of Findings

Year ended June 30, 2016

- (e) During the year ended June 30, 2016, The City transferred \$14,525 from the General Fund to the Debt Service Fund to cover a portion of the principal and interest due and paid on the 2009 general obligation essential corporate purpose and refunding noted with hotel/motel receipts. However, this portion of the 2009 notes was previously certified as a TIF obligation and, accordingly, should have been paid with the resources transferred from the TIF Fund to the Debt Service Fund.
- (f) During the years ended June 30, 2016, the City paid \$7,023 and \$20,535, respectively, of legal and other fees directly from the TIF Fund. These costs do not represent TIF debt obligations and, accordingly, are not an allowable use of tax increment financing receipts.

Recommendation –

- (a) The City should certify a reduction of \$630,000 of TIF indebtedness representing the amount of TIF obligations refunded during fiscal year 2015.
- (b) The City should review past TIF debt certifications for the community theatre urban renewal revenue note and payments on that note to determine the amount, if any, under certified for past principal and interest payments. If the City determines an amount has been under certified, this amount should be certified to the County Auditor to correct the error.
- (c) The City should certify the 2014 urban renewal revenue capital loan note and 2009 general obligation note (the portion representing a TIF obligation) interest expected to be repaid, including past interest amounts paid, with TIF collections to the County Auditor as TIF obligations.
- (d) The City should contact Fremont County regarding the request for funding for the TIF obligation certified to Page County. The amount requested from Fremont County should be decertified.
- (e) The City should transfer \$14,525 from the TIF Fund to the General Fund for the principal and interest costs payable from the TIF Fund.
- (f) The City should reimburse the TIF Fund from an allowable fund, such as the General Fund, for the unallowable costs paid in current and prior years. If disbursements are for a qualified TIF project, the City may approve an advance (interfund loan) from the General Fund to the TIF Fund and certify the advance to the County Auditor as a TIF obligation for future collection of TIF receipts and reimbursement to the General Fund to repay the advance.

Response – The City will certify and de-certify, as appropriate, TIF obligations as recommended.

Conclusion – Response acknowledged. The City should also transfer \$14,525 from the TIF Fund to the General Fund and should reimburse the TIF Fund from an allowable fund for the unallowable costs paid in current and prior years.

City of Shenandoah

Schedule of Findings

Year ended June 30, 2016

- (11) Annual Urban Renewal Report – The Annual Urban Renewal Report (AURR) was certified to the Iowa Department of Management on or before December 1 for the period ending June 30, 2015. The receipts, disbursements and ending cash balance of the Special Revenue, Urban Renewal Tax Increment Financing Fund reported on the Levy Authority Summary did not agree with the City’s general ledger.

Recommendation – The City should ensure the amounts reported on the Levy Authority Summary agree with the City’s records.

Response – The City will work with the Iowa Department of Management to correct the reporting errors for the fiscal year 2016 AURR.

Conclusion – Response accepted.

- (12) Sewer Utility Rates – In September 2013, the City Council approved an ordinance increasing sewer usage rates. The rate increase was approved as a percentage increase (2.5%) of the rate current at that time rather than as an approved per gallon usage amount and was to be increased for the year ended June 30, 2015 and another increase for the year ended June 30, 2016. In addition, during the fiscal year ended June 30, 2016, sewer usage was billed using the rate in effect before the September 2013 approved increase.

Recommendation – Utility usage rates should be approved as a per gallon dollar usage amount rather than a percentage increase to clearly document and communicate the intended approved rate. Future billings should be calculated using current rates approved by the City Council.

Response – The City will implement the approval of per gallon dollar usage rates rather than percentage increases.

Conclusion – Response acknowledged. The City should also ensure sewer usage is billed at current approved rates.

- (13) Swimming Pool Expenses – During the year ended June 30, 2016, the Enterprise Water and Sewer Funds paid \$10,782 and \$26,438, respectively, of salaries and other expenses for the Shenandoah public swimming pool. Swimming pool expenses are not part of the cost of operating a water or sewer utility and, accordingly, should not be recorded as an expense of these funds. In accordance with the Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee, swimming pool expenses are more appropriately recorded as a General Fund expense.

City of Shenandoah

Schedule of Findings

Year ended June 30, 2016

In certain circumstances, it is appropriate for the Enterprise, Water and/or Sewer Funds to supplement the General or other funds through transfers. In accordance with the Iowa Administrative Code, Chapter 545-2.5, the City may transfer “surplus” funds from the Enterprise, Water and Sewer Funds to any other fund, except the Emergency Fund, by resolution of the governing body. A “surplus” is defined by the Administrative Rules as the cash balance in excess of: a) the amount of disbursements for operating and maintaining the utility for the preceding three months and b) the amount necessary to make all required transfers to restricted accounts for the succeeding three months. For the year ended June 30, 2016, the Enterprise, Water and Sewer Funds did not calculate a “surplus” and, accordingly, it was not appropriate to supplement General Fund expenses, including swimming pool expenses, from these funds.

Recommendation – The City should pay future swimming pool expenses from the General Fund and supplement (transfer) from the Enterprise, Water and/or Sewer Funds only after calculating a surplus in accordance with the Iowa Administrative Code and upon approval by the City Council.

Response – The City will budget the swimming pool expenses in the General Fund and supplement through transfers from the Enterprise, Water and Sewer Funds in the fiscal year 2018 budget.

Conclusion – Response acknowledged. The City should only supplement the General Fund from the Enterprise, Water and Sewer Funds if these funds calculate a “surplus” in accordance with the Iowa Administrative Code, Chapter 545-2.5.

- (14) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City, the Shenandoah Library Foundation and the City Fire Department do not retain electronic images of the back of cancelled checks.

Recommendation – The City, the Shenandoah Library Foundation and the City Fire Department should retain an image of both the front and back of each cancelled check as required.

City and City Fire Department Response: The City Clerk has contacted the local bank with regard to the backs of the checks not being included with bank statements. This has been corrected.

Shenandoah Library Foundation Response – The Library Director has contacted the local bank to request the bank provide a copy of the backs of cancelled checks. The backs of each check are now included on the statement starting with the October 2016 statement.

Conclusion – Responses accepted.

City of Shenandoah

Schedule of Findings

Year ended June 30, 2016

(15) Other Information Required by the Revenue Note Resolution

Insurance – The following insurance policies were in force at June 30, 2016:

<b>Insurer</b>	<b>Description</b>	<b>Amount</b>	<b>Expiration Date</b>
Employers Mutual Casualty	Property Blanket Buildings	\$ 31,150,532	June 30, 2016
Employers Mutual Casualty	Comprehensive Gen. Liability Per Occurrence	\$ 1,000,000	June 30, 2016
	Aggregate	\$ 2,000,000	
Employers Mutual Casualty	Inland Marine	\$ 1,187,117	June 30, 2016
Employers Mutual Casualty	Automobile coverage Liability	\$ 1,000,000	June 30, 2016
	uninsured and underinsured	\$ 1,000,000	
Employers Mutual Casualty	Workers' Compensation	\$ 500,000	June 30, 2016
Employers Mutual Casualty	Comercial Umbrella Retained	\$ 10,000	June 30, 2016
	Each occurrence	\$ 5,000,000	
	Aggregregate	\$ 5,000,000	
Employers Mutual Casualty	Linebacker Each Loss	\$ 1,000,000	June 30, 2016
	Aggregate	\$ 1,000,000	
Employers Mutual Casualty	Law Enforcement Each occurrence	\$ 1,000,000	June 30, 2016
	Aggregate	\$ 1,000,000	
Employers Mutual Casualty	Employee dishonesty: Blanket bond	\$ 100,000	June 30, 2016
	Alteration	\$ 100,000	
Employers Mutual Casualty	Commercial crime: Inside premises	\$ 5,000	June 30, 2016
	Outside premises	\$ 5,000	
Old Republic Insurance Co.	Airport liability: per occurrence	\$ 1,000,000	January 29, 2017
	Aggregate	\$ 1,000,000	

City of Shenandoah

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Director  
Dorothy O. Stover, Senior Auditor II  
Erin J. Sietstra, Staff Auditor  
Sarah J. Swisher, Assistant Auditor  
Mark D. Newhall, 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