



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

December 22, 2017

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515/281-5834

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

The City's receipts totaled \$10,347,480 for the year ended June 30, 2017, a 21.5% decrease from the prior year. The receipts included \$2,399,888 in property tax, \$289,462 from tax increment financing, \$512,063 from local option sales tax, \$57,816 from hotel/motel tax, \$4,012,153 from charges for service, \$1,075,719 from operating grants, contributions and restricted interest, \$494,972 from capital grants, contributions and restricted interest, \$8,095 from unrestricted interest on investments, \$50,574 from cable franchise fees, \$85,120 from commercial/industrial tax replacement, \$1,293,375 of note proceeds and other general receipts of \$68,243.

Disbursements for the year totaled \$10,661,115, a 16.8% decrease from the prior year, and included \$1,330,579 for culture and recreation, \$1,328,272 for public safety and \$1,300,149 for public works. Disbursements for business type activities totaled \$4,425,766.

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/1720-0681-B00F>.

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CITY OF SHENANDOAH

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

JUNE 30, 2017

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City of Shenandoah

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Hunt	Mayor	Jan 2018
Rita Gibson	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, 2017, 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, 2017, 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 two years ended June 30, 2016 and the financial statements for the five 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 5, including the Schedule of Expenditures of Federal Awards required by the Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, (Uniform Guidance), 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 9 through 16 and 42 through 48, 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, 2017 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 solely 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 effectiveness of the City's 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, 2017

City of Shenandoah

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Shenandoah provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2017. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2017 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 18.7%, or approximately \$1,388,000 from fiscal year 2016 to fiscal year 2017. The decrease in governmental activities receipts is primarily due to bond proceeds received in fiscal year 2016 of approximately \$1,429,000.
- Governmental activities disbursements decreased 13.8%, or approximately \$998,000, from fiscal year 2016 to fiscal year 2017. The decrease is primarily due to refunding of notes during fiscal year 2016.
- The City's total cash basis net position decreased 5.7%, or approximately \$313,000, from June 30, 2016 to June 30, 2017. Of this amount, the cash basis net position of the governmental activities decreased approximately \$173,000 and the cash basis net position of the business type activities decreased approximately \$140,000.

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. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The 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.

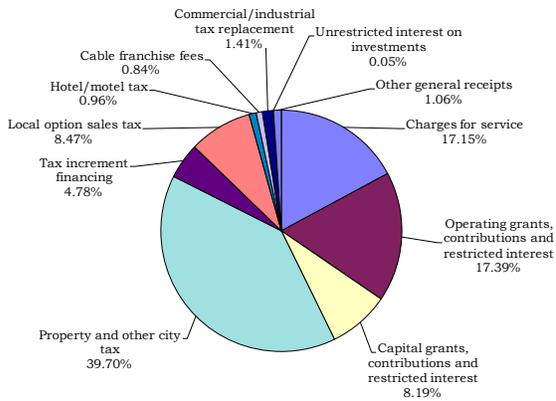
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

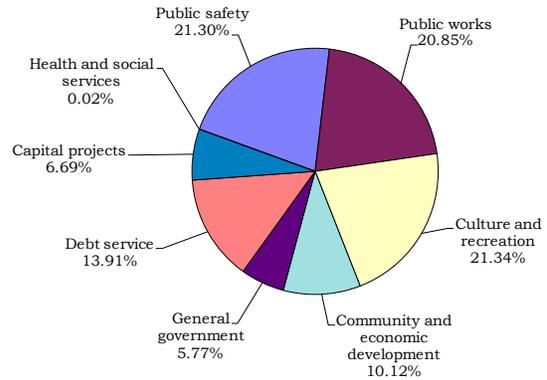
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from approximately \$3.2 million to approximately \$3.0 million. The analysis that follows focuses on the changes in cash basis net position of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

Changes in Cash Basis Net Position of Governmental Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2017	2016
Receipts:		
Program receipts:		
Charges for service	\$ 1,037	932
Operating grants, contributions and restricted interest	1,051	1,058
Capital grants, contributions and restricted interest	495	558
General receipts:		
Property and other city tax	2,400	2,511
Tax increment financing	289	193
Local option sales tax	512	429
Hotel/motel tax	58	54
Cable franchise fees	51	51
Commercial/industrial tax replacement	85	116
Unrestricted interest on investments	3	7
Note proceeds	-	1,429
Other general receipts	64	95
Total receipts	6,045	7,433
Disbursements:		
Public safety	1,328	1,304
Public works	1,300	1,234
Health and social services	1	1
Culture and recreation	1,331	979
Community and economic development	631	226
General government	360	340
Debt service	867	1,181
Capital projects	417	553
Payment to refunding note agent	-	1,415
Total disbursements	6,235	7,233
Change in cash basis net position before transfers	(190)	200
Transfers, net	17	-
Change in cash basis net position	(173)	200
Cash basis net position beginning of year	3,214	3,014
Cash basis net position end of year	\$ 3,041	3,214

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities decreased 18.7%, or approximately \$1,388,000. The total cost of all programs and services decreased 13.8%, or approximately \$998,000, with no new programs added this year. The significant decrease in receipts was primarily the result of proceeds received from the issuance of urban renewal revenue capital loan notes in the prior year, with no similar proceeds this year. The proceeds were used to refund the outstanding balance of the 2009 urban renewal revenue notes. The significant decrease in disbursements was primarily due to early retirement of the 2009 urban renewal revenue notes in the prior year, for which there were no similar disbursements in the current year.

Property tax receipts decreased approximately \$111,000, or 4.4%. Property tax rates for fiscal year 2017 decreased 3.4% and taxable valuations decreased 1.8%. Property tax receipts are budgeted to decrease approximately \$35,000, or 1.5% in fiscal year 2018.

The cost of all governmental activities this year was approximately \$6.235 million compared to approximately \$7.233 million last year. However, as shown in the Cash Basis Statement of Activities and Net Position on pages 18-19, the amount taxpayers ultimately financed for these activities was approximately \$3.652 million because some of the cost was paid by those who directly benefited from the programs (approximately \$1,037,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$1,546,000). 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 2017 from approximately \$2,548,000 to \$2,583,000.

The total business type activities cash balance decreased from approximately \$2.32 million a year ago to approximately \$2.18 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,	
	2017	2016
Receipts:		
Program receipts:		
Charges for service:		
Water	2,117	2,027
Sewer	858	711
Operating grants, contributions and restricted interest:		
Water	17	16
Sewer	8	5
General receipts:		
Unrestricted interest on investments	5	4
Note proceeds	1,293	2,976
Miscellaneous	4	1
Total receipts	<u>4,302</u>	<u>5,740</u>
Disbursements:		
Water	3,726	4,889
Sewer	699	690
Total disbursements	<u>4,425</u>	<u>5,579</u>
Change in cash basis net position before transfers	(123)	161
Transfers, net	<u>(17)</u>	<u>-</u>
Change in cash basis net position	(140)	161
Cash basis net position beginning of year	<u>2,324</u>	<u>2,163</u>
Cash basis net position end of year	<u>\$ 2,184</u>	<u>2,324</u>

Total business type activities receipts for the fiscal year were approximately \$4.3 million compared to approximately \$5.7 million last year, a 25.1% decrease. Receipts for water sales increased from \$2.0 million in fiscal year 2016 to \$2.1 million in fiscal year 2017. The City also drew down approximately \$1.3 million of proceeds from water revenue capital loan notes, approximately \$1.7 million less than the prior year. The proceeds are being used to fund a new water treatment facility. The cash basis net position decreased approximately \$140,000. Total disbursements for the fiscal year decreased 20.7% to approximately \$4.4 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Shenandoah completed the fiscal year, its governmental funds reported a combined fund balance of \$3,040,929, a decrease of \$173,440 from last year's total of \$3,214,369. 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 \$496,956 at the end of fiscal year 2017, a 1.2% decrease. Receipts increased \$377,732 or 15.4% over the prior year while disbursements increased \$360,370, or 12.7%. The increase in receipts was primarily due to donations received. The increase in disbursements was primarily due to tennis court renovations which were partially funded by donations.

The Special Revenue, Road Use Tax Fund cash balance increased \$107,103 over the prior year to \$649,954. Receipts increased \$3,260, or 0.5%, while disbursements increased \$56,302, or 12.1%. The increase in disbursements was primarily due the purchase of a truck and other miscellaneous equipment.

The Special Revenue, Employee Benefits Fund cash balance decreased \$22,857, or 10.4%, from the prior year cash balance. Receipts decreased \$17,886, primarily due to a decrease in property and other city tax of approximately \$13,831. Disbursements increased \$50,165 or 8.4%, over prior year disbursements.

The Special Revenue, Local Option Sales Tax (LOST) Fund cash balance decreased \$214,632 to a deficit balance of \$202,926. LOST receipts increased \$82,840 over the prior year and disbursements increased \$283,096, or 197.1%, over the prior year. LOST receipts are being used for the Safe Routes to School project, which will be reimbursed by a federal grant.

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 2017 receipts:

Property tax relief	\$ 307,238
Community betterment	102,413
Community planning	51,206
Economic development	<u>51,206</u>
Total	<u>\$ 512,063</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 \$247,712 at the end of fiscal year 2016 to \$175,365 at the end of fiscal year 2017. The fund balance decreased primarily due to developer payments which were greater than the incremental tax receipts and costs for the Walk of Fame project.

The Debt Service Fund cash balance increased \$62,397, or 155.3%, from the prior year cash balance. Property and other city tax decreased \$133,964 from the prior year and disbursements and other financing uses decreased \$1,709,110, or 70.5%, from the prior year due to refunding a general obligation note during the previous year.

The Capital Projects Fund cash balance decreased \$74,567 from the prior year to a deficit balance of \$1,589. Receipts decreased \$338,502 or 51.8%, and disbursements decreased \$136,057, or 24.6%. The City had additional disbursements for the airport runway project in the prior year.

The Permanent, Snook Trust Fund cash balance remained fairly steady, with a cash balance of \$1,149,729 at the end of the fiscal year 2017.

The Permanent, Cemetery Perpetual Care Fund cash balance increased \$1,943 to \$172,996 at the end of the fiscal year 2017.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Water Fund cash balance decreased \$292,410 from the prior year. Operating receipts increased \$90,486 or 4.4% over the prior year and operating disbursements increased \$119,662, or 9.4%, over the prior year.

The Enterprise, Sewer Fund cash balance increased \$152,215 over the prior year balance of \$207,803. Operating receipts increased \$149,234 or 20.8%, while operating disbursements increased \$9,070, or 1.8%, over the prior fiscal year. Receipts increased due to an increase in sewer utility rates.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on June 13, 2017 and resulted in an increase in budgeted receipts of \$994,637 and budgeted disbursements of \$1,692,096.

The City's receipts were \$2,142,356 less than budgeted. This was primarily due to budgeting for water revenue capital loan note proceeds as an intergovernmental receipt rather than another financing source.

With the budget amendment, total disbursements were \$575,913 less than the amended budget. Disbursements at year end exceeded the amount budgeted in the debt service function. In addition, disbursements in the health and social services, culture and recreation, community and economic development, general government, debt service and capital projects functions exceeded the budget prior to the budget amendment.

DEBT ADMINISTRATION

At June 30, 2017, the City had approximately \$18,317,000 of notes and other long-term debt outstanding, compared to approximately \$18,434,000 last year, as shown below:

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2017	2016
General obligation notes	\$ 2,205	2,845
Revenue notes	15,213	14,684
Urban renewal revenue notes	785	900
Capital lease purchase agreements	114	5
Total	\$ 18,317	18,434

During fiscal year 2017, the City drew down \$798,099 of the 2013 water revenue capital loan notes and issued and drew down additional water revenue capital loan notes of \$505,276 to fund project costs related to a new water treatment facility.

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 \$3,119,913 is significantly below the City's constitutional debt limit of approximately \$10 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 2018 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 rates, adding an additional revenue note to fund the construction of a new water treatment plant and increasing sewer rates.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$98,000 or 1.6%, by the close of fiscal year 2018.

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, 2017

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Primary Government:				
Governmental activities:				
Public safety	\$ 1,328,272	58,052	99,638	-
Public works	1,300,149	649,407	649,120	-
Health and social services	667	-	-	-
Culture and recreation	1,330,579	294,938	187,785	275,360
Community and economic development	631,070	184	34,963	-
General government	360,168	34,084	-	-
Debt service	867,138	-	28,792	-
Capital projects	417,306	-	50,964	219,612
Total governmental activities	6,235,349	1,036,665	1,051,262	494,972
Business type activities:				
Water	3,726,590	2,117,470	16,895	-
Sewer	699,176	858,018	7,562	-
Total business type activities	4,425,766	2,975,488	24,457	-
Total primary government	\$ 10,661,115	4,012,153	1,075,719	494,972
Component Unit:				
Library Foundation	\$ 31,866	-	28,187	-
General Receipts and Transfers:				
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				
Sale of capital assets				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Nonexpendable:				
Snook Trust				
Cemetery perpetual care				
Esden Trust				
Expendable:				
Fire				
Streets				
Employee benefits				
Library				
Debt service				
Parks				
Other purposes				
Unrestricted				
Total cash basis net assets				

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
(1,170,582)	-	(1,170,582)	
(1,622)	-	(1,622)	
(667)	-	(667)	
(572,496)	-	(572,496)	
(595,923)	-	(595,923)	
(326,084)	-	(326,084)	
(838,346)	-	(838,346)	
(146,730)	-	(146,730)	
<u>(3,652,450)</u>	<u>-</u>	<u>(3,652,450)</u>	
-	(1,592,225)	(1,592,225)	
-	166,404	166,404	
-	(1,425,821)	(1,425,821)	
<u>(3,652,450)</u>	<u>(1,425,821)</u>	<u>(5,078,271)</u>	
			<u>(3,679)</u>
1,805,265	-	1,805,265	-
594,623	-	594,623	-
289,462	-	289,462	-
512,063	-	512,063	-
57,816	-	57,816	-
50,574	-	50,574	-
85,120	-	85,120	-
3,214	4,881	8,095	-
-	1,293,375	1,293,375	-
19,063	-	19,063	-
45,180	4,000	49,180	-
16,630	(16,630)	-	-
<u>3,479,010</u>	<u>1,285,626</u>	<u>4,764,636</u>	<u>-</u>
<u>(173,440)</u>	<u>(140,195)</u>	<u>(313,635)</u>	<u>(3,679)</u>
<u>3,214,369</u>	<u>2,324,450</u>	<u>5,538,819</u>	<u>394,969</u>
<u>\$ 3,040,929</u>	<u>2,184,255</u>	<u>5,225,184</u>	<u>391,290</u>
\$ 1,149,729	-	1,149,729	-
172,996	-	172,996	-
20,443	-	20,443	-
125,634	-	125,634	-
649,954	-	649,954	-
197,363	-	197,363	-
212,963	-	212,963	391,290
197,574	-	197,574	-
46,778	-	46,778	-
88,547	-	88,547	-
178,948	2,184,255	2,363,203	-
<u>\$ 3,040,929</u>	<u>2,184,255</u>	<u>5,225,184</u>	<u>391,290</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, 2017

	Special Revenue				
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax	Urban Renewal Tax Increment Financing
Receipts:					
Property tax	\$1,186,600	-	557,576	-	-
Tax increment financing	-	-	-	-	289,462
Other city tax	99,279	-	19,626	512,063	-
Licenses and permits	57,632	-	-	-	-
Use of money and property	46,379	-	-	-	5,045
Intergovernmental	97,340	639,340	22,721	-	-
Charges for service	922,264	-	-	-	-
Miscellaneous	422,630	353	25,690	-	-
Total receipts	<u>2,832,124</u>	<u>639,693</u>	<u>625,613</u>	<u>512,063</u>	<u>294,507</u>
Disbursements:					
Operating:					
Public safety	958,863	-	355,154	-	-
Public works	646,524	521,531	132,094	-	-
Health and social services	-	-	-	-	-
Culture and recreation	1,159,983	-	158,919	-	-
Community and economic development	66,353	-	-	426,695	138,022
General government	357,865	-	2,303	-	-
Debt service	-	-	-	-	152,641
Capital projects	-	-	-	-	-
Total disbursements	<u>3,189,588</u>	<u>521,531</u>	<u>648,470</u>	<u>426,695</u>	<u>290,663</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(357,464)</u>	<u>118,162</u>	<u>(22,857)</u>	<u>85,368</u>	<u>3,844</u>
Other financing sources (uses):					
Transfers in	351,195	-	-	-	-
Transfers out	(5)	(11,059)	-	(300,000)	(76,191)
Total other financing sources (uses)	<u>351,190</u>	<u>(11,059)</u>	<u>-</u>	<u>(300,000)</u>	<u>(76,191)</u>
Change in cash balances	(6,274)	107,103	(22,857)	(214,632)	(72,347)
Cash balances beginning of year	503,230	542,851	220,220	11,706	247,712
Cash balances end of year	<u>\$ 496,956</u>	<u>649,954</u>	<u>197,363</u>	<u>(202,926)</u>	<u>175,365</u>
Cash Basis Fund Balances					
Nonspendable:					
Permanent Funds	\$ -	-	-	-	-
Restricted for:					
Fire	88,017	-	-	-	-
Streets	-	649,954	-	-	-
Employee benefits	-	-	197,363	-	-
Library	-	-	-	-	-
Debt service	-	-	-	-	175,365
Parks	-	-	-	-	-
Other purposes	25,476	-	-	-	-
Unassigned	383,463	-	-	(202,926)	-
Total cash basis fund balances	<u>\$ 496,956</u>	<u>649,954</u>	<u>197,363</u>	<u>(202,926)</u>	<u>175,365</u>

See notes to financial statements.

Debt Service	Capital Projects	Permanent			Total
		Snook Trust	Cemetery Perpetual Care	Nonmajor	
575,786	-	-	-	-	2,319,962
-	-	-	-	-	289,462
18,837	-	-	-	-	649,805
-	-	-	-	-	57,632
-	50,964	3,333	37	356	106,114
21,808	226,561	-	-	-	1,007,770
-	-	-	1,906	-	924,170
28,792	37,525	-	-	175,374	690,364
645,223	315,050	3,333	1,943	175,730	6,045,279
-	-	1,334	-	12,921	1,328,272
-	-	-	-	-	1,300,149
-	-	667	-	-	667
-	-	1,334	-	10,343	1,330,579
-	-	-	-	-	631,070
-	-	-	-	-	360,168
714,497	-	-	-	-	867,138
-	417,306	-	-	-	417,306
714,497	417,306	3,335	-	23,264	6,235,349
(69,274)	(102,256)	(2)	1,943	152,466	(190,070)
131,671	27,689	-	-	5	510,560
-	-	-	-	(106,675)	(493,930)
131,671	27,689	-	-	(106,670)	16,630
62,397	(74,567)	(2)	1,943	45,796	(173,440)
(40,188)	72,978	1,149,731	171,053	335,076	3,214,369
22,209	(1,589)	1,149,729	172,996	380,872	3,040,929
-	-	1,149,729	172,996	20,443	1,343,168
-	-	-	-	37,617	125,634
-	-	-	-	-	649,954
-	-	-	-	-	197,363
-	-	-	-	212,963	212,963
22,209	-	-	-	-	197,574
-	-	-	-	46,778	46,778
-	-	-	-	63,071	88,547
-	(1,589)	-	-	-	178,948
22,209	(1,589)	1,149,729	172,996	380,872	3,040,929

City of Shenandoah

City of Shenandoah

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

As of and for the year ended June 30, 2017

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 2,096,405	797,486	2,893,891
Miscellaneous	37,960	68,094	106,054
Total operating receipts	2,134,365	865,580	2,999,945
Operating disbursements:			
Business type activities	1,389,784	513,608	1,903,392
Excess of operating receipts over operating disbursements	744,581	351,972	1,096,553
Non-operating receipts (disbursements):			
Interest on investments	2,440	2,441	4,881
Miscellaneous	4,000	-	4,000
Note proceeds	1,293,375	-	1,293,375
Debt service	(918,785)	(185,568)	(1,104,353)
Capital outlay	(1,418,021)	-	(1,418,021)
Net non-operating receipts (disbursements)	(1,036,991)	(183,127)	(1,220,118)
Excess (deficiency) of receipts over (under) disbursements	(292,410)	168,845	(123,565)
Transfers out	-	(16,630)	(16,630)
Change in cash balances	(292,410)	152,215	(140,195)
Cash balances beginning of year	2,116,647	207,803	2,324,450
Cash balances end of year	\$ 1,824,237	360,018	2,184,255
Cash Basis Fund Balances			
Restricted for debt service	\$ 70,671	15,120	85,791
Unrestricted	1,753,566	344,898	2,098,464
Total cash basis fund balances	\$ 1,824,237	360,018	2,184,255

See notes to financial statements.

City of Shenandoah

Notes to Financial Statements

June 30, 2017

(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 E-911 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 property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities 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, 2017, disbursements exceeded the amount budgeted in the health and social services, culture and recreation, community and economic development, general government, debt service and capital projects functions 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, 2017 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 which are valued at an amortized cost of \$168,613 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 Iowa Public Agency Investment Trust is unrated.

Component Unit

At June 30, 2017, the Shenandoah Library Foundation (Foundation), a discretely presented component unit, had the following investments:

Type	Carrying Amount	Fair Value
Stocks	\$ 49,529	43,072
Mutual fund	55,298	67,202
	<u>\$ 104,827</u>	<u>110,274</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 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
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	145,000	3,270	152,000	29,490	140,000	11,756	437,000	44,516
2023-2027	-	-	831,000	76,230	145,000	5,981	976,000	82,211
Total	<u>\$ 2,205,000</u>	<u>130,690</u>	<u>1,548,000</u>	<u>266,700</u>	<u>785,000</u>	<u>117,417</u>	<u>4,538,000</u>	<u>514,807</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 52% of net receipts. The total principal and interest remaining to be paid on the notes is \$1,814,700. For the current year, principal and interest paid and total customer net receipts were \$181,370 and \$351,972, 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 Loan Notes

Water Revenue Capital Loan Notes – 2013

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, 2017, the City had drawn down \$14,057,000 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, 2017, the City paid principal and interest of \$561,000 and \$271,523, respectively, on the notes under a preliminary repayment schedule. The balance on the notes at June 30, 2017 was \$13,242,000

The City has entered into an agreement to receive up to 20% loan forgiveness on the Leadership in Energy and Environmental Program portion of the water treatment project. The most recent estimate of the forgivable portion is \$1,346,000. The final amount of loan forgiveness is not known at this time.

Water Revenue Capital Loan Notes – 2016

On November 18, 2016, 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 \$2,000,000 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, 2017, the City had drawn down \$505,276 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, 2017. A final repayment schedule has not yet been adopted. However, during the year ended June 30, 2017, the City paid principal and interest of \$82,000 and \$4,262, respectively, on the notes under a preliminary repayment schedule. The balance on the notes at June 30, 2017 was \$423,276.

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, 2017 is not available since a final repayment schedule has not been adopted. Annual principal and interest payments on the notes are expected to require more than 100% of net receipts. For the current year, principal and interest paid and total customer net receipts were \$918,785 and \$744,581, 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.

During fiscal year 2017, sufficient user rates were not established at a level to produce net receipts equal to at least 110% of the principal and interest on the notes. In addition, the City has not made the required transfers to the water revenue note sinking account.

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 \$902,417, payable through 2023. For the current year, principal and interest paid and total TIF receipts were \$152,641 and \$289,462, respectively.

(4) Capital Lease Purchase Agreements

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, 2017:

<u>Year ending</u> <u>June 30,</u>	<u>Amount</u>
2018	\$ 2,126
Less amount representing interest	<u>(26)</u>
Present value of net minimum lease payments	<u>\$ 2,100</u>

During the year ended June 30, 2017, \$2,836 of principal and interest was paid under this lease purchase agreement.

On May 3, 2017, the City entered into a capital lease purchase agreement to acquire a loader for the street department. The following is a schedule of the future minimum lease payments, including interest at 3.56% per annum, and the present value of net minimum lease payments under the agreement at June 30, 2017:

<u>Year ending</u> <u>June 30,</u>	<u>Amount</u>
2018	\$ 18,259
2019	18,259
2020	18,259
2021	18,259
2022	18,259
2023	18,259
2024	<u>18,259</u>
	\$ 127,813
Less amount representing interest	<u>(16,401)</u>
Present value of net minimum lease payments	<u>\$ 111,412</u>

During the year ended June 30, 2017, no payments were made under this lease 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.

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 2017, 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, 2017 were \$159,810.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the City reported a liability of \$1,236,222 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 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, 2016, the City’s proportion was 0.019643%, which was an increase of 0.000620% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$178,850, \$461,264 and \$23,071, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2016 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 (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2016 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:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	28%	1.90%
Domestic equity	24	5.85
International equity	16	6.32
Private equity/debt	11	10.31
Real estate	8	3.87
Credit opportunities	5	4.48
U.S. TIPS	5	1.36
Other real assets	2	6.42
Cash	1	(0.26)
Total	<u>100%</u>	

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.

	<u>1% Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
City's proportionate share of the net pension liability	\$ 2,207,309	1,236,222	416,878

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.

(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 33 active members and no retired members 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 \$614 for employee coverage, \$1,163 for employee/child coverage, \$1,258 for employee/spouse coverage and \$1,885 for family coverage. For the year ended June 30, 2017, the City contributed \$427,056 and plan members eligible for benefits contributed \$58,234 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, 2017, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 64,800
Compensatory time	8,600
Total	<u>\$ 73,400</u>

This liability has been computed based on rates of pay in effect at June 30, 2017.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2017 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Urban Renewal Tax Increment Financing	\$ 14,525
	Local Option Sales Tax	229,995
	Wilson Trust - Library	30,000
	Wilson Trust - City	<u>76,675</u>
		<u>351,195</u>
Special Revenue:		
Rapp Charity Trust	General	<u>5</u>
Capital Projects	Sewer	16,630
	Special Revenue:	
	Road Use Tax	<u>11,059</u>
		<u>27,689</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment Financing	61,666
	Local Option Sales Tax	<u>70,005</u>
		<u>131,671</u>
Total		<u>\$ 510,560</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 entered into a private development agreement with the Shenandoah Iowa Assisted Living Facility, LLC. The City agreed to make certain economic development grants to the developer to reimburse the developer for a portion of the cost of the improvements constructed. The grant payments to be made equal 75% of the tax increment financing collected by the City, but shall not exceed \$245,056. Payments totaling \$85,410 were made to the developer during the year ended June 30, 2017. The amount paid was greater than the incremental taxes collected and, accordingly, the payment amount was not in accordance with the agreement.

In October 2015, the City entered into a private development agreement with Southwest Iowa Technology Services, LLC (SWIFT). The City agreed to make certain economic development grants to the developer to expand the fiber optic services within the City and maintain a corporate office within the City limits for a minimum of ten years. During fiscal year 2017, the City paid \$65,000 from the Special Revenue, Local Option Sales Tax Fund under the terms of the agreement.

(11) Tax Abatements

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

City Tax Abatements

The City provides tax abatements for urban renewal and economic development projects with tax increment financing as provided for in Chapters 15A and 403 of the Code of Iowa. For these types of projects, the City enters into agreements with developers which require the City, after developers meet the terms of the agreements, to rebate a portion of the property tax paid by the developers, to pay the developers an economic development grant or to pay the developers a predetermined dollar amount. No other commitments were made by the City as part of these agreements.

As of June 30, 2017, the City had abated \$36,981 of property tax under the urban renewal and economic development projects.

(12) 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, 2017, the City disbursed \$50,000 in loans and received \$12,225 of principal and \$2,233 of interest. The outstanding loan principal balance within the General Fund was \$108,569 at June 30, 2017.

(13) Commitments

Water Treatment Plant Construction

In June 2013, the City entered into a contract totaling \$12,471,713 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, 2017, the City had paid a total of \$11,657,944 under the contract, leaving an unpaid balance to complete the project of \$813,769, including retainage.

The City continues to work with the surety to complete the water treatment plant. The City is subject to additional costs to complete the project. During the fiscal year ended June 30, 2017, the City issued water revenue notes of up to \$2,000,000 to help cover additional costs. 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. At June 30, 2017, the City had paid \$196,046 on the project. The balance of \$26,033 will be paid as work on the project progresses.

(14) Deficit Balances

At June 30, 2017, the Special Revenue, Local Option Sales Tax Fund and the Capital Projects Fund had deficit balances of \$202,926 and \$1,589, respectively. The deficit balances will be eliminated through future transfers from other funds and grant reimbursements.

(15) 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, 2017, the City paid \$64,550 to the Ambulance Service pursuant to the agreement.

(16) Pending Litigation

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

(17) Subsequent Event

On September 8, 2017 the City approved a resolution authorizing and approving the issuance of \$830,000 of sewer revenue capital loan notes to pay the costs of constructing improvements and extensions to the municipal sewer system. The City will draw funds from the Iowa Finance Authority upon request to reimburse the City for costs as they are incurred.

On October 24, 2017 the City approved a resolution authorizing and approving the issuance of \$655,000 of general obligation capital loan notes for the purchase of equipment and demolition of blighted properties.

On October 10, 2017, the Iowa Finance Authority reduced the interest rate on the sewer revenue capital loan notes issued on July 10, 2007 from 3.00% to 1.75%.

(18) New Accounting Pronouncement

The City adopted the tax abatement disclosure guidance set forth in Governmental Accounting Standards Board Statement No. 77, Tax Abatement Disclosures. The Statement sets forth guidance for the disclosure of information about the nature and magnitude of tax abatements which will make these transactions more transparent to financial statement users. Adoption of the guidance did not have an impact on amounts reported in the financial statements. The Notes to Financial Statements include information about the City's tax abatements and tax abatements of other entities which impact the City.

(19) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement will be implemented for the fiscal year ending June 30, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with postemployment benefits other than pensions, including additional note disclosures and required supplementary information.

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, 2017

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 2,319,962	-	2,319,962
Tax increment financing	289,462	-	289,462
Other city tax	649,805	-	649,805
Licenses and permits	57,632	-	57,632
Use of money and property	106,114	4,881	110,995
Intergovernmental	1,007,770	-	1,007,770
Charges for service	924,170	2,893,891	3,818,061
Miscellaneous	690,364	106,054	796,418
Total receipts	6,045,279	3,004,826	9,050,105
Disbursements:			
Public safety	1,328,272	-	1,328,272
Public works	1,300,149	-	1,300,149
Health and social services	667	-	667
Culture and recreation	1,330,579	-	1,330,579
Community and economic development	631,070	-	631,070
General government	360,168	-	360,168
Debt service	867,138	-	867,138
Capital projects	417,306	-	417,306
Business type activities	-	4,425,766	4,425,766
Total disbursements	6,235,349	4,425,766	10,661,115
Excess (deficiency) of receipts over (under) disbursements	(190,070)	(1,420,940)	(1,611,010)
Other financing sources, net	16,630	1,276,745	1,293,375
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(173,440)	(144,195)	(317,635)
Balances beginning of year	3,214,369	2,324,450	5,538,819
Balances end of year	\$ 3,040,929	2,180,255	5,221,184

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
2,304,387	2,304,387	15,575
289,910	289,910	(448)
585,331	585,331	64,474
57,775	60,775	(3,143)
72,793	83,393	27,602
2,765,729	3,027,934	(2,020,164)
3,700,028	3,798,028	20,033
421,871	1,042,703	(246,285)
<u>10,197,824</u>	<u>11,192,461</u>	<u>(2,142,356)</u>
1,360,756	1,360,756	32,484
1,384,218	1,384,218	84,069
640	670	3
1,058,955	1,432,715	102,136
409,235	762,535	131,465
298,790	379,990	19,822
704,353	776,193	(90,945)
22,000	436,703	19,397
<u>4,305,985</u>	<u>4,703,248</u>	<u>277,482</u>
<u>9,544,932</u>	<u>11,237,028</u>	<u>575,913</u>
652,892	(44,567)	(1,566,443)
<u>35,950</u>	<u>35,950</u>	<u>1,257,425</u>
688,842	(8,617)	(309,018)
<u>5,544,407</u>	<u>3,926,843</u>	<u>1,611,976</u>
<u>6,233,249</u>	<u>3,918,226</u>	<u>1,302,958</u>

City of Shenandoah

Notes to Other Information – Budgetary Reporting

June 30, 2017

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 \$1,692,096. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2017, disbursements exceeded the amounts budgeted in the health and social services, culture and recreation, community and economic development, general government, debt service and capital projects functions prior to the budget amendment. Disbursements at year end exceeded the amount budgeted in debt service function.

City of Shenandoah

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

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

Other Information

	2017	2016	2015
City's proportion of the net pension liability	0.019643%	0.019023%	0.019024%
City's proportionate share of the net pension liability	\$ 1,236	940	754
City's covered-employee payroll	\$ 1,815	1,778	1,785
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	68.99%	52.87%	42.24%
IPERS' net position as a percentage of the total pension liability	81.82%	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.

City of Shenandoah

Schedule of City Contributions

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

Other Information

	2017	2016	2015	2014
Statutorily required contribution	\$ 160	164	165	164
Contributions in relation to the statutorily required contribution	(160)	(164)	(165)	(164)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered-employee payroll	\$ 1,747	1,815	1,778	1,785
Contributions as a percentage of covered-employee payroll	9.16%	9.04%	9.28%	9.19%

* 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.

2013	2012	2011	2010	2009	2008
159	141	124	115	103	96
(159)	(141)	(124)	(115)	(103)	(96)
-	-	-	-	-	-
1,764	1,678	1,647	1,607	*	*
9.01%	8.40%	7.53%	7.16%	*	*

City of Shenandoah

Notes to Other Information – Pension Liability

Year ended June 30, 2017

Changes of benefit terms:

Legislation enacted 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 (unfunded actuarial liability) 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.

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, 2017

	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	\$ -	-	55	-	241	-
Miscellaneous	-	-	10,615	-	43,091	97,676
Total receipts	-	-	10,670	-	43,332	97,676
Disbursements:						
Operating:						
Public safety	-	-	-	-	-	-
Culture and recreation	-	-	5,079	-	620	-
Total disbursements	-	-	5,079	-	620	-
Excess (deficiency) of receipts over (under) disbursements	-	-	5,591	-	42,712	97,676
Other financing sources (uses):						
Transfers in	-	5	-	-	-	-
Transfers out	-	-	-	-	(30,000)	(76,675)
Total other financing sources (uses)	-	5	-	-	(30,000)	(76,675)
Change in cash balances	-	5	5,591	-	12,712	21,001
Cash balances beginning of year	5,084	(5)	41,187	9,468	125,915	27,533
Cash balances end of year	\$ 5,084	-	46,778	9,468	138,627	48,534
Cash Basis Fund Balances						
Nonspendable - Esden Trust	\$ -	-	-	-	-	-
Restricted for:						
Fire	-	-	-	-	-	-
Library	5,084	-	-	-	138,627	-
Parks	-	-	46,778	-	-	-
Other purposes	-	-	-	9,468	-	48,534
Total cash basis fund balances	\$ 5,084	-	46,778	9,468	138,627	48,534

See accompanying independent auditor's report.

Revenue						Permanent	
Forgotten Angels Cemetery Trust	Simons Trust - Library	Volunteer Fire Department	Veteran Museum	Snook Library	Esden Trust		Total
-	-	20	-	-	40		356
-	-	23,305	20	667	-		175,374
-	-	23,325	20	667	40		175,730
-	-	12,921	-	-	-		12,921
-	-	-	4,644	-	-		10,343
-	-	12,921	4,644	-	-		23,264
-	-	10,404	(4,624)	667	40		152,466
-	-	-	-	-	-		5
-	-	-	-	-	-		(106,675)
-	-	-	-	-	-		(106,670)
-	-	10,404	(4,624)	667	40		45,796
3,351	58,822	27,213	6,342	9,763	20,403		335,076
3,351	58,822	37,617	1,718	10,430	20,443		380,872
-	-	-	-	-	20,443		20,443
-	-	37,617	-	-	-		37,617
-	58,822	-	-	10,430	-		212,963
-	-	-	-	-	-		46,778
3,351	-	-	1,718	-	-		63,071
3,351	58,822	37,617	1,718	10,430	20,443		380,872

City of Shenandoah
Schedule of Indebtedness
Year ended June 30, 2017

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
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
Water revenue capital loan notes	Nov 18, 2016	1.75	* 2,000,000
Total			
Urban renewal revenue notes:			
Urban renewal revenue capital loan notes	Nov 14, 2014	4.125%	\$ 1,030,000
Capital lease purchase agreements:			
Copier	May 5, 2013	3.00%	\$ 13,150
Loader	May 3, 2017	3.56	111,412
Total			

* 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
875,000	-	165,000	710,000	23,633
405,000	-	125,000	280,000	7,000
145,000	-	20,000	125,000	4,080
1,420,000	-	330,000	1,090,000	26,081
<u>\$ 2,845,000</u>	<u>-</u>	<u>640,000</u>	<u>2,205,000</u>	<u>60,794</u>
1,679,000	-	131,000	1,548,000	50,370
13,004,901	798,099	561,000	13,242,000	271,523
-	505,276	82,000	423,276	4,262
<u>\$ 14,683,901</u>	<u>1,303,375</u>	<u>774,000</u>	<u>15,213,276</u>	<u>326,155</u>
900,000	-	115,000	785,000	37,641
4,828	-	2,728	2,100	108
-	111,412	-	111,412	-
<u>\$ 4,828</u>	<u>111,412</u>	<u>2,728</u>	<u>113,512</u>	<u>108</u>

City of Shenandoah

City of Shenandoah

Note Maturities

June 30, 2017

Year Ending June 30,	General Obligation Notes					
	Essential Corporate Purpose		Essential Corporate Purpose and Refunding		Essential Corporate Purpose	
	Issued Oct 28, 2010		Issued Apr 12, 2012		Issued Oct 25, 2012	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
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>\$ 710,000</u>		<u>\$ 280,000</u>		<u>\$ 125,000</u>

Year Ending June 30,	General Obligation Notes				Revenue Notes			
	Essential Corporate Purpose and Refunding		Total		Sewer Capital Loan Notes		Urban Renewal Capital Loan Notes	
	Issued Jun 10, 2016				Issued July 10, 2007		Issued Nov 14, 2014	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
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>\$ 1,090,000</u>	<u>2,205,000</u>		<u>\$ 1,548,000</u>		<u>\$ 785,000</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

	2017	2016	2015	2014
Receipts:				
Property tax	\$ 2,319,962	2,424,067	2,488,161	2,421,302
Tax increment financing	289,462	192,579	200,960	282,353
Other city tax	649,805	569,784	561,875	658,618
Licenses and permits	57,632	54,555	59,741	6,595
Use of money and property	106,114	96,968	87,424	55,406
Intergovernmental	1,007,770	1,367,315	728,536	892,826
Charges for service	924,170	887,261	788,888	927,355
Special assessments	-	-	-	-
Miscellaneous	690,364	411,508	590,526	421,246
Total	<u>\$ 6,045,279</u>	<u>6,004,037</u>	<u>5,506,111</u>	<u>5,665,701</u>
Disbursements:				
Operating:				
Public safety	\$ 1,328,272	1,303,790	1,363,870	1,288,484
Public works	1,300,149	1,234,086	1,170,151	1,204,316
Health and social services	667	733	783	861
Culture and recreation	1,330,579	978,769	987,092	1,070,145
Community and economic development	631,070	225,804	1,192,497	380,641
General government	360,168	340,058	336,795	280,622
Debt service	867,138	1,180,749	1,011,315	998,863
Capital projects	417,306	553,363	303,125	420,724
Total	<u>\$ 6,235,349</u>	<u>5,817,352</u>	<u>6,365,628</u>	<u>5,644,656</u>

See accompanying independent auditor's report.

2013	2012	2011	2010	2009	2008
2,267,452	2,184,991	2,088,460	2,001,119	2,081,913	1,827,595
271,000	263,995	266,193	235,993	233,062	310,639
748,052	633,159	705,978	619,349	617,677	661,772
7,364	100,420	20,774	15,621	52,901	15,112
61,324	107,926	129,384	110,732	84,675	163,952
1,276,224	1,518,009	1,525,245	811,721	1,142,938	1,030,719
804,247	790,502	719,461	728,724	748,737	626,313
-	68,413	71,663	74,750	77,675	80,438
648,067	559,258	629,841	754,172	1,603,580	1,456,303
6,083,730	6,226,673	6,156,999	5,352,181	6,643,158	6,172,843
1,265,822	1,434,911	1,193,934	1,084,848	1,131,516	1,043,289
1,256,709	1,259,864	1,343,202	1,234,191	1,207,154	1,051,117
1,146	1,396	4,844	119	100	647
1,160,098	947,213	1,083,166	1,027,767	982,908	1,009,515
382,075	694,860	380,355	113,578	215,171	232,403
317,453	341,893	305,423	284,343	356,454	301,128
1,036,792	1,391,691	871,451	1,077,300	998,027	1,074,654
1,413,500	2,532,991	1,888,876	2,472,320	1,475,101	3,686,201
6,833,595	8,604,819	7,071,251	7,294,466	6,366,431	8,398,954

City of Shenandoah

City of Shenandoah
 Schedule Expenditures of Federal Awards
 Year ended June 30, 2017

Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
Direct:			
U.S. Department of Transportation:			
Federal Aviation Administration:			
Airport Improvement Program	20.106	3-19-0082-13	\$ 201,654
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Economic Development Authority:			
Community Development Block Grants/State's Program	14.228	08-NSP-015	6,949
Environmental Protection Agency:			
Iowa Finance Authority:			
Capitalization Grants for Clean Water State Revolving Funds	66.468	F5-73-10-DWSRF-065	505,276
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	SRTS-U-6965 (606)-8U-73	209,202
Total indirect			721,427
Total			\$ 923,081

Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the City of Shenandoah under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Shenandoah, it is not intended to and does not present the financial position, changes in financial position or cash flows of the City of Shenandoah.

Summary of Significant Accounting Policies – Expenditures reported in the Schedule are reported on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate – The City of Shenandoah has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor's report.

City of Shenandoah



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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, 2017, 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, 2017. 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 have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, 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 Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-17 through II-D-17 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 Part II of the accompanying Schedule of Findings and Questioned Costs as items II-E-17 through II-F-17 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 Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2017 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 and Questioned Costs. 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, 2017



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Mary Mosiman, CPA

Auditor of State

Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by the Uniform Guidance

To the Honorable Mayor and Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Shenandoah Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2017. The City of Shenandoah's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Shenandoah's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Shenandoah's compliance with those requirements and performing such other procedures we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City of Shenandoah's compliance.

Opinion on the Major Federal Program

In our opinion, the City of Shenandoah complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

The management of the City of Shenandoah is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Shenandoah's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Shenandoah's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item III-A-17, we consider to be a material weakness.

The City of Shenandoah's response to the internal control over compliance finding identified in our audit is reported in the accompanying Schedule of Findings and Questioned Costs. The City of Shenandoah's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


MARY MOSIMAN, CPA
Auditor of State

December 15, 2017

City of Shenandoah
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

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

- (a) Unmodified opinions were issued on the financial statements prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with the Uniform Guidance, Section 200.515.
- (g) The major program was CFDA Number 66.468 – Capitalization Grants for Clean Water State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) The City of Shenandoah did not qualify as a low-risk auditee.

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-17 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 Volunteer 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.
- (4) Incoming mail is not opened by an employee who is not authorized to make entries to the accounting records.

Cause – The City, including the Volunteer 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 and Questioned Costs

Year ended June 30, 2017

Recommendation – The City, including the Volunteer 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 will review internal controls to eliminate inadequate segregation of duties.

Library Foundation – Because the Library Foundation has no paid staff and only meets once annually, handling the finances falls to the Library Director. In an effort to create segregation of duties, a staff member takes over the task of counting and keeping track of the monies collected through the Foundation's annual letter. That staff member is in contact with the Foundation President with amounts and names for written thank you notes. Once the Director compiles a deposit sheet, a second staff member double checks totals and initials the bottom of the sheet. When receiving memorial donations, the director prepares the donation sheet and passes it along for a staff member to write out the thank you and notification. When the Director reconciles the monthly bank statements, she emails a scanned copy of the bank statement to the City Clerk and prints out the detailed report from QuickBooks presenting it to the Library Board at their monthly meeting so that they can review it and sign off on the report. The Director also prepares a list of the checks to be written out of the Foundation account for the Board's approval at each monthly meeting.

Fire Department – Mail will be opened by a designated full-time driver or one of four officers. Bills and donations will be logged in an excel spreadsheet that will be password protected.

The Treasurer pays bills which are approved at a monthly meeting before they are mailed out.

Cash donations are rare but they will be handled like previously stated.

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.

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

II-B-17 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 \$44,169 were incorrectly reported as property tax receipts rather than intergovernmental receipts in the City's financial statements. 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.

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 current procedures and implement policies/procedures to ensure receipts are properly recorded.

Conclusion – Response accepted.

II-C-17 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.

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.

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

Recommendation – The City should ensure all amounts on the reconciliations of utility billings, collections and delinquent accounts are properly supported.

Response – The City will continue to review all utility billing account reconciliations and the City Clerk or City Administrator will initial/sign/date for approval. The City implemented this procedure in March 2017.

Conclusion – Response accepted.

II-D-17 Annual Financial Report

Criteria – An effective internal control system provides for internal controls related to the accurate preparation and reporting of financial information.

Condition – The following were noted regarding the Annual Financial Report (AFR) submitted for the fiscal year ending June 30, 2016.

- The beginning and ending cash balances for governmental activities were misstated by \$1,611,584 and \$1,611,943, respectively.
- Receipts for the Permanent Funds were overstated by \$268,746 and receipts for the General and Special Revenue Funds were understated \$162,849 and \$106,186, respectively.
- Disbursements for the Permanent Funds were overstated by \$84,570 and disbursements for the General and Special Revenue Funds were understated \$73,479 and \$13,717, respectively.

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

Effect – The AFR does not accurately reflect the City's financial activity for the fiscal year ended June 30, 2016.

Recommendation – The City Council should ensure all amounts on the AFR are supported by the City's financial records.

Response – The beginning balances on the annual report will be corrected to reflect the City's balances. An independent review of the report will be performed so as to assist in identifying errors in a timely manner.

Conclusion – Response accepted.

II-E-17 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.

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

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. Also, there is no process for prior approval of purchases made with a debit card.

In addition, for two of five debit card purchases reviewed, the Fire Department did not retain supporting documentation.

Cause – Officials have been unaware of the repercussions of allowing the use of debit cards and have not established procedures to ensure proper supporting documentation is maintained for debit card purchases.

Effect – Allowing the use of debit cards could result in unauthorized transactions and the opportunity for misappropriation. Lack of proper supporting documentation could allow for unallowed or unauthorized purchases.

Recommendation – The City Council should prohibit the use of debit cards for all City purchases, including purchases by the Fire Department. In addition, the Fire Department should maintain supporting documentation for all purchases.

Response – The debit card was destroyed by the previous Fire Chief. The new Treasurer will maintain all documentation for purchases.

Conclusion – Response accepted.

II-F-17 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.

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

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 – City will review and implement a disaster recovery plan.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE:

None noted.

INTERNAL CONTROL DEFICIENCY:

**CFDA Number 66.468: Capitalization Grants for Clean Water State Revolving Funds
Federal Award Year: 2017**

Environmental Protection agency

Passed through the Iowa Finance Authority

III-A-17 Segregation of Duties – The City did not properly segregate purchasing,
(2017-001) invoice processing, check writing, mailing, reconciling and recording.
See item II-A-17(5).

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-17 Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the health and social services, culture and recreation, community and economic development, general government, debt service and capital projects functions 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 amends budget once a year to minimize cost to the City. The City will amend prior to exceeding the budget.

Conclusion – Response accepted.

IV-B-17 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

IV-C-17 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-17 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Darrel Saner, Assistant Police Chief, owner of Shenweld Metals	Welding and maintenance	\$ 474

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.

IV-E-17 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-17 City Council Minutes – No transactions were found that we believe should have been approved in the City Council meeting minutes but were not.

IV-G-17 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

City of Shenandoah

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Year ended June 30, 2017

IV-H-17 Revenue Notes – The following instances of non-compliance with the water revenue note requirements were noted:

- The City’s water revenue note resolution requires a water revenue note sinking account be established and transfers to the sinking account are required in equal monthly installments on the first day of each month. The City has established a water sinking account, but the required monthly transfers into the sinking account were not made. The City transferred \$50,000 monthly, however the required monthly transfers for the year ended June 30, 2017 were \$70,791.
- The provisions of the water revenue note resolution require the City produce net operating receipts equal to at least 110% of the principal and interest on the notes as they come due. The City’s fiscal year 2017 net operating receipts of \$744,581 were less than the 110% of the \$918,785 of water revenue note principal and interest due during fiscal year 2017.

Recommendation – The City should make the necessary transfers to the water revenue note sinking account as required by the water note resolution. The City should also establish utility rates at a level sufficient to produce net receipts to comply with the note provisions.

Response – At the time of the review, the City had a significant balance in the water revenue note sinking account and chose to transfer increments of only \$50,000 per month. The City will review required transfers annually during the budget process. The City will also continue to work to improve the water fund net operating receipts.

Conclusion – Response accepted.

IV-I-17 Financial Condition – The Special Revenue, Local Option Sales Tax Fund and the Capital Projects Fund had deficit balances of \$202,926 and \$1,589, respectively, at June 30, 2017.

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

Response – The City had capital projects disbursements within the Capital Projects Fund and the Special Revenue, Local Option Sales Tax Fund that were to be reimbursed in fiscal year 2018. City will continue to strive to maintain these funds at a sound financial position.

Conclusion – Response accepted.

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

IV-J-17 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 2016, the City decertified all outstanding TIF debt and recertified the balances in order to correct past errors. However, the City certified the entire original debt rather than the debt outstanding as of June 30, 2016. This resulted in over-certifications of approximately \$32,000 to the Page County Auditor and \$249,000 to the Fremont County Auditor.
- (b) During the year ended June 30, 2017, the City paid \$52,612 of fees and project costs 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 review TIF debt certifications to determine the amount over certified for principal and interest payments already reimbursed by the County. The amounts over certified should be decertified to the County Auditors to correct the errors.
- (b) The City should reimburse the TIF Fund from an allowable fund, such as the General Fund, for the allowable 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 de-certify what was previously paid by the County in years prior to the fiscal year 2017 certifications and de-certifications.

Conclusion – Response acknowledged. The City should also reimburse the TIF Fund from an allowable fund for the unallowable costs paid in current and prior years.

IV-K-17 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, 2016. The receipts and ending cash balance of the Special Revenue, Urban Renewal Tax Increment Financing Fund reported on the Levy Authority Summary were overstated \$22,205. In addition, the amount reported as TIF debt outstanding was understated by \$85,181.

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

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

Response – City will work with the Iowa Department of Management to correct the AURR.

Conclusion – Response accepted.

- IV-L-17 Economic Development Agreement – In September 2011, the City approved a development agreement with the Shenandoah Iowa Assisted Living Facility, LLC (Developer). The agreement requires the City to provide a maximum of \$245,056 of incremental property tax rebate payments to the Developer beginning June 1, 2016 in exchange for infrastructure improvements and development of commercial property. Per the agreement, the tax increments resulting from assessments imposed by the County shall be collected by the County and paid to the City as taxes are paid during the fiscal year and thereafter disbursed to the Developer. The agreement specifies the economic development grant shall not be payable by general taxation or from any other City funds. As of June 30, 2017, the City had collected \$61,421 of incremental tax from Page County. However, the City has rebated \$85,410 to the Developer, \$23,989 in excess of available incremental tax.

Recommendation – The City should ensure amounts paid to the Developer pursuant to the economic development agreement agree to the tax increment receipts received from the County.

Response – The City will consult the City Attorney to resolve past overpayments and future payments.

Conclusion – Response accepted.

- IV-M-17 Sewer Utility Rates – In June 2016, the City Council approved an increase in the sewer minimum usage rate. While repealing the prior sewer rates, the City also repealed the separate lower rate for water usage in excess of minimum rate. The City continued to charge the lower rate for the excess water usage during the year ended June 30, 2017.

Recommendation – The City should ensure water and sewer usage is billed at current approved rates. The rates should be reviewed and updated to include the rates for over 100 cubic feet.

Response – City will contact the City Attorney to review and update water and sewer rates for additional usage via ordinance.

Conclusion – Response accepted.

- IV-N-17 Swimming Pool Expenses – During the year ended June 30, 2017, the Enterprise Water and Sewer Funds paid \$14,787 and \$44,030 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.

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

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

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, 2017, the Enterprise Sewer Fund 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 – City has budgeted all swimming pool expenses in the General Fund in fiscal year 2018. The Enterprise, Water and Sewer Funds will supplement General Fund only if these funds have a calculated surplus in accordance with the Iowa Administrative Code.

Conclusion – Response accepted.

IV-O-17 Lease Purchase Agreement – During the year ended June 30, 2017, the City entered into a lease purchase agreement for the purchase of a loader for the street department. However, a public hearing was not held prior to the authorization of this lease purchase agreement as required by Chapter 364.4(4)(e)(1) of the Code of Iowa.

Chapter 364.4(4)(e)(1) of the Code of Iowa states that the City Council must follow substantially the authorization procedures of Chapter 384.25 of the Code of Iowa, which requires a notice of public hearing to be published and a public hearing to be held, to authorize a lease or lease-purchase contract for personal property which is payable from the General Fund.

Recommendation – The City should consult legal counsel to determine the disposition of this matter. In the future, the City should hold a public hearing prior to authorizing a lease purchase agreement, as required.

Response – City will hold public hearings for all lease purchases for all future purchases.

Conclusion – Response accepted.

City of Shenandoah

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

IV-P-17 Other Information Required by the Revenue Note Resolution

Insurance – The following insurance policies were in force at June 30, 2017:

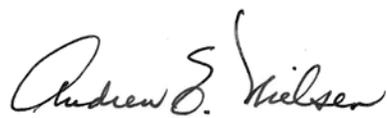
Insurer	Description	Amount	Expiration Date
Employers Mutual Casualty	Property Blanket Buildings	\$ 31,773,546	June 30, 2017
Employers Mutual Casualty	Comprehensive Gen. Liability Per occurrence	1,000,000	June 30, 2017
	Aggregate	2,000,000	
Employers Mutual Casualty	Inland Marine	1,703,986	June 30, 2017
Employers Mutual Casualty	Automobile coverage Liability	1,000,000	June 30, 2017
	Uninsured and underinsured	1,000,000	
Employers Mutual Casualty	Workers' Compensation	500,000	June 30, 2017
Employers Mutual Casualty	Commercial Umbrella Retained	10,000	June 30, 2017
	Each occurrence	5,000,000	
	Aggregate	5,000,000	
Employers Mutual Casualty	Linebacker Each Loss	1,000,000	June 30, 2017
	Aggregate	1,000,000	
Employers Mutual Casualty	Law Enforcement Each occurrence	1,000,000	June 30, 2017
	Aggregate	1,000,000	
Employers Mutual Casualty	Employee dishonesty: Blanket bond	100,000	June 30, 2017
	Alteration	100,000	
Employers Mutual Casualty	Commercial crime: Inside premises	5,000	June 30, 2017
	Outside premises	5,000	
Wilson Insurance Agency	Airport liability: Per occurrence	1,000,000	January 29, 2018
	Aggregate	1,000,000	

City of Shenandoah

Staff

This audit was performed by:

Katherine L. Rupp, CPA, Manager
Dorothy O. Stover, Senior Auditor II
Mark D. Newhall, Staff Auditor
Alexia M. Blank, Assistant Auditor
Nicholas A. Kruse, Assistant Auditor
Libby C. Lamfers, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State