

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

December 24, 2015

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$14,830,719 for the year ended June 30, 2015, an 8.7% increase over the prior year. The receipts included \$2,588,319 in property tax, \$200,960 from tax increment financing, \$414,139 from local option sales tax, \$47,578 from hotel/motel tax, \$3,699,048 from charges for service, \$976,973 from operating grants, contributions and restricted interest, \$133,736 from capital grants, contributions and restricted interest, \$4,418 from unrestricted interest on investments, \$43,491 from cable franchise fees, \$55,375 from commercial/industrial tax replacement, \$6,423,045 of note proceeds and other general receipts of \$243,637.

Disbursements for the year totaled \$13,143,560, a 2.0% decrease from the prior year, and included \$1,363,870 for public safety, \$1,192,497 for community and economic development and \$1,170,151 for public works. Disbursements for business type activities totaled \$6,777,948.

A copy of the audit report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1520-0681-B00F.pdf>.

###

CITY OF SHENANDOAH

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

JUNE 30, 2015

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-7
Management’s Discussion and Analysis		8-14
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Cash Basis Statement of Activities and Net Position	A	16-17
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	18-19
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	20
Notes to Financial Statements		21-33
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		36-37
Notes to Other Information – Budgetary Reporting		38
Schedule of the City’s Proportionate Share of the Net Pension Liability		39
Schedule of City Contributions		40-41
Notes to Other Information – Pension Liability		42-43
Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	46-47
Schedule of Indebtedness	2	48-49
Note Maturities	3	50-51
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4	52-53
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 <u>Government Auditing Standards</u>		55-56
Schedule of Findings		57-68
Staff		69

City of Shenandoah

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Hunt	Mayor	Jan 2018
Robert Burchett	Council Member	Jan 2016
Aaron Green	Council Member	Jan 2016
Don Gibson	Council Member	Jan 2018
Toni Graham	Council Member	Jan 2018
Kim Swank	Council Member	Jan 2018
Byron Harris	Administrator	(Resigned Dec 2014)
Kirk Kemper (Appointed Jan 2015)	Interim Administrator	(Resigned May 2015)
James Davey (Appointed May 2015)	Administrator	Jan 2016
Kylie Bowen	City Clerk/Treasurer	(Resigned Mar 2015)
Karla Gray (Appointed Mar 2015)	City Clerk/Treasurer	Jan 2016
Mahlon Sorensen	Attorney	Indefinite

City of Shenandoah



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building

Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA

Auditor of State

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, 2015, 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, 2015, 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.

Emphasis of a Matter

As discussed in Note 5 to the financial statements, the City of Shenandoah adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. 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 seven years ended June 30, 2012 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.


The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 8 through 14 and 36 through 43, 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 1, 2015 on our consideration of the City of Shenandoah's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Shenandoah's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 1, 2015

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, 2015. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Beginning cash basis net position for governmental activities and governmental funds were restated to report the Shenandoah Library Foundation as a discretely presented component unit in accordance with criteria set forth by the Governmental Accounting Standards Board. To facilitate and enhance comparability in this discussion and analysis, fiscal year 2014 amounts have been revised to reflect the change as if it had been made in the prior year.

2015 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 19.1%, or approximately \$1,075,000, from fiscal year 2014 to fiscal year 2015. The increase in governmental activities receipts is primarily due to receipt of note proceeds of \$1,130,000.
- Governmental activities disbursements increased 14.3%, or approximately \$798,000, from fiscal year 2014 to fiscal year 2015. Community and economic development disbursements increased approximately \$811,000 while capital projects disbursements decreased approximately \$118,000.
- The City's total cash basis net position increased 48.3%, or approximately \$1,687,000, from June 30, 2014 to June 30, 2015. Of this amount, the cash basis net position of the governmental activities increased approximately \$345,000 and the cash basis net position of the business type activities increased approximately \$1,343,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

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

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

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

Fund Financial Statements

The City has two kinds of funds:

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

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

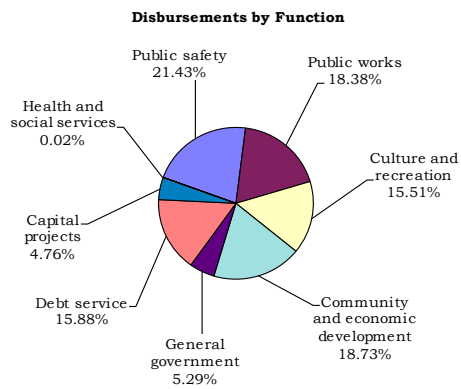
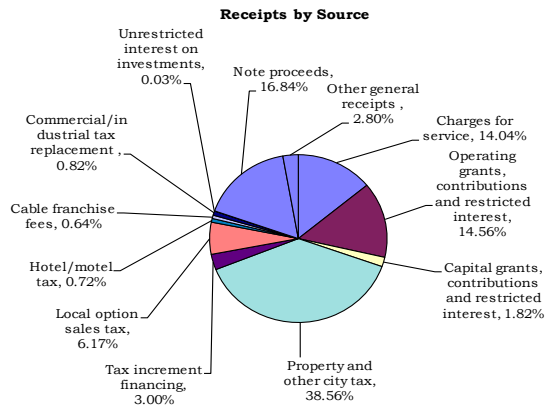
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City’s cash balance for governmental activities increased from a year ago, from approximately \$2.7 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,	
	2015	2014
Receipts:		
Program receipts:		
Charges for service	\$ 942	962
Operating grants, contributions and restricted interest	977	923
Capital grants, contributions and restricted interest	122	378
General receipts:		
Property and other city tax	2,588	2,555
Tax increment financing	201	282
Local option sales tax	414	481
Hotel/motel tax	48	44
Cable franchise fees	43	-
Commercial/industrial tax replacement	55	-
Unrestricted interest on investments	2	9
Note proceeds	1,130	1
Other general receipts	188	-
Total receipts	6,710	5,635
Disbursements:		
Public safety	1,364	1,288
Public works	1,170	1,204
Health and social services	1	1
Culture and recreation	987	992
Community and economic development	1,192	381
General government	337	281
Debt service	1,011	999
Capital projects	303	421
Total disbursements	6,365	5,567
Change in cash basis net position before transfers	345	68
Transfers, net	-	15
Change in cash basis net position	345	83
Cash basis net position beginning of year, as restated	2,669	2,586
Cash basis net position end of year	\$ 3,014	2,669



The City's total receipts for governmental activities increased 19.1%, or approximately \$1,075,000. The total cost of all programs and services increased 14.3%, or approximately \$798,000, with no new programs added this year. The significant increase in receipts was primarily the result of proceeds received from the issuance of urban renewal revenue capital loan notes. The proceeds were used to refund the outstanding balance of the 2003 urban renewal revenue notes and to demolish two buildings in the urban renewal area. The significant increase in disbursements was primarily due to early retirement of the 2003 urban renewal revenue notes.

Property tax receipts increased approximately \$33,000, or 1.3%. Property tax rates for fiscal year 2015 remained steady while taxable valuations increased 1.5%. Property tax receipts are budgeted to decrease approximately \$31,000, or 1.2%, next year.

The cost of all governmental activities this year was approximately \$6.365 million compared to approximately \$5.567 million last year. However, as shown in the Cash Basis Statement of Activities and Net Position on pages 16-17, the amount taxpayers ultimately financed for these activities was approximately \$4.324 million because some of the cost was paid by those directly benefited from the programs (approximately \$942,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$1,099,000). 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, decreased in fiscal year 2015 from approximately \$2,264,000 to \$2,041,000, principally due to receiving grant proceeds for an airport and housing project in the prior fiscal year.

The total business type activities cash balance increased from approximately \$820,000 a year ago to approximately \$2.2 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,	
	2015	2014
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 2,030	1,762
Sewer	727	735
Capital grants, contributions and restricted interest:		
Water	4	2,000
Sewer	8	-
General receipts:		
Unrestricted interest on investments	3	1
Note proceeds	5,293	3,485
Other general receipts	56	-
Total receipts	<u>8,121</u>	<u>7,983</u>
Disbursements:		
Water	6,093	7,101
Sewer	685	667
Total disbursements	<u>6,778</u>	<u>7,768</u>
Change in cash basis net position before transfers	1,343	215
Transfers, net	-	(15)
Change in cash basis net position	1,343	200
Cash basis net position beginning of year	820	620
Cash basis net position end of year	<u>\$ 2,163</u>	<u>820</u>

Total business type activities receipts for the fiscal year were approximately \$8.1 million compared to approximately \$8.0 million last year, a 1.7% increase. Receipts for water sales increased approximately \$268,000, primarily due to an increase in water rates. The City also drew down approximately \$5.3 million of proceeds from the water revenue capital loan notes, approximately \$1.8 million more than the prior year. The proceeds are being used to fund a new water treatment facility. The cash basis net position increased approximately \$1,343,000. Total disbursements for the fiscal year decreased 12.7% to approximately \$6.8 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Shenandoah completed the fiscal year, its governmental funds reported a combined fund balance of \$3,014,022, an increase of \$344,565 from last year’s total of \$2,669,457. 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 \$537,178 at the end of fiscal year 2015 and \$533,483 at the end of fiscal year 2014, a less than 1% increase. Receipts increased \$133,245, or 5.7% over the prior year while disbursements increased \$123,018, or 4.7%.

The Special Revenue, Road Use Tax Fund cash balance increased \$146,402 from the prior year to \$371,647. Receipts increased \$21,348, or 4.1%, while disbursements decreased \$73,354, or 15.8%. The decrease in disbursements was primarily due to completion of the Ferguson Road project in the prior year.

The Special Revenue, Employee Benefits Fund cash balance increased \$83,716, or 91.7%, over the prior year cash balance. Receipts increased \$63,141, primarily due to an increase in property and other city tax of approximately \$11,000 and an insurance reimbursement of approximately \$35,000 received in the current fiscal year. Disbursements increased \$29,083, or 4.9%, over prior year disbursements.

The Special Revenue, Local Option Sales Tax (LOST) Fund cash balance decreased \$2,215, or 11.7%, from the prior year. LOST receipts were down \$66,971 from the prior year and disbursements decreased \$31,384, or 26%, from the prior year. The City chose to pay fewer costs from this fund in fiscal year 2015.

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 2015 receipts:

Property tax relief	\$ 248,483
Community betterment	82,828
Community planning	41,414
Economic development	<u>41,414</u>
Total	<u>\$ 414,139</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 increased from \$111,715 at the end of fiscal year 2014 to \$300,942 at the end of fiscal year 2015. During the year, the City issued \$1,130,000 of urban renewal revenue capital loan notes. The proceeds were used to pay a portion of the costs of demolishing two buildings in the urban renewal area, repairing downtown sidewalks and refunding the 2003 urban renewal revenue notes.

The Debt Service Fund cash balance increased \$14,807 over the prior year deficit balance of \$6,170. Property and other city tax increased \$6,008 over the prior year while disbursements increased \$12,452, or 1.2%, from the prior year.

The Capital Projects Fund cash balance decreased \$91,569 in the current year to a deficit of \$27,211. Receipts decreased \$250,843, or 66.3%, while disbursements decreased only \$117,599, or 28.0%. The City had fewer disbursements for the airport taxi-way and Wabash Depot projects in the current year. The City plans to eliminate the deficit fund balance through future grant reimbursements.

The Permanent, Snook Trust Fund cash balance decreased \$503 from \$1,149,728 at the end of fiscal year 2014 to \$1,149,225 at the end of fiscal year 2015.

The Permanent, Cemetery Perpetual Care Fund cash balance increased \$879 to \$168,062 at the end of the fiscal year 2015.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Water Fund cash balance increased \$1,257,669 over the prior year. Operating receipts increased \$268,259 over the prior year due to a water rate increase and operating disbursements decreased \$101,023, or 8.5%, from the prior year.

The Enterprise, Sewer Fund cash balance increased \$84,925 over the prior year balance of \$94,726. Operating receipts decreased \$7,596, or 1.0%, while operating disbursements increased \$41,058, or 9.0%, over the prior fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on June 23, 2015 and resulted in an increase in budgeted receipts of \$45,000, budgeted other financing sources of \$1,130,000 and budgeted disbursements of \$1,138,000. Budgeted disbursements increased as a result of increased costs associated with the urban renewal demolition projects and refunding the 2003 urban renewal revenue notes, both of which were funded with proceeds from the issuance of urban renewal revenue notes.

The City's receipts were \$7,366,862 less than budgeted. This was primarily due to budgeting for water revenue capital loan note proceeds as an intergovernmental receipt rather than an other financing source.

With the budget amendment, total disbursements were \$3,489,199 less than the amended budget. During the year ended June 30, 2015, disbursements exceeded the amount budgeted in the community and economic development function prior to the budget amendment.

DEBT ADMINISTRATION

At June 30, 2015, the City had approximately \$16,832,000 of notes and other long-term debt outstanding, compared to approximately \$12,159,000 last year, as shown below:

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2015	2014
General obligation notes	\$ 3,730	4,600
Revenue notes	12,085	6,916
Urban renewal revenue notes	1,010	630
Special assessment bonds	-	1
Capital lease purchase agreements	7	12
Total	\$ 16,832	12,159

During fiscal year 2015, the City drew down \$5,293,045 of the water revenue capital loan notes to fund project costs related to a new water treatment facility and issued \$1,130,000 of urban renewal revenue notes to refund the 2003 urban renewal revenue notes and help fund demolition of two buildings in the urban renewal area.

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 \$4,747,000 is significantly below the City’s constitutional debt limit of approximately \$9,153,000. Additional information about the City’s long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The City of Shenandoah’s elected and appointed officials and citizens considered many factors when setting the fiscal year 2016 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 to fund the construction of a new water treatment plant, a bond issuance for an economic development project in downtown Shenandoah and considerations in tax rates for revenues to pay City debts.

If these estimates are realized, the City’s budgeted cash balance is expected to increase approximately \$348,000, or 9.7%, by the close of fiscal year 2016.

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, 2015

Functions/Programs:	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Primary Government:				
Governmental activities:				
Public safety	\$ 1,363,870	78,102	122,654	-
Public works	1,170,151	618,765	545,771	-
Health and social services	783	-	-	-
Culture and recreation	987,092	228,683	160,734	-
Community and economic development	1,192,497	1,300	14,531	-
General government	336,795	15,231	110,913	-
Debt service	1,011,315	-	22,370	-
Capital projects	303,125	-	-	121,974
Total governmental activities	6,365,628	942,081	976,973	121,974
Business type activities:				
Water	6,092,792	2,030,007	-	4,243
Sewer	685,156	726,976	-	7,519
Total business type activities	6,777,948	2,756,983	-	11,762
Total primary government	\$ 13,143,576	3,699,064	976,973	133,736
Component Unit:				
Library Foundation	\$ 24,662	-	30,172	-
General Receipts:				
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				
Total general receipts				
Change in cash basis net position				
Cash basis net position beginning of year, as restated				
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
(1,163,114)	-	(1,163,114)	
(5,615)	-	(5,615)	
(783)	-	(783)	
(597,675)	-	(597,675)	
(1,176,666)	-	(1,176,666)	
(210,651)	-	(210,651)	
(988,945)	-	(988,945)	
(181,151)	-	(181,151)	
(4,324,600)	-	(4,324,600)	
-	(4,058,542)	(4,058,542)	
-	49,339	49,339	
-	(4,009,203)	(4,009,203)	
(4,324,600)	(4,009,203)	(8,333,803)	
			5,510
1,829,843	-	1,829,843	-
758,476	-	758,476	-
200,960	-	200,960	-
414,139	-	414,139	-
47,578	-	47,578	-
43,491	-	43,491	-
55,375	-	55,375	-
1,677	2,741	4,418	-
1,130,000	5,293,045	6,423,045	-
74,082	-	74,082	-
113,544	56,011	169,555	-
4,669,165	5,351,797	10,020,962	-
344,565	1,342,594	1,687,159	5,510
2,669,457	820,041	3,489,498	392,658
\$ 3,014,022	2,162,635	5,176,657	398,168
\$ 1,149,225	-	1,149,225	-
168,062	-	168,062	-
20,365	-	20,365	-
67,689	-	67,689	-
371,647	-	371,647	-
175,026	-	175,026	-
172,557	-	172,557	398,168
309,579	15,098	324,677	-
32,421	-	32,421	-
78,368	-	78,368	-
469,083	2,147,537	2,616,620	-
\$ 3,014,022	2,162,635	5,176,657	398,168

City of Shenandoah

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

As of and for the year ended June 30, 2015

	Special Revenue				
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax	Urban Renewal Tax Increment Financing
Receipts:					
Property tax	\$1,157,604	-	570,626	-	-
Tax increment financing	-	-	-	-	200,960
Other city tax	88,389	-	33,522	414,139	-
Licenses and permits	59,741	-	-	-	-
Use of money and property	41,647	-	-	-	297
Intergovernmental	82,049	535,510	13,752	-	-
Charges for service	788,063	-	-	-	-
Miscellaneous	272,062	452	90,053	4,017	-
Total receipts	<u>2,489,555</u>	<u>535,962</u>	<u>707,953</u>	<u>418,156</u>	<u>201,257</u>
Disbursements:					
Operating:					
Public safety	956,349	-	370,746	-	-
Public works	668,122	389,560	112,469	-	-
Health and social services	-	-	-	-	-
Culture and recreation	786,247	-	137,561	-	-
Community and economic development	13,351	-	-	89,376	1,089,770
General government	333,329	-	3,461	-	-
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	<u>2,757,398</u>	<u>389,560</u>	<u>624,237</u>	<u>89,376</u>	<u>1,089,770</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(267,843)</u>	<u>146,402</u>	<u>83,716</u>	<u>328,780</u>	<u>(888,513)</u>
Other financing sources (uses):					
Note proceeds	-	-	-	-	1,130,000
Sale of capital assets	-	-	-	-	-
Transfers in	285,355	-	-	-	-
Transfers out	(13,817)	-	-	(330,995)	(52,260)
Total other financing sources (uses)	<u>271,538</u>	<u>-</u>	<u>-</u>	<u>(330,995)</u>	<u>1,077,740</u>
Change in cash balances	3,695	146,402	83,716	(2,215)	189,227
Cash balances beginning of year, as restated	533,483	225,245	91,310	18,914	111,715
Cash balances end of year	<u>\$ 537,178</u>	<u>371,647</u>	<u>175,026</u>	<u>16,699</u>	<u>300,942</u>
Cash Basis Fund Balances					
Nonspendable:					
Permanent Funds	\$ -	-	-	-	-
Restricted for:					
Fire	40,879	-	-	-	-
Streets	-	371,647	-	-	-
Employee benefits	-	-	175,026	-	-
Library	-	-	-	-	-
Debt service	-	-	-	-	300,942
Parks	-	-	-	-	-
Other purposes	-	-	-	16,699	-
Unassigned	496,299	-	-	-	-
Total cash basis fund balances	<u>\$ 537,178</u>	<u>371,647</u>	<u>175,026</u>	<u>16,699</u>	<u>300,942</u>

See notes to financial statements.

Debt Service	Capital Projects	Permanent		Nonmajor	Total
		Snook Trust	Cemetery Perpetual Care		
733,626	-	-	-	26,305	2,488,161
-	-	-	-	-	200,960
24,850	-	-	-	975	561,875
-	-	-	-	-	59,741
-	41,932	3,412	54	82	87,424
16,534	80,042	-	-	649	728,536
-	-	-	825	-	788,888
22,370	5,500	-	-	196,072	590,526
797,380	127,474	3,412	879	224,083	5,506,111
-	-	1,566	-	35,209	1,363,870
-	-	-	-	-	1,170,151
-	-	783	-	-	783
-	-	1,566	-	61,718	987,092
-	-	-	-	-	1,192,497
-	-	-	-	5	336,795
1,011,315	-	-	-	-	1,011,315
-	303,125	-	-	-	303,125
1,011,315	303,125	3,915	-	96,932	6,365,628
(213,935)	(175,651)	(503)	879	127,151	(859,517)
-	-	-	-	-	1,130,000
-	74,082	-	-	-	74,082
228,742	10,000	-	-	-	524,097
-	-	-	-	(127,025)	(524,097)
228,742	84,082	-	-	(127,025)	1,204,082
14,807	(91,569)	(503)	879	126	344,565
(6,170)	64,358	1,149,728	167,183	313,691	2,669,457
8,637	(27,211)	1,149,225	168,062	313,817	3,014,022
-	-	1,149,225	168,062	20,365	1,337,652
-	-	-	-	26,810	67,689
-	-	-	-	-	371,647
-	-	-	-	-	175,026
-	-	-	-	172,557	172,557
8,637	-	-	-	-	309,579
-	-	-	-	32,421	32,421
-	-	-	-	61,669	78,368
-	(27,211)	-	-	(5)	469,083
8,637	(27,211)	1,149,225	168,062	313,817	3,014,022

Exhibit C

City of Shenandoah

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

As of and for the year ended June 30, 2015

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 2,005,782	725,053	2,730,835
Miscellaneous	24,225	1,923	26,148
Total operating receipts	2,030,007	726,976	2,756,983
Operating disbursements:			
Business type activities	1,093,133	498,431	1,591,564
Excess of operating receipts over operating disbursements	936,874	228,545	1,165,419
Non-operating receipts (disbursements):			
Interest on investments	1,370	1,371	2,741
Note proceeds	5,293,045	-	5,293,045
Project reimbursements	4,243	7,519	11,762
Miscellaneous	21,796	34,215	56,011
Debt service	(148,351)	(186,725)	(335,076)
Capital outlay	(4,851,308)	-	(4,851,308)
Net non-operating receipts (disbursements)	320,795	(143,620)	177,175
Change in cash balances	1,257,669	84,925	1,342,594
Cash balances beginning of year	725,315	94,726	820,041
Cash balances end of year	\$ 1,982,984	179,651	2,162,635
Cash Basis Fund Balances			
Restricted for debt service	\$ 70,468	15,098	85,566
Unrestricted	1,912,516	164,553	2,077,069
Total cash basis fund balances	\$ 1,982,984	179,651	2,162,635

See notes to financial statements.

City of Shenandoah

Notes to Financial Statements

June 30, 2015

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

Discretely Presented Component Unit

The Shenandoah Public Library Foundation (Library Foundation) is legally separate from the City. The Library Foundation was organized under Chapter 504A of the Code of Iowa as a non-profit corporation. The Library Foundation collects donations which are used to purchase items not included in the City's budget. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Library Foundation meets the definition of a component unit which should be discretely presented.

Jointly Governed Organizations

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

Related Organization

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

B. Basis of Presentation

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

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

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

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

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

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

Permanent:

The Snook Trust Fund is utilized to account for the funds received from a bequest. Net income from investments is to be divided in equal shares between the following five organizations: the Public Library of Shenandoah, the Shenandoah Fire Department, the Shenandoah Ambulance Service, the City of Shenandoah parks system and the Shenandoah Memorial Hospital.

The Cemetery Perpetual Care Fund is used to account for a trust fund for maintenance of the cemetery.

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2015, disbursements exceeded the amount budgeted in the community and economic development function prior to the budget amendment.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2015 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 \$168,220 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Investment Trust is unrated.

At June 30, 2015, the Shenandoah Library Foundation, a discretely presented component unit, had the following investments:

Type	Carrying Value	Market Value
IBM stock	\$ 49,529	46,329
Mutual funds	50,462	59,126

(3) Notes Payable

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

Year Ending	General Obligation Notes		Sewer Revenue Capital Loan Notes		Urban Renewal Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
June 30,								
2016	\$ 890,000	113,954	127,000	54,180	110,000	41,777	1,127,000	209,911
2017	615,000	86,853	131,000	50,370	115,000	37,125	861,000	174,348
2018	570,000	71,011	135,000	46,440	120,000	32,381	825,000	149,832
2019	580,000	53,769	139,000	42,390	120,000	27,431	839,000	123,590
2020	605,000	35,227	143,000	38,220	125,000	22,543	873,000	95,990
2021-2025	470,000	19,123	784,000	123,930	420,000	35,062	1,674,000	178,115
2026-2027	-	-	347,000	15,690	-	-	347,000	15,690
Total	\$ 3,730,000	379,937	1,806,000	371,220	1,010,000	196,319	6,546,000	947,476

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 less than 80% of net receipts. The total principal and interest remaining to be paid on the notes is \$2,177,220. For the current year, principal and interest paid and total customer net receipts were \$181,900 and \$228,545, respectively.

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

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to a sewer revenue note sinking account for the purpose of making principal and interest payments when due.

- (c) Sewer user rates shall be established at a level which produces and maintains net receipts at a level not less than 110% of the average annual installments of principal and interest on the notes falling due in the same year.

Water Revenue Capital Loan Notes

On September 20, 2013, the City entered into an agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources for the issuance of water revenue notes of up to \$14,057,000 with interest at 1.75% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the water treatment facilities. The City will draw down funds from the Iowa Finance Authority upon request to reimburse the City for costs as they are incurred.

At June 30, 2015, the City had drawn down \$10,278,725 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, 2015, the City paid interest of \$147,892 on the notes under a preliminary repayment schedule. The balance on the notes at June 30, 2015 was \$10,278,725.

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, 2015 is not available since a final repayment schedule has not been adopted. For the current year, interest paid and total customer net receipts were \$147,892 and \$936,874, respectively.

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

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to a water revenue note sinking account for the purpose of making principal and interest payments when due.
- (c) User rates shall be established at a level which produces and maintains net receipts at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

Urban Renewal Revenue Notes

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

purposes consistent with the plans of the City's urban renewal area. The notes are not a general obligation of the City, but the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining on the notes is \$1,206,319, payable through 2023. For the current year, principal and interest paid and total TIF receipts were \$143,565 and \$200,960, respectively.

The City refunded the outstanding balance of the 2003 urban renewal revenue notes to reduce its total debt service by approximately \$55,800 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$20,000.

(4) Capital Lease Purchase Agreement

In May 2013, the City entered into a capital lease purchase agreement to acquire a copy machine. The following is a schedule of the future minimum lease payments, including interest at 3.0% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2015:

Year Ending June 30,	Amount
2016	\$ 7,797
Less amount representing interest	321
Present value of net minimum lease payments	<u>\$ 7,476</u>

During the year ended June 30, 2015, \$2,835 was paid under this lease purchase agreement. The City also paid the last lease payment of \$2,372 on a tractor during the year.

(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 P.O. 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. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

Protection occupation members may retire at normal retirement age, which is generally at age 55. Protection occupation members may retire any time after reaching age 50 with 22 or more years of covered employment.

The formula used to calculate a protection occupation members' monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 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 percent 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 percent 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 - Effective July 1, 2012, as a result of a 2010 law change, the 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 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent. Protection occupation members contributed 6.76 percent of pay and the City contributed 10.14 percent for a total rate of 16.90 percent.

The City's contributions to IPERS for the year ended June 30, 2015 were \$164,872.

Collective Net Pension Liability, Collective Pension Expense, Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the City’s liability for its proportionate share of the collective net pension liability totaled \$754,454. The collective net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City’s proportion of the collective 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, 2014, the City’s proportion was 0.019024 percent, which was a decrease of 0.002723 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City’s collective pension expense, collective deferred outflows and collective deferred inflows totaled \$72,103, \$46,662 and \$424,553, respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014 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 percent per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation.

The actuarial assumptions used in the June 30, 2014 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 pension plan 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>
US Equity	23%	6.31 %
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. 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 of 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 (Asset) to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability (asset)	\$ 1,702,059	\$ 754,454	\$ (45,141)

Pension Plan 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 36 active members and 1 retired member in the plan. Retired participants must be age 65 or older at retirement.

The medical insurance coverage is provided through a fully-insured plan with Wellmark. The retiree pays the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$489 for employee coverage, \$926 for employee/child coverage, \$1,001 for employee/spouse coverage and \$1,500 for family coverage. For the year ended June 30, 2015, the City contributed \$367,927 and plan members eligible for benefits contributed \$50,171 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, 2015, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 69,000
Compensatory time	9,000
Total	<u>\$ 78,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2015.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 196,330
	Wilson Trust - City	52,025
	Wilson Trust - Library	37,000
		<u>285,355</u>
Debt Service	General	13,817
	Special Revenue:	
	Local Option Sales Tax	134,665
	Wilson Trust - City	28,000
	Urban Renewal Tax Increment Financing	52,260
		<u>228,742</u>
Capital Projects	Special Revenue:	
	Memorial Building	10,000
Total		<u>\$ 524,097</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 Position; 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 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, 2015, collections of \$7,387 of principal and \$1,170 of interest were received. The outstanding loan principal balance within the General Fund was \$31,592 at June 30, 2015.

(11) Commitments and Contingencies

Environmental Protection Agency

During the year ended June 30, 2015, the City became the subject of an administrative action for assessment of civil penalties pursuant to Section 309(g) of the Clean Water Act and 33 U.S.C., paragraph 1319(g), from the United States Environmental Protection Agency (EPA). The violations sited pertain to discharging a pollutant into navigable waters. The EPA and the City agreed to a settlement prior to the filing of an administrative complaint by the EPA. Pursuant to the settlement agreement, the City agreed to pay a civil penalty of \$15,000 and take the necessary actions to comply with certain permit compliance measures within 24 months of the filing of the EPA administrative action, including completion of its new water treatment facility and its associated solid handling facilities. The estimated cost to comply with the permit measures is \$1,000,000, which includes rework on digesters, clean out of the lime build up and pump replacement.

Water Treatment Plant Construction

In June 2013, the City entered into a contract totaling \$12,465,000 for construction of a new water treatment facility. During the year ended June 30, 2015, the project contractor ceased construction and the surety, Liberty Mutual, took over the project on April 14, 2015 pursuant to a Takeover Agreement. At June 30, 2015, the City had paid a total of \$8,448,392 under the contract, leaving an unpaid balance to complete the project of \$4,016,608, including retainage.

(12) Deficit Balances

At June 30, 2015, the Capital Projects Fund and the Special Revenue, Rapp Charity Trust Fund had deficit balances of \$27,211 and \$5, respectively. The deficit balances will be eliminated through future transfers from other funds and grant reimbursements.

(13) 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, 2015, the City paid \$65,333 to the Ambulance Service pursuant to the agreement.

(14) Pending Litigation

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

(15) Restatement

The beginning cash balance of the Special Revenue, Library Foundation Fund was reclassified to report the Foundation as a discretely presented component unit in accordance with criteria set forth by the Governmental Accounting Standards Board. As a result, beginning of year cash balances for governmental funds and governmental activities were decreased by \$392,658.

	<u>Governmental Funds/Activities</u>	<u>Discretely Presented Component Unit</u>
Balances June 30, 2014, as previously reported	\$ 3,062,115	-
Discretely presented component unit	<u>(392,658)</u>	<u>392,658</u>
Balances July 1, 2014, as restated	<u>\$ 2,669,457</u>	<u>392,658</u>

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, 2015

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 2,488,161	-	2,488,161
Tax increment financing	200,960	-	200,960
Other city tax	561,875	-	561,875
Licenses and permits	59,741	-	59,741
Use of money and property	87,424	2,741	90,165
Intergovernmental	728,536	-	728,536
Charges for service	788,888	2,730,835	3,519,723
Miscellaneous	590,526	93,921	684,447
Total receipts	5,506,111	2,827,497	8,333,608
Disbursements:			
Public safety	1,363,870	-	1,363,870
Public works	1,170,151	-	1,170,151
Health and social services	783	-	783
Culture and recreation	987,092	-	987,092
Community and economic development	1,192,497	-	1,192,497
General government	336,795	-	336,795
Debt service	1,011,315	-	1,011,315
Capital projects	303,125	-	303,125
Business type activities	-	6,777,948	6,777,948
Total disbursements	6,365,628	6,777,948	13,143,576
Excess (deficiency) of receipts over (under) disbursements	(859,517)	(3,950,451)	(4,809,968)
Other financing sources (uses), net	1,204,082	5,293,045	6,497,127
Excess of receipts and other financing sources over disbursements and other financing uses	344,565	1,342,594	1,687,159
Balances beginning of year, as restated	2,669,457	820,041	3,489,498
Balances end of year	\$ 3,014,022	2,162,635	5,176,657

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
2,448,440	2,448,440	39,721
202,868	202,868	(1,908)
717,290	717,290	(155,415)
66,281	66,281	(6,540)
75,452	75,452	14,713
7,659,573	7,659,573	(6,931,037)
3,931,414	3,931,414	(411,691)
554,152	599,152	85,295
15,655,470	15,700,470	(7,366,862)
1,372,232	1,402,232	38,362
1,347,402	1,347,402	177,251
860	860	77
1,056,962	1,071,962	84,870
325,393	1,368,393	175,896
334,941	384,941	48,146
1,011,866	1,011,866	551
416,300	416,300	113,175
9,628,819	9,628,819	2,850,871
15,494,775	16,632,775	3,489,199
160,695	(932,305)	(3,877,663)
24,000	1,154,000	5,343,127
184,695	221,695	1,465,464
3,511,902	3,511,902	(22,404)
3,696,597	3,733,597	1,443,060

City of Shenandoah

Notes to Other Information – Budgetary Reporting

June 30, 2015

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 \$1,138,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements exceeded the amount budgeted in the community and economic development function prior to the budget amendment.

City of Shenandoah

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

Iowa Public Employees' Retirement System
Last Fiscal Year*
(In Thousands)

Other Information

	<u>2015</u>
City's proportion of the net pension liability	0.019024%
City's proportionate share of the net pension liability	\$ 754
City's covered-employee payroll	\$ 1,778
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	42.41%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report.

City of Shenandoah

Schedule of City Contributions

Iowa Public Employees' Retirement System
Last 10 Fiscal Years
(In Thousands)

Other Information

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 165	164	159	141
Contributions in relation to the statutorily required contribution	<u>(165)</u>	<u>(164)</u>	<u>(159)</u>	<u>(141)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
County's covered-employee payroll	\$ 1,778	1,785	1,764	1,678
Contributions as a percentage of covered-employee payroll	9.28%	9.19%	9.01%	8.40%

See accompanying independent auditor's report.

Note: GASB Statement No. 68 requires ten years of information be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

<u>2011</u>	<u>2010</u>
124	115
<u>(124)</u>	<u>(115)</u>
<u>-</u>	<u>-</u>
1,647	1,607
7.53%	7.16%

City of Shenandoah

Notes to Other Information – Pension Liability

Year ended June 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current 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 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action 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.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

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

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

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

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

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

City of Shenandoah

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, 2015

	Special					
	Rapp Trust Library	Rapp Charity Trust	Gidley Park Trust	Reed Estate Trust	Wilson Trust - Library	Wilson Trust - City
Receipts:						
Property tax	\$ -	-	-	-	-	-
Other city tax	-	-	-	-	-	-
Use of money and property	-	-	3	-	7	-
Intergovernmental	-	-	-	-	-	-
Miscellaneous	-	-	18,555	-	43,092	97,675
Total receipts	-	-	18,558	-	43,099	97,675
Disbursements:						
Operating:						
Public safety	-	-	-	-	-	-
Culture and recreation	1,627	-	22,347	1,300	-	-
General	-	5	-	-	-	-
Total disbursements	1,627	5	22,347	1,300	-	-
Excess (deficiency) of receipts over (under) disbursements	(1,627)	(5)	(3,789)	(1,300)	43,099	97,675
Other financing uses:						
Transfers out	-	-	-	-	(37,000)	(80,025)
Change in cash balances	(1,627)	(5)	(3,789)	(1,300)	6,099	17,650
Cash balances beginning of year	9,212	-	36,210	11,689	106,712	12,208
Cash balances end of year	\$ 7,585	(5)	32,421	10,389	112,811	29,858
Cash Basis Fund Balances						
Nonspendable - Esden Trust	\$ -	-	-	-	-	-
Restricted for:						
Fire	-	-	-	-	-	-
Library	-	-	-	-	112,811	-
Parks	-	-	32,421	-	-	-
Other purposes	7,585	-	-	10,389	-	29,858
Unassigned	-	(5)	-	-	-	-
Total cash basis fund balances	\$ 7,585	(5)	32,421	10,389	112,811	29,858

See accompanying independent auditor's report.

Revenue						Permanent	
Forgotten Angels Cemetery Trust	Simons Trust - Library	Friends of the Library	Volunteer Fire Department	Veteran Museum	Memorial Building	Edsen Trust	Total
-	-	-	-	-	26,305	-	26,305
-	-	-	-	-	975	-	975
-	-	-	18	-	-	54	82
-	-	-	-	-	649	-	649
-	-	-	29,082	4,996	2,672	-	196,072
-	-	-	29,100	4,996	30,601	54	224,083
-	-	-	35,209	-	-	-	35,209
-	9,655	54	-	4,388	21,949	398	61,718
-	-	-	-	-	-	-	5
-	9,655	54	35,209	4,388	21,949	398	96,932
-	(9,655)	(54)	(6,109)	608	8,652	(344)	127,151
-	-	-	-	-	(10,000)	-	(127,025)
-	(9,655)	(54)	(6,109)	608	(1,348)	(344)	126
3,351	68,477	978	32,919	1,548	9,678	20,709	313,691
3,351	58,822	924	26,810	2,156	8,330	20,365	313,817
-	-	-	-	-	-	20,365	20,365
-	-	-	26,810	-	-	-	26,810
-	58,822	924	-	-	-	-	172,557
-	-	-	-	-	-	-	32,421
3,351	-	-	-	2,156	8,330	-	61,669
-	-	-	-	-	-	-	(5)
3,351	58,822	924	26,810	2,156	8,330	20,365	313,817

City of Shenandoah
Schedule of Indebtedness
Year ended June 30, 2015

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
General corporate purpose	Jul 1, 2000	5.95%	\$ 400,000
Essential corporate purpose	Jul 15, 2007	4.10-4.40	915,000
Essential corporate purpose and refunding	Aug 27, 2009	1.15-4.10	3,460,000
Essential corporate purpose	Oct 28, 2010	0.95-3.05	1,650,000
Essential corporate purpose and refunding	Apr 12, 2012	0.50-2.20	1,000,000
Essential corporate purpose	Oct 25, 2012	1.65-3.00	225,000
Total			
Revenue notes:			
Sewer revenue capital loan notes	Jul 10, 2007	3.00%	* \$ 2,700,000
Water revenue capital loan notes	Sept 20, 2013	1.75	* 14,057,000
Total			
Urban renewal revenue notes:			
Community Theatre	Mar 1, 2003	3.00-6.60%	\$ 1,485,000
Urban renewal revenue capital loan notes	Nov 14, 2014	4.125	1,130,000
Total			
Special assessment bonds:			
Street improvement	Dec 1, 1980	9.75%	\$ 43,000
Capital lease purchase agreements:			
Tractor	May 1, 2011	5.25%	\$ 10,701
Copier	May 5, 2013	3.00	13,150
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
50,000	-	25,000	25,000	2,975
510,000	-	250,000	260,000	22,314
2,000,000	-	290,000	1,710,000	70,133
1,200,000	-	160,000	1,040,000	29,653
655,000	-	125,000	530,000	9,250
185,000	-	20,000	165,000	4,740
<u>\$ 4,600,000</u>	<u>-</u>	<u>870,000</u>	<u>3,730,000</u>	<u>139,065</u>
1,930,000	-	124,000	1,806,000	57,900
4,985,680	5,293,045	-	10,278,725	147,892
<u>\$ 6,915,680</u>	<u>5,293,045</u>	<u>124,000</u>	<u>12,084,725</u>	<u>205,792</u>
630,000	-	630,000	-	18,408
-	1,130,000	120,000	1,010,000	23,565
<u>\$ 630,000</u>	<u>1,130,000</u>	<u>750,000</u>	<u>1,010,000</u>	<u>41,973</u>
1,000	-	1,000	-	-
2,320	-	2,320	-	52
10,045	-	2,569	7,476	266
<u>\$ 12,365</u>	<u>-</u>	<u>4,889</u>	<u>7,476</u>	<u>318</u>

City of Shenandoah

Note Maturities

June 30, 2015

Year Ending June 30,	General Obligation					
	General Corporate Purpose		Essential Corporate Purpose		Essential Corporate Purpose and Refunding	
	Issued Jul 1, 2000		Issued Jul 15, 2007		Issued Aug 27, 2009	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2016	5.95%	\$ 25,000	4.40 %	\$ 260,000	3.15%	\$ 295,000
2017		-		-	3.35	305,000
2018		-		-	3.55	320,000
2019		-		-	3.75	325,000
2020		-		-	3.90	345,000
2021		-		-	4.10	60,000
2022		-		-	4.10	60,000
Total		<u>\$ 25,000</u>		<u>\$ 260,000</u>		<u>\$ 1,710,000</u>

Year Ending June 30,	General Obligation Notes			Revenue	
	Essential Corporate Purpose			Sewer Capital Loan Notes	
	Issued Oct 25, 2012			Issued July 10, 2007	
	Interest Rates	Amount	Total	Interest Rates	Amount
2016	1.65%	\$ 20,000	890,000	3.00%	\$ 127,000
2017	1.65	20,000	615,000	3.00	131,000
2018	3.00	25,000	570,000	3.00	135,000
2019	3.00	25,000	580,000	3.00	139,000
2020	3.00	25,000	605,000	3.00	143,000
2021	3.00	25,000	325,000	3.00	148,000
2022	3.00	25,000	145,000	3.00	152,000
2023		-		3.00	157,000
2024		-	-	3.00	161,000
2025		-	-	3.00	166,000
2026		-	-	3.00	171,000
2027		-	-	3.00	176,000
Total		<u>\$ 165,000</u>	<u>3,730,000</u>		<u>\$ 1,806,000</u>

See accompanying independent auditor's report.

Notes		Essential Corporate Purpose		Essential Corporate Purpose and Refunding	
Issued Oct 28, 2010		Issued Apr 12, 2012			
Interest Rates	Amount	Interest Rates	Amount		
2.00%	\$ 165,000	1.00%	\$ 125,000		
2.30	165,000	1.20	125,000		
2.50	170,000	1.60	55,000		
2.70	175,000	1.60	55,000		
2.90	180,000	2.20	55,000		
3.05	185,000	2.20	55,000		
	-	2.20	60,000		
	<u>\$ 1,040,000</u>		<u>\$ 530,000</u>		

Notes	
Urban Renewal Capital Loan Notes	
Issued Nov 14, 2014	
Interest Rates	Amount
4.125%	\$ 110,000
4.125	115,000
4.125	120,000
4.125	120,000
4.125	125,000
4.125	135,000
4.125	140,000
4.125	145,000
	-
	-
	-
	-
	<u>\$ 1,010,000</u>

City of Shenandoah

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

For the Last Ten Years

	2015	2014	2013	2012
Receipts:				
Property tax	\$ 2,488,161	2,421,302	2,267,452	2,184,991
Tax increment financing	200,960	282,353	271,000	263,995
Other city tax	561,875	658,618	748,052	633,159
Licenses and permits	59,741	6,595	7,364	100,420
Use of money and property	87,424	55,406	61,324	107,926
Intergovernmental	728,536	892,826	1,276,224	1,518,009
Charges for service	788,888	927,355	804,247	790,502
Special assessments	-	-	-	68,413
Miscellaneous	590,526	421,246	648,067	559,258
Total	\$ 5,506,111	5,665,701	6,083,730	6,226,673
Disbursements:				
Operating:				
Public safety	\$ 1,363,870	1,288,484	1,265,822	1,434,911
Public works	1,170,151	1,204,316	1,256,709	1,259,864
Health and social services	783	861	1,146	1,396
Culture and recreation	987,092	1,070,145	1,160,098	947,213
Community and economic development	1,192,497	380,641	382,075	694,860
General government	336,795	280,622	317,453	341,893
Debt service	1,011,315	998,863	1,036,792	1,391,691
Capital projects	303,125	420,724	1,413,500	2,532,991
Total	\$ 6,365,628	5,644,656	6,833,595	8,604,819

See accompanying independent auditor's report.

2011	2010	2009	2008	2007	2006
2,088,460	2,001,119	2,081,913	1,827,595	1,737,689	1,693,590
266,193	235,993	233,062	310,639	296,773	230,021
705,978	619,349	617,677	661,772	636,673	634,961
20,774	15,621	52,901	15,112	17,023	32,010
129,384	110,732	84,675	163,952	127,611	122,296
1,525,245	811,721	1,142,938	1,030,719	503,308	585,786
719,461	728,724	748,737	626,313	557,200	538,671
71,663	74,750	77,675	80,438	77,837	80,088
629,841	754,172	1,603,580	1,456,303	1,145,048	450,013
<u>6,156,999</u>	<u>5,352,181</u>	<u>6,643,158</u>	<u>6,172,843</u>	<u>5,099,162</u>	<u>4,367,436</u>
1,193,934	1,084,848	1,131,516	1,043,289	927,647	1,000,813
1,343,202	1,234,191	1,207,154	1,051,117	1,069,262	989,441
4,844	119	100	647	6,789	3,303
1,083,166	1,027,767	982,908	1,009,515	912,149	845,644
380,355	113,578	215,171	232,403	133,723	191,545
305,423	284,343	356,454	301,128	240,817	273,752
871,451	1,077,300	998,027	1,074,654	1,035,985	1,013,990
1,888,876	2,472,320	1,475,101	3,686,201	980,436	81,216
<u>7,071,251</u>	<u>7,294,466</u>	<u>6,366,431</u>	<u>8,398,954</u>	<u>5,306,808</u>	<u>4,399,704</u>

City of Shenandoah



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building

Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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, 2015, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 1, 2015. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (D) through (F) to be significant deficiencies.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.


The City of Shenandoah's Responses to the Findings


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

Purpose of this Report

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

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


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 1, 2015

City of Shenandoah

Schedule of Findings

Year ended June 30, 2015

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one or two individuals may have control over the following areas for the City:

- 1) Accounting system – performing all general accounting functions, including journal entries, and having custody of assets.
- 2) Cash – handling, reconciling and recording.
- 3) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
- 4) Utilities – opening mail, billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- 5) Debt – recordkeeping, compliance and debt payment processing.
- 6) Journal entries – preparing and journalizing.
- 7) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- 8) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
- 9) Computer system – performing all general accounting functions and controlling all data input and output.
- 10) Financial reporting – preparing and reconciling.

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

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

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

City of Shenandoah

Schedule of Findings

Year ended June 30, 2015

Responses –

City - We will review our control procedures and will implement controls where possible, including having independent individuals perform reviews of reconciliation and journal entries.

Library Foundation – We will review control procedures and implement controls where possible.

Fire Department – The Fire Chief will review the statements and reconciliation after the Treasurer has prepared the bank reconciliation.

Conclusions –

City and Library Foundation – Responses accepted.

Fire Department – Response acknowledged. The Department should also continue to look for ways to segregate duties to obtain the maximum internal control possible.

- (B) Financial Reporting – During the audit, we identified material receipts and disbursements coded to incorrect funds and account codes. Adjustments were subsequently made by the City to properly record receipts and disbursements.

Recommendation – The City should implement procedures to ensure receipts and disbursements are properly recorded in the City’s financial records.

Response – The City will work with our computer processor to accurately define our chart of accounts and fix any errors in posting to incorrect accounts and funds.

Conclusion – Response accepted.

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

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

Response – The City Council will appoint an independent person to review the reconciliation of utility billings, collections and delinquent accounts. The independent reviewer will document the review by initialing/signing the reconciliation.

Conclusion – Response accepted.

City of Shenandoah

Schedule of Findings

Year ended June 30, 2015

- (D) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee.

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed.

Response – The City will work with our computer processor to implement the Uniform Chart of Accounts.

Conclusion – Response accepted.

- (E) Receipt Deposits – Receipts are not always deposited timely. Nine receipts tested were deposited 12 to 76 days after collection.

Recommendation – Procedures should be established to ensure all receipts are deposited timely.

Response – The City will advise all departments remit receipts to City Hall within a few days for timely deposit.

Conclusion – Response accepted.

- (F) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

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

Response – The City will be implementing procedures as we become more familiar with our software and the job duties that we are required to do daily, monthly, quarterly, semi-annually and annually.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Shenandoah

Schedule of Findings

Year ended June 30, 2015

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amount budgeted in the community and economic development function prior to the budget amendment. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City will monitor disbursements to ensure they are within budget and will amend the budget before disbursements are allowed to exceed the budget.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Darrel Saner, Assistant Police Chief, owner of Shenweld Metals	Welding and maintenance	\$ 65
Tim Barr, Water Operator, owner of Tim Barr Janitorial Services	Janitorial service	2,052

The transactions with Shenweld Metals do not represent a conflict of interest since the total during the year was less than \$1,500.

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with Tim Barr Janitorial Services may represent a conflict of interest since total transactions were more than \$1,500 during the fiscal year and the transactions were not competitively bid.

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

City of Shenandoah

Schedule of Findings

Year ended June 30, 2015

Response – The City will consult legal counsel on this matter.

Conclusion – Response accepted.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds and Notes – No instances of non-compliance with the revenue note resolutions were noted.
- (9) Financial Condition – The Capital Projects and the Special Revenue, Rapp Charity Trust Funds had deficit balances of \$27,211 and \$5, respectively, at June 30, 2015.

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

Response – The City will review the accounts to eliminate the deficits.

Conclusion – Response accepted.

- (10) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor. We noted the following regarding the City's TIF obligations, certifications to the County Auditor and the Special Revenue, Urban Renewal Tax Increment Financing Fund (TIF Fund) disbursements:
 - (a) In November 2014, the City issued \$1,130,000 of urban renewal revenue capital loan notes, in part to refund \$630,000 of urban renewal revenue notes issued in 2003. In November 2014, the City certified the \$1,130,000 urban renewal revenue notes to the County Auditor as a TIF obligation, but did not de-certify the \$630,000 of revenue notes refunded during the year.

City of Shenandoah

Schedule of Findings

Year ended June 30, 2015

- (b) In November 2013, the City certified \$1,378,969 to the Fremont County Auditor for the principal and interest balance outstanding on July 1, 2007 on its community theatre urban renewal revenue notes. In November 2014 and November 2015, the City certified an additional \$151,135 and \$150,493, respectively, for principal and interest on the note for a total certified on this obligation of \$1,680,597. The balance of principal and interest due on the note at July 1, 2007 was actually \$1,968,758, or \$288,161 more than the City has certified to date. During the year ended June 30, 2015, the City refunded \$630,000 of the remaining principal on the community theatre urban renewal revenue notes. The balance of interest owed at the time of the refunding was \$126,592. At June 30, 2015, it appears the City has potentially under certified \$161,569 (\$288,161 less \$126,592) of past principal and interest paid on this obligation (assuming the City decertifies the \$630,000 refunded principal on the note as recommended in item (a) above).
- (c) During the current and prior years, the City paid principal and interest on a portion of the 2009 general obligation essential corporate purpose and refunding notes and the 2014 urban renewal revenue capital loan notes from the TIF Fund. However, based on a review of the "Urban Renewal Area TIF Indebtedness/Increment Tax Revenue Reconciliation" prepared by the Page County Auditor, the interest portion of these obligations has not been certified to the County Auditor as a TIF obligation.
- (d) During the year ended June 30, 2015, the City transferred \$13,817 from the General Fund to the Debt Service Fund to cover a portion of the principal and interest due and paid on the 2009 general obligation essential corporate purpose and refunding notes with hotel/motel receipts. However, this portion of the 2009 notes was previously certified as a TIF obligation and, accordingly, should have been paid with resources transferred from the TIF Fund to the Debt Service Fund.
- (e) During the years ended June 30, 2014 and 2015, the City paid \$34,346 and \$2,797, respectively, of legal and other fees directly from the TIF Fund. These costs do not represent TIF obligations and, accordingly, are not an allowable use of tax increment financing receipts.

Recommendation –

- (a) The City should certify a reduction of \$630,000 of TIF indebtedness representing the amount of TIF obligations refunded during fiscal year 2015.
- (b) The City should review past TIF debt certifications for the community theatre urban renewal revenue note and payments on that note to determine the amount, if any, under certified for past principal and interest payments. If the City determines an amount has been under certified, this amount should be certified to the County Auditor to correct the error.

City of Shenandoah

Schedule of Findings

Year ended June 30, 2015

- (c) The City should certify the 2014 urban renewal revenue capital loan note and 2009 general obligation note (the portion representing a TIF obligation) interest expected to be repaid, including past interest amounts paid, with TIF collections to the County Auditor as TIF obligations.
- (d) The City should transfer \$13,817 from the TIF Fund to the General Fund for principal and interest costs payable from the TIF Fund.
- (e) The City should reimburse the TIF Fund from an allowable fund, such as the General Fund, for the unallowable costs paid in current and prior years. If disbursements are for a qualified TIF project, the City may approve an advance (interfund loan) from the General Fund to the TIF Fund and certify the advance to the County Auditor as a TIF obligation for future collection of TIF receipts and reimbursement to the General Fund to repay the advance.

Response – The City will review all certifications and certify or de-certify, as needed.

Conclusion – Response acknowledged. The City should also transfer \$13,817 from the TIF Fund to the General Fund and reimburse the TIF Fund for the unallowable costs paid from the TIF Fund in the current and past years, as recommended in (d) and (e) above.

- (11) Annual Urban Renewal Report – The Annual Urban Renewal Report (AURR) was certified to the Iowa Department of Management on or before December 1. The following errors were noted in the report.
- The receipts, disbursements and ending cash balance of the Special Revenue, Urban Renewal Tax Increment Financing Fund reported on the December 1, 2014 Levy Authority Summary do not agree with the City's general ledger.
 - The City understated the amount reported as TIF debt outstanding on the Levy Authority Summary by \$1,285,690.

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

Response – The City will work with our computer processor to ensure the accuracy of the City's balances and will ensure the outstanding TIF obligations are correctly reported.

Conclusion – Response accepted.

City of Shenandoah

Schedule of Findings

Year ended June 30, 2015

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

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

Response – Future utility rates will be approved as a per gallon amount rather than as a percentage.

Conclusion – Response acknowledged. The City should also ensure future billings are calculated using approved rates.

- (13) Swimming Pool Expenses - During the year ended June 30, 2015, the Enterprise Water and Sewer Funds paid \$13,103 and \$31,015, 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 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, 2015, the Enterprise, Water and Sewer Funds did not calculate a “surplus” and, accordingly, it was not appropriate to supplement General Fund expenses, including swimming pool expenses, from these funds.

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

City of Shenandoah

Schedule of Findings

Year ended June 30, 2015

Response – The City will pay future pool expenses from the General Fund.

Conclusion – Response accepted.

- (14) Debt Service Payments – During the year ended June 30, 2015, the City budgeted and paid \$791,973 of principal and interest on its urban renewal revenue notes from the community and economic development function rather than the debt service function. The Iowa Department of Management’s budget instructions for Iowa City governments require all principal and interest payments be budgeted and paid from the debt service function.

Recommendation – The City should budget and pay future principal and interest on its urban renewal revenue notes from the debt service function, as required.

Response – The City will pay all future debt through the debt service function.

Conclusion – Response accepted.

- (15) Snook Trust Distributions – Pursuant to the Snook Trust agreement, income earned on the Permanent, Snook Trust Fund is required to be distributed annually in equal amounts to the following:

- The Public Library of Shenandoah
- The Shenandoah Fire Department
- The Shenandoah rescue unit
- The park system of Shenandoah
- The Shenandoah Memorial Hospital

During the year ended June 30, 2015, the City distributed \$783 to the Special Revenue, Gidley Park Trust Fund (for the park system share), \$783 to the Shenandoah Ambulance Service (for the Shenandoah rescue unit share), \$783 to the Special Revenue, Volunteer Fire Department Fund (for the Shenandoah Fire Department share) and \$783 to the Shenandoah Memorial Hospital, in accordance with the Trust Agreement. However, the City library portion of the distribution was paid to the Shenandoah Library Foundation, a private, nonprofit organization.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private non-profit corporation. Article III, Section 31 of the Constitution of the State of Iowa states, “... no public money or property shall be appropriated for local, or private purposes, unless such appropriation, compensation, or claim, be allowed by two thirds of the members elected to each branch of the general assembly.”

Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee or other person and which show the receipt, use, and disposition of all city property.”

City of Shenandoah

Schedule of Findings

Year ended June 30, 2015

We previously requested a letter of advice from the Iowa Attorney General regarding the propriety of a gift to a private non-profit organization. The Iowa Attorney General issued a letter of advice (advice letter) dated April 22, 2008. The advice letter states, in part:

"... I do not believe that a City library board may simply donate funds received from private donors to a private non-profit organization to use and invest as the non-profit organization sees fit. Unless the library board retains the ability to oversee expenditures and to demand return of the funds in the event that future trustees do not agree with that delegation of control over the funds, the transaction violates the public purpose and non-delegation principles discussed above. Further, even if safeguards are put in place to assure ongoing oversight and control, I believe that the funds continue to be 'public funds,' subject to the deposit and investment standards contained in Code sections 12B and 12C (of the Code of Iowa) and that the funds must be earmarked and spent for the purpose for which the gift was given. A 28E agreement may provide a vehicle to facilitate joint public and private influence over the use of gifts received by a governmental body, by incorporating ongoing public oversight and accountability to the joint undertaking."

Recommendation – A 28E agreement, as described in the advice letter does not exist. We are not aware of any statutory authority for the City to relinquish its fiduciary responsibility over its public funds to a separate non-profit organization. The City should recover current and past distributions made to the Library Foundation, including all income derived from the investment of the funds from the time they were remitted to this organization. In addition, the City should require an immediate accounting for these public funds from the date of each contribution.

Response – The Library Foundation will review its records and research all distributions from the City. The Foundation will provide the City with an accounting of all distributions.

Conclusion – Response acknowledged. The City should recover current and past distributions made to the Library Foundation, including all income derived from the investment of the funds from the time they were remitted to the Foundation.

- (16) Snook Trust Annual Report – As a condition for receiving the bequest, the Last Will and Testament for the Berneice E. Snook (Permanent, Snook Trust Fund) requires the City publish an itemized report concerning the Fund's income and distributions in a newspaper in the City of Shenandoah. The required report was not published in 2014.

Recommendation – The City should annually publish an itemized report of the Permanent, Snook Trust Fund's income and distributions, as required.

Response – The City will publish the required report annually.

Conclusion – Response accepted.

City of Shenandoah

Schedule of Findings

Year ended June 30, 2015

- (17) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City to report and remit obligations, including checks outstanding for more than two years, to the Office of Treasurer of State annually. The City did not remit these obligations as required.

Recommendation – Outstanding checks should be reviewed annually and items over two years old should be remitted to the Office of Treasurer of State as required.

Response – City will submit outstanding checks, as required.

Conclusion – Response accepted.

City of Shenandoah

Schedule of Findings

Year ended June 30, 2015

(18) Other Information Required by the Revenue Note Resolution

Insurance – The following insurance policies were in force at June 30, 2015:

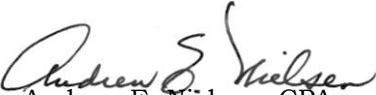
Insurer	Description	Amount	Expiration Date
Employers Mutual Casualty	Property Blanket Buildings	\$ 30,539,738	June 30, 2015
Employers Mutual Casualty	Comprehensive Gen. Liability Per Occurrence	\$ 1,000,000	June 30, 2015
	Aggregate	\$ 2,000,000	
Employers Mutual Casualty	Inland Marine	\$ 1,187,117	June 30, 2015
Employers Mutual Casualty	Automobile coverage Liability	\$ 1,000,000	June 30, 2015
	uninsured and underinsured	\$ 40,000	
Employers Mutual Casualty	Workers' Compensation	\$ 500,000	June 30, 2015
Employers Mutual Casualty	Comercial Umbrella Retained	\$ 10,000	June 30, 2015
	Each occurrence	\$ 5,000,000	
	Aggregregate	\$ 5,000,000	
Employers Mutual Casualty	Linebacker Each Loss	\$ 1,000,000	June 30, 2015
	Aggregate	\$ 1,000,000	
Employers Mutual Casualty	Law Enforcement Each occurrence	\$ 1,000,000	June 30, 2015
	Aggregate	\$ 1,000,000	
Employers Mutual Casualty	Employee dishonesty: Blanket bond	\$ 100,000	June 30, 2015
	Alteration	\$ 10,000	
Employers Mutual Casualty	Commercial crime: Inside premises	\$ 10,000	June 30, 2015
	Outside premises	\$ 10,000	
Petroleum Marketers Mgmt Casualty Company	Airport liability: per occurrence	\$ 1,000,000	May 20, 2016
	Aggregate	\$ 1,000,000	

City of Shenandoah

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Director
Dorothy O. Stover, Senior Auditor II
Marcus B. Johnson, Staff Auditor
Alex W. Case, Assistant Auditor
Sarah J. Swisher, Assistant Auditor


Andrew E. Nielsen, CPA
Deputy Auditor of State