



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

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Auditor of State

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NEWS RELEASE

FOR RELEASE

May 18, 2018

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

The City's receipts totaled \$363,063 for the year ended June 30, 2017. The receipts included \$69,972 of property tax, \$138,750 of charges for service, \$124,936 of operating grants, contributions and restricted interest, \$18,287 of local option sales tax, \$372 of unrestricted interest on investments and \$10,746 of other general receipts.

Disbursements for the year ended June 30, 2017 totaled \$324,877, and included \$89,897 for public safety, \$52,455 for public works and \$40,643 for general government. Also, disbursements for business type activities totaled \$104,278.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1722-0622-B00F>.

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

JUNE 30, 2017

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City of Silver City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Tommy Jensen	Mayor	Jan 2018
Paula Reeves	Mayor Pro tem	Jan 2020
Wendell Kasprick	Council Member	Jan 2018
Barb Miller	Council Member	(Resigned Jul 2017)
Tiffany Wright (Appointed Sep 2017)	Council Member	Nov 2017
Amy Freuck	Council Member	Jan 2020
Mitch Bauge	Council Member	Jan 2020
Peggy Shields	City Clerk/Treasurer	(Resigned Mar 2017)
Artema Gray (Appointed May 2017)	City Clerk/Treasurer	Indefinite
Matt Woods	Attorney	Indefinite

City of Silver City



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Silver City, Iowa, as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

Basis for Modified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we are unable to satisfy ourselves as to the distribution of the total fund balances at July 1, 2016.

Modified Opinions

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distributions by fund of the total fund balance at July 1, 2016, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Silver City as of June 30, 2017, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Silver City's basic financial statements. The supplementary information included in Schedules 1 through 2, 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, 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 25 through 30 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 May 9, 2018 on our consideration of the City of Silver City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Silver City's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

May 9, 2018

City of Silver City

Basic Financial Statements

City of Silver City

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2017

	Program Receipts		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 89,897	16,363	64,782
Public works	52,455	-	30,415
Culture and recreation	37,483	789	29,739
Community and economic development	121	-	-
General government	40,643	616	-
Total governmental activities	220,599	17,768	124,936
Business type activities:			
Water	52,124	63,006	-
Sewer	52,154	57,976	-
Total business type activities	104,278	120,982	-
Total	\$ 324,877	138,750	124,936
General Receipts:			
Property and other city tax levied for:			
General purposes			
Local option sales tax			
Unrestricted interest on investments			
Miscellaneous			
Total general receipts			
Change in cash basis net position			
Cash basis net position beginning of year			
Cash basis net position end of year			
Cash Basis Net Position			
Restricted:			
Expendable:			
Streets			
Local option sales tax			
Debt service			
Other purposes			
Unrestricted			
Total cash basis net position			

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
(8,752)	-	(8,752)
(22,040)	-	(22,040)
(6,955)	-	(6,955)
(121)	-	(121)
(40,027)	-	(40,027)
(77,895)	-	(77,895)
-	10,882	10,882
-	5,822	5,822
-	16,704	16,704
(77,895)	16,704	(61,191)
69,972	-	69,972
18,287	-	18,287
315	57	372
10,746	-	10,746
99,320	57	99,377
21,425	16,761	38,186
402,871	135,525	538,396
\$ 424,296	152,286	576,582
\$ 20,915	-	20,915
71,811	-	71,811
-	21,423	21,423
16,304	56,504	72,808
315,266	74,359	389,625
\$ 424,296	152,286	576,582

Exhibit B

City of Silver City

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

As of and for the year ended June 30, 2017

	General	Special Revenue			Total
		Road Use Tax	Local Option Sales Tax	NonMajor Employee Benefits	
Receipts:					
Property tax	\$ 67,130	-	-	2,842	69,972
Other city tax	-	-	18,287	-	18,287
Licenses and permits	525	-	-	-	525
Use of money and property	1,020	-	-	-	1,020
Intergovernmental	36,437	24,439	-	-	60,876
Charges for service	16,538	-	-	-	16,538
Miscellaneous	74,806	-	-	-	74,806
Total receipts	196,456	24,439	18,287	2,842	242,024
Disbursements:					
Operating:					
Public safety	89,897	-	-	-	89,897
Public works	36,890	15,023	-	542	52,455
Culture and recreation	35,847	-	-	1,636	37,483
Community and economic development	121	-	-	-	121
General government	37,599	-	-	3,044	40,643
Total disbursements	200,354	15,023	-	5,222	220,599
Excess (deficiency) of receipts over (under) disbursements	(3,898)	9,416	18,287	(2,380)	21,425
Other financing sources (uses):					
Transfers in	3,000	-	-	-	3,000
Transfers out	-	-	(3,000)	-	(3,000)
Total other financing sources (uses)	3,000	-	(3,000)	-	-
Change in cash balances	(898)	9,416	15,287	(2,380)	21,425
Cash balances beginning of year	316,164	11,499	56,524	18,684	402,871
Cash balances end of year	\$ 315,266	20,915	71,811	16,304	424,296
Cash Basis Fund Balances					
Restricted for:					
Streets	-	20,915	-	-	20,915
Local option sales tax	-	-	71,811	-	71,811
Other purposes	-	-	-	16,304	16,304
Assigned for:					
Other purposes	70,623	-	-	-	70,623
Fire and rescue	95,145	-	-	-	95,145
Unassigned	149,498	-	-	-	149,498
Total cash basis fund balances	\$ 315,266	20,915	71,811	16,304	424,296

See notes to financial statements.

City of Silver City

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

As of and for the year ended June 30, 2017

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 62,706	57,976	120,682
Miscellaneous	300	-	300
Total operating receipts	63,006	57,976	120,982
Operating disbursements:			
Business type activities	52,124	30,731	82,855
Excess of operating receipts over operating disbursements	10,882	27,245	38,127
Non-operating receipts (disbursements):			
Interest on investments	20	37	57
Debt service	-	(21,423)	(21,423)
Net non-operating receipts (disbursements)	20	(21,386)	(21,366)
Change in cash balances	10,902	5,859	16,761
Cash balances beginning of year	64,804	70,721	135,525
Cash balances end of year	\$ 75,706	76,580	152,286
Cash Basis Fund Balances			
Restricted for debt service	\$ -	21,423	21,423
Restricted for improvements	16,197	40,307	56,504
Unrestricted	59,509	14,850	74,359
Total cash basis fund balances	\$ 75,706	76,580	152,286

See notes to financial statements.

City of Silver City

Notes to Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies

The City of Silver City is a political subdivision of the State of Iowa located in Mills County. It was first incorporated in 1883 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 Silver City 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. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Mills County Assessor's Conference Board, Mills County Emergency Management Commission and Mills County Joint E-911 Service Board.

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:

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 Local Option Sales Tax Fund is used to account for the local option sales tax from the State of Iowa to be used to finance cultural and community betterment in the city.

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 paid, 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:

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.

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2017, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, and community and economic development functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2017 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

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

(3) Sewer Revenue Notes

The City has pledged future receipts of sewer customers, net of specified operating disbursements, to repay \$407,500 of sewer revenue notes issued July 12, 2005. Proceeds from the notes bonds provided financing for the costs of improvements and extensions of the sewer system. The notes are payable solely from sewer customer net receipts and are payable through 2046. The total principal and interest remaining to be paid on the notes is \$620,775. For the year ended June 30, 2017, the City retired \$6,378 of principal on the debt.

The resolution providing for the issuance of the sewer revenue notes issued under a loan agreement between the City and the United States Department of Agriculture includes the following provisions:

- (a) The City will establish rates sufficient to meet the operation and maintenance expenses of the sewer system and to produce and maintain net revenues at a level to pay the outstanding principal and interest of the revenue notes.
- (b) Sufficient monthly transfers shall be made to a sewer revenue note sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) The City shall create Reserve Fund and deposit \$179 of the remaining profits into this fund each month until said fund has a balance of \$21,480. The money in this fund shall be transferred and credited to the sinking fund when necessary to avoid default.

The City did not make required transfers to the sewer revenue note sinking fund for the year ended June 30, 2017.

Annual debt service requirements to maturity for the sewer revenue notes are as follows:

Year Ending June 30,	Sewer Revenue		
	Principal	Interest	Total
2018	\$ 6,641	14,782	21,423
2019	6,914	14,509	21,423
2020	7,199	14,224	21,423
2021	7,496	13,927	21,423
2022	7,806	13,617	21,423
2023-2027	44,133	62,982	107,115
2028-2032	54,018	53,097	107,115
2033-2037	66,117	40,998	107,115
2038-2042	80,925	26,190	107,115
2043-2046	77,116	8,084	85,200
Total	\$ 358,365	262,410	620,775

(4) Pension Plan

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

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

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

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

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

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

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

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

In fiscal year 2017, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%.

The City’s contributions to IPERS for the year ended June 30, 2017 totaled \$2,750.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the City reported a liability of \$27,194 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on the City’s share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2016, the City’s proportion was 0.000432%, which was a decrease of 0.000043% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$3,225, \$7,895 and \$3,690, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience studies with dates corresponding to those listed above.

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

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

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

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments 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 City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 43,997	27,194	13,013

IPERS' Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(5) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Local Option Sales Tax	<u>\$ 3,000</u>

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

(6) Risk Management

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

City of Silver City

Other Information

City of Silver City

City of Silver City
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances –
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2017

	Governmental	Proprietary	Total	Budgeted	Final to
	Funds	Funds		Amounts	
	Actual	Actual		Original/Final	Variance
Receipts:					
Property tax	\$ 69,972	-	69,972	66,457	3,515
Other city tax	18,287	-	18,287	22,292	(4,005)
Licenses and permits	525	-	525	200	325
Use of money and property	1,020	57	1,077	175	902
Intergovernmental	60,876	-	60,876	72,208	(11,332)
Charges for service	16,538	120,682	137,220	119,600	17,620
Miscellaneous	74,806	300	75,106	39,905	35,201
Total receipts	242,024	121,039	363,063	320,837	42,226
Disbursements:					
Public safety	89,897	-	89,897	63,230	(26,667)
Public works	52,455	-	52,455	58,263	5,808
Culture and recreation	37,483	-	37,483	25,376	(12,107)
Community and economic development	121	-	121	-	(121)
General government	40,643	-	40,643	68,417	27,774
Business type activities	-	104,278	104,278	121,279	17,001
Total disbursements	220,599	104,278	324,877	336,565	11,688
Excess of receipts over disbursements	21,425	16,761	38,186	(15,728)	53,914
Balances beginning of year	402,871	135,525	538,396	515,111	23,285
Balances end of year	\$ 424,296	152,286	576,582	499,383	77,199

See accompanying independent auditor's report.

City of Silver City

Notes to Other Information – Budgetary Reporting

June 30, 2017

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund. 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 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. The City did not amend its budget during the year ended June 30, 2017.

During the year ended June 30, 2017, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, and community and economic development functions.

City of Silver City

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

Iowa Public Employees' Retirement System
For the Current Year*
(In Thousands)

Other Information

	<u>2017</u>
City's proportion of the net pension liability	0.000432%
City's proportionate share of the net pension liability	\$ 27
City's covered-employee payroll	\$ 31
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	87.10%
IPERS' net position as a percentage of the total pension liability	81.82%

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

See accompanying independent auditor's report.

City of Silver City

City of Silver City

Schedule of City Contributions

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

Other Information

	2017	2016
Statutorily required contribution	\$ 3	3
Contributions in relation to the statutorily required contribution	(3)	(3)
Contribution deficiency (excess)	\$ -	-
City's covered-employee payroll	\$ 31	31
Contributions as a percentage of covered-employee payroll*	8.93%	8.93%

* Amounts reported do not agree with calculated amounts due to rounding required contributions and covered payroll to nearest thousandth.

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.

See accompanying independent auditor's report.

City of Silver City

Notes to Other Information – Pension Liability

Year ended June 30, 2017

Changes of benefit terms:

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

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

Changes of assumptions:

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

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

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

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

Supplementary Information

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue notes:			
Sewer	Jul 12, 2005	4.125%	\$ 271,500
Sewer	Jul 12, 2005	4.125	136,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
243,015	-	4,249	238,766	10,024
121,728	-	2,129	119,599	5,021
<u>\$ 364,743</u>	<u>-</u>	<u>6,378</u>	<u>358,365</u>	<u>15,045</u>

City of Silver City

City of Silver City

Note Maturities

June 30, 2017

Year Ending June 30,	Revenue Notes					
	Sewer			Sewer		
	Issued July 12, 2005		Issued July 12, 2005		Total	
Interest Rates	Amount	Interest Rates	Amount			
2018	4.125%	\$ 4,424	4.125%	\$ 2,217	6,641	
2019	4.125	4,606	4.125	2,308	6,914	
2020	4.125	4,796	4.125	2,403	7,199	
2021	4.125	4,994	4.125	2,502	7,496	
2022	4.125	5,200	4.125	2,606	7,806	
2023	4.125	5,415	4.125	2,713	8,128	
2024	4.125	5,638	4.125	2,825	8,463	
2025	4.125	5,871	4.125	2,941	8,812	
2026	4.125	6,113	4.125	3,063	9,176	
2027	4.125	6,365	4.125	3,189	9,554	
2028	4.125	6,627	4.125	3,321	9,948	
2029	4.125	6,901	4.125	3,458	10,359	
2030	4.125	7,186	4.125	3,600	10,786	
2031	4.125	7,482	4.125	3,749	11,231	
2032	4.125	7,791	4.125	3,903	11,694	
2033	4.125	8,112	4.125	4,064	12,176	
2034	4.125	8,447	4.125	4,232	12,679	
2035	4.125	8,795	4.125	4,407	13,202	
2036	4.125	9,158	4.125	4,588	13,746	
2037	4.125	9,536	4.125	4,778	14,314	
2038	4.125	9,929	4.125	4,975	14,904	
2039	4.125	10,338	4.125	5,180	15,518	
2040	4.125	10,765	4.125	5,393	16,158	
2041	4.125	11,209	4.125	5,616	16,825	
2042	4.125	11,671	4.125	5,848	17,519	
2043	4.125	12,153	4.125	6,089	18,242	
2044	4.125	12,654	4.125	6,340	18,994	
2045	4.125	13,176	4.125	6,602	19,778	
2046	4.125	13,414	4.125	6,689	20,103	
Total		<u>\$ 238,766</u>		<u>\$ 119,599</u>	<u>358,365</u>	

See accompanying independent auditor's report.

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



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

To the Honorable Mayor and Members of the City Council:

We have audited 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, each major fund and the aggregate remaining fund information of the City of Silver City, Iowa, as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 9, 2018. 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 Silver City'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 Silver City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Silver City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, 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 Silver City'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 (E) 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 (F) through (O) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Silver City'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 which 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, 2017 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Silver City's Responses to the Findings

The City of Silver City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Silver 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 Silver City 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

May 9, 2018

City of Silver City

Schedule of Findings

Year ended June 30, 2017

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

(A) Segregation of Duties

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

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

- (1) Accounting system – performing all accounting functions, including making journal entries and having custody of assets.
- (2) Cash – reconciling, handling and recording.
- (3) Investments – recordkeeping, custody of investments and reconciling earnings.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Disbursements – purchasing, invoice processing, mailing, reconciling and recording.
- (6) Payroll – recordkeeping, preparing and distributing.
- (7) Debt – recordkeeping, compliance and debt payment processing.

Cause – The City has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

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

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances. The City should utilize current personnel and officials to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons and should be documented by the signature or initials of the reviewer and the date of the review.

City of Silver City

Schedule of Findings

Year ended June 30, 2017

Response – The City Clerk will provide a Budget Report, a monthly Bank Reconciliation Report, Fund Balance Sheet, a Treasurer’s Report and a list of claims/bills to be paid to each Council Member at the Council Meeting and have the Council and Mayor review them and sign off on them.

Conclusion – Response accepted.

(B) Financial Reporting

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

Condition – The ending fund balance on the City’s Annual Financial Report (AFR) was overstated by \$ 2,574 after adjustments were made for unknown reconciling items and unrecorded interest. The City understated road use tax revenues by \$1,940 due to an unrecorded receipt and recorded a \$5,000 transfer between General and Special Revenue Funds when this should have been recorded as receipts and disbursements instead of transfers. In addition, the Emergency Fund was reported as a Special Revenue Fund, instead of a part of the General Fund on the City’s AFR.

Cause – City policies do not require and procedures have not been established to require review of report, disbursement and transfer transactions posted.

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

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

Response – A correcting journal entry will be made to correct the incorrect dollar amounts. Accounts are now checked and reviewed monthly.

Conclusion – Response accepted.

(C) Bank Reconciliations

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by maintaining appropriate accounting records and reconciling bank and book balances. Supervisory review of bank reconciliations can help ensure the accuracy of recorded amounts.

City of Silver City

Schedule of Findings

Year ended June 30, 2017

Condition – The balances in the City’s general ledger were not properly reconciled to the bank account and investment balances throughout the year. The City did not reconcile the general bank account for 10 months and there were no reconciliations for the investment accounts. The listing of outstanding transactions as of June 30, 2017 included a \$230 check which had cleared the bank and three electronic payments totaling \$1,352 were listed when only one outstanding electronic payment for \$589 occurred. For the months reconciled, the monthly bank reconciliations were not reviewed or approved by an independent person.

Cause – Procedures have not been designed and implemented to ensure all accounts are properly reconciled to book balances, reconciling items are identified and supported and the reconciliations are independently reviewed.

Effect – The lack of complete bank to book reconciliations and unsupported reconciling items can result in unrecorded transactions, undetected errors and opportunities for misappropriation.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely. An independent person should review the bank reconciliations and document the review by signing or initialing and dating the monthly bank reconciliation.

Response – The City Clerk will provide a Budget Report, a monthly Bank Reconciliation Report, Fund Balance Sheet, a Treasurer’s Report and a list of claims/bills to be paid to each Council Member at the Council Meeting and have the City Council and Mayor review and sign off on them.

Conclusion – Response accepted.

(D) Journal Entries

Criteria – An effective internal control system provides for internal controls related to preparation of journal entries by all employees. Supporting documentation for all journal entries supports the accuracy of the entries by the employees and an independent review helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements.

Condition – Supporting documentation was not maintained for journal entries made for corrections or balancing purposes. In addition, journal entries for recording utilities and other electronic transactions show no evidence of independent review.

Cause – City policies do not require and procedures have not been designed to provide supporting documentation for all journal entries and to document the review and approval of journal entries.

Effect – Lack of supporting documents and independent approval of transactions could adversely affect the City’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

City of Silver City

Schedule of Findings

Year ended June 30, 2017

Recommendation – To strengthen controls, journal entries should be supported and the support should be provided to the reviewer for approval by an independent person.

Response – Journal entries will be supported with documentation. When documentation is not available, notations will be posted with the transaction.

Conclusion – Response acknowledged. In addition, journal entries and support should be reviewed by an independent person and the review documented by the initials and date of review.

(E) Service Organization

Criteria – An effective internal control system provides for internal controls related to reconciling the service organizations billings, collections and delinquent account listing to ensure accuracy of water and sewer collections.

Condition – The City contracts with an outside company to bill and collect water and sewer utilities. The service organization provides the City with a utility billing register, daily payment journal, weekly utility report, aged delinquent account listing and direct deposit utility receipts to the City's checking account weekly. However, the City has not established procedures to determine utility billings, collections and delinquent accounts are accurate.

Cause – Policies have not been established and procedures have not been implemented to ensure billing, collecting, and delinquent account listing are accurate.

Effect – This condition could result in unrecorded or misstated utility receipts, improper or unauthorized adjustments and write-offs and/or misstated delinquent account balances.

Recommendation - The City should establish procedures to reconcile utility billing, collecting and delinquent accounts. This reconciliation should be independently reviewed for completeness and accuracy.

Response – The reconciliation of the PeopleService's billing, collections and deposits performed by the City Clerk will be reviewed by the Mayor or Council Member to ensure completeness and accuracy.

Conclusion – Response accepted.

(F) Direct Deposits

Criteria – A deficiency in internal control over financial reporting exists when the design or operation does not allow management or employees during the normal course of performing their assigned functions to prevent, detect and correct misstatements to the financial statements.

Condition – One road use tax receipt which was direct deposited to the City's checking account but not recorded in the City's accounting records.

City of Silver City

Schedule of Findings

Year ended June 30, 2017

Cause – Procedures have not been designed and implemented to ensure all accounts are reconciled and the amounts deposited in the bank reconcile to the amounts recorded in the books.

Effect – Inadequate accounting records can result in unrecorded transactions, undetected errors and opportunity for misappropriation.

Recommendation – The City should establish procedures to ensure all items deposited directly to the City’s bank account are properly recorded in the accounting records.

Response – Bank accounts will be reconciled monthly so discrepancies can be found and corrected in a timely manner.

Conclusion – Response accepted.

(G) Ambulance Billings

Criteria – An effective internal control system provides for internal controls related to reconciling ambulance service billings, collections and receivable to ensure the accuracy of ambulance service collections and receivables.

Condition – The City has contracted with a third party to administer ambulance service billings and collections. The City does not reconcile collections to the bank statement and the City does not reconcile ambulance service calls to amounts billed and outstanding.

Cause – Policies have not been established and procedures have not been implemented to reconcile ambulance service billings, collections and receivables.

Effect – This condition could result in unrecorded or misstate ambulance service revenues and receivables.

Recommendation – A reconciliation of ambulance service billings, collections and receivables should be prepared monthly. An independent person should review the reconciliations and monitor receivables. The review should be documented by the signature or initials of the reviewer and the date of the review.

Response – The amounts billed and collected will be reviewed by the City Clerk and the Rescue Department Billing Coordinator.

Conclusion – Response accepted.

City of Silver City

Schedule of Findings

Year ended June 30, 2017

(H) Accounting Policies and Procedures Manual

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

- Aid in training additional or replacement personnel and act as a quick reference for staff members and officials.
- Help streamline accounting operations by achieving 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.
- Help preserve the key elements in the City's internal control.
- Increase effectiveness and efficiency in the event of employee turnover.

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

Cause – Officials have been unaware of the need for an accounting policies and procedures manual.

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

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

Response – The City will develop an accounting policies and procedures manual.

Conclusion – Response accepted.

(I) Disbursements

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

Condition – For 4 of the 56 items tested, disbursements were not supported by proper documentation.

Cause – Procedures have not implemented to ensure proper supporting documentation is obtained for all disbursements.

Effect – Lack of supporting documentation for disbursements could result in unauthorized and unsupported transactions and the opportunity for misappropriation.

Recommendation – All disbursements should be supported by original invoices or other supporting documentation.

City of Silver City

Schedule of Findings

Year ended June 30, 2017

Response – All disbursements will be supported with original invoices or other supporting documentation.

Conclusion – Response accepted.

(J) Payroll Expense Allocation

Criteria – An effective internal control system provides for internal controls related to the processing and recording of payroll expenses for City employees. A resolution by the City Council on how payroll should be allocated between funds can help ensure payroll expenses are recorded properly.

Condition – The City has a resolution adopted in April 2010 detailing how payroll expenses should be allocated among the General, Special Revenue Road Use Tax and Enterprise, Water and Sewer Funds. However, the allocation policy is not currently being followed.

Cause – The City Clerk was not aware of the resolution and continued to use the allocation used by prior City Clerks.

Effect – Lack of policies and procedures could result in payroll expenses not being properly recorded in the financial statements.

Recommendation – The City should review current methods of allocating payroll and determine if they are still appropriate. The City Clerk should use the approved allocation method to allocate payroll expenses.

Response – The payroll allocation was reviewed by the Council and a current resolution is now in place and being used.

Conclusion – Response accepted.

(K) Utility Expense Allocation

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting of all funds by maintaining appropriate accounting records including expenses per fund and function.

Condition – The City allocates expenses for the service organization's utility maintenance and operations between the Enterprise Funds, Sewer and Water. There is no formal basis for this allocation.

Cause – Policies have not been established and procedures have not been implemented to review and allocate expenses for the service organization.

Effect – Lack of policies and procedures could result in water and sewer costs not being properly recorded in the financial statements. Additionally, the utility rates may not be set at the correct amounts to accurately charge for the services.

City of Silver City

Schedule of Findings

Year ended June 30, 2017

Recommendation – The City should review the current method of allocating utility service expenses, establish percentages applicable to each service and adopt in a resolution. This resolution should periodically be reviewed to determine if the allocation is still appropriate.

Response – The issue will be brought before the City Council and a resolution will be done to set the new allocation and will be reviewed yearly.

Conclusion – Response accepted.

(L) Monthly City Clerk’s Report

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management to effectively perform their fiduciary responsibilities related to city financial management.

Condition – The monthly City Clerk’s report presented to the City Council does not include a comparison of total disbursements to the certified budget by function.

Cause – Policies have not been established and procedures have not been implemented which require the City Clerk to provide the City Council with the required financial information.

Effect – The City Council may not have effective control over budgeted disbursements and the ability to amend the budget on a timely basis.

Recommendation – The City Clerk should prepare a monthly City Clerk’s report which includes receipts, disbursements, transfers and balances for each fund and comparisons of total disbursements by function to the certified budget.

Response – The City Clerk will prepare a monthly report which will include receipts, disbursements, transfers and balances for each fund and comparisons of total disbursements by function to the budget.

Conclusion – Response accepted.

(M) Prenumbered Receipts

Criteria – An effective internal control system provides for internal controls related to receiving payments for goods, services or permits provided by the City. One such internal control is issuing and reconciling prenumbered receipts to the accounting records.

Condition – The City issues prenumbered receipts, but the numerical sequence of the receipts is not monitored or reconciled to deposits by an independent individual.

Cause – Policies have not been established and procedures have not been designed to review and reconcile the prenumbered receipt book by an independent individual.

Effect – Lack of policies and procedures for reconciling receipts could result in errors and the opportunity for misappropriating.

City of Silver City

Schedule of Findings

Year ended June 30, 2017

Recommendation – The prenumbered receipt books should be reconciled to the City’s deposits by an independent individual to provide additional control over the proper collection and recording of all money.

Response – The City Clerk will create an Excel spreadsheet listing the receipts and information pertinent to each receipt (receipt number, date, amount, etc.) and will have the Mayor review it and sign off on it weekly.

Conclusion – Response accepted.

(N) Restrictive Endorsement

Criteria – An effective internal control system provides for internal controls related to the restrictive endorsement of checks immediately upon receipt.

Condition – Checks are not restrictively endorsed when they are received by the clerk. The clerk endorses the checks when the deposit is prepared.

Cause – Policies have not been established and procedures have not been implemented to endorse checks immediately upon receipt.

Effect – Lack of policies and procedures could result in undeposited or misplaced receipts.

Response – The City Clerk now endorses checks immediately when they are received.

Conclusion – Response accepted.

(O) Computer Systems

Criteria – Properly designed policies and procedures pertaining to control activities over the City’s computer systems and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable, regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Condition – The City does not have a written disaster recovery plan for its computer system. In addition, the City does not have a written policy for usage of the internet or password protection.

Cause – Management has not required a written disaster recovery plan or computer based controls.

Effect – Lack of a formal disaster recovery plan could result in the City’s inability to function in the event of a disaster or continue City business without interruption. Lack of written policies for internet usage could make the City vulnerable to a cyber-attack, resulting in a loss of data, compromised data and unreliable financial information. Lack of password requirements could result in the City being vulnerable to hackers.

City of Silver City

Schedule of Findings

Year ended June 30, 2017

Recommendation – The City should develop a written disaster recovery plan and policies on internet use and password protection.

Response – The City will develop a written disaster recovery plan and a policy on internet use and password protection.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Silver City

Schedule of Findings

Year ended June 30, 2017

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the public safety, culture and recreation, and community and economic development functions.

Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City Clerk will give a Budget Report to each Council Member and the Mayor at the Council Meeting in order to monitor spending versus budget and budget amendments will be made accordingly.

Conclusion – Response accepted.

- (2) Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
First National Bank	Interest and penalty on various credit cards.	\$ 525
U.S. Treasury	Late fees	75
Treasurer State of Iowa	Late fees	157
IPERS	Late fees and interest	61
A Town Floral and Gifts	Sympathy bouquet and delivery	86

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

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

Response – Any questionable disbursement will be brought to the City Council and notation will be made supporting the disbursement.

Conclusion – Response accepted.

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

City of Silver City

Schedule of Findings

Year ended June 30, 2017

- (4) Business Transactions – No transactions between the City and City officials and employees were noted.
- (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 – Except as noted below no transactions were found that we believe should have been approved in the City Council minutes but were not.
- Certain transfers between funds were not approved by the City Council prior to the transfer being made.

Additionally, the meeting minutes were not signed by the Mayor or City Clerk and the City did not publish a summary of receipts or total disbursements from each fund as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City Council minutes record for City Council proceedings should be signed by the Mayor and City Clerk and published as required by Chapter 372.13(6) of the Code of Iowa. Also, transfers should be properly approved by the City Council.

Response – The City Council Meeting minutes are now being signed by the Mayor and the City Clerk and transfers are approved by the City Council before being done.

Conclusion – Response accepted.

- (7) Deposits and Investments – The City has two US Savings bonds which matured in October 2016 but have not been redeemed. Savings bonds do not earn any additional interest after maturity. In addition, interest earned on bank deposits during fiscal year 2017 was not recorded.

Recommendation – The City should look into options for reinvesting the savings bonds and record interest earned in the City's accounting records.

Response – The EE Bonds were transferred to a Certificate of Deposit (CD) on March 5, 2018. The CDs are listed on the Fund Balance Sheet.

Conclusion – Response accepted.

- (8) Revenue Note – The City's sewer revenue note resolution requires a sewer note sinking fund be established and a transfer shall be made each month which shall not be less than one-twelfth of the installment payment of notes maturing on the next succeeding July 1st. The City has established a sinking fund but the required monthly transfers were not made.

Recommendation – The City should comply with the sewer note resolution and comply with the sinking fund requirement.

Response – Automatic transfer is set up with the bank and journal entries are entered monthly. The amount to be transferred will be reviewed and adjusted to ensure the funds available are enough to make the note payment.

Conclusion – Response accepted.

City of Silver City

Schedule of Findings

Year ended June 30, 2017

- (9) Township Agreements – The City contracts with surrounding townships to provide fire and emergency services. The City did not have signed current agreements with Oak, Ingraham or Anderson townships during the fiscal year ended June 30, 2017. However, the City did have an agreement with Ingraham Township for the year ending June 30, 2018. In addition, the City has no mechanism in use to determine if the townships are paying the City the amount due.

Recommendation – The City should ensure a signed current agreement is in place for all townships and establish a method to track payments to ensure the City is receiving the amount owed.

Response – The City Clerk is working with the Fire and Rescue Department Chiefs to get updated 28E Agreements and a payment tracking method is being worked on.

Conclusion – Response accepted.

- (10) Credit Card Policy – The City has adopted a credit card usage policy which requires purchases, except for fuel and repairs on emergency vehicles, to be approved prior to the purchase. Additionally, each department is to identify staff who are assigned to have a credit card. The City did not pre-approve credit card purchases and does not have a listing of approved credit card holders.

Recommendation – The City should adhere to the credit card usage policy by pre-approving purchases and having a list of approved credit card holders.

Response – The usage policy has been reviewed by all authorized users.

Conclusion – Response acknowledged. However, credit card purchases should be pre-approved.

- (11) Disbursements of Public Funds over \$25,000 – The City’s Code of Ordinances 17.03(1) states a resolution must be passed to spend public funds in excess of \$25,000 on any one project. On July 18, 2016, the City Council approved, by motion, to accept a bid of \$29,988 for street repairs. However, the City Council did not formally pass a resolution.

Recommendation – The City should ensure all disbursements of public funds over \$25,000 are properly approved per the City’s Code of Ordinances.

Response – The City will make necessary resolutions when public funds over \$25,000 are disbursed.

Conclusion – Response accepted.

- (12) Petition for Audit – Except as noted, all items included in the petition for audit have been resolved.

City of Silver City

Staff

This audit was performed by:

Katherine L. Rupp, CPA, Manager
Karen J. Kibbe, Senior Auditor II
McKenzie M. Anderson, Assistant Auditor
Taryn M. Puckett, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State