



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

February 25, 2014

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$291,800 for the year ended June 30, 2013. The receipts included \$70,353 in property tax, \$105,780 from charges for service, \$87,038 from operating grants, contributions and restricted interest, \$18,853 from local option sales tax, \$190 from unrestricted interest on investments and \$9,586 from other sources.

Disbursements for the year ended June 30, 2013 totaled \$251,336, and included \$55,077 for public safety, \$38,082 for general government and \$32,614 for culture and recreation. Also, disbursements for business type activities totaled \$105,387.

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/1322-0622-B00F.pdf>.

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

JUNE 30, 2013

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City of Silver City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Rose Schoening	Mayor	Jan 2014
Peter Kloeckner	Council Member	(Resigned)
Hobie Pieken (Appointed)	Council Member	Nov 2013
Jamie Cheyney	Council Member	Jan 2014
Sally Vitamvas	Council Member	Jan 2014
Deb Belt	Council Member	Jan 2016
Betty Millard	Council Member	Jan 2016
Jo Carper	City Clerk	Indefinite
Joe Kloeckner	Treasurer	Jan 2014
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, 2013, 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.

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 were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2012.

Basis for Adverse Opinion on the Discretely Presented Component Unit

The financial statements do not include financial data for the Friends of the Silver City Public Library, a legally separate entity which should be reported as a discretely presented component unit. The receipts, disbursements and balance which should be reported for the component unit which should be discretely presented are not reasonably determinable.

Opinions

Adverse Opinion

In our opinion, because of the omission of the Friends of the Silver City Public Library which should be reported as a discretely presented component unit, as discussed in the preceding paragraph, the financial statements do not present fairly the cash basis financial position of the component unit which should be discretely presented as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

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 distribution by fund of the total fund balance at July 1, 2012, as discussed in a 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, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described 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 opinion is 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 3 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, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2012, as discussed in the "Basis for Modified Opinions" paragraph, 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 on pages 22 through 23, 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 January 21, 2014 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 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 Silver City's internal control over financial reporting and compliance.



MARY MOSIMAN, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 21, 2014

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, 2013

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 55,077	1,276	39,803
Public works	20,176	-	24,636
Culture and recreation	32,614	441	22,599
General government	38,082	87	-
Total governmental activities	145,949	1,804	87,038
Business type activities:			
Water	47,502	62,297	-
Sewer	57,885	41,679	-
Total business type activities	105,387	103,976	-
Total	\$ 251,336	105,780	87,038

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

 Fire and rescue

 Library

 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
(13,998)	-	(13,998)
4,460	-	4,460
(9,574)	-	(9,574)
(37,995)	-	(37,995)
(57,107)	-	(57,107)
-	14,795	14,795
-	(16,206)	(16,206)
-	(1,411)	(1,411)
(57,107)	(1,411)	(58,518)
70,353	-	70,353
18,853	-	18,853
147	43	190
9,586	-	9,586
98,939	43	98,982
41,832	(1,368)	40,464
259,536	95,401	354,937
\$ 301,368	94,033	395,401

\$ 23,212	-	23,212
38,557	-	38,557
34,623	-	34,623
32,245	-	32,245
21,423	62,589	84,012
36,037	-	36,037
115,271	31,444	146,715
\$ 301,368	94,033	395,401

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, 2013

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Fire Department
Receipts:				
Property tax	\$ 60,282	-	-	-
Other city tax	5,000	-	13,853	-
Licenses and permits	172	-	-	-
Use of money and property	300	-	-	-
Intergovernmental	-	24,636	-	-
Charges for service	-	-	-	4,989
Miscellaneous	1,539	-	-	27,946
Total receipts	67,293	24,636	13,853	32,935
Disbursements:				
Operating:				
Public safety	2,155	-	-	43,788
Public works	2,780	16,632	-	-
Culture and recreation	4,061	-	-	-
General government	35,854	-	-	-
Total disbursements	44,850	16,632	-	43,788
Change in cash balances	22,443	8,004	13,853	(10,853)
Cash balances beginning of year	92,828	15,208	24,704	45,476
Cash balances end of year	\$ 115,271	23,212	38,557	34,623
Cash Basis Fund Balances				
Restricted for:				
Streets	\$ -	23,212	-	-
Local option sales tax	-	-	38,557	-
Fire and rescue	-	-	-	34,623
Library purposes	-	-	-	-
Debt service	-	-	-	-
Other purposes	-	-	-	-
Unassigned	115,271	-	-	-
Total cash basis fund balances	\$ 115,271	23,212	38,557	34,623

See notes to financial statements.

Library	Nonmajor	Total
-	10,071	70,353
-	-	18,853
-	-	172
3,344	29	3,673
11,491	6,578	42,705
-	1,192	6,181
5,467	10,892	45,844
20,302	28,762	187,781
-	9,134	55,077
-	764	20,176
19,911	8,642	32,614
-	2,228	38,082
19,911	20,768	145,949
391	7,994	41,832
31,854	49,466	259,536
32,245	57,460	301,368
-	-	23,212
-	-	38,557
-	-	34,623
32,245	-	32,245
-	21,423	21,423
-	36,037	36,037
-	-	115,271
32,245	57,460	301,368

City of Silver City

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, 2013

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 60,850	41,679	102,529
Miscellaneous	1,447	-	1,447
Total operating receipts	62,297	41,679	103,976
Operating disbursements:			
Business type activities	37,126	36,462	73,588
Excess of operating receipts over operating disbursements	25,171	5,217	30,388
Non-operating receipts (disbursements):			
Interest on investments	12	31	43
Debt service	(10,376)	(21,423)	(31,799)
Net non-operating receipts (disbursements)	(10,364)	(21,392)	(31,756)
Change in cash balances	14,807	(16,175)	(1,368)
Cash balances beginning of year	58,730	36,671	95,401
Cash balances end of year	\$ 73,537	20,496	94,033
Cash Basis Fund Balances			
Restricted for:			
Debt service	\$ 16,602	15,250	31,852
Improvements	6,489	24,248	30,737
Unrestricted	50,446	(19,002)	31,444
Total cash basis fund balances	\$ 73,537	20,496	94,033

See notes to financial statements.

City of Silver City

Notes to Financial Statements

June 30, 2013

(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 except for the Friends of the Silver City Public Library. 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.

Excluded Component Unit

The financial statements do not include financial data for the Friends of the Silver City Public Library, a legally separate entity which should be reported as a discretely presented component unit.

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 E911 Service Board.

B. Basis of Presentation

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

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net assets. Net assets are reported in the following categories.

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.

Unrestricted net position consists of cash balances not meeting the definition of the preceding category. 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 receipts from the local option sales and services tax. The receipts are used to finance cultural and community betterment in the City.

The Fire Department Fund is used to account for donations and other receipts earmarked for the Fire Department. The receipts are used for the operation of the City's Fire Department.

The Library Fund is used to account for donations and other receipts earmarked for the Library. The receipts are used for the operation and to enhance the City's Library.

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.

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the public safety and general government functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2013 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. 3, as amended by Statement No. 40.

(3) Long-Term Debt

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

Year Ending June 30,	Sewer Revenue Notes		Loan Agreement		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2014	\$ 5,649	15,774	9,084	1,292	14,733	17,066	31,799
2015	5,881	15,542	9,538	838	15,419	16,380	31,799
2016	6,124	15,299	7,208	361	13,332	15,660	28,992
2017	6,378	15,045	-	-	6,378	15,045	21,423
2018	6,641	14,782	-	-	6,641	14,782	21,423
2019-2023	37,543	69,572	-	-	37,543	69,572	107,115
2024-2028	45,954	61,161	-	-	45,954	61,161	107,115
2029-2033	56,246	50,869	-	-	56,246	50,869	107,115
2034-2038	68,845	38,270	-	-	68,845	38,270	107,115
2039-2043	84,263	22,852	-	-	84,263	22,852	107,115
2044-2046	58,875	4,903	-	-	58,875	4,903	63,778
Total	\$ 382,399	324,069	25,830	2,491	408,229	326,560	734,789

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 in July 2005. Proceeds from the notes provided financing for the construction of improvements to the sewer system. The notes are payable solely from sewer customer net receipts and are payable through 2046 with interest at 4.125% per annum. Annual principal and interest payments on the notes are expected to require more than 100% of net receipts. The total principal and interest remaining to be paid on the notes is \$706,468. For the current year, principal and interest paid and total customer net receipts were \$21,423 and \$5,217, respectively.

The resolution providing for the issuance of the sewer revenue notes include 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 note principal and interest payments when due.
- (c) The City shall create a Reserve Fund and deposit \$179 of the remaining profits into this fund each month until the fund has a balance of \$21,480. The money in this fund shall be transferred and credited to the sinking account when necessary to avoid default.

The City's net revenues for the year ended June 30, 2013 were less than the required note principal and interest falling due during the year.

Loan Agreement

A loan agreement with GMAC Commercial Mortgage Corporation matures July 1, 2017. This loan agreement was established for water wells and City development. The loan bears interest at 5% per annum. Payments under the loan agreement totaled \$10,376 during the year ended June 30, 2013. The outstanding principal balance at June 30, 2013 was \$25,830.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees' Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2013 was \$3,005, equal to the required contribution for the year.

(5) 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.

Other Information

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, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Total	Original/ Final Budget	Final to Total Variance
Receipts:					
Property tax	\$ 70,353	-	70,353	65,850	4,503
Other city tax	18,853	-	18,853	16,198	2,655
Licenses and permits	172	-	172	-	172
Use of money and property	3,673	43	3,716	91,263	(87,547)
Intergovernmental	36,127	-	36,127	39,000	(2,873)
Charges for service	12,759	103,976	116,735	195,864	(79,129)
Miscellaneous	45,844	-	45,844	-	45,844
Total receipts	<u>187,781</u>	<u>104,019</u>	<u>291,800</u>	<u>408,175</u>	<u>(116,375)</u>
Disbursements:					
Public safety	55,077	-	55,077	34,305	(20,772)
Public works	20,176	-	20,176	39,470	19,294
Culture and recreation	32,614	-	32,614	34,435	1,821
Community and economic development	-	-	-	2,500	2,500
General government	38,082	-	38,082	36,400	(1,682)
Business type activities	-	105,387	105,387	177,560	72,173
Total disbursements	<u>145,949</u>	<u>105,387</u>	<u>251,336</u>	<u>324,670</u>	<u>73,334</u>
Excess (deficiency) of receipts over (under) disbursements	41,832	(1,368)	40,464	83,505	(43,041)
Balances beginning of year	<u>259,536</u>	<u>95,401</u>	<u>354,937</u>	<u>423,354</u>	<u>(68,417)</u>
Balances end of year	<u>\$ 301,368</u>	<u>94,033</u>	<u>395,401</u>	<u>506,859</u>	<u>(111,458)</u>

See accompanying independent auditor's report.

City of Silver City

Notes to Other Information – Budgetary Reporting

June 30, 2013

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 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. There were no budget amendments during the year.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the public safety and general government functions.

City of Silver City

Supplementary Information

City of Silver City

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

As of and for the year ended June 30, 2013

	Special Revenue			Debt Service	Total
	Employee Benefits	Rescue Unit	Historical Society		
Receipts:					
Property tax	\$ 10,071	-	-	-	10,071
Use of money and property	-	-	29	-	29
Charges for service	-	1,192	-	-	1,192
Intergovernmental	-	6,578	-	-	6,578
Miscellaneous	-	465	10,427	-	10,892
Total receipts	10,071	8,235	10,456	-	28,762
Disbursements:					
Public safety	-	9,134	-	-	9,134
Public works	764	-	-	-	764
Community and economic development	1,642	-	7,000	-	8,642
General government	2,228	-	-	-	2,228
Total disbursements	4,634	9,134	7,000	-	20,768
Change in cash balances	5,437	(899)	3,456	-	7,994
Cash balances beginning of year	(635)	11,046	17,632	21,423	49,466
Cash balances end of year	\$ 4,802	10,147	21,088	21,423	57,460
Cash Basis Fund Balances					
Restricted for:					
Debt service	\$ -	21,423	-	-	21,423
Other purposes	4,802	-	10,147	21,088	36,037
Total cash basis fund balances	\$ 4,802	21,423	10,147	21,088	57,460

See accompanying independent auditor's report.

City of Silver City

City of Silver City
Schedule of Indebtedness
Year ended June 30, 2013

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			
Loan agreement:			
Water well development	Sept. 1987	5.0%	\$ 156,184

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
258,392	-	3,614	254,778	10,659
129,432	-	1,811	127,621	5,339
<u>\$ 387,824</u>	<u>-</u>	<u>5,425</u>	<u>382,399</u>	<u>15,998</u>
<u>34,508</u>	<u>-</u>	<u>8,678</u>	<u>25,830</u>	<u>1,698</u>

Schedule 3

City of Silver City
 Note and Loan Maturities
 June 30, 2013

Year Ending June 30,	Sewer Revenue Notes					Total
	Issued July 12, 2005		Issued July 12, 2005			
	Interest Rates	Amount	Interest Rates	Amount		
2014	4.125 %	\$ 1,886	4.125 %	\$ 3,763	5,649	
2015	4.125	1,963	4.125	3,918	5,881	
2016	4.125	2,044	4.125	4,080	6,124	
2017	4.125	2,129	4.125	4,249	6,378	
2018	4.125	2,217	4.125	4,424	6,641	
2019-23	4.125	12,532	4.125	25,011	37,543	
2024-28	4.125	15,339	4.125	30,615	45,954	
2029-33	4.125	18,774	4.125	37,472	56,246	
2034-38	4.125	22,980	4.125	45,865	68,845	
2039-43	4.125	28,127	4.125	56,136	84,263	
2044-46	4.125	19,630	4.125	39,245	58,875	
Total		<u>\$ 127,621</u>		<u>\$ 254,778</u>	<u>382,399</u>	

Year Ending June 30,	Loan Agreement		
	Issued Sept. 1987		
	Interest Rates	Amount	
2014	5.00%	\$ 9,084	
2015	-	9,538	
2016	-	7,208	
Total		<u>\$ 25,830</u>	

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE

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

To the Honorable Mayor and
Members of the City Council:

We have audited 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, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 21, 2014. Our report expressed modified 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, since we were unable to satisfy ourselves as to the distribution by fund of the total fund balances at July 1, 2012. We expressed an adverse opinion on the financial statements of the discretely presented component unit due to the omission of the Friends of the Silver City Public Library.

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 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 other deficiencies we consider to be 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 described in the accompanying Schedule of Findings as items (A) through (F) 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 (G) through (K) 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 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, 2013 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


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 21, 2014

City of Silver City

Schedule of Findings

Year ended June 30, 2013

Findings Related to the Financial Statements:

SIGNIFICANT 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. One person had control over each of the following areas:
- (1) Accounting system – performance of all general accounting functions and custody of assets.
 - (2) Cash – preparing bank reconciliations, initiating cash receipt and disbursement transactions and handling and recording cash.
 - (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
 - (4) Receipts – opening mail, collecting, depositing, posting and reconciling.
 - (5) Payroll – preparing checks, recording transactions, signing and distributing. In addition, the same individual tracks compensated absences and an independent person does not enter payroll rates or enter new personnel in the computer system.
 - (6) Long-term debt – recording and reconciling.

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. Currently available personnel, including elected officials, should be utilized to provide additional control through review of financial transactions and reconciliations. Such reviews should be performed by independent persons to the extent possible and should be evidenced by the signature or initials of the reviewer and the date of review.

Response – The City will comply with the audit recommendation.

Conclusion – Response accepted.

- (B) Financial Reporting – During the audit, we identified material receipts and disbursements not recorded in the financial records or recorded to an incorrect fund. Adjustments were subsequently made by the City to properly report these amounts in the City's financial statements.

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

Response – The City will comply with the recommendation.

Conclusion – Response accepted.

City of Silver City

Schedule of Findings

Year ended June 30, 2013

- (C) Bank Reconciliations – Book balances were not reconciled monthly to the bank balances. This was resolved for audit purposes. Also, an independent review of the bank reconciliations was not performed.

Recommendation – To improve financial accountability and control, the book balances should be reconciled monthly to the bank balances. Any variances should be investigated and resolved in a timely manner. An independent person should review the bank reconciliations and document the review by signing or initialing and dating the monthly bank reconciliations.

Response – The City will comply with the recommendations and ensure the City Treasurer reconciles the bank statements each month prior to the City Council meetings.

Conclusion – Response accepted.

- (D) Accounting Records – A process for making adjustments to the accounting records was not documented. Also, adjustments were not identified and recorded in a manner to prevent duplicate correction. In addition, adjustments were not reviewed and approved by a responsible official.

Recommendation – The City should develop a process for making adjustments to the accounting records. All adjustments should be adequately explained, supported and identified in a manner to prevent duplicate correction. Adjustments should be reviewed and approved by a responsible official.

Response – The City will comply with the recommendations through working with the computer software company.

Conclusion – Response accepted.

- (E) Service Organization – PeopleService bills, collects and remits water and sewer receipts to the City.

The City has not established procedures to determine PeopleService is billing, collecting and remitting all water and sewer receipts to the City.

Recommendation – The City should establish procedures to ensure PeopleService is billing, collecting and remitting all water and sewer receipts to the City.

Response – The City will comply with the recommendation. The City Council and Mayor have been working with PeopleService to get original invoices to back up services the City was billed for.

Conclusion – Response accepted.

City of Silver City

Schedule of Findings

Year ended June 30, 2013

- (F) Friends of the Silver City Library – Pursuant to Chapter 501B of the Code of Iowa, the Friends of the Silver City Library is an unincorporated nonprofit association. The Friends of the Library exists for charitable purposes in support of the Silver City Library. Per Chapter 384.20 of the Code of Iowa (as amended by Chapter 501B), the Friends of the Library could be considered a department of the City or an unincorporated nonprofit component unit of the City. Based on review of undated By-Laws provided by the Executive Board, the Friends of the Silver City Library appears to be a department of the City. The Friends of the Silver City Library would not provide financial information.

Recommendation – The City should consult legal counsel to resolve the situation.

Response – The City will comply with the recommendation and turn the situation over to its legal counsel to resolve.

Conclusion – Response accepted.

- (G) Computer System –

The following weaknesses in the City’s computer system were noted:

- The software does not require the user to change logins/passwords periodically.
- Password changes are not required every 60 to 90 days to maintain password privacy and confidentiality.
- Access to the computer system is not restricted through the use of unique user IDs.
- Employee passwords are not set to a recommended minimum of eight characters.
- A policy does not exist which instructs users to log off computer terminals prior to leaving them unattended for extended periods of time and the terminals do not use a time out/log off function to protect them if left unattended.
- The City does not have policies regarding the personal use of computer equipment or the use of the internet.

Recommendation – The City should develop written policies and procedures addressing the above items to improve the City’s control over its computer system.

Response – The City will comply with the recommendations.

Conclusion – Response accepted.

City of Silver City

Schedule of Findings

Year ended June 30, 2013

- (H) 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:

- (1) Aid in training additional or replacement personnel and act as a quick reference for staff members and officials.
- (2) Help streamline accounting operations by achieving uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same or a similar situation arises.
- (4) Help preserve the key elements in the City's internal control.
- (5) Increase effectiveness and efficiency.

Response – The City will comply with the recommendations and the accounting Policies and Procedures manual is almost completed and will be taken to the City Council for resolution approval in the near future.

Conclusion – Response accepted.

- (I) Credit Card – The City has a credit card for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of the credit card and to establish procedures for the proper accounting of credit card charges.

In addition the credit card disbursements selected for testing were not supported by proper documentation or the invoices or other supporting documentation could not be located for review.

Recommendation – The City should adopt a formal written policy regulating the use of the City's credit card. The policy, at a minimum, should address who controls the credit card, who is authorized to use the credit card and for what purposes, as well as the types of supporting documentation required to substantiate charges. In addition, all disbursements should be properly supported.

Response – The City will comply with the recommendation.

Conclusion – Response accepted.

- (J) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...". The City's Annual Financial Report reported fund balances which did not materially agree with the City's records.

Recommendation – The City should ensure the Annual Financial Report agrees with the City's records.

City of Silver City

Schedule of Findings

Year ended June 30, 2013

Response – The City will review the audited balances and make appropriate adjustments to ensure the Annual Financial Report agrees with the City records.

Conclusion – Response accepted.

- (K) Payroll Reporting – In April 2013, the Internal Revenue Service (IRS) notified the City of an adjustment to the City's 941 tax forms for the tax periods July 1, 1996 through October 2011. The adjustment was made by the IRS because the amounts shown on the City's W-2 forms did not match amounts shown on the employment tax returns. The increase in Social Security wages, Medicaid wages and interest charged were \$1,511, \$353 and \$130, respectively, for a total of \$1,994.

Recommendation – An independent person should review and approve the submission of required IRS Form W-2's, quarterly payroll reports and the remittance of payroll tax contributions and withholdings to ensure the amounts are correct and reporting is completed timely.

Response – The City has resolved the issue with the IRS. A City Council member has been assigned to oversee the IRS Form W2s, 1099s, quarterly payroll reports, payroll tax contributions and withholdings to be sure the amounts are correct and reporting is completed timely.

Conclusion – Response accepted.

City of Silver City

Schedule of Findings

Year ended June 30, 2013

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the public safety and general government 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 budget will be reviewed frequently and amended as necessary.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No expenses 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 – 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 – No transactions were found that we believe should have been approved in the City Council minutes but were not.

Although minutes of City Council proceedings were published, they were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. In addition, the City did not publish a summary of receipts, the reason for the claim or total disbursements from each fund as required by the Code of Iowa.

Recommendation – The minutes record for the City Council proceedings should be published as required by the Code of Iowa. Also, transfers should be properly approved by the City Council.

Response – The City of Silver City uses the Mills County “Opinion Tribune Newspaper” which is published weekly. The earliest our minutes can be published is nine days since our meeting are on Monday and the paper is published on Wednesday. The only other option is a Council Bluffs newspaper which few residents read.

Conclusion – Response acknowledged. City Council meeting minutes should be published as required by the Code of Iowa.

City of Silver City

Schedule of Findings

Year ended June 30, 2013

- (7) Deposits and Investments - Except the City has not approved a written investment policy as required by Chapter 12B.10B of the Code of Iowa, no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa were noted.

Recommendation – The City should adopt a written investment policy as required by Chapter 12.10B of the Code of Iowa.

Response – The City will comply with the recommendation. Per resolution #10-13-04, the Treasurer is responsible to research and present investment options to the City Council.

Conclusion – Response accepted.

- (8) Additional Compensation – A City Council member received an hourly fee for services performed at the City Library. The fee is in addition to the City Council salary/fee schedule.

Recommendation – This appears to violate Chapter 372.13(8) of the Code of Iowa, which states, in part, "... an elected city officer is not entitled to receive any other compensation for any other city office or city employment during that officer's tenure in office, ..." The City should consult legal counsel to determine the disposition of this matter.

Response – The City will comply with the recommendation. We worked with the Ombudsman's office because of a citizen's complaint about the Librarian being on the City Council. She was on the City Council and was hired later. We do have an email telling the City to do nothing at that time until they let us know differently because there was an Attorney General Opinion that was newer than the one the complaint had referred to.

Conclusion – Response acknowledged. The City should consult legal counsel and comply with Chapter 372.13(8) of the Code of Iowa.

- (9) Township Agreements – The City contracts with surrounding townships to provide fire and emergency services. The City did not have current signed agreements with Oak or Anderson townships during the fiscal year ended June 30, 2013.

Recommendation – The City should ensure a current signed agreement is in place at all times for all townships.

Response – The City will comply with the recommendation. See resolution #10-13-01 pertaining to 28E Agreements

Conclusion – Response accepted.

City of Silver City

Schedule of Findings

Year ended June 30, 2013

- (10) Revenue Notes – The City’s established rates were not sufficient to meet the operation and maintenance expenses of the sewer system and maintain net revenues at a level to pay the outstanding principal and interest of the sewer revenue notes.

Recommendation – The City should comply with the note net revenue requirements by making every effort to increase its revenues and/or decrease its disbursements.

Response – The City will raise the utility rates to meet the yearly increases of PeopleService and increases in maintenance expenses.

Conclusion – Response accepted.

City of Silver City

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager
Karen J. Kibbe, Senior Auditor II
Philip A. Rethwisch, Staff Auditor
Kirstie R. Hill, 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