



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

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
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**NEWS RELEASE**

FOR RELEASE

February 10, 2014

Contact: Andy Nielsen  
515/281-5834

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

The City's receipts totaled \$811,256 for the year ended June 30, 2013. The receipts included \$197,098 in property tax, \$68,412 from tax increment financing, \$277,926 from charges for service, \$124,963 from operating grants, contributions and restricted interest, \$146 from unrestricted interest on investments, \$136,934 from an insurance recovery and \$5,777 from other general receipts.

Disbursements for the year ended June 30, 2013 totaled \$761,573, and included \$145,858 for public works, \$124,269 for debt service and \$87,840 for general government. Disbursements for business type activities totaled \$228,476.

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/1322-0233-B00F.pdf>.

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

**JUNE 30, 2013**

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**City of Dexter**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jerry Smith	Mayor	Jan 2016
Dave Minturn	Council Member	Jan 2014
Jim Pivonka	Council Member	Jan 2014
Dixie Simpson	Council Member	Jan 2014
Tawnee Eckhart	Council Member	Jan 2016
Ken Ruden	Council Member	Jan 2016
Bob Cupp	City Clerk	Indefinite
Eric Reinhart	Attorney	Indefinite

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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, the discretely presented component units and the aggregate remaining fund information of the City of Dexter, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, the discretely presented component units and the aggregate remaining fund information of the City of Dexter 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 Dexter's basic financial statements. The supplementary information included in Schedules 1 and 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, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 30 through 32, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 20, 2013 on our consideration of the City of Dexter'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 Dexter's internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

December 20, 2013

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The City of Dexter provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

### **2013 FINANCIAL HIGHLIGHTS**

- The City's total cash basis net position increased 21.5%, or approximately \$50,000, from June 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the governmental activities increased approximately \$62,000 and the cash basis net position of the business type activities decreased approximately \$12,000.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the City's indebtedness.

## **BASIS OF ACCOUNTING**

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

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

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

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

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

### *Fund Financial Statements*

The City has two kinds of funds:

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

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

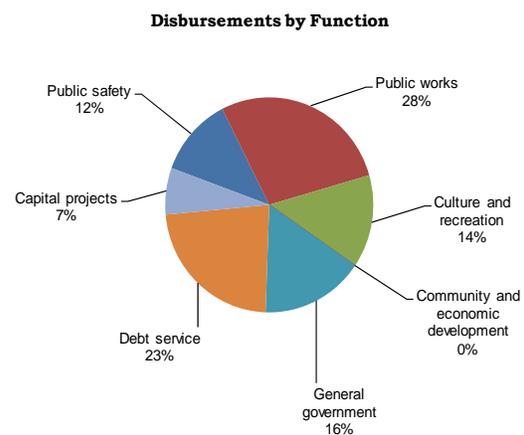
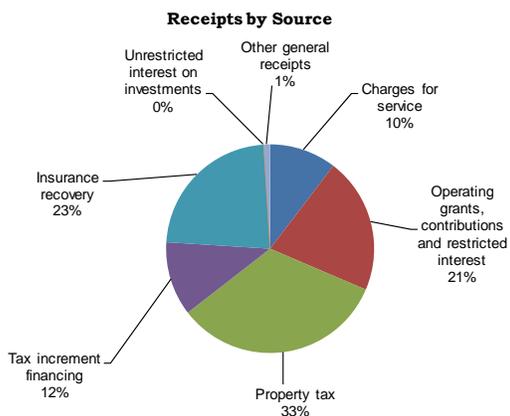
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Water, Sewer and Storm Water Funds. The Water and Sewer Funds are considered to be major funds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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$77,500 to approximately \$139,600. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities	
	Year ended June 30, 2013
Receipts:	
Program receipts:	
Charges for service	\$ 61,871
Operating grants, contributions and restricted interest	124,963
General receipts:	
Property tax	197,098
Tax increment financing	68,412
Unrestricted interest on investments	146
Insurance recovery	136,934
Other general receipts	5,777
<b>Total receipts</b>	<b>595,201</b>
Disbursements:	
Public safety	64,257
Public works	145,858
Culture and recreation	72,465
Community and economic development	372
General government	87,840
Debt service	124,269
Capital projects	38,036
<b>Total disbursements</b>	<b>533,097</b>
Change in cash basis net position	62,104
Cash basis net position beginning of year	77,517
Cash basis net position end of year	<b>\$ 139,621</b>



The cash basis net position for the City's governmental funds increased primarily due to an insurance recovery for a loss identified by a special investigation of the City for the period July 1, 2004 through August 31, 2010.

Changes in Cash Basis Net Position of Business Type Activities	
	Year ended June 30, 2013
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 123,590
Sewer	88,986
Storm water	3,479
Total receipts	<u>216,055</u>
Disbursements:	
Water	135,997
Sewer	92,479
Total disbursements	<u>228,476</u>
Change in cash basis net position	(12,421)
Cash basis net position beginning of year	<u>153,627</u>
Cash basis net position end of year	<u>\$ 141,206</u>

The City's cash basis net position for business type activities decreased from \$153,627 to \$141,206.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Dexter completed the year, its governmental funds reported a combined fund balance of \$139,621, an increase of more than \$62,000 above last year's total of \$77,517. The following are the major reasons for the changes in the fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$55,563 over the prior year to \$151,979. Miscellaneous receipts increased from fiscal year 2012, largely due to insurance recovery proceeds received by the City during fiscal year 2013. Transfers out increased approximately \$53,000 in fiscal year 2013 due to the City moving a portion of the insurance proceeds to other funds.
- The Special Revenue, Road Use Tax Fund cash balance increased \$28,439 to \$30,552. This increase was primarily due to a decrease in public works street project disbursements.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance decreased \$44,387 to \$(4,278). The decrease was the result of disbursements and transfers out exceeding the receipts from incremental property tax generated from the increased taxable valuation in the urban renewal area.
- The Special Revenue, Employee Benefits Fund cash balance increased \$13,811 to \$53,299. Receipts and disbursements remained fairly consistent from fiscal year 2012 to 2013, with receipts exceeding disbursements by \$13,811.
- The Debt Service Fund cash balance decreased \$(45,039) to \$(205,578). This decrease was due to disbursements exceeding the amount of transfers in and property tax receipts to cover payments on debt obligations.

- The Permanent, Cemetery Perpetual Care Fund cash balance increased \$34,623 to \$51,566. This increase was due to insurance recovery proceeds transferred from the General Fund during the fiscal year.
- The Permanent, Hoy Trust Fund cash balance increased \$3,227 to \$57,462. This increase was due to interest received during the fiscal year.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Water Fund cash balance decreased \$12,407 to \$85,914.
- The Enterprise, Sewer Fund cash balance decreased \$3,493 to \$37,030.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 29, 2013 and resulted in a decrease in budgeted receipts of \$106,752, primarily related to a reduction in expected tax increment financing receipts. Additionally, operating disbursements decreased \$8,852, primarily due to an expected decrease in public works and general government disbursements offset by expected increases in culture and recreation and debt service disbursements.

The City’s receipts were \$32,912 more than budgeted. This was primarily due to the City receiving more in intergovernmental revenue than anticipated, even after the amendment.

The City’s disbursements were \$114,554 less than the amended budget, primarily due to fewer disbursements for culture and recreation and business type activities than anticipated.

Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the culture and recreation, debt service and capital projects functions prior to the budget amendment. At June 30, 2013, disbursements exceeded the amount budgeted in the public works function.

**DEBT ADMINISTRATION**

At June 30, 2013, the City had \$1,148,214 of notes outstanding, compared to \$1,294,175 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2013	2012
General obligation capital loan notes	\$ 257,132	321,642
Bank loans	-	44,029
Revenue notes	891,082	928,504
Total	\$ 1,148,214	1,294,175

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt of \$257,132 is significantly below its constitutional debt limit of approximately \$1.5 million. Additional information about the City’s long-term debt is presented in Note 3 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City of Dexter's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in the City now stands at 4.7%, which compares with the State's unemployment rate of 4.6% and the national rate of 7.6%.

These indicators were taken into account when adopting the budget for fiscal year 2014. Amounts available for appropriation in the operating budget are approximately \$935,840, a decrease of 6.8% from the final fiscal year 2013 budget. Budgeted disbursements are expected to decrease approximately \$133,000 from fiscal year 2013 actual disbursements, primarily in the culture and recreation and debt service functions. The City has added no major new programs or initiatives to the fiscal year 2014 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$120,000 by the close of fiscal year 2014.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Bob Cupp, City Clerk, 911 State Street, Dexter, Iowa 50070.

## **Basic Financial Statements**

City of Dexter

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
<b>Functions/Programs:</b>			
<b>Primary Government:</b>			
Governmental activities:			
Public safety	\$ 64,257	350	12,139
Public works	145,858	60,326	74,451
Culture and recreation	72,465	-	12,934
Community and economic development	372	-	-
General government	87,840	1,195	-
Debt service	124,269	-	-
Capital projects	38,036	-	25,439
Total governmental activities	533,097	61,871	124,963
Business type activities:			
Water	135,997	123,590	-
Sewer	92,479	88,986	-
Storm water	-	3,479	-
Total business type activities	228,476	216,055	-
<b>Total Primary Government</b>	<b>\$ 761,573</b>	<b>277,926</b>	<b>124,963</b>
<b>Component Units:</b>			
Dexter Fire and Rescue Association	\$ 4,744	-	7,653
Dexter Community House Non-Profit	7,990	-	13,334
Total component units	\$ 12,734	-	20,987
<b>General Receipts:</b>			
Property and other city tax levied for:			
General purposes			
Debt service			
Tax increment financing			
Unrestricted interest on investments			
Insurance recovery			
Miscellaneous			
Total general receipts			
Change in cash basis net position			
Cash basis net position beginning of year			
Cash basis net position end of year			
<b>Cash Basis Net Position</b>			
Restricted:			
Nonexpendable:			
Permanent funds			
Expendable:			
Streets			
Employee benefits			
Debt service			
Capital projects			
Fire			
Community house			
Unrestricted			
<b>Total cash basis net position</b>			

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position				
Primary Government			Component Units	
Governmental Activities	Business Type Activities	Total	Dexter Fire and Rescue Association	Dexter Community House Non-Profit
(51,768)	-	(51,768)		
(11,081)	-	(11,081)		
(59,531)	-	(59,531)		
(372)	-	(372)		
(86,645)	-	(86,645)		
(124,269)	-	(124,269)		
(12,597)	-	(12,597)		
<u>(346,263)</u>	<u>-</u>	<u>(346,263)</u>		
-	(12,407)	(12,407)		
-	(3,493)	(3,493)		
-	3,479	3,479		
-	(12,421)	(12,421)		
<u>(346,263)</u>	<u>(12,421)</u>	<u>(358,684)</u>		
			2,909	-
			-	5,344
			<u>2,909</u>	<u>5,344</u>
182,961	-	182,961	-	-
14,137	-	14,137	-	-
68,412	-	68,412	-	-
146	-	146	144	50
136,934	-	136,934	-	-
5,777	-	5,777	-	96,795
<u>408,367</u>	<u>-</u>	<u>408,367</u>	<u>144</u>	<u>96,845</u>
62,104	(12,421)	49,683	3,053	102,189
77,517	153,627	231,144	60,104	28,723
<u>\$ 139,621</u>	<u>141,206</u>	<u>280,827</u>	<u>63,157</u>	<u>130,912</u>
\$ 109,028	-	109,028	-	-
30,552	-	30,552	-	-
53,299	-	53,299	-	-
-	4,795	4,795	-	-
4,619	-	4,619	-	-
-	-	-	63,157	-
-	-	-	-	130,912
(57,877)	136,411	78,534	-	-
<u>\$ 139,621</u>	<u>141,206</u>	<u>280,827</u>	<u>63,157</u>	<u>130,912</u>

City of Dexter

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

	General	Special	
		Road Use Tax	Urban Renewal Tax Increment
<b>Receipts:</b>			
Property tax	\$ 151,086	-	-
Tax increment financing	-	-	68,412
Other city tax	703	-	-
Licenses and permits	1,505	-	-
Use of money and property	146	-	-
Intergovernmental	21,846	74,451	-
Charges for service	60,326	-	-
Miscellaneous	142,471	-	-
Total receipts	<u>378,083</u>	<u>74,451</u>	<u>68,412</u>
<b>Disbursements:</b>			
Operating:			
Public safety	64,257	-	-
Public works	50,155	46,012	47,706
Culture and recreation	69,090	-	-
Community and economic development	372	-	-
General government	85,775	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>269,649</u>	<u>46,012</u>	<u>47,706</u>
Excess (deficiency) of receipts over (under) disbursements	<u>108,434</u>	<u>28,439</u>	<u>20,706</u>
<b>Other financing sources (uses):</b>			
Operating transfers in	-	-	-
Operating transfers out	(52,871)	-	(65,093)
Total other financing sources (uses)	<u>(52,871)</u>	<u>-</u>	<u>(65,093)</u>
Change in cash balances	55,563	28,439	(44,387)
Cash balances beginning of year	96,416	2,113	40,109
Cash balances end of year	<u>\$ 151,979</u>	<u>30,552</u>	<u>(4,278)</u>
<b>Cash Basis Fund Balances</b>			
Nonspendable - Permanent funds	\$ -	-	-
Restricted for:			
Streets	-	30,552	-
Capital projects	-	-	-
Employee benefits	-	-	-
Unassigned	151,979	-	(4,278)
Total cash basis fund balances	<u>\$ 151,979</u>	<u>30,552</u>	<u>(4,278)</u>

See notes to financial statements.

Revenue						
Employee Benefits	Debt Service	Permanent		Nonmajor Capital Projects	Total	
		Cemetery Perpetual Care	Hoy Trust			
21,236	14,137	-	-	9,936	196,395	
-	-	-	-	-	68,412	
-	-	-	-	-	703	
-	-	-	-	-	1,505	
-	-	-	3,227	-	3,373	
-	-	-	-	25,439	121,736	
-	-	40	-	-	60,366	
-	-	240	-	-	142,711	
21,236	14,137	280	3,227	35,375	595,201	
-	-	-	-	-	64,257	
1,985	-	-	-	-	145,858	
3,375	-	-	-	-	72,465	
-	-	-	-	-	372	
2,065	-	-	-	-	87,840	
-	124,269	-	-	-	124,269	
-	-	-	-	38,036	38,036	
7,425	124,269	-	-	38,036	533,097	
13,811	(110,132)	280	3,227	(2,661)	62,104	
-	65,093	34,343	-	18,528	117,964	
-	-	-	-	-	(117,964)	
-	65,093	34,343	-	18,528	-	
13,811	(45,039)	34,623	3,227	15,867	62,104	
39,488	(160,539)	16,943	54,235	(11,248)	77,517	
53,299	(205,578)	51,566	57,462	4,619	139,621	
-	-	51,566	57,462	-	109,028	
-	-	-	-	-	30,552	
-	-	-	-	4,619	4,619	
53,299	-	-	-	-	53,299	
-	(205,578)	-	-	-	(57,877)	
53,299	(205,578)	51,566	57,462	4,619	139,621	

**City of Dexter**

**Exhibit C**

## City of Dexter

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

As of and for the year ended June 30, 2013

	Enterprise			Total
	Water	Sewer	Nonmajor	
				Storm
	Water	Sewer	Water	Total
Operating receipts:				
Charges for service	\$ 122,082	88,986	3,479	214,547
Miscellaneous	1,508	-	-	1,508
Total operating receipts	123,590	88,986	3,479	216,055
Operating disbursements:				
Business type activities	113,012	35,302	-	148,314
Excess of operating receipts over operating disbursements	10,578	53,684	3,479	67,741
Non-operating disbursements:				
Debt service	(22,985)	(57,177)	-	(80,162)
Change in cash balances	(12,407)	(3,493)	3,479	(12,421)
Cash balances beginning of year	98,321	40,523	14,783	153,627
Cash balances end of year	\$ 85,914	37,030	18,262	141,206
<b>Cash Basis Fund Balances</b>				
Restricted for debt service	\$ -	4,795	-	4,795
Unrestricted	85,914	32,235	18,262	136,411
Total cash basis fund balances	\$ 85,914	37,030	18,262	141,206

See notes to financial statements.

City of Dexter

Notes to Financial Statements

June 30, 2013

**(1) Summary of Significant Accounting Policies**

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

A. Reporting Entity

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

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

Discretely Presented Component Units

The Dexter Fire and Rescue Association (Association) was organized as a non-profit entity in accordance with Chapter 504A of the Code of Iowa. The purpose of the Association is to acquire and maintain fire, emergency, rescue and related equipment for the benefit of the City and its citizens. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Association meets the definition of a component unit which should be discretely presented.

The Dexter Community House Non-Profit, Inc. (Non-profit) was organized as a non-profit entity in accordance with Chapter 504A of the Code of Iowa. The purpose of the Non-profit is to assist in the maintenance, care, restoration and operation of the Dexter Community House owned by the City. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Non-profit meets the definition of a component unit which should be discretely presented.

## 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: Dallas County Assessor's Conference Board, Dallas County Emergency Management Commission, Dallas County Joint E911 Service Board and the Dallas County Multi-Jurisdictional Local Hazard Mitigation Plan.

### 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 position. Net position is reported in the following categories/components:

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

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

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

The Employee Benefits Fund is used to account for property tax levied for employee benefits to be used to pay for the employer's share of employee benefits.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

Permanent:

The Cemetery Perpetual Care Fund is used to account for the permanently maintained restricted cash balance and the interest earned that can only be used for maintaining the City Cemetery.

The Hoy Trust Fund is used to account for the permanently maintained restricted cash balance and the interest earned that can only be used for maintaining the City Museum.

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 is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

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

#### D. Governmental Cash Basis Fund Balances

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

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

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

Unassigned – All amounts not included in the preceding classifications.

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the culture and recreation, debt service and capital projects functions prior to the budget amendment. At June 30, 2013, disbursements exceeded the amount budgeted in the public works function.

### **(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 insure 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.

At June 30, 2013, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Mutual Funds	\$ 10,000	9,050	N/A
Taxable Municipal Bonds	30,000	32,435	May 1, 2039
Federally Tax Exempt Municipal Bonds	9,861	12,160	May 1, 2019

Interest Rate Risk and Concentration of Credit Risk - The City has not adopted an investment policy as required by Chapter 12B.10B of the Code of Iowa.

Credit Risk - The taxable municipal bonds carry a rating of AA-/stable. A bond rating for the federally tax exempt municipal bonds is not readily available.

### (3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Capital Loan Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 73,000	11,530	37,961	40,563	110,961	52,093
2015	74,000	8,475	38,504	37,816	112,504	46,291
2016	80,000	5,305	19,690	36,850	99,690	42,155
2017	16,000	1,815	20,615	35,924	36,615	37,739
2018	14,132	935	21,585	34,955	35,717	35,890
2019-2023	-	-	124,145	158,553	124,145	158,553
2024-2028	-	-	156,253	126,443	156,253	126,443
2029-2033	-	-	196,712	85,985	196,712	85,985
2034-2038	-	-	205,749	36,967	205,749	36,967
2039-2040	-	-	69,868	3,229	69,868	3,229
Total	\$ 257,132	28,060	891,082	597,285	1,148,214	625,345

### Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay a \$399,000 water revenue note issued in July 1975. Proceeds from the note provided financing for the construction of a water plant. The note is payable solely from water customer net receipts and is payable through 2015. 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 \$41,765. For the current year, principal and interest paid and total customer net receipts were \$22,985 and \$10,578, respectively.

The resolution providing for the issuance of the water revenue note includes the following provisions:

- (a) The note will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) User rates shall be established at a level which produces adequate receipts to meet the requirements of debt service, operation and maintenance and the establishment of adequate reserves.
- (c) No free service or use of the system will be permitted.

The City does not pay for water usage as required by the water revenue note resolution. In addition, the City's net receipts were not sufficient to meet the revenue note resolution requirements.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$341,500 and \$678,200 of sewer revenue capital loan notes issued in 1996 and 1999, respectively. Proceeds from the notes provided financing for improvements and extensions to the municipal sewer utility, including replacement of sewer trunk lines and interceptor lines to clean the sewer treatment lagoon. The notes are payable solely from sewer customer net receipts and are payable through 2040. 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 \$1,446,602. For the current year, principal and interest paid and total customer net receipts were \$57,177 and \$53,684, respectively.

The resolutions providing for the issuance of the sewer revenue capital loan notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sewer revenue note sinking fund within the Enterprise Funds for the purpose of making the note principal and interest payments when due. The amount transferred in any month shall be equal to 1/12<sup>th</sup> of the installment of principal and interest coming due on the next succeeding payment date on the then outstanding notes and parity obligations.
- (c) Additional monthly transfers equal to 10% of the amount required to be deposited in such month in the sinking fund shall be made to a sewer revenue reserve account within the Enterprise Funds until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying principal at maturity of or interest on the notes and parity obligations for the payment of which insufficient money shall be available in the sinking fund.
- (d) User rates shall be established at a level which produces and maintains net receipts at a level not less than 120% of the amount of principal and interest on the notes falling due in the same year.

The City has not established and made the required transfers to a sewer revenue reserve account. In addition, the City's net revenues for the year ended June 30, 2013 were less than the required 120% of principal and interest on bonds falling due during the year.

**(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. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2013 was \$8,123, equal to the required contribution for the year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2013, primarily relating to the General Fund, is approximately \$3,400. This liability has been computed based on rates of pay in effect at June 30, 2013.

**(6) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer from	Amount
Special Revenue:	General	
Cemetery Perpetual Care		\$ 34,343
Capital Projects		18,528
		<u>52,871</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	65,093
		<u>65,093</u>
Total		<u>\$ 117,964</u>

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

**(7) 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.

**(8) Deficit Balances**

The Special Revenue, Urban Renewal Tax Increment Fund and the Debt Service Fund had deficit balances of \$4,278 and \$205,578, respectively, at June 30, 2013. The deficit balance in the Debt Service Fund is primarily the result of years of insufficient resources (i.e. debt service levy and/or transfers from other funds) to cover principal and interest on the City's general obligation notes and bank loans.

**(9) Subsequent Events**

In July 2013, the Dexter Community Foundation paid \$50,000 towards the City's general obligation capital loan notes which were issued September 15, 2007.

**City of Dexter**

## **Other Information**

City of Dexter  
 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
<b>Receipts:</b>			
Property tax	\$ 196,395	-	196,395
Tax increment financing	68,412	-	68,412
Other city tax	703	-	703
Licenses and permits	1,505	-	1,505
Use of money and property	3,373	-	3,373
Intergovernmental	121,736	-	121,736
Charges for service	60,366	214,547	274,913
Miscellaneous	142,711	1,508	144,219
<b>Total receipts</b>	<b>595,201</b>	<b>216,055</b>	<b>811,256</b>
<b>Disbursements:</b>			
Public safety	64,257	-	64,257
Public works	145,858	-	145,858
Culture and recreation	72,465	-	72,465
Community and economic development	372	-	372
General government	87,840	-	87,840
Debt service	124,269	-	124,269
Capital projects	38,036	-	38,036
Business type activities	-	228,476	228,476
<b>Total disbursements</b>	<b>533,097</b>	<b>228,476</b>	<b>761,573</b>
Excess (deficiency) of receipts over (under) disbursements	62,104	(12,421)	49,683
Balances beginning of year	77,517	153,627	231,144
Balances end of year	\$ 139,621	141,206	280,827

See accompanying independent auditor's report.

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Budgeted Amounts		Final to
Original	Final	Total
		Variance
191,115	191,115	5,280
303,380	65,000	3,412
6,655	6,655	(5,952)
465	465	1,040
-	-	3,373
97,700	97,700	24,036
278,153	278,433	(3,520)
7,628	138,976	5,243
885,096	778,344	32,912
62,881	68,656	4,399
273,655	128,484	(17,374)
53,066	121,236	48,771
2,000	2,000	1,628
162,514	90,043	2,203
14,223	124,775	506
18,744	38,037	1
297,896	302,896	74,420
884,979	876,127	114,554
117	(97,783)	147,466
341,436	225,510	5,634
341,553	127,727	153,100

City of Dexter

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 except the discretely presented component units. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted revenues by \$106,752 and decreased budgeted disbursements by \$8,852. The budget amendment is reflected in the final budgeted amounts.

Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the culture and recreation, debt service and capital projects functions prior to the budget amendment. At June 30, 2013, disbursements exceeded the amount budgeted in the public works function.

## **Supplementary Information**

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

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation capital loan notes:			
Brown Street project	May 15, 2005	3.05-4.10%	\$ 550,000
Community House	Sep 15, 2007	5.50	125,000
Total			
Bank loans:			
Wells Fargo	May 12, 2010	5.00%	\$ 85,000
Fire truck	Nov 21, 2002	4.50	101,950
Total			
Revenue notes:			
Water	Jul 1, 1975	5.00%	\$ 399,000
Sewer project # 1	Jan 8, 1996	5.00	341,500
Sewer project #2	Nov 15, 1999	4.38	678,200
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
245,000	-	60,000	185,000	10,185
76,642	-	4,510	72,132	4,238
<b>\$ 321,642</b>	-	<b>64,510</b>	<b>257,132</b>	<b>14,423</b>
29,806	-	29,806	-	656
14,223	-	14,223	-	651
<b>\$ 44,029</b>	-	<b>44,029</b>	<b>-</b>	<b>1,307</b>
59,698	-	20,000	39,698	2,985
279,207	-	6,289	272,918	13,960
589,599	-	11,133	578,466	25,795
<b>\$ 928,504</b>	-	<b>37,422</b>	<b>891,082</b>	<b>42,740</b>

City of Dexter  
 Note Maturities  
 June 30, 2013

Year Ending June 30,	General Obligation Capital Loan Notes					Total
	Brown Street Project		Community House			
	Issued May 15, 2005		Issued Sept 15, 2007			
	Interest Rates	Amount	Interest Rates	Amount		
2014	3.90%	\$ 60,000	5.50%	\$ 13,000	73,000	
2015	4.00	60,000	5.50	14,000	74,000	
2016	4.10	65,000	5.50	15,000	80,000	
2017		-	5.50	16,000	16,000	
2018		-	5.50	14,132	14,132	
2019		-		-	-	
2020		-		-	-	
2021		-		-	-	
2022		-		-	-	
2023		-		-	-	
2024		-		-	-	
2025		-		-	-	
2026		-		-	-	
2027		-		-	-	
2028		-		-	-	
2029		-		-	-	
2030		-		-	-	
2031		-		-	-	
2032		-		-	-	
2033		-		-	-	
2034		-		-	-	
2035		-		-	-	
2036		-		-	-	
2037		-		-	-	
2038		-		-	-	
2039		-		-	-	
2040		-		-	-	
Total		<u>\$ 185,000</u>		<u>\$ 72,132</u>	<u>257,132</u>	

See accompanying independent auditor's report.



**City of Dexter**



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Mary Mosiman, CPA  
Auditor of State

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

To the Honorable Mayor and  
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the 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, the discretely presented component units and the aggregate remaining fund information of the City of Dexter, 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 December 20, 2013. 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 Dexter'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 Dexter's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Dexter's internal control.

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

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

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dexter'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.

## City of Dexter's Responses to the Findings

The City of Dexter's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Dexter'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 Dexter during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

December 20, 2013

City of Dexter

Schedule of Findings

Year ended June 30, 2013

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

(A) Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one individual has control over the following areas:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Investing – record keeping, investing, custody of investments and reconciling earnings.
- (4) Utilities – billing, collecting, depositing and posting.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, recording and reconciling.
- (6) Payroll – preparation, recording and distributing.
- (7) Debt – recordkeeping, compliance and payment processing.
- (8) Journal entries – preparing and journalizing.
- (9) Financial reporting – preparing and reconciling.
- (10) Computer system – performing all general accounting functions and controlling all data input and output.

For the Parks and Recreation Board, the Community House Board, the Dexter Fire and Rescue Association (Association) and the Dexter Community House Non-Profit accounts (separately maintained accounts and component units), one individual has control over each of the following areas:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – collecting, recording, depositing and reconciling.
- (3) Disbursements – preparing, signing, recording and reconciling (not applicable to the Community House Non-Profit).

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City, the Parks and Recreation Board, the Community House Board, the Dexter Fire and Rescue Association and the Dexter Community House Non-Profit should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected and other officials.

City of Dexter

Schedule of Findings

Year ended June 30, 2013

Responses –

City - We will have the Council review information and will obtain initials indicating review.

Dexter Fire and Rescue Association – The Association will discuss options for the segregation of cash, receipts and disbursement duties.

Community House Non-Profit – The Board will discuss options for segregating cash and receipts duties.

Conclusion – Responses accepted.

- (B) Financial Reporting – The Knight Estate and Hoy Trust Funds were incorrectly classified in the City’s general ledger as Special Revenue Funds. In accordance with criteria established by the Governmental Accounting Standards Board, the Knight Estate Fund should be included as part of the General Fund and the Hoy Trust Fund should be classified as a Permanent Fund. These funds are properly classified for reporting purposes.

Recommendation – The City should implement procedures to ensure all funds are properly classified in the financial records.

Response – The City will properly classify the Knight Estate and Hoy Trust.

Conclusion – Response accepted.

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared and maintained. A reconciliation is designed to ensure the proper recording of utility receipts and the propriety of adjustments, write-offs and delinquent account balances.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. The City Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – We will prepare a listing of delinquent accounts and a reconciliation and will file them with the Council monthly. All billing information will be retained for review by the Council.

Conclusion – Response accepted.

- (D) Prenumbered Receipts – Prenumbered receipts were not issued for all collections.

Recommendation – Prenumbered receipts should be issued for all collections at the time of collection to provide additional control over the proper collection and recording of all receipts.

Response – The City will issue pre-numbered receipts at time of collection.

Conclusion – Response accepted.

City of Dexter

Schedule of Findings

Year ended June 30, 2013

- (E) Credit Cards/Charge Account – The City has credit cards and a Casey’s charge account for use by various employees and firefighters while on City business, including the purchase of fuel for City vehicles. The City has not adopted a formal policy to regulate the use of credit cards or charge accounts and has not established procedures for the proper accounting of fuel charges. Supporting documentation was not always available to support credit card/charge account charges. Additionally, mileage logs are not maintained for each City vehicle and completed each time a vehicle is fueled. Late fees and penalties totaling \$85 were paid during the year.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards and the Casey’s charge account. The policy, at a minimum, should address who controls the credit cards, who is authorized to use credit card and the charge account and for what purposes, as well as the types of supporting documentation required to substantiate charges. Policies should require mileage logs be maintained for all City vehicles. The logs should be reviewed periodically and reconciled to purchases. Procedures should be established to ensure timely payment of credit card/charge account bills to avoid late fees and penalties.

Response – The City will adopt a written policy regulating the use of City credit cards and charge accounts and also implement procedures to document which vehicle is being fueled and by whom.

Conclusion – Response acknowledged. The City should also establish policies and procedures requiring mileage logs be maintained for each vehicle and to require the logs be reconciled to purchases. Procedures should be established to ensure timely payment of credit card/charge account bills to avoid late fees and penalties.

- (F) Computer System – The following weaknesses in the City’s computer system were noted:

The City does not have written policies for:

- (1) Requiring the use of a user name or password.
- (2) Requiring the maintenance of password privacy and confidentiality.
- (3) Requiring passwords be changed at least every 60 to 90 days.
- (4) Requiring password history be maintained to prevent employees from reusing the same password.
- (5) Personal use of equipment and software.
- (6) Usage of the internet.

Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items to improve the City’s control over its computer system. Also, a written disaster recovery plan should be developed and tested periodically.

City of Dexter

Schedule of Findings

Year ended June 30, 2013

Response – The City will develop a written policy for information systems and will also form a written disaster policy and test it periodically.

Conclusion – Response accepted.

- (G) Restrictive Endorsement – Checks are not restrictively endorsed immediately upon receipt.

Recommendation – To properly safeguard collections, all checks should be restrictively endorsed immediately upon receipt.

Response – The City Clerk will endorse all checks upon receipt.

Conclusion – Response accepted.

- (H) Payroll – Time cards are not approved and initialed by the employee’s supervisor before payroll is prepared. Also, vacation and sick leave records are not reviewed by an independent person.

Recommendation – Time cards should be approved and initialed by a responsible official before payroll checks are prepared. Additionally, records for vacation and sick leave earned and used by each employee should be reviewed and approved by an independent person.

Response – Time cards will be reviewed by a responsible party before payroll checks are prepared and vacation and sick leave will be reviewed and initialed by a responsible party quarterly.

Conclusion – Response accepted.

- (I) Separately Maintained Accounts and Discretely Presented Component Units - The following were noted regarding the City Parks and Recreation Board, the Community House Board, the Dexter Fire and Rescue Association and the Dexter Community House Non-Profit accounts:

Monthly reconciliations of book and bank balances, including investments, were not prepared and a list of outstanding checks was not always prepared for each month and retained.

Prenumbered receipts were not issued for all collections.

Copies of all invoices and other disbursement support were not retained (not applicable to the Community House Non-Profit).

Recommendation – To improve financial accountability and control, a monthly reconciliation of the book and bank balances should be prepared and retained. Any variances should be investigated and resolved timely. A listing of outstanding checks should be prepared each month and retained. An independent review of the reconciliation should be performed periodically.

City of Dexter

Schedule of Findings

Year ended June 30, 2013

Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money.

All invoices and other disbursement support should be maintained and retained.

Responses –

City – Monthly reconciliations will be prepared. We will have an independent review of the reconciliation performed periodically by the Mayor or a chosen member of the City Council.

Dexter Fire and Rescue Association – We will begin preparing monthly bank reconciliations and using pre-numbered receipts. We will also maintain records of all invoices and other disbursement support and retain them accordingly.

Community House Non-Profit – We will begin preparing monthly bank reconciliations and using prenumbered receipts.

Conclusions –

Dexter Fire and Rescue Association and Community House Non-Profit – Responses accepted.

City – Response acknowledged. The City should ensure a list of outstanding checks is prepared and maintained to support the bank reconciliations. Also, prenumbered receipts should be issued for all collections and invoices and other disbursement support should be retained.

- (J) Annual Financial Report - The Annual Financial Report for the year ended June 30, 2012 did not include the separately maintained Parks and Recreation and Community House Board account activities for the year as required by Chapter 384.22 of the Code of Iowa. Also, \$71,394 of disbursements were incorrectly reported in the capital projects function rather than in the public works function.

Recommendation - The Annual Financial Report should include activity for all City accounts. In addition, all disbursements should be reported consistent with the financial records and budget.

Response – We will complete the Annual Financial Report correctly as required by Chapter 384.22 of the Code of Iowa.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Dexter

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 culture and recreation, debt service and capital projects functions prior to the budget amendment. At June 30, 2013, disbursements exceeded the amount budgeted in the public works function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – In the future, the City Council will amend the budget in accordance with Chapter 384.18 of the Code of Iowa and will not allow any disbursements to exceed the certified budget.

Conclusion – Response accepted.

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

Transfers between funds were not always approved in the City Council minutes.

The City Council went into closed session on August 9, 2012. The meeting was not properly closed by affirmation vote of at least two-thirds of the members of the City Council as required by Chapter 21.5 of the Code of Iowa.

Certain minutes of City Council meetings were not signed in accordance with Chapter 380.7 of the Code of Iowa.

Recommendation – The City Council should ensure all transfers between funds are approved. The City should comply with Chapters 21 and 380.7 of the Code of Iowa.

Response – We will comply with Chapter 21 and Chapter 380.7 of the Code of Iowa and the City Council will ensure all transfers are approved through the certified budget, resolutions or minutes record.

Conclusion – Response accepted.

City of Dexter

Schedule of Findings

Year ended June 30, 2013

- (7) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

The Permanent, Hoy Trust Fund has investments in municipal bonds and mutual funds which do not appear to be investments permitted by Chapter 12B.10(5) of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City should consult legal counsel to determine the disposition of the potentially unallowable investments.

Response – The City is in the process of updating the City Code of Ordinances and will adopt a written investment policy to be implemented with the updated Ordinance book.

Conclusion – Response acknowledged. The City should also consult legal counsel to determine the disposition of the potentially unallowable investments.

- (8) Revenue Notes – The City has not established the sewer revenue note reserve account required by the sewer revenue note resolutions.

The City does not pay for water usage as required by the water revenue note resolution.

The City's water revenue note resolution requires rates or charges to consumers of services of the system shall be sufficient to meet the requirements of debt service, operation and maintenance and the establishment of adequate reserves. The City's fiscal year 2013 net water receipts of \$(12,407) were not sufficient to meet the revenue note resolution requirements.

The City's sewer revenue note resolutions require rates or charges to consumers of services of the system shall be sufficient to produce net receipts at a level not less than 120% of the principal and interest requirements of the fiscal year. The City's fiscal year 2013 net sewer operating receipts of \$53,684 is less than 120% of the \$57,177 of principal and interest due during fiscal year 2013.

Recommendation - The City should establish the required reserve account and make the necessary transfers as required by the sewer note resolutions. The City should pay for water usage as required by the water revenue note resolution. The City should consult bond counsel to determine the disposition of the apparent water and sewer net receipts violations.

Response – The City will establish the required accounts and make the necessary transfers as required by the note resolutions. The City is also in the process of raising the water and sewer rates which will help increase the water and sewer operation and maintenance fund net receipts. The City will also pay for water usage and seek advice from bond counsel to determine if sewer charges need to be raised to fund a sewer reserve fund per the sewer revenue note reserve resolutions.

Conclusion – Response accepted.

City of Dexter

Schedule of Findings

Year ended June 30, 2013

- (9) Utility Rates – The City established water and sewer rates through an ordinance adopted April 2, 2001. However, the sewer rate charged for usage in excess of 5,000 gallons and the water rate charged for usage in excess of 4,000 gallons were not consistent with the rates established by ordinance.

Garbage rates were not approved by ordinance as required by Chapter 384.84 of the Code of Iowa.

The City does not always give customers 30 days notice prior to discontinuing service as required by the City’s ordinance.

Recommendation – Rates charged for sewer and water usage should be in accordance with established ordinances. Garbage rates should be established by ordinance as required. Shut-off procedures should be enforced in accordance with City ordinance.

Response – We will follow the ordinances for water and sewer rates and established shut off procedures until the ordinances can be amended. We will also follow guidelines set by Chapter 384.84 of the Code of Iowa to approve garbage rates by ordinance as required.

Conclusion – Response accepted.

- (10) Tax Increment Financing (TIF) Indebtedness Certification and Disbursements – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness and, as such, the County Auditor shall provide available TIF incremental property tax in subsequent fiscal years without further certification until the amount of certified indebtedness is paid to the City. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness.

Chapter 403.19(2) of the Code of Iowa states, in part, “That portion of the taxes each year...shall be allocated to and when collected be paid into a special fund of the municipality to pay the principal of and interest on loans, moneys advanced to, or indebtedness, whether funded, refunded, assumed, or otherwise, including bonds issued under the authority of section 403.9, subsection 1, incurred by the municipality to finance or refinance, in whole or in part, an urban renewal project within the area.” Chapter 403.19(10)(6) of the Code of Iowa prohibits borrowing from this “special fund”.

Prior TIF debt certifications to the County Auditor included unsupported obligations totaling \$70,000 for the Marshall/Brown Street intersection and \$120,000 for the State Street project.

During the year ended June 30, 2013, project costs totaling \$47,708 were paid from the Special Revenue, Urban Renewal Tax Increment Fund (TIF Fund). These costs do not represent a TIF obligation and, accordingly, are not an allowable use of TIF receipts. It appears costs for other projects have been paid from the TIF Fund in the past with no corresponding debt obligation to certify.

City of Dexter

Schedule of Findings

Year ended June 30, 2013

During the year ended June 30, 2013, the City transferred \$65,093 from the TIF Fund to the Debt Service Fund to cover the principal and interest due on the general obligation notes issued in 2005. However, the transfer was short of covering the required payment by \$4,992 and the debt service levy was not sufficient to cover this shortage. See item (11) below.

During the year ended June 30, 2013, the City approved two interfund loans totaling \$33,812 from the General Fund to the TIF Fund for costs associated with TIF projects. However, these costs were paid/advanced from the Enterprise, Water Fund and the Capital Projects Fund in the amounts of \$5,433 and \$28,811, respectively, not the General Fund.

Recommendation – The City should consult TIF counsel to determine the disposition of the unsupported TIF debt certifications, including the amount of TIF debt to be decertified, if any, and the unallowable project costs paid from the TIF Fund. The City should review transfers, current and prior, from the TIF Fund to the Debt Service Fund to ensure enough was transferred, if available, to cover the principal and interest on the general obligation note issued in 2005. If TIF receipts are not sufficient, the City should consider other sources, including a debt service levy, to cover the costs. The City should adopt an amended interfund loan resolution to approve the loans from the correct funds.

Response – The City will consult with Ahlers and Cooney, our TIF legal counsel, to determine the disposition of the City’s TIF certifications and comply with Chapter 403 of the Code of Iowa. The \$5,433 and \$28,811 were transferred from the General Fund into the Enterprise, Water and Capital Projects Funds, respectively, when we amended the budget.

Conclusion – Response acknowledged. The City should also consult TIF legal counsel regarding the unallowable project costs paid from the TIF Fund. The City should review transfers from the TIF Fund to the Debt Service Fund to cover principal and interest on the general obligation notes issued in 2005 to ensure transfers were sufficient or consider other available resources to cover the costs.

- (11) Debt Service Levy – The long term debt schedule in the City’s fiscal 2013 budget reflects a \$14,223 debt service levy for the fire truck bank loan principal and interest and \$117,091 of principal and interest on other general obligation notes and loans to be “paid from funds other than current year property taxes.” Principal and interest totaling \$124,269 were paid from the Debt Service Fund during the year. It is unclear how these costs, net of the \$65,093 transferred from the Special Revenue, Urban Renewal Tax Increment Fund to the Debt Service Fund, were intended to be funded since the debt service levy was not sufficient to cover the costs and no other resources were made transferred to the Debt Service Fund to cover the remaining costs.

At June 30, 2013, the Debt Service Fund had a deficit balance of \$205,578. It appears this deficit occurred over time by using the Debt Service Fund for principal and interest payments for which there was no corresponding debt service levy or other available resources.

City of Dexter

Schedule of Findings

Year ended June 30, 2013

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

Response – The City is consulting with bond counsel to correct this.

Conclusion – Response accepted.

- (12) Annual Urban Renewal Report – The annual urban renewal report was not approved and certified to the Iowa Department of Management on or before December 1. The report was never approved, but was filed on December 3, 2012.

In addition, the following exceptions were noted:

The City's beginning and ending cash balances, receipts and disbursements of the Special Revenue, Urban Renewal Tax Increment Fund (TIF Fund) reported on the Levy Authority Summary did not agree with the City's general ledger.

The amount reported by the City as TIF debt outstanding was not properly supported.

Recommendation – The City should approve and file the annual urban renewal report timely and ensure the activity for the TIF Fund and debt outstanding amounts reported on the Levy Authority Summary agree with the City's records.

Response – We will approve and file the annual urban renewal report timely and ensure cash balances/activity and debt amounts reported on the Levy Authority Summary agree with the City's records.

Conclusion – Response accepted.

- (13) Public Funds – Donations received for the City Museum and Library are given to the Dexter Community Foundation (Foundation), a private non-profit organization. In certain cases, donors are asked by City employees to write donation checks to this Foundation rather than the City.

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

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

Recommendation – We are not aware of any statutory authority for the City to relinquish these public funds to a separate non-profit organization. The City should recover the balance of current and past donations to the City Museum and Library held by the Foundation and should cease making payments, directly or indirectly, to the private non-profit organization.

City of Dexter

Schedule of Findings

Year ended June 30, 2013

Response – We will follow your recommendations and recover the current and past donations from the non-profit organization and put the funds back into the City funds.

Conclusion – Response accepted.

- (14) Separately Maintained Records – The Parks and Recreation and Community House Boards maintain bank accounts for fundraiser and donation activity separate from the City Clerk’s accounting records. The transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget or monthly financial reports. The transactions and the resulting balances were also excluded from these financial statements since the fiscal year 2013 activity was not significant.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and annual budget and should be reported to the City Council on a monthly basis.

Response – The Park and Recreation Board as well as the Community House Board will provide monthly financial information to the City.

Conclusion – Response acknowledged. The activity of these two Boards should also be included in the City’s accounting records and annual budget.

- (15) Financial Condition – The Debt Service Fund and the Special Revenue, Tax Increment Financing Fund had deficit balances of \$205,578 and \$4,278, respectively, at June 30, 2013.

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

Response – We will be working with the State Auditor’s office and our legal counsel to find solutions to correct these funds.

Conclusion – Response accepted.

City of Dexter

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager  
Tiffany M. Ainger, CPA, Senior Auditor  
Kayley R. Alexander, Assistant Auditor  
Michael A. Chervek, 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