



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

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Auditor of State

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**NEWS RELEASE**

FOR RELEASE

June 9, 2011

Contact: Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Dike, Iowa.

The City's receipts totaled \$2,285,176 for the year ended June 30, 2010. The receipts included \$449,480 in property tax, \$395,832 from tax increment financing, \$956,262 from charges for service, \$257,327 from operating grants, contributions and restricted interest, \$39,790 from capital grants, contributions and restricted interest, \$62,687 from local option sales tax, \$2,795 from unrestricted interest on investments, \$70,000 from note proceeds and \$51,003 from other general receipts.

Disbursements for the year totaled \$2,268,611, and included \$373,320 for community and economic development, \$236,370 for culture and recreation and \$208,408 for public safety. Also, disbursements for business type activities totaled \$927,970.

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/1021-0355-B00F.pdf>.

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**CITY OF DIKE**

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

**JUNE 30, 2010**

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**City of Dike**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2010)</b>		
Donald E. Knudsen	Mayor	Jan 2010
Stan Van Hauen	Mayor Pro tem	Jan 2012
James Boike	Council Member	Jan 2010
Larry Dufel	Council Member	Jan 2010
Timothy Stage	Council Member	Jan 2010
Jack Emkes	Council Member	Jan 2012
Patti Freese	Clerk	Indefinite
Ann Hilliard	Deputy Clerk/Treasurer	Indefinite
Gary N. Jones	Attorney	Indefinite
<b>(After January 2010)</b>		
Michael Soppe	Mayor	Jan 2012
Stan Van Hauen	Mayor Pro tem	Jan 2012
Jack Emkes	Council Member	(Resigned)
Mike Weichers (Appointed)	Council Member	Jan 2012
Nicholas Cleveland	Council Member	Jan 2014
Chad Cutsforth	Council Member	Jan 2014
Wayne Paige	Council Member	Jan 2014
Patti Freese	Clerk	Indefinite
Ann Hilliard	Deputy Clerk/Treasurer	Indefinite
Gary N. Jones	Attorney	Indefinite

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David A. Vaudt, CPA  
Auditor of State

Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

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 Dike, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Dike's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, 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, 2009.

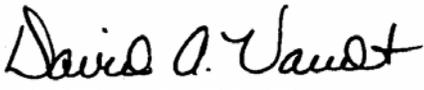
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Dike as of June 30, 2010, 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.

The City's General Fund unreserved deficit increased to \$984,908 at June 30, 2010, an increase of \$389,228 during the four year period since the City was last audited for the year ended June 30, 2006. The deficit is approximately 197% of the City's recurring General Fund receipts of \$500,541 during the year ended June 30, 2010. In addition, the City's Special Revenue, Road Use Tax Fund unreserved deficit increased to \$292,062 at June 30, 2010, and increase of \$115,852 during the four year period since the City was last audited for the year ended June 30, 2006. The deficit is approximately 333% of the City's recurring Special Revenue, Road Use Tax Fund receipts of \$87,567 during the year ended June 30, 2010.

In accordance with Government Auditing Standards, we have also issued our report dated May 17, 2011 on our consideration of the City of Dike's internal control over financial reporting and 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 and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dike's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, 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, 2009, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

May 17, 2011

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

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The City of Dike 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, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Since 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.

### **2010 FINANCIAL HIGHLIGHTS**

- The cash basis net assets of the City's governmental activities increased \$68,359, due primarily to receiving payments from the Fox Ridge developer for promissory notes which matured during the year.
- The cash basis net assets of the City's business type activities decreased \$51,794, primarily due to purchasing a pump for a lift station, costs of an electric rate study and increases in electric rates from the City's electricity supplier.

### **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 Statement of Activities and Net Assets. 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 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.

Required Supplementary Information further explains and supports the financial statements with a comparison to the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's outstanding debt.

### **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 operational results of 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 Statement of Activities and Net Assets reports information that helps answer this question.

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

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water, sewer and electric 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, Local Option Sales Tax and Tax Increment Financing, 3) the Debt Service Fund and 4) the Capital Projects Fund. 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 four Enterprise Funds to provide separate information for water, sewer, electric and sales tax operations. The Sewer and Electric Funds are considered to be major funds of the City.

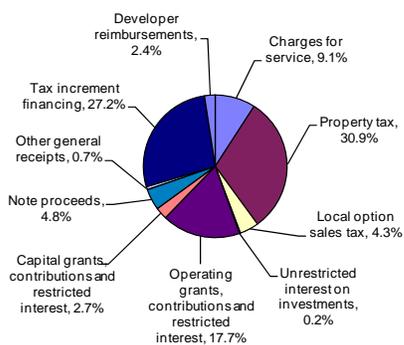
The required financial statement for proprietary funds is a statement of cash receipts, disbursements, and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

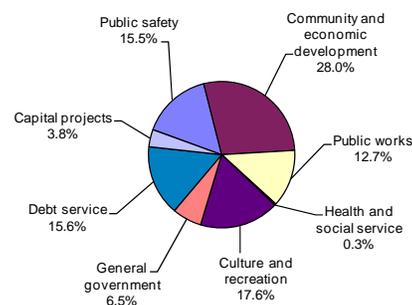
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$(386,354) to \$(317,995). The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		Year ended June 30, 2010
Receipts:		
Program receipts:		
Charges for service		\$ 132,789
Operating grants, contributions and restricted interest		257,327
Capital grants, contributions and restricted interest		39,790
General receipts:		
Property tax		449,480
Tax increment financing		395,832
Local option sales tax		62,687
Unrestricted interest on investments		2,749
Developer reimbursements		35,042
Note proceeds		70,000
Other general receipts		9,961
Total receipts		<u>1,455,657</u>
Disbursements:		
Public safety		208,408
Public works		169,690
Health and social services		4,284
Culture and recreation		236,370
Community and economic development		373,320
General government		87,565
Debt service		209,513
Capital projects		51,491
Total disbursements		<u>1,340,641</u>
Change in cash basis net assets before transfers		115,016
Transfers		<u>(46,657)</u>
Change in cash basis net assets		<u>68,359</u>
Cash basis net assets beginning of year		<u>(386,354)</u>
Cash basis net assets end of year		<u><u>\$ (317,995)</u></u>

Receipts by Source



Disbursements by Function



The cash basis net assets of the City's governmental activities increased \$68,359, due primarily to receiving payments from the Fox Ridge developer for promissory notes which matured during the year.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2010
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 69,697
Sewer	88,092
Electric	647,860
Sales tax	17,824
General receipts:	
Unrestricted interest on investments	46
Other general receipts	6,000
Total receipts	<u>829,519</u>
Disbursements:	
Water	84,852
Sewer	130,081
Electric	698,405
Sales tax	14,632
Total disbursements	<u>927,970</u>
Change in cash basis net assets before transfers	(98,451)
Transfers, net	<u>46,657</u>
Change in cash basis net assets	(51,794)
Cash basis net assets beginning of year	<u>665,701</u>
Cash basis net assets end of year	<u>\$ 613,907</u>

The total business type activities balance decreased \$51,794, primarily due to the purchase of a pump for a lift station, costs of an electric rate study and increases in electric rates from the City's electricity supplier.

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

As the City of Dike completed the year, its governmental funds reported a combined fund balance of \$(317,995), an increase of \$68,359 from last year's total of \$(386,354). The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$9,776 from the prior year to \$(881,782). This decrease is due to disbursements exceeding receipts.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$80,697 to \$521,734 during the fiscal year due to tax collections and transfers in.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$5,095 to \$(292,062) during the fiscal year. The decrease was due to street repair and maintenance costs in excess of receipts.
- The Special Revenue, Tax Increment Financing Fund cash balance increased \$11,999 to \$180,862.
- The Debt Service Fund cash balance at year end was \$1,597, a decrease of \$978.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance decreased \$21,970 to \$269,446. This decrease was due primarily to purchasing a pump for a lift station.
- The Electric Fund cash balance decreased \$31,876 to \$279,847. The decrease was primarily the result of costs of an electric rate study and increases in electrical rates from the City's electricity supplier.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on June 1, 2010 and resulted in an increase in operating disbursements of \$246,543 related to five disbursement functions. The amendment included additional costs for realignment of wages, increase in inspection costs, TIF payments from June 2009 paid in July 2010, recreational trail debt interest, the purchase of a plow and sander and the purchase of a pump for the lift station. The City used loan proceeds and charges for service receipts to absorb these additional costs.

The City's receipts were \$96,105 more than budgeted receipts, a variance of approximately 5%. Total disbursements were \$2,720 more than budgeted.

Even with this budget amendment, the City exceeded the budget for the public safety, public works, health and social services, culture and recreation, general government, debt service, capital projects and business type activities functions for the year ended June 30, 2010.

## DEBT ADMINISTRATION

At June 30, 2010, the City had \$2,109,383 in long-term debt outstanding. The table below segregates the City's debt into its component parts.

	Outstanding Debt at Year-End	
	June 30,	
	2010	2009
General obligation notes	\$ 1,114,072	1,196,099
Bank loan	115,311	115,311
Revenue notes	880,000	960,000
Total	\$ 2,109,383	2,271,410

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. At June 30, 2010, the City's outstanding general obligation and TIF developer agreement debt of \$1,994,750 is significantly below its constitutional debt limit of approximately \$3.4 million.

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

The City of Dike's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates and fees charged for various City activities. The City's fiscal year 2011 taxable valuation increased \$2,026,732, or 9%, from the fiscal year 2010 level.

The fiscal year 2011 budget contains total receipts of \$2,098,403 and disbursements of \$2,090,476. The budgeted cash balance is expected to increase \$7,927 to \$401,883.

The fiscal year 2011 levy is \$17.00151 per \$1,000 of taxable valuation, a decrease from \$17.41888 per \$1,000 of taxable valuation for fiscal year 2010. The debt service levy decreased from \$5.80203 per \$1,000 of taxable valuation for fiscal year 2010 to \$5.73829 per \$1,000 of taxable valuation for fiscal year 2011.

These parameters were taken into account when adopting the budget for fiscal year 2011.

## **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 Patti Freese, City Clerk, 540 Main Street, Dike, IA 50624.

## **Basic Financial Statements**

City of Dike

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2010

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 208,408	30,895	131,829	-
Public works	169,690	57,593	87,567	-
Health and social services	4,284	-	-	-
Culture and recreation	236,370	34,436	37,931	-
Community and economic development	373,320	-	-	-
General government	87,565	9,865	-	-
Debt service	209,513	-	-	-
Capital projects	51,491	-	-	39,790
Total governmental activities	1,340,641	132,789	257,327	39,790
Business type activities:				
Water	84,852	69,697	-	-
Sewer	130,081	88,092	-	-
Electric	698,405	647,860	-	-
Sales tax	14,632	17,824	-	-
Total business type activities	927,970	823,473	-	-
Total	\$ 2,268,611	956,262	257,327	39,790

**General Receipts and Transfers:**

Property and other city tax levied for:  
 General purposes  
 Debt service  
 Tax increment financing  
 Local option sales tax  
 Unrestricted interest on investments  
 Developer reimbursements  
 Loan proceeds  
 Miscellaneous  
 Transfers  
 Total general receipts and transfers  
 Change in cash basis net assets  
 Cash basis net assets beginning of year  
 Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:  
 Low to moderate income projects  
 Local option sales tax  
 Urban renewal purposes  
 Debt service  
 Capital projects  
 Other purposes  
 Unrestricted

**Total cash basis net assets**

See notes to financial statements.

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Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets

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Governmental Activities	Business Type Activities	Total
(45,684)	-	(45,684)
(24,530)	-	(24,530)
(4,284)	-	(4,284)
(164,003)	-	(164,003)
(373,320)	-	(373,320)
(77,700)	-	(77,700)
(209,513)	-	(209,513)
(11,701)	-	(11,701)
(910,735)	-	(910,735)
-	(15,155)	(15,155)
-	(41,989)	(41,989)
-	(50,545)	(50,545)
-	3,192	3,192
-	(104,497)	(104,497)
(910,735)	(104,497)	(1,015,232)
249,058	-	249,058
200,422	-	200,422
395,832	-	395,832
62,687	-	62,687
2,749	46	2,795
35,042	-	35,042
70,000	-	70,000
9,961	6,000	15,961
(46,657)	46,657	-
979,094	52,703	1,031,797
68,359	(51,794)	16,565
(386,354)	665,701	279,347
\$ (317,995)	613,907	295,912
\$ 54,954	-	54,954
521,734	-	521,734
180,862	-	180,862
1,597	90,648	92,245
120,546	50,000	170,546
79,282	-	79,282
(1,276,970)	473,259	(803,711)
\$ (317,995)	613,907	295,912

City of Dike

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

As of and for the year ended June 30, 2010

	Special Revenue			
	General	Local Option Sales Tax	Road Use Tax	Tax Increment Financing
<b>Receipts:</b>				
Property tax	\$ 249,058	-	-	-
Tax increment financing	-	-	-	395,832
Other city tax	4,884	62,687	-	-
Licenses and permits	6,331	-	-	-
Use of money and property	3,931	10	-	-
Intergovernmental	53,768	-	87,567	-
Charges for service	107,485	-	-	-
Miscellaneous	75,084	-	-	-
Total receipts	500,541	62,697	87,567	395,832
<b>Disbursements:</b>				
Operating:				
Public safety	120,926	-	-	-
Public works	77,028	-	92,662	-
Health and social services	4,284	-	-	-
Culture and recreation	236,370	-	-	-
Community and economic development	-	-	-	373,320
General government	87,565	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	526,173	-	92,662	373,320
Excess (deficiency) of receipts over (under) disbursements	(25,632)	62,697	(5,095)	22,512
<b>Other financing sources (uses):</b>				
Note proceeds	70,000	-	-	-
Operating transfer in	10,513	18,000	-	-
Operating transfer out	(64,657)	-	-	(10,513)
Total other financing sources (uses)	15,856	18,000	-	(10,513)
Net change in cash balances	(9,776)	80,697	(5,095)	11,999
Cash balances beginning of year	(872,006)	441,037	(286,967)	168,863
Cash balances end of year	(881,782)	521,734	(292,062)	180,862
<b>Cash Basis Fund Balances</b>				
Reserved for:				
Debt service	\$ -	-	-	-
Low to moderate income projects	54,954	-	-	-
Fire department donations	1,322	-	-	-
Library donations	15,582	-	-	-
Park and recreation donations	2,043	-	-	-
Green initiative donations	1,309	-	-	-
Employee benefits	21,310	-	-	-
Insurance	6,606	-	-	-
Unreserved:				
General fund	(984,908)	-	-	-
Special revenue funds	-	521,734	(292,062)	180,862
Capital projects fund	-	-	-	-
Total cash basis fund balances	\$ (881,782)	521,734	(292,062)	180,862

See notes to financial statements.

Debt Service	Nonmajor	Total
200,422	-	449,480
-	-	395,832
-	-	67,571
-	-	6,331
-	-	3,941
-	87,633	228,968
-	-	107,485
-	50,965	126,049
200,422	138,598	1,385,657
-	87,482	208,408
-	-	169,690
-	-	4,284
-	-	236,370
-	-	373,320
-	-	87,565
201,400	8,113	209,513
-	51,491	51,491
201,400	147,086	1,340,641
(978)	(8,488)	45,016
-	-	70,000
-	-	28,513
-	-	(75,170)
-	-	23,343
(978)	(8,488)	68,359
2,575	160,144	(386,354)
1,597	151,656	(317,995)
1,597	-	1,597
-	-	54,954
-	-	1,322
-	-	15,582
-	-	2,043
-	-	1,309
-	-	21,310
-	-	6,606
-	-	(984,908)
-	31,110	441,644
-	120,546	120,546
1,597	151,656	(317,995)

**City of Dike**

City of Dike

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

As of and for the year ended June 30, 2010

	Enterprise			Total
	Sewer	Electric	Nonmajor	
Operating receipts:				
Charges for service	\$ 87,942	638,109	67,732	793,783
Miscellaneous	150	9,751	19,789	29,690
Total operating receipts	88,092	647,860	87,521	823,473
Operating disbursements:				
Business type activities	77,927	551,643	82,192	711,762
Excess of operating receipts over operating disbursements	10,165	96,217	5,329	111,711
Non-operating receipts (disbursements):				
Interest on investments	19	12	15	46
Rent	6,000	-	-	6,000
Debt service	-	(126,165)	-	(126,165)
Capital projects	(52,154)	(20,597)	(17,292)	(90,043)
Net non-operating receipts (disbursements)	(46,135)	(146,750)	(17,277)	(210,162)
Deficiency of receipts under disbursements	(35,970)	(50,533)	(11,948)	(98,451)
Operating transfers in	14,000	18,657	14,000	46,657
Net change in cash balances	(21,970)	(31,876)	2,052	(51,794)
Cash balances beginning of year	291,416	311,723	62,562	665,701
Cash balances end of year	\$ 269,446	279,847	64,614	613,907
<b>Cash Basis Fund Balances</b>				
Reserved for:				
Debt service	\$ -	90,648	-	90,648
Improvements	-	50,000	-	50,000
Unreserved	269,446	139,199	64,614	473,259
Total	\$ 269,446	279,847	64,614	613,907

See notes to financial statements.

City of Dike

Notes to Financial Statements

June 30, 2010

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

The City of Dike is a political subdivision of the State of Iowa located in Grundy County. It was first incorporated in 1900 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, sewer and electric utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Dike 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 Dike (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational relationship with the City.

Blended Component Unit

The Dike Fire and Rescue Association is legally separate from the City but is so intertwined with the City it is, in substance, part of the City. The Association is organized under Chapter 504A of the Code of Iowa as a non-profit corporation and collects donations which are to be used to purchase items not included in the City's budget. The financial transactions for the Association have been reported as a Special Revenue Fund of the City.

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: Grundy County Assessor's Conference Board, Grundy County Emergency Management Commission and Grundy County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and 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 Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets 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 and enterprise funds are aggregated and reported as nonmajor governmental and enterprise funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts 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 Local Option Sales Tax Fund is used to account for local option sales tax received and its uses.

The Road Use Tax Fund is used to account for road construction and maintenance.

The Tax Increment Financing Fund is used to account for the Fox Ridge Development rebate payments financed by tax increment financing.

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

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's sewer system.

The Electric Fund accounts for the operation and maintenance of the City's electric 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 assets 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.

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. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public safety, public works, health and social services, culture and recreation, general government, debt service, capital projects and business type activities functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2010 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.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$141,536 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

**(3) Long-term Debt**

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

Year Ending June 30,	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 170,300	44,301	80,000	42,925	250,300	87,226
2012	173,281	37,385	85,000	39,525	258,281	76,910
2013	186,385	30,293	90,000	35,743	276,385	66,036
2014	136,554	22,643	95,000	31,602	231,554	54,245
2015	140,810	17,172	95,000	27,090	235,810	44,262
2016 - 2019	306,742	18,521	435,000	58,310	741,742	76,831
Total	<u>\$ 1,114,072</u>	<u>170,315</u>	<u>880,000</u>	<u>235,195</u>	<u>1,994,072</u>	<u>405,510</u>

Bank Loan

On August 23, 2007, the City entered into a bank loan not to exceed \$130,000 with State Bank and Trust Company to provide interim financing for a trail project. Interest on the loan is payable quarterly at 7.25% per annum. At June 30, 2010, the balance outstanding on the loan was \$115,311. During the year ended June 30, 2010, the City paid interest of \$8,113 on the loan. The loan matured in December 2010 and was paid off with proceeds from a general obligation loan note issued by the City.

Revenue Notes

The City has pledged future electric customer receipts, net of specified operating disbursements, to repay \$1,310,000 of electric revenue notes issued in July 2004. Proceeds from the notes provided financing for electric utility improvements and extensions. The notes are payable solely from electric customer net receipts and are payable through 2019. 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 \$1,115,195. For the current year, principal and interest paid and total customer net receipts were \$126,165 and \$96,217, respectively.

The resolution providing for the issuance of the electric revenue notes includes the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to an electric revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers of 25% of the sinking account requirement shall be made to an electric reserve account within the Enterprise Funds until a balance of \$131,000 has been accumulated. This account is restricted for the purpose of paying principal and interest on the notes if

the balance in the sinking account is insufficient. The City has not properly funded the reserve account, but the required balance at June 30, 2010 of \$77,756 is reported as reserved net assets in the financial statements.

- (d) Monthly transfers of \$2,500 shall be made to an electric improvement account until a balance of \$50,000 has been accumulated. Funds may be used to pay principal and interest when and if funds are not available in the sinking and reserve accounts. Funds also may be used for extraordinary maintenance and improvements. The City has not properly funded the improvement account, but the required balance at June 30, 2010 of \$50,000 is reported as reserved net assets in the financial statements.
- (e) The City will cause the books and accounts of the electric utility system to be audited annually with the report due within 180 days of the end of the fiscal year.

At June 30, 2010, the City had established the sinking, reserve and improvement accounts but had not made the required transfers to the accounts. The City did not have required annual audits of the electric utility for the years ended June 30, 2007 through June 30, 2009.

#### **(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 4.30% of their annual covered salary and the City is required to contribute 6.65% 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, 2010 was \$14,036, equal to the required contribution for the year.

#### **(5) Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 4 active and no retired members in the plan.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$513 for single coverage and \$1,283 for family coverage. The same monthly premiums would apply to retirees. For the year ended June 30, 2010, the City contributed \$48,755 to the plan.

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours 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 hours payable to employees at June 30, 2010, primarily relating to the General Fund, was \$6,500. This liability has been computed based on rates of pay in effect at June 30, 2010.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Tax Increment Financing	\$ 10,513
Special Revenue: Local Option Sales Tax	General	18,000
Enterprise: Sewer	General	14,000
Electric		18,657
Water		14,000
Total		<u>\$ 75,170</u>

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

**(8) Risk Management**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 634 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2010 were \$31,717.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains generals, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total member's equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2010, settled claims have not exceeded the risk pool or reinsurance coverage since to pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contributions which the withdrawing member would have made for the one-year period following withdrawal.

**(9) Development and Rebate Agreement**

In 1997, the City entered into a development and rebate agreement to assist in an urban renewal project. The City agreed to rebate incremental property tax paid by the developer in exchange for infrastructure improvements constructed by the developer as set forth in the urban renewal plan and individual development and rebate agreement. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated over a fifteen year period, beginning with the tax year in which the property tax on the completed value of the improvements are first paid.

The agreement includes two projects, or phases, to the improvements, Projects A and B. The agreement required Project A infrastructure be completed by the developer on or before December 1, 1998. The maximum amount of reimbursement for Project A is the amount of the approved actual costs, originally estimated at \$2,500,000. Revised estimates for the actual costs of Project A were approximately \$2,200,000. As of June 30, 2010, the developer has submitted improvement costs totaling \$2,220,567.

Because the project includes public improvements related to housing and residential development, the City is statutorily required to include assistance for low and moderate income (LMI) family housing. The amount to be provided for LMI housing shall be equal to or greater than the percentage of the original project cost that is equal to the percentage of low to moderate income residents in the county. The requirement will be funded from tax increment financing (TIF) collections.

The development agreement states, “The City agrees to accept alternative sources of funds to meet the LMI requirements, including suitable promissory notes from the developer maturing in not more than ten years, provided the City is satisfied that the said notes are sound and can be used until maturity as collateral in securing loans or other sources of funds for the LMI programs.”

In accordance with the agreement, the City has distributed 100% of TIF revenues for Project A to the developer and, in exchange, has accepted promissory notes from the developer equal to the LMI portion (30.14%) of the revenues distributed. The notes bear 0% interest and mature ten years from issuance or by October 8, 2012, whichever occurs first. All of the notes held by the City at June 30, 2010 mature in 2012. During the year ended June 30, 2010, the City received \$35,042 from the developer for paid promissory notes. At June 30, 2010, the City held promissory notes totaling \$621,218.

In 2008, the City and developer approved an amendment to the development and rebate agreement. The amended agreement states the maximum reimbursement to the developer for Project B shall not exceed \$1,600,000. In addition, the City deducts and retains the LMI requirements from TIF collections prior to reimbursing the developer for qualified expenses. The payments made to the developer for Project B are subject to annual appropriation by the City Council.

During the year ended June 30, 2010, the City rebated \$339,126 and \$29,309 of incremental property tax to the developer for projects A and B, respectively. At June 30, 2010, cumulative rebates since inception total \$2,177,371 and \$38,682 for projects A and B, respectively.

No bonds or notes were issued for this project. To the extent there are insufficient tax increment revenues available on any payment date to make the required scheduled payment, the unpaid amount shall be carried over to the next payment date without accruing any interest. The last year for collection of tax increment financing for projects A and B are fiscal year 2016 and fiscal year 2020, respectively.

**(10) Deficit Balances**

Deficit balances at June 30, 2010 were as follows:

<u>Fund</u>	<u>Amount</u>
General	\$ 881,782
Special Revenue:	
Road Use Tax	292,062

**(11) Subsequent Events**

In December 2010, the City Council approved a general obligation loan note with State Bank and Trust for \$204,000 with interest at 3.9% per annum. The loan proceeds are to be used for the bike trail.

In March 2011, the City Council authorized a general obligation loan note with Peoples Savings Bank for \$38,039 with interest at 3.0% per annum. The loan proceeds are to be used for swimming pool repair.

**City of Dike**

**Required Supplementary Information**

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

Required Supplementary Information

Year ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
<b>Receipts:</b>			
Property tax	\$ 449,480	-	-
Tax increment financing	395,832	-	-
Other city tax	67,571	-	-
Licenses and permits	6,331	-	-
Use of money and property	3,941	6,046	-
Intergovernmental	228,968	-	47,843
Charges for service	107,485	793,783	-
Miscellaneous	126,049	29,690	50,965
Total receipts	1,385,657	829,519	98,808
<b>Disbursements:</b>			
Public safety	208,408	-	87,482
Public works	169,690	-	-
Health and social services	4,284	-	-
Culture and recreation	236,370	-	-
Community and economic development	373,320	-	-
General government	87,565	-	-
Debt service	209,513	-	-
Capital projects	51,491	-	-
Business type activities	-	927,970	-
Total disbursements	1,340,641	927,970	87,482
Excess (deficiency) of receipts over (under) disbursements	45,016	(98,451)	11,326
Other financing sources, net	23,343	46,657	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	68,359	(51,794)	11,326
Balances beginning of year	(386,354)	665,701	19,784
Balances end of year	\$ (317,995)	613,907	31,110

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to
	Original	Final	Total Variance
449,480	445,720	445,720	3,760
395,832	358,634	396,246	(414)
67,571	63,881	63,881	3,690
6,331	2,150	4,500	1,831
9,987	2,250	2,250	7,737
181,125	139,258	143,381	37,744
901,268	938,700	951,535	(50,267)
104,774	7,750	12,750	92,024
<u>2,116,368</u>	<u>1,958,343</u>	<u>2,020,263</u>	<u>96,105</u>
120,926	120,739	120,739	(187)
169,690	113,866	135,186	(34,504)
4,284	4,100	4,100	(184)
236,370	220,595	224,595	(11,775)
373,320	359,134	524,464	151,144
87,565	76,725	76,725	(10,840)
209,513	199,743	199,743	(9,770)
51,491	-	22,708	(28,783)
927,970	836,964	870,149	(57,821)
<u>2,181,129</u>	<u>1,931,866</u>	<u>2,178,409</u>	<u>(2,720)</u>
(64,761)	26,477	(158,146)	93,385
<u>70,000</u>	-	<u>70,000</u>	-
5,239	26,477	(88,146)	93,385
<u>259,563</u>	<u>339,451</u>	-	<u>259,563</u>
<u>264,802</u>	<u>365,928</u>	<u>(88,146)</u>	<u>352,948</u>

City of Dike

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

The budgetary comparison is presented as Required Supplementary Information 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 blended component unit. 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 and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$246,543. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public safety, public works, health and social services, culture and recreation, general government, debt service, capital projects and business type activities functions.

**Other Supplementary Information**

**Schedule 1**

## City of Dike

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

As of and for the year ended June 30, 2010

	<u>Special</u>		
	<u>Revenue</u>		
	<u>Fire and Rescue</u>	<u>Capital</u>	
	<u>Association</u>	<u>Projects</u>	<u>Total</u>
Receipts:			
Intergovernmental	\$ 47,843	39,790	87,633
Miscellaneous	50,965	-	50,965
Total receipts	<u>98,808</u>	<u>39,790</u>	<u>138,598</u>
Disbursements:			
Operating:			
Public safety	87,482	-	87,482
Debt service	-	8,113	8,113
Capital projects	-	51,491	51,491
Total disbursements	<u>87,482</u>	<u>59,604</u>	<u>147,086</u>
Net change in cash balances	11,326	(19,814)	(8,488)
Cash balances beginning of year	<u>19,784</u>	<u>140,360</u>	<u>160,144</u>
Cash balances end of year	<u>\$ 31,110</u>	<u>120,546</u>	<u>151,656</u>
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Special revenue funds	\$ 31,110	-	31,110
Capital projects fund	-	120,546	120,546
Total cash basis fund balances	<u>\$ 31,110</u>	<u>120,546</u>	<u>151,656</u>

See accompanying independent auditor's report.

## City of Dike

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

As of and for the year ended June 30, 2010

	Enterprise		
	Water	Sales Tax	Total
Operating receipts:			
Charges for service	\$ 67,732	-	67,732
Miscellaneous	1,965	17,824	19,789
Total operating receipts	69,697	17,824	87,521
Operating disbursements:			
Business type activities	67,560	14,632	82,192
Excess of operating receipts over operating disbursements	2,137	3,192	5,329
Non-operating receipts (disbursements):			
Interest on investments	15	-	15
Capital projects	(17,292)	-	(17,292)
Net non-operating receipts (disbursements)	(17,277)	-	(17,277)
Excess (deficiency) of receipts over (under) disbursements	(15,140)	3,192	(11,948)
Operating transfers in	14,000	-	14,000
Net change in cash balances	(1,140)	3,192	2,052
Cash balances beginning of year	30,178	32,384	62,562
Cash balances end of year	\$ 29,038	35,576	64,614
<b>Cash Basis Fund Balances</b>			
Unreserved	\$ 29,038	35,576	64,614

See accompanying independent auditor's report.

City of Dike  
Statement of Indebtedness  
Year ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
2nd Street storm sewer	May 15, 2002	4.625%	\$ 300,000
Sewer improvements	Mar 15, 2003	3.75	140,000
Fire equipment	Jan 4, 2006	4.02	308,000
Water improvements	Jun 15, 2006	3.80-4.25	400,000
Library	Feb 28, 2007	4.55	250,000
Fire building	May 30, 2008	3.00	210,000
Street equipment	Oct 28, 2009	4.00	70,000
Total			
Bank loan:			
Trail	Aug 23, 2007	7.25%	\$ 125,311
Revenue notes:			
Electric	Jul 1, 2004	3.30-5.30%	\$ 1,310,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
140,000	-	30,000	110,000	6,475
56,000	-	14,000	42,000	2,100
229,000	-	30,000	199,000	9,206
350,000	-	35,000	315,000	14,305
211,099	-	22,375	188,724	9,484
210,000	-	20,652	189,348	6,146
-	70,000	-	70,000	1,657
<u>\$ 1,196,099</u>	<u>70,000</u>	<u>152,027</u>	<u>1,114,072</u>	<u>49,373</u>
<u>115,311</u>	<u>-</u>	<u>-</u>	<u>115,311</u>	<u>8,113</u>
<u>960,000</u>	<u>-</u>	<u>80,000</u>	<u>880,000</u>	<u>46,165</u>

City of Dike  
Note Maturities  
June 30, 2010

Year Ending June 30,	2nd Street Storm Sewer		Sewer Improvements		Fire Equipment		General Obligation Water Improvements	
	Issued May 15, 2002		Issued Mar 15, 2003		Issued Jan 4, 2006		Issued Jun 15, 2006	
	Interest		Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount
2011	4.625%	\$ 35,000	3.75%	\$ 14,000	4.02%	\$ 30,000	3.95%	\$ 40,000
2012	4.625	35,000	3.75	14,000	4.02	31,000	4.00	40,000
2013	4.625	40,000	3.75	14,000	4.02	32,000	4.05	45,000
2014	-	-	-	-	4.02	34,000	4.10	45,000
2015	-	-	-	-	4.02	36,000	4.15	45,000
2016	-	-	-	-	4.02	36,000	4.20	50,000
2017	-	-	-	-	-	-	4.25	50,000
2018	-	-	-	-	-	-	-	-
2019	-	-	-	-	-	-	-	-
Total		<u>\$ 110,000</u>		<u>\$ 42,000</u>		<u>\$ 199,000</u>		<u>\$ 315,000</u>

Year Ending June 30,	Revenue Notes	
	Electric	
	Issued Jul 1, 2004	
Interest		
Rates	Amount	
2011	4.25%	\$ 80,000
2012	4.45	85,000
2013	4.60	90,000
2014	4.75	95,000
2015	4.90	95,000
2016	5.00	100,000
2017	5.10	105,000
2018	5.20	110,000
2019	5.30	120,000
Total		<u>\$ 880,000</u>

See accompanying independent auditor's report.

Notes						
Library		Fire Building		Street Equipment		
Issued Feb 28, 2007		Issued May 30, 2008		Issued Oct 28, 2009		
Interest		Interest		Interest		
Rates	Amount	Rates	Amount	Rates	Amount	Total
4.55%	\$ 23,420	3.00%	\$ 21,276	4.00%	\$ 6,604	170,300
4.55	24,492	3.00	21,919	4.00	6,870	173,281
4.55	25,655	3.00	22,582	4.00	7,148	186,385
4.55	26,852	3.00	23,265	4.00	7,437	136,554
4.55	28,105	3.00	23,968	4.00	7,737	140,810
4.55	29,411	3.00	24,692	4.00	8,050	148,153
4.55	30,789	3.00	25,439	4.00	8,375	114,603
	-	3.00	26,207	4.00	8,714	34,921
	-		-	4.00	9,065	9,065
	<u>\$ 188,724</u>		<u>\$ 189,348</u>		<u>\$ 70,000</u>	<u>1,114,072</u>

**City of Dike**



# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

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Des Moines, Iowa 50319-0004

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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 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 Dike, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated May 17, 2011. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009. Except as noted in the Independent Auditor's Report, 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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Dike's internal control over financial reporting as a basis for designing our auditing procedures 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 Dike's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Dike's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting 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 Dike'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 (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 (H) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dike'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, 2010 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 Dike's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Dike's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Dike and other parties to whom the City of Dike may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Dike 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.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

May 17, 2011

City of Dike  
Schedule of Findings  
Year ended June 30, 2010

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

- (A) Segregation of Duties – During our review of internal control, the existing procedures are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the City's financial statements. One person had control over each of the following areas for which no compensating controls exist:
- (1) Accounting system – performance of all general accounting functions and having custody of assets.
  - (2) Cash – initiating cash receipt and disbursement functions, handling and recording cash and reconciling.
  - (3) Long-term debt – recording, reconciling and performing cash functions.
  - (4) Receipts – collecting, depositing, journalizing and posting. In addition, a list of mail receipts is not prepared by the mail opener.
  - (5) Utility receipts – billing, collecting, depositing, posting and reconciling.
  - (6) Disbursements – purchasing, preparing and recording.
  - (7) Payroll – preparing and distributing.

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

Response – This is difficult to do but the City will try to follow the recommendation.

Conclusion – Response accepted.

- (B) Bank Reconciliations – The cash and investment balances on the City's general ledger balance sheet are not properly reconciled to the bank and investment balances monthly. Variances were not investigated and resolved by the City in a timely basis.

Recommendation – The City should ensure the bank and investment balances are reconciled monthly to the general ledger balance sheet and all variances are investigated and resolved in a timely manner.

City of Dike

Schedule of Findings

Year ended June 30, 2010

Response – With the City’s new software and training, the reconciliations are being done monthly.

Conclusion – Response accepted.

- (C) Transfers – Transfers were not adequately explained or authorized by the Council in the minutes record. Several transfers were incorrectly recorded as receipts or disbursements. Adjustments were subsequently made to properly report the amounts in the City’s financial statements.

Recommendation – All transfers should be approved by the City Council and documented in the minutes record. A procedure should be developed to require adequate explanation and documentation for each transfer. Transfers should not be included in receipts and disbursements.

Response – All transfers will be approved by the Council and documented in the minutes. Transfers will not be included in receipts and disbursements.

Conclusion – Response accepted.

- (D) Disbursements – Certain disbursements were not approved by the Council prior to disbursement. Although the City has a written disbursement approval policy allowing certain items to be paid prior to Council approval, the disbursements noted were not within the scope allowed by the policy.

Certain disbursements were not supported by proper documentation, or the invoices or other supporting documentation could not be located for review.

In addition, sales tax was paid on several items tested although the City is a tax exempt entity.

Certain disbursements for late fees, penalties or interest charges were coded to incorrect object codes.

Certain checks were backdated to the prior fiscal year.

Recommendation – City disbursements should be approved by the Council prior to disbursement with the exception of those specifically allowed by the policy. All disbursements should be supported by original invoices or other supporting documentation. The City should ensure sales tax is not paid. Disbursements should be posted to the proper disbursement object code to accurately reflect the use of the funds. Check dates should reflect the actual date of issuance.

Response – The City will comply with the recommendation.

Conclusion – Response accepted.

City of Dike  
Schedule of Findings  
Year ended June 30, 2010

- (E) Accounting Policies and Procedures Manual – The City does not have a written 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 similar, situations arise.
- (4) Help preserve key elements in the City's internal control.
- (5) Increase effectiveness and efficiency.

Response – The City will create an accounting policies and procedures manual to go along with the new software.

Conclusion – Response accepted.

- (F) Information Systems – The following items were noted regarding the City's information systems:

- Daily backups are not stored off-site as required by the City's policy.
- The City is not consistently performing a complete system back up (both transactions and programs) weekly as required by the City's policy.
- A computer log is not maintained to determine who recorded transactions.

Recommendation – The City should implement procedures to address the above items to improve the City's control over information systems.

Response – An off-site backup is being done daily and weekly system backups will be completed. The new software provides a computer log to show who is recording transactions.

Conclusion – Response accepted.

- (G) Credit Cards – The City maintains credit card accounts at various stores to be used by employees for purchases of fuel and supplies. The following items were noted regarding credit card purchases:

- The City does not have a written policy for use of credit cards.

City of Dike

Schedule of Findings

Year ended June 30, 2010

- The fuel card is maintained at the gas station and no authorized list of users exists. Receipts for fuel purchases do not always identify the City vehicle number.
- Employees do not always turn in the receipts to the City Clerk for credit card purchases.

Recommendation – The Council should adopt a written policy governing the use of City owned credit cards. The policy should specify the individuals who are authorized to use the cards and should include the types of expenses allowed to be charged and the documentation required to be submitted to support the expense incurred and to allow authorization for payment. The policy should prohibit the use of City owned credit cards for personal expenses.

The City should ensure proper supporting documentation is submitted by employees to support the amounts charged on the credit cards.

Response – The City will create a written policy on credit card use and will inform all departments on the proper use and importance of acquiring receipts.

Conclusion – Response accepted.

(H) Timesheets – Timesheets did not include evidence of supervisory review.

Recommendation – Department heads and officials should sign off on timesheets to indicate review and approval.

Response – All timesheets will be marked to show review and approval by City officials.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

City of Dike

Schedule of Findings

Year ended June 30, 2010

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the public safety, public works, health and social services, culture and recreation, general government, debt service, capital projects and business type activities 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 – The budget should be amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

Response – The City will follow the above recommendation.

Conclusion – Response accepted.

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

Paid to	Description	Amount
IPERS	Interest, late fees and penalties	\$ 185
Iowa Department of Revenue	Penalties	205
Department of Treasury	Penalties	478
The Flower Farm	Flowers for employee	45
Hy-Vee	Flowers for employee	42
Kwik Trip, Inc.	Coffee for City hall	5

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

Recommendation - The Council should determine and document the public purpose and propriety of these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation. All tax remittances should be paid timely to avoid penalties and late charges.

Response – We will pay our taxes timely to avoid late charges and penalties. We will also discontinue the practice of purchasing coffee and flowers.

Conclusion – Response accepted.

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

City of Dike

Schedule of Findings

Year ended June 30, 2010

- (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 was not maintained for the year ended June 30, 2010. Chapter 64 of the Code of Iowa states, "All public officers, except as specifically provided, shall give bond." The City did maintain coverage of \$5,000 for employee dishonesty.

Recommendation - The City should comply with the provisions contained in Chapter 64 of the Code of Iowa and periodically review its coverage for adequacy.

Response – The City has contacted our insurance agent to ensure we have surety bond coverage. The City will review the coverage periodically.

Conclusion – Response accepted.

- (6) Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

The City did not always publish a summary of receipts and total disbursements by fund as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should publish a summary of receipts and total disbursements by fund as required.

Response - The City will publish a summary of receipts and disbursements by fund as required.

Conclusion – Response accepted.

- (7) Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

- (8) Revenue Notes – The City has not made the required transfers to the electric revenue note sinking, reserve or improvement accounts as required by the note resolution.

The electric note resolution states the City “will cause the books and accounts to be audited annually not later than 180 days after the end of each fiscal year by an independent auditor.” The City has not complied with this provision.

Recommendation – The City should make the necessary transfers as required by the note resolution. The City should review the revenue note resolution and comply with the audit provisions.

Response – The City will comply with the recommendation.

Conclusion – Response accepted.

City of Dike

Schedule of Findings

Year ended June 30, 2010

- (9) Financial Condition – At June 30, 2010, the City had deficit balances in the following funds:

<u>Fund</u>	<u>Amount</u>
General	\$881,782
Special Revenue: Road Use Tax	292,062

Recommendation – Because the deficits in these funds have continued to increase during the four years since the City was last audited for the year ended June 30, 2006, and because the deficit in each fund substantially exceeds the annual recurring receipts of each fund for the year ended June 30, 2010, the City should take immediate steps to begin reducing and eventually eliminating these deficits in order to return the funds to sound financial condition.

Response – The City will investigate alternatives to eliminate these deficits.

Conclusion – Response accepted.

- (10) Capital Projects Fund – The Capital Projects Fund consists of separate accounts for each of the City's projects. Many of the accounts are inactive and were not closed out at the completion of the project.

Recommendation – The City should make transfers to close the inactive accounts.

Response – The City will comply with the recommendation.

Conclusion – Response accepted.

- (11) Tax Levies – The following items were noted regarding property tax levied by the City:

Liability and Property Insurance Levy – The City accounts for the amounts received from the insurance levy in the General Fund. During the year ended June 30, 2010, the City received \$6,606 more from the insurance levy than was disbursed. The City does not maintain a subsidiary ledger to account for insurance levy receipts, disbursements and unspent balances.

Emergency Levy – The City levied property tax for an Emergency Fund in accordance with Chapter 384.8 of the Code of Iowa but recorded the property tax in the General Fund rather than establishing a Special Revenue Fund, as required.

Employee Benefit Levy – The City accounted for the proceeds of the employee benefit levy in the General Fund rather than establishing a Special Revenue Fund, as required. During the year ended June 30, 2010, the City received \$21,310 more from the levy than was disbursed.

City of Dike

Schedule of Findings

Year ended June 30, 2010

Recommendation – The City should maintain a subsidiary ledger in the General Fund to account for insurance levy receipts, disbursements and unspent balances and ensure the levy is used for allowable purposes. The City should establish Special Revenue Funds for the Emergency and Employee Benefit levies as required. The City should determine the unspent balance of the emergency and employee benefit levies in the General Fund, including the \$21,310 balance for the employee benefit levy from fiscal year 2010 and any balances from prior fiscal years and transfer the balances from the General Fund to Special Revenue, Emergency and Employee Benefits Funds.

Response – The required funds have been established and the City will comply with making the needed transfer.

Conclusion – Response accepted.

- (12) Fire Department Grants – During the year ended June 30, 2010, the City's fire department grant awards and the related activity were recorded in the Dike Fire and Rescue Association accounts, a component unit of the City, rather than the City's records.

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 of the City should be recorded in the Clerk's records.

Response – The City will work with the Fire department to comply with the recommendation.

Conclusion – Response accepted.

- (13) Sales Tax Fund – The Enterprise, Sales Tax Fund balance has increased from \$7,699 at June 30, 2006 to \$35,576 at June 30, 2010. The City was unable to provide a reason for the excessive balance.

Recommendation – The City should investigate this matter to determine sales tax collections have been properly remitted to the State.

Response – The City will investigate this matter and resolve the problem with the excessive balance.

Conclusion – Response accepted.

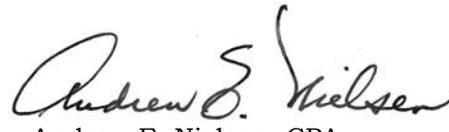
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City of Dike

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager  
Billie Jo Heth, Senior Auditor II  
Kelly L. Hilton, Staff Auditor  
Rosemary E. Nielsen, Staff Auditor

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

Andrew E. Nielsen, CPA  
Deputy Auditor of State