



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

December 10, 2007

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 \$2,436,614 for the year ended June 30, 2006. The receipts included \$278,065 in property tax, \$300,143 from tax increment financing, \$838,511 from charges for service, \$148,700 from operating grants, contributions and restricted interest, \$73,591 from capital grants, contributions and restricted interest, \$54,315 from local option sales tax, \$7,983 from unrestricted interest on investments, \$708,000 from note proceeds and \$27,306 from other general receipts.

Disbursements for the year totaled \$2,309,314, and included \$482,987 for capital projects, \$418,059 for public safety and \$204,322 for culture and recreation. Also, disbursements for business type activities totaled \$781,023.

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/reports.htm>.

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CITY OF DIKE

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

JUNE 30, 2006

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City of Dike

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Donald E. Knudsen	Mayor	Jan 2006
Stan Van Hauen	Mayor Pro tem	Jan 2008
Timothy Stage	Council Member	Jan 2006
James Boike	Council Member	Jan 2006
Larry Dufel	Council Member	Jan 2006
Sara Parr	Council Member	Jan 2008
Patti Freese	Clerk	Indefinite
Ann Hilliard	Deputy Clerk/Treasurer	Indefinite
Gerald R. Monk	Attorney	Indefinite
(After January 2006)		
Donald E. Knudsen	Mayor	Jan 2008
Stan Van Hauen	Mayor Pro tem	Jan 2008
Sara Parr	Council Member	Jan 2008
Timothy Stage	Council Member	Jan 2010
James Boike	Council Member	Jan 2010
Larry Dufel	Council Member	Jan 2010
Patti Freese	Clerk	Indefinite
Ann Hilliard	Deputy Clerk/Treasurer	Indefinite
Gerald Monk	Attorney	Indefinite

City of Dike



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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, 2006, 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, 2005.

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, 2005, 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, 2006, 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 deficit increased to \$595,680 at June 30, 2006, an increase of \$313,292 during the three year period since the City was last audited for the year ended June 30, 2003. The deficit is approximately 170% of the City's recurring General Fund receipts of \$346,518 during the year ended June 30, 2006. The City has minimal, if any, remaining Constitutional debt capacity and limited opportunities for additional tax levy authority. The City has stated it would investigate alternatives to eliminate this deficit.

As described in Note 9, during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated September 26, 2007 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 internal control over financial reporting or 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, 2005, 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

September 26, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and 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.

2006 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental funds increased approximately \$109,000, due primarily to general obligation notes sold and not completely spent during the year.
- The cash basis net assets of the City's business type activities increased approximately \$18,000.

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 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, electric and garbage 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 garbage operations. The Sewer and Electric Funds are considered to be major funds of the City.

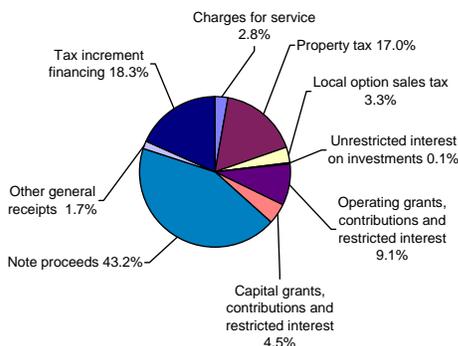
The required financial statement for proprietary funds is a statement of cash receipts, disbursements, and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

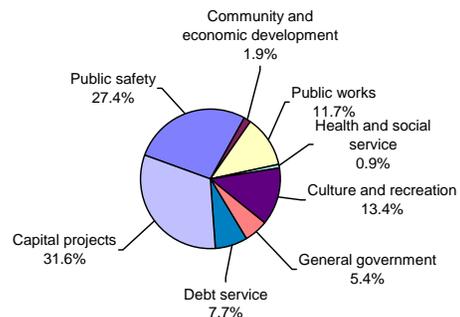
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$(279,222) to \$(170,221). The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2006
Receipts:	
Program receipts:	
Charges for service	\$ 45,099
Operating grants, contributions and restricted interest	148,700
Capital grants, contributions and restricted interest	73,591
General receipts:	
Property tax	278,065
Tax increment financing	300,143
Local option sales tax	54,315
Unrestricted interest on investments	2,073
Note proceeds	708,000
Other general receipts	27,306
Total receipts	<u>1,637,292</u>
Disbursements:	
Public safety	418,059
Public works	178,509
Health and social service	13,706
Culture and recreation	204,322
Community and economic development	29,585
General government	82,890
Debt service	118,233
Capital projects	482,987
Total disbursements	<u>1,528,291</u>
Increase in cash basis net assets	109,001
Cash basis net assets beginning of year	<u>(279,222)</u>
Cash basis net assets end of year	<u><u>\$ (170,221)</u></u>

Receipts by Source



Disbursements by Function



The cash basis net assets of the City's governmental funds increased \$109,001 due primarily to general obligation notes sold and not completely spent during the year.

<u>Changes in Cash Basis Net Assets of Business Type Activities</u>	
	<u>Year ended June 30, 2006</u>
Receipts:	
Program receipts:	
Charges for service:	
Sewer	\$ 101,225
Electric	539,704
Water	74,786
Solid waste	54,107
Sales tax	23,590
General receipts:	
Unrestricted interest on investments	5,910
Total receipts	<u>799,322</u>
Disbursements:	
Sewer	64,564
Electric	578,192
Water	71,253
Solid waste	49,391
Sales tax	17,623
Total disbursements	<u>781,023</u>
Increase in cash basis net assets	18,299
Cash basis net assets beginning of year	<u>944,814</u>
Cash basis net assets end of year	<u>\$ 963,113</u>

Total business type activities balance increased only slightly from a year ago.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Dike completed the year, its governmental funds reported a combined fund balance of \$(170,221), an increase of more than \$109,001 above last year's total of \$(279,222). 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 \$101,530 from the prior year to \$(595,680). This decrease is due to disbursements exceeding receipts, consistent with the City's budget projections.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$33,427 to \$281,469 during the fiscal year. The increase was due to less spending of local option sales tax collections.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$65,858 to \$(176,210) during the fiscal year. The decrease was due to street repairs and maintenance costs in excess of receipts.
- The Special Revenue, Tax Increment Financing Fund cash balance decreased \$2,073 to \$(984).
- The Capital Projects Fund cash balance at year end was \$291,952, representing unspent project note proceeds.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance increased \$40,057 to \$417,787. This increase was due primarily to an increase in collections.
- The Electric Fund cash balance decreased \$38,424 to \$395,966. The decrease was due primarily to revenue note principal and interest paid.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on March 13, 2006 and resulted in an increase in operating disbursements of \$441,149 related to five disbursement functions. The amendment included additional costs for mosquito control, campground, equipment lease, interest on debt, housing rehabilitation project and engineering. The City sold general obligation notes and used grant and charges for service receipts to absorb these additional costs.

The City’s receipts were \$559,330 less than budgeted receipts, a variance of 25%. The most significant variances were tax increment revenues were less than anticipated, charges for service were less because the budgeted receipts included rate increases which were not approved and the budget for miscellaneous receipts included \$308,000 of note proceeds which are reported as an other financing source.

Total disbursements were \$38,825 more than budgeted. The public safety function exceeded the budget by \$307,879 and the capital projects function was under budget by \$334,121 because fire equipment purchased by the City was budgeted under the capital projects function but disbursed from the public safety function.

Even with this budget amendment, the City exceeded the budget for the public safety, public works, culture and recreation, community and economic development and business type activities functions for the year ended June 30, 2006.

DEBT ADMINISTRATION

At June 30, 2006, the City had \$2,234,000 in long-term debt outstanding. The chart below segregates the City’s debt into its component parts.

Outstanding Debt at Year-End	
General obligation notes	\$ 1,059,000
Revenue notes	1,175,000
Total	<u>\$ 2,234,000</u>

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 compliance with its constitutional debt limit is currently under review.

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 2007 budget, tax rates and fees charged for various City activities. The City’s FY 2007 taxable value increased \$1,673,727, or 8%, from the FY 2006 level.

The fiscal year 2007 budget contains total receipts of \$2,161,919 and disbursements of \$2,167,179. The budgeted cash balance is expected to decrease \$5,260 to \$375,976.

The FY2007 levy is \$11.36836 per \$1,000 of taxable valuation, a decrease from \$11.67578 per \$1,000 of taxable valuation for FY2006. The debt service levy decreased from \$3.57578 per \$1,000 of taxable valuation for FY2006 to \$3.26836 per \$1,000 of taxable valuation for FY2007 due to the increase in taxable valuation in FY2007.

Residential development is continuing to occur in Fox Ridge Addition on the east side of the City. The City continues with the housing rehabilitation project.

The City is in the process of bonding and applying for grants for an addition to the library. In addition, fundraising activities continue to help fund the project.

A new recreational trail is in development. The trail will run through the City and eventually meet a trail project from the County that will go around the lake south of town. The City has applied for a federal grant for the project.

These parameters were taken into account when adopting the budget for FY2007.

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, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 418,059	7,045	32,597	-
Public works	178,509	1,174	79,037	-
Health and social services	13,706	-	-	-
Culture and recreation	204,322	34,798	22,132	46,814
Community and economic development	29,585	-	-	-
General government	82,890	2,082	14,348	-
Debt service	118,233	-	-	-
Capital projects	482,987	-	586	26,777
Total governmental activities	1,528,291	45,099	148,700	73,591
Business type activities:				
Sewer	64,564	101,225	-	-
Electric	578,192	539,704	-	-
Water	71,253	74,786	-	-
Solid waste	49,391	54,107	-	-
Sales tax	17,623	23,590	-	-
Total business type activities	781,023	793,412	-	-
Total	\$ 2,309,314	838,511	148,700	73,591
General Receipts:				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Note proceeds				
Sale of land				
Miscellaneous				
Total general receipts				
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:				
Local option sales tax				
Debt service				
Improvements				
Capital projects				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

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

Governmental Activities	Business Type Activities	Total
(378,417)	-	(378,417)
(98,298)	-	(98,298)
(13,706)	-	(13,706)
(100,578)	-	(100,578)
(29,585)	-	(29,585)
(66,460)	-	(66,460)
(118,233)	-	(118,233)
(455,624)	-	(455,624)
(1,260,901)	-	(1,260,901)
-	36,661	36,661
-	(38,488)	(38,488)
-	3,533	3,533
-	4,716	4,716
-	5,967	5,967
-	12,389	12,389
(1,260,901)	12,389	(1,248,512)
165,060	-	165,060
300,143	-	300,143
113,005	-	113,005
54,315	-	54,315
2,073	5,910	7,983
708,000	-	708,000
15,900	-	15,900
11,406	-	11,406
1,369,902	5,910	1,375,812
109,001	18,299	127,300
(279,222)	944,814	665,592
\$ (170,221)	963,113	792,892
\$ 281,469	-	281,469
3,103	62,088	65,191
-	50,000	50,000
291,952	-	291,952
26,129	-	26,129
(772,874)	851,025	78,151
\$ (170,221)	963,113	792,892

City of Dike

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

As of and for the year ended June 30, 2006

	Special Revenue			
	General	Local Option Sales Tax	Road Use Tax	Tax Increment Financing
Receipts:				
Property tax	\$ 165,060	-	-	-
Tax increment financing	-	-	-	300,143
Other city tax	25,595	32,589	-	-
Licenses and permits	4,482	-	-	-
Use of money and property	4,725	838	-	-
Intergovernmental	39,750	-	79,037	-
Charges for service	26,560	-	-	-
Special assessments	-	-	-	-
Miscellaneous	80,346	-	-	-
Total receipts	<u>346,518</u>	<u>33,427</u>	<u>79,037</u>	<u>300,143</u>
Disbursements:				
Operating:				
Public safety	407,831	-	-	-
Public works	33,614	-	144,895	-
Health and social services	13,706	-	-	-
Culture and recreation	204,322	-	-	-
Community and economic development	29,585	-	-	-
General government	82,890	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	302,216
Total disbursements	<u>771,948</u>	<u>-</u>	<u>144,895</u>	<u>302,216</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(425,430)</u>	<u>33,427</u>	<u>(65,858)</u>	<u>(2,073)</u>
Other financing sources (uses):				
Note proceeds	308,000	-	-	-
Sale of capital assets	15,900	-	-	-
Total other financing sources (uses)	<u>323,900</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	(101,530)	33,427	(65,858)	(2,073)
Cash balances beginning of year	(494,150)	248,042	(110,352)	1,089
Cash balances end of year	<u>\$ (595,680)</u>	<u>281,469</u>	<u>(176,210)</u>	<u>(984)</u>
Cash Basis Fund Balances				
Reserved for debt service	\$ -	-	-	-
Unreserved:				
General fund	(595,680)	-	-	-
Special revenue funds	-	281,469	(176,210)	(984)
Capital projects fund	-	-	-	-
Total cash basis fund balances	<u>\$ (595,680)</u>	<u>281,469</u>	<u>(176,210)</u>	<u>(984)</u>

See notes to financial statements.

Capital Projects	Nonmajor	Total
-	113,005	278,065
-	-	300,143
-	-	58,184
-	-	4,482
-	55	5,618
26,777	-	145,564
-	-	26,560
1,632	-	1,632
585	12,213	93,144
<u>28,994</u>	<u>125,273</u>	<u>913,392</u>
-	10,228	418,059
-	-	178,509
-	-	13,706
-	-	204,322
-	-	29,585
-	-	82,890
-	118,233	118,233
180,771	-	482,987
<u>180,771</u>	<u>128,461</u>	<u>1,528,291</u>
<u>(151,777)</u>	<u>(3,188)</u>	<u>(614,899)</u>
400,000	-	708,000
-	-	15,900
<u>400,000</u>	<u>-</u>	<u>723,900</u>
248,223	(3,188)	109,001
43,729	32,420	(279,222)
<u>291,952</u>	<u>29,232</u>	<u>(170,221)</u>
-	3,103	3,103
-	-	(595,680)
-	26,129	130,404
<u>291,952</u>	<u>-</u>	<u>291,952</u>
<u>291,952</u>	<u>29,232</u>	<u>(170,221)</u>

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, 2006

	Sewer	Electric	Nonmajor	Total
Operating receipts:				
Use of property and money	\$ 5,400	-	-	5,400
Charges for service	95,675	539,704	126,213	761,592
Miscellaneous	150	-	26,270	26,420
Total operating receipts	101,225	539,704	152,483	793,412
Operating disbursements:				
Business type activities	64,564	436,966	138,267	639,797
Excess of operating receipts over operating disbursements	36,661	102,738	14,216	153,615
Non-operating receipts (disbursements):				
Interest on investments	3,396	64	2,450	5,910
Capital outlay	-	(15,314)	-	(15,314)
Debt service	-	(125,912)	-	(125,912)
Net non-operating receipts (disbursements)	3,396	(141,162)	2,450	(135,316)
Net change in cash balances	40,057	(38,424)	16,666	18,299
Cash balances beginning of year	377,730	434,390	132,694	944,814
Cash balances end of year	\$ 417,787	395,966	149,360	963,113
Cash Basis Fund Balances				
Reserved for:				
Debt service	\$ -	62,088	-	62,088
Improvements	-	50,000	-	50,000
Unreserved	417,787	283,878	149,360	851,025
Total	\$ 417,787	395,966	149,360	963,113

See notes to financial statements.

City of Dike

Notes to Financial Statements

June 30, 2006

(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, electric and garbage 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 & 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 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 two categories:

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

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 of Dike 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, 2006, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 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 \$298,401 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Public Agency Investment Trust is unrated for credit risk purposes.

(3) Notes Payable

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
2007	\$ 83,000	27,943	70,000	53,882	153,000	81,825
2008	94,000	56,694	70,000	51,572	164,000	108,266
2009	107,000	36,471	75,000	49,053	182,000	85,524
2010	109,000	32,086	80,000	46,165	189,000	78,251
2011	119,000	27,602	80,000	42,925	199,000	70,527
2012 - 2016	497,000	67,213	465,000	156,395	962,000	223,608
2017 - 2019	50,000	2,125	335,000	35,875	385,000	38,000
Total	\$ 1,059,000	250,134	1,175,000	435,867	2,234,000	686,001

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 for any additional improvements, extensions or repairs to the system.
- (d) Also 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 account. Funds also may be used for extraordinary maintenance and improvements.
- (e) The City will cause the books and accounts of the electric utility system to be audited annually.

At June 30, 2006, the City had not established the required sinking, reserve and improvement accounts and did not have an annual audit of the electric utility for the year ended June 30, 2005.

(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 3.70% of their annual covered salary and the City is required to contribute 5.75% 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, 2006 was \$8,963, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and personal time 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 and personal time hours payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation and personal time	\$ 4,700

This liability has been computed based on rates of pay in effect at June 30, 2006.

(6) 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 531 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 300 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, 2006 were \$30,103.

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 \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

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, 2006, 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 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 capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contributions which the withdrawing member would have made for the one-year period following withdrawal.

(7) Contractual Commitments

On April 26, 2006, the City entered into a "Booster Pump" construction contract for \$237,000. No payments have been made as of June 30, 2006. The contract will be paid as work progresses and will be funded with the proceeds of the \$400,000 general obligation notes sold on June 15, 2006.

(8) Development and Rebate Agreement

The City has entered into a development and rebate agreement to assist in an urban renewal project. The City agreed to rebate incremental taxes 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 taxes 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 taxes 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 to 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. As of June 30, 2006, the developer has submitted improvement costs totaling \$1,232,381. Revised estimates for the actual costs of Project A are approximately \$2,200,000.

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 residents in the county, or 30.14%. The requirement will be funded from tax increment financing 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 to the developer and, in exchange, has accepted promissory notes from the developer equal to the LMI portion (30.14%) of the revenues distributed. At June 30, 2006, the City held promissory notes totaling \$285,403. The notes bear 0% interest and mature ten years from issuance or by October 8, 2012, whichever occurs first. Of the notes held by the City at June 30, 2006, \$22,441 are scheduled to mature in 2011 and \$262,961 mature in 2012.

The agreement states Project B infrastructure completion was to be determined at a later date by mutual consent of the parties. The agreement does not stipulate the maximum reimbursement to the developer for Project B. The City has not entered into a subsequent written agreement for the completion and costs of Project B. At June 30, 2006, the developer had incurred preliminary costs for Project B but the City had not certified debt related to Project B. Current estimates for the actual costs of Project B are approximately \$1,400,000 to \$1,500,000.

During the year ended June 30, 2006, the City rebated \$302,216 of incremental taxes to the developer. Cumulative rebates since inception total \$946,924.

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.

(9) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2006. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Implementation of these standards had no effect on the beginning balances of the City.

(10) Deficit Balances

Deficit balances at June 30, 2006 were as follows:

<u>Fund</u>	<u>Amount</u>
General	\$ (595,680)
Special Revenue:	
Road Use Tax	(176,210)
Tax Increment Financing	(984)

The deficit in the General Fund will be eliminated through cutting back on spending and future property tax collections.

The deficit in the Special Revenue, Road Use Tax Fund will be eliminated through future collections of road use tax from the State of Iowa and review of road work needs in the future.

The deficit in the Special Revenue, Tax Increment Financing Fund will be eliminated through future tax increment financing collections.

(11) Subsequent Events

In October 2006, the City entered into a contract for library improvements and furnishings for \$433,660. In February 2007, the City approved the sale of \$250,000 in general obligation notes to finance a portion of the library project. The remaining portion of the project will be financed with fund raisers/donations, grants and local sources.

In April 2007, the City accepted a bid of \$479,625 for the construction of a recreational trail. In August 2007, the City approved the sale of \$130,000 of general obligation notes to aid in financing a portion of the project. The remaining portion of the project will be financed with grants and local sources.

In April 2007, the City approved the purchase of property at a cost of \$200,000. The City also approved an interfund loan of \$200,000 from the water and sewer funds to the project fund until the City can arrange for the issuance of general obligation bonds/notes to repay the interfund loan.

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, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 278,065	-	-
Tax increment financing	300,143	-	-
Other city tax	58,184	-	-
Licenses and permits	4,482	-	-
Use of money and property	5,618	11,310	55
Intergovernmental	145,564	-	-
Charges for service	26,560	761,592	-
Special assessments	1,632	-	-
Miscellaneous	93,144	26,420	12,213
Total receipts	913,392	799,322	12,268
Disbursements:			
Public safety	418,059	-	10,228
Public works	178,509	-	-
Health and social services	13,706	-	-
Culture and recreation	204,322	-	-
Community and economic development	29,585	-	-
General government	82,890	-	-
Debt service	118,233	-	-
Capital projects	482,987	-	-
Business type activities	-	781,023	-
Total disbursements	1,528,291	781,023	10,228
Excess (deficiency) of receipts over (under) disbursements	(614,899)	18,299	2,040
Other financing sources, net	723,900	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	109,001	18,299	2,040
Balances beginning of year	(279,222)	944,814	24,089
Balances end of year	\$ (170,221)	963,113	26,129

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
278,065	276,383	276,383	1,682
300,143	418,884	418,884	(118,741)
58,184	22,545	22,475	35,709
4,482	3,425	3,425	1,057
16,873	5,200	2,500	14,373
145,564	111,012	186,342	(40,778)
788,152	999,975	1,004,975	(216,823)
1,632	5,350	5,350	(3,718)
107,351	8,900	339,442	(232,091)
<u>1,700,446</u>	<u>1,851,674</u>	<u>2,259,776</u>	<u>(559,330)</u>
407,831	99,952	99,952	(307,879)
178,509	146,975	146,975	(31,534)
13,706	1,050	13,706	-
204,322	200,440	203,131	(1,191)
29,585	500	500	(29,085)
82,890	74,203	96,588	13,698
118,233	113,178	118,371	138
482,987	418,884	817,108	334,121
781,023	763,930	763,930	(17,093)
<u>2,299,086</u>	<u>1,819,112</u>	<u>2,260,261</u>	<u>(38,825)</u>
(598,640)	32,562	(485)	(598,155)
<u>723,900</u>	<u>-</u>	<u>-</u>	<u>723,900</u>
125,260	32,562	(485)	125,745
<u>641,503</u>	<u>160,870</u>	<u>160,870</u>	<u>480,633</u>
<u>766,763</u>	<u>193,432</u>	<u>160,385</u>	<u>606,378</u>

City of Dike

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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 ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. 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 Proprietary 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 \$441,149. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development 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, 2006

	<u>Special Revenue</u>		
	Fire and Rescue Association	Debt Service	Total
Receipts:			
Property tax	\$ -	113,005	113,005
Use of money and property	55	-	55
Miscellaneous	12,213	-	12,213
Total receipts	<u>12,268</u>	<u>113,005</u>	<u>125,273</u>
Disbursements:			
Operating:			
Public safety	10,228	-	10,228
Debt service	-	118,233	118,233
Total disbursements	<u>10,228</u>	<u>118,233</u>	<u>128,461</u>
Net change in cash balances	2,040	(5,228)	(3,188)
Cash balances beginning of year	24,089	8,331	32,420
Cash balances end of year	<u>\$ 26,129</u>	<u>3,103</u>	<u>29,232</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -	3,103	3,103
Unreserved:			
Special revenue funds	<u>26,129</u>	-	<u>26,129</u>
Total cash basis fund balances	<u>\$ 26,129</u>	<u>3,103</u>	<u>29,232</u>

See accompanying independent auditor's report.

City of Dike

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

Year ended June 30, 2006

	Water	Solid Waste	Sales Tax	Total
Operating receipts:				
Charges for service	\$ 72,106	54,107	-	126,213
Miscellaneous	2,680	-	23,590	26,270
Total operating receipts	74,786	54,107	23,590	152,483
Operating disbursements:				
Business type activities	71,253	49,391	17,623	138,267
Excess of operating receipts over operating disbursements	3,533	4,716	5,967	14,216
Non-operating receipts:				
Interest on investments	2,450	-	-	2,450
Net change in cash balances	5,983	4,716	5,967	16,666
Cash balances beginning of year	84,679	46,283	1,732	132,694
Cash balances end of year	\$ 90,662	50,999	7,699	149,360
Cash Basis Fund Balances				
Unreserved	\$ 90,662	50,999	7,699	149,360

See accompanying independent auditor's report.

City of Dike
Statement of Indebtedness
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
7th Street drainage	Aug 1, 1996	5.40%	\$ 100,000
Waterline extension	Apr 1, 1998	5.20-5.25	90,000
Street improvements	Aug 1, 2000	5.55	260,000
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 improvement	Jun 15, 2006	3.80-4.25	400,000
Total			
Revenue notes:			
Electric	Jul 1, 2004	3.30-5.30%	\$ 1,310,000
Lease purchase agreement:			
Street equipment	Jan 10, 2001	5.75%	\$ 108,900

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
20,000	-	10,000	10,000	1,070
27,000	-	9,000	18,000	1,402
35,000	-	35,000	-	1,942
250,000	-	25,000	225,000	11,563
112,000	-	14,000	98,000	4,200
-	308,000	-	308,000	5,056
-	400,000	-	400,000	-
\$ 444,000	708,000	93,000	1,059,000	25,233
1,245,000	-	70,000	1,175,000	55,912
50,726	-	50,726	-	1,579

City of Dike
 Note Maturities
 June 30, 2006

Year Ending June 30,	General Obligation Notes							
	7th Street Drainage		Waterline Extension		2nd Street Storm Sewer		Sewer Improvements	
	Issued Aug 1, 1996		Issued Apr 1, 1998		Issued May 15, 2002		Issued Mar 15, 2003	
	Interest		Interest		Interest		Interest	
Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	
2007	5.40%	\$ 10,000	5.20%	\$ 9,000	4.625%	\$ 25,000	3.75%	\$ 14,000
2008		-	5.25	9,000	4.625	30,000	3.75	14,000
2009		-		-	4.625	30,000	3.75	14,000
2010		-		-	4.625	30,000	3.75	14,000
2011		-		-	4.625	35,000	3.75	14,000
2012		-		-	4.625	35,000	3.75	14,000
2013		-		-	4.625	40,000	3.75	14,000
2014		-		-		-		-
2015		-		-		-		-
2016		-		-		-		-
2017		-		-		-		-
2018		-		-		-		-
2019		-		-		-		-
Total		<u>\$ 10,000</u>		<u>\$ 18,000</u>		<u>\$ 225,000</u>		<u>\$ 98,000</u>

See accompanying independent auditor's report.

Fire Equipment Issued Jan 4, 2006		Water Improvement Issued Jun 15, 2006		Revenue Notes Electric Issued Jul 1, 2004		
Interest		Interest		Interest		
Rates	Amount	Rates	Amount	Total	Rates	Amount
4.02%	\$ 25,000	3.80%	\$ -	83,000	3.30%	\$ 70,000
4.02	26,000	3.80	15,000	94,000	3.60	70,000
4.02	28,000	3.85	35,000	107,000	3.85	75,000
4.02	30,000	3.90	35,000	109,000	4.05	80,000
4.02	30,000	3.95	40,000	119,000	4.25	80,000
4.02	31,000	4.00	40,000	120,000	4.45	85,000
4.02	32,000	4.05	45,000	131,000	4.60	90,000
4.02	34,000	4.10	45,000	79,000	4.75	95,000
4.02	36,000	4.15	45,000	81,000	4.90	95,000
4.02	36,000	4.20	50,000	86,000	5.00	100,000
	-	4.25	50,000	50,000	5.10	105,000
	-		-	-	5.20	110,000
	-		-	-	5.30	120,000
	<u>\$ 308,000</u>		<u>\$ 400,000</u>	<u>1,059,000</u>		<u>\$ 1,175,000</u>

City of Dike



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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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, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated September 26, 2007. 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, 2005.

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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Dike's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A), (B) and (C) are material weaknesses.

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 that 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, 2006 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.

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

September 26, 2007

City of Dike
Schedule of Findings
Year ended June 30, 2006

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

(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) Investments – investing, recording and custody.
- (4) Long-term debt – recording, reconciling and performing cash functions.
- (5) Receipts – collecting, depositing, journalizing and posting.
- (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (7) Disbursements – purchasing, preparing and recording.
- (8) 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 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, however, the City will try to follow the recommendation.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

City of Dike

Schedule of Findings

Year ended June 30, 2006

- (B) Financial Records and Monthly Financial Reports – The City’s financial records contained numerous posting and clerical errors. Many errors involved improper journal entries made to adjust receipts, disbursements or transfers without a corresponding adjustment to cash or investments. As a result, the City’s general ledger balance sheet reported numerous proof variances indicating the financial records were not in balance. The cause for the proof variances was not identified or resolved by the City. Subsequent adjustments were made by the City to correct the errors identified during the audit.

The Clerk submits monthly financial reports to the Council but the reports did not reconcile to the City’s financial records. The ending fund balances reported on the monthly financial reports were not reconciled to the bank balances.

Recommendation – The City should ensure accurate financial records are maintained. Proof variances on the City’s general ledger balance sheet should be investigated and corrected in a timely manner. The monthly financial reports prepared for the Council should be reviewed for accuracy and the ending balances should be reconciled to the bank balances. The monthly bank reconciliations should be included with the monthly financial reports given to the Council.

Response – The City has employed outside help to assist the City in carrying out the recommendation.

Conclusion – Response accepted.

- (C) Bank Reconciling – 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.

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.

Response – The City will utilize outside help to ensure the bank and investment balances are reconciled monthly and in a timely manner.

Conclusion – Response accepted.

- (D) 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) Aids in training additional or replacement personnel and acts as a quick reference for staff members and officials.
- (2) Helps streamline accounting operations by achieving uniformity in accounting and in application of policies and procedures.

City of Dike

Schedule of Findings

Year ended June 30, 2006

- (3) Saves supervisory time by recording decisions so they will not have to be made each time the same, or similar, situation arises.
- (4) Helps to preserve key elements in the City's internal control.
- (5) Increases effectiveness and efficiency.

Response – The City has started to create an accounting policies and procedures manual.

Conclusion – Response accepted.

(E) Information Systems – The City does not have written policies for:

- Requiring the maintenance of password privacy and confidentiality.
- Requiring a complete system back up (both transactions and programs) at least monthly and at fiscal year end.
- Requiring back up tapes be stored off-site daily.
- Requiring a computer log to determine who recorded a transaction.

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

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over information systems.

Response – The City intends to establish written policies as indicated above and to follow through with action on the policies.

Conclusion – Response accepted.

(F) 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.
- 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.
- Sales tax was paid on most purchases from Wal-Mart.

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.

City of Dike

Schedule of Findings

Year ended June 30, 2006

The City should ensure proper supporting documentation is submitted by employees to support the amounts charged on the credit cards. Also, the City should implement procedures to ensure sales tax is not paid.

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

Conclusion – Response accepted.

- (G) Timesheets – One full-time employee's timesheets did not record all hours worked but only reflected overtime hours.

Recommendation – Timesheets should be prepared for all employee hours to properly support the hours worked and all hours taken as vacation, sick leave, compensatory time, holiday hours and personal days.

Response – The City will require employees to maintain timesheets as recommended.

Conclusion – Response accepted.

- (H) Transfers – Intrafund transfers were not always adequately explained or authorized by the Council in the minutes record.

Recommendation – All transfers should be approved by the City Council and documented in the minutes record. A procedure should be developed to require adequate explanations and documentation for each transfer.

Response – The City Council will follow the recommendation that all transfers be approved by the Council and adequate explanation and documentation will be provided for each transfer.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Dike

Schedule of Findings

Year ended June 30, 2006

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2006, exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development 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 – 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) Council Minutes – Except as previously noted and as noted below, no transactions were found that we believe should have been approved in the Council minutes but were not.

Minutes were not always published within 15 days as required by Chapter 372.13(6) of the Code of Iowa.

Additionally, the publication did not include summaries of receipts and total disbursements by fund as required by Chapter 372.13(6) of the Code of Iowa.

Also, the minutes record did not always include the vote of each council member present as required by Chapter 21.3 of the Code of Iowa.

Recommendation – The City should publish minutes as required by Chapter 372.13(6). Additionally, the minutes record should reflect the vote of each council member as required by Chapter 21.3 of the Code of Iowa.

Response – The City will follow the procedures as stated by Code.

Conclusion – Response accepted.

City of Dike

Schedule of Findings

Year ended June 30, 2006

- (7) Deposits and Investments – Except as noted below, no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted.

The City's investment policy refers to Chapter 452 of the Code of Iowa instead of Chapter 12B.

Recommendation – The City's investment policy should be reviewed and should be amended to refer to Chapter 12B of the Code of Iowa.

Response – The City has acquired an example investment policy to be reviewed and adopted.

Conclusion – Response accepted.

- (8) Revenue Notes – The City has not established or 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 establish the required accounts and 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.

- (9) Financial Condition – At June 30, 2006, the City had deficit balances in certain accounts, as follows:

<u>Fund</u>	<u>Amount</u>
General	\$ 595,680
Special Revenue:	
Road Use Tax	176,210
Tax Increment Financing	984

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

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

Conclusion – Response accepted.

City of Dike

Schedule of Findings

Year ended June 30, 2006

- (10) General Obligation Capital Loan Note Accrued Interest – Accrued interest of \$585 on the general obligation capital loan note was posted to the Capital Projects Fund rather than to the Debt Service Fund as required by the note resolution.

Recommendation – The City should make a \$585 corrective transfer from the Capital Projects Fund to the Debt Service Fund to correct this posting error.

Response – The City will obtain outside assistance to remedy the situation.

Conclusion – Response accepted.

- (11) Annual Financial Report – The total beginning and ending balances reported in the City's June 30, 2006 annual financial report were approximately \$260,000 less than the balances reflected on the City's accounting system.

Recommendation – The City should ensure the beginning and ending balances reported in the Annual Financial Report are supported by the City's accounting records and reconcile to the bank balances.

Response – The City will utilize outside assistance to ensure the balances reported in the annual financial report are supported by accounting records.

Conclusion – Response accepted.

- (12) Capital Projects Fund – The City's 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. We also identified errors made by the City in prior years of posting of note proceeds to the incorrect account which were not corrected by the City.

Recommendation – Corrective transfers should be made between Capital Projects Fund accounts to properly record note proceeds received by the City in prior years. The City should also make transfers to close the inactive accounts.

Response – The City will obtain outside assistance to remedy the situation.

Conclusion – Response accepted.

- (13) Tax Increment Financing – The City's disbursements from the Special Revenue, Tax Increment Financing (TIF) Fund were budgeted and recorded in the capital project function rather than the debt service function.

Recommendation – Since TIF revenues may only be collected and used to repay debt in accordance with Chapter 403 of the Code of Iowa, the City should record disbursements from the TIF Fund in the debt service function.

Response – The City has employed outside help to make the necessary changes.

Conclusion – Response accepted.

City of Dike

Schedule of Findings

Year ended June 30, 2006

(14) Fox Ridge Addition Project

Development Agreement – On August 18, 1997, the City entered into a tax increment financing (TIF) Development Agreement, (Agreement) for the Fox Ridge Addition Project. The Agreement included two projects referred to as “Project A” and “Project B”.

For Project A, the Agreement required the Developer to complete the infrastructure on or before December 1, 1998 and specified a maximum amount of reimbursement to the Developer equal to the approved costs of the infrastructure estimated at \$2,500,000. The City currently estimates the approved costs at approximately \$2,200,000. However, the City’s final total cost is not known since the Developer has not yet submitted all invoices associated with Project A, as discussed below in the “Debt Limitation” section of this finding.

According to the Agreement, the schedule for completion of Project B was to be determined at a later date by mutual consent between the City and Developer. The Agreement does not specify an amount of reimbursement to be paid to the Developer for Project B. The City and Developer have not entered into a subsequent written agreement to establish a maximum amount of reimbursement or schedule for completion of Project B.

During the audit, the City Engineer provided a verbal estimate of the cost of Project B of approximately \$1,400,000 to \$1,500,000. According to City officials, the City intends to impose requirements similar to Project A for Project B but without a completion date since the Fox Ridge Addition Project is subject to a 20 year TIF limitation.

At June 30, 2006, Project B has begun but the Developer has not submitted any costs to the City for reimbursement and the City has not certified any debt to the County.

Recommendation – The City should enter into a written agreement with the Developer for Project B including a schedule for completion and the maximum costs to be reimbursed.

Response – The City will consult with our legal counsel and our bonding attorney about this matter.

Conclusion – Response accepted.

Debt Limitation – Pursuant to Article XI.3 of the Iowa Constitution, the City’s debt limitation is equal to five percent (5%) of the actual value of taxable property.

In addition to the issuance of various general obligation notes, the City entered into a Development Agreement for the Fox Ridge Addition Project as previously described.

In accordance with the Development Agreement, (Agreement), the Developer has submitted invoices and proof of payment for Project A to document the actual costs of the infrastructure. The City in turn, has annually certified to the County, the actual costs submitted by the Developer as tax increment debt. As previously noted, Project A was required to be completed by December 1, 1998. However, the Developer has not submitted all invoices associated with Project A. According to City officials, the Developer has withheld invoices to limit the amount of debt to the City.

City of Dike

Schedule of Findings

Year ended June 30, 2006

Subsequent to the 1997 Agreement, in a letter dated August 18, 1999, the City's bond counsel advised the City, "tax increment debt is debt of the City once incurred. By specific terms of this Agreement, the responsibilities of the City to reimburse the developer are, however, contingent on several events and conditions and therefore, in our opinion, not calculated as City debt until accepted and certified to the County as provided in Iowa Code Chapter 403."

However, in an Iowa Supreme Court decision dated June 11, 2003, *Fults and Siems vs. City of Coralville*, the Court concluded

"If there is no legally enforceable obligation to continue repayments in the future, such 'debt' is not considered constitutional debt.

Constitutional debt exists only when it appear(s) such contingency is sure to take place irrespective of any action taken or option exercised by the city in the future. That is, if a present indebtedness is incurred or obligations assumed which, without further action on the part of the city, have the effect to create an indebtedness at some future day, such are within the inhibition of the constitution.

But, if the fact of indebtedness depends upon some act of the city, or upon its volition to be exercised or determined at some future day, then no present indebtedness is incurred, and none will be until the period arrives, and the required act or option is exercised, and from that time only can it be said there exists an indebtedness."

The Developer Agreement does not contain a clause whereby the City must take action to approve continued participation in the Agreement. Accordingly, pursuant to the Iowa Supreme Court decision, there appears to be a legally enforceable obligation incurred when the Agreement was approved since the Developer payments are not contingent on any future or annual action of the City.

Pursuant to the Agreement, the City must make an annual determination of compliance prior to making the required reimbursements to the Developer. However, this provision does not appear to limit the City's indebtedness since the City would be obligated to make the required payments if the Developer is in compliance with the terms of the agreement. In addition, even though the Developer has not submitted all invoices and proof of payments for the costs incurred and the City has not certified all costs as debt, this does not appear to limit the City's indebtedness since according to the Agreement, the City is required to make reimbursements for the costs incurred.

If all of the Fox Ridge Addition estimated costs are included in the Constitutional debt calculation, including some costs not yet certified with the County Auditor, the City exceeded its Constitutional debt limit by approximately \$1,000,000 at June 30, 2006.

Recommendation – We were unable to determine the propriety of this Agreement or the City's debt limit if determined to be in excess of the Constitutional limitation. We were also unable to determine the propriety of payments to the Developer after the Agreement completion date of December 1, 1998, including invoices withheld by the Developer to avoid exceeding the City's Constitutional debt limit.

Although the City may have acted in good faith when executing this Agreement in 1997, the City should consult legal counsel regarding these issues and to determine the proper disposition of this matter.

City of Dike

Schedule of Findings

Year ended June 30, 2006

Response – The City will consult with our legal counsel and our bonding attorney about this matter.

Conclusion – Response acknowledged. The City consulted with bond counsel who advised in part, “The City’s obligation to pay is limited to the amount certified by (the) Developer and subsequently certified by (the) City to Grundy County, and the amount actually paid is limited to the amounts actually received by the City in its TIF Fund.”

Bond counsel also indicated the City could amend “the 1997 agreement to add a specific reservation of the City’s right to non-appropriate any payments.” The City should consider amending the 1997 Agreement to clarify the City’s right to non-appropriate payments.

Conflict of Interest – The City contracted with Earth Tech (formerly Rust Environment & Infrastructure) for the City’s engineering services. Joe Becker is employed by Earth Tech and has served on a contractual basis as the City’s Engineer for several years. As previously noted, on August 18, 1997, the City entered into a tax increment financing Development Agreement with Fox Ridge Development Co., Inc. (the Developer). According to the City, Earth Tech provided engineering services to the City and to the Developer for the Fox Ridge Addition, Projects A and B.

From 1997 to 2001, the Developer paid \$132,752 to Earth Tech for engineering services for Project A of the Fox Ridge Addition Project. In fiscal 2006, the Developer reimbursed \$41,625 to a third party for Earth Tech engineering services on Project B.

According to an Earth Tech representative, the only services Earth Tech performed for the City for Project A was an impact study for the proposed development. Otherwise, the services Earth Tech provided on Project A were for the Developer, including the design for Project A and some, but not all, inspection and construction review during the project. The City contracted with another engineering firm to perform an independent review of the impact study and the design of Project A.

Also, according to the Earth Tech representative, Earth Tech intended to have a more limited role in Project B than in Project A. Earth Tech performed the design work on Project B for the Developer after approval by the City. The City hired Earth Tech to perform the inspection and construction review for Project B.

In a letter dated February 20, 1998, the City Clerk informed the Developer the City Council had determined “that a third party (engineering) inspection firm would be needed on Project A, to keep a minimum the issues of conflict of interest of engineering firms.” It is unclear whether the arrangements described in the preceding paragraph, pertaining to Earth Tech performing inspection and construction review for Project B, conflict with this 1998 directive.

The agreements and transactions between the City and Earth Tech may represent a conflict of interest since Earth Tech was providing services to both the City and the Developer prior to and during the Fox Ridge Association Project activity. Conflicts of interest may only be determined definitely in a court of law.

City of Dike

Schedule of Findings

Year ended June 30, 2006

Recommendation – The City should consult legal counsel to determine the disposition of this matter including an evaluation of the propriety of the relationship between the City, the Developer and Earth Tech for the Fox Ridge Addition Project.

The City should continue to monitor its contractual agreements to avoid potential conflicts of interest consistent with the City Council's 1998 directive. In addition, the City should determine whether the 1998 directive should be amended or modified with regard to Project B.

Response – The City will consult with our legal counsel and our bonding attorney about this matter.

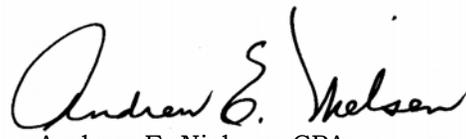
Conclusion – Response accepted.

City of Dike

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
John G. Vanis, CGFM, Senior Auditor
Billie Jo Heth, CPA, Senior Auditor
Adam D. Steffensmeier, 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