



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

March 17, 2011

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$10,094,685 for the year ended June 30, 2010, a 27 percent increase over the prior year. The receipts included \$2,252,666 in property tax, \$91,392 from tax increment financing, \$2,133,812 from charges for service, \$838,523 from operating grants, contributions and restricted interest, \$1,464,533 from capital grants, contributions and restricted interest, \$484,199 from local option sales tax, \$2,550,700 in bond proceeds, \$93,381 from unrestricted interest on investments and \$185,479 from other general receipts.

Disbursements for the year totaled \$11,321,229, a 55 percent increase over the prior year, and included \$2,167,493 for public safety, \$3,231,951 for capital projects and \$802,415 for public works. Disbursements for business type activities totaled \$1,918,177.

The significant increase in receipts and disbursements is due primarily to the receipt of general obligation bond proceeds and disbursements for capital projects and to refund general obligation notes.

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/1020-0647-B00F.pdf>.

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CITY OF RED OAK

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

JUNE 30, 2010

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City of Red Oak

Officials

<u>Name</u>	<u>Title</u>	<u>Expires</u>
(Before January 2010)		
Ted A. Schoonover	Mayor	Jan 2010
Tom Pratt	Mayor Pro Tem	Jan 2010
Mark Gregg	Council Member	Jan 2010
Larry Brandstetter	Council Member	Jan 2012
Ivan Craig	Council Member	Jan 2012
Roger Waggener	Council Member	Jan 2012
Brad Wright	Administrator	Indefinite
Mary Bolton	Clerk	Indefinite
Stephen Hays	Treasurer	Indefinite
Tom Stamets	Attorney	Indefinite
(After January 2010)		
Ted A. Schoonover	Mayor	Jan 2012
Tom Pratt	Mayor Pro Tem	Jan 2014
Larry Brandstetter	Council Member	Jan 2012
Ivan Craig	Council Member	Jan 2012
Roger Waggener	Council Member	Jan 2012
Mark Gregg	Council Member	Jan 2014
Brad Wright	Administrator	Indefinite
Mary Bolton	Clerk	Indefinite
Stephen Hays	Treasurer	Indefinite
Tom Stamets	Attorney	Indefinite

City of Red Oak



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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 Red Oak, 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 Red Oak's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Red Oak 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.

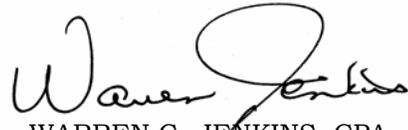
In accordance with Government Auditing Standards, we have also issued our report dated February 24, 2011 on our consideration of the City of Red Oak's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 Red Oak's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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, 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

February 24, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Red Oak 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.

2010 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 40.3%, or approximately \$2,479,000, from fiscal year 2009 to fiscal year 2010. The increase was primarily due to the City receiving bond proceeds of \$2,550,700 in fiscal year 2010.
- Disbursements for governmental activities increased 63.8%, or approximately \$3,661,000, from fiscal year 2009 to fiscal year 2010. Capital projects disbursements increased approximately \$2,381,000 and the City refunded \$1,665,000 of general obligation notes during the year.
- The City's total cash basis net assets decreased 15.8%, or approximately \$1,227,000, from June 30, 2009 to June 30, 2010. Of this amount, the cash basis net assets of the governmental activities decreased approximately \$695,000 and the cash basis net assets of the business type activities decreased approximately \$532,000.

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 of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which 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, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. 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, Employee Benefits and Local Option Sales Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

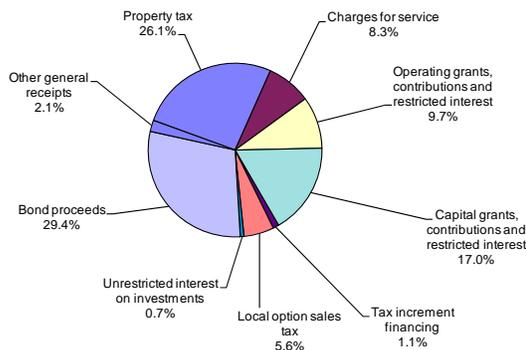
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

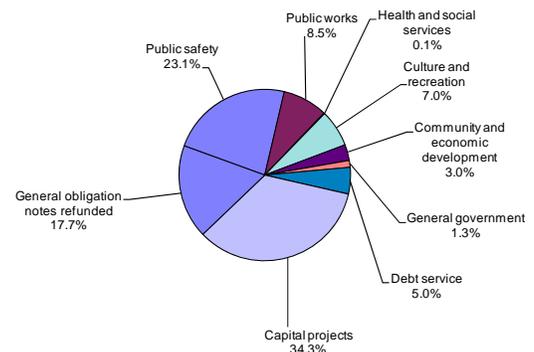
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$4,579,879 to \$3,884,946. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

	Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service	\$ 713,409	857,769
Operating grants, contributions and restricted interest	838,523	889,264
Capital grants, contributions and restricted interest	1,464,533	1,444,886
General receipts:		
Property tax	2,252,666	2,176,009
Tax increment financing	91,392	82,158
Local option sales tax	484,199	543,294
Unrestricted interest on investments	63,789	92,741
Bond proceeds	2,550,700	-
Other general receipts	177,057	71,056
Total receipts	8,636,268	6,157,177
Disbursements:		
Public safety	2,167,493	2,490,460
Public works	802,415	796,214
Health and social services	10,006	8,123
Culture and recreation	655,112	577,789
Community and economic development	279,102	164,443
General government	123,141	157,026
Debt service	468,832	696,778
Capital projects	3,231,951	850,782
General obligation notes refunded	1,665,000	-
Total disbursements	9,403,052	5,741,615
Change in cash basis net assets before transfers	(766,784)	415,562
Operating transfers, net	71,851	35,899
Increase (decrease) in cash basis net assets	(694,933)	451,461
Cash basis net assets beginning of year	4,579,879	4,128,418
Cash basis net assets end of year	\$ 3,884,946	4,579,879

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 40.3%, or approximately \$2,479,000. The total cost of all programs and services increased approximately \$3,661,000, or 63.8%, with two new programs added this year, the I-Jobs Fund and the CDBG Nishna Productions Fund. The increase in receipts was primarily the result of \$2,550,700 of bond proceeds received. The increase in disbursements was primarily the result of an increase in capital projects disbursements of \$2,377,000 and the City refunded \$1,665,000 of general obligation notes.

The cost of all governmental activities this year was approximately \$9.4 million, compared to approximately \$5.7 million last year. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was only \$4.7 million because some of the cost was paid by those who directly benefited from the programs (\$713,409) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$2,302,856). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$4,027,000 in property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax, bond proceeds and miscellaneous receipts.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 845,415	860,176
Sewer	502,867	531,270
Landfill	72,121	71,979
General receipts:		
Unrestricted interest on investments	29,592	73,914
Other general receipts	8,422	238,223
Total receipts	<u>1,458,417</u>	<u>1,775,562</u>
Disbursements:		
Water	892,403	814,348
Sewer	989,097	691,108
Landfill	36,677	35,819
Total disbursements	<u>1,918,177</u>	<u>1,541,275</u>
Change in cash basis net assets before transfers	(459,760)	234,287
Operating transfers, net	<u>(71,851)</u>	<u>(35,899)</u>
Change in cash basis net assets	(531,611)	198,388
Cash basis net assets beginning of year	<u>3,189,166</u>	<u>2,990,778</u>
Cash basis net assets end of year	<u>\$ 2,657,555</u>	<u>3,189,166</u>

Total business type activities receipts decreased \$317,145, or 17.9%. Total disbursements for the fiscal year increased 24.5%, or \$376,902. The decrease in receipts was primarily due to the City receiving insurance proceeds to replace a truck in the fiscal year ended June 30, 2009. The increase of disbursements is primarily due to a sewer capital project started in fiscal year 2010. The cash balance decreased \$531,611 from the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Red Oak completed the year, its governmental funds reported a combined fund balance of \$3,884,946, a decrease of approximately \$695,000 compared to last year's total of \$4,579,879. 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 increased \$98,439 over the prior year to \$1,659,080. Receipts decreased \$154,568 and disbursements decreased \$90,444. Receipts decreased primarily due to decreases in interest on investments and airport fuel sales. Public safety disbursements decreased \$50,205, primarily due to the departure of a police officer who wasn't replaced. Public works disbursements decreased \$55,677, primarily due to a decrease in airport fuel purchases.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$806,946 to \$543,370 during the fiscal year. This decrease was primarily due to an increase in public works disbursements due to weather conditions and transfers to the Capital Projects Fund to close out deficit balances in street project accounts.
- The Special Revenue, Employee Benefits Fund cash balance increased \$20,559 to \$769,796 during the fiscal year. The increase is attributable to an increase in receipts of \$25,146.
- The Special Revenue, Local Option Sales Tax Fund was established to account for special sales tax collected. At the end of the fiscal year, the cash balance was \$687,889, a decrease of \$109,651 from the prior year. Local option sales tax collections credited to this fund decreased \$59,095 during the current year. Total disbursements decreased \$320,076, due primarily to a fire truck purchase in the prior fiscal year, while transfers out decreased \$524,333 for debt service requirements.
- The Debt Service Fund cash balance increased \$145,188 to \$264,912 during the fiscal year. This increase was primarily due to a decrease in debt service requirements.
- The Capital Projects Fund cash balance increased \$7,881 to (\$672,066) during the fiscal year. The City spent a total of \$3,227,325 on construction projects in the current year, compared to \$850,782 in the prior year. Intergovernmental receipts increased \$372,092 over the prior year, primarily due to federal grants received for airport, bridge and street improvements and a state grant for library construction.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$56,812 to \$1,005,102. Total receipts decreased \$42,672 while disbursements increased \$78,055 during the year.
- The Sewer Fund cash balance decreased \$510,243 to \$1,343,011. Total receipts decreased \$274,615 while disbursements increased \$297,989 during the year. The decrease in receipts was primarily due to the City receiving insurance proceeds to replace a truck during the prior year. The increase in disbursements is primarily due to the wastewater treatment construction project.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 25, 2010 and resulted in an increase of \$1,455,000 in disbursements, related primarily to capital project disbursements at the airport and the refunding of general obligation capital loan notes. The amendment also increased revenues \$1,435,840 due to airport and community development block grant receipts.

The City's receipts were \$1,897,205 less than budgeted. This was primarily due to the City receiving less in charges for service because of the closing of several manufacturing plants, less fuel purchased at the airport and less ambulance receipts. The City received less in miscellaneous receipts than anticipated because of fewer contributions and no major insurance reimbursements in fiscal year 2010.

Total disbursements were \$2,754,105 less than the amended budget. Actual disbursements for the culture and recreation, community and economic development and business type activities functions were \$1,414, \$94,086 and \$193,077 more than the amended budget, respectively. Disbursements were \$2,037,649 less than budgeted in the capital projects function due to delays in the airport project.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$2,230,000 in general obligation bonds outstanding, compared to \$1,665,000 in general obligation notes outstanding last year. Debt increased as a result of issuing \$2,600,000 of bonds during the year and refunding \$1,665,000 of general obligation notes.

Outstanding Debt at Year-End		
	June 30,	
	2010	2009
General obligation bonds/notes	\$ 2,230,000	1,665,000

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 property within the City's corporate limits. The City's outstanding general obligation debt of \$2,993,316, including tax increment financing rebate agreements of \$763,316, is significantly below its constitutional debt limit of approximately \$10,394,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Red Oak'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. One of those factors is the economy. Unemployment in the City as of June 30, 2010 stood at 8.2%, versus 8.8% a year ago. This compares with the State's unemployment rate of 6.7% and the national rate of 9.6%.

These factors were taken into account when adopting the budget for fiscal year 2011. Property tax revenues available for appropriation in the fiscal year 2011 operating budget are approximately \$2.021 million, a decrease of 4.2% over the final fiscal year 2010 budget. Budgeted disbursements are expected to increase \$1,663,519 from the final fiscal year 2010 budget to \$14,013,357. The City has added no major new programs or initiatives.

If these estimates are realized, the City's June 30, 2011 budgeted cash balance is expected to decrease \$725,586 from the June 30, 2010 budgeted cash balance.

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 Mary Bolton, City Clerk, 601 N. 6th Street, City of Red Oak, Iowa 51566.

Basic Financial Statements

City of Red Oak

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
Functions/Programs:				
Governmental activities:				
Public safety	\$ 2,167,493	440,135	44,919	-
Public works	802,415	188,226	594,055	-
Health and social services	10,006	1,262	-	-
Culture and recreation	655,112	67,138	75,142	-
Community and economic development	279,102	3,342	124,407	-
General government	123,141	13,306	-	-
Debt service	468,832	-	-	-
Capital projects	3,231,951	-	-	1,464,533
Total governmental activities	7,738,052	713,409	838,523	1,464,533
Business type activities:				
Water	892,403	845,415	-	-
Sewer	989,097	502,867	-	-
Landfill	36,677	72,121	-	-
Total business type activities	1,918,177	1,420,403	-	-
Total	\$ 9,656,229	2,133,812	838,523	1,464,533
General Receipts:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Bond proceeds				
General obligation notes refunded				
Sale of assets				
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:				
Nonexpendable:				
Permanent funds				
Expendable:				
Police seized property				
Streets				
Special levies				
Local option sales tax				
Debt service				
Fire department donations				
Urban renewal purposes				
Library bequests				
Other purposes				
Landfill 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
(1,682,439)	-	(1,682,439)
(20,134)	-	(20,134)
(8,744)	-	(8,744)
(512,832)	-	(512,832)
(151,353)	-	(151,353)
(109,835)	-	(109,835)
(468,832)	-	(468,832)
(1,767,418)	-	(1,767,418)
(4,721,587)	-	(4,721,587)
-	(46,988)	(46,988)
-	(486,230)	(486,230)
-	35,444	35,444
-	(497,774)	(497,774)
(4,721,587)	(497,774)	(5,219,361)

1,855,894	-	1,855,894
396,772	-	396,772
91,392	-	91,392
484,199	-	484,199
63,789	29,592	93,381
2,550,700	-	2,550,700
(1,665,000)	-	(1,665,000)
24,967	-	24,967
152,090	8,422	160,512
71,851	(71,851)	-
4,026,654	(33,837)	3,992,817
(694,933)	(531,611)	(1,226,544)
4,579,879	3,189,166	7,769,045
\$ 3,884,946	2,657,555	6,542,501

\$ 248,280	-	248,280
910	-	910
543,370	-	543,370
769,796	-	769,796
687,889	-	687,889
264,912	-	264,912
22,492	-	22,492
246,868	-	246,868
66,542	-	66,542
48,803	-	48,803
-	265,287	265,287
985,084	2,392,268	3,377,352
\$ 3,884,946	2,657,555	6,542,501

City of Red Oak

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	Road Use Tax	Employee Benefits	Local Option Sales Tax
Receipts:				
Property tax	\$ 1,029,865	-	692,747	-
Tax increment financing	-	-	-	-
Other city tax	60,607	-	39,678	484,199
Licenses and permits	51,523	-	-	-
Use of money and property	71,472	-	-	-
Intergovernmental	160,232	547,778	-	-
Charges for service	495,287	-	-	-
Special assessments	-	-	-	-
Miscellaneous	222,518	-	2,749	-
Total receipts	<u>2,091,504</u>	<u>547,778</u>	<u>735,174</u>	<u>484,199</u>
Disbursements:				
Operating:				
Public safety	1,261,998	-	482,697	362,302
Public works	211,254	483,288	107,873	-
Health and social services	10,006	-	-	-
Culture and recreation	522,473	-	113,187	-
Community and economic development	-	-	-	-
General government	112,283	-	10,858	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	<u>2,118,014</u>	<u>483,288</u>	<u>714,615</u>	<u>362,302</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(26,510)</u>	<u>64,490</u>	<u>20,559</u>	<u>121,897</u>
Other financing sources (uses):				
Bond proceeds, net of \$49,300 discount and fees	-	-	-	-
General obligation notes refunded	-	-	-	-
Sale of capital assets	24,967	-	-	-
Operating transfers in	318,040	4,500	-	-
Operating transfers out	(218,058)	(875,936)	-	(231,548)
Total other financing sources (uses)	<u>124,949</u>	<u>(871,436)</u>	<u>-</u>	<u>(231,548)</u>
Net change in cash balances	98,439	(806,946)	20,559	(109,651)
Cash balances beginning of year	1,560,641	1,350,316	749,237	797,540
Cash balances end of year	<u>\$ 1,659,080</u>	<u>543,370</u>	<u>769,796</u>	<u>687,889</u>
Cash Basis Fund Balances				
Reserved for:				
Police seized property	\$ 910	-	-	-
Debt service	-	-	-	-
Unreserved:				
General fund	1,658,170	-	-	-
Special revenue funds	-	543,370	769,796	687,889
Capital projects fund	-	-	-	-
Permanent funds	-	-	-	-
Total cash basis fund balances	<u>\$ 1,659,080</u>	<u>543,370</u>	<u>769,796</u>	<u>687,889</u>

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
374,801	-	31,210	2,128,623
-	-	91,392	91,392
21,971	-	1,787	608,242
-	-	-	51,523
-	7,733	2,764	81,969
-	1,424,357	151,474	2,283,841
-	-	-	495,287
-	3,695	-	3,695
-	28,748	62,014	316,029
396,772	1,464,533	340,641	6,060,601
-	-	60,496	2,167,493
-	-	-	802,415
-	-	-	10,006
-	-	19,452	655,112
-	-	279,102	279,102
-	-	-	123,141
468,832	-	-	468,832
-	3,227,325	4,626	3,231,951
468,832	3,227,325	363,676	7,738,052
(72,060)	(1,762,792)	(23,035)	(1,677,451)
1,650,700	900,000	-	2,550,700
(1,665,000)	-	-	(1,665,000)
-	-	-	24,967
231,548	1,153,943	5,629	1,713,660
-	(283,270)	(32,997)	(1,641,809)
217,248	1,770,673	(27,368)	982,518
145,188	7,881	(50,403)	(694,933)
119,724	(679,947)	682,368	4,579,879
264,912	(672,066)	631,965	3,884,946
-	-	-	910
264,912	-	-	264,912
-	-	-	1,658,170
-	-	383,685	2,384,740
-	(672,066)	-	(672,066)
-	-	248,280	248,280
264,912	(672,066)	631,965	3,884,946

Exhibit C

City of Red Oak

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

As of and for the year ended June 30, 2010

	Enterprise			Total
	Water	Sewer	Nonmajor Landfill	
Operating receipts:				
Charges for service	\$ 833,065	502,867	72,121	1,408,053
Miscellaneous	12,350	-	-	12,350
Total operating receipts	<u>845,415</u>	<u>502,867</u>	<u>72,121</u>	<u>1,420,403</u>
Operating disbursements:				
Business type activities	791,564	417,506	36,677	1,245,747
Excess of operating receipts over operating disbursements	<u>53,851</u>	<u>85,361</u>	<u>35,444</u>	<u>174,656</u>
Non-operating receipts (disbursements):				
Interest on investments	14,463	15,129	-	29,592
Miscellaneous	5,775	2,647	-	8,422
Capital projects	(100,839)	(571,591)	-	(672,430)
Total non-operating receipts (disbursements)	<u>(80,601)</u>	<u>(553,815)</u>	<u>-</u>	<u>(634,416)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(26,750)</u>	<u>(468,454)</u>	<u>35,444</u>	<u>(459,760)</u>
Transfers:				
Operating transfers in	13,500	-	-	13,500
Operating transfers out	(43,562)	(41,789)	-	(85,351)
Total transfers	<u>(30,062)</u>	<u>(41,789)</u>	<u>-</u>	<u>(71,851)</u>
Net change in cash balances	(56,812)	(510,243)	35,444	(531,611)
Cash balances beginning of year	<u>1,061,914</u>	<u>1,853,254</u>	<u>273,998</u>	<u>3,189,166</u>
Cash balances end of year	<u>\$ 1,005,102</u>	<u>1,343,011</u>	<u>309,442</u>	<u>2,657,555</u>
Cash Basis Fund Balances				
Reserved for landfill purposes	\$ -	-	265,287	265,287
Unreserved	<u>1,005,102</u>	<u>1,343,011</u>	<u>44,155</u>	<u>2,392,268</u>
Total cash basis fund balances	<u>\$ 1,005,102</u>	<u>1,343,011</u>	<u>309,442</u>	<u>2,657,555</u>

See notes to financial statements.

City of Red Oak

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

The City of Red Oak is a political subdivision of the State of Iowa located in Montgomery County. It was first incorporated in 1901 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Red Oak 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 Red Oak and its blended component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

The following component unit is legally separate from the City, but is so intertwined with the City it is, in substance, the same as the City. It is reported as part of the City and blended into the appropriate fund.

The Red Oak Volunteer Fire and Rescue Association, Inc. has been incorporated under the provisions of the Iowa Nonprofit Corporation Act for the purpose of supporting the Red Oak Fire Department. In accordance with criteria set by the Governmental Accounting Standards Board, the Red Oak Volunteer Fire and Rescue Association, Inc. meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations for which the City is not financially accountable or the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial

statements to be misleading or incomplete. City officials are members of the following boards and commissions: Montgomery County Assessor's Conference Board, Montgomery County Emergency Management Commission, Montgomery County Joint E911 Service Board and the Southwest Iowa Planning Council (SWIPCO) Regional Planning Commission.

The City also participates in the Montgomery County Landfill Association, a jointly governed organization established pursuant to Chapter 28E of the Code of Iowa.

Related Organizations

The City is responsible for appointing a majority of the voting members of the Low Rent Housing Board, but the City's accountability for this organization does not extend beyond making the appointments.

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:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Funds.

Expendable 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 proprietary funds are aggregated and reported as nonmajor governmental and proprietary 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 Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefits Fund is used to account for property tax levied to finance the payment of employee benefits.

The Local Option Sales Tax Fund is used to account for receipts from the tax authorized by referendum and used for public safety and property tax relief.

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

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

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

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

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net 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 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, 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 \$55,739 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

Bonds Payable

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 355,000	46,638	401,638
2012	200,000	43,975	243,975
2013	210,000	41,975	251,975
2014	215,000	39,245	254,245
2015	210,000	35,590	245,590
2016-2020	1,040,000	93,575	1,133,575
Total	\$ 2,230,000	300,998	2,530,998

On March 25, 2010, the City issued \$2,600,000 of general obligation bonds, of which \$1,665,000 was used for a current refunding. The refunding portion of the bonds was used to retire outstanding balances of \$225,000 of the general obligation capital loan notes, Series 1997, \$290,000 of the general obligation capital loan notes, Series 2000 and \$1,150,000 of the general obligation capital loan notes, Series 2004A.

The City obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$81,500.

(4) Development Agreements

Rebate Agreements

The City has entered into various development agreements to assist in certain urban renewal projects. The agreements require the City to rebate portions of the incremental property tax paid by the developer in exchange for the construction of buildings and certain infrastructure improvements by the developers. Certain agreements also require the developer to certify specific employment requirements are met.

The total to be paid by the City under the agreements is not to exceed \$1,536,589. The total amount rebated during the year ended June 30, 2010 was \$48,166. The City has rebated a total of \$315,773 of incremental property tax under the agreements. The outstanding balance of the agreements at June 30, 2010 was \$1,220,816.

These agreements are not a general obligation of the City. However, the agreements are subject to the constitutional debt limitation of the City.

Other Agreements

In March 2007, the City entered into an agreement with a developer regarding certain property on which the developers are constructing a residential subdivision. The City agreed to provide tax increment financing assistance to help defray the costs of the construction of the infrastructure portion of the project, as follows: 100% of the costs for the paving of the street, 50% of the costs of the sanitary sewer and water extension construction and 100% of the storm sewer improvements. The City certified the City's share of the actual project costs of \$311,562 paid from the Capital Projects Fund as TIF debt. The developer reimbursed the City \$160,651 for the following: 100% of the grading costs of the street right-of-way, 50% of the costs of the sanitary sewer and water extension construction and 100% of the sidewalk installation costs. The agreement requires a shortfall payment to the City if the incremental property tax receipts are less than the amount the City certified as TIF debt. Such payment, if necessary, is due no later than October 1, 2019.

The City entered into a development agreement in March 2010 for renovation and redevelopment of property owned by the developer. In addition to rebate payments required to be paid under the agreement, the City also agrees to provide three economic development loans totaling \$260,000 to be paid to the developer at various phases of the project. The loans shall be evidenced by the execution of a promissory note. The loans bear interest at 6% and the principal and interest on the loans are due on March 1, 2015. The City agrees to fully forgive the principal and interest on the loans upon the successful completion of the project, including meeting certain residential unit occupancy requirements by specified dates. During the year ended June 30, 2010, the City loaned \$85,000 to the developer.

(5) 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 contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$143,803, \$135,573 and \$129,899, respectively, equal to the required contributions for each year.

(6) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug and dental benefits for employees and retirees and their spouses. There are 45 active and 1 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug and dental benefits are provided through fully-insured plans with Wellmark and Delta Dental. Retirees under age 65 pay the same premium for the medical/prescription drug and dental benefits as active employees.

Funding Policy – The contribution requirement 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 \$488 for single coverage and \$1,510 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$461,226 and plan members eligible for benefits contributed \$30,236 to the plan.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, compensatory time and sick leave 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, compensatory time and sick leave payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 73,000
Compensatory time	59,000
Sick leave	<u>80,000</u>
Total	<u>\$ 212,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2010.

(8) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Emergency	\$ 32,997
	Capital Projects	283,270
	Enterprise:	
	Water	1,773
		<u>318,040</u>
Special Revenue:		
Road Use Tax	General	4,500
FY08 Housing	General	28
Cemetery Expansion	General	5,601
		<u>10,129</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	<u>231,548</u>
Capital Projects	General	194,429
	Special Revenue:	
	Road Use Tax	875,936
	Enterprise:	
	Water	41,789
	Sewer	41,789
		<u>1,153,943</u>
Enterprise:		
Water	General	<u>13,500</u>
Total		<u>\$ 1,727,160</u>

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

(9) 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, 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 expenditures 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 \$125,413.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, 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 members' 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 the 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 whether 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 contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with the airport liability, employee blanket bond and workers compensation in the amount of \$2,000,000, \$100,000 and \$500,000 respectively. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Industrial Development Revenue Bonds

The City has issued a total of \$1,050,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$640,000 is outstanding at June 30, 2010. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

(11) Library Bequests

The Library has received various restricted bequests. At June 30, 2010, the Library Bequest Fund included a total of \$41,000 of memorials, as follows:

Name of Memorial	Amount	Purpose
Julia Lane	\$ 10,000	Interest to be used for the purchase of reference books.
Darwin Merritt	1,000	Interest to be used for the purchase of books and furniture.
Mary Windle	1,000	Interest to be used for the purchase of "standard authors" to be placed in a separate "Mary Windle Collection."
Herbert C. Lane	1,000	Interest to be used for the purchase of reference books for the "Lane Memorial Collection."
Virginia A. Petty	25,000	Interest to be used to purchase library materials.
Hazel Lusk	<u>3,000</u>	Interest to be used at Board's discretion.
Total	<u>\$ 41,000</u>	

(12) Komarek Trust

The City receives \$600 annually from the trustee of the Komarek Trust to be used for maintenance of cemetery chapel grounds and roadways and for placement of flowers on certain graves. During the year ended June 30, 2010, the City spent \$547 of these funds for flowers and statues. At June 30, 2010, the balance in the Special Revenue, Komarek Trust Fund totaled \$12,090.

(13) Contingent Liability

The City entered into a joint agreement with the U.S. Environmental Protection Agency (EPA) with respect to contamination at the former site of the Red Oak Landfill. Under the terms of the settlement agreement, the City and Magna International are jointly responsible for the operation and maintenance of the remedy for a period of 30 years. The potential monetary obligation of the City and Magna International is \$735,100 for which both the City and Magna International are jointly responsible only if they fail to carry out the program in making the necessary reports to the EPA. At June 30, 2010, all monitoring and maintenance activities were completed.

(14) Commitments

The City entered into contracts for library expansion and a trail project totaling \$1,364,764, of which \$1,234,642 has been paid at June 30, 2010. The balance of \$130,122 will be paid as work on the projects progresses.

(15) Deficit Balances

At June 30, 2010, the Special Revenue, CDBG Nishna Productions and Cemetery Kiosk Funds and the Capital Projects Fund had deficit balances of \$(595), \$(425) and \$(672,066) respectively. The deficit balance in the Special Revenue, Cemetery Kiosk Fund will be eliminated through future transfers. The deficit balance in the Special Revenue, CDBG Nishna Productions Fund will be eliminated through future grant reimbursements. The deficit balance in the Capital Projects Fund will be eliminated through grant reimbursements, transfers from other funds and debt proceeds.

(16) Subsequent Events

In August 2010, the City approved a contract for \$6,797,000 for construction of the wastewater treatment plant project.

In October 2010, the City approved the issuance of \$2,700,000 of sewer revenue bonds and, in November 2010, the City approved the issuance of \$2,350,000 of general obligation sewer improvement bonds to fund the wastewater treatment plant project. In addition, the City received notification of a state grant for \$2,000,000 to fund the improvements.

Required Supplementary Information

City of Red Oak

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
Receipts:			
Property tax	\$ 2,128,623	-	-
Tax increment financing	91,392	-	-
Other city tax	608,242	-	-
Licenses and permits	51,523	-	-
Use of money and property	81,969	29,592	513
Intergovernmental	2,283,841	-	-
Charges for service	495,287	1,408,053	-
Special assessments	3,695	-	-
Miscellaneous	316,029	20,772	32,396
Total receipts	6,060,601	1,458,417	32,909
Disbursements:			
Public safety	2,167,493	-	60,496
Public works	802,415	-	-
Health and social services	10,006	-	-
Culture and recreation	655,112	-	-
Community and economic development	279,102	-	-
General government	123,141	-	-
Debt service	468,832	-	-
Capital projects	3,231,951	-	-
Business type activities	-	1,918,177	-
Total disbursements	7,738,052	1,918,177	60,496
Excess (deficiency) of receipts over (under) disbursements	(1,677,451)	(459,760)	(27,587)
Other financing sources (uses)	982,518	(71,851)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(694,933)	(531,611)	(27,587)
Balances beginning of year	4,579,879	3,189,166	50,079
Balances end of year	\$ 3,884,946	2,657,555	22,492

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
2,128,623	2,109,243	2,109,243	19,380
91,392	29,324	29,324	62,068
608,242	535,829	535,829	72,413
51,523	48,900	48,900	2,623
111,048	-	-	111,048
2,283,841	1,334,128	2,769,968	(486,127)
1,903,340	2,827,550	2,827,550	(924,210)
3,695	-	-	3,695
304,405	1,062,500	1,062,500	(758,095)
<u>7,486,109</u>	<u>7,947,474</u>	<u>9,383,314</u>	<u>(1,897,205)</u>
2,106,997	2,532,915	2,532,915	425,918
802,415	937,313	937,313	134,898
10,006	10,500	10,500	494
655,112	653,698	653,698	(1,414)
279,102	100,016	185,016	(94,086)
123,141	191,768	191,768	68,627
468,832	473,928	843,928	375,096
3,231,951	4,269,600	5,269,600	2,037,649
1,918,177	1,725,100	1,725,100	(193,077)
<u>9,595,733</u>	<u>10,894,838</u>	<u>12,349,838</u>	<u>2,754,105</u>
(2,109,624)	(2,947,364)	(2,966,524)	856,900
910,667	-	1,650,700	(740,033)
(1,198,957)	(2,947,364)	(1,315,824)	116,867
<u>7,718,966</u>	<u>4,124,247</u>	<u>4,124,247</u>	<u>3,594,719</u>
<u>6,520,009</u>	<u>1,176,883</u>	<u>2,808,423</u>	<u>3,711,586</u>

City of Red Oak

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, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,455,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the culture and recreation, community and economic development and business type activities functions.

Other Supplementary Information

City of Red Oak

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

As of and for the year ended June 30, 2010

	Special Revenue						
	Emergency	Volunteer Fire and Rescue Association	I-Jobs	Tax Increment Financing	Low- Moderate Income	CDBG Nishna Productions	FY08 Housing
Receipts:							
Property tax	\$ 31,210	-	-	-	-	-	-
Tax increment financing	-	-	-	91,392	-	-	-
Other city tax	1,787	-	-	-	-	-	-
Use of money and property	-	513	-	-	-	-	-
Intergovernmental	-	-	27,067	-	-	124,407	-
Miscellaneous	-	32,396	-	1,388	2,295	-	-
Total receipts	32,997	32,909	27,067	92,780	2,295	124,407	-
Disbursements:							
Operating:							
Public safety	-	60,496	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Community and economic development	-	-	-	154,100	-	125,002	-
Capital projects	-	-	-	-	-	-	-
Total disbursements	-	60,496	-	154,100	-	125,002	-
Excess (deficiency) of receipts over (under) disbursements	32,997	(27,587)	27,067	(61,320)	2,295	(595)	-
Other financing sources (uses):							
Operating transfers in	-	-	-	-	-	-	28
Operating transfers out	(32,997)	-	-	-	-	-	-
Total other financing sources (uses)	(32,997)	-	-	-	-	-	28
Net change in cash balances	-	(27,587)	27,067	(61,320)	2,295	(595)	28
Cash balances beginning of year	-	50,079	-	308,188	2,135	-	(28)
Cash balances end of year	\$ -	22,492	27,067	246,868	4,430	(595)	-
Cash Basis Fund Balances							
Unreserved:							
Special revenue funds	\$ -	22,492	27,067	246,868	4,430	(595)	-
Permanent funds	-	-	-	-	-	-	-
Total cash basis fund balances	\$ -	22,492	27,067	246,868	4,430	(595)	-

See accompanying independent auditor's report.

Komarek Trust	Cemetery Kiosk	Cemetery Expansion	Library Bequest	Library People's Art Projects	Permanent		Total
					Cemetery Perpetual Care	Library Bequest	
-	-	-	-	-	-	-	31,210
-	-	-	-	-	-	-	91,392
-	-	-	-	-	-	-	1,787
-	-	-	2,245	6	-	-	2,764
-	-	-	-	-	-	-	151,474
600	-	-	17,457	6,758	1,120	-	62,014
600	-	-	19,702	6,764	1,120	-	340,641
-	-	-	-	-	-	-	60,496
547	525	-	11,621	6,759	-	-	19,452
-	-	-	-	-	-	-	279,102
-	-	4,626	-	-	-	-	4,626
547	525	4,626	11,621	6,759	-	-	363,676
53	(525)	(4,626)	8,081	5	1,120	-	(23,035)
-	-	5,601	-	-	-	-	5,629
-	-	-	-	-	-	-	(32,997)
-	-	5,601	-	-	-	-	(27,368)
53	(525)	975	8,081	5	1,120	-	(50,403)
12,037	100	(975)	58,461	5,211	206,160	41,000	682,368
12,090	(425)	-	66,542	5,216	207,280	41,000	631,965
12,090	(425)	-	66,542	5,216	-	-	383,685
-	-	-	-	-	207,280	41,000	248,280
12,090	(425)	-	66,542	5,216	207,280	41,000	631,965

City of Red Oak

City of Red Oak

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

As of and for the year ended June 30, 2010

	Enterprise - Landfill		Total
	Recycling	Superfund	
Operating receipts:			
Charges for service	\$ 40,065	32,056	72,121
Operating disbursements:			
Business type activities	33,000	3,677	36,677
Excess of operating receipts over disbursements	7,065	28,379	35,444
Cash balances beginning of year	37,090	236,908	273,998
Cash balances end of year	\$ 44,155	265,287	309,442
Cash Basis Fund Balances			
Reserved	\$ -	265,287	265,287
Unreserved	44,155	-	44,155
	\$ 44,155	265,287	309,442

See accompanying independent auditor's report.

City of Red Oak
Schedule of Indebtedness
Year ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds/notes:			
Essential and general corporate purpose	Aug 1, 1997	4.75-5.20%	\$ 1,635,000
Essential corporate purpose	Jul 1, 2000	5.20-5.70	1,185,000
Essential corporate purpose	Jun 1, 2004	1.75-4.80	1,280,000
Corporate purpose and refunding	Mar 25, 2010	0.5-3.45	2,600,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
225,000	-	225,000	-	10,205
290,000	-	290,000	-	13,840
1,150,000	-	1,150,000	-	49,378
-	2,600,000	370,000	2,230,000	8,889
<u>\$ 1,665,000</u>	<u>2,600,000</u>	<u>2,035,000</u>	<u>2,230,000</u>	<u>82,312</u>

City of Red Oak

City of Red Oak

Bond Maturities

June 30, 2010

Year Ending June 30,	Corporate Purpose and Refunding Issued March 25, 2010	
	Interest Rates	Amount
2011	0.75%	\$ 355,000
2012	1.00	200,000
2013	1.30	210,000
2014	1.70	215,000
2015	2.10	210,000
2016	2.50	220,000
2017	2.80	230,000
2018	3.10	235,000
2019	3.30	195,000
2020	3.45	160,000
Total		<u>\$ 2,230,000</u>

See accompanying independent auditor's report.

City of Red Oak
 Schedule of Receipts by Source and Disbursements By Function –
 All Governmental Funds

For the Last Eight Years

	2010	2009	2008
Receipts:			
Property tax	\$ 2,128,623	2,050,552	2,051,128
Tax increment financing	91,392	82,158	81,447
Other city tax	608,242	668,751	557,592
Licenses and permits	51,523	61,636	51,073
Use of money and property	81,969	124,911	239,731
Intergovernmental	2,283,841	2,020,983	1,705,840
Charges for service	495,287	548,744	580,372
Special assessments	3,695	3,957	4,219
Miscellaneous	316,029	595,485	452,226
Total	\$ 6,060,601	6,157,177	5,723,628
Disbursements:			
Operating:			
Public safety	\$ 2,167,493	2,490,460	1,885,490
Public works	802,415	796,214	800,133
Health and social services	10,006	8,123	29,080
Culture and recreation	655,112	577,789	580,009
Community and economic development	279,102	164,443	298,823
General government	123,141	157,026	112,603
Debt service	468,832	696,778	699,977
Capital projects	3,231,951	850,782	2,891,634
Total	\$ 7,738,052	5,741,615	7,297,749

See accompanying independent auditor's report.

2007	2006	2005	2004	2003
1,987,915	1,977,212	1,971,911	2,083,572	2,010,066
201,129	90,136	89,074	259,745	388,647
646,708	528,603	584,980	547,700	527,394
49,585	53,302	80,412	16,097	16,188
251,362	156,388	99,670	76,739	99,181
915,512	576,171	1,546,851	876,268	955,452
590,031	550,830	558,132	424,815	407,150
4,481	26,667	9,947	7,867	44,611
396,528	535,457	263,518	280,962	285,603
5,043,251	4,494,766	5,204,495	4,573,765	4,734,292
1,842,324	1,684,050	1,731,635	1,702,066	1,605,572
497,363	531,830	576,699	514,779	907,959
13,591	15,263	16,098	13,339	3,175
547,171	585,723	690,502	492,602	584,342
134,446	70,045	76,827	328,252	295,120
102,300	108,125	115,442	118,595	122,687
694,634	700,026	1,462,758	936,457	678,723
202,061	449,924	1,916,596	646,885	744,121
4,033,890	4,144,986	6,586,557	4,752,975	4,941,699

Schedule 6

City of Red Oak

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Transportation:			
Airport Improvement Program	20.106	3-19-0077-06	\$ 7,577
Airport Improvement Program	20.106	3-19-0077-08	972,830
Airport Improvement Program	20.106	3-19-0077-09/10	255,976
Airport Improvement Program	20.106	3-19-0077-11	32,652
Total direct			1,269,035
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	09-CF-010	124,407
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	BRM-6360(610)--8N-69	66,277
Highway Planning and Construction	20.205	STP-E6360(612--8V-69)	6,450
			72,727
Total indirect			197,134
Total			\$ 1,466,169

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Red Oak and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.



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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 Red Oak, 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 February 24, 2011. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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 Red Oak'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 our opinion on the effectiveness of the City of Red Oak's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Red Oak'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 and Questioned Costs, 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 Red Oak's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal controls described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-10, II-B-10 and II-C-10 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 Part II of the accompanying Schedule of Findings and Questioned Costs as items II-D-10 through II-H-10 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Red Oak'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 Part IV of the accompanying Schedule of Findings and Questioned Costs.

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.

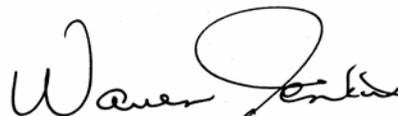
The City of Red Oak's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Red Oak's responses and, accordingly, we express no opinion on 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 Red Oak and other parties to whom the City of Red Oak may report, including federal awarding agencies and pass-through entities. 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 Red Oak 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

February 24, 2011

**Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133**

City of Red Oak



OFFICE OF AUDITOR OF STATE
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Independent Auditor's Report on Compliance
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on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the City of Red Oak, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Red Oak's major federal program for the year ended June 30, 2010. The City of Red Oak's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Red Oak's management. Our responsibility is to express an opinion on the City of Red Oak's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Red Oak's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Red Oak's compliance with those requirements.

In our opinion, the City of Red Oak complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the City of Red Oak is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Red Oak's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Red Oak's internal control over compliance.

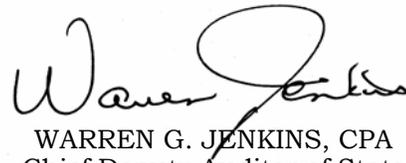
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

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 Red Oak and other parties to whom the City of Red Oak may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 24, 2011

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements which 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.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 20.106 – Airport Improvement Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Red Oak did not qualify as a low-risk auditee.

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-10 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from performing duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally one or two individuals may have control over the following areas for which no compensating controls exist:

- (1) Incoming mail is not opened by an individual not authorized to make entries to the accounting records. A listing of cash and checks received in the mail is not prepared, forwarded to accounting personnel and later compared to the cash receipt records by an independent person.
- (2) Utility billing, collecting, recording and reconciling functions are all performed by the utility clerk.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – Segregation of duties to the degree desired will continue to be a challenge, given the limited number of personnel in our office. We will continue to monitor our operating procedures to obtain maximum internal control possible.

Conclusion – Response accepted.

II-B-10 Financial Reporting – During the audit, we identified material amounts of misclassified receipts, including utility tax collections posted as property tax rather than other city tax and intergovernmental receipts posted as interest or miscellaneous. Adjustments were subsequently made to properly record these amounts in the financial statements.

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

Response – Efforts are and will be made to see postings are made accurately. If something is inadvertently posted to the wrong account, corrections will be made as soon as the error is found.

Conclusion – Response accepted.

II-C-10 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not properly reconciled throughout the year. Although the computer system generates a reconciliation report, the amounts on the report are not compared to the utility records to ensure

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

accuracy. In addition, an independent person does not review and approve the reconciliation.

Recommendation – Procedures should be established to compare amounts on the computer generated reconciliation report to utility records for accuracy. An independent person should review the reconciliations and monitor delinquencies.

Response – It was discovered this report was not being used properly. The utility billing clerk has now been advised to review this report more closely and make sure it is correct. The City Clerk will be the independent person to review the report.

Conclusion – Response accepted.

II-D-10 Information Systems – The following weaknesses in the City’s computer-based systems were noted:

The City does not have written policies for:

- Logging off unattended computers.
- Usage of the Internet.
- A disaster recovery plan for the computer system.
- Requiring employees to periodically change passwords.

Recommendation – The City should develop written policies and procedures addressing the above items in order to improve the City’s control over computer-based systems.

Response – Office staff members have changed their computers so they automatically log off when not attended for 5 minutes. A new personnel policy is in process of being written and some of these items will be included in it.

Conclusion – Response accepted.

II-E-10 Bank Reconciliations – An independent person does not review the bank reconciliations.

Recommendation – An independent person should review the reconciliations.

Response – This used to be done manually but to become more efficient we are using the computer program to handle bank reconciliations. The City Clerk will review and initial the reconciliation prepared by other staff.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

II-F-10 Budgeted Receipts – The City budgeted interest as miscellaneous rather than use of money and property.

Recommendation – The City should budget interest as use of money and property rather than miscellaneous in accordance with the Uniform Chart of Accounts.

Response – This was a non-intentional error on the City’s part. This has been corrected and will be budgeted appropriately in the future.

Conclusion – Response accepted.

II-G-10 Separately Maintained Records – The Red Oak Library maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City’s accounting 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 and balances of all City accounts should be included in the City’s accounting records and reported to the Council on a monthly basis.

Response – Most of the library funds had been moved to City account, however there are some CDs that are not yet shown on the City report. Corrections will be made to show these in future.

Conclusion – Response accepted.

II-H-10 Reconciliation of Ambulance Billings, Collections and Delinquencies – The City contracts with an outside company to perform billing procedures for ambulance services. However, a reconciliation of ambulance billings, collections and delinquent accounts was not performed. The City does not pursue old accounts.

Recommendation – Procedures should be established for the City to prepare or obtain a reconciliation of ambulance billings, collections and delinquencies for each billing period. An independent person should review the reconciliations, monitor delinquencies and follow up on old outstanding accounts.

Response – Steps have now been implemented to reconcile ambulance billings and collections. Delinquent accounts are now being forwarded to City Hall to be processed through the collection agency the City uses for delinquent utility billings.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over the major program were noted.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-10 Certified Budget – Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the 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 have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The City’s budget was amended, however actual disbursements exceeded the estimated disbursements which the amendment was based upon. The City will make every attempt to see future amendments are sufficient to meet budgetary needs.

Conclusion – Response accepted.

IV-B-10 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.

IV-C-10 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-10 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Tom Pratt, Council Member, Employee of Orscheln’s	Supplies	\$ 4,638

In the opinion of the City Attorney, the transactions with Orscheln’s do not represent a conflict of interest since Mr. Pratt does not own the store and does not profit, directly or indirectly, from store sales.

IV-E-10 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.

IV-F-10 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-10 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

IV-H-10 Financial Condition – The Special Revenue, CDBG Nishna Productions and Cemetery Kiosk Funds and the Capital Projects Fund had deficit balances at June 30, 2010 of \$595, \$425 and \$672,066, respectively.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

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

Response – The deficits in the Special Revenue Funds have been resolved. The City typically deals with deficit account balances at the end of a project. Once a project is finalized, a transfer is made to remove any remaining deficit. Projects will be monitored to see any deficit balances are corrected in a timely manner.

Conclusion – Response accepted.

IV-I-10 Annual Financial Report – The City’s annual financial report was prepared and filed timely for the year ended June 30, 2010. However, the report contained material errors in the ending balances and certain receipt and disbursement line items for the governmental funds.

Recommendation – The City should amend the annual financial report to correctly report receipts, disbursements and balances.

Response – This was discussed between City Clerk and Auditor and deals with the issue of balancing between the computer system and the clerk’s report. The City Clerk is working with the Auditor to address this issue.

Conclusion – Response accepted.

IV-J-10 Unclaimed Property – The City voided several old outstanding checks dating back to March 1998.

Recommendation – Old outstanding checks are considered unclaimed property. The City should remit and report unclaimed property to the State Treasurer annually before November 1 in accordance with Chapter 556 of the Code of Iowa.

Response – A letter is being drafted which will be sent to vendors holding older outstanding checks in an effort to clear these checks. If this attempt fails, the City will remit the checks as unclaimed property as required.

Conclusion – Response accepted.

IV-K-10 Excessive Balance – The Special Revenue, Employee Benefits Fund cash balance was \$769,796 at June 30, 2010, or 108% of the total disbursements of \$714,615 for the year ended June 30, 2010.

Recommendation – The City should reduce the balance of the Special Revenue, Employee Benefits Fund to a reasonable amount through reductions in future tax askings.

Response – Each year this balance is taken into consideration during preparation of the upcoming fiscal year budget. We have been able to maintain or reduce our tax asking because of this balance. The City will closely evaluate our tax asking in upcoming years in order to evaluate and potentially reduce the balance in this account.

Conclusion – Response accepted.

City of Red Oak

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
Melissa M. Wellhausen, CPA, Senior Auditor
Dorothy O. Stover, Staff Auditor
Casey L. Johnson, Staff Auditor
Lara K. Van Wyk, 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