

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

March 4, 2013

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 \$11,424,973 for the year ended June 30, 2012, a 22% increase over the prior year. The receipts included \$2,252,418 in property tax, \$249,408 from tax increment financing, \$2,648,855 from charges for service, \$1,263,993 from operating grants, contributions and restricted interest, \$2,288,145 from capital grants, contributions and restricted interest, \$561,018 from local option sales tax, \$2,023,830 of bond proceeds, \$14,403 from unrestricted interest on investments, \$3,350 from the sale of assets and \$119,553 from other general receipts.

Disbursements for the year totaled \$12,595,519, a 33% increase over the prior year, and included \$2,237,045 for public safety, \$1,007,610 for public works and \$1,003,814 for capital projects. Also, disbursements for business type activities totaled \$6,228,693.

The significant increase in receipts and disbursements was due primarily to grant funding and disbursements for the wastewater treatment plant project.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1220-0647-B00F.pdf>.

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CITY OF RED OAK

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

JUNE 30, 2012

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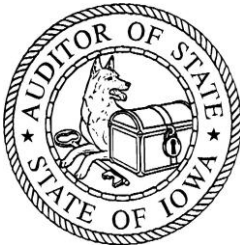
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City of Red Oak

Officials

<u>Name</u>	<u>Title</u>	<u>Expires</u>
(Before January 2012)		
Ted A. Schoonover	Mayor	Jan 2012
Tom Pratt	Mayor Pro Tem	Jan 2014
Larry Barnett	Council Member	Jan 2012
Larry Brandstetter	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
(After January 2012)		
William H. Billings, Jr.	Mayor	Jan 2014
Larry Barnett	Mayor Pro Tem	Jan 2016
Mark Gregg	Council Member	(Resigned)
Fred Pilecki (Appointed)	Council Member	Nov 2013
Tom Pratt	Council Member	Jan 2014
Scott Keith	Council Member	Jan 2016
Jeanice Lester	Council Member	Jan 2016
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, 2012, 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.

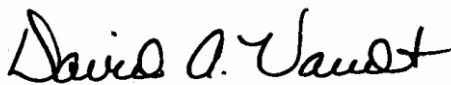
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Red Oak as of June 30, 2012, 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 13, 2013 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.

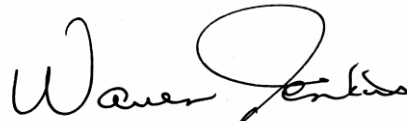
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Red Oak's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2011 (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. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by the

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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material aspects in relation to the basic financial statements taken as a whole.

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. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 32 through 34 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 13, 2013

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, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 5.5%, or approximately \$301,000, from fiscal year 2011 to fiscal year 2012. The increase was primarily due to receiving a Community Development Block Grant (CDBG) during fiscal year 2012.
- Disbursements for governmental activities increased 13.4%, or approximately \$754,000, from fiscal year 2011 to fiscal year 2012. Community and economic development function disbursements increased approximately \$269,000 due to the CDBG grant, public works function disbursements increased approximately \$220,000 for airport fuel purchases and tree removal for storm damage and capital projects function disbursements increased approximately \$368,000 due to swimming pool renovations, airport projects and the downtown renovation project.
- The City's total cash basis net assets decreased 18.2%, or approximately \$1,170,000, from June 30, 2011 to June 30, 2012. Of this amount, the cash basis net assets of the governmental activities decreased approximately \$621,000 and the cash basis net assets of the business type activities decreased approximately \$549,000.

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 financial statement by providing information about the most significant funds.

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

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

Supplementary Information provides detailed information about the nonmajor governmental 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, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system and landfill activities. 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. These funds are considered to be major funds of the City.

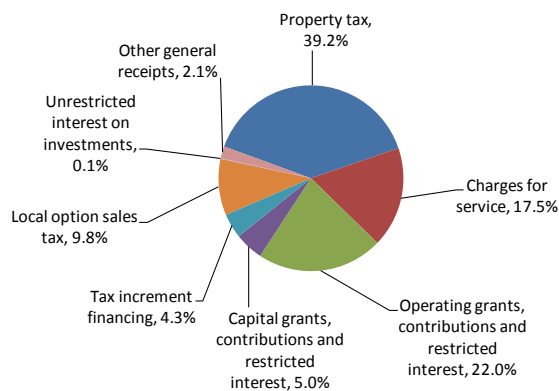
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

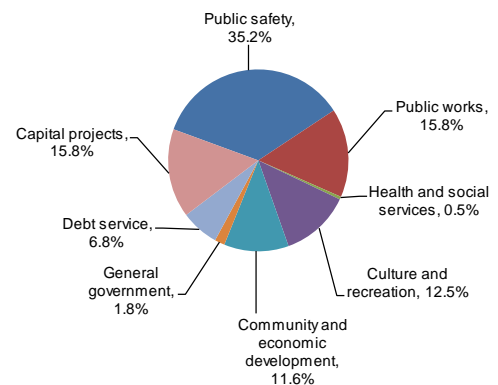
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$3.7 million to approximately \$3.1 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service	\$ 1,003,393	906,477
Operating grants, contributions and restricted interest	1,263,993	798,709
Capital grants, contributions and restricted interest	288,145	723,367
General receipts:		
Property tax	2,252,418	2,125,700
Tax increment financing	249,408	170,716
Local option sales tax	561,018	544,659
Unrestricted interest on investments	7,317	24,953
Other general receipts	118,789	148,511
Total receipts	<u>5,744,481</u>	<u>5,443,092</u>
Disbursements:		
Public safety	2,237,045	2,451,691
Public works	1,007,610	787,651
Health and social services	31,297	39,595
Culture and recreation	794,891	683,139
Community and economic development	740,843	471,518
General government	116,346	119,821
Debt service	434,980	423,037
Capital projects	1,003,814	636,005
Total disbursements	<u>6,366,826</u>	<u>5,612,457</u>
Change in cash basis net assets before transfers	(622,345)	(169,365)
Transfers, net	1,167	(14,000)
Change in cash basis net assets	(621,178)	(183,365)
Cash basis net assets beginning of year	3,701,581	3,884,946
Cash basis net assets end of year	<u>\$ 3,080,403</u>	<u>3,701,581</u>

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 5.5%, or approximately \$301,000. The total cost of all programs and services increased approximately \$754,000, or 13.4%. The increase in receipts was primarily the result of receiving CDBG funding during fiscal year 2012. The increase in disbursements was primarily the result of CDBG disbursements, increased airport fuel purchases, tree removal costs caused by storm damage and capital projects for swimming pool renovations, airport projects and the downtown renovation project.

The cost of all governmental activities this year was approximately \$6.4 million, compared to approximately \$5.6 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 approximately \$3.8 million because some of the cost was paid by those who directly benefited from the programs (\$1,003,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$1,552,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$3,190,000 in property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts.

	Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 1,003,727	922,019
Sewer	570,786	564,940
Landfill	70,949	71,008
Capital grants, contributions and restricted interest	2,000,000	-
General receipts:		
Unrestricted interest on investments	7,086	30,277
Other general receipts	4,114	5,268
Sewer revenue bond proceeds	2,023,830	-
General obligation sewer bond proceeds	-	2,305,875
Total receipts	5,680,492	3,899,387
Disbursements:		
Water	1,000,487	897,657
Sewer	5,186,597	2,915,119
Landfill	41,609	36,916
Total disbursements	6,228,693	3,849,692
Change in cash basis net assets before transfers	(548,201)	49,695
Transfers, net	(1,167)	14,000
Change in cash basis net assets	(549,368)	63,695
Cash basis net assets beginning of year	2,721,250	2,657,555
Cash basis net assets end of year	\$ 2,171,882	2,721,250

Total business type activities receipts increased \$1,781,105, or 45.7%. Total disbursements for the fiscal year increased 61.8%, or \$2,379,001. The increase in receipts and disbursements is primarily due to receiving grant and bond proceeds to fund a wastewater treatment plant project. The cash balance decreased \$549,368 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 \$3,080,403, a decrease of approximately \$621,000 compared to last year's total of \$3,701,581. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$104,552 from the prior year to \$1,342,563. Receipts increased \$156,762, disbursements increased \$265,248 and transfers out decreased \$208,277. The increase in receipts was primarily the result of increased airport fuel sales. The increase in disbursements was primarily the result of increased public safety costs, airport fuel purchases and culture and recreation function costs. The decrease in transfers out was primarily the result of closing deficit balances in the Capital Projects Fund during fiscal year 2011.
- The Special Revenue, Road Use Tax Fund cash balance increased \$29,291, or 4.3%, to \$704,849.
- The Special Revenue, Employee Benefits Fund cash balance decreased \$10,050, or 1.4%, during the fiscal year to \$714,630.
- 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 \$692,081, an increase of \$317,577 over the prior year. Total disbursements decreased \$325,792, due primarily to the purchase of two fire trucks in fiscal year 2011, and transfers out decreased \$288,811 due to the City transferring less to the Debt Service Fund.
- The Debt Service Fund cash balance decreased \$259,073 during the fiscal year to \$83,245. This decrease was primarily due to a decrease in transfers from the Special Revenue, Local Option Sales Tax Fund.
- The Capital Projects Fund cash balance decreased \$625,628 during the fiscal year to a deficit of (\$1,007,799). The City spent a total of \$1,003,814 on construction projects in the current year, compared to \$636,005 in the prior year. The increase in disbursements is primarily due to airport, swimming pool and street projects. Intergovernmental receipts decreased \$411,679 from the prior year, primarily due to decreases in airport grants.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$13,596 to \$1,069,282 at June 30, 2012. Total receipts increased \$67,840 while disbursements increased \$102,830 during the year.
- The Enterprise, Sewer Fund cash balance decreased \$592,304 to \$729,726 at June 30, 2012. Total receipts increased \$1,713,324 while disbursements increased \$2,271,478 during the year. The increase in receipts was primarily due to the City receiving an I-JOBS grant of \$2,000,000. The increase in disbursements is primarily due to increased costs for the wastewater treatment plant project.
- The Enterprise, Landfill Fund cash balance increased \$29,340 to \$372,874 at June 30, 2012.

BUDGETARY HIGHLIGHTS

The City's receipts were \$615,158 less than budgeted and other financing sources were \$1,979,180 more than budgeted. This was primarily due to the City budgeting bond proceeds for the wastewater treatment plant project as miscellaneous receipts rather than other financing sources.

Total disbursements were \$2,620,921 less than budgeted. Actual disbursements for the community and economic development function were \$30,186 more than budgeted. Disbursements were \$730,686 less than budgeted in the capital projects function due to delays in street projects and \$1,062,313 less than budgeted in business type activities due to delays in the wastewater treatment plant project.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$6,010,237 of bonds and other long-term debt outstanding, compared to \$4,253,500 last year. Debt increased as a result of issuing \$2,023,830 of sewer revenue bonds during the year.

	Outstanding Debt at Year-End	
	June 30,	
	2012	2011
General obligation bonds	\$ 3,920,000	4,225,000
Sewer revenue bonds	1,972,330	28,500
Lease-purchase agreement	117,907	-
Total	<u>\$ 6,010,237</u>	<u>4,253,500</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all property within the City's corporate limits. The City's outstanding general obligation debt of \$5,130,951, including tax increment financing rebate agreements of \$1,093,044, is significantly below its constitutional debt limit of approximately \$11,213,000. Additional information about the City's debt is presented in Notes 3 and 4 to the financial statements.

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 2013 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, 2012 stood at 5.5%, versus 6.6% a year ago. This compares with the State's unemployment rate of 5.1% and the national rate of 8.2%.

These factors were taken into account when adopting the budget for fiscal year 2013. Property tax revenues available for appropriation in the fiscal year 2013 operating budget are approximately \$2.149 million, an increase of 1% over the fiscal year 2012 budget. Budgeted disbursements are \$9,238,374, a decrease of 39% compared to the fiscal year 2012 final budget. The City has added no major new programs or initiatives.

If these estimates are realized, the City's June 30, 2012 budgeted cash balance is expected to decrease \$2,467,542 during the year.

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, 2012

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 2,237,045	586,166	120,340	-
Public works	1,007,610	311,877	579,476	-
Health and social services	31,297	3,679	-	-
Culture and recreation	794,891	83,654	90,184	-
Community and economic development	740,843	4,230	473,993	-
General government	116,346	13,787	-	-
Debt service	434,980	-	-	-
Capital projects	1,003,814	-	-	288,145
Total governmental activities	6,366,826	1,003,393	1,263,993	288,145
Business type activities:				
Water	1,000,487	1,003,727	-	-
Sewer	5,186,597	570,786	-	2,000,000
Landfill	41,609	70,949	-	-
Total business type activities	6,228,693	1,645,462	-	2,000,000
Total	\$ 12,595,519	2,648,855	1,263,993	2,288,145
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Bond proceeds				
Sale of capital 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:				
Streets				
Employee benefits				
Debt service				
Local option sales tax				
Fire department				
Urban renewal purposes				
Library				
Other purposes				
Landfill superfund				
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
(1,530,539)	-	(1,530,539)
(116,257)	-	(116,257)
(27,618)	-	(27,618)
(621,053)	-	(621,053)
(262,620)	-	(262,620)
(102,559)	-	(102,559)
(434,980)	-	(434,980)
(715,669)	-	(715,669)
(3,811,295)	-	(3,811,295)
-	3,240	3,240
-	(2,615,811)	(2,615,811)
-	29,340	29,340
-	(2,583,231)	(2,583,231)
(3,811,295)	(2,583,231)	(6,394,526)
2,076,511	-	2,076,511
175,907	-	175,907
249,408	-	249,408
561,018	-	561,018
7,317	7,086	14,403
-	2,023,830	2,023,830
3,350	-	3,350
115,439	4,114	119,553
1,167	(1,167)	-
3,190,117	2,033,863	5,223,980
(621,178)	(549,368)	(1,170,546)
3,701,581	2,721,250	6,422,831
\$ 3,080,403	2,171,882	5,252,285
\$ 253,805	-	253,805
764,849	-	764,849
714,630	-	714,630
83,245	14,008	97,253
692,081	-	692,081
74,768	-	74,768
69,939	-	69,939
108,487	-	108,487
66,957	-	66,957
-	324,350	324,350
251,642	1,833,524	2,085,166
\$ 3,080,403	2,171,882	5,252,285

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, 2012

	Special Revenue			
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax
Receipts:				
Property tax	\$ 1,139,195	-	828,053	-
Tax increment financing	-	-	-	-
Other city tax	63,215	-	46,048	561,018
Licenses and permits	69,982	-	-	-
Use of money and property	7,317	-	-	-
Intergovernmental	123,295	544,635	-	-
Charges for service	638,841	-	-	-
Special assessments	-	-	-	-
Miscellaneous	406,990	-	4,486	-
Total receipts	2,448,835	544,635	878,587	561,018
Disbursements:				
Operating:				
Public safety	1,378,027	-	587,144	196,133
Public works	342,677	524,755	140,178	-
Health and social services	31,297	-	-	-
Culture and recreation	629,633	-	144,955	19,057
Community and economic development	-	-	-	28,251
General government	99,986	-	16,360	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	2,481,620	524,755	888,637	243,441
Excess (deficiency) of receipts over (under) disbursements	(32,785)	19,880	(10,050)	317,577
Other financing sources (uses):				
Sale of capital assets	3,350	-	-	-
Operating transfers in	29,336	9,411	-	-
Operating transfers out	(104,453)	-	-	-
Total other financing sources (uses)	(71,767)	9,411	-	-
Change in cash balances	(104,552)	29,291	(10,050)	317,577
Cash balances beginning of year	1,447,115	675,558	724,680	374,504
Cash balances end of year	\$ 1,342,563	704,849	714,630	692,081
Cash Basis Fund Balances				
Nonspendable:				
Cemetery perpetual care	\$ -	-	-	-
Library bequest	-	-	-	-
Restricted for:				
Streets	-	704,849	-	-
Employee benefits	-	-	714,630	-
Debt service	-	-	-	-
Local option sales tax	-	-	-	692,081
Fire department	-	-	-	-
Urban renewal purposes	-	-	-	-
Library	77,175	-	-	-
Other purposes	5,947	-	-	-
Assigned for:				
Wastewater treatment plant	500,000	-	-	-
Historic preservation	3,370	-	-	-
Unassigned	756,071	-	-	-
Total cash basis fund balances	\$ 1,342,563	704,849	714,630	692,081

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
167,045	-	-	2,134,293
-	-	249,408	249,408
8,862	-	-	679,143
-	-	-	69,982
-	84	1,144	8,545
-	207,590	473,993	1,349,513
-	-	-	638,841
-	3,172	-	3,172
-	77,300	119,458	608,234
175,907	288,146	844,003	5,741,131
-	-	75,741	2,237,045
-	-	-	1,007,610
-	-	-	31,297
-	-	1,246	794,891
-	-	712,592	740,843
-	-	-	116,346
434,980	-	-	434,980
-	1,003,814	-	1,003,814
434,980	1,003,814	789,579	6,366,826
(259,073)	(715,668)	54,424	(625,695)
-	-	-	3,350
-	99,451	3,726	141,924
-	(9,411)	(26,893)	(140,757)
-	90,040	(23,167)	4,517
(259,073)	(625,628)	31,257	(621,178)
342,318	(382,171)	519,577	3,701,581
83,245	(1,007,799)	550,834	3,080,403
-	-	212,805	212,805
-	-	41,000	41,000
-	-	60,000	764,849
-	-	-	714,630
83,245	-	-	83,245
-	-	-	692,081
-	-	74,768	74,768
-	-	69,939	69,939
-	-	31,312	108,487
-	-	61,010	66,957
-	-	-	500,000
-	-	-	3,370
-	(1,007,799)	-	(251,728)
83,245	(1,007,799)	550,834	3,080,403

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, 2012

	Enterprise			Total
	Water	Sewer	Landfill	
Operating receipts:				
Charges for service	\$ 987,907	570,786	70,949	1,629,642
Miscellaneous	15,820	-	-	15,820
Total operating receipts	1,003,727	570,786	70,949	1,645,462
Operating disbursements:				
Business type activities	817,436	479,601	41,609	1,338,646
Excess of operating receipts over operating disbursements	186,291	91,185	29,340	306,816
Non-operating receipts (disbursements):				
Interest on investments	3,961	3,125	-	7,086
Miscellaneous	1,393	2,721	-	4,114
Grant proceeds	-	2,000,000	-	2,000,000
Capital projects	(183,051)	(4,576,010)	-	(4,759,061)
Debt service	-	(130,986)	-	(130,986)
Sewer revenue bond proceeds	-	2,023,830	-	2,023,830
Total non-operating receipts (disbursements)	(177,697)	(677,320)	-	(855,017)
Excess (deficiency) of receipts over (under) disbursements	8,594	(586,135)	29,340	(548,201)
Transfers:				
Operating transfers in	5,002	-	-	5,002
Operating transfers out	-	(6,169)	-	(6,169)
Total transfers in (out)	5,002	(6,169)	-	(1,167)
Change in cash balances	13,596	(592,304)	29,340	(549,368)
Cash balances beginning of year	1,055,686	1,322,030	343,534	2,721,250
Cash balances end of year	\$ 1,069,282	729,726	372,874	2,171,882
Cash Basis Fund Balances				
Restricted for:				
Debt service	\$ -	14,008	-	14,008
Landfill superfund	-	-	324,350	324,350
Unrestricted	1,069,282	715,718	48,524	1,833,524
Total cash basis fund balances	\$ 1,069,282	729,726	372,874	2,171,882

See notes to financial statements.

City of Red Oak

Notes to Financial Statements

June 30, 2012

(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 (the primary government) 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 funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The 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 property tax and other receipts to be used 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 Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

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

The Enterprise, Landfill Fund accounts for the operation of the City's recycling program and the maintenance of the closed landfill.

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.

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

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

D. Governmental Cash Basis Fund Balances

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

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

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

Assigned – Amounts the City intends to use for specific purposes as determined by the City Council, City Administrator or City Clerk.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the community and economic development function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 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 \$55,783 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

(3) Long-Term Debt

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

Year Ending June 30,	Principal	Interest	Total
2013	\$ 360,000	97,155	457,155
2014	365,000	92,925	457,925
2015	365,000	87,320	452,320
2016	380,000	80,508	460,508
2017	390,000	72,128	462,128
2018-2022	1,465,000	209,553	1,674,553
2023-2025	595,000	39,895	634,895
Total	\$ 3,920,000	679,484	4,599,484

Sewer Revenue Bonds

On October 29, 2010, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$2,850,000 of sewer revenue bonds with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the City's sewer system. The funds are to be drawn down by the City from the Trustee upon request to reimburse the City for costs as they were incurred. At June 30, 2012, the City had drawn down \$2,052,330 of the funds authorized. Wells Fargo Bank Iowa, N.A., holds the remaining funds in trust, which the City will request as the project progresses. A formal repayment schedule has not yet been adopted. During the current year, annual principal and interest payments on the bonds required 136% of net receipts. Principal and interest paid and total customer net receipts were \$123,861 and \$91,185, respectively.

The resolution providing for the issuance of the sewer revenue bonds includes the following provisions:

- (1) The bonds will only be redeemed from the future earnings of the enterprise activities and the bond holders hold a lien on the future earnings of the fund.
- (2) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (3) User rates shall be established at a level which produce and maintain net receipts at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

During fiscal year 2012, sufficient user rates were not established at a level to produce net revenues equal to at least 110% of the principal of and interest on the bonds as they became due. Also, the City is not being charged for service as required. In addition, the City has not made the required transfers to the sewer sinking account.

Lease-Purchase Agreement

On May 15, 2012, the City entered into lease-purchase agreement to lease a plow truck with a cost of \$117,907. The following is a schedule of the future minimum lease payments, including interest at 3.912% per annum, with a cost of \$117,907 and the present value of net minimum lease payments under the agreement in effect at June 30, 2012:

Year Ending June 30,	Amount
2013	\$ 25,593
2014	25,593
2015	25,593
2016	25,594
2017	25,594
Total minium lease payments	127,967
Less amount representing interest	(10,060)
Present value of net minimum lease payments	\$ 117,907

There were no payments under the agreement for the year ended June 30, 2012.

(4) Development and Rebate Agreements

Rebate Agreements

The City has entered into various rebate 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 \$1,953,850. The total amount rebated during the year ended June 30, 2012 was \$227,599. The City has rebated a total of \$730,806 of incremental property tax under the agreements. The outstanding balance of the agreements at June 30, 2012 was \$1,223,044.

These agreements are not a general obligation of the City. However, the agreements are subject to the constitutional debt limitation of the City, except for \$130,000 which has not been appropriated by the Council at June 30, 2012.

Development Agreement

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 promissory notes. 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. The City loaned \$175,000 to the developer. At June 30, 2012, the forgivable loan balance of \$175,000 has been forgiven by the City.

(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 5.38% of their annual covered salary and the City is required to contribute 8.07% 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, 2012, 2011 and 2010 were \$173,845, \$155,128 and \$143,803, 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, retirees and their spouses. There are 46 active and no 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 would 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 \$553 for single coverage and \$1,712 for family coverage. For the year ended June 30, 2012, the City contributed \$638,576 and plan members eligible for benefits contributed \$38,931 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, 2012, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 111,000
Compensatory time	28,000
Sick leave	<u>99,000</u>
Total	<u>\$ 238,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2012.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Library Bequest	\$ 23,167
	Enterprise:	
	Sewer	6,169
		<u>29,336</u>
Special Revenue:		
Road Use Tax	Capital Projects	9,411
Low-Moderate Income	Special Revenue:	
	Tax Increment Financing	2,088
Library Bequest	Library Art Project	1,199
	Permanent:	
	Library Bequest	439
		<u>13,137</u>
Capital Projects	General	<u>99,451</u>
Enterprise:		
Water	General	5,002
Total		<u>\$ 146,926</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 of 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 663 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 150% 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, 2012 were \$117,261.

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. For members requiring specific coverage from \$3,000,000 to \$12,000,000 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, 2012, 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% 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) Interfund Loan

The detail of the interfund loan at June 30, 2012 is as follows:

Due From	Due To	Amount
Special Revenue:		
Tax Increment Financing	General	<u>\$ 65,000</u>

In a prior year, an advance was made from the General Fund to the Special Revenue, Tax Increment Financing Fund to provide an economic development grant for an urban renewal project. The loan will be repaid through transfers from the Special Revenue, Tax Increment Financing Fund as receipts of the fund become available.

(11) Library Bequests

The Library has received various restricted bequests. At June 30, 2012, the Library Bequest Fund included a total of \$41,000 of memorials, as follows:

<u>Name of Memorial</u>	<u>Amount</u>	<u>Purpose</u>
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 previously received funds 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, 2012, the City spent \$36 of these funds for flowers. At June 30, 2012, the balance in the Special Revenue, Komarek Trust Fund totaled \$12,636.

(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 City and Magna International are required to establish and maintain financial security in the amount of \$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, 2012, all monitoring and maintenance activities were completed.

(14) Commitments

The City entered into contracts for water treatment plant improvements, a trail project, swimming pool renovation and airport runway renovation totaling \$9,698,343, of which \$8,062,249 has been paid at June 30, 2012. The balance of \$1,636,094 will be paid as work on the projects progresses.

(15) Deficit Balance

At June 30, 2012, the Capital Projects Fund had a deficit balance of \$1,007,799. The deficit balance in the Capital Projects Fund will be eliminated through future transfers from other funds, grant reimbursements and long-term debt proceeds.

(16) Subsequent Event

In September 2012, the City approved issuance of \$2,505,000 of general obligation corporate purpose bonds to fund downtown street/infrastructure improvements, the municipal pool renovations, the Washington sewer project and the law enforcement center project.

City of Red Oak

Other 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

Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 2,134,293	-	-
Tax increment financing	249,408	-	-
Other city tax	679,143	-	-
Licenses and permits	69,982	-	-
Use of money and property	8,545	7,086	467
Intergovernmental	1,349,513	2,000,000	-
Charges for service	638,841	1,645,462	-
Special assessments	3,172	-	-
Miscellaneous	608,234	4,114	116,573
Total receipts	5,741,131	3,656,662	117,040
Disbursements:			
Public safety	2,237,045	-	75,741
Public works	1,007,610	-	-
Health and social services	31,297	-	-
Culture and recreation	794,891	-	-
Community and economic development	740,843	-	-
General government	116,346	-	-
Debt service	434,980	-	-
Capital projects	1,003,814	-	-
Business type activities	-	6,228,693	-
Total disbursements	6,366,826	6,228,693	75,741
Excess (deficiency) of receipts over (under) disbursements	(625,695)	(2,572,031)	41,299
Other financing sources, net	4,517	2,022,663	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(621,178)	(549,368)	41,299
Balances beginning of year	3,701,581	2,721,250	33,469
Balances end of year	\$ 3,080,403	2,171,882	74,768

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
2,134,293	2,124,321	2,124,321	9,972
249,408	254,298	254,298	(4,890)
679,143	636,427	636,427	42,716
69,982	48,700	48,700	21,282
15,164	24,620	24,620	(9,456)
3,349,513	943,832	1,443,832	1,905,681
2,284,303	2,204,892	2,216,592	67,711
3,172	3,171	3,171	1
495,775	3,143,950	3,143,950	(2,648,175)
9,280,753	9,384,211	9,895,911	(615,158)
2,161,304	2,415,666	2,422,666	261,362
1,007,610	947,616	1,017,616	10,006
31,297	17,886	42,886	11,589
794,891	818,281	818,281	23,390
740,843	210,657	710,657	(30,186)
116,346	141,484	666,484	550,138
434,980	436,603	436,603	1,623
1,003,814	1,734,500	1,734,500	730,686
6,228,693	7,291,006	7,291,006	1,062,313
12,519,778	14,013,699	15,140,699	2,620,921
(3,239,025)	(4,629,488)	(5,244,788)	2,005,763
2,027,180	3,000	48,000	1,979,180
(1,211,845)	(4,626,488)	(5,196,788)	3,984,943
6,389,362	5,671,802	5,671,802	717,560
5,177,517	1,045,314	475,014	4,702,503

City of Red Oak

Notes to Other Information – Budgetary Reporting

June 30, 2012

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the 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 \$1,127,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the community and economic development function.

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, 2012

	Volunteer Fire and Rescue Association	I-Jobs	Tax Increment Financing	Special Low- Moderate Income
Receipts:				
Tax increment financing	\$ -	-	207,552	41,856
Use of money and property	467	-	-	-
Intergovernmental	-	-	-	-
Miscellaneous	116,573	-	-	-
Total receipts	117,040	-	207,552	41,856
Disbursements:				
Operating:				
Public safety	75,741	-	-	-
Culture and recreation	-	-	-	-
Community and economic development	-	-	238,599	-
Total disbursements	75,741	-	238,599	-
Excess (deficiency) of receipts over (under) disbursements	41,299	-	(31,047)	41,856
Other financing sources (uses):				
Operating transfers in	-	-	-	2,088
Operating transfers out	-	-	(2,088)	-
Total other financing sources (uses)	-	-	(2,088)	2,088
Change in cash balances	41,299	-	(33,135)	43,944
Cash balances beginning of year	33,469	60,000	103,074	4,430
Cash balances end of year	\$ 74,768	60,000	69,939	48,374
Cash Basis Fund Balances				
Nonspendable:				
Cemetery perpetual care	\$ -	-	-	-
Library bequest	-	-	-	-
Restricted for:				
Streets	-	60,000	-	-
Fire department	74,768	-	-	-
Urban renewal purposes	-	-	69,939	-
Library	-	-	-	-
Other purposes	-	-	-	48,374
Total cash basis fund balances	\$ 74,768	60,000	69,939	48,374

See accompanying independent auditor's report.

Revenue				Permanent			
CDBG Nishna Productions	Komarek Trust	Library Bequest	Library People's Art Projects	Cemetery Perpetual Care	Library Bequest		Total
-	-	-	-	-	-		249,408
-	-	236	2	-	439		1,144
473,993	-	-	-	-	-		473,993
-	-	-	-	2,885	-		119,458
473,993	-	236	2	2,885	439		844,003
-	-	-	-	-	-		75,741
-	36	1,210	-	-	-		1,246
473,993	-	-	-	-	-		712,592
473,993	36	1,210	-	-	-		789,579
-	(36)	(974)	2	2,885	439		54,424
-	-	1,638	-	-	-		3,726
-	-	(23,167)	(1,199)	-	(439)		(26,893)
-	-	(21,529)	(1,199)	-	(439)		(23,167)
-	(36)	(22,503)	(1,197)	2,885	-		31,257
-	12,672	49,792	5,220	209,920	41,000		519,577
-	12,636	27,289	4,023	212,805	41,000		550,834
-	-	-	-	212,805	-		212,805
-	-	-	-	-	41,000		41,000
-	-	-	-	-	-		60,000
-	-	-	-	-	-		74,768
-	-	-	-	-	-		69,939
-	-	27,289	4,023	-	-		31,312
-	12,636	-	-	-	-		61,010
-	12,636	27,289	4,023	212,805	41,000		550,834

City of Red Oak
 Schedule of Indebtedness
 Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Corporate purpose and refunding	Mar 25, 2010	0.5-3.45%	\$ 2,600,000
Sewer improvement	Nov 17, 2010	0.75-3.40	2,350,000
Total			
Revenue bonds:			
Sewer	Oct 29, 2010	3.00% *	\$ 2,850,000
Lease purchase agreement:			
Plow truck	May 15, 2012	3.912%	\$117,907

* The City is required to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
1,875,000	-	200,000	1,675,000	43,940
2,350,000	-	105,000	2,245,000	85,155
<u>\$ 4,225,000</u>	<u>-</u>	<u>305,000</u>	<u>3,920,000</u>	<u>129,095</u>
28,500	2,023,830	80,000	1,972,330	43,861
-	117,907	-	117,907	-

City of Red Oak

City of Red Oak

Bond Maturities

June 30, 2012

Year Ending June 30,	General Obligation Bonds						Total
	Corporate Purpose and Refunding			Sewer Improvement			
	Issued March 25, 2010			Issued Nov 17, 2010			
	Interest Rates	Amount		Interest Rates	Amount		
2013	1.30%	\$ 210,000		1.00%	\$ 150,000	360,000	
2014	1.70	215,000		1.30	150,000	365,000	
2015	2.10	210,000		1.55	155,000	365,000	
2016	2.50	220,000		1.80	160,000	380,000	
2017	2.80	230,000		2.10	160,000	390,000	
2018	3.10	235,000		2.30	165,000	400,000	
2019	3.30	195,000		2.50	170,000	365,000	
2020	3.45	160,000		2.70	175,000	335,000	
2021		-		2.90	180,000	180,000	
2022		-		3.05	185,000	185,000	
2023		-		3.15	190,000	190,000	
2024		-		3.25	200,000	200,000	
2025		-		3.40	205,000	205,000	
Total		<u>\$ 1,675,000</u>			<u>\$ 2,245,000</u>	<u>3,920,000</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 Ten Years

	2012	2011	2010	2009
Receipts:				
Property tax	\$ 2,134,293	2,032,826	2,128,623	2,050,552
Tax increment financing	249,408	170,716	91,392	82,158
Other city tax	679,143	637,533	608,242	668,751
Licenses and permits	69,982	60,593	51,523	61,636
Use of money and property	8,545	30,586	81,969	124,911
Intergovernmental	1,349,513	1,372,360	2,283,841	2,020,983
Charges for service	638,841	640,212	495,287	548,744
Special assessments	3,172	3,433	3,695	3,957
Miscellaneous	608,234	477,816	316,029	595,485
Total	<u>\$ 5,741,131</u>	<u>5,426,075</u>	<u>6,060,601</u>	<u>6,157,177</u>
Disbursements:				
Operating:				
Public safety	\$ 2,237,045	2,451,691	2,167,493	2,490,460
Public works	1,007,610	787,651	802,415	796,214
Health and social services	31,297	39,595	10,006	8,123
Culture and recreation	794,891	683,139	655,112	577,789
Community and economic development	740,843	471,518	279,102	164,443
General government	116,346	119,821	123,141	157,026
Debt service	434,980	423,037	468,832	696,778
Capital projects	1,003,814	636,005	3,231,951	850,782
Total	<u>\$ 6,366,826</u>	<u>5,612,457</u>	<u>7,738,052</u>	<u>5,741,615</u>

See accompanying independent auditor's report.

2008	2007	2006	2005	2004	2003
2,051,128	1,987,915	1,977,212	1,971,911	2,083,572	2,010,066
81,447	201,129	90,136	89,074	259,745	388,647
557,592	646,708	528,603	584,980	547,700	527,394
51,073	49,585	53,302	80,412	16,097	16,188
239,731	251,362	156,388	99,670	76,739	99,181
1,705,840	915,512	576,171	1,546,851	876,268	955,452
580,372	590,031	550,830	558,132	424,815	407,150
4,219	4,481	26,667	9,947	7,867	44,611
452,226	396,528	535,457	263,518	280,962	285,603
5,723,628	5,043,251	4,494,766	5,204,495	4,573,765	4,734,292
1,885,490	1,842,324	1,684,050	1,731,635	1,702,066	1,605,572
800,133	497,363	531,830	576,699	514,779	907,959
29,080	13,591	15,263	16,098	13,339	3,175
580,009	547,171	585,723	690,502	492,602	584,342
298,823	134,446	70,045	76,827	328,252	295,120
112,603	102,300	108,125	115,442	118,595	122,687
699,977	694,634	700,026	1,462,758	936,457	678,723
2,891,634	202,061	449,924	1,916,596	646,885	744,121
7,297,749	4,033,890	4,144,986	6,586,557	4,752,975	4,941,699

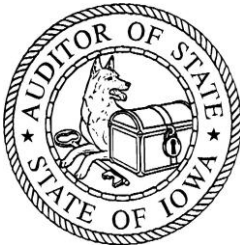
Schedule 5

City of Red Oak
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2012

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Transportation:			
Airport Improvement Program	20.106	3-19-0077-08	\$ 2,799
Airport Improvement Program	20.106	3-19-0077-09/10	3,420
Airport Improvement Program	20.106	3-19-0077-11	8,818
Airport Improvement Program	20.106	3-19-0077-12	240,496
Total direct			<u>255,533</u>
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Economic Development Authority:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	09-CF-010	<u>473,993</u>
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-E6360(612)--8V-69	4,670
Highway Planning and Construction	20.205	STP-E6360(613)--8V-69	74,240
Highway Planning and Construction	20.205	STP-E6360(614)--8V-69	68,800
			<u>147,710</u>
Total indirect			<u>621,703</u>
Total			<u>\$ 877,236</u>

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 in this schedule is presented in accordance with the requirements of OMB Circular -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.



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA

Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 13, 2013. 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

The management of the City of Red Oak is responsible for establishing and maintaining effective 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-12 through II-C-12 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-12 through II-H-12 to be significant deficiencies.

Compliance and Other Matters

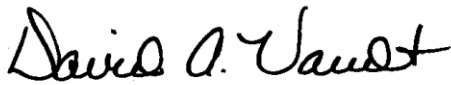
As part of obtaining reasonable assurance about whether the City of Red Oak's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material 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 which 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, 2012 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, and 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.

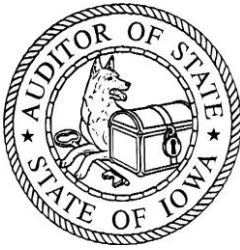


DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 13, 2013



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

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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

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, 2012. 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 noncompliance 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, 2012.

Internal Control Over Compliance

The management of the City of Red Oak is responsible for establishing and maintaining effective internal control over compliance with the 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.


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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance we consider to be a significant deficiency, which is described in Part III of the accompanying Schedule of Findings and Questioned Costs as item III-A-12. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City of Red Oak's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on the City's response, we did not audit the City of Red Oak's response and, accordingly, we express no opinion on it.

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, and 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 13, 2013

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

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) A significant deficiency in internal control over the major program was noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding 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 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City did not qualify as a low-risk auditee.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-12 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. Generally, one or two individuals may have control over the following areas for the City:

- (1) Incoming mail is not opened by an individual not authorized to make entries to the accounting records. Although an initial listing of cash and checks received in the mail is prepared on a test basis, the listing only includes utility collections and not other miscellaneous receipts. In addition, an independent person does not compare the listing to cash receipt records.
- (2) Receipts – collecting, depositing, journalizing and posting.
- (3) Utility receipts – billing, collecting and posting functions.
- (4) Disbursements – purchasing, recording, reconciling and posting.
- (5) Payroll – preparing, approving and disbursing, including electronic fund transfers.
- (6) Journal entries – preparing and journalizing with no independent review.

For the Library and the Fire and Rescue Association, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – posting, reconciling and check writing.
- (3) Cash – handling and recording cash.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City, the Library and the Fire and Rescue Association should review their operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of reviews should be indicated by the signature or initials of the independent reviewer and the date of the review.

Response – The City takes internal control into consideration for all procedures and policies. The mail is now being opened by City Clerk, who does infrequent posting to the computer, keeping a log of random monies received in the mail and then is checking it to the computer for verification of posting by listing journal number and date. All journal entries for corrections now must be have a written explanation and be presented to City Clerk for approval, before the transaction is posted on the computer. We will continue to strive towards the highest level of internal control possible given the limitations of current staffing levels. The Library and the Fire and Rescue Association will be advised the same requirements apply to those entities as well.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

II-B-12 Financial Reporting – During the audit, we identified material amounts of misclassified receipts. I-JOBS grant receipts were coded as miscellaneous rather than as intergovernmental and sewer revenue bond proceeds were coded as miscellaneous rather than other financing sources. In addition, a road use tax receipt was incorrectly posted as local option sales tax and a property tax receipt was incorrectly posted as charges for service. 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 – All items mentioned have already been corrected. Steps have been taken to eliminate or at least minimize occurrences of inaccurate coding and/or misposting.

Conclusion – Response accepted.

II-C-12 Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not properly reconciled throughout the year. Although the computer system generates a reconciliation report, the amounts in the report are not compared to the utility records to ensure accuracy. In addition, an independent person does not review and approve the reconciliation or adjustments made to accounts.

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 adjustments and should monitor delinquent accounts.

Response – Procedures have been changed in the utility billing area as new reports have been made to better facilitate the reconciliation. The City Clerk will initial and date to indicate review of the reconciliations.

Conclusion – Response accepted.

II-D-12 Computer Systems – During our review of internal control, the existing control activities in the City’s computer systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City’s computer systems were noted.

The City does not have written policies for:

- A disaster recovery plan for the computer systems.
- Requiring employees to periodically change passwords.

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

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Response – The City will work on developing a disaster recovery plan and employees will be advised to periodically change their password.

Conclusion – Response accepted.

- II-E-12 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 City Council on a monthly basis.

Response – The City currently includes the total Library balance, provided on a monthly report furnished by the Library Board, on the city’s monthly financial reports. The Library Board will be advised the checking accounts, savings accounts and certificates of deposit, must be included individually in the city books, and therefore all separately held funds of the Library must be remitted to city hall for proper accountability.

Conclusion – Response accepted.

- II-F-12 Reconciliation of Ambulance Billings, Collections and Delinquent Accounts – The City contracts with an outside company to perform billing procedures for ambulance services. However, the City does not perform an independent review of the reconciliation of ambulance billings, collections and delinquent accounts.

Recommendation – Procedures should be established for the City to review the reconciliation of ambulance billings, collections and delinquent accounts for each billing period.

Response – The City is in the process of reviewing these procedures and investigating the use of the Iowa Offset for delinquent accounts.

Conclusion – Response accepted.

- II-G-12 Compensatory Time – During the fiscal year ended June 30, 2011, the City enacted a new employee policy requiring employee compensatory time balances be no more than 40 hours. Employees were given until September 1, 2011 to reduce their balances to 40 hours or less. For 5 of 47 employees reviewed, the balance at June 30, 2012 exceeded 40 hours, with one employee having a balance in excess of 300 hours.

Recommendation – The City should monitor the balances to ensure compliance with the City’s policy.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Response – Compensatory time is being closely watched on timesheets. It has taken time, following the implementation of this new policy, to get all employees within the parameters now imposed. All employees will soon be within compliance and will not be allowed to exceed this figure in the future.

Conclusion – Response accepted.

II-H-12 Petty Cash Policy – The City has several departments which utilize a petty cash fund. The City does not have a policy for the petty cash funds which specifies proper usage, including allowable and unallowable disbursements, approvals and maximum dollar amounts. In addition, one City department utilizes the petty cash fund rather than following established City procurement policies.

Recommendation – The City should formalize a petty cash fund policy establishing proper usage, amounts and procedures for all City departments. All City departments should follow established procurement policies.

Response – The City will be presenting a petty cash policy to the City Council for adoption.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

**CFDA Number 14.228: Community Development Block Grants/State's Program
and Non-Entitlement Grants in Hawaii**

Pass-through Agency Number: 09-CF-010

Federal Award Year: 2009

U.S. Department of Housing and Urban Development

Passed through the Iowa Economic Development Authority

III-A-12 Cash Management – For 2 of 8 grant drawdown requests, the City did not disburse funds within 10 days as required by the grant agreement.

Recommendation – The City should implement procedures to ensure grant funds are disbursed timely.

Response – This was corrected as soon as it was found (prior to audit).

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-12 Certified Budget – At June 30, 2012, disbursements exceeded the amount budgeted in the community and economic development function. Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the health and social services and community and economic development functions prior to the budget amendment on May 21, 2012. 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 – It is the City’s intent to stay within budget. However, this time an end of the fiscal year payment for downtown TIF projects was paid which exceeded the budget. This will be closely monitored to prevent this from occurring in the future.

Conclusion – Response accepted.

IV-B-12 Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
HyVee	Condolence flowers	\$ 30

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

Recommendation – The City Council should determine and document the public purpose served by this disbursement before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures which clearly document the public purpose, including the requirement for proper documentation.

Response – The City feels that expressing condolences to employees grieving the loss of a loved one is an important aspect of showing our respect and appreciation for our employees and therefore unquestionably serves a public purpose.

Conclusion – Response acknowledged. The City should establish written policies for bereavement disbursements to document the public purpose served.

IV-C-12 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

IV-D-12 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	\$ 5,888
Drue Powers, Police Chief, Owner of Powers Lock	Keys	126
Mike Wise, Spouse of Diane Wise, Utility Clerk, Owner of American Fire Protection	Extinguisher inspections and supplies	1,497

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. In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the Police Chief and American Fire Protection do not appear to represent conflicts of interest since total transactions with each were less than \$1,500 during the fiscal year.

IV-E-12 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-12 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-12 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-12 Financial Condition – The Capital Projects Fund had a deficit balance at June 30, 2012 of \$1,007,799.

Recommendation – The City should investigate alternatives to eliminate this deficit to return the fund to a sound financial position.

Response – The City adjusts deficit balances as projects are completed. We will continue to monitor this to assure balances are adjusted in a timely manner.

Conclusion – Response accepted.

IV-I-12 Revenue Bonds – The following instances of non-compliance with the sewer revenue bond requirements were noted:

- The City's sewer revenue bond resolution requires a sewer sinking account be established and transfers are to be made into the sinking account in equal monthly installments on the first day of each month. The City has established a sewer sinking account. However, the required monthly transfers into the sinking account were not made.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

- The provisions of the sewer revenue bond resolution require the City produce net operating revenues equal to at least 110% of the principal of and interest on the bonds as they become due. The City's fiscal year 2012 net operating receipts of \$91,185 were less than 110% of the \$123,861 of sewer revenue bond principal and interest due during fiscal year 2012.
- The City's sewer revenue bond resolution requires all users of the system, including the City, be charged for usage. The City is not being charged for usage.

Recommendation – The City should make the necessary transfers to the sewer sinking account as required by the sewer bond resolution. The City should ensure City sewer usage is billed and paid by the City as required by the bond provisions. In addition, the City should establish utility rates at a sufficient level to allow net receipts to comply with the bond provisions.

Response – The City is currently reviewing the matter of charging itself for sewer usage and will be considering methods of implementation. The City has a separate account entitled Sewer Replacement. This account is being used to supplement revenues required for the bond. The current balance in this fund is \$269,350, which is more than adequate to meet the requirements. The City will be increasing sewer rates over time in order to achieve the necessary revenue stream.

Conclusion – Response acknowledged. The City should make monthly transfers to the sewer sinking account as required.

- IV-J-12 I-JOBS Funding – As part of the 2009 I-JOBS legislation, cities receiving I-JOBS funding were required to identify and report quarterly to the Iowa Department of Transportation the specific projects or activities undertaken, their status and the amount of I-JOBS road funds spent to date. In addition, cities were required to expend the I-JOBS monies received within two years of receipt. The City did not submit the required reports and the City did not expend the I-JOBS funding within two years as required.

Recommendation – The City should contact the Iowa Department of Transportation (IDOT) to determine the disposition of this matter.

Response – City will make contact with IDOT in reference to this situation.

Conclusion – Response accepted.

- IV-K-12 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The Library does not properly retain electronic images of cancelled checks.

Recommendation – The Library should retain an image of both the front and back of each cancelled check as required.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Response – The Library Board will be advised checking accounts, savings accounts and certificates of deposit must be remitted to city hall for proper accountability, including compliance with this requirement.

Conclusion – Response accepted.

- IV-L-12 City Provided Vehicle – The City provides an employee a City vehicle for commuting. Internal Revenue Service Publication 15-B, “Employer’s Tax Guide to Fringe Benefits”, states personal use of an employer-provided vehicle is a non-cash taxable fringe benefit. The City is not reporting this fringe benefit as employee wages.

Recommendation – The City should comply with Internal Revenue Service regulations.

Response – Tax is now being withheld as required.

Conclusion – Response accepted.

- IV-M-12 Excessive Balance – The Special Revenue, Employee Benefits Fund cash balance at June 30, 2012 was \$714,630, or 80% of the total disbursements of \$888,637 during the fiscal year. The cash balance of the fund was \$724,680 at June 30, 2011.

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 – The City estimates health insurance costs almost a year ahead of rates being presented. This cash balance is relied upon as a “buffer” to ensure adequate funds are on hand to cover the unpredictable expense of health insurance in the upcoming fiscal year. We will take steps to reduce the amount of cash balance in this fund in upcoming budgets.

Conclusion – Response accepted.

- IV-N-12 Lease Purchase Agreement – The City did not hold a public hearing prior to entering into a lease purchase agreement for a plow truck as required by Chapter 364.4(4)(e) of the Code of Iowa.

Recommendation – The City should comply with public hearing requirements prior to entering into lease purchase agreements.

Response – The City will comply with the public hearing requirements should a lease purchase agreement be used for the acquisition of equipment in the future.

Conclusion – Response accepted.

City of Red Oak

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
Dorothy O. Stover, Staff Auditor
Lara K. Van Wyk, Staff Auditor
Jason R. Ropte, Assistant Auditor
Joshua W. Ostrander, 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