



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

January 2, 2015

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$6,821,257 for the year ended June 30, 2014, a 34% decrease from the prior year. The receipts included \$2,392,477 in property tax, \$155,529 from tax increment financing, \$2,657,916 from charges for service, \$708,961 from operating grants, contributions and restricted interest, \$234,908 from capital grants, contributions and restricted interest, \$537,438 from local option sales tax, \$80,088 from hotel/motel tax, \$10,357 from unrestricted interest on investments and \$43,583 from other general receipts.

Disbursements for the year ended June 30, 2014 totaled \$7,398,528, an 18% decrease from the prior year, and included \$2,273,915 for public safety, \$885,139 for public works and \$832,045 for culture and recreation. Also, disbursements for business type activities totaled \$1,897,983.

The significant decrease in receipts was due primarily to prior year bond financing. The significant decrease in disbursements was due primarily to less capital projects activity during the current fiscal year.

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/1420-0647-B00F.pdf>.

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

JUNE 30, 2014

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City of Red Oak

Officials

<u>Name</u>	<u>Title</u>	<u>Expires</u>
(Before January 2014)		
William H. Billings, Jr.	Mayor	Jan 2014
Larry Barnett	Mayor Pro Tem	Jan 2016
Fred Pilecki	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	City Clerk	Indefinite
Stephen Hays	Treasurer	Indefinite
Tom Stamets	Attorney	Indefinite
(After January 2014)		
William H. Billings, Jr.	Mayor	Jan 2016
Larry Barnett	Mayor Pro Tem	Jan 2016
Scott Keith	Council Member	Jan 2016
Jeanice Lester	Council Member	Jan 2016
Bill Haufle	Council Member	Jan 2018
Roger Waggener	Council Member	Jan 2018
Brad Wright	Administrator	Indefinite
Mary Bolton	City 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:

Report on the Financial Statements

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, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Red Oak as of June 30, 2014, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Red Oak's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 32 through 34, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 24, 2014 on our consideration of the City of Red Oak's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Red Oak's internal control over financial reporting and compliance.



MARY MOSIMAN, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 24, 2014

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, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 34.7%, or approximately \$2,700,000, from fiscal year 2013 to fiscal year 2014. The decrease was primarily due to the issuance of general obligation corporate purpose bonds during fiscal year 2013.
- Disbursements for governmental activities decreased 19.7%, or approximately \$1,346,000, from fiscal year 2013 to fiscal year 2014. Capital projects function disbursements decreased approximately \$1,533,000 due to delays in street projects. Health and social services function disbursements increased approximately \$103,000 due to additional disbursements for nuisance properties.
- The City's total cash basis net position decreased 8.8%, or approximately \$577,000, from June 30, 2013 to June 30, 2014. Of this amount, the cash basis net position of the governmental activities decreased approximately \$414,000 and the cash basis net position of the business type activities decreased approximately \$163,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, 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.

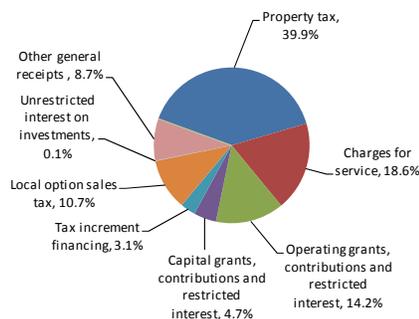
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

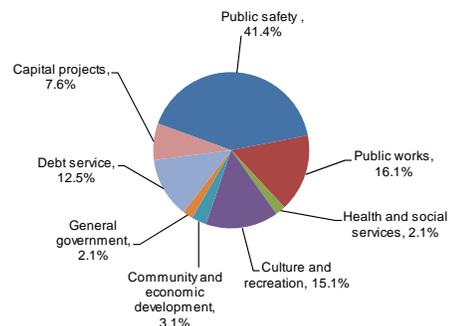
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$3.820 million to approximately \$3.406 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service	\$ 933	897
Operating grants, contributions and restricted interest	709	726
Capital grants, contributions and restricted interest	235	483
General receipts:		
Property tax	2,393	2,273
Tax increment financing	156	195
Local option sales tax	537	616
Hotel/motel tax	80	18
Unrestricted interest on investments	5	3
Bond proceeds	-	2,458
Other general receipts	38	117
Total receipts	<u>5,086</u>	<u>7,786</u>
Disbursements:		
Public safety	2,274	2,438
Public works	885	882
Health and social services	117	14
Culture and recreation	832	761
Community and economic development	170	179
General government	115	118
Debt service	690	504
Capital projects	417	1,950
Total disbursements	<u>5,500</u>	<u>6,846</u>
Change in cash basis net position before transfers	(414)	940
Transfers, net	-	(200)
Change in cash basis net position	(414)	740
Cash basis net position beginning of year	3,820	3,080
Cash basis net position end of year	<u>\$ 3,406</u>	<u>3,820</u>

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities decreased 34.7%, or approximately \$2,700,000, from fiscal year 2013 to fiscal year 2014. The total cost of all programs and services decreased approximately \$1,346,000, or 19.7%. The decrease in receipts was primarily the result of issuing general obligation corporate purpose bonds during fiscal year 2013. The decrease in disbursements was primarily due to a decrease in capital projects activity.

The cost of all governmental activities this year was approximately \$5.5 million compared to approximately \$6.8 million last year. However, as shown in the Cash Basis Statement of Activities and Net Position on pages 14-15, the amount taxpayers ultimately financed for these activities was only approximately \$3.6 million because some of the cost was paid by those who directly benefited from the programs (approximately \$933,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$944,000).

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 1,015	1,040
Sewer	641	630
Landfill	69	71
General receipts:		
Unrestricted interest on investments	5	9
Other general receipts	5	9
Sewer revenue bond proceeds	-	797
Total receipts	<u>1,735</u>	<u>2,556</u>
Disbursements:		
Water	904	928
Sewer	953	1,198
Landfill	41	40
Total disbursements	<u>1,898</u>	<u>2,166</u>
Change in cash basis net position before transfers	(163)	390
Transfers, net	-	200
Change in cash basis net position	(163)	590
Cash basis net position beginning of year	2,762	2,172
Cash basis net position end of year	<u>\$ 2,599</u>	<u>2,762</u>

Total business type activities receipts decreased approximately \$821,000, or 32%, from fiscal year 2013 to fiscal year 2014. Total disbursements for the fiscal year decreased 12%, or approximately \$268,000. The decrease in receipts and disbursements is primarily due to receiving bond proceeds disbursed for a wastewater treatment plant project in fiscal year 2013. The cash balance decreased approximately \$163,000 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 \$3,405,910, a decrease of more than \$414,000 compared to last year's total of \$3,819,973. 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 \$279,422 from the prior year to \$1,018,765. Approximately \$117,400 of the decrease was due to an increase in costs for nuisance abatements.
- The Special Revenue, Road Use Tax Fund cash balance increased \$158,990, or 19%, to \$998,728. The City intends to use this money to upgrade the condition of all City roads.
- The Special Revenue, Employee Benefits Fund cash balance decreased \$97,693, or 14.7%, during the fiscal year to \$565,445. The City requested fewer tax dollars during this fiscal year due to an excessive balance in the prior year.
- 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 \$812,969, a decrease of \$481,237 from the prior year. The decrease was due to a \$762,518 transfer to reimburse the Debt Service Fund for the bond issued for the law enforcement center in fiscal year 2013.
- The Debt Service Fund cash balance increased \$469,658 during the fiscal year to \$718,627. This increase was primarily due to the transfer from the Special Revenue, Local Option Sales Tax.
- The Capital Projects Fund cash balance decreased \$134,126 during the fiscal year to a deficit of (\$1,185,127). The City spent a total of \$416,576 on construction projects in the current year compared to \$1,950,515 in the prior year. The decrease in disbursements is primarily due to project completion in the prior year and delays in current year construction projects.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$116,031 to \$1,310,871 at June 30, 2014. Total receipts decreased \$33,404 while disbursements decreased \$23,877 during the year.
- The Enterprise, Sewer Fund cash balance decreased \$307,009 to \$856,547 at June 30, 2014. Total receipts decreased \$786,283 while disbursements decreased \$245,444 during the year. The decrease in receipts was primarily due to the City receiving bond proceeds in fiscal year 2013 for the wastewater treatment plant project. The decrease in disbursements is due to fewer wastewater treatment plant project disbursements in the current year.
- The Enterprise, Landfill Fund cash balance increased \$27,770 to \$431,212 at June 30, 2014.

BUDGETARY HIGHLIGHTS

The City’s receipts were \$202,364 less than budgeted and other financing sources were \$1,000 less than budgeted.

Total disbursements were \$589,185 less than budgeted. Actual disbursements for the health and social services function was \$98,610 more than budgeted. Disbursements were \$212,304 less than budgeted in the business type activities function due to a delay in the water main extension project.

DEBT ADMINISTRATION

At June 30, 2014, the City had \$8,248,709 of bonds and other long-term debt outstanding, compared to \$8,941,501 last year. Debt decreased as a result of payments of principal during the year.

	Outstanding Debt at Year-End	
	June 30,	
	2014	2013
General obligation bonds	\$ 5,505,000	6,065,000
Sewer revenue bonds	2,600,000	2,685,000
Lease-purchase agreement	143,709	191,501
Total	\$ 8,248,709	8,941,501

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 \$6,680,050, including tax increment financing rebate agreements of \$1,175,050, is significantly below its constitutional debt limit of approximately \$10,839,607. 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 2015 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, 2014 decreased to 4.4%, versus 5.1% a year ago. This compares with the State’s unemployment rate of 4.4% and the national rate of 6.1%.

These factors were taken into account when adopting the budget for fiscal year 2015. Property tax receipts available for appropriation in the fiscal year 2015 operating budget are approximately \$2.402 million, an increase of 5.2% over the fiscal year 2014 budget. Budgeted disbursements are \$8,797,337, an increase of 10.7% compared to the fiscal year 2014 final budget. Increases in expected street construction and capital projects represent the largest increases.

If these estimates are realized, the City’s June 30, 2015 budgeted cash balance is expected to decrease approximately \$1,030,000 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

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2014

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 2,273,915	517,712	42,720	-
Public works	885,139	264,293	583,582	-
Health and social services	117,449	2,167	-	-
Culture and recreation	832,045	121,561	82,659	-
Community and economic development	170,121	9,651	-	-
General government	114,917	17,882	-	-
Debt service	690,383	-	-	-
Capital projects	416,576	-	-	234,908
Total governmental activities	5,500,545	933,266	708,961	234,908
Business type activities:				
Water	904,305	1,014,515	-	-
Sewer	952,516	641,203	-	-
Landfill	41,162	68,932	-	-
Total business type activities	1,897,983	1,724,650	-	-
Total	\$ 7,398,528	2,657,916	708,961	234,908
General Receipts:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Unrestricted interest on investments				
Miscellaneous				
Total general receipts				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Nonexpendable:				
Permanent Funds				
Expendable:				
Streets				
Employee benefits				
Debt service				
Local option sales tax				
Fire department				
Urban renewal purposes				
Library				
Landfill superfund				
Other purposes				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

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

Governmental Activities	Business Type Activities	Total
(1,713,483)	-	(1,713,483)
(37,264)	-	(37,264)
(115,282)	-	(115,282)
(627,825)	-	(627,825)
(160,470)	-	(160,470)
(97,035)	-	(97,035)
(690,383)	-	(690,383)
(181,668)	-	(181,668)
<u>(3,623,410)</u>	<u>-</u>	<u>(3,623,410)</u>
-	110,210	110,210
-	(311,313)	(311,313)
-	27,770	27,770
<u>-</u>	<u>(173,333)</u>	<u>(173,333)</u>
<u>(3,623,410)</u>	<u>(173,333)</u>	<u>(3,796,743)</u>
1,994,954	-	1,994,954
397,523	-	397,523
155,529	-	155,529
537,438	-	537,438
80,088	-	80,088
5,392	4,965	10,357
38,423	5,160	43,583
<u>3,209,347</u>	<u>10,125</u>	<u>3,219,472</u>
(414,063)	(163,208)	(577,271)
<u>3,819,973</u>	<u>2,761,838</u>	<u>6,581,811</u>
<u>\$ 3,405,910</u>	<u>2,598,630</u>	<u>6,004,540</u>
\$ 259,175	-	259,175
998,728	-	998,728
565,445	-	565,445
718,627	43,932	762,559
812,969	-	812,969
38,288	-	38,288
82,541	-	82,541
251,969	-	251,969
-	383,309	383,309
126,723	-	126,723
(448,555)	2,171,389	1,722,834
<u>\$ 3,405,910</u>	<u>2,598,630</u>	<u>6,004,540</u>

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, 2014

	Special Revenue			
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax
Receipts:				
Property tax	\$ 1,183,778	-	712,999	-
Tax increment financing	-	-	-	-
Other city tax	141,118	-	37,147	532,629
Licenses and permits	60,470	-	-	-
Use of money and property	13,745	-	-	-
Intergovernmental	83,295	573,360	-	-
Charges for service	581,007	-	-	-
Miscellaneous	320,833	-	7,385	-
Total receipts	<u>2,384,246</u>	<u>573,360</u>	<u>757,531</u>	<u>532,629</u>
Disbursements:				
Operating:				
Public safety	1,476,809	-	571,112	186,846
Public works	288,511	474,370	122,258	-
Health and social services	117,449	-	-	-
Culture and recreation	651,763	-	146,545	32,956
Community and economic development	-	-	-	31,546
General government	99,608	-	15,309	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	<u>2,634,140</u>	<u>474,370</u>	<u>855,224</u>	<u>251,348</u>
Excess (deficiency) of receipts over (under) disbursements	(249,894)	98,990	(97,693)	281,281
Other financing sources (uses):				
Operating transfers in	20,472	60,000	-	-
Operating transfers out	(50,000)	-	-	(762,518)
Total other financing sources (uses)	<u>(29,528)</u>	<u>60,000</u>	<u>-</u>	<u>(762,518)</u>
Change in cash balances	(279,422)	158,990	(97,693)	(481,237)
Cash balances beginning of year	1,298,187	839,738	663,138	1,294,206
Cash balances end of year	<u>\$ 1,018,765</u>	<u>998,728</u>	<u>565,445</u>	<u>812,969</u>
Cash Basis Fund Balances				
Nonspendable:				
Cemetery perpetual care	\$ -	-	-	-
Library bequests	-	-	-	-
Restricted for:				
Streets	-	998,728	-	-
Employee benefits	-	-	565,445	-
Debt service	-	-	-	-
Local option sales tax	-	-	-	812,969
Fire department	-	-	-	-
Urban renewal purposes	-	-	-	-
Library	220,915	-	-	-
Hotel recreation and tourism	22,452	-	-	-
Hotel community events	30,956	-	-	-
Other purposes	7,870	-	-	-
Assigned for:				
Wastewater treatment plant	500,000	-	-	-
Historic preservation	3,054	-	-	-
Unassigned	233,518	-	-	-
Total cash basis fund balances	<u>\$ 1,018,765</u>	<u>998,728</u>	<u>565,445</u>	<u>812,969</u>

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
377,755	-	-	2,274,532
-	-	155,529	155,529
19,768	-	4,809	735,471
-	-	-	60,470
-	-	247	13,992
-	209,639	-	866,294
-	-	-	581,007
-	25,269	45,700	399,187
397,523	234,908	206,285	5,086,482
-	-	39,148	2,273,915
-	-	-	885,139
-	-	-	117,449
-	-	781	832,045
-	-	138,575	170,121
-	-	-	114,917
690,383	-	-	690,383
-	416,576	-	416,576
690,383	416,576	178,504	5,500,545
(292,860)	(181,668)	27,781	(414,063)
762,518	50,000	23	893,013
-	(2,458)	(78,037)	(893,013)
762,518	47,542	(78,014)	-
469,658	(134,126)	(50,233)	(414,063)
248,969	(1,051,001)	526,736	3,819,973
718,627	(1,185,127)	476,503	3,405,910
-	-	218,175	218,175
-	-	41,000	41,000
-	-	-	998,728
-	-	-	565,445
718,627	-	-	718,627
-	-	-	812,969
-	-	38,288	38,288
-	-	82,541	82,541
-	-	31,054	251,969
-	-	-	22,452
-	-	-	30,956
-	-	65,445	73,315
-	-	-	500,000
-	-	-	3,054
-	(1,185,127)	-	(951,609)
718,627	(1,185,127)	476,503	3,405,910

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, 2014

	Enterprise			Total
	Water	Sewer	Landfill	
Operating receipts:				
Charges for service	\$ 998,927	641,203	68,932	1,709,062
Miscellaneous	15,588	-	-	15,588
Total operating receipts	1,014,515	641,203	68,932	1,724,650
Operating disbursements:				
Business type activities	800,403	533,494	41,162	1,375,059
Excess of operating receipts over operating disbursements	214,112	107,709	27,770	349,591
Non-operating receipts (disbursements):				
Interest on investments	2,686	2,279	-	4,965
Miscellaneous	3,135	2,025	-	5,160
Capital projects	(103,902)	(246,759)	-	(350,661)
Debt service	-	(172,263)	-	(172,263)
Total non-operating receipts (disbursements)	(98,081)	(414,718)	-	(512,799)
Change in cash balances	116,031	(307,009)	27,770	(163,208)
Cash balances beginning of year	1,194,840	1,163,556	403,442	2,761,838
Cash balances end of year	\$ 1,310,871	856,547	431,212	2,598,630
Cash Basis Fund Balances				
Restricted for:				
Debt service	\$ 20,500	23,432	-	43,932
Landfill superfund	-	-	383,309	383,309
Unrestricted	1,290,371	833,115	47,903	2,171,389
Total cash basis fund balances	\$ 1,310,871	856,547	431,212	2,598,630

See notes to financial statements.

City of Red Oak

Notes to Financial Statements

June 30, 2014

(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. (Association) 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 forth by the Governmental Accounting Standards Board, the Association 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 Organization

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 Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

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

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are 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 the property tax levy and disbursements for employee benefits, such as health insurance, pensions, etc.

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 with the exception of those financed through Enterprise Funds.

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

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

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, 2014, disbursements exceeded the amount budgeted in the health and social services function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2014 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 \$55,795 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated.

(3) Long-Term Debt

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

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 560,000	122,800	90,000	78,000	650,000	200,800
2016	575,000	114,915	90,000	75,300	665,000	190,215
2017	590,000	105,170	95,000	72,600	685,000	177,770
2018	600,000	93,670	95,000	69,750	695,000	163,420
2019	570,000	80,190	100,000	66,900	670,000	147,090
2020-2024	2,175,000	222,045	555,000	287,400	2,730,000	509,445
2028-2029	435,000	12,260	650,000	198,750	1,085,000	211,010
2030-2034	-	-	760,000	94,200	760,000	94,200
2035	-	-	165,000	4,950	165,000	4,950
Total	\$ 5,505,000	751,050	2,600,000	947,850	8,105,000	1,698,900

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 bonds are payable solely from sewer customer net receipts and are payable through 2035. During the current year, annual principal and interest payments on the bonds required 154% of net receipts. Principal and interest paid and total customer net receipts were \$165,550 and \$107,709, 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 2014, 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 came 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 revenue bond sinking account.

Lease-Purchase Agreements

On May 15, 2012, the City entered into a lease-purchase agreement for 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, and the present value of net minimum lease payments under the agreement in effect at June 30, 2014:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2015	\$ 25,593
2016	25,594
2017	25,594
Total minum lease payments	<u>76,781</u>
Less amount representing interest	<u>(5,638)</u>
Present value of net minimum lease payments	<u>\$ 71,143</u>

During the year ended June 30, 2014, the City paid \$25,593 on the lease agreement.

On July 2, 2012, the City entered into a lease-purchase agreement for a wheel loader with a cost of \$114,410. The following is a schedule of the future minimum lease payments, including interest at 3.30% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2014:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2016	\$ 16,004
2017	16,004
2018	16,004
2019	16,004
2020	16,004
Total minimum lease payments	<u>80,020</u>
Less amount representing interest	<u>(7,454)</u>
Present value of net minimum lease payments	<u>\$ 72,566</u>

During the year ended June 30, 2014, the City paid \$32,009 on the lease agreement, which included lease payments due in fiscal years 2014 and 2015.

(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 \$2,173,419. The total amount rebated during the year ended June 30, 2014 was \$137,936. The City has rebated a total of \$1,033,101 of incremental property tax under the agreements. The outstanding balance of the agreements at June 30, 2014 was \$1,019,464.

The City has entered into another rebate agreement to assist in an urban renewal project. The agreement requires the City to rebate portions of the local option sales tax revenue collected within the sub district of the property. The total to be paid by the City under the agreement is not to exceed \$200,000. The total rebated during the year ended June 30, 2014 was \$4,809. The outstanding balance of the agreement at June 30, 2014 was \$195,191.

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 \$39,605 which has not been appropriated by the City Council at June 30, 2014.

(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 5.95% of their annual covered salary and the City is required to contribute 8.93% 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, 2014, 2013 and 2012 were \$203,906, \$193,321 and \$173,845, 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 48 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 requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$523 for single coverage and \$1,664 for family coverage. For the year ended June 30, 2014, the City contributed \$596,065 and plan members eligible for benefits contributed \$38,254 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, 2014, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 127,000
Compensatory time	27,000
Sick leave	<u>112,000</u>
Total	<u>\$ 266,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2014.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Hotel Recreation & Tourism	\$ 9,007
	Hotel Community Events	9,007
	Capital Projects	<u>2,458</u>
		20,472
Special Revenue:	Special Revenue:	
Road Use Tax	I-Jobs	60,000
Library Bequest	Permanent:	
	Library Bequest	23
Debt Service	Special Revenue:	
	Local Option Sales Tax	762,518
Capital Projects	General	<u>50,000</u>
Total		<u>\$ 893,013</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 700 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 300% 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, 2014 were \$127,268.

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 through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location. Property risks exceeding \$150,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

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, 2014, 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. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

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 \$1,000,000 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, 2014 is as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
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, 2014, the Permanent, 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 received \$600 from the trustee of the Komarek Trust during the year ended June 30, 2014 to be used for maintenance of cemetery chapel grounds and roadways and for placement of flowers on certain graves. During the year, the City spent \$32 of these funds for flowers and \$620 for cemetery maintenance. At June 30, 2014, the balance in the Special Revenue, Komarek Trust Fund totaled \$13,377.

(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 \$735,000, 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, 2014, all monitoring and maintenance activities were completed.

(14) Commitments

The City has entered into contracts for water treatment plant improvements, a trail project, downtown renovation and road projects totaling \$1,878,453, of which \$1,761,351 has been paid at June 30, 2014. The balance of \$117,102 will be paid as work on the projects progresses.

(15) Deficit Balance

At June 30, 2014, the Capital Projects Fund had a deficit balance of \$1,185,127. 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) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

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, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 2,274,532	-	-
Tax increment financing	155,529	-	-
Other city tax	735,471	-	-
Licenses and permits	60,470	-	-
Use of money and property	13,992	4,965	185
Intergovernmental	866,294	-	-
Charges for service	581,007	1,724,650	-
Miscellaneous	399,187	5,160	42,535
Total receipts	5,086,482	1,734,775	42,720
Disbursements:			
Public safety	2,273,915	-	39,148
Public works	885,139	-	-
Health and social services	117,449	-	-
Culture and recreation	832,045	-	-
Community and economic development	170,121	-	-
General government	114,917	-	-
Debt service	690,383	-	-
Capital projects	416,576	-	-
Business type activities	-	1,897,983	-
Total disbursements	5,500,545	1,897,983	39,148
Excess (deficiency) of receipts over (under) disbursements	(414,063)	(163,208)	3,572
Other financing sources, net	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(414,063)	(163,208)	3,572
Balances beginning of year	3,819,973	2,761,838	34,716
Balances end of year	\$ 3,405,910	2,598,630	38,288

See accompanying independent auditor's report.

Total	Budgeted Amounts <u>Original/Final</u>	Final to Total Variance
2,274,532	2,284,039	(9,507)
155,529	179,594	(24,065)
735,471	773,076	(37,605)
60,470	44,775	15,695
18,772	23,180	(4,408)
866,294	961,397	(95,103)
2,305,657	2,348,090	(42,433)
361,812	366,750	(4,938)
<u>6,778,537</u>	<u>6,980,901</u>	<u>(202,364)</u>
2,234,767	2,349,518	114,751
885,139	1,083,468	198,329
117,449	18,839	(98,610)
832,045	847,327	15,282
170,121	254,656	84,535
114,917	132,783	17,866
690,383	692,283	1,900
416,576	459,404	42,828
1,897,983	2,110,287	212,304
<u>7,359,380</u>	<u>7,948,565</u>	<u>589,185</u>
(580,843)	(967,664)	386,821
-	1,000	(1,000)
(580,843)	(966,664)	385,821
6,547,095	2,784,372	3,762,723
<u>5,966,252</u>	<u>1,817,708</u>	<u>4,148,544</u>

City of Red Oak

Notes to Other Information – Budgetary Reporting

June 30, 2014

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. The City did not amend the budget during the year ended June 30, 2014.

During the year ended June 30, 2014, disbursements exceeded the amount budgeted in the health and social services 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, 2014

	Volunteer Fire and Rescue Association	I-Jobs	Tax Increment Financing	Low- Moderate Income	Special Hotel Recreation & Tourism
Receipts:					
Tax increment financing	\$ -	-	155,528	1	-
Other city tax	-	-	4,809	-	-
Use of money and property	185	-	-	-	-
Miscellaneous	42,535	-	-	-	-
Total receipts	42,720	-	160,337	1	-
Disbursements:					
Operating:					
Public safety	39,148	-	-	-	-
Culture and recreation	-	-	-	-	-
Community and economic development	-	-	138,575	-	-
Total disbursements	39,148	-	138,575	-	-
Excess (deficiency) of receipts over (under) disbursements	3,572	-	21,762	1	-
Other financing sources (uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	-	(60,000)	-	-	(9,007)
Total other financing sources (uses)	-	(60,000)	-	-	(9,007)
Change in cash balances	3,572	(60,000)	21,762	1	(9,007)
Cash balances beginning of year	34,716	60,000	60,779	52,067	9,007
Cash balances end of year	\$ 38,288	-	82,541	52,068	-
Cash Basis Fund Balances					
Nonspendable:					
Cemetery perpetual care	\$ -	-	-	-	-
Library bequests	-	-	-	-	-
Restricted for:					
Fire department	38,288	-	-	-	-
Urban renewal purposes	-	-	82,541	-	-
Library	-	-	-	-	-
Other purposes	-	-	-	52,068	-
Total cash basis fund balances	\$ 38,288	-	82,541	52,068	-

See accompanying independent auditor's report.

Revenue				Permanent			
Hotel Community Events	Komarek Trust	Library Bequest	Library People's Art Projects	Cemetery Perpetual Care	Library Bequest		Total
-	-	-	-	-	-	-	155,529
-	-	-	-	-	-	-	4,809
-	-	39	-	-	23	-	247
-	600	-	-	2,565	-	-	45,700
-	600	39	-	2,565	23	-	206,285
-	-	-	-	-	-	-	39,148
-	652	129	-	-	-	-	781
-	-	-	-	-	-	-	138,575
-	652	129	-	-	-	-	178,504
-	(52)	(90)	-	2,565	23	-	27,781
-	-	23	-	-	-	-	23
(9,007)	-	-	-	-	(23)	-	(78,037)
(9,007)	-	23	-	-	(23)	-	(78,014)
(9,007)	(52)	(67)	-	2,565	-	-	(50,233)
9,007	13,429	27,097	4,024	215,610	41,000	-	526,736
-	13,377	27,030	4,024	218,175	41,000	-	476,503
-	-	-	-	218,175	-	-	218,175
-	-	-	-	-	41,000	-	41,000
-	-	-	-	-	-	-	38,288
-	-	-	-	-	-	-	82,541
-	-	27,030	4,024	-	-	-	31,054
-	13,377	-	-	-	-	-	65,445
-	13,377	27,030	4,024	218,175	41,000	-	476,503

City of Red Oak
Schedule of Indebtedness
Year ended June 30, 2014

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Corporate purpose and refunding	Mar 25, 2010	0.50-3.45%	\$ 2,600,000
Sewer improvement	Nov 17, 2010	0.75-3.40	2,350,000
Corporate purpose	Sep 26, 2012	0.45-2.30	2,505,000
Total			
Revenue bonds:			
Sewer	Oct 29, 2010	3.00% *	\$ 2,850,000
Lease purchase agreements:			
Plow truck	May 15, 2012	3.912%	\$ 117,907
Wheel loader	Jul 2, 2012	3.300%	114,410
Total			

* 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
1,465,000	-	215,000	1,250,000	39,245
2,095,000	-	150,000	1,945,000	53,680
2,505,000	-	195,000	2,310,000	36,358
<u>\$ 6,065,000</u>	<u>-</u>	<u>560,000</u>	<u>5,505,000</u>	<u>129,283</u>
2,685,000	-	85,000	2,600,000	80,550
93,095	-	21,952	71,143	3,641
98,406	-	25,840	72,566	6,168
<u>\$ 191,501</u>	<u>-</u>	<u>47,792</u>	<u>143,709</u>	<u>9,809</u>

City of Red Oak

Bond Maturities

June 30, 2014

Year Ending June 30,	General Obligation Bonds							Total
	Corporate Purpose and Refunding		Sewer Improvement		Sewer Improvement			
	Issued March 25, 2010		Issued Nov 17, 2010		Issued Sept 26, 2012			
	Interest		Interest		Interest			
Rates	Amount	Rates	Amount	Rates	Amount			
2015	2.10%	\$ 210,000	1.55%	\$ 155,000	0.55%	\$ 195,000	560,000	
2016	2.50	220,000	1.80	160,000	0.70	195,000	575,000	
2017	2.80	230,000	2.10	160,000	0.85	200,000	590,000	
2018	3.10	235,000	2.30	165,000	1.20	200,000	600,000	
2019	3.30	195,000	2.50	170,000	1.35	205,000	570,000	
2020	3.45	160,000	2.70	175,000	1.60	210,000	545,000	
2021		-	2.90	180,000	1.75	215,000	395,000	
2022		-	3.05	185,000	1.95	215,000	400,000	
2023		-	3.15	190,000	2.10	220,000	410,000	
2024		-	3.25	200,000	2.20	225,000	425,000	
2025		-	3.40	205,000	2.30	230,000	435,000	
2026		-		-		-	-	
2027		-		-		-	-	
2028		-		-		-	-	
2029		-		-		-	-	
2030		-		-		-	-	
2031		-		-		-	-	
2032		-		-		-	-	
2033		-		-		-	-	
2034		-		-		-	-	
2035		-		-		-	-	
Total		<u>\$ 1,250,000</u>		<u>\$ 1,945,000</u>		<u>\$ 2,310,000</u>	<u>5,505,000</u>	

See accompanying independent auditor's report.

Revenue Bonds		
Sewer		
Issued Oct 29, 2010		
Interest		
Rates		Amount
3.00%	\$	90,000
3.00		90,000
3.00		95,000
3.00		95,000
3.00		100,000
3.00		105,000
3.00		105,000
3.00		110,000
3.00		115,000
3.00		120,000
3.00		120,000
3.00		125,000
3.00		130,000
3.00		135,000
3.00		140,000
3.00		145,000
3.00		150,000
3.00		150,000
3.00		155,000
3.00		160,000
3.00		165,000
		<u>\$ 2,600,000</u>

City of Red Oak

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

For the Last Ten Years

	2014	2013	2012	2011
Receipts:				
Property tax	\$ 2,274,532	2,156,887	2,134,293	2,032,826
Tax increment financing	155,529	195,272	249,408	170,716
Other city tax	735,471	750,222	679,143	637,533
Licenses and permits	60,470	39,423	69,982	60,593
Use of money and property	13,992	20,606	8,545	30,586
Intergovernmental	866,294	1,162,882	1,349,513	1,372,360
Charges for service	581,007	594,021	638,841	640,212
Special assessments	-	-	3,172	3,433
Miscellaneous	399,187	408,349	608,234	477,816
Total	\$ 5,086,482	5,327,662	5,741,131	5,426,075
Disbursements:				
Operating:				
Public safety	\$ 2,273,915	2,438,035	2,237,045	2,451,691
Public works	885,139	882,248	1,007,610	787,651
Health and social services	117,449	13,770	31,297	39,595
Culture and recreation	832,045	761,487	794,891	683,139
Community and economic development	170,121	178,825	740,843	471,518
General government	114,917	117,584	116,346	119,821
Debt service	690,383	503,788	434,980	423,037
Capital projects	416,576	1,950,515	1,003,814	636,005
Total	\$ 5,500,545	6,846,252	6,366,826	5,612,457

See accompanying independent auditor's report.

2010	2009	2008	2007	2006	2005
2,128,623	2,050,552	2,051,128	1,987,915	1,977,212	1,971,911
91,392	82,158	81,447	201,129	90,136	89,074
608,242	668,751	557,592	646,708	528,603	584,980
51,523	61,636	51,073	49,585	53,302	80,412
81,969	124,911	239,731	251,362	156,388	99,670
2,283,841	2,020,983	1,705,840	915,512	576,171	1,546,851
495,287	548,744	580,372	590,031	550,830	558,132
3,695	3,957	4,219	4,481	26,667	9,947
316,029	595,485	452,226	396,528	535,457	263,518
6,060,601	6,157,177	5,723,628	5,043,251	4,494,766	5,204,495
2,167,493	2,490,460	1,885,490	1,842,324	1,684,050	1,731,635
802,415	796,214	800,133	497,363	531,830	576,699
10,006	8,123	29,080	13,591	15,263	16,098
655,112	577,789	580,009	547,171	585,723	690,502
279,102	164,443	298,823	134,446	70,045	76,827
123,141	157,026	112,603	102,300	108,125	115,442
468,832	696,778	699,977	694,634	700,026	1,462,758
3,231,951	850,782	2,891,634	202,061	449,924	1,916,596
7,738,052	5,741,615	7,297,749	4,033,890	4,144,986	6,586,557

City of Red Oak



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Mary Mosiman, CPA
Auditor of State

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

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Red Oak, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 24, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Red Oak's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Red Oak's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Red Oak's internal control.

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

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

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 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 the Findings

The City of Red Oak's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Red Oak's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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



MARY MOSIMAN, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 24, 2014

City of Red Oak

Schedule of Findings

Year ended June 30, 2014

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) 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. In addition, an independent person does not compare the listing to cash receipt records consistently.
 - (2) Receipts – collecting, depositing, journalizing and posting.
 - (3) Utility receipts – billing, collecting and posting.
 - (4) Disbursements – purchasing, recording, reconciling and posting.
 - (5) Payroll – preparing, approving and disbursing, including electronic fund transfers.

For the Library and the Volunteer 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 employees. However, the City, the Library and the Volunteer 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 documented by the signature or initials of the independent reviewer and the date of the review.

Response – With our limited staff we try our best on segregation of duties and make attempts to review and initialize paperwork within our office as much as possible. The Library and The Volunteer Fire and Rescue Association will be asked to review their operating procedures and obtain initials on procedures as they occur.

Conclusion – Response accepted.

- (B) 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 City did not delete a former employee's login credentials in a timely manner. These login credentials were shared and used by other employees during the year.

City of Red Oak

Schedule of Findings

Year ended June 30, 2014

Recommendation – The City should develop written policies and procedures addressing the above items to improve the City’s control over its computer systems. In addition, employee credentials should be immediately removed upon an employee leaving employment.

Response – Past employee log in credentials will be removed in a timely fashion and policies for changing passwords will be drafted for City Council consideration.

Conclusion – Response accepted.

- (C) Separately Maintained Records – The Library maintains separate accounting records for certain operations, including interest receipts and fund balances. These items are not included in the City’s accounting records. In addition, the signature cards for library accounts were not updated to reflect those approved by City policy.

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. In addition, all account signature cards should be updated to reflect those approved by City policy.

Response – The Library will be asked to comply with this law, providing financial information to the City on a current monthly basis and it will then be included in the City’s books. The City will also review what accounts do not have authorized signatures as approved by City policy and will then advise the Library Board authorized City signatures must be used.

Conclusion – Response accepted.

- (D) 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

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

Response – The City will draft a Petty Cash policy adaptable for all departments and have approval by the City Council.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

City of Red Oak

Schedule of Findings

Year ended June 30, 2014

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – At June 30, 2014, disbursements exceeded the amount budgeted in the health and social services function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – Every effort is made to not exceed budgeted amounts. This was an oversight at the very end of June as the City incurred legal fees to resolve nuisance issues. The City will attempt to not have this happen in the future.

Conclusion – Response accepted.

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

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Sam’s Club	Unused membership fee	\$45
Simply Flowers & Gifts	Condolence flowers	29

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 these disbursements 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 it is important to express sympathy or get well wishes to their full-time employees and this is an important aspect of showing our respect and appreciation for our employees and, therefore, unquestionably serves a public purpose. The City tries to shop locally but maintains a Sam’s Club membership for the rare instances where certain items cannot be found locally or a significant cost differential exists that warrants out of town purchases.

Conclusion – Response acknowledged. The City should document the public purpose served by these disbursements and establish written policies and procedures which include the requirement to clearly document the public purpose.

- (3) 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

Year ended June 30, 2014

- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Chavis Wise, Full-Time Firefighter, Owner of American Fire Protection	Extinguisher inspections and supplies	\$ 1,418

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with American Fire Protection does not appear to represent a conflict of interest since they were less than \$1,500 during the year.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not. Chapter 372.13(6) of the Code of Iowa requires warrant listings and receipts and disbursements to be published within 15 days of the City Council meetings. The following were noted:

- Warrant listings have not been published since February 2014.
- Summaries of receipts and disbursements were not published during the fiscal year ended June 30, 2014.

Recommendation – The City should comply with the Code of Iowa and publish the warrant listing and summaries timely.

Response – The City will be returning to the approval of warrants for all City departments to the City Council for its action and then be published. A summary of receipts and disbursements will also be published.

Conclusion – Response accepted.

- (7) 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.

- (8) Financial Condition – The Capital Projects Fund had a deficit balance of \$1,185,127 at June 30, 2014.

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 ensure balances are adjusted in a timely manner.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings

Year ended June 30, 2014

- (9) 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 revenue bond sinking account be established and transfers are to be made to the sinking account in equal monthly installments on the first day of each month. The City has established a sewer revenue bond sinking account, but the required monthly transfers to the sinking account were not made.
 - The provisions of the sewer revenue bond resolution require the City produce net operating receipts equal to at least 110% of the principal of and interest on the bonds as they come due. The City’s fiscal year 2014 net operating receipts of \$107,709 were less than 110% of the \$165,550 of sewer revenue bond principal and interest due during fiscal year 2014.
 - 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 revenue bond sinking account as required by the sewer bond resolution. The City should establish utility rates at a level sufficient to produce net receipts to comply with the bond provisions. In addition, the City should ensure City sewer usage is billed and paid by the City as required by the bond provisions.

Response – Necessary transfers will be made and the City will continue to analyze sewer rates to determine appropriate increases. The City will continue to evaluate the feasibility of establishing a sewer charge for all City departments.

Conclusion – Response accepted.

- (10) Urban Renewal Annual Report – The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1, and no exceptions were noted.

City of Red Oak

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager
Dorothy O. Stover, Staff Auditor
Ramona E.F. Daly, Staff Auditor
David A. Cook, Assistant Auditor
Kristin R Volkens, Assistant Auditor

A handwritten signature in cursive script that reads "Andrew E. Nielsen".

Andrew E. Nielsen, CPA
Deputy Auditor of State