



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

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Auditor of State

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**NEWS RELEASE**

FOR RELEASE

February 17, 2017

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 \$7,965,201 for the year ended June 30, 2016, an 18% decrease from the prior year. The receipts included \$2,466,736 in property tax, \$205,418 from tax increment financing, \$2,744,711 from charges for service, \$814,984 from operating grants, contributions and restricted interest, \$800,946 from capital grants, contributions and restricted interest, \$634,614 from local option sales tax, \$90,212 from hotel/motel tax, \$14,626 from unrestricted interest on investments and \$192,954 from other general receipts.

Disbursements for the year ended June 30, 2016 totaled \$8,961,807, a 3.7% decrease from the prior year, and included \$2,368,467 for public safety, \$2,177,336 for capital projects and \$944,566 for public works. Also, disbursements for business type activities totaled \$1,716,213.

The significant decrease in receipts was due primarily to the City receiving bond proceeds of \$2,327,801 in the prior fiscal year. The decrease in disbursements from the prior fiscal year was due primarily to a decrease in the cost of capital projects activity in the Sewer Fund.

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 <https://auditor.iowa.gov/reports/1620-0647-B00F>.

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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, 2016**

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**City of Red Oak**

**Officials**

**(Before January 2016)**

<u>Name</u>	<u>Title</u>	<u>Expires</u>
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

**(After January 2016)**

<u>Name</u>	<u>Title</u>	<u>Expires</u>
William H. Billings, Jr.	Mayor	Jan 2020
Larry Barnett	Mayor Pro Tem	Jan 2020
Bill Haufle	Council Member	Jan 2018
Roger Waggener	Council Member	Jan 2018
Scott Keith	Council Member	Jan 2020
Jeanice Lester	Council Member	Jan 2020
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, 2016, 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, 2016, 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 discussed 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 ten years ended June 30, 2015 (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 5, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), 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, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 7 through 12 and 34 through 40, 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 February 7, 2017 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

February 7, 2017

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2016 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 23%, or approximately \$1,856,000, from fiscal year 2015 to fiscal year 2016. The decrease was primarily due to the issuance of general obligation corporate purpose and refunding bonds during fiscal year 2015.
- Disbursements for governmental activities decreased 0.4%, or approximately \$32,000, from fiscal year 2015 to fiscal year 2016. Debt service, public safety and public works function disbursements decreased approximately \$1,056,000, \$283,000 and \$30,000, respectively. Capital Projects function disbursements increased approximately \$1,443,000.
- The City's total cash basis net position decreased 15%, or approximately \$997,000, from June 30, 2015 to June 30, 2016. Of this amount, the cash basis net position of the governmental activities decreased approximately \$718,000 and the cash basis net position of the business type activities decreased approximately \$279,000.

### 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 and the City's proportionate share of the net pension liability and related contributions.

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 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, considered to be major funds of the City.

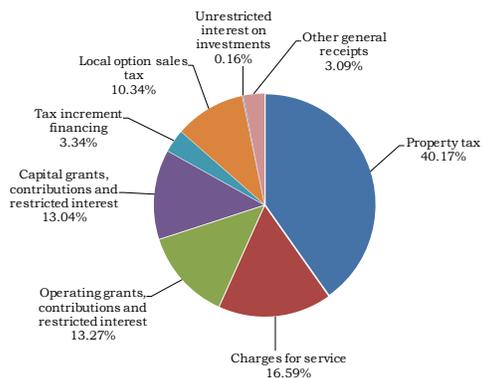
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

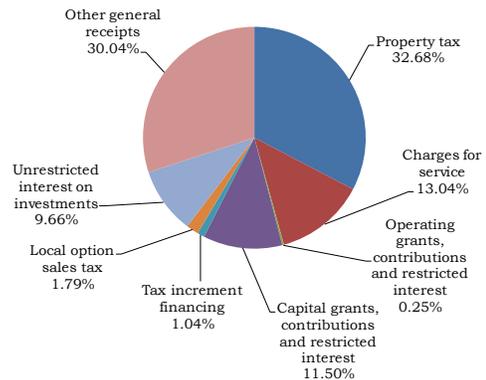
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$3.975 million to approximately \$3.257 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service	\$ 1,019	1,043
Operating grants, contributions and restricted interest	815	791
Capital grants, contributions and restricted interest	801	346
General receipts:		
Property tax	2,467	2,501
Tax increment financing	205	130
Local option sales tax	635	625
Hotel/motel tax	90	95
Unrestricted interest on investments	10	2
Bond proceeds	-	2,328
Other general receipts	190	227
<b>Total receipts</b>	<b>6,232</b>	<b>8,088</b>
Disbursements:		
Public safety	2,368	2,651
Public works	945	915
Health and social services	18	129
Culture and recreation	833	829
Community and economic development	75	141
General government	130	123
Debt service	700	1,756
Capital projects	2,177	734
<b>Total disbursements</b>	<b>7,246</b>	<b>7,278</b>
Change in cash basis net position before transfers	(1,014)	810
Transfers, net	296	(241)
Change in cash basis net position	(718)	569
Cash basis net position beginning of year	3,975	3,406
Cash basis net position end of year	\$ 3,257	3,975

**Receipts by Source**



**Disbursements by Function**



The City's total receipts for governmental activities decreased 23%, or approximately \$1,856,000, from fiscal year 2015 to fiscal year 2016. The total cost of all programs and services decreased approximately \$32,000, or 0.4%. The decrease in receipts was primarily the result of issuing general obligation corporate purpose and refunding bonds during fiscal year 2015. The decrease in disbursements was primarily due to a decrease in refunded debt.

The cost of all governmental activities this year was approximately \$7.2 million compared to approximately \$7.3 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 \$4.6 million because some of the cost was paid by those who directly benefited from the programs (approximately \$1,019,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$1,616,000).

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 944	951
Sewer	670	647
Landfill	40	40
Storm sewer	71	-
General receipts:		
Unrestricted interest on investments	4	6
Other general receipts	3	11
Total receipts	<u>1,732</u>	<u>1,655</u>
Disbursements:		
Water	929	879
Sewer	740	1,109
Landfill	45	44
Storm sewer	2	-
Total disbursements	<u>1,716</u>	<u>2,032</u>
Change in cash basis net position before transfers	16	(377)
Transfers, net	(295)	241
Change in cash basis net position	(279)	(136)
Cash basis net position beginning of year	2,463	2,599
Cash basis net position end of year	<u>\$ 2,184</u>	<u>2,463</u>

Total business type activities receipts increased approximately \$77,000, or 5%, from fiscal year 2015 to fiscal year 2016. Total disbursements for the fiscal year decreased 15.5%, or approximately \$316,000. The increase in receipts is primarily due to the additional storm water fee added during fiscal year 2016. The cash balance decreased approximately \$279,000 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 \$3,257,416, a decrease of more than \$717,000 compared to last year's total of \$3,974,718. 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 \$105,536 from the prior year to \$1,217,739. The decrease was primarily due to a decrease in airport fuel sales and a decrease of transfers in during the year.
- The Special Revenue, Road Use Tax Fund cash balance increased \$224,310, or 21%, to \$1,274,944. The City intends to use this money to upgrade the condition of all City roads.
- The Special Revenue, Employee Benefits Fund cash balance decreased \$206,223, or 45%, during the fiscal year to \$247,101.
- 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 \$607,519, a decrease of \$291,517 from the prior year. The decrease was due to an increase in transfers out for debt service.
- The Special Revenue, Tax Increment Financing Fund cash balance increased \$329,421, or 382%, during the fiscal year to \$415,593.
- The Debt Service Fund cash balance increased \$397,154 during the fiscal year to \$1,435,135.
- The Capital Projects Fund cash balance decreased \$1,070,022 during the fiscal year to a deficit of \$2,353,184. The City spent a total of \$2,078,565 on construction projects in the current year compared to \$733,876 in the prior year. The increase in disbursements is primarily due to project completion in the current year.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Water Fund cash balance decreased \$244,965 to \$1,096,832 at June 30, 2016. Total receipts decreased \$11,132 while disbursements increased \$49,259 during the year.
- The Enterprise, Sewer Fund cash balance decreased \$97,455 to \$595,982 at June 30, 2016. Total receipts increased \$17,710 while disbursements decreased \$368,671 during the year. The decrease in disbursements was primarily due a decrease in costs for capital projects.
- The Enterprise, Landfill Fund cash balance decreased \$5,764 to \$422,112 at June 30, 2016.
- The Enterprise, Storm Sewer cash balance increased \$68,880 to \$68,880 at June 30, 2016.

## **BUDGETARY HIGHLIGHTS**

The City's receipts were \$269,023 less than budgeted.

Total disbursements were \$714,461 less than budgeted.

## DEBT ADMINISTRATION

At June 30, 2016, the City had approximately \$8,100,000 of bonds and other long-term debt outstanding, compared to approximately \$8,787,000 last year. Debt decreased as a result of no new debt issued during the year.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2016	2015
General obligation bonds	\$ 5,635	6,170
Sewer revenue bonds	2,420	2,510
Lease-purchase agreement	45	107
Total	\$ 8,100	8,787

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 \$6,781,564 including tax increment financing rebate agreements of \$1,101,598, is below its constitutional debt limit of approximately \$11,482,337. 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 2017 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, 2016 increased to 3.8%, versus 3.4% a year ago. This compares with the State's unemployment rate of 4.1% and the national rate of 4.9%.

These factors were taken into account when adopting the budget for fiscal year 2017. Property tax receipts available for appropriation in the fiscal year 2017 operating budget are approximately \$2.442 million, an increase of 3.4% from the fiscal year 2016 budget. Budgeted disbursements are \$9,879,016, an increase of 2.5% compared to the fiscal year 2016 final budget. Increases in expected public safety costs represent the largest increase.

If these estimates are realized, the City's June 30, 2017 budgeted cash balance is expected to decrease approximately \$1,211,000 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. 6<sup>th</sup> 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, 2016

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 2,368,467	572,815	36,191	-
Public works	944,566	264,245	718,105	-
Health and social services	17,669	11,382	-	-
Culture and recreation	832,866	116,337	50,344	-
Community and economic development	75,284	39,457	-	-
General government	129,862	15,153	10,344	-
Debt service	699,544	-	-	-
Capital projects	2,177,336	-	-	800,946
Total governmental activities	7,245,594	1,019,389	814,984	800,946
Business type activities:				
Water	928,702	944,193	-	-
Sewer	739,862	670,364	-	-
Landfill	45,536	39,772	-	-
Storm sewer	2,113	70,993	-	-
Total business type activities	1,716,213	1,725,322	-	-
Total	\$ 8,961,807	2,744,711	814,984	800,946
<b>General Receipts and Transfers:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Commercial/industrial tax replacements				
Unrestricted interest on investments				
Miscellaneous				
Sale of assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
<b>Cash Basis Net Position</b>				
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				
<b>Total cash basis net position</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
(1,759,461)	-	(1,759,461)
37,784	-	37,784
(6,287)	-	(6,287)
(666,185)	-	(666,185)
(35,827)	-	(35,827)
(104,365)	-	(104,365)
(699,544)	-	(699,544)
(1,376,390)	-	(1,376,390)
(4,610,275)	-	(4,610,275)
-	15,491	15,491
-	(69,498)	(69,498)
-	(5,764)	(5,764)
-	68,880	68,880
-	9,109	9,109
(4,610,275)	9,109	(4,601,166)
2,031,193	-	2,031,193
435,543	-	435,543
205,418	-	205,418
634,614	-	634,614
90,212	-	90,212
98,301	-	98,301
10,433	4,193	14,626
75,788	2,894	78,682
15,971	-	15,971
295,500	(295,500)	-
3,892,973	(288,413)	3,604,560
(717,302)	(279,304)	(996,606)
3,974,718	2,463,110	6,437,828
\$ 3,257,416	2,183,806	5,441,222
\$ 265,660	-	265,660
1,274,944	-	1,274,944
247,101	-	247,101
1,435,135	49,008	1,484,143
607,519	-	607,519
51,614	-	51,614
415,593	-	415,593
267,907	-	267,907
-	381,520	381,520
186,857	-	186,857
(1,494,914)	1,753,278	258,364
\$ 3,257,416	2,183,806	5,441,222

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, 2016

	Special Revenue				
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax	Tax Increment Financing
Receipts:					
Property tax	\$ 1,242,691	-	693,204	-	-
Tax increment financing	-	-	-	-	200,652
Other city tax	151,328	-	34,129	634,614	-
Licenses and permits	87,358	-	-	-	-
Use of money and property	18,754	-	-	-	-
Intergovernmental	140,558	709,592	29,183	-	-
Charges for service	646,234	-	-	-	-
Miscellaneous	269,166	-	53	-	61,138
Total receipts	2,556,089	709,592	756,569	634,614	261,790
Disbursements:					
Operating:					
Public safety	1,492,105	-	623,711	209,732	-
Public works	253,655	552,473	138,438	-	-
Health and social services	17,669	-	-	-	-
Culture and recreation	632,385	-	185,346	15,111	-
Community and economic development	-	-	-	34,913	40,371
General government	114,565	-	15,297	-	-
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	98,771
Total disbursements	2,510,379	552,473	962,792	259,756	139,142
Excess (deficiency) of receipts over (under) disbursements	45,710	157,119	(206,223)	374,858	122,648
Other financing sources (uses):					
Sale of real property	12,740	-	-	-	-
Transfers in	71,795	73,879	-	9,220	250,000
Transfers out	(235,781)	(6,688)	-	(675,595)	(43,227)
Total other financing sources (uses)	(151,246)	67,191	-	(666,375)	206,773
Change in cash balances	(105,536)	224,310	(206,223)	(291,517)	329,421
Cash balances beginning of year	1,323,275	1,050,634	453,324	899,036	86,172
Cash balances end of year	\$ 1,217,739	1,274,944	247,101	607,519	415,593
<b>Cash Basis Fund Balances</b>					
Nonspendable:					
Cemetery perpetual care	\$ -	-	-	-	-
Library bequests	-	-	-	-	-
Restricted for:					
Streets	-	1,274,944	-	-	-
Employee benefits	-	-	247,101	-	-
Debt service	-	-	-	-	-
Local option sales tax	-	-	-	607,519	-
Fire department	-	-	-	-	-
Urban renewal purposes	-	-	-	-	415,593
Library	236,715	-	-	-	-
Hotel recreation and tourism	54,457	-	-	-	-
Hotel community events	68,280	-	-	-	-
Other purposes	-	-	-	-	-
Assigned for:					
Historic preservation	3,302	-	-	-	-
Unassigned	854,985	-	-	-	-
Total cash basis fund balances	\$ 1,217,739	1,274,944	247,101	607,519	415,593

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
415,833	-	-	2,351,728
-	-	4,766	205,418
19,710	-	-	839,781
-	-	-	87,358
-	-	274	19,028
16,855	701,958	-	1,598,146
-	-	-	646,234
-	98,988	39,783	469,128
452,398	800,946	44,823	6,216,821
-	-	42,919	2,368,467
-	-	-	944,566
-	-	-	17,669
-	-	24	832,866
-	-	-	75,284
-	-	-	129,862
699,544	-	-	699,544
-	2,078,565	-	2,177,336
699,544	2,078,565	42,943	7,245,594
(247,146)	(1,277,619)	1,880	(1,028,773)
-	-	3,231	15,971
675,595	210,769	-	1,291,258
(31,295)	(3,172)	-	(995,758)
644,300	207,597	3,231	311,471
397,154	(1,070,022)	5,111	(717,302)
1,037,981	(1,283,162)	407,458	3,974,718
1,435,135	(2,353,184)	412,569	3,257,416
-	-	224,660	224,660
-	-	41,000	41,000
-	-	-	1,274,944
-	-	-	247,101
1,435,135	-	-	1,435,135
-	-	-	607,519
-	-	51,614	51,614
-	-	-	415,593
-	-	31,192	267,907
-	-	-	54,457
-	-	-	68,280
-	-	64,120	64,120
-	-	-	3,302
-	(2,353,184)	(17)	(1,498,216)
1,435,135	(2,353,184)	412,569	3,257,416

**City of Red Oak**

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, 2016

	Enterprise				Total
	Water	Sewer	Landfill	Storm Sewer	
Operating receipts:					
Charges for service	\$ 931,894	670,364	39,772	70,993	1,713,023
Miscellaneous	12,299	-	-	-	12,299
Total operating receipts	944,193	670,364	39,772	70,993	1,725,322
Operating disbursements:					
Business type activities	831,929	568,287	45,536	2,113	1,447,865
Excess (deficiency) of operating receipts over (under) operating disbursements	112,264	102,077	(5,764)	68,880	277,457
Non-operating receipts (disbursements):					
Interest on investments	2,182	2,011	-	-	4,193
Miscellaneous	2,862	32	-	-	2,894
Capital projects	(96,773)	-	-	-	(96,773)
Debt service	-	(171,575)	-	-	(171,575)
Net non-operating receipts (disbursements)	(91,729)	(169,532)	-	-	(261,261)
Excess (deficiency) of receipts over (under) disbursements	20,535	(67,455)	(5,764)	68,880	16,196
Other financing sources (uses):					
Transfers in	14,500	-	-	-	14,500
Transfers out	(280,000)	(30,000)	-	-	(310,000)
Total other financing sources (uses)	(265,500)	(30,000)	-	-	(295,500)
Change in cash balances	(244,965)	(97,455)	(5,764)	68,880	(279,304)
Cash balances beginning of year	1,341,797	693,437	427,876	-	2,463,110
Cash balances end of year	\$ 1,096,832	595,982	422,112	68,880	2,183,806
<b>Cash Basis Fund Balances</b>					
Restricted for:					
Debt service	\$ -	49,008	-	-	49,008
Landfill superfund	-	-	381,520	-	381,520
Unrestricted	1,096,832	546,974	40,592	68,880	1,753,278
Total cash basis fund balances	\$ 1,096,832	595,982	422,112	68,880	2,183,806

See notes to financial statements.

City of Red Oak

Notes to Financial Statements

June 30, 2016

**(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, sewer and landfill 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 Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

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.

The Enterprise, Storm Sewer Fund accounts for the operation of the City's storm sewer/storm water system.

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net 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, 2016, disbursements did not exceed the amount budgeted by function.

### **(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2016 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 ensure 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.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$55,813 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the IPAIT investments. The City's 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
2017	\$ 565,000	141,415	95,000	72,600	660,000	214,015
2018	565,000	132,255	95,000	69,750	660,000	202,005
2019	550,000	120,060	100,000	66,900	650,000	186,960
2020	550,000	94,703	105,000	63,900	655,000	158,603
2021	570,000	94,758	105,000	60,750	675,000	155,508
2022-2026	2,330,000	257,760	590,000	253,650	2,920,000	511,410
2027-2031	505,000	37,775	700,000	159,000	1,205,000	196,775
2032-2035	-	-	630,000	48,000	630,000	48,000
Total	\$ 5,635,000	878,726	2,420,000	794,550	8,055,000	1,673,276

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 162% of net receipts. Principal and interest paid and total customer net receipts were \$165,300 and \$102,077, 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 2016, user rates were not established at a level to produce net receipts 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.

### Lease-Purchase 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, 2016:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2018	16,004
2019	16,004
2020	16,004
Total minimum lease payments	48,012
Less amount representing interest	(3,046)
Present value of net minimum lease payments	<u>\$ 44,966</u>

During the year ended June 30, 2016, the City paid \$16,004 on this lease agreement and paid principal of \$48,333 and interest of \$2,854 to pay in full the plow truck lease agreement.

#### **(4) 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 \$2,416,412. The total amount rebated during the year ended June 30, 2016 was \$225,945. The City has rebated a total of \$878,460 of incremental property tax under the agreements. The outstanding balance of the agreements at June 30, 2016 was \$1,537,952.

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 \$100,000. The total rebated during the year ended June 30, 2016 was \$11,368. The outstanding balance of the agreement at June 30, 2016 was \$74,433.

These agreements are not general obligations of the City. However, the agreements are subject to the constitutional debt limitation of the City, except for \$510,787 which has not been appropriated by the City Council at June 30, 2016.

#### **(5) Pension Plan**

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. Sheriffs, deputies and protection occupation members may retire any time after reaching age 50 with 22 or more years of covered employment.

The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount contribution rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2016 totaled \$208,532.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the City reported a liability of \$668,135 for its proportionate share of the net pension liability totaled. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.013593%, which was an increase of 0.003223% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$106,146, \$279,612 and \$403,630, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability (asset)	\$ 1,829,337	668,135	(311,163)

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

**(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 47 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 \$605 for single coverage and \$1,873 for family coverage. For the year ended June 30, 2016, the City contributed \$696,157 and plan members eligible for benefits contributed \$44,636 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, 2016, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 131,000
Compensatory time	29,000
Sick leave	<u>128,000</u>
Total	<u>\$ 288,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2016.

**(8) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

Transfer to	Transfer from	Amount
General	Enterprise:	
	Water	\$ 30,000
	Sewer	30,000
	Debt Service	<u>11,795</u>
		<u>71,795</u>
Special Revenue:		
Road Use Tax	General	22,480
	Capital Projects	3,172
	Debt Service	5,000
	Special Revenue:	
	Tax Increment Financing	<u>43,227</u>
		<u>73,879</u>
Capital Projects	General	204,081
	Special Revenue:	
	Road Use Tax	<u>6,688</u>
		<u>210,769</u>
	Special Revenue:	
Debt Service	Local Option Sales Tax	<u>675,595</u>
Enterprise:		
Water	Debt Service	<u>14,500</u>
Special Revenue:	Enterprise:	
Tax Increment Financing	Water	<u>250,000</u>
Special Revenue:		
Local Option Sales Tax	General	<u>9,220</u>
Total		<u>\$ 1,305,758</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 746 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 casualty 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 estimated for the fiscal 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 at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal 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 Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The City's contributions to the Pool for the year ended June 30, 2016 were \$131,072.

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 \$250,000 each occurrence, each location. Property risks exceeding \$250,000 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, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

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, 2016 is as follows:

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

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, 2016, the Permanent, Library Bequest Fund included a total of \$41,000 of memorials, as follows:

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

**(12) Komarek Trust**

The City received \$600 from the trustee of the Komarek Trust during the year ended June 30, 2016 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 \$24 of these funds for flowers. At June 30, 2016, the balance in the Special Revenue, Komarek Trust Fund totaled \$2,471.

**(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, 2016, all monitoring and maintenance activities were completed.

**(14) Commitments**

The City has entered into contracts for a trail project, downtown renovation, airport projects and road projects totaling \$2,018,043, of which \$1,351,765 has been paid at June 30, 2016. The balance of \$666,278 will be paid as work on the projects progresses.

**(15) Deficit Balances**

At June 30, 2016, the Capital Projects Fund had a deficit balance of \$2,353,184. The deficit balance in the Capital Projects Fund will be eliminated through future transfers from other funds, grant reimbursements and long-term debt proceeds.

At June 30, 2016, the Special Revenue, Rural Fire Sinking Fund had a deficit balance of \$17. The deficit balance will be eliminated with revenues from an agreement the City has with the Rural Fire Association.

## **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, 2016

	Governmental Funds Actual	Proprietary Funds Actual	Funds not Required to be Budgeted	Total
<b>Receipts:</b>				
Property tax	\$ 2,351,728	-	-	2,351,728
Tax increment financing	205,418	-	-	205,418
Other city tax	839,781	-	-	839,781
Licenses and permits	87,358	-	-	87,358
Use of money and property	19,028	4,193	213	23,008
Intergovernmental	1,598,146	-	-	1,598,146
Charges for service	646,234	1,725,322	-	2,371,556
Miscellaneous	469,128	2,894	35,978	436,044
Total receipts	6,216,821	1,732,409	36,191	7,913,039
<b>Disbursements:</b>				
Public safety	2,368,467	-	42,902	2,325,565
Public works	944,566	-	-	944,566
Health and social services	17,669	-	-	17,669
Culture and recreation	832,866	-	-	832,866
Community and economic development	75,284	-	-	75,284
General government	129,862	-	-	129,862
Debt service	699,544	-	-	699,544
Capital projects	2,177,336	-	-	2,177,336
Business type activities	-	1,716,213	-	1,716,213
Total disbursements	7,245,594	1,716,213	42,902	8,918,905
Excess (deficiency) of receipts over (under) disbursements	(1,028,773)	16,196	(6,711)	(1,005,866)
Other financing sources, net	311,471	(295,500)	3,231	12,740
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(717,302)	(279,304)	(3,480)	(993,126)
Balances beginning of year	3,974,718	2,463,110	55,094	6,382,734
Balances end of year	\$ 3,257,416	2,183,806	51,614	5,389,608

See accompanying independent auditor's report.

<u>Budgeted Amounts</u>	Final to
<u>Original and Final</u>	Total
	Variance
2,361,661	(9,933)
153,847	51,571
738,152	101,629
46,650	87,358
22,530	478
2,077,349	(479,203)
2,342,723	28,833
485,800	(49,756)
<u>8,228,712</u>	<u>(269,023)</u>
2,332,929	7,364
1,071,053	126,487
23,500	5,831
967,801	134,935
114,135	38,851
131,229	1,367
707,964	8,420
2,356,495	179,159
1,928,260	212,047
<u>9,633,366</u>	<u>714,461</u>
(1,404,654)	398,788
1,000	11,740
(1,403,654)	410,528
5,008,411	1,374,323
<u>3,604,757</u>	<u>1,784,851</u>

City of Red Oak

Notes to Other Information – Budgetary Reporting

June 30, 2016

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, there were no budget amendments.

During the year ended June 30, 2016, disbursements did not exceed the amounts budgeted.

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City of Red Oak

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System  
For the Last Two Years\*  
(In Thousands)

Other Information

	2016	2015
City's proportion of the net pension liability	0.013593%	0.01037%
City's proportionate share of the net pension liability	\$ 668	\$ 411
City's covered-employee payroll	\$ 2,177	\$ 2,136
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	30.68%	19.24%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

\* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

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City of Red Oak

Schedule of City Contributions

Iowa Public Employees' Retirement System  
For the Last Eight Years  
(In Thousands)

Other Information

	2016	2015	2014	2013
Statutorily required contribution	\$ 209	209	204	194
Contributions in relation to the statutorily required contribution	(209)	(209)	(204)	(194)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered-employee payroll	\$ 2,262	2,177	2,136	2,102
Contributions as a percentage of covered-employee payroll	9.24%	9.60%	9.55%	9.23%

See accompanying independent auditor's report.

GASB Statement No. 68 requires ten years of information be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

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2012	2011	2010	2009
176	155	140	134
(176)	(155)	(140)	(134)
-	-	-	-
2,018	1,898	1,825	1,905
8.72%	8.17%	7.67%	7.03%

City of Red Oak

Notes to Other Information – Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.20% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

## **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, 2016

	Volunteer Fire and Rescue Association	Rural Fire Sinking Fund	Low- Moderate Income	Komarek Trust	Library Bequest
Receipts:					
Tax increment financing	\$ -	-	4,766	-	-
Use of money and property	213	-	-	-	60
Miscellaneous	35,978	-	-	600	-
Total receipts	36,191	-	4,766	600	60
Disbursements:					
Operating:					
Public safety	42,902	17	-	-	-
Culture and recreation	-	-	-	24	-
Total disbursements	42,902	17	-	24	-
Excess (deficiency) of receipts over (under) disbursements	(6,711)	(17)	4,766	576	60
Other financing sources (uses):					
Sale of real property	3,231	-	-	-	-
Change in cash balances	(3,480)	(17)	4,766	576	60
Cash balances beginning of year	55,094	-	56,883	1,895	27,107
Cash balances end of year	\$ 51,614	(17)	61,649	2,471	27,167
<b>Cash Basis Fund Balances</b>					
Nonspendable:					
Cemetery perpetual care	\$ -	-	-	-	-
Library bequests	-	-	-	-	-
Restricted for:					
Fire department	51,614	-	-	-	-
Library	-	-	-	-	27,167
Other purposes	-	-	61,649	2,471	-
Unassigned	-	(17)	-	-	-
Total cash basis fund balances	\$ 51,614	(17)	61,649	2,471	27,167

See accompanying independent auditor's report.

Library People's Art Projects	Permanent		Total
	Cemetery Perpetual Care	Library Bequest	
-	-	-	4,766
1	-	-	274
-	3,205	-	39,783
1	3,205	-	44,823
-	-	-	42,919
-	-	-	24
-	-	-	42,943
1	3,205	-	1,880
-	-	-	3,231
1	3,205	-	5,111
4,024	221,455	41,000	407,458
4,025	224,660	41,000	412,569
-	224,660	-	224,660
-	-	41,000	41,000
-	-	-	51,614
4,025	-	-	31,192
-	-	-	64,120
-	-	-	(17)
4,025	224,660	41,000	412,569

City of Red Oak  
 Schedule of Indebtedness  
 Year ended June 30, 2016

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Sewer improvement	Nov 17, 2010	1.55-3.40%	2,350,000
Corporate purpose	Sep 26, 2012	1.55-3.40	2,505,000
Corporate purpose and refunding	Mar 17, 2015	0.55-2.30	2,265,000
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
1,790,000	-	160,000	1,630,000	49,328
2,115,000	-	195,000	1,920,000	34,408
2,265,000	-	180,000	2,085,000	78,994
<u>\$ 6,170,000</u>	<u>-</u>	<u>535,000</u>	<u>5,635,000</u>	<u>162,730</u>
<u>2,510,000</u>	<u>-</u>	<u>90,000</u>	<u>2,420,000</u>	<u>75,300</u>
48,333	-	48,333	-	2,854
58,993	-	14,027	44,966	1,977
<u>\$ 107,326</u>	<u>-</u>	<u>62,360</u>	<u>44,966</u>	<u>4,831</u>

City of Red Oak

Bond Maturities

June 30, 2016

Year Ending June 30,	General Obligation Bonds						Total
	Sewer Improvement		Corporate Purpose		Corporate Purpose and Refunding		
	Issued Nov 17, 2010		Issued Sept 26, 2012		Issued Mar 17, 2015		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2017	2.10%	\$ 160,000	0.85%	\$ 200,000	3.00%	\$ 205,000	565,000
2018	2.30	165,000	1.20	200,000	3.00	200,000	565,000
2019	2.50	170,000	1.35	205,000	3.00	175,000	550,000
2020	2.70	175,000	1.60	210,000	3.00	165,000	550,000
2021	2.90	180,000	1.75	215,000	3.00	175,000	570,000
2022	3.05	185,000	1.95	215,000	3.00	125,000	525,000
2023	3.15	190,000	2.10	220,000	3.00	130,000	540,000
2024	3.25	200,000	2.20	225,000	3.50	130,000	555,000
2025	3.40	205,000	2.30	230,000	3.50	135,000	570,000
2026		-		-	3.00	140,000	140,000
2027		-		-	3.00	145,000	145,000
2028		-		-	3.00	115,000	115,000
2029		-		-	3.00	120,000	120,000
2030		-		-	3.00	125,000	125,000
2031		-		-		-	-
2032		-		-		-	-
2033		-		-		-	-
2034		-		-		-	-
2035		-		-		-	-
Total		<u>\$ 1,630,000</u>		<u>\$ 1,920,000</u>		<u>\$ 2,085,000</u>	<u>5,635,000</u>

See accompanying independent auditor's report.

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Revenue Bonds		
Sewer		
Issued Oct 29, 2010		
Interest		
Rates		Amount
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>\$ 2,420,000</u>

City of Red Oak

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

For the Last Ten Years

	2016	2015	2014	2013
<b>Receipts:</b>				
Property tax	\$ 2,351,728	2,385,807	2,274,532	2,156,887
Tax increment financing	205,418	130,261	155,529	195,272
Other city tax	839,781	834,588	735,471	750,222
Licenses and permits	87,358	34,299	60,470	39,423
Use of money and property	19,028	23,509	13,992	20,606
Intergovernmental	1,598,146	1,097,819	866,294	1,162,882
Charges for service	646,234	694,702	581,007	594,021
Special assessments	-	-	-	-
Miscellaneous	469,128	558,375	399,187	408,349
<b>Total</b>	<b>\$ 6,216,821</b>	<b>5,759,360</b>	<b>5,086,482</b>	<b>5,327,662</b>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	\$ 2,368,467	2,651,137	2,273,915	2,438,035
Public works	944,566	915,346	885,139	882,248
Health and social services	17,669	128,999	117,449	13,770
Culture and recreation	832,866	828,629	832,045	761,487
Community and economic development	75,284	141,205	170,121	178,825
General government	129,862	123,344	114,917	117,584
Debt service	699,544	1,755,591	690,383	503,788
Capital projects	2,177,336	733,876	416,576	1,950,515
<b>Total</b>	<b>\$ 7,245,594</b>	<b>7,278,127</b>	<b>5,500,545</b>	<b>6,846,252</b>

See accompanying independent auditor's report.

2012	2011	2010	2009	2008	2007
2,134,293	2,032,826	2,128,623	2,050,552	2,051,128	1,987,915
249,408	170,716	91,392	82,158	81,447	201,129
679,143	637,533	608,242	668,751	557,592	646,708
69,982	60,593	51,523	61,636	51,073	49,585
8,545	30,586	81,969	124,911	239,731	251,362
1,349,513	1,372,360	2,283,841	2,020,983	1,705,840	915,512
638,841	640,212	495,287	548,744	580,372	590,031
3,172	3,433	3,695	3,957	4,219	4,481
608,234	477,816	316,029	595,485	452,226	396,528
5,741,131	5,426,075	6,060,601	6,157,177	5,723,628	5,043,251
2,237,045	2,451,691	2,167,493	2,490,460	1,885,490	1,842,324
1,007,610	787,651	802,415	796,214	800,133	497,363
31,297	39,595	10,006	8,123	29,080	13,591
794,891	683,139	655,112	577,789	580,009	547,171
740,843	471,518	279,102	164,443	298,823	134,446
116,346	119,821	123,141	157,026	112,603	102,300
434,980	423,037	468,832	696,778	699,977	694,634
1,003,814	636,005	3,231,951	850,782	2,891,634	202,061
6,366,826	5,612,457	7,738,052	5,741,615	7,297,749	4,033,890

**City of Red Oak**

## City of Red Oak

## Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

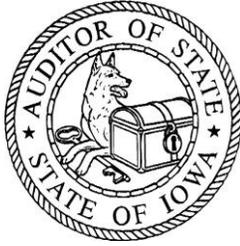
Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Transportation: Airport Improvement Program	20.106	3-19-0077-014	167,963
Indirect:			
U.S. Department of Housing and Urban Development: Iowa Economic Development Authority: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	12-DTR-011	412,289
U.S. Department of Transportation: Iowa Department of Transportation: Highway Planning and Construction	20.205	STP-6360(619)--70-69	537
Highway Planning and Construction	20.205	TAP-U-6360(620)--81-69	138,745
Highway Planning and Construction	20.205	STP-U-6360(619)--70-69	196,216
			335,498
Total indirect			747,787
Total			\$ 915,750

**Basis of Presentation** – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the City of Red Oak under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in financial position or cash flows of the City of Red Oak.

**Summary of Significant Accounting Policies** – Expenditures reported in the Schedule are reported on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City of Red Oak has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor's report.

**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**



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

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

To the Honorable Mayor and Members of the City Council:

We have audited 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, 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, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 7, 2017. 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 and Questioned Costs, 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 deficiency in internal control described in the accompanying Schedule of Findings and Questioned Costs as item II-A-16 to be a material weakness.

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 the accompanying Schedule of Findings and Questioned Costs as items II-B-16 through II-D-16 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, 2016 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

February 7, 2017

**Independent Auditor's Report on Compliance  
for Each Major Federal Program and on Internal Control over Compliance  
Required by the Uniform Guidance**

**City of Red Oak**



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Independent Auditor's Report on Compliance  
for Each Major Federal Program and on Internal Control over Compliance  
Required by the Uniform Guidance

To the Honorable Mayor and Members of the City Council:

Report on Compliance for Each Major Federal Program

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) Compliance Supplement that could have a direct and material effect on City's major federal program for the year ended June 30, 2016. Red Oak's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Red Oak's major federal program based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance 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 we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City of Red Oak's compliance.

Opinion on the Major Federal Program

In our opinion, the City of Red Oak complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

## Report on 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 types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Red Oak's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 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. 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.

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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

  
MARY MOSIMAN, CPA  
Auditor of State

February 7, 2017

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

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

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- (b) A material weakness and significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which are required to be reported in accordance with the Uniform Guidance, Section 200.515.
- (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 \$750,000.
- (i) The City of Red Oak did not qualify as a low-risk auditee.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

II-A-16 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 – 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 – We continue to work on segregating duties as much as we can with limited staff available. The individual that opens the mail very seldom does the posting and only does it in the absence of other employees. Deposits are prepared by another individual within the office, not the individual primarily accepting the money and posting to the accounts. Payroll process papers are now being reviewed by City Administrator and initialized. We will contact the Library and Volunteer Fire and Rescue Association to notify them of this concern.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

II-B-16 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 written accounting policies and applicable laws and regulations. The following weaknesses in the City’s computer systems were noted:

- Login credentials are shared.
- Employee policies do not require passwords to be changed periodically.

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 login credentials should not be shared.

Response – Employees will be asked to change their passwords periodically. Login credentials are given to Administration and kept in locked area with no access to information available from other employees.

Conclusion – Response accepted.

II-C-16 Separately Maintained Records – The signature cards for the Library accounts were not updated to reflect those approved by City policy.

Recommendation – All account signature cards should be updated to include an authorized City signature as required by City policy.

Response – The City will advise the Library Board that authorized city signatures must be used on all city accounts using city’s tax identification number.

Conclusion – Response accepted.

II-D-16 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 implement a policy specifying proper use of petty cash funds for authorized use by all City departments.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE**

No matters were noted.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCE OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCY:**

No matters were noted.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

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

IV-A-16 Certified Budget – Disbursements during the year ended June 30, 2016 did not exceed the amounts budgeted.

IV-B-16 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

IV-C-16 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-16 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Chavis Wise, Full-Time Firefighter, Owner of American Fire Protection	Extinguisher inspections and supplies	\$ 1,448

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

IV-E-16 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-16 City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

IV-G-16 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-16 Financial Condition – The Capital Projects Fund and the Special Revenue, Rural Fire Sinking Fund had deficit balances of \$2,353,184 and \$17, respectively at June 30, 2016.

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

Response – The City continues to make transfers from other funds as projects are closed out to eliminate the deficit balance in the Capital Projects Fund. The deficit balance in the Rural Fire Sinking Fund will be eliminated with revenues received from the agreement the City has with the Rural Fire Association.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

IV-I-16 IPERS Remittances – The City remits the employer and employee portion of IPERS monthly. However, an interest fee is charged if the amount remitted is late or if the amount remitted does not match the amount due. The City accumulated interest charges totaling \$55 during the year ended June 30, 2016

Recommendation – The City should remit interest charges owed to IPERS and establish procedures to ensure all IPERS remittances are timely and for the correct amounts.

Response – The City has now made the corrections and is in good standing. Effort will be made to ensure payments are made timely and accurately to avoid future interest charges.

Conclusion – Response accepted.

IV-J-16 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 2016 net operating receipts of \$107,077 were less than 110% of the \$165,320 of sewer revenue bond principal and interest due during fiscal year 2016.
- 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 and adjust sewer rates as necessary. City will continue to evaluate the feasibility of establishing a sewer charge for all departments.

Conclusion – Response acknowledged. The City should pay for sewer usage as required.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

IV-K-16 Annual Urban Renewal Report – The Annual Urban Renewal Report was properly approved and certified to the Iowa Department of Management on or before December 1, as required.

The following exceptions were noted:

- The City’s beginning and ending cash balances of the Special Revenue, Tax Increment Financing Fund reported on the Levy Authority Summary do not agree with the City’s general ledger.
- The amount reported by the City as TIF debt outstanding was overstated by \$58,900.
- The City does not have a process for tracking actual costs for comparison to certified costs.

Recommendation – The City should consult TIF legal counsel to determine the proper disposition of these matters.

Response – The City continues to work on ensuring the annual urban renewal report is in agreement with the city’s general ledger. Simmering & Cory assists in this report filing and they will be advised to consult with City Clerk in reference to general ledger balances.

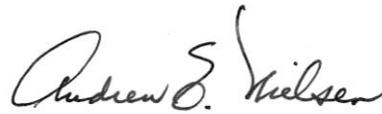
Conclusion – Response accepted.

City of Red Oak

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager  
Tiffany M. Ainger, CPA, Senior Auditor II  
Erin J. Sietstra, Staff Auditor  
Ryan M. Barrett, Assistant Auditor  
Mitchell W. Shipman, Assistant Auditor  
Luke M. Bormann, 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