



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

March 29, 2005

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

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$7,507,122 for the year ended June 30, 2004, a 1.7 percent decrease from 2003. The receipts included \$2,219,093 in property tax, \$259,745 from tax increment financing, \$2,071,726 from charges for service, \$902,909 from operating grants, contributions and restricted interest, \$201,422 from capital grants, contributions and restricted interest, \$412,181 from local option sales tax, \$81,175 from unrestricted interest on investments, \$1,259,520 from note proceeds and \$99,351 from other general receipts.

Disbursements for the year totaled \$6,016,350, a 10.7 percent decrease from the prior year, and included \$1,702,066 for public safety, \$936,457 for debt service and \$646,885 for capital projects. Disbursements for business type activities totaled \$1,263,375. The significant decrease in disbursements is due primarily to the refunding of a water revenue bond in the prior year.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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

JUNE 30, 2004

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City of Red Oak

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
James A. Johnson	Mayor	Jan 2004
Roger Waggener	Council Member	Jan 2004
Ivan Craig	Council Member	Jan 2004
Chris Swanson	Council Member	Jan 2004
Terry Kammerer	Council Member	Jan 2006
Joddey Hicks	Council Member	Jan 2006
Brad Wright	Administrator	Indefinite
Mary Bolton	Clerk	Indefinite
Stephen Hays	Treasurer	Indefinite
Tom Stamets	Attorney	Indefinite
(After January 2004)		
James A. Johnson	Mayor	Jan 2006
Terry Kammerer	Council Member	(Resigned)
Joddey Hicks	Council Member	Jan 2006
Roger Waggener	Council Member	Jan 2008
Ivan Craig	Council Member	Jan 2008
Bill Haufle	Council Member	Jan 2008
Brad Wright	Administrator	Indefinite
Mary Bolton	Clerk	Indefinite
Stephen Hays	Treasurer	Indefinite
Tom Stamets	Attorney	Indefinite

City of Red Oak



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Red Oak, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Red Oak's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Red Oak as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 15, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated January 6, 2005 on our consideration of the City of Red Oak's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Red Oak's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 6, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Red Oak provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental funds decreased 3.4%, or approximately \$161,000, from fiscal 2003 to fiscal 2004. Property tax increased approximately \$74,000.
- Disbursements for the City's governmental funds decreased 3.8%, or approximately \$189,000, in fiscal 2004 from fiscal 2003. Public safety, debt service and capital projects disbursements increased (decreased) approximately \$96,000, \$258,000 and \$(97,000), respectively.
- The City's total cash basis net assets increased 26%, or approximately \$1,491,000, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$1,318,000 and the assets of the business type activities increased by approximately \$173,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds.

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, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system and the landfill. 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 the General Fund, Special Revenue Funds, such as Road Use Tax, Employee Benefits and Local Option Sales Tax, the Debt Service Fund, the Capital Projects Fund and the Permanent Fund. The governmental fund financial statement provides a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water, sewer, recycling and superfund funds.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from \$4.059 million to \$5.378 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2004
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 488,478
Operating grants, contributions and restricted interest	882,594
Capital grants, contributions and restricted interest	201,422
General receipts:	
Property tax	2,219,093
Tax increment financing	259,745
Local option sales tax	412,181
Grants and contributions not restricted to specific purposes	25,851
Unrestricted interest on investments	62,138
Note proceeds	1,259,520
Loan proceeds	26,000
Other general receipts	23,316
Transfers, net	210,736
Total receipts and transfers	<u>6,071,074</u>
Disbursements:	
Public safety	1,702,066
Public works	514,779
Health and social services	13,339
Culture and recreation	492,602
Community and economic development	328,252
General government	118,595
Debt service	936,457
Capital projects	646,885
Total disbursements	<u>4,752,975</u>
Increase in cash basis net assets	1,318,099
Cash basis net assets beginning of year	<u>4,059,540</u>
Cash basis net assets end of year	<u><u>\$ 5,377,639</u></u>

The City increased property tax rates for 2004 by an average of 3.37 percent. This increased the City's property tax receipts by approximately \$74,000 in 2004. Based on decreases in the total assessed valuation, property tax receipts are budgeted to decrease by approximately \$37,000 next year.

The cost of all governmental activities this year was \$4.75 million compared to \$4.94 million last year. However, as shown in the Statement of Activities and Net Assets on pages 14 and 15, the amount taxpayers ultimately financed for these activities was only \$3.2 million because some of the cost was paid by those directly benefited from the programs (\$488,478) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$1,084,016).

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2004
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 917,144
Sewer	594,486
Landfill	71,618
Operating grants, contributions and restricted interest	20,315
Other general receipts	43,221
Total receipts	<u>1,646,784</u>
Disbursements and transfers:	
Water	644,502
Sewer	581,316
Landfill	37,557
Transfers	210,736
Total disbursements and transfers	<u>1,474,111</u>
Increase in cash balance	172,673
Cash basis net assets beginning of year	<u>1,681,722</u>
Cash basis net assets end of year	<u><u>\$ 1,854,395</u></u>

Total business type activities receipts for the fiscal year were \$1.646 million compared to \$2.087 million last year. This decrease was due primarily to refunding note proceeds in the prior year. The cash balance increased by approximately \$173,000 from the prior year because of the reduction in disbursements and transfers out. Total disbursements and transfers for the fiscal year decreased by 41% to a total of \$1.474 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Red Oak completed the year, its governmental funds reported a combined fund balance of \$5,377,639, an increase of more than \$1,318,000 above last year's total of \$4,059,540. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$96,054 from the prior year to \$1,214,443. The increase is attributable to a general reduction in expenses due to a cut-back in State aid that was anticipated by the Council.
- The Road Use Tax Fund cash balance increased by \$173,407 to \$980,342 during the fiscal year. This increase was attributable to approximately \$12,000 more from road use tax allocation received this fiscal year and decreased amounts transferred for street capital projects.
- The Employee Benefits Fund cash balance decreased by \$110,287 to \$482,191 during the fiscal year. The decrease was the result of increased cost of health insurance.
- The Local Option Sales Tax Fund cash balance increased by \$271,395 to \$598,019 during the fiscal year. The increase was primarily the result of a 15% increase in sales tax collections and an \$87,000 FEMA grant received for fire equipment during FY04.
- The Debt Service Fund cash balance increased by \$129,818 to \$787,583 during the fiscal year. This increase was due primarily to an increase in property tax.
- The Capital Projects Fund cash balance increased by \$884,850 to \$768,213 during the fiscal year. The increase is due to proceeds from the sale of general obligation notes. The City has construction commitments totaling approximately \$657,000 at year end.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$131,017 to \$526,373, due primarily to an increase in the water rates.
- The Sewer Fund cash balance increased by \$7,595 to \$1,243,112. The increase was not considered significant.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 17, 2004 and resulted in an increase in operating disbursements of \$1,002,444 on various capital projects and to call two bond issues. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2004, the City had \$5,260,000 in notes payable, compared to \$4,960,000 last year.

Debt increased as a result of issuing general obligation notes for sidewalk and Broadway construction projects.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding debt of \$4,982,901 is significantly below its constitutional debt limit of \$9,238,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Red Oak considered many factors when setting the fiscal year 2005 budget, including drastic cuts made by the State of Iowa during FY 04 causing the City of Red Oak to lose over \$100,000 revenue in its general fund.

Note issues of the City are being reviewed on a regular basis. Certain general obligation notes will be paid off with tax increment financing revenues on-hand. The reconstruction of Broadway will cost many dollars and bonding is necessary. There have been excess monies in the Debt Service Fund and this is being studied to determine the reason for such excess funds. The excess funds will be used to help pay off outstanding debt that is callable, which will help to reduce our debt service levy. Red Oak's debt service levy will be reduced from \$5.89555 per \$1,000 of taxable valuation in fiscal year 2004 to \$4.58341 per \$1,000 of taxable valuation in fiscal year 2005.

Ambulance service revenues are expected to increase in the FY 05 budget. This service is now being handled by a 3rd party, which has resulted in the City receiving more money from the insurance companies because there were charges the City could have been making and were not doing so. Airport rent revenue will increase because of the new hangar. The revenue from the County library payment is decreasing to \$14,295 from \$22,000.

FY 04 expenditure adjustments include the elimination of one full-time firefighter/paramedic and ambulance billing clerk. The FY 05 budget includes the hiring of one full-time firefighter/paramedic. The Police Department also made some rank reductions, which reduced salary.

The Employee Benefits Fund balance has been reduced and, therefore, the City is not able to use these reserves to help offset the tax asking. The benefits asking will go from \$4.03579 per \$1,000 of taxable valuation in FY 04 to \$5.08548 per \$1,000 of taxable valuation in FY 05.

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, 101 Main Street, City of Red Oak, Iowa 51566.

Basic Financial Statements

City of Red Oak

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 1,702,066	320,390	239,448	-
Public works	514,779	59,847	517,781	-
Health and social services	13,339	-	-	-
Culture and recreation	492,602	89,069	119,365	-
Community and economic development	328,252	1,739	-	-
Non-program	-	-	-	-
General government	118,595	17,433	6,000	-
Debt service	936,457	-	-	-
Capital projects	646,885	-	-	201,422
Total governmental activities	4,752,975	488,478	882,594	201,422
Business type activities:				
Water	644,502	917,144	20,315	-
Sewer	581,316	594,486	-	-
Landfill	37,557	71,618	-	-
Total business type activities	1,263,375	1,583,248	20,315	-
Total	\$ 6,016,350	2,071,726	902,909	201,422

General Receipts:

Property and other city tax levied for:
 General purposes
 Debt service
 Tax increment financing
 Local option sales tax
 Grants and contributions not restricted to specific purpose
 Unrestricted interest on investments
 Note proceeds (net of \$20,480 discount)
 Loan proceeds
 Miscellaneous
 Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Special levies
 Streets
 Urban renewal purposes
 Local option sales tax
 Library bequests
 Fire department donations
 Police donations
 Cemetery perpetual care
 Debt service
 Water and sewer improvements
 Other purposes
 Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(1,142,228)	-	(1,142,228)
62,849	-	62,849
(13,339)	-	(13,339)
(284,168)	-	(284,168)
(326,513)	-	(326,513)
-	-	-
(95,162)	-	(95,162)
(936,457)	-	(936,457)
(445,463)	-	(445,463)
(3,180,481)	-	(3,180,481)
-	292,957	292,957
-	13,170	13,170
-	34,061	34,061
-	340,188	340,188
(3,180,481)	340,188	(2,840,293)
1,503,773	-	1,503,773
715,320	-	715,320
259,745	-	259,745
412,181	-	412,181
25,851	-	25,851
62,138	19,037	81,175
1,259,520	-	1,259,520
26,000	-	26,000
23,316	24,184	47,500
210,736	(210,736)	-
4,498,580	(167,515)	4,331,065
1,318,099	172,673	1,490,772
4,059,540	1,681,722	5,741,262
\$ 5,377,639	1,854,395	7,232,034
\$ 482,191	-	482,191
980,342	-	980,342
175,112	-	175,112
598,019	-	598,019
140,579	-	140,579
31,357	-	31,357
33,314	-	33,314
185,004	-	185,004
787,583	63,228	850,811
-	370,000	370,000
14,796	83,357	98,153
1,949,342	1,337,810	3,287,152
\$ 5,377,639	1,854,395	7,232,034

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, 2004

	Special Revenue			
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax
Receipts:				
Property tax	\$ 929,469	-	452,410	-
Tax increment financing	-	-	-	-
Other city tax	61,328	-	28,399	303,238
Licenses and permits	16,097	-	-	-
Use of money and property	73,155	-	-	-
Intergovernmental	132,801	516,133	-	87,338
Charges for service	422,978	-	-	-
Special assessments	-	-	-	-
Miscellaneous	172,757	-	669	-
Total receipts	1,808,585	516,133	481,478	390,576
Disbursements:				
Operating:				
Public safety	1,115,342	-	399,453	119,181
Public works	55,731	361,925	97,123	-
Health and social services	13,339	-	-	-
Culture and recreation	401,826	-	85,320	-
Community and economic development	-	-	-	-
General government	108,726	-	9,869	-
Debt service	-	-	-	-
Capital projects	7,846	-	-	-
Total disbursements	1,702,810	361,925	591,765	119,181
Excess (deficiency) of receipts over (under) disbursements	105,775	154,208	(110,287)	271,395
Other financing sources (uses):				
Note proceeds (net of \$20,480 discount)	-	-	-	-
Loan proceeds	-	-	-	-
Sale of capital assets	1,053	-	-	-
Operating transfers in	72,166	20,008	-	-
Operating transfers out	(82,940)	(809)	-	-
Total other financing sources (uses)	(9,721)	19,199	-	-
Net change in cash balances	96,054	173,407	(110,287)	271,395
Cash balances beginning of year	1,118,389	806,935	592,478	326,624
Cash balances end of year	\$ 1,214,443	980,342	482,191	598,019
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	-	-	-
Unreserved:				
General fund	1,214,443	-	-	-
Special revenue funds	-	980,342	482,191	598,019
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 1,214,443	980,342	482,191	598,019

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
671,424	-	30,269	2,083,572
-	-	259,745	259,745
152,838	-	1,897	547,700
-	-	-	16,097
-	-	3,584	76,739
-	139,996	-	876,268
-	-	1,837	424,815
-	7,867	-	7,867
-	61,427	46,109	280,962
824,262	209,290	343,441	4,573,765
-	-	68,090	1,702,066
-	-	-	514,779
-	-	-	13,339
-	-	5,456	492,602
-	-	328,252	328,252
-	-	-	118,595
936,457	-	-	936,457
-	639,039	-	646,885
936,457	639,039	401,798	4,752,975
(112,195)	(429,749)	(58,357)	(179,210)
-	1,259,520	-	1,259,520
-	-	26,000	26,000
-	-	-	1,053
242,013	63,741	-	397,928
-	(8,562)	(94,881)	(187,192)
242,013	1,314,699	(68,881)	1,497,309
129,818	884,950	(127,238)	1,318,099
657,765	(116,737)	674,086	4,059,540
787,583	768,213	546,848	5,377,639
787,583	-	-	787,583
-	-	-	1,214,443
-	-	361,844	2,422,396
-	768,213	-	768,213
-	-	185,004	185,004
787,583	768,213	546,848	5,377,639

Exhibit C

City of Red Oak

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

As of and for the year ended June 30, 2004

	Enterprise Funds			Total
	Water	Sewer	Nonmajor Landfill	
Operating receipts:				
Charges for service	\$ 902,479	594,486	71,618	1,568,583
Miscellaneous	34,980	7,289	-	42,269
Total operating receipts	937,459	601,775	71,618	1,610,852
Operating disbursements:				
Business type activities	644,502	581,316	37,557	1,263,375
Excess of operating receipts over operating disbursements	292,957	20,459	34,061	347,477
Non-operating receipts:				
Interest on investments	10,272	8,764	-	19,036
Miscellaneous	16,896	-	-	16,896
Total non-operating receipts	27,168	8,764	-	35,932
Excess of receipts over disbursements	320,125	29,223	34,061	383,409
Transfers in	3,586	1,958	-	5,544
Transfers out	(192,694)	(23,586)	-	(216,280)
Total transfers	(189,108)	(21,628)	-	(210,736)
Net change in cash balances	131,017	7,595	34,061	172,673
Cash balances beginning of year	395,356	1,235,517	50,849	1,681,722
Cash balances end of year	\$ 526,373	1,243,112	84,910	1,854,395
Cash Basis Fund Balances				
Reserved for:				
Debt service	\$ 63,228	-	-	63,228
Improvements	100,000	270,000	-	370,000
Unreserved	363,145	973,112	84,910	1,421,167
Total cash basis fund balances	\$ 526,373	1,243,112	84,910	1,854,395

See notes to financial statements.

City of Red Oak

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

For financial reporting purposes, the City of Red Oak has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

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 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 and the Montgomery County Public Safety Communications Commission, but the City's accountability for these organizations does not extend beyond making the appointments.

B. Basis of Presentation

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

The Statement of Activities and Net Assets presents the City’s nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

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

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

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

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

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

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

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

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

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

The City of Red Oak 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.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the debt service function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$47,941 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Long Term Debt

Notes Payable

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

Year Ending June 30,	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 550,000	230,982	165,000	7,260	715,000	238,242
2006	580,000	205,918	165,000	3,960	745,000	209,878
2007	605,000	178,980	-	-	605,000	178,980
2008	635,000	150,210	-	-	635,000	150,210
2009	590,000	119,465	-	-	590,000	119,465
2010-2014	1,300,000	281,895	-	-	1,300,000	281,895
2015-2019	670,000	96,480	-	-	670,000	96,480
Total	\$ 4,930,000	1,263,930	330,000	11,220	5,260,000	1,275,150

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

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a water revenue sinking account for the purpose of making the note principal and interest payments when due.
- (c) A water revenue reserve account shall be established with a specific established balance. This account is restricted for the purpose of paying for principal and interest when funds in the sinking account are inadequate.
- (d) Monthly transfers of \$1,000 shall be made to a water capital improvement account until \$100,000 has been accumulated. This account is restricted for the purpose of paying for any capital improvements and extensions to the system or for principal and interest payments which the sinking account might be unable to make.

In June 2004, the City called two essential corporate purpose notes dated March 1, 1995 and October 1, 1995. These notes were redeemed in their entirety by June 30, 2004.

Bank Loan

On October 14, 2003, the Red Oak Volunteer Fire and Rescue department obtained a bank loan for \$26,000 to purchase a truck. The loan will be repaid in five annual installments of \$6,019, including interest at 5 percent per annum, beginning October 15, 2004.

(4) Development Agreements

The City has entered into two development agreements to assist in certain urban renewal projects.

The first agreement, entered into on November 18, 2002, requires the City to make economic development payments to the developer to assist with the cost of constructing a grain storage and handling system (project). Pursuant to the agreement, the economic development payments will begin June 1, 2005 and will continue for four additional fiscal years. Each payment shall be a percentage of the total incremental property tax received by the City with respect to the project as follows:

	<u>Payable</u>
Year 1 - 75%	June 1, 2005
Year 2 - 60%	June 1, 2006
Year 3 - 45%	June 1, 2007
Year 4 - 30%	June 1, 2008
Year 5 - 15%	June 1, 2009

Payments under this agreement are subject to the payment of property tax by the developer.

The second agreement, entered into on April 21, 2003, requires the City to make economic development payments to the developer for certain downtown development projects. The payments, totaling \$300,000, are to be made in semi-annual installments of \$15,000, beginning June 1, 2003 and ending December 1, 2012. The payments are payable solely from the incremental property tax received by the City which are attributable to the Red Oak Downtown Urban Renewal Area and are only made to the extent the City Council determines tax increment revenues are available. During the year ended June 30, 2004, the City made economic development payments of \$30,000 pursuant to this agreement.

These agreements are not a general obligation of the City. However, the amount payable in the succeeding year is subject to the constitutional debt limitation of the City.

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$111,406, \$113,797 and \$110,566, respectively, equal to the required contributions for each year.

(6) 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 payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 70,000
Compensatory time	16,000
Sick leave	<u>280,00</u>
Total	<u>\$ 366,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2004.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Emergency	\$ 32,166
	Enterprise: Water	20,000
	Sewer	20,000
Special Revenue: Road Use Tax	General	20,008
Debt Service	Special Revenue: Tax Increment Financing	62,715
	Capital Projects	8,562
	Enterprise: Water	170,736
Capital Projects	Special Revenue: Road Use Tax	809
	General	62,932
Enterprise: Water	Enterprise: Sewer	3,586
Sewer	Water	<u>1,958</u>
Total		<u>\$ 403,472</u>

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

(8) Risk Management

The City of Red Oak is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 490 members include governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2004 were \$112,199.

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 \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual member basis. All property risks are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced

by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

(9) Industrial Development Revenue Bonds

The City has issued a total of \$1,050,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$800,000 is outstanding at June 30, 2004. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

(10) Treasurer's Debt Service Account

The City deposits into a Treasurer's Debt Service Account sufficient funds to redeem note indebtedness and interest when due. These deposits are recorded as disbursements at the time of payment and subsequent activity and resulting balances are not recorded by the City. At June 30, 2004, the Treasurer's Debt Service Account had a balance of \$0.

(11) Library Bequests

The Library has received various restricted bequests. At June 30, 2004, the Library Bequest Fund included a total of \$38,000 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	<u>25,000</u>	Interest to be used to purchase library materials.
Total	<u>\$ 38,000</u>	

(12) Komarek Trust

The City receives \$600 annually from the trustee of the Komarek Trust to be used for maintenance of cemetery chapel grounds and roadways and for placement of flowers on certain graves. During the year ended June 30, 2004, the City spent \$27 of these funds for flowers and statues. At June 30, 2004, the balance in the Komarek Trust Account totaled \$9,858.

(13) Contingent Liability

The City is subject to a potential liability of \$735,100 for financial security in connection with its former participation in the operation of the Red Oak Landfill. The probability of loss, if any, is indeterminable.

(14) Commitments

Construction commitments for airport and street projects at June 30, 2004 totaled \$1,232,717. During the year, \$576,047 was paid under these construction commitments. The balance of \$656,670 will be paid as work on the projects progresses.

(15) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

(16) Subsequent Event

In August 2004, the City entered into a contract totaling \$163,890 to construct traffic signals. The project will be paid using grant funds and local matching funds.

City of Red Oak

Required Supplementary Information

City of Red Oak
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 2,083,572	-	2,083,572
Tax increment financing	259,745	-	259,745
Other city tax	547,700	-	547,700
Licenses and permits	16,097	-	16,097
Use of money and property	76,739	19,036	95,775
Intergovernmental	876,268	-	876,268
Charges for service	424,815	1,568,583	1,993,398
Special assessments	7,867	-	7,867
Miscellaneous	280,962	59,165	340,127
Total receipts	<u>4,573,765</u>	<u>1,646,784</u>	<u>6,220,549</u>
Disbursements:			
Public safety	1,702,066	-	1,702,066
Public works	514,779	-	514,779
Health and social services	13,339	-	13,339
Culture and recreation	492,602	-	492,602
Community and economic development	328,252	-	328,252
General government	118,595	-	118,595
Debt service	936,457	-	936,457
Capital projects	646,885	-	646,885
Business type activities	-	1,263,375	1,263,375
Total disbursements	<u>4,752,975</u>	<u>1,263,375</u>	<u>6,016,350</u>
Excess (deficiency) of receipts over (under) disbursements	(179,210)	383,409	204,199
Other financing sources, net	1,497,309	(210,736)	1,286,573
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,318,099	172,673	1,490,772
Balances beginning of year	4,059,540	1,681,722	5,741,262
Balances end of year	<u>\$ 5,377,639</u>	<u>1,854,395</u>	<u>7,232,034</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Net
		Variance
2,040,465	2,040,465	43,107
224,281	224,281	35,464
366,853	366,853	180,847
5,195	5,195	10,902
85,000	85,000	10,775
1,331,138	1,876,138	(999,870)
1,923,233	1,923,233	70,165
10,554	10,554	(2,687)
73,608	73,608	266,519
<u>6,060,327</u>	<u>6,605,327</u>	<u>(384,778)</u>
1,724,538	1,724,538	22,472
706,870	706,870	192,091
3,000	16,800	3,461
670,782	718,622	226,020
260,740	335,740	7,488
128,975	128,975	10,380
763,503	763,503	(172,954)
974,683	1,840,487	1,193,602
1,695,357	1,695,357	431,982
<u>6,928,448</u>	<u>7,930,892</u>	<u>1,914,542</u>
(868,121)	(1,325,565)	1,529,764
<u>584,035</u>	<u>1,534,035</u>	<u>(247,462)</u>
(284,086)	208,470	1,282,302
<u>3,375,458</u>	<u>3,375,458</u>	<u>2,365,804</u>
<u>3,091,372</u>	<u>3,583,928</u>	<u>3,648,106</u>

City of Red Oak

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

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. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,002,444. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the debt service function.

Other Supplementary Information

City of Red Oak

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

As of and for the year ended June 30, 2004

	Emergency	Special Volunteer Fire and Rescue Association
Receipts:		
Property tax	\$ 30,269	-
Tax increment financing	-	-
Other city tax	1,897	-
Use of money and property	-	265
Charges for services	-	-
Miscellaneous	-	45,509
Total receipts	32,166	45,774
Disbursements:		
Operating:		
Public safety	-	68,090
Culture and recreation	-	-
Community and economic development	-	-
Total disbursements	-	68,090
Excess (deficiency) of receipts over (under) disbursements	32,166	(22,316)
Other financing sources (uses):		
Loan proceeds	-	26,000
Operating transfers out	(32,166)	-
Total other financing sources (uses)	(32,166)	26,000
Net change in cash balances	-	3,684
Cash balances beginning of year	-	27,673
Cash balances end of year	\$ -	31,357
Cash Basis Fund Balances		
Unreserved:		
Special revenue funds	\$ -	31,357
Permanent fund	-	-
Total cash basis fund balances	\$ -	31,357

See accompanying independent auditor's report.

Revenue				Permanent		
Tax Increment Financing	Komarek Trust	Library Bequest	Library People's Art Projects	Cemetery Perpetual Care		Total
-	-	-	-	-		30,269
259,745	-	-	-	-		259,745
-	-	-	-	-		1,897
-	-	3,054	265	-		3,584
-	-	-	-	1,837		1,837
-	600	-	-	-		46,109
259,745	600	3,054	265	1,837		343,441
-	-	-	-	-		68,090
-	27	5,333	96	-		5,456
328,252	-	-	-	-		328,252
328,252	27	5,333	96	-		401,798
(68,507)	573	(2,279)	169	1,837		(58,357)
-	-	-	-	-		26,000
(62,715)	-	-	-	-		(94,881)
(62,715)	-	-	-	-		(68,881)
(131,222)	573	(2,279)	169	1,837		(127,238)
306,334	9,285	142,858	4,769	183,167		674,086
175,112	9,858	140,579	4,938	185,004		546,848
175,112	9,858	140,579	4,938	-		361,844
-	-	-	-	185,004		185,004
175,112	9,858	140,579	4,938	185,004		546,848

City of Red Oak

City of Red Oak

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

As of and for the year ended June 30, 2004

	Enterprise - Landfill		
	Recycling	Superfund	Total
Operating receipts:			
Charges for service	\$ 39,125	32,493	71,618
Operating disbursements:			
Business type activities	36,000	1,557	37,557
Excess of operating receipts over disbursements	3,125	30,936	34,061
Cash balances beginning of year	(1,572)	52,421	50,849
Cash balances end of year	\$ 1,553	83,357	84,910
Cash Basis Fund Balances			
Unreserved	\$ 1,553	83,357	84,910

See accompanying independent auditor's report.

City of Red Oak
Schedule of Indebtedness
Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Essential corporate purpose	Mar 1, 1995	6.60-7.00%	\$ 165,000
Essential corporate purpose	Oct 1, 1995	6.95-7.30	365,000
Essential and general corporate purpose	Aug 1, 1997	4.75-5.20	1,635,000
Essential corporate purpose	Apr 1, 1998	4.35-4.70	600,000
Essential corporate purpose	Jul 1, 1998	4.35-4.70	1,000,000
Essential corporate purpose	Jul 1, 2000	5.20-5.70	1,185,000
Essential corporate purpose	Nov 1, 2002	2.60-4.50	620,000
Essential corporate purpose	Nov 1, 2002	3.60-5.20	210,000
Essential corporate purpose	Jun 1, 2004	1.75-4.80	1,280,000
Total			
Revenue notes:			
Water refunding	May 1, 2003	1.65-2.40	\$ 490,000
Total			
Bank loan:			
Fire truck	Oct 14, 2003	5.00	\$ 26,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
75,000	-	75,000	-	5,229
245,000	-	245,000	-	17,818
1,350,000	-	165,000	1,185,000	68,225
330,000	-	60,000	270,000	15,163
645,000	-	95,000	550,000	29,290
995,000	-	100,000	895,000	54,693
620,000	-	40,000	580,000	24,117
210,000	-	40,000	170,000	9,300
-	1,280,000	-	1,280,000	-
\$ 4,470,000	1,280,000	820,000	4,930,000	223,835
490,000	-	160,000	330,000	10,725
-	26,000	-	26,000	-

City of Red Oak

Note Maturities

June 30, 2004

Year Ending June 30,	General Obligation Notes							
	Essential and General Corporate Purpose		Essential Corporate Purpose		Essential Corporate Purpose		Essential Corporate Purpose	
	Issued Aug 1, 1997		Issued Apr 1, 1998		Issued Jul 1, 1998		Issued Jul 1, 2000	
	Interest		Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount
2005	4.95%	\$ 175,000	4.55%	\$ 65,000	4.45%	\$100,000	5.35%	\$110,000
2006	5.00	185,000	4.60	65,000	4.50	105,000	5.40	115,000
2007	5.05	190,000	4.65	70,000	4.55	110,000	5.45	120,000
2008	5.10	200,000	4.70	70,000	4.60	115,000	5.50	125,000
2009	5.15	210,000	-	-	4.70	120,000	5.55	135,000
2010	5.20	225,000	-	-	-	-	5.60	140,000
2011	-	-	-	-	-	-	5.70	150,000
2012	-	-	-	-	-	-	-	-
2013	-	-	-	-	-	-	-	-
2014	-	-	-	-	-	-	-	-
2015	-	-	-	-	-	-	-	-
2016	-	-	-	-	-	-	-	-
2017	-	-	-	-	-	-	-	-
2018	-	-	-	-	-	-	-	-
2019	-	-	-	-	-	-	-	-
Total		<u>\$1,185,000</u>		<u>\$ 270,000</u>		<u>\$550,000</u>		<u>\$895,000</u>

Year Ending June 30,	Revenue Notes	
	Water Refunding	
	Issued May 1, 2003	
	Interest	Amount
	Rates	Amount
2005	2.00%	\$ 165,000
2006	2.40	165,000
Total		<u>\$ 330,000</u>

See accompanying independent auditor's report.

Essential Corporate Purpose Issued Nov 1, 2002		Essential Corporate Purpose Issued Nov 1, 2002		Essential Corporate Purpose Issued Jun 1, 2004		Total
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2.90%	\$ 40,000	4.00%	\$ 40,000	1.75%	\$ 20,000	550,000
3.20	45,000	4.40	40,000	2.25	25,000	580,000
3.45	45,000	4.80	45,000	2.65	25,000	605,000
3.70	50,000	5.20	45,000	3.00	30,000	635,000
4.00	95,000		-	3.25	30,000	590,000
4.20	100,000		-	3.45	30,000	495,000
4.35	100,000		-	3.65	105,000	355,000
4.50	105,000		-	3.85	110,000	215,000
	-		-	4.00	115,000	115,000
	-		-	4.15	120,000	120,000
	-		-	4.30	120,000	120,000
	-		-	4.45	130,000	130,000
	-		-	4.60	135,000	135,000
	-		-	4.70	140,000	140,000
	-		-	4.80	145,000	145,000
	<u>\$ 580,000</u>		<u>\$ 170,000</u>		<u>\$ 1,280,000</u>	<u>\$ 4,930,000</u>

Schedule 5

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

For the Last Two Years

	<u>2004</u>	<u>2003</u>
Receipts:		
Property tax	\$ 2,083,572	2,010,066
Tax increment financing	259,745	388,647
Other city tax	547,700	527,394
Licenses and permits	16,097	16,188
Use of money and property	76,739	99,181
Intergovernmental	876,268	955,452
Charges for service	424,815	407,150
Special assessments	7,867	44,611
Miscellaneous	280,962	285,603
	<u> </u>	<u> </u>
Total	<u>\$ 4,573,765</u>	<u>4,734,292</u>
Disbursements:		
Operating:		
Public safety	\$ 1,702,066	1,605,572
Public works	514,779	907,959
Health and social services	13,339	3,175
Culture and recreation	492,602	584,342
Community and economic development	328,252	295,120
General government	118,595	122,687
Debt service	936,457	678,723
Capital projects	646,885	744,121
	<u> </u>	<u> </u>
Total	<u>\$ 4,752,975</u>	<u>4,941,699</u>

See accompanying independent auditor's report.



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

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Auditor of State

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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Red Oak, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated January 6, 2005. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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 grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 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. Prior year statutory comments have been resolved except for items (2), (8) and (10).

Internal Control Over Financial Reporting

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

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Red Oak and other parties to whom the City of Red Oak may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Red Oak during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 6, 2005

City of Red Oak
Schedule of Findings
Year ended June 30, 2004

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from performing duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One of three individuals has control over utility receipts, including billing, collecting, recording and reconciling.

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

Response – City Clerk will review all activity for propriety.

Conclusion – Response accepted.

- (B) Information Systems – The following weaknesses in the City’s computer-based systems were noted:

- Passwords are not periodically changed. The City’s software does not require the user to periodically change log-ins/passwords.

The City does not have written policies for:

- Password privacy and confidentiality.
- Logging off unattended computers.
- Ensuring only software licensed to the City is installed on computers.
- Usage of the Internet.
- A disaster recovery plan.

Recommendation – The City should take steps to implement procedures to require periodic changes in passwords. The City should develop written policies addressing the above items in order to improve the City’s control over computer-based systems.

Response – We will adopt policies to cover these items.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings

Year ended June 30, 2004

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been adopted by the Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- (2) Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response – We paid water revenue notes from debt service by mistake. This was corrected by the City in FY05.

Conclusion – Response accepted.

- (3) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Terry Kammerer, Council Member, owner All Make Parts & Service, Inc.	Parts and labor	\$ 1,459

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the City Council Member do not appear to represent a conflict of interest since the total transactions were less than \$1,500 during the fiscal year.

- (6) 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 insure the coverage is adequate for current operations.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (8) 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, except as follows:

City of Red Oak

Schedule of Findings

Year ended June 30, 2004

Interest on investments made from the Debt Service Fund were not recorded in this fund. In accordance with Chapter 12C.9 of the Code of Iowa, interest earned on note proceeds and funds being accumulated for the payment of principal and interest should be used to pay the principal and interest as it comes due or be credited to the project fund for which the indebtedness was issued.

Recommendation – The City should record interest earned on investments from the Debt Service Fund in the Debt Service Fund as required by Chapter 12C.9 of the Code of Iowa.

Response – We will allocate any interest of this type to the appropriate account in the future.

Conclusion – Response accepted.

- (9) Water Revenue Notes – The City paid water revenue debt from the Debt Service Fund.

Recommendation – The City should make a corrective transfer from the Water Revenue Bond Sinking Fund. Future water debt should be paid from the sinking fund as required by the reserve note resolution.

Response – We have corrected this.

Conclusion – Response accepted.

- (10) Payment of General Obligation Notes – Certain general obligation notes were paid from the Special Revenue, Tax Increment Financing Fund. Chapter 384.4 of the Code of Iowa states in part “Moneys pledged or available to service general obligation notes, and received from sources other than property tax, must be deposited in the Debt Service Fund.”

Recommendation – The City should transfer from the Special Revenue Fund, Tax Increment Financing Fund to the Debt Service Fund for future funding contributions. Payments of the notes should then be disbursed from the Debt Service Fund.

Response – All general obligation notes will be paid from the Debt Service Fund.

Conclusion – Response accepted.

- (11) Accrued Interest on the Sale of General Obligation Notes – The resolution authorizing and providing for the issuance of the general obligation notes requires any accrued interest on the sale of the notes be recorded in the Debt Service Fund. The accrued interest was recorded in the Capital Projects, Broadway Project Fund.

Recommendation – The City should transfer \$294 from the Capital Projects, Broadway Project Fund to the Debt Service Fund to comply with the note resolution.

Response – We will make the corrective transfer.

Conclusion – Response accepted.

- (12) Annual Financial Report – The City did not complete or file the Annual Financial Report with the Auditor of State by December 1 for the fiscal years ended June 30, 2002 and 2003 as required by Chapter 384.22 of the Code of Iowa.

City of Red Oak

Schedule of Findings

Year ended June 30, 2004

Recommendation – The City should complete and file the annual financial reports as required by Chapter 384.22 of the Code of Iowa.

Response – We will file the reports with your office.

Conclusion – Response accepted.

(13) Other Information Required by Water Revenue Note Resolution

Statistical Information Description	Amount
Number of water customers	2,816
Water rate schedule:	
Basic charge	\$5.50
0-4,000 cubic feet inclusive	1.90 per 100 cubic feet
Over 4,000 cubic feet	1.40 per 100 cubic feet
Bulk sales	.25 per 100 gallons

Insurance – The following insurance policies were in force at June 30, 2004:

Insurer	Description	Amount	Expiration Date
Iowa Communities Assurance Pool	Comprehensive general liability: Bodily injury and personal injury Property damage and PSN injury	\$ 2,000,000	Sep 1, 2004
Iowa Communities Assurance Pool	Blanket property on buildings Blanket personal property	8,687,555 3,193,731	Sep 1, 2004 Sep 1, 2004
Iowa Communities Assurance Pool	Airport property	426,047	Sep 1, 2004
Iowa Communities Assurance Pool	Automobile coverage: Liability insurance: Each occurrence Uninsured motorists: Each accident Each member Municipal automobile: Physical damage	2,000,000 40,000 40,000 Amount of loss	Sep 1, 2004 Sep 1, 2004 Sep 1, 2004 Sep 1, 2004

City of Red Oak

Schedule of Findings

Year ended June 30, 2004

Insurer	Description	Amount	Expiration Date
Ace Property and Casualty Insurance Company	Products – completed operations	1,000,000	May 12, 2005
	Personal injury	1,000,000	May 12, 2005
	Malpractice aggregate limit	1,000,000	May 12, 2005
	Fire damage limit one fire	50,000	May 12, 2005
	Medical expense	1,000	May 12, 2005
	Hangarkeepers limit per occurrence	1,000,000	May 12, 2005
	Hangarkeepers limit one aircraft	200,000	May 12, 2005
Iowa Communities Assurance Pool	Boiler and machinery	11,881,286	Sep 1, 2005
Iowa Communities Assurance Pool	Inland marine:		
	Contractors' equipment	1,700,024	Sep 1, 2005
	Computer equipment	175,000	Sep 1, 2005
	Fine arts	90,010	Sep 1, 2005
Iowa Communities Assurance Pool	Public officials liability: Each occurrence and aggregate	2,000,000	Sep 1, 2005
Nationwide Mutual Insurance Company	Public employees' blanket bond:		
	Faithful performance blanket bond:		
	Position bond	20,000	Jan 1, 2005
	Treasurer	80,000	Jan 1, 2005
Iowa Municipalities Workers' Compensation Association	Compensation limit Iowa Statute Part B	1,000,000	Jul 1, 2005
Iowa Communities Assurance Pool	Professional liability: Law enforcement officer: Each occurrence	2,000,000	Sep 1, 2005

City of Red Oak

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
Paul F. Kearney, CGFM, Senior Auditor
Gary D. Van Lengen, CPA, Staff Auditor
Scott D. Trauger, 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