



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

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**NEWS RELEASE**

FOR RELEASE

March 26, 2007

Contact: Andy Nielsen  
515/281-5834

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

The City's receipts totaled \$6,161,997 for the year ended June 30, 2006, a 10 percent decrease from 2005. The receipts included \$2,102,878 in property tax, \$90,136 from tax increment financing, \$2,236,604 from charges for service, \$649,676 from operating grants, contributions and restricted interest, \$436,751 from capital grants, contributions and restricted interest, \$402,937 from local option sales tax, \$168,474 from unrestricted interest on investments and \$74,541 from other general receipts.

Disbursements for the year totaled \$5,528,969, a 28 percent decrease from the prior year, and included \$1,684,050 for public safety, \$700,026 for debt service and \$585,723 for culture and recreation. Disbursements for business type activities totaled \$1,383,983. The significant decrease in disbursements is due primarily to the decrease in street and other capital project activity and general obligation notes called and redeemed in the prior year.

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

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**CITY OF RED OAK**

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

**JUNE 30, 2006**

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**City of Red Oak**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2006)</b>		
James A. Johnson	Mayor	Jan 2006
Tom Pratt	Council Member	Jan 2006
Joddey Hicks	Council Member	(Resigned)
Bill Billings (Appointed)	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
<b>(After January 2006)</b>		
Ted A. Schoonover	Mayor	Jan 2008
Roger Waggener	Council Member	Jan 2008
Ivan Craig	Council Member	(Resigned)
Larry Brandsetter (Appointed)	Council Member	Nov 2007
Bill Haufle	Council Member	Jan 2008
Tom Pratt	Council Member	Jan 2010
Mark Gregg	Council Member	Jan 2010
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, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Red Oak's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Red Oak as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated February 2, 2007 on our consideration of the City of Red Oak's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Red Oak's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 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

February 2, 2007

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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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2006 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities decreased 14.1%, or approximately \$738,000, from fiscal 2005 to fiscal 2006. Capital grants and contributions decreased approximately \$693,000 and other general receipts decreased approximately \$64,000.
- Disbursements for governmental activities decreased 37%, or approximately \$2,442,000, in fiscal 2006 from fiscal 2005. Public safety, debt service and capital projects disbursements decreased approximately \$48,000, \$763,000 and \$1,467,000, respectively.
- The City's total cash basis net assets increased 10%, or approximately \$633,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities increased approximately \$352,000 and the assets of the business type activities increased approximately \$281,000.

### **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, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Employee Benefits and Local Option Sales Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

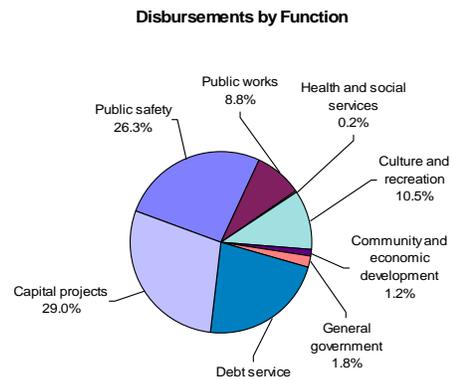
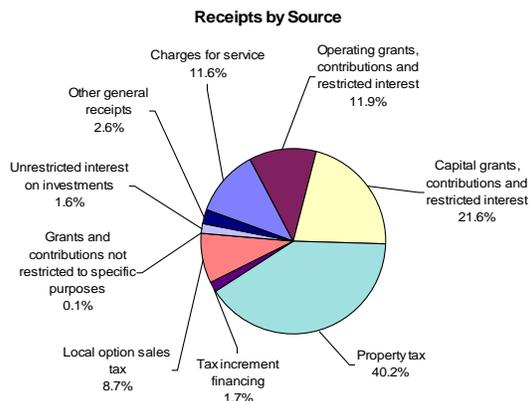
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Water, Sewer and Landfill Funds.

The 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 from a year ago, increasing from \$4.198 million to \$4.550 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2006	2005
<b>Receipts:</b>		
<b>Program receipts:</b>		
Charges for service	\$ 612,467	608,306
Operating grants, contributions and restricted interest	643,468	624,770
Capital grants, contributions and restricted interest	436,751	1,129,420
<b>General receipts:</b>		
Property tax	2,102,878	2,102,394
Tax increment financing	90,136	89,074
Local option sales tax	402,937	454,497
Grants and contributions not restricted to specific purposes	-	5,402
Unrestricted interest on investments	137,076	86,097
Other general receipts	71,083	134,986
<b>Total receipts</b>	<b>4,496,796</b>	<b>5,234,946</b>
<b>Disbursements:</b>		
Public safety	1,684,050	1,731,635
Public works	531,830	576,699
Health and social services	15,263	16,098
Culture and recreation	585,723	690,503
Community and economic development	70,045	76,827
General government	108,125	115,441
Debt service	700,026	1,462,758
Capital projects	449,924	1,916,596
<b>Total disbursements</b>	<b>4,144,986</b>	<b>6,586,557</b>
<b>Excess (deficiency) of receipts over (under) disbursements</b>	<b>351,810</b>	<b>(1,351,611)</b>
<b>Operating transfers, net</b>	<b>-</b>	<b>172,260</b>
<b>Increase (decrease) in cash basis net assets</b>	<b>351,810</b>	<b>(1,179,351)</b>
<b>Cash basis net assets beginning of year</b>	<b>4,198,288</b>	<b>5,377,639</b>
<b>Cash basis net assets end of year</b>	<b>\$ 4,550,098</b>	<b>4,198,288</b>



The City's total receipts for governmental activities decreased by 14.1%, or approximately \$738,000. The total cost of all programs and services decreased approximately \$2,442,000, or 37%, with no new programs added this year. The significant decrease in receipts was primarily the result of operating and capital grants received in the prior year. The significant decrease in disbursements was primarily the result of street and other project activity and the early redemption of general obligation notes in the prior year.

The cost of all governmental activities this year was \$4.14 million, compared to \$6.59 million last year. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was only \$2.45 million because some of the cost was paid by those directly benefited from the programs (\$612,467) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$1,080,219). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$2,804,000 in property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous collections.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2006	2005
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 967,483	919,049
Sewer	584,282	603,389
Landfill	72,372	72,544
Operating grants, contributions and restricted interest	6,208	8,546
Other general receipts	34,856	36,134
Total receipts	<u>1,665,201</u>	<u>1,639,662</u>
Disbursements and transfers:		
Water	874,488	641,415
Sewer	475,088	467,994
Landfill	34,407	35,034
Transfers	-	172,260
Total disbursements and transfers	<u>1,383,983</u>	<u>1,316,703</u>
Increase in cash basis net assets	281,218	322,959
Cash basis net assets beginning of year	<u>2,177,354</u>	<u>1,854,395</u>
Cash basis net assets end of year	<u>\$ 2,458,572</u>	<u>2,177,354</u>

Total business type activities receipts increased slightly by \$25,539, or 1.56%. Total disbursements for the fiscal year increased by 5%, or \$67,280. The cash balance increased by approximately \$281,000 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 \$4,550,098, an increase of more than \$351,000 above last year's total of \$4,198,288. 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 \$29,284 from the prior year to \$1,194,440. The increase is attributable to an overall decrease in receipts of \$44,015 offset by a decrease in disbursements of \$151,007. Receipts decreased primarily due to a reduction in state and federal grants. Culture and recreation disbursements decreased \$147,285, primarily due to the payment of grant funding to Performing Arts and Education Association of Southwest Iowa, Inc. in the prior year.
- The Road Use Tax Fund cash balance increased \$161,058 to \$1,242,869 during the fiscal year. This increase was attributable to a decrease in disbursements, primarily due to improvements to the street maintenance building and other street projects in the prior year. The City intends to use this money to continue funding street department operations, street maintenance programs and replacement of equipment.
- The Employee Benefits Fund cash balance increased \$32,183 to \$528,047 during the fiscal year. The increase is primarily the result of an increase in tax asking for anticipated cost increases for employee benefits for public safety officers back on duty.
- The Local Option Sales Tax Fund was established to account for special sales taxes collected. At the end of the fiscal year, the cash balance was \$1,090,156, an increase of \$339,278 over the previous year. Total disbursements decreased by \$91,938. Local option sales tax collections credited to this fund increased during the current year by \$89,981.
- The Debt Service Fund cash balance decreased \$252,820 to (\$90,427) during the fiscal year. This decrease was due to a decrease in property tax collections and a decrease in local option sales tax collections allocated to the debt service fund.
- The Capital Projects Fund cash balance increased \$1,827 to (\$52,757) during the fiscal year. The City spent a total of \$449,924 on construction projects in the current year, compared to \$1,916,596 in the prior year. Grant funds decreased \$904,374 from the prior year and donations increased \$244,707, primarily due to collections for an upcoming library expansion project.

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

- The Water Fund cash balance increased \$117,182 to \$784,236, due primarily to an increase in water collections and interest and a reduction in debt service payments and transfers from the prior year.
- The Sewer Fund cash balance increased \$126,071 to \$1,513,951. The increase is attributable to receipts of \$601,159 offset by disbursements of \$475,088.

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The amendment was approved on May 15, 2006 and resulted in an increase of \$116,100 in operating disbursements, related primarily to the library expansion project. The City received donations and had sufficient cash balances to absorb any additional costs.

The City's receipts were \$1,204,508 less than budgeted. This was primarily due to the City receiving less in intergovernmental and miscellaneous receipts than anticipated. Fewer grants and donations were received due to the delay of certain projects.

With the amendment, total disbursements were \$997,161 less than the amended budget. This is primarily due to the City budgeting anticipated projects that were delayed. Actual disbursements for the culture and recreation function were \$24,819 more than the amended budget. The overexpenditure in the culture and recreation function was primarily due to cemetery land acquisition not budgeted.

## DEBT ADMINISTRATION

At June 30, 2006, the City had \$3,355,000 in notes and other long-term debt outstanding, compared to \$4,050,298 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2006	2005
General obligation notes	\$ 3,355,000	3,870,000
Revenue notes	-	165,000
Bank loan	-	15,298
Total	\$ 3,355,000	4,050,298

Debt decreased as a result of current year redemptions.

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 \$3,355,000 is below its constitutional debt limit of \$9,282,000.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Red Oak's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates and fees that will be charged for various City activities. One of those factors is the economy. One of the City's major employers has announced closing the plant, resulting in the loss of many jobs.

These factors were taken into account when adopting the budget for fiscal year 2007. Tax revenues available for appropriation in the operating budget are \$2.14 million, an increase of 1.3% over the final 2006 budget. The City will use this increase in receipts to finance programs we currently offer. Budgeted disbursements are expected to stay the same, or \$6,366,250. The City has added no major new programs or initiatives to the 2007 budget.

If these estimates are realized, the City's June 30, 2007 budgeted cash balance is expected to decrease from the June 30, 2006 budgeted cash balance by approximately \$181,000. The City will be using accumulated cash, grants and donations for projects rather than issuing additional debt.

## 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.

## **Basic Financial Statements**

City of Red Oak

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

	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	\$ 1,684,050	443,699	60,433	-
Public works	531,830	37,913	522,414	-
Health and social services	15,263	-	-	-
Culture and recreation	585,723	110,668	39,621	-
Community and economic development	70,045	4,426	-	-
General government	108,125	15,761	6,000	-
Debt service	700,026	-	-	-
Capital projects	449,924	-	15,000	436,751
Total governmental activities	4,144,986	612,467	643,468	436,751
Business type activities:				
Water	874,488	967,483	6,208	-
Sewer	475,088	584,282	-	-
Landfill	34,407	72,372	-	-
Total business type activities	1,383,983	1,624,137	6,208	-
Total	\$ 5,528,969	2,236,604	649,676	436,751
<b>General Receipts:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Special levies				
Streets				
Urban renewal purposes				
Local option sales tax				
Library bequests				
Fire department donations				
Police donations				
Other purposes				
Cemetery perpetual care				
Debt service				
Water and sewer improvements				
Landfill purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(1,179,918)	-	(1,179,918)
28,497	-	28,497
(15,263)	-	(15,263)
(435,434)	-	(435,434)
(65,619)	-	(65,619)
(86,364)	-	(86,364)
(700,026)	-	(700,026)
1,827	-	1,827
(2,452,300)	-	(2,452,300)
-	99,203	99,203
-	109,194	109,194
-	37,965	37,965
-	246,362	246,362
(2,452,300)	246,362	(2,205,938)
1,655,722	-	1,655,722
447,156	-	447,156
90,136	-	90,136
402,937	-	402,937
137,076	31,398	168,474
71,083	3,458	74,541
2,804,110	34,856	2,838,966
351,810	281,218	633,028
4,198,288	2,177,354	6,375,642
\$ 4,550,098	2,458,572	7,008,670
\$ 588,368	-	588,368
1,242,869	-	1,242,869
208,071	-	208,071
1,090,156	-	1,090,156
149,998	-	149,998
29,246	-	29,246
17,555	-	17,555
16,179	-	16,179
193,387	-	193,387
-	150,895	150,895
-	270,000	270,000
-	144,326	144,326
1,014,269	1,893,351	2,907,620
\$ 4,550,098	2,458,572	7,008,670

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, 2006

	Special Revenue			
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax
<b>Receipts:</b>				
Property tax	\$ 930,421	-	596,925	-
Tax increment financing	-	-	-	-
Other city tax	60,861	-	37,330	402,937
Licenses and permits	53,302	-	-	-
Use of money and property	151,013	-	-	-
Intergovernmental	23,841	518,846	-	-
Charges for service	546,210	-	-	-
Special assessments	-	-	-	-
Miscellaneous	73,966	-	6,776	4,500
Total receipts	1,839,614	518,846	641,031	407,437
<b>Disbursements:</b>				
Operating:				
Public safety	1,179,546	-	392,565	68,159
Public works	67,613	357,788	106,429	-
Health and social services	15,263	-	-	-
Culture and recreation	451,492	-	100,175	-
Community and economic development	-	-	-	-
General government	98,446	-	9,679	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	1,812,360	357,788	608,848	68,159
Excess (deficiency) of receipts over (under) disbursements	27,254	161,058	32,183	339,278
<b>Other financing sources:</b>				
Sale of capital assets	2,030	-	-	-
Net change in cash balances	29,284	161,058	32,183	339,278
Cash balances beginning of year	1,165,156	1,081,811	495,864	750,878
Cash balances end of year	\$ 1,194,440	1,242,869	528,047	1,090,156
<b>Cash Basis Fund Balances</b>				
Unreserved:				
General fund	\$ 1,194,440	-	-	-
Special revenue funds	-	1,242,869	528,047	1,090,156
Debt service fund	-	-	-	-
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 1,194,440	1,242,869	528,047	1,090,156

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
421,455	-	28,411	1,977,212
-	-	90,136	90,136
25,701	-	1,774	528,603
-	-	-	53,302
-	899	4,476	156,388
-	33,484	-	576,171
-	-	4,620	550,830
-	26,667	-	26,667
-	390,701	59,514	535,457
447,156	451,751	188,931	4,494,766
-	-	43,780	1,684,050
-	-	-	531,830
-	-	-	15,263
-	-	34,056	585,723
-	-	70,045	70,045
-	-	-	108,125
700,026	-	-	700,026
-	449,924	-	449,924
700,026	449,924	147,881	4,144,986
(252,870)	1,827	41,050	349,780
-	-	-	2,030
(252,870)	1,827	41,050	351,810
162,443	(54,584)	596,720	4,198,288
(90,427)	(52,757)	637,770	4,550,098
-	-	-	1,194,440
-	-	444,383	3,305,455
(90,427)	-	-	(90,427)
-	(52,757)	-	(52,757)
-	-	193,387	193,387
(90,427)	(52,757)	637,770	4,550,098

**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, 2006

	Enterprise			Total
	Water	Sewer	Nonmajor Landfill	
Operating receipts:				
Charges for service	\$ 951,883	584,282	72,372	1,608,537
Miscellaneous	21,808	-	-	21,808
Total operating receipts	973,691	584,282	72,372	1,630,345
Operating disbursements:				
Business type activities	705,528	475,088	34,407	1,215,023
Excess of operating receipts over operating disbursements	268,163	109,194	37,965	415,322
Non-operating receipts (disbursements):				
Interest on investments	16,398	15,000	-	31,398
Miscellaneous	1,581	1,877	-	3,458
Debt service	(168,960)	-	-	(168,960)
Total non-operating receipts (disbursements)	(150,981)	16,877	-	(134,104)
Net change in cash balances	117,182	126,071	37,965	281,218
Cash balances beginning of year	667,054	1,387,880	122,420	2,177,354
Cash balances end of year	\$ 784,236	1,513,951	160,385	2,458,572
<b>Cash Basis Fund Balances</b>				
Reserved for:				
Debt service	\$ 150,895	-	-	150,895
Improvements	-	270,000	-	270,000
Landfill purposes	-	-	144,326	144,326
Unreserved	633,341	1,243,951	16,059	1,893,351
Total cash basis fund balances	\$ 784,236	1,513,951	160,385	2,458,572

See notes to financial statements.

City of Red Oak

Notes to Financial Statements

June 30, 2006

**(1) Summary of Significant Accounting Policies**

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

A. Reporting Entity

For financial reporting purposes, the City of Red Oak has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

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

Blended Component Unit

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

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

### Jointly Governed Organizations

The City participates in several jointly governed organizations for which the City is not financially accountable or the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following boards and commissions: Montgomery County Assessor's Conference Board and the Southwest Iowa Planning Council (SWIPCO) Regional Planning Commission.

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

### Related Organizations

The City is responsible for appointing a majority of the voting members of the Low Rent Housing Board 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.

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 incurred, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the culture and recreation function.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2006 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 \$50,428 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

**(3) Long Term Debt**

Notes Payable

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

Year Ending June 30,	Principal	Interest	Total
2007	\$ 535,000	159,160	694,160
2008	565,000	133,645	698,645
2009	590,000	106,190	696,190
2010	395,000	77,468	472,468
2011	255,000	56,895	311,895
2012-2016	595,000	176,690	771,690
2017-2019	420,000	40,250	460,250
Total	\$ 3,355,000	750,298	4,105,298

**(4) Development Agreements**

The City has entered into six 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. During the year ended June 30, 2006, the City made economic development payments totaling \$18,321 pursuant to the agreement.

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, 2006, the City made economic development payments of \$30,000 pursuant to this agreement.

The third agreement, entered into on January 17, 2005, requires the City to make economic development payments, not to exceed \$90,000, to the developer to assist with the cost of constructing a white corn storage bin and a soybean storage bin (project). Pursuant to the agreement, the economic development payments will begin June 1, 2007 and will continue through June 30, 2011. 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, 2007
Year 2 – 60%	June 1, 2008
Year 3 – 45%	June 1, 2009
Year 4 – 30%	June 1, 2010
Year 5 – 15%	June 1, 2011

The fourth agreement, entered into on July 15, 2005, requires the City to make economic development payments to the developer to assist with the cost of improvements to a dental care clinic (project). Pursuant to the agreement, the economic development payments will begin December 1, 2005 and will continue for four additional years. Each payment will 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%	December 1, 2005
Year 2 – 60%	December 1, 2006
Year 3 – 45%	December 1, 2007
Year 4 – 30%	December 1, 2008
Year 5 – 15%	December 1, 2009

During the year ended June 30, 2006, the City made economic development payments of \$10,913 pursuant to this agreement.

The fifth agreement, entered into on February 6, 2006, requires the City to make economic development payments, not to exceed \$236,350, to the developer to assist with the cost of constructing a single family or duplex residential unit on seven lots (project). Pursuant to the agreement, the economic development payments will begin December 1, 2008 and will continue through June 1, 2018. Each payment shall be a percentage of the total incremental property tax received by the City with respect to the project.

The sixth agreement, entered into on May 15, 2006, requires the City to make economic development payments, not to exceed \$45,000, to the developer to assist with the cost of constructing a 16,000 square foot industrial facility (project). Pursuant to the agreement, the economic development payments will begin June 1, 2009 and will continue through June 1, 2013. 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, 2009
Year 2 – 60%	June 1, 2010
Year 3 – 45%	June 1, 2011
Year 4 – 30%	June 1, 2012
Year 5 – 15%	June 1, 2013

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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$119,136, \$112,986 and \$111,406, 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, 2006, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 53,000
Compensatory time	23,000
Sick leave	<u>39,000</u>
Total	<u>\$ 115,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

**(7) 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 509 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, 2006 were \$115,648.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$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. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage 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, 2006, 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.

The City also carries commercial insurance purchased from other insurers for coverage associated with the airport, employee blanket bond and workers compensation. 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.

**(8) 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 \$720,000 is outstanding at June 30, 2006. 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.

**(9) 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, 2006, the Treasurer's Debt Service Account had a balance of \$35.

**(10) Library Bequests**

The Library has received various restricted bequests. At June 30, 2006, 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>	

**(11) 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, 2006, the City spent \$6 of these funds for flowers and statues. At June 30, 2006, the balance in the Special Revenue, Komarek Trust Fund totaled \$10,971.

**(12) 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.

**(13) Commitments**

Construction commitments for airport and street projects at June 30, 2006 totaled \$839,838. During the year, \$823,708 was paid under these construction commitments. The balance of \$16,130 will be paid as work on the projects progresses.

**(14) Deficit Balance**

At June 30, 2006, the Special Revenue, Cemetery Kiosk Fund, the Debt Service Fund and the Capital Projects Fund had deficit balances of \$(19,432), \$(90,427) and \$(52,757), respectively. The deficit balances for the Debt Service Fund and the Capital Projects Fund will be eliminated through transfers from other funds. The deficit balance in the Special Revenue, Cemetery Kiosk Fund will be eliminated through future reimbursement from the Kiosk Trust.

**(15) Subsequent Events**

On July 14, 2006, the City approved a contract totaling \$799,823 for an airport paving and lighting project. A federal grant will be the primary source of funding for the project.

On August 7, 2006, the City approved the purchase of a backhoe for \$83,664. On November 6, 2006, the City approved the purchase of two police cars for \$41,246. On December 18, 2006, the City approved the purchase of a skid loader for \$28,313.

On December 18, 2006, the City approved a development agreement to assist in a new motel project. Pursuant to the agreement, a maximum of \$375,000 in tax increment payments will be paid to the developer over a five year period.

**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, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
<b>Receipts:</b>			
Property tax	\$ 1,977,212	-	-
Tax increment financing	90,136	-	-
Other city tax	528,603	-	-
Licenses and permits	53,302	-	-
Use of money and property	156,388	31,398	425
Intergovernmental	576,171	-	-
Charges for service	550,830	1,608,537	-
Special assessments	26,667	-	-
Miscellaneous	535,457	25,266	45,182
Total receipts	4,494,766	1,665,201	45,607
<b>Disbursements:</b>			
Public safety	1,684,050	-	43,780
Public works	531,830	-	-
Health and social services	15,263	-	-
Culture and recreation	585,723	-	-
Community and economic development	70,045	-	-
General government	108,125	-	-
Debt service	700,026	-	-
Capital projects	449,924	-	-
Business type activities	-	1,383,983	-
Total disbursements	4,144,986	1,383,983	43,780
Excess (deficiency) of receipts over (under) disbursements	349,780	281,218	1,827
Other financing sources (uses)	2,030	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	351,810	281,218	1,827
Balances beginning of year	4,198,288	2,177,354	27,419
Balances end of year	\$ 4,550,098	2,458,572	29,246

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Net Variance
	Original	Final	
1,977,212	1,984,841	1,984,841	(7,629)
90,136	-	-	90,136
528,603	539,514	539,514	(10,911)
53,302	40,200	40,200	13,102
187,361	-	-	187,361
576,171	1,213,252	1,213,252	(637,081)
2,159,367	2,371,703	2,371,703	(212,336)
26,667	9,426	26,666	1
515,541	1,142,692	1,142,692	(627,151)
6,114,360	7,301,628	7,318,868	(1,204,508)
1,640,270	1,789,319	1,809,419	169,149
531,830	690,413	690,413	158,583
15,263	9,500	15,500	237
585,723	560,904	560,904	(24,819)
70,045	78,320	78,320	8,275
108,125	128,396	128,396	20,271
700,026	788,918	788,918	88,892
449,924	422,000	512,000	62,076
1,383,983	1,898,480	1,898,480	514,497
5,485,189	6,366,250	6,482,350	997,161
629,171	935,378	836,518	(207,347)
2,030	-	-	2,030
631,201	935,378	836,518	(205,317)
6,348,223	7,492,972	7,492,972	(1,144,749)
6,979,424	8,428,350	8,329,490	(1,350,066)

City of Red Oak

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon 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 \$116,100. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the culture and recreation function.

**Other Supplementary Information**

City of Red Oak

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

As of and for the year ended June 30, 2006

	Emergency	Volunteer Fire and Rescue Association	Tax Increment Financing
<b>Receipts:</b>			
Property tax	\$ 28,411	-	-
Tax increment financing	-	-	90,136
Other city tax	1,774	-	-
Use of money and property	-	425	-
Charges for services	-	-	-
Miscellaneous	-	45,182	-
Total receipts	30,185	45,607	90,136
<b>Disbursements:</b>			
Operating:			
Public safety	-	43,780	-
Culture and recreation	-	-	-
Community and economic development	-	-	70,045
Total disbursements	-	43,780	70,045
Net change in cash balances	30,185	1,827	20,091
Cash balances beginning of year	30,136	27,419	187,980
Cash balances end of year	\$ 60,321	29,246	208,071
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Special revenue funds	\$ 60,321	29,246	208,071
Permanent fund	-	-	-
Total cash basis fund balances	\$ 60,321	29,246	208,071

See accompanying independent auditor's report.

Special Revenue					Permanent	
Komarek Trust	Cemetery Kiosk	Library Bequest	Library People's Art Projects	Cemetery Perpetual Care	Total	
-	-	-	-	-	28,411	
-	-	-	-	-	90,136	
-	-	-	-	-	1,774	
-	-	3,875	176	-	4,476	
-	-	-	-	4,620	4,620	
600	100	13,627	5	-	59,514	
600	100	17,502	181	4,620	188,931	
-	-	-	-	-	43,780	
6	19,532	14,510	8	-	34,056	
-	-	-	-	-	70,045	
6	19,532	14,510	8	-	147,881	
594	(19,432)	2,992	173	4,620	41,050	
10,377	-	147,006	5,035	188,767	596,720	
10,971	(19,432)	149,998	5,208	193,387	637,770	
10,971	(19,432)	149,998	5,208	-	444,383	
-	-	-	-	193,387	193,387	
10,971	(19,432)	149,998	5,208	193,387	637,770	

**City of Red Oak**

## City of Red Oak

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

As of and for the year ended June 30, 2006

	Enterprise - Landfill		Total
	Recycling	Superfund	
Operating receipts:			
Charges for service	\$ 40,204	32,168	72,372
Operating disbursements:			
Business type activities	33,000	1,407	34,407
Excess of operating receipts over disbursements	7,204	30,761	37,965
Cash balances beginning of year	8,855	113,565	122,420
Cash balances end of year	\$ 16,059	144,326	160,385
<b>Cash Basis Fund Balances</b>			
Unreserved	\$ 16,059	144,326	160,385

See accompanying independent auditor's report.

City of Red Oak  
Schedule of Indebtedness  
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Essential and general corporate purpose	Aug 1, 1997	4.75-5.20%	\$ 1,635,000
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	Redeemed During Year	Balance End of Year	Interest Paid
1,010,000	185,000	825,000	51,560
450,000	105,000	345,000	20,660
785,000	115,000	670,000	43,508
235,000	45,000	190,000	8,643
130,000	40,000	90,000	6,260
1,260,000	25,000	1,235,000	52,478
<u>\$ 3,870,000</u>	<u>515,000</u>	<u>3,355,000</u>	<u>183,109</u>
<u>165,000</u>	<u>165,000</u>	<u>-</u>	<u>3,960</u>
<u>15,298</u>	<u>15,298</u>	<u>-</u>	<u>959</u>

City of Red Oak

Note Maturities

June 30, 2006

Year Ending June 30,	Essential and General Corporate Purpose Issued Aug 1, 1997		Essential Corporate Purpose Issued Jul 1, 1998		Essential Corporate Purpose Issued Jul 1, 2000	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2007	5.05%	\$ 190,000	4.55%	\$ 110,000	5.45%	\$ 120,000
2008	5.10	200,000	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>\$ 825,000</u>		<u>\$ 345,000</u>		<u>\$ 670,000</u>

See accompanying independent auditor's report.

General Obligation Notes							
Essential Corporate Purpose Issued Nov 1, 2002		Essential Corporate Purpose Issued Nov 1, 2002		Essential Corporate Purpose Issued Jun 1, 2004			
Interest		Interest		Interest			
Rates	Amount	Rates	Amount	Rates	Amount	Total	
3.45%	\$ 45,000	4.80%	\$ 45,000	2.65%	\$ 25,000	535,000	
3.70	50,000	5.20	45,000	3.00	30,000	565,000	
4.00	95,000		-	3.25	30,000	590,000	
	-		-	3.45	30,000	395,000	
	-		-	3.65	105,000	255,000	
	-		-	3.85	110,000	110,000	
	-		-	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>\$190,000</u>		<u>\$ 90,000</u>		<u>\$ 1,235,000</u>	<u>3,355,000</u>	

**Schedule 5**

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

For the Last Four Years

	2006	2005	2004	2003
Receipts:				
Property tax	\$ 1,977,212	1,971,911	2,083,572	2,010,066
Tax increment financing	90,136	89,074	259,745	388,647
Other city tax	528,603	584,980	547,700	527,394
Licenses and permits	53,302	80,412	16,097	16,188
Use of money and property	156,388	99,670	76,739	99,181
Intergovernmental	576,171	1,546,851	876,268	955,452
Charges for service	550,830	558,132	424,815	407,150
Special assessments	26,667	9,947	7,867	44,611
Miscellaneous	535,457	263,518	280,962	285,603
Total	\$ 4,494,766	5,204,495	4,573,765	4,734,292
Disbursements:				
Operating:				
Public safety	\$ 1,684,050	1,731,635	1,702,066	1,605,572
Public works	531,830	576,699	514,779	907,959
Health and social services	15,263	16,098	13,339	3,175
Culture and recreation	585,723	690,502	492,602	584,342
Community and economic development	70,045	76,827	328,252	295,120
General government	108,125	115,442	118,595	122,687
Debt service	700,026	1,462,758	936,457	678,723
Capital projects	449,924	1,916,596	646,885	744,121
Total	\$ 4,144,986	6,586,557	4,752,975	4,941,699

See accompanying independent auditor's report.



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

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

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Red Oak, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 2, 2007. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Red Oak's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 reportable 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 caused by error or fraud 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 items (A) and (C) are material weaknesses.

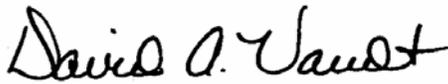
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Red Oak's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

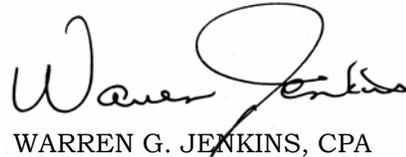
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions 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.

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

February 2, 2007

City of Red Oak  
Schedule of Findings  
Year ended June 30, 2006

**Findings Related to the Financial Statements:**

**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 – We try to segregate duties as much as possible. Deposits are prepared by one person, deposited by another and posted to books by another person. We will document reviews to strengthen internal controls.

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 have worked on policies for this and will adopt these as soon as possible.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings

Year ended June 30, 2006

- (C) Bank Reconciliation and Clerk's Report – The City did not file monthly Clerk's Reports with the Council each month. The book balances were not reconciled to the bank balances after September 2004.

Recommendation – The City Clerk and the City Treasurer prepared a year end report to establish the ending balances for the fiscal year ended June 30, 2006. Book balances should be reconciled to bank balances monthly and variances, if any, should be resolved timely. The Clerk and Treasurer should file monthly reports with the Council on a timely basis.

Response – We now have book balances reconciled through July 2006 and will soon have monthly Clerk's Reports filed on a timely basis.

Conclusion – Response accepted.

- (D) Old Outstanding Checks – The City has many old outstanding checks dating back to January 1998. These are considered unclaimed property per Chapter 556.1(10) of the Code of Iowa.

Recommendation – The City should report any outstanding checks older than two years to the State Treasurer annually before November 1.

Response – We will clear all of these to the State Treasurer.

Conclusion – Response accepted.

- (E) Journal Entries – Monthly journal entries prepared by the City Clerk did not include evidence of review by an independent person.

Recommendation – To improve financial accountability and control, the monthly journal entries should be reviewed by an independent person and evidence of this should be documented.

Response – Journal entries are prepared by the City Clerk and entered on the books by the accounts payable clerk. We will show that at least two persons are involved in this process.

Conclusion – Response accepted.

- (F) Budgeted Receipts – The City did not budget for tax increment financing or use of money and property receipt sources. Collections of \$90,136 and \$187,361, respectively, were recorded as receipts in these categories.

Recommendation – The City should include budget amounts for all anticipated receipt line items in order to more accurately project City receipts and ending balances.

Response – We will budget for these areas in the future.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Red Oak

Schedule of Findings

Year ended June 30, 2006

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

- (1) Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amount budgeted in the culture and recreation function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The budget overexpenditure was caused by the purchase of land for cemetery expansion that was not considered when amending the budget. We will amend in sufficient amounts in the future.

Conclusion – Response accepted.

- (2) 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.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Tom Pratt, Council Member, employee of Orscheln’s	Supplies	\$ 4,034

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

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- (8) Financial Condition – The Special Revenue, Cemetery Kiosk, Debt Service, and Capital Projects Funds had deficit balances at June 30, 2006 of \$(19,432), \$(90,427), and \$(52,757), respectively.

City of Red Oak

Schedule of Findings

Year ended June 30, 2006

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

Response – The normal year-end transfers were not done this year due to problems reconciling fund balances. Deficits in the Debt Service and Capital Projects Funds will be eliminated by fund transfers soon. The Deficit in the Cemetery Kiosk Fund will be eliminated through future reimbursement from the Kiosk Trust.

Conclusion – Response accepted.

- (9) Recycling and Superfund Charges – The charges for recycling and superfund on monthly utility bills were established by resolution. Utility rates are required to be established by ordinance.

Recommendation – The City should establish rates charged for utilities by ordinance.

Response – We will establish these rates by ordinance.

Conclusion – Response accepted.

- (10) Corrective Transfer – The City recorded \$18,665 in property tax collections in the Emergency Fund in error. This should have been recorded in the Employee Benefits Fund.

Recommendation – The City should transfer \$18,665 from the Emergency Fund to the Employee Benefits Fund to correct this error. This has been corrected in the fiscal 2006 audit report.

Response – We will make this transfer immediately.

Conclusion – Response accepted.

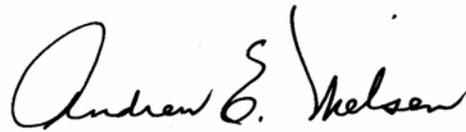
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City of Red Oak

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager  
Paul F. Kearney, CGFM, Senior Auditor  
Melissa M. Wellhausen, CPA, Staff Auditor  
Tracy L. Haronik, Staff Auditor  
Janet M. Tiefenthaler, 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