



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

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**NEWS RELEASE**

FOR RELEASE

March 10, 2008

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 \$6,675,635 for the year ended June 30, 2007, an 8 percent increase from 2006. The receipts included \$2,116,378 in property tax, \$201,129 from tax increment financing, \$2,246,288 from charges for service, \$782,036 from operating grants, contributions and restricted interest, \$492,544 from capital grants, contributions and restricted interest, \$518,245 from local option sales tax, \$246,726 from unrestricted interest on investments and \$72,289 from other general receipts.

Disbursements for the year totaled \$5,355,674, a 3 percent decrease from the prior year, and included \$1,842,324 for public safety, \$694,634 for debt service and \$547,171 for culture and recreation. Disbursements for business type activities totaled \$1,321,784.

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, 2007**

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**City of Red Oak**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ted A. Schoonover	Mayor	Jan 2008
Tom Pratt	Mayor Pro Tem	Jan 2010
Roger Waggener	Council Member	Jan 2008
Ivan Craig	Council Member	(Resigned)
Larry Brandstetter (Appointed)	Council Member	Nov 2007
Bill Haufle	Council Member	(Resigned)
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, 2007, 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, 2007, 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 21, 2008 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 28 through 30 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 four years ended June 30, 2006 (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 21, 2008

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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, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities increased 12.2%, or approximately \$546,000, from fiscal 2006 to fiscal 2007. Operating grants, contributions and restricted interest increased approximately \$139,000, tax increment financing increased approximately \$111,000 and local option sales tax increased approximately \$115,000.
- Disbursements for governmental activities decreased 2.7%, or approximately \$111,000, from fiscal 2006 to fiscal 2007. Public safety, community and economic development and capital projects disbursements increased (decreased) approximately \$158,000, \$64,000 and \$(248,000), respectively.
- The City's total cash basis net assets increased 18.8%, or approximately \$1,320,000, from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities increased approximately \$1,049,000 and the assets of the business type activities increased approximately \$271,000.

### **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.

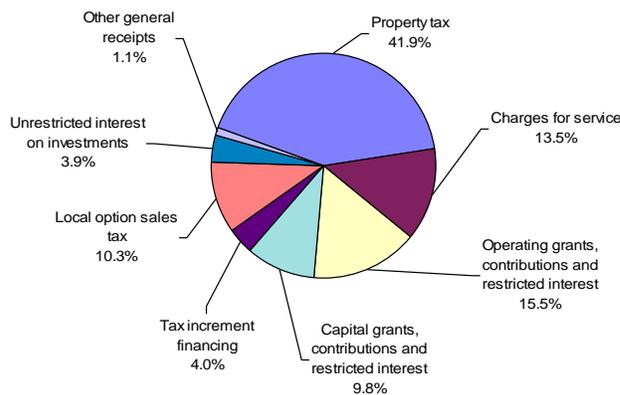
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

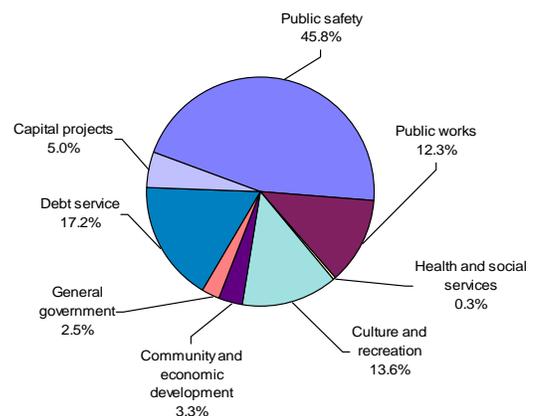
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$4.550 million to \$5.599 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2007	2006
<b>Receipts:</b>		
Program receipts:		
Charges for service	\$ 679,445	612,467
Operating grants, contributions and restricted interest	782,036	643,468
Capital grants, contributions and restricted interest	492,544	436,751
General receipts:		
Property tax	2,116,378	2,102,878
Tax increment financing	201,129	90,136
Local option sales tax	518,245	402,937
Unrestricted interest on investments	195,958	137,076
Other general receipts	57,516	71,083
<b>Total receipts</b>	<b>5,043,251</b>	<b>4,496,796</b>
<b>Disbursements:</b>		
Public safety	1,842,324	1,684,050
Public works	497,363	531,830
Health and social services	13,591	15,263
Culture and recreation	547,171	585,723
Community and economic development	134,446	70,045
General government	102,300	108,125
Debt service	694,634	700,026
Capital projects	202,061	449,924
<b>Total disbursements</b>	<b>4,033,890</b>	<b>4,144,986</b>
Excess of receipts over disbursements	1,009,361	351,810
Operating transfers, net	40,000	-
<b>Increase in cash basis net assets</b>	<b>1,049,361</b>	<b>351,810</b>
Cash basis net assets beginning of year	4,550,098	4,198,288
<b>Cash basis net assets end of year</b>	<b>\$ 5,599,459</b>	<b>4,550,098</b>

**Receipts by Source**



**Disbursements by Function**



The City's total receipts for governmental activities increased 12.2%, or approximately \$546,000. The total cost of all programs and services decreased approximately \$111,000, or 2.7%, with no new programs added this year. The increase in receipts was primarily the result of an increase in operating grants, contributions and restricted interest, tax increment financing and local option sales tax received in the current year. The decrease in disbursements was primarily the result of a reduction in capital project activity in the current year offset by an increase in public safety and community and economic development disbursements.

The cost of all governmental activities this year was \$4.03 million, compared to \$4.14 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 \$2.08 million because some of the cost was paid by those directly benefited from the programs (\$679,445) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$1,274,580). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$3,129,000 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,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 930,336	967,483
Sewer	564,156	584,282
Landfill	72,351	72,372
Operating grants, contributions and restricted interest	-	6,208
Unrestricted interest on investments	50,768	31,398
Other general receipts	14,773	3,458
Total receipts	<u>1,632,384</u>	<u>1,665,201</u>
Disbursements:		
Water	865,379	874,488
Sewer	423,131	475,088
Landfill	33,274	34,407
Total disbursements	<u>1,321,784</u>	<u>1,383,983</u>
Excess of receipts over disbursements	310,600	281,218
Operating transfers, net	(40,000)	-
Increase in cash basis net assets	270,600	281,218
Cash basis net assets beginning of year	<u>2,458,572</u>	<u>2,177,354</u>
Cash basis net assets end of year	<u>\$ 2,729,172</u>	<u>2,458,572</u>

Total business type activities receipts decreased slightly by \$32,817, or 2.0%. Total disbursements for the fiscal year decreased 4.5%, or \$62,199. The cash balance increased \$270,600 over 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 \$5,599,459, an increase of more than \$1,049,000 over last year's total of \$4,550,098. 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 \$179,477 over the prior year to \$1,373,917. The increase is attributable to an overall increase in receipts and transfers of \$211,527 offset by an increase in disbursements of \$61,334. Receipts increased primarily due to an increase in interest on investments. Transfers into the General Fund totaled \$110,321 for the year. There were no transfers into the General Fund in the prior year. Public safety disbursements increased \$71,029, primarily due to salaries paid to the police and fire departments in the current year. Lower part-time wages were replaced with full-time salaries upon the return of National Guard officers to full-time City employment.
- The Special Revenue, Road Use Tax Fund cash balance increased \$174,206 to \$1,417,075 during the fiscal year. This increase was attributable to receipts of \$516,492 offset by disbursements of \$342,286.
- The Special Revenue, Employee Benefits Fund cash balance increased \$120,775 to \$648,822 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 Special Revenue, 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 \$1,239,499, an increase of \$149,343 over the previous year. Total disbursements increased by \$49,346. Local option sales tax collections credited to this fund increased during the current year by \$115,308.
- The Debt Service Fund cash balance decreased \$35,519 to (\$125,946) during the fiscal year. This decrease was due to a decrease in property tax collections and transfers from other funds not yet allocated to the Debt Service Fund.
- The Capital Projects Fund cash balance increased \$214,769 to \$162,012 during the fiscal year. The City spent a total of \$202,061 on construction projects in the current year, compared to \$449,924 in the prior year. Grant funds increased \$240,531 over the prior year and donations decreased \$270,628, primarily due to prior year collections for an upcoming library expansion project.

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

- The Water Fund cash balance increased \$82,040 to \$866,276, due primarily to no debt payments due in the current year.
- The Sewer Fund cash balance increased \$149,483 to \$1,663,434. The increase is attributable to receipts of \$592,614 offset by disbursements and transfers out of \$443,131.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The amendment was approved on May 21, 2007 and resulted in an increase of \$16,000 in operating disbursements, related primarily to health and social services disbursements. The City received donations and had sufficient cash balances to absorb any additional costs.

The City's receipts were \$861,905 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 \$1,111,189 less than the amended budget. This is primarily due to the City budgeting anticipated projects which were delayed. Actual disbursements for the community and economic development function were \$56,126 more than the amended budget. The overexpenditure in this function was primarily due to Community Development Block Grant disbursements not budgeted.

**DEBT ADMINISTRATION**

At June 30, 2007, the City had \$2,820,000 in general obligation notes outstanding, compared to \$3,355,000 last year. Debt decreased as a result of current year redemptions.

Outstanding Debt at Year-End		
	June 30,	
	2007	2006
General obligation notes	\$ 2,820,000	3,355,000

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 \$4,114,694, including tax increment financing rebate agreements of \$1,294,694, is below its constitutional debt limit of approximately \$9,708,000.

**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 2008 budget, tax rates and fees charged for various City activities. One of those factors is the economy. One of the City's major employers has closed their plant, resulting in the loss of many jobs.

These factors were taken into account when adopting the budget for fiscal year 2008. Tax revenues available for appropriation in the fiscal 2008 operating budget are \$2 million, an increase of .97% over the final 2007 budget. The City will use this increase in receipts to finance programs we currently offer. Budgeted disbursements are expected to increase by \$1,527,588 to \$7,909,838. The City has added no major new programs or initiatives, but has added \$1,707,500 to the 2008 capital projects budget for airport subdivision, street and bridge projects.

If these estimates are realized, the City's June 30, 2008 budgeted cash balance is expected to decrease from the June 30, 2007 budgeted cash balance by approximately \$1,116,000. 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 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, 2007

	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	\$ 1,842,324	525,267	226,853	-
Public works	497,363	37,158	520,295	-
Health and social services	13,591	-	-	-
Culture and recreation	547,171	106,109	29,288	-
Community and economic development	134,446	2,075	-	75,714
General government	102,300	8,836	5,600	-
Debt service	694,634	-	-	-
Capital projects	202,061	-	-	416,830
	<u>4,033,890</u>	<u>679,445</u>	<u>782,036</u>	<u>492,544</u>
Business type activities:				
Water	865,379	930,336	-	-
Sewer	423,131	564,156	-	-
Landfill	33,274	72,351	-	-
	<u>1,321,784</u>	<u>1,566,843</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 5,355,674</u>	<u>2,246,288</u>	<u>782,036</u>	<u>492,544</u>
<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				
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				
<b>Cash Basis Net Assets</b>				
Restricted:				
Special levies				
Streets				
Capital projects				
Urban renewal purposes				
Local option sales tax				
Library bequests				
Fire department donations				
Police donations				
Other purposes				
Cemetery perpetual care				
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
(1,090,204)	-	(1,090,204)
60,090	-	60,090
(13,591)	-	(13,591)
(411,774)	-	(411,774)
(56,657)	-	(56,657)
(87,864)	-	(87,864)
(694,634)	-	(694,634)
214,769	-	214,769
(2,079,865)	-	(2,079,865)
-	64,957	64,957
-	141,025	141,025
-	39,077	39,077
-	245,059	245,059
(2,079,865)	245,059	(1,834,806)
1,720,045	-	1,720,045
396,333	-	396,333
201,129	-	201,129
518,245	-	518,245
195,958	50,768	246,726
57,516	14,773	72,289
40,000	(40,000)	-
3,129,226	25,541	3,154,767
1,049,361	270,600	1,319,961
4,550,098	2,458,572	7,008,670
\$ 5,599,459	2,729,172	8,328,631
\$ 679,125	-	679,125
1,417,075	-	1,417,075
162,012	-	162,012
329,336	-	329,336
1,239,499	-	1,239,499
158,056	-	158,056
152,363	-	152,363
10,239	-	10,239
37,968	-	37,968
197,870	-	197,870
-	270,000	270,000
-	176,215	176,215
1,215,916	2,282,957	3,498,873
\$ 5,599,459	2,729,172	8,328,631

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, 2007

	Special Revenue			
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax
<b>Receipts:</b>				
Property tax	\$ 932,925	-	653,828	-
Tax increment financing	-	-	-	-
Other city tax	61,725	-	41,264	518,245
Licenses and permits	49,585	-	-	-
Use of money and property	223,202	-	-	-
Intergovernmental	49,295	516,488	-	-
Charges for service	585,548	-	-	-
Special assessments	-	-	-	-
Miscellaneous	50,570	4	4,036	11,385
Total receipts	1,952,850	516,492	699,128	529,630
<b>Disbursements:</b>				
Operating:				
Public safety	1,250,575	-	389,631	117,505
Public works	68,634	342,286	86,443	-
Health and social services	13,591	-	-	-
Culture and recreation	448,649	-	92,224	-
Community and economic development	-	-	-	-
General government	92,245	-	10,055	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	1,873,694	342,286	578,353	117,505
Excess (deficiency) of receipts over (under) disbursements	79,156	174,206	120,775	412,125
<b>Other financing sources (uses):</b>				
Operating transfers in	100,321	-	-	-
Operating transfers out	-	-	-	(262,782)
Total other financing sources (uses)	100,321	-	-	(262,782)
Net change in cash balances	179,477	174,206	120,775	149,343
Cash balances beginning of year	1,194,440	1,242,869	528,047	1,090,156
Cash balances end of year	\$ 1,373,917	1,417,075	648,822	1,239,499
<b>Cash Basis Fund Balances</b>				
Unreserved:				
General fund	\$ 1,373,917	-	-	-
Special revenue funds	-	1,417,075	648,822	1,239,499
Debt service fund	-	-	-	-
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 1,373,917	1,417,075	648,822	1,239,499

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
372,654	-	28,508	1,987,915
-	-	201,129	201,129
23,679	-	1,795	646,708
-	-	-	49,585
-	18,261	9,899	251,362
-	274,015	75,714	915,512
-	-	4,483	590,031
-	4,481	-	4,481
-	120,073	210,460	396,528
396,333	416,830	531,988	5,043,251
-	-	84,613	1,842,324
-	-	-	497,363
-	-	-	13,591
-	-	6,298	547,171
-	-	134,446	134,446
-	-	-	102,300
694,634	-	-	694,634
-	202,061	-	202,061
694,634	202,061	225,357	4,033,890
(298,301)	214,769	306,631	1,009,361
262,782	-	-	363,103
-	-	(60,321)	(323,103)
262,782	-	(60,321)	40,000
(35,519)	214,769	246,310	1,049,361
(90,427)	(52,757)	637,770	4,550,098
(125,946)	162,012	884,080	5,599,459
-	-	-	1,373,917
-	-	686,210	3,991,606
(125,946)	-	-	(125,946)
-	162,012	-	162,012
-	-	197,870	197,870
(125,946)	162,012	884,080	5,599,459

**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, 2007

	Enterprise			Total
	Water	Sewer	Nonmajor Landfill	
Operating receipts:				
Charges for service	\$ 916,726	564,156	72,351	1,553,233
Miscellaneous	13,610	-	-	13,610
Total operating receipts	930,336	564,156	72,351	1,566,843
Operating disbursements:				
Business type activities	755,301	423,131	33,274	1,211,706
Excess of operating receipts over operating disbursements	175,035	141,025	39,077	355,137
Non-operating receipts (disbursements):				
Interest on investments	26,518	24,250	-	50,768
Miscellaneous	10,565	4,208	-	14,773
Capital projects	(110,078)	-	-	(110,078)
Total non-operating receipts (disbursements)	(72,995)	28,458	-	(44,537)
Excess of receipts over disbursements	102,040	169,483	39,077	310,600
Operating transfers out	(20,000)	(20,000)	-	(40,000)
Net change in cash balances	82,040	149,483	39,077	270,600
Cash balances beginning of year	784,236	1,513,951	160,385	2,458,572
Cash balances end of year	\$ 866,276	1,663,434	199,462	2,729,172
<b>Cash Basis Fund Balances</b>				
Reserved for:				
Improvements	\$ -	270,000	-	270,000
Landfill purposes	-	-	176,215	176,215
Unreserved	866,276	1,393,434	23,247	2,282,957
Total cash basis fund balances	\$ 866,276	1,663,434	199,462	2,729,172

See notes to financial statements.

City of Red Oak

Notes to Financial Statements

June 30, 2007

**(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, but the City's accountability for this organization does not extend beyond making the appointments.

#### B. Basis of Presentation

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

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in 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, 2007, disbursements exceeded the amount budgeted in the community and economic development function.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2007 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 \$53,118 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
2008	\$ 565,000	133,645	698,645
2009	590,000	106,190	696,190
2010	395,000	77,468	472,468
2011	255,000	56,892	311,892
2012	110,000	44,510	154,510
2013-2017	620,000	151,930	771,930
2018-2019	285,000	20,500	305,500
Total	\$ 2,820,000	591,135	3,411,135

**(4) Development Agreements**

The City has entered into various development agreements to assist in certain urban renewal projects. The agreements require the City to rebate portions of the incremental tax paid by the developer in exchange for the construction of buildings and certain infrastructure improvements by the developers. Certain agreements also require the developer to certify specific employment requirements are met.

The total to be paid by the City under the agreements is not to exceed \$1,497,792. The total amount rebated during the year ended June 30, 2007 was \$68,864. The City has rebated a total of \$203,098 of incremental tax under the agreements. The outstanding balance of the agreements at June 30, 2007 was \$1,294,694.

These agreements are not a general obligation of the City. However, the agreements are 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, 2007, 2006 and 2005 were \$125,754, \$119,136 and \$112,986, 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 payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 56,000
Compensatory time	41,000
Sick leave	<u>48,000</u>
Total	<u>\$ 145,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2007.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Emergency	\$ 60,321
	Enterprise:	
	Water	20,000
	Sewer	20,000
		<u>100,321</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	<u>262,782</u>
Total		<u>\$ 363,103</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 556 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, 2007 were \$127,482.

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 \$3,000,000 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, 2007, 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.

**(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 \$675,000 is outstanding at June 30, 2007. 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, 2007, the Treasurer's Debt Service Account had a balance of \$35.

**(11) Library Bequests**

The Library has received various restricted bequests. At June 30, 2007, 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, 2007, the City spent \$14 of these funds for flowers and statues. At June 30, 2007, the balance in the Special Revenue, Komarek Trust Fund totaled \$11,557.

**(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, subdivision and street projects at June 30, 2007 totaled \$1,283,960. During the year, \$24,996 was paid under these construction commitments. The balance of \$1,258,964 will be paid as work on the projects progresses.

**(15) Deficit Balance**

At June 30, 2007, the Special Revenue, Cemetery Kiosk Fund and the Debt Service Fund had deficit balances of \$(21,816) and \$(125,946), respectively. The deficit balance for the Debt Service 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.

**(16) Subsequent Events**

On July 12, 2007, the City entered into a contract totaling \$831,253 for a bridge project. A federal bridge replacement grant will be the primary source of funding for the project.

On August 6, 2007, the City approved a contract totaling \$280,312 for a subdivision paving and storm sewer project to be funded by tax increment financing.

On August 20, 2007, the City approved the purchase of defibrillators for the fire department for \$63,647.

On February 19, 2008, the City approved the purchase of a street sweeper at a total cost of \$166,041.

**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, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Total
Receipts:				
Property tax	\$ 1,987,915	-	-	1,987,915
Tax increment financing	201,129	-	-	201,129
Other city tax	646,708	-	-	646,708
Licenses and permits	49,585	-	-	49,585
Use of money and property	251,362	50,768	4,964	297,166
Intergovernmental	915,512	-	-	915,512
Charges for service	590,031	1,553,233	-	2,143,264
Special assessments	4,481	-	-	4,481
Miscellaneous	396,528	28,383	202,766	222,145
Total receipts	5,043,251	1,632,384	207,730	6,467,905
Disbursements:				
Public safety	1,842,324	-	84,613	1,757,711
Public works	497,363	-	-	497,363
Health and social services	13,591	-	-	13,591
Culture and recreation	547,171	-	-	547,171
Community and economic development	134,446	-	-	134,446
General government	102,300	-	-	102,300
Debt service	694,634	-	-	694,634
Capital projects	202,061	-	-	202,061
Business type activities	-	1,321,784	-	1,321,784
Total disbursements	4,033,890	1,321,784	84,613	5,271,061
Excess of receipts over disbursements	1,009,361	310,600	123,117	1,196,844
Other financing sources (uses)	40,000	(40,000)	-	-
Excess of receipts and other financing sources over disbursements and other financing uses	1,049,361	270,600	123,117	1,196,844
Balances beginning of year	4,550,098	2,458,572	29,246	6,979,424
Balances end of year	\$ 5,599,459	2,729,172	152,363	8,176,268

See accompanying independent auditor's report.

Budgeted Amounts		Final to Net Variance
Original	Final	
2,013,928	2,013,928	(26,013)
-	-	201,129
538,789	538,789	107,919
40,200	40,200	9,385
-	-	297,166
1,213,252	1,213,252	(297,740)
2,371,703	2,371,703	(228,439)
9,426	9,246	(4,765)
1,142,692	1,142,692	(920,547)
7,329,990	7,329,810	(861,905)
1,789,319	1,792,319	34,608
690,413	690,413	193,050
9,500	22,500	8,909
560,904	560,904	13,733
78,320	78,320	(56,126)
128,396	128,396	26,096
788,918	788,918	94,284
422,000	422,000	219,939
1,898,480	1,898,480	576,696
6,366,250	6,382,250	1,111,189
963,740	947,560	249,284
-	-	-
963,740	947,560	249,284
7,283,601	7,283,601	(304,177)
8,247,341	8,231,161	(54,893)

City of Red Oak

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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 nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent 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 \$16,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amount budgeted in the community and economic development 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, 2007

	Emergency	Volunteer Fire and Rescue Association	Tax Increment Financing	CDBG Housing Rehabilitation
<b>Receipts:</b>				
Property tax	\$ 28,508	-	-	-
Tax increment financing	-	-	201,129	-
Other city tax	1,795	-	-	-
Use of money and property	-	4,964	-	-
Intergovernmental	-	-	-	75,714
Charges for services	-	-	-	-
Miscellaneous	-	202,766	-	-
Total receipts	30,303	207,730	201,129	75,714
<b>Disbursements:</b>				
Operating:				
Public safety	-	84,613	-	-
Culture and recreation	-	-	-	-
Community and economic development	-	-	79,864	54,582
Total disbursements	-	84,613	79,864	54,582
Excess (deficiency) of receipts over (under) disbursements	30,303	123,117	121,265	21,132
<b>Other financing uses:</b>				
Operating transfers out	(60,321)	-	-	-
Net change in cash balances	(30,018)	123,117	121,265	21,132
Cash balances beginning of year	60,321	29,246	208,071	-
Cash balances end of year	\$ 30,303	152,363	329,336	21,132
<b>Cash Basis Fund Balances</b>				
Unreserved:				
Special revenue funds	\$ 30,303	152,363	329,336	21,132
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 30,303	152,363	329,336	21,132

See accompanying independent auditor's report.

Special Revenue				Permanent		
Komarek Trust	Cemetery Kiosk	Library Bequest	Library People's Art Projects	Cemetery Perpetual Care		Total
-	-	-	-	-		28,508
-	-	-	-	-		201,129
-	-	-	-	-		1,795
-	-	4,842	93	-		9,899
-	-	-	-	-		75,714
-	-	-	-	4,483		4,483
600	-	7,094	-	-		210,460
600	-	11,936	93	4,483		531,988
-	-	-	-	-		84,613
14	2,384	3,878	22	-		6,298
-	-	-	-	-		134,446
14	2,384	3,878	22	-		225,357
586	(2,384)	8,058	71	4,483		306,631
	-	-	-	-		(60,321)
586	(2,384)	8,058	71	4,483		246,310
10,971	(19,432)	149,998	5,208	193,387		637,770
11,557	(21,816)	158,056	5,279	197,870		884,080
11,557	(21,816)	158,056	5,279	-		686,210
-	-	-	-	197,870		197,870
11,557	(21,816)	158,056	5,279	197,870		884,080

**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, 2007

	Enterprise - Landfill		
	Recycling	Superfund	Total
Operating receipts:			
Charges for service	\$ 40,188	32,163	72,351
Operating disbursements:			
Business type activities	33,000	274	33,274
Excess of operating receipts over disbursements	7,188	31,889	39,077
Cash balances beginning of year	16,059	144,326	160,385
Cash balances end of year	\$ 23,247	176,215	199,462
<b>Cash Basis Fund Balances</b>			
Unreserved	\$ 23,247	176,215	199,462

See accompanying independent auditor's report.

City of Red Oak  
 Schedule of Indebtedness  
 Year ended June 30, 2007

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			

See accompanying independent auditor's report.

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Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
825,000	190,000	635,000	42,310
345,000	110,000	235,000	15,935
670,000	120,000	550,000	37,297
190,000	45,000	145,000	7,203
90,000	45,000	45,000	4,500
1,235,000	25,000	1,210,000	51,915
<u>\$ 3,355,000</u>	<u>535,000</u>	<u>2,820,000</u>	<u>159,160</u>

City of Red Oak

Note Maturities

June 30, 2007

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 Jul 1, 1998		Issued Jul 1, 2000		Issued Nov 1, 2002	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2008	5.10%	\$ 200,000	4.60%	\$ 115,000	5.50%	\$ 125,000	3.70%	\$ 50,000
2009	5.15	210,000	4.70	120,000	5.55	135,000	4.00	95,000
2010	5.20	225,000	-	-	5.60	140,000	-	-
2011	-	-	-	-	5.70	150,000	-	-
2012	-	-	-	-	-	-	-	-
2013	-	-	-	-	-	-	-	-
2014	-	-	-	-	-	-	-	-
2015	-	-	-	-	-	-	-	-
2016	-	-	-	-	-	-	-	-
2017	-	-	-	-	-	-	-	-
2018	-	-	-	-	-	-	-	-
2019	-	-	-	-	-	-	-	-
Total		<u>\$ 635,000</u>		<u>\$ 235,000</u>		<u>\$ 550,000</u>		<u>\$ 145,000</u>

See accompanying independent auditor's report.

Essential Corporate Purpose Issued Nov 1, 2002		Essential Corporate Purpose Issued Jun 1, 2004		Total
Interest Rates	Amount	Interest Rates	Amount	
5.20%	\$ 45,000	3.00%	\$ 30,000	565,000
	-	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>\$ 45,000</u>		<u>\$ 1,210,000</u>	<u>2,820,000</u>

**Schedule 5**

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

For the Last Five Years

	2007	2006	2005	2004	2003
Receipts:					
Property tax	\$ 1,987,915	1,977,212	1,971,911	2,083,572	2,010,066
Tax increment financing	201,129	90,136	89,074	259,745	388,647
Other city tax	646,708	528,603	584,980	547,700	527,394
Licenses and permits	49,585	53,302	80,412	16,097	16,188
Use of money and property	251,362	156,388	99,670	76,739	99,181
Intergovernmental	915,512	576,171	1,546,851	876,268	955,452
Charges for service	590,031	550,830	558,132	424,815	407,150
Special assessments	4,481	26,667	9,947	7,867	44,611
Miscellaneous	396,528	535,457	263,518	280,962	285,603
<b>Total</b>	<b>\$ 5,043,251</b>	<b>4,494,766</b>	<b>5,204,495</b>	<b>4,573,765</b>	<b>4,734,292</b>
Disbursements:					
Operating:					
Public safety	\$ 1,842,324	1,684,050	1,731,635	1,702,066	1,605,572
Public works	497,363	531,830	576,699	514,779	907,959
Health and social services	13,591	15,263	16,098	13,339	3,175
Culture and recreation	547,171	585,723	690,502	492,602	584,342
Community and economic development	134,446	70,045	76,827	328,252	295,120
General government	102,300	108,125	115,442	118,595	122,687
Debt service	694,634	700,026	1,462,758	936,457	678,723
Capital projects	202,061	449,924	1,916,596	646,885	744,121
<b>Total</b>	<b>\$ 4,033,890</b>	<b>4,144,986</b>	<b>6,586,557</b>	<b>4,752,975</b>	<b>4,941,699</b>

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 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, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 21, 2008. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Red Oak's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Red Oak's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Red Oak's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Red Oak's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Red Oak's financial statements that is more than inconsequential will not be prevented or detected by the City of Red Oak's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Red Oak's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies 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, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Red Oak's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Red Oak's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Red Oak and other parties to whom the City of Red Oak may report. 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 21, 2008

City of Red Oak  
Schedule of Findings  
Year ended June 30, 2007

**Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from performing duties which are incompatible. 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:

The City does not have written policies for:

- Logging off unattended computers.
- Usage of the Internet.
- A disaster recovery plan.

Recommendation – 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.

- (C) Financial Reporting – During the audit, we identified a material miscellaneous receipt misclassified as local option sales tax. We also identified a material transfer made from an incorrect fund. Adjustments were subsequently made by the City to properly record these amounts in the financial statements.

Recommendation – The City should implement procedures to ensure all receipts and transfers are properly classified and recorded in the City’s financial statements.

Response – We have corrected these and will make sure we properly classify all transactions in the future.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings

Year ended June 30, 2007

- (D) 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.

- (E) Library Bequest Investments – The Library does not maintain a detailed investment record. Additionally, interest on investments was not properly recorded.

Recommendation – A detailed investment record should be maintained detailing the investment number, date purchased, maturity date, interest rate and interest earned. This record should be kept current each month and reconciled to the bank and financial accounting records on a monthly basis. Interest on investments should be properly recorded.

Response – We have discussed this with the Library Director and they will keep detailed records of investments and will record interest when it is received.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Red Oak

Schedule of Findings

Year ended June 30, 2007

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

- (1) Certified Budget – Disbursements during the year ended June 30, 2007 exceeded the amount budgeted in the community and economic development 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 Community Development Block Grant disbursements 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:

Name, Title, and Business Connection	Transaction Description	Amount
Tom Pratt, Council Member, employee of Orscheln’s	Supplies	\$ 3,572

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.

City of Red Oak

Schedule of Findings

Year ended June 30, 2007

- (8) Financial Condition – The Special Revenue, Cemetery Kiosk and Debt Service Funds had deficit balances at June 30, 2007 of \$(21,816) and \$(125,946), respectively.

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. The deficit in the Debt Service Fund will be eliminated by fund transfers soon. The deficit in the Cemetery Kiosk Fund will be eliminated through future reimbursements from the Kiosk Trust.

Conclusion – Response accepted.

- (9) Tax Increment Financing – The City's tax increment financing (TIF) certification required by Chapter 403 of the Code of Iowa and filed December 1, 2006 certified \$82,275 of TIF debt. The City's TIF debt consists entirely of developer rebate agreements in which the City agrees to rebate TIF taxes to the developer(s) over a specified period of time in exchange for certain infrastructure and other improvements. While these agreements represent debt of the City, we were unable to substantiate the amount certified.

In addition, the City paid \$11,000 in economic development grants to local businesses from the TIF fund. These grants, while representing an obligation of the City, have not been certified as TIF debt and, accordingly, do not qualify to be paid from TIF revenues.

Recommendation – The City should review the December 1, 2006 TIF debt certification and adjust errors, if any, through future certifications. Amounts included in the certification should be supported. TIF revenues can only be used to pay qualifying indebtedness which has been properly certified to the County Auditor. The City should establish procedures to ensure TIF revenues are used only for qualified debt.

Response – We will review the December 2006 TIF debt certification with the County Auditor and will make any corrections necessary. We will require that all debt is qualified in the future.

Conclusion – Response accepted.

- (10) Annual Financial Report – The City's annual financial report was prepared and filed timely for the fiscal year ended June 30, 2007. However, the report contained material errors in the ending balances and certain receipts and disbursements line items for both the governmental and proprietary categories.

Recommendation – The City should amend the annual financial report to correctly report receipts, disbursements and balances.

Response – We have amended and republished the annual financial report.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings

Year ended June 30, 2007

- (11) Old Outstanding Checks – The City has several old outstanding checks dating back to January 1998. These are considered unclaimed property per Chapter 556.1(10) of the Code of Iowa and should be remitted to the State Treasurer.

Recommendation – The City should report and remit 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.

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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  
Jacob R. Chambers, Assistant Auditor  
Tracey L. Gerrish, Assistant Auditor

Andrew E. Nielsen, CPA  
Deputy Auditor of State