



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

NEWS RELEASE

FOR RELEASE

June 29, 2010

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 \$7,932,739 for the year ended June 30, 2009, an 8 percent increase over the prior year. The receipts included \$2,176,009 in property tax, \$82,158 from tax increment financing, \$2,321,194 from charges for service, \$889,264 from operating grants, contributions and restricted interest, \$1,444,886 from capital grants, contributions and restricted interest, \$543,294 from local option sales tax, \$166,655 from unrestricted interest on investments and \$309,279 from other general receipts.

Disbursements for the year totaled \$7,282,890, a 15 percent decrease from the prior year, and included \$2,490,460 for public safety, \$850,782 for capital projects and \$796,214 for public works. Disbursements for business type activities totaled \$1,541,275.

The significant decrease in disbursements is due primarily to a decrease in capital project disbursements.

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

###

CITY OF RED OAK

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

JUNE 30, 2009

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16-17
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	18
Notes to Financial Statements		19-27
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		30-31
Notes to Required Supplementary Information – Budgetary Reporting		32
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	34-35
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Proprietary Funds	2	37
Schedule of Indebtedness	3	38-39
Note Maturities	4	41
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	5	42-43
Schedule of Expenditures of Federal Awards	6	44
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 <u>Government Auditing Standards</u>		45-46
Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133		49-50
Schedule of Findings and Questioned Costs		51-59
Staff		60

City of Red Oak

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ted A. Schoonover	Mayor	Jan 2010
Tom Pratt	Mayor Pro Tem	Jan 2010
Mark Gregg	Council Member	Jan 2010
Roger Waggener	Council Member	Jan 2012
Ivan Craig	Council Member	Jan 2012
Larry Brandstetter	Council Member	Jan 2012
Brad Wright	Administrator	Indefinite
Mary Bolton	Clerk	Indefinite
Stephen Hays	Treasurer	Indefinite
Tom Stamets	Attorney	Indefinite

City of Red Oak



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

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, 2009, 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, 2009, 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 June 9, 2010 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards 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 six years ended June 30, 2008 (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 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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

June 9, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Red Oak provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 7.6%, or approximately \$434,000, from fiscal year 2008 to fiscal year 2009. Local option sales tax increased approximately \$109,000, charges for service increased approximately \$126,000 and capital grants, contributions and restricted interest increased approximately \$213,000.
- Disbursements for governmental activities decreased 21.3%, or approximately \$1,556,000, from fiscal year 2008 to fiscal year 2009. Public safety disbursements increased approximately \$605,000, while community and economic development and capital projects disbursements decreased approximately \$134,000 and \$2,041,000, respectively.
- The City's total cash basis net assets increased 9.1%, or approximately \$650,000, from June 30, 2008 to June 30, 2009. Of this amount, the cash basis net assets of the governmental activities increased approximately \$452,000 and the cash basis net assets of the business type activities increased approximately \$198,000.

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. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The 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 Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

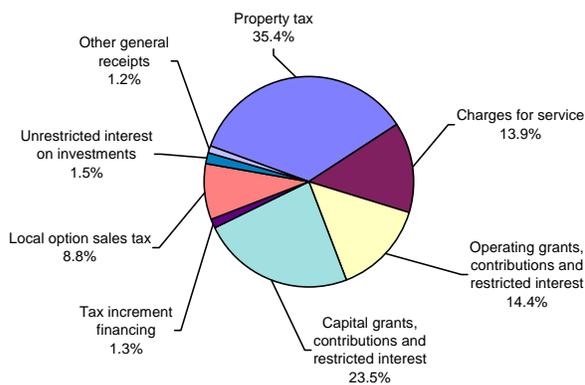
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

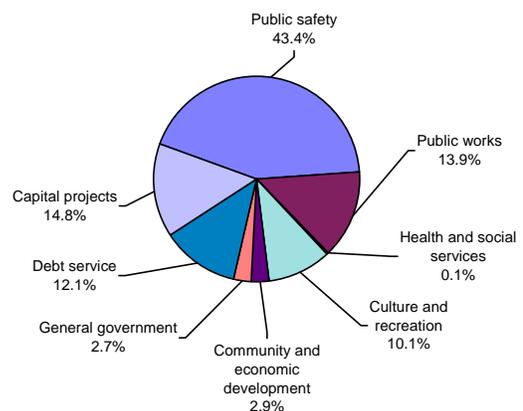
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$4,128,418 to \$4,579,879. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2009	2008
Receipts:		
Program receipts:		
Charges for service	\$ 857,769	732,088
Operating grants, contributions and restricted interest	889,264	782,876
Capital grants, contributions and restricted interest	1,444,886	1,232,180
General receipts:		
Property tax	2,176,009	2,174,272
Tax increment financing	82,158	81,447
Local option sales tax	543,294	434,448
Unrestricted interest on investments	92,741	186,163
Other general receipts	71,056	100,154
Total receipts	<u>6,157,177</u>	<u>5,723,628</u>
Disbursements:		
Public safety	2,490,460	1,885,490
Public works	796,214	800,133
Health and social services	8,123	29,080
Culture and recreation	577,789	580,009
Community and economic development	164,443	298,823
General government	157,026	112,603
Debt service	696,778	699,977
Capital projects	850,782	2,891,634
Total disbursements	<u>5,741,615</u>	<u>7,297,749</u>
Change in cash basis net assets before transfers	415,562	(1,574,121)
Operating transfers, net	35,899	103,080
Increase (decrease) in cash basis net assets	451,461	(1,471,041)
Cash basis net assets beginning of year	4,128,418	5,599,459
Cash basis net assets end of year	<u>\$ 4,579,879</u>	<u>4,128,418</u>

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 7.6%, or approximately \$434,000. The total cost of all programs and services decreased approximately \$1,556,000, or 21.3%, with no new programs added this year. The increase in receipts was primarily the result of increases in charges for service for airport fuel sales, local option sales tax and capital grants, contributions and restricted interest. The decrease in disbursements was primarily the result of a decrease in community and economic development and capital projects disbursements offset by an increase in public safety activity in the current year for the purchase of a fire truck.

The cost of all governmental activities this year was approximately \$5.7 million, compared to approximately \$7.3 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 \$2.5 million because some of the cost was paid by those directly benefited from the programs (\$857,769) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$2,334,150). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$3,001,000 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,	
	2009	2008
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 860,176	909,859
Sewer	531,270	558,970
Landfill	71,979	71,761
General receipts:		
Unrestricted interest on investments	73,914	76,026
Other general receipts	238,223	22,073
Total receipts	<u>1,775,562</u>	<u>1,638,689</u>
Disbursements:		
Water	814,348	808,298
Sewer	691,108	432,320
Landfill	35,819	33,385
Total disbursements	<u>1,541,275</u>	<u>1,274,003</u>
Change in cash basis net assets before transfers	234,287	364,686
Operating transfers, net	<u>(35,899)</u>	<u>(103,080)</u>
Increase in cash basis net assets	198,388	261,606
Cash basis net assets beginning of year	<u>2,990,778</u>	<u>2,729,172</u>
Cash basis net assets end of year	<u>\$ 3,189,166</u>	<u>2,990,778</u>

Total business type activities receipts increased \$136,873, or 8.4%. Total disbursements for the fiscal year increased 21%, or \$267,272. The increase in receipts and disbursements is primarily due to the City receiving insurance proceeds to replace a truck. The cash balance increased \$198,388 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 \$4,579,879, an increase of more than \$451,000 compared to last year's total of \$4,128,418. 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 \$149,586 over the prior year to \$1,560,641. The increase is attributable to an overall increase in receipts of \$174,798 offset by an increase in disbursements of \$193,702. Receipts increased primarily due to an increase in miscellaneous receipts related to airport fuel sales. Public works disbursements increased \$109,699, primarily due to the airport fuel purchases.
- The Special Revenue, Road Use Tax Fund cash balance increased \$103,156 to \$1,350,316 during the fiscal year. This increase was primarily due to a decrease in public works disbursements due to the purchase of a street sweeper in the prior year.
- The Special Revenue, Employee Benefits Fund cash balance increased \$69,130 to \$749,237 during the fiscal year. The increase is attributable to an increase in receipts of \$67,418.
- The Special Revenue, Local Option Sales Tax Fund was established to account for special sales tax collected. At the end of the fiscal year, the cash balance was \$797,540, a decrease of \$744,965 from the prior year. Local option sales tax collections credited to this fund increased \$108,846 during the current year and the City also received a \$150,000 grant during the year for the purchase of a fire truck. Total disbursements increased \$550,936, due primarily to the fire truck purchase, while transfers out increased \$755,881 for debt service requirements.
- The Debt Service Fund cash balance increased \$466,697 to \$119,724 during the fiscal year. This increase was due to transfers from other funds offset by a decrease in property tax receipts.
- The Capital Projects Fund cash balance increased \$412,876 to (\$679,947) during the fiscal year. The City paid the majority of the construction costs for bridge and airport improvements in fiscal year 2008. However, federal reimbursement for these projects were received in fiscal year 2009. The City spent a total of \$850,782 on construction projects in the current year, compared to \$2,891,634 in the prior year. Intergovernmental receipts increased \$84,458 over the prior year, primarily due to federal grants received for airport, bridge and street improvements.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$75,299 to \$1,061,914. Total receipts decreased \$54,251 while disbursements increased \$6,050 during the year.
- The Sewer Fund cash balance increased \$86,929 to \$1,853,254. Total receipts increased \$190,906 while disbursements increased \$258,788 during the year. The increase in receipts and disbursements is primarily due to the City receiving insurance proceeds to replace a truck.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 18, 2009 and resulted in an increase of \$352,460 in operating disbursements, related primarily to public works disbursements for the purchase of a sludge truck. The amendment also increased revenues \$395,851, related primarily to flood and insurance reimbursements.

The City's receipts were \$1,411,775 less than budgeted. This was primarily due to the City receiving less in charges for service because of the closing of several manufacturing plants and less in miscellaneous receipts than anticipated because fewer contributions were received due to the delay of the library expansion project.

Total disbursements were \$4,396,303 less than the amended budget. Actual disbursements for the public safety and community and economic development functions were \$58,094 and \$51,469 more than the amended budget, respectively. This was primarily due to flood gate repair along with increased animal control costs and completing more community development block grant housing projects than anticipated. Disbursements were \$3,863,218 less than budgeted in the capital projects function due to delaying the library expansion and sewer plant projects.

DEBT ADMINISTRATION

At June 30, 2009, the City had \$1,665,000 in general obligation notes outstanding, compared to \$2,255,000 last year. Debt decreased as a result of current year redemptions.

	Outstanding Debt at Year-End	
	June 30,	
	2009	2008
General obligation notes	\$ 1,665,000	2,255,000

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 \$2,476,482, including tax increment financing rebate agreements of \$811,482, is significantly below its constitutional debt limit of approximately \$10,245,000.

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 2010 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in the City as of June 30, 2009 stood at 8.8%, versus 5.4% a year ago. This compares with the State's unemployment rate of 6.0% and the national rate of 9.5%.

These factors were taken into account when adopting the budget for fiscal year 2010. Property tax revenues available for appropriation in the fiscal year 2010 operating budget are approximately \$2.110 million, an increase of 1.8% over the final fiscal year 2009 budget. The City will use this increase in receipts to finance programs we currently offer. Budgeted disbursements are expected to decrease \$713,322 from the final fiscal year 2009 budget to \$10,894,838. The City has added no major new programs or initiatives.

If these estimates are realized, the City's June 30, 2010 budgeted cash balance is expected to decrease \$2,947,364 from the June 30, 2009 budgeted cash balance. The City will be using accumulated cash, grants and donations, as well as debt proceeds, to fund projects.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mary Bolton, City Clerk, 601 N. 6th Street, City of Red Oak, Iowa 51566.

Basic Financial Statements

City of Red Oak

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2009

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 2,490,460	490,347	31,933	-
Public works	796,214	263,529	683,765	150,000
Health and social services	8,123	333	-	-
Culture and recreation	577,789	79,698	68,292	-
Community and economic development	164,443	8,655	105,274	-
General government	157,026	15,207	-	-
Debt service	696,778	-	-	-
Capital projects	850,782	-	-	1,294,886
Total governmental activities	5,741,615	857,769	889,264	1,444,886
Business type activities:				
Water	814,348	860,176	-	-
Sewer	691,108	531,270	-	-
Landfill	35,819	71,979	-	-
Total business type activities	1,541,275	1,463,425	-	-
Total	\$ 7,282,890	2,321,194	889,264	1,444,886
General Receipts:				
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				
Cash Basis Net Assets				
Restricted:				
Nonexpendable:				
Permanent funds				
Expendable:				
Special levies				
Streets				
Urban renewal purposes				
Local option sales tax				
Library bequests				
Fire department donations				
Police seized property				
Other purposes				
Debt service				
Landfill purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

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

Governmental Activities	Business Type Activities	Total
(1,818,180)	-	(1,818,180)
151,080	-	151,080
(7,790)	-	(7,790)
(429,799)	-	(429,799)
(50,514)	-	(50,514)
(141,819)	-	(141,819)
(696,778)	-	(696,778)
444,104	-	444,104
(2,549,696)	-	(2,549,696)
-	45,828	45,828
-	(159,838)	(159,838)
-	36,160	36,160
-	(77,850)	(77,850)
(2,549,696)	(77,850)	(2,627,546)
1,768,415	-	1,768,415
407,594	-	407,594
82,158	-	82,158
543,294	-	543,294
92,741	73,914	166,655
71,056	238,223	309,279
35,899	(35,899)	-
3,001,157	276,238	3,277,395
451,461	198,388	649,849
4,128,418	2,990,778	7,119,196
\$ 4,579,879	3,189,166	7,769,045

\$ 247,160	-	247,160
749,237	-	749,237
1,350,316	-	1,350,316
308,188	-	308,188
797,540	-	797,540
58,461	-	58,461
50,079	-	50,079
910	-	910
19,483	-	19,483
119,724	-	119,724
-	236,908	236,908
878,781	2,952,258	3,831,039
\$ 4,579,879	3,189,166	7,769,045

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, 2009

	Special Revenue			
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax
Receipts:				
Property tax	\$ 979,394	-	657,496	-
Tax increment financing	-	-	-	-
Other city tax	60,754	-	39,403	543,294
Licenses and permits	61,636	-	-	-
Use of money and property	102,016	-	-	-
Intergovernmental	199,280	514,164	-	150,000
Charges for service	545,144	-	-	-
Special assessments	-	-	-	-
Miscellaneous	297,848	-	13,129	-
Total receipts	2,246,072	514,164	710,028	693,294
Disbursements:				
Operating:				
Public safety	1,312,203	-	424,846	682,378
Public works	266,931	423,303	105,980	-
Health and social services	8,123	-	-	-
Culture and recreation	474,705	-	99,542	-
Community and economic development	-	-	-	-
General government	146,496	-	10,530	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	2,208,458	423,303	640,898	682,378
Excess (deficiency) of receipts over (under) disbursements	37,614	90,861	69,130	10,916
Other financing sources (uses):				
Operating transfers in	188,780	50,989	-	-
Operating transfers out	(76,808)	(38,694)	-	(755,881)
Total other financing sources (uses)	111,972	12,295	-	(755,881)
Net change in cash balances	149,586	103,156	69,130	(744,965)
Cash balances beginning of year	1,411,055	1,247,160	680,107	1,542,505
Cash balances end of year	\$ 1,560,641	1,350,316	749,237	797,540
Cash Basis Fund Balances				
Reserved for:				
Police seized property	\$ 910	-	-	-
Debt service	-	-	-	-
Unreserved:				
General fund	1,559,731	-	-	-
Special revenue funds	-	1,350,316	749,237	797,540
Capital projects fund	-	-	-	-
Permanent funds	-	-	-	-
Total cash basis fund balances	\$ 1,560,641	1,350,316	749,237	797,540

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
384,065	-	29,597	2,050,552
-	-	82,158	82,158
23,529	-	1,771	668,751
-	-	-	61,636
-	19,781	3,114	124,911
-	1,052,265	105,274	2,020,983
-	-	3,600	548,744
-	3,957	-	3,957
-	218,883	65,625	595,485
407,594	1,294,886	291,139	6,157,177
-	-	71,033	2,490,460
-	-	-	796,214
-	-	-	8,123
-	-	3,542	577,789
-	-	164,443	164,443
-	-	-	157,026
696,778	-	-	696,778
-	850,782	-	850,782
696,778	850,782	239,018	5,741,615
(289,184)	444,104	52,121	415,562
755,881	63,068	47,549	1,106,267
-	(94,296)	(104,689)	(1,070,368)
755,881	(31,228)	(57,140)	35,899
466,697	412,876	(5,019)	451,461
(346,973)	(1,092,823)	687,387	4,128,418
119,724	(679,947)	682,368	4,579,879
-	-	-	910
119,724	-	-	119,724
-	-	-	1,559,731
-	-	435,208	3,332,301
-	(679,947)	-	(679,947)
-	-	247,160	247,160
119,724	(679,947)	682,368	4,579,879

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, 2009

	Enterprise			Total
	Water	Sewer	Nonmajor Landfill	
Operating receipts:				
Charges for service	\$ 846,580	531,270	71,979	1,449,829
Miscellaneous	13,596	-	-	13,596
Total operating receipts	860,176	531,270	71,979	1,463,425
Operating disbursements:				
Business type activities	715,253	377,302	35,819	1,128,374
Excess of operating receipts over operating disbursements	144,923	153,968	36,160	335,051
Non-operating receipts (disbursements):				
Interest on investments	39,717	34,197	-	73,914
Miscellaneous	8,432	229,791	-	238,223
Capital projects	(99,095)	(313,806)	-	(412,901)
Total non-operating receipts (disbursements)	(50,946)	(49,818)	-	(100,764)
Excess of receipts over disbursements	93,977	104,150	36,160	234,287
Other financing sources (uses):				
Operating transfers in	-	569	-	569
Operating transfers out	(18,678)	(17,790)	-	(36,468)
Total other financing sources (uses)	(18,678)	(17,221)	-	(35,899)
Net change in cash balances	75,299	86,929	36,160	198,388
Cash balances beginning of year	986,615	1,766,325	237,838	2,990,778
Cash balances end of year	\$ 1,061,914	1,853,254	273,998	3,189,166
Cash Basis Fund Balances				
Reserved for landfill purposes	\$ -	-	236,908	236,908
Unreserved	1,061,914	1,853,254	37,090	2,952,258
Total cash basis fund balances	\$ 1,061,914	1,853,254	273,998	3,189,166

See notes to financial statements.

City of Red Oak

Notes to Financial Statements

June 30, 2009

(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 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, Montgomery County Emergency Management Commission, Montgomery County Joint E911 Service Board and the Southwest Iowa Planning Council (SWIPCO) Regional Planning Commission.

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

Related 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 the following categories:

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

Expendable 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 categories. 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 governmental and proprietary 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 wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net 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, 2009, disbursements exceeded the amounts budgeted in the public safety and community and economic development functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$55,669 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
2010	\$ 395,000	77,468	472,468
2011	255,000	56,892	311,892
2012	110,000	44,510	154,510
2013	115,000	40,275	155,275
2014	120,000	35,675	155,675
2015-2019	670,000	96,480	766,480
Total	\$ 1,665,000	351,300	2,016,300

(4) Development Agreements

Rebate 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 \$1,147,792. The total amount rebated during the year ended June 30, 2009 was \$51,488. The City has rebated a total of \$336,310 of incremental tax under the agreements. The outstanding balance of the agreements at June 30, 2009 was \$811,482.

These agreements are not a general obligation of the City. However, the agreements are subject to the constitutional debt limitation of the City.

Other Agreements

In March 2007, the City entered into an agreement with a developer regarding certain property on which the developers are constructing a residential subdivision. The City agreed to provide tax increment financing assistance to help defray the costs of the construction of the infrastructure portion of the project, as follows: 100% of the costs for the paving of the street, 50% of the costs of the sanitary sewer and water extension construction and 100% of the storm sewer improvements. The City intends to certify the City's share of the actual project costs paid from the Capital Projects Fund as TIF debt. The developer agreed to pay the following: 100% of the grading costs of the street right-of-way, 50% of the costs of the sanitary sewer and water extension construction and 100% of the sidewalk installation costs. At June 30, 2009, the developer has paid \$160,651 to the City for grading, sewer and water costs. Construction is complete and the developer's obligation to the City is complete.

(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 4.10% of their annual covered salary and the City is required to contribute 6.35% 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, 2009, 2008 and 2007 were \$135,573, \$129,899 and \$125,754, 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, 2009, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 73,000
Compensatory time	48,000
Sick leave	<u>79,000</u>
Total	<u>\$ 200,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2009.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Emergency	\$ 62,542
	Capital Projects	89,770
	Enterprise: Water	18,678
	Sewer	17,790
		<u>188,780</u>
Special Revenue: Road Use Tax	General	47,032
CDBG Housing Rehabilitation	General	5,402
Low-Moderate Income	Special Revenue: Tax Increment Financing	1,147
Road Use Tax	Capital Projects	3,957
		<u>57,538</u>
Debt Service	Special Revenue: Local Option Sales Tax	<u>755,881</u>
Capital Projects	General	24,374
	Special Revenue: Road Use Tax	38,694
		<u>63,068</u>
Permanent: Library Bequest	Special Revenue: Library Bequest	<u>41,000</u>
Enterprise: Sewer	Capital Projects	<u>569</u>
Total		<u>\$ 1,106,836</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 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 577 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 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 expenditures from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2009 were \$123,073.

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 \$10,000,000 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 by the Travelers Insurance Company.

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, 2009, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty 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 liability, employee blanket bond and workers compensation in the amount of \$2,000,000, \$100,000 and \$500,000, respectively. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(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 \$640,000 is outstanding at June 30, 2009. 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 sufficient funds into a Treasurer's Debt Service Account to redeem note principal 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, 2009, the Treasurer's Debt Service Account had a balance of \$35.

(11) Library Bequests

The Library has received various restricted bequests. At June 30, 2009, the Library Bequest Fund included a total of \$41,000 of memorials, as follows:

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

(12) Komarek Trust

The City 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, 2009, the City spent \$16 of these funds for flowers and statues. At June 30, 2009, the balance in the Special Revenue, Komarek Trust Fund totaled \$12,037.

(13) Contingent Liability

The City entered into a joint agreement with the U.S. Environmental Protection Agency (EPA) with respect to contamination at the former site of the Red Oak Landfill. Under the terms of the Settlement agreement, the City and Magna International are jointly responsible for the operation and maintenance of the remedy for a period of 30 years. The potential monetary obligation of the City and Magna International is \$735,100 for which both the City and Magna International are jointly responsible only if they fail to carry out the program in making the necessary reports to the EPA. At June 30, 2009, all monitoring and maintenance activities were completed.

(14) Commitments

Construction commitments for airport, library expansion and street projects at June 30, 2009 totaled \$3,065,882, of which \$175,858 has been paid. The balance of \$2,890,024 will be paid as work on the projects progresses.

(15) Deficit Balances

At June 30, 2009, the Special Revenue, FY08 Housing and Cemetery Expansion Funds and Capital Projects Fund had deficit balances of \$(28), \$(975) and \$(679,947), respectively. The deficit balance in the Special Revenue, Cemetery Expansion Fund will be eliminated through future transfers. The deficit balance in the Special Revenue, FY08 Housing Fund will be eliminated through future grant reimbursement requests. The deficit balance in the Capital Projects Fund will be eliminated through grant reimbursement requests, transfers from other funds and debt proceeds.

(16) Subsequent Events

On September 9, 2009, the City entered into an agreement with Nishna Productions, Inc. for \$1,320,000 to help finance a vocational skills training facility. The facility will be paid for with a \$584,000 Community Development Block Grant and a local match from Nishna Productions, Inc.

In March 2010, the City approved the issuance of \$2,600,000 of general obligation corporate purpose and refunding bonds. The proceeds will be used to fund library expansion and road paving projects and to refund existing general obligation notes.

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, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 2,050,552	-	-
Tax increment financing	82,158	-	-
Other city tax	668,751	-	-
Licenses and permits	61,636	-	-
Use of money and property	124,911	73,914	2,173
Intergovernmental	2,020,983	-	-
Charges for service	548,744	1,449,829	-
Special assessments	3,957	-	-
Miscellaneous	595,485	251,819	28,523
Total receipts	<u>6,157,177</u>	<u>1,775,562</u>	<u>30,696</u>
Disbursements:			
Public safety	2,490,460	-	71,033
Public works	796,214	-	-
Health and social services	8,123	-	-
Culture and recreation	577,789	-	-
Community and economic development	164,443	-	-
General government	157,026	-	-
Debt service	696,778	-	-
Capital projects	850,782	-	-
Business type activities	-	1,541,275	-
Total disbursements	<u>5,741,615</u>	<u>1,541,275</u>	<u>71,033</u>
Excess (deficiency) of receipts over (under) disbursements	415,562	234,287	(40,337)
Other financing sources (uses)	35,899	(35,899)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	451,461	198,388	(40,337)
Balances beginning of year	4,128,418	2,990,778	90,416
Balances end of year	<u>\$ 4,579,879</u>	<u>3,189,166</u>	<u>50,079</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
2,050,552	2,071,686	2,071,686	(21,134)
82,158	14,416	14,416	67,742
668,751	589,725	589,725	79,026
61,636	44,000	44,000	17,636
196,652	-	-	196,652
2,020,983	1,480,380	1,614,311	406,672
1,998,573	3,224,649	3,226,749	(1,228,176)
3,957	3,957	3,957	-
818,781	1,489,154	1,748,974	(930,193)
<u>7,902,043</u>	<u>8,917,967</u>	<u>9,313,818</u>	<u>(1,411,775)</u>
2,419,427	2,318,333	2,361,333	(58,094)
796,214	895,761	1,170,761	374,547
8,123	11,500	11,500	3,377
577,789	628,377	652,837	75,048
164,443	112,974	112,974	(51,469)
157,026	165,064	175,064	18,038
696,778	698,191	698,191	1,413
850,782	4,714,000	4,714,000	3,863,218
1,541,275	1,711,500	1,711,500	170,225
<u>7,211,857</u>	<u>11,255,700</u>	<u>11,608,160</u>	<u>4,396,303</u>
690,186	(2,337,733)	(2,294,342)	2,984,528
-	-	-	-
690,186	(2,337,733)	(2,294,342)	2,984,528
7,028,780	7,046,130	7,046,130	(17,350)
<u>7,718,966</u>	<u>4,708,397</u>	<u>4,751,788</u>	<u>2,967,178</u>

City of Red Oak

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

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 Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$352,460. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the public safety and community and economic development functions.

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, 2009

	Emergency	Volunteer Fire and Rescue Association	Tax Increment Financing	Low- Moderate Income	CDBG Housing Rehabilitation
Receipts:					
Property tax	\$ 29,597	-	-	-	-
Tax increment financing	-	-	82,158	-	-
Other city tax	1,771	-	-	-	-
Use of money and property	-	2,173	-	-	-
Intergovernmental	-	-	-	-	105,274
Charges for services	-	-	-	-	-
Miscellaneous	-	28,523	-	988	-
Total receipts	31,368	30,696	82,158	988	105,274
Disbursements:					
Operating:					
Public safety	-	71,033	-	-	-
Culture and recreation	-	-	-	-	-
Community and economic development	-	-	90,139	-	74,304
Total disbursements	-	71,033	90,139	-	74,304
Excess (deficiency) of receipts over (under) disbursements	31,368	(40,337)	(7,981)	988	30,970
Other financing sources (uses):					
Operating transfers in	-	-	-	1,147	5,402
Operating transfers out	(62,542)	-	(1,147)	-	-
Total other financing sources (uses)	(62,542)	-	(1,147)	1,147	5,402
Net change in cash balances	(31,174)	(40,337)	(9,128)	2,135	36,372
Cash balances beginning of year	31,174	90,416	317,316	-	(36,372)
Cash balances end of year	\$ -	50,079	308,188	2,135	-
Cash Basis Fund Balances					
Unreserved:					
Special revenue funds	\$ -	50,079	308,188	2,135	-
Permanent funds	-	-	-	-	-
Total cash basis fund balances	\$ -	50,079	308,188	2,135	-

See accompanying independent auditor's report.

Special Revenue						Permanent		
FY08 Housing	Komarek Trust	Cemetery Kiosk	Cemetery Expansion	Library Bequest	Library People's Art Projects	Cemetery Perpetual Care	Library Bequest	Total
-	-	-	-	-	-	-	-	29,597
-	-	-	-	-	-	-	-	82,158
-	-	-	-	-	-	-	-	1,771
-	-	-	-	936	5	-	-	3,114
-	-	-	-	-	-	-	-	105,274
-	-	-	-	-	-	3,600	-	3,600
-	600	-	-	34,714	800	-	-	65,625
-	600	-	-	35,650	805	3,600	-	291,139
-	-	-	-	-	-	-	-	71,033
-	16	150	975	1,601	800	-	-	3,542
-	-	-	-	-	-	-	-	164,443
-	16	150	975	1,601	800	-	-	239,018
-	584	(150)	(975)	34,049	5	3,600	-	52,121
-	-	-	-	-	-	-	41,000	47,549
-	-	-	-	(41,000)	-	-	-	(104,689)
-	-	-	-	(41,000)	-	-	41,000	(57,140)
-	584	(150)	(975)	(6,951)	5	3,600	41,000	(5,019)
(28)	11,453	250	-	65,412	5,206	202,560	-	687,387
(28)	12,037	100	(975)	58,461	5,211	206,160	41,000	682,368
(28)	12,037	100	(975)	58,461	5,211	-	-	435,208
-	-	-	-	-	-	206,160	41,000	247,160
(28)	12,037	100	(975)	58,461	5,211	206,160	41,000	682,368

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, 2009

	Enterprise - Landfill		Total
	Recycling	Superfund	
Operating receipts:			
Charges for service	\$ 39,979	32,000	71,979
Operating disbursements:			
Business type activities	33,000	2,819	35,819
Excess of operating receipts over disbursements	6,979	29,181	36,160
Cash balances beginning of year	30,111	207,727	237,838
Cash balances end of year	\$ 37,090	236,908	273,998
Cash Basis Fund Balances			
Reserved	\$ -	236,908	236,908
Unreserved	37,090	-	37,090
	\$ 37,090	236,908	273,998

See accompanying independent auditor's report.

City of Red Oak
 Schedule of Indebtedness
 Year ended June 30, 2009

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.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
435,000	210,000	225,000	22,515
120,000	120,000	-	5,640
425,000	135,000	290,000	23,883
95,000	95,000	-	3,800
-	-	-	-
1,180,000	30,000	1,150,000	50,352
<u>\$ 2,255,000</u>	<u>590,000</u>	<u>1,665,000</u>	<u>106,190</u>

City of Red Oak

City of Red Oak

Note Maturities

June 30, 2009

Year Ending June 30,	Essential and General Corporate Purpose Issued Aug 1, 1997		Essential Corporate Purpose Issued Jul 1, 2000		Essential Corporate Purpose Issued Jun 1, 2004		Total
	Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	
2010	5.20%	\$ 225,000	5.60%	\$ 140,000	3.45%	\$ 30,000	395,000
2011		-	5.70	150,000	3.65	105,000	255,000
2012		-		-	3.85	110,000	110,000
2013		-		-	4.00	115,000	115,000
2014		-		-	4.15	120,000	120,000
2015		-		-	4.30	120,000	120,000
2016		-		-	4.45	130,000	130,000
2017		-		-	4.60	135,000	135,000
2018		-		-	4.70	140,000	140,000
2019		-		-	4.80	145,000	145,000
Total		<u>\$ 225,000</u>		<u>\$ 290,000</u>		<u>\$ 1,150,000</u>	<u>1,665,000</u>

See accompanying independent auditor's report.

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

For the Last Seven Years

	2009	2008	2007
Receipts:			
Property tax	\$ 2,050,552	2,051,128	1,987,915
Tax increment financing	82,158	81,447	201,129
Other city tax	668,751	557,592	646,708
Licenses and permits	61,636	51,073	49,585
Use of money and property	124,911	239,731	251,362
Intergovernmental	2,020,983	1,705,840	915,512
Charges for service	548,744	580,372	590,031
Special assessments	3,957	4,219	4,481
Miscellaneous	595,485	452,226	396,528
Total	\$ 6,157,177	5,723,628	5,043,251
Disbursements:			
Operating:			
Public safety	\$ 2,490,460	1,885,490	1,842,324
Public works	796,214	800,133	497,363
Health and social services	8,123	29,080	13,591
Culture and recreation	577,789	580,009	547,171
Community and economic development	164,443	298,823	134,446
General government	157,026	112,603	102,300
Debt service	696,778	699,977	694,634
Capital projects	850,782	2,891,634	202,061
Total	\$ 5,741,615	7,297,749	4,033,890

See accompanying independent auditor's report.

2006	2005	2004	2003
1,977,212	1,971,911	2,083,572	2,010,066
90,136	89,074	259,745	388,647
528,603	584,980	547,700	527,394
53,302	80,412	16,097	16,188
156,388	99,670	76,739	99,181
576,171	1,546,851	876,268	955,452
550,830	558,132	424,815	407,150
26,667	9,947	7,867	44,611
535,457	263,518	280,962	285,603
4,494,766	5,204,495	4,573,765	4,734,292

1,684,050	1,731,635	1,702,066	1,605,572
531,830	576,699	514,779	907,959
15,263	16,098	13,339	3,175
585,723	690,502	492,602	584,342
70,045	76,827	328,252	295,120
108,125	115,442	118,595	122,687
700,026	1,462,758	936,457	678,723
449,924	1,916,596	646,885	744,121
4,144,986	6,586,557	4,752,975	4,941,699

Schedule 6

City of Red Oak

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Agriculture:			
Community Facilities Loans and Grants	10.766		\$ 171,103
U.S. Department of Transportation:			
Airport Improvement Program	20.106	3-19-0077-08	11,431
Airport Improvement Program	20.106	3-19-0077-09	32,374
			43,805
Total direct			214,908
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	06-HSG-079-05	69,508
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	BRM-6360(610)--8N-69	13,455
Highway Planning and Construction	20.205	STP-U-6360(611)--70-69	240,000
			253,455
Iowa Department of Public Safety:			
Safety Belt Performance Grants	20.609	08-157 Task 144	4,000
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1763-DRIA	79,992
Total indirect			406,955
Total			\$ 621,863

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Red Oak and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated June 9, 2010. 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 Part II of the accompanying Schedule of Findings and Questioned Costs 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 II-A-09, II-C-09, II-D-09, II-E-09 and II-G-09 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 Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 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 and Questioned Costs. 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, including federal awarding agencies and pass-through entities. 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

June 9, 2010

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133**

City of Red Oak



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 Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Red Oak, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. The City of Red Oak's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the City of Red Oak's management. Our responsibility is to express an opinion on the City of Red Oak's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Red Oak's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Red Oak's compliance with those requirements.

In our opinion, the City of Red Oak complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

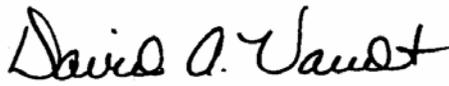
The management of the City of Red Oak is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Red Oak's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Red Oak's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

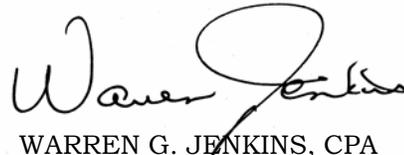
A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

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, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 9, 2010

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

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

- (a) Unqualified opinions were issued on the financial statements which 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.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 10.766 – Community Facilities Loans and Grants.
 - CFDA Number 20.205 – Highway Planning and Construction.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Red Oak did not qualify as a low-risk auditee.

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-09 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. Generally one or two individuals may have control over the following areas for which no compensating controls exist:

- (1) Incoming mail is not opened by an individual not authorized to make entries to the accounting records. A listing of cash and checks received in the mail is not prepared, forwarded to accounting personnel and later compared to the cash receipt records by an independent person.
- (2) Utility billing, collecting, recording and reconciling functions are all performed by the utility clerk.

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 – Incoming mail will be opened by an employee who is not going to post to the utility billing account. As the mail is opened, the contents will be indicated on the envelope whether it's a check or cash and also initialed by the employee who opened it. Periodically the City Clerk will ask to see the envelopes and the posting journal to do a comparison. At that time, the City Clerk will indicate such on the posting journal. The posting will be done by an employee, other than the one who opened the mail.

The City Clerk will periodically review the utility reconciliations and reports for accuracy.

Conclusion – Response accepted.

II-B-09 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 for the computer system.
- Requiring employees to periodically change passwords.

Recommendation – The City should develop written policies and procedures addressing the above items in order to improve the City's control over computer-based systems.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Response – A policy is being written regarding the logging off of unattended computers. Employees had previously been verbally advised to not leave computer on if they were going to be away from their desk but this will put it into a written policy. Internet usage is controlled and will be monitored and addressed as necessary. The computer system is backed up, off site, Monday through Friday of each week. Each evening an e-mail is sent to City Clerk to advise if backup was successful or not. The company that does the back-up works with our software provider Data Technologies, therefore, if there would be a problem, they would be able to provide our system back-up to Data Technologies. We will consider developing a written disaster recovery plan. Employees will be instructed to change their passwords periodically.

Conclusion – Response accepted.

- II-C-09 Financial Reporting – During the audit, we identified material amounts of receipts misclassified, including utility tax collections posted as property tax rather than other city tax and intergovernmental receipts posted as local option sales tax or miscellaneous. Adjustments were subsequently made to properly record these amounts in the financial statements.

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

Response – This situation has been noted and practices have been implemented to ensure accuracy and proper posting in the future.

Conclusion – Response accepted.

- II-D-09 Fund Balances – The City records detailed receipt and disbursement transactions for each fund on its computer system. The City does not use the computer software to track fund balances. Fund balances are tracked on the monthly Clerk’s report, which includes receipts, disbursements, transfers in and out and beginning and ending fund balances for each fund. At June 30, 2009, variances existed between the fund balances on the monthly Clerk’s reports and the computer system. Adjustments were subsequently made to correct the fund balances in the computer system.

Recommendation – The City should implement procedures to ensure the fund balances on the computer system agree with the Clerk’s reports on a monthly basis.

Response – The software company has now set up computer system to generate better balancing reports. This will allow City to ensure the computer system agrees with the Clerk’s reports on a monthly basis.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

II-E-09 Bank Reconciliations – During the year ended June 30, 2009, significant variances existed between the book and bank balances which were not investigated and resolved timely. At June 30, 2009, the book balance was \$27,440 higher than the bank balance. The variance was included as an offset to the outstanding check total on the Clerk's financial report. During the audit, we identified \$28,820 of disbursements paid by electronic fund transfers (EFT) which were not recorded in the City's disbursement ledger. Adjustments were subsequently made to properly record the EFT transactions as disbursements. In addition, an independent person does not review the bank reconciliations.

Recommendation – The City should investigate and resolve all variances between the book and the bank balances timely. An independent person should review the reconciliations.

Response – Many efforts had been made in trying to resolve the non-balancing issue and in doing so, the monthly bank reconciliation got behind. With the new EFT procedures that are now taking place, a new policy has been made within City Hall to stay on top of EFT transactions better. The City's bank account is now being checked through the computer on a daily basis for any EFT's. EFT's are now being posted to the general ledger on a daily basis to match the bank balance and stay more current. The City Clerk will review the reconciliations.

Conclusion – Response accepted.

II-F-09 Budgeted Receipts – The City budgeted interest as miscellaneous rather than use of money and property.

Recommendation – The City should budget interest as use of money and property rather than miscellaneous in accordance with the Uniform Chart of Accounts.

Response – This was an unknown computer set-up error and will be corrected.

Conclusion – Response accepted.

II-G-09 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not properly reconciled throughout the year. Although the computer system generates a reconciliation report, the amounts on the report are not compared to the utility records to ensure accuracy. In addition, an independent person does not review and approve the reconciliation.

Recommendation – Procedures should be established to compare amounts on the computer generated reconciliation report to utility records for accuracy. An independent person should review the reconciliations and monitor delinquencies.

Response – The City Clerk will reconcile and periodically review these reports for accuracy.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

- II-H-09 Separately Maintained Records – The Red Oak Library maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City’s accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the Council on a monthly basis.

Response – The Red Oak Public Library Director has been advised that all accounting records for the library must be included in City’s accounting records.

Conclusion – Response accepted.

- II-I-09 Reconciliation of Ambulance Billings, Collections and Delinquencies – The City contracts with an outside company to perform billing procedures for ambulance services. However, a reconciliation of ambulance billings, collections and delinquent accounts was not performed.

Recommendation – Procedures should be established for the City to prepare or obtain a reconciliation of ambulance billings, collections and delinquencies for each billing period. An independent person should review the reconciliations and monitor delinquencies.

Response – The City has discussed with Fire Department personnel the need to set up a review procedure. The suggested procedures received from the State Auditor’s Office are being reviewed as to how the City will implement.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

No material weaknesses in internal control over major programs were noted.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-09 Certified Budget – Disbursements during the year ended June 30, 2009 exceeded the amounts budgeted in the public safety and community and economic development functions. 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 amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Attempts are made to stay within the guidelines. Occasionally an expense will occur late in the fiscal year and there is not time for an amendment. The City will try to watch this closer. The public safety function included the overage due to the purchase of phone system and computer service in police department in the month of May after amendment was complete. The community and economic development function on the computer generated report had a figure on it but with no identification as to a project and the problem was not caught. This should have been taken into consideration as an actual expense and was not. The computer report has now been corrected with proper coding and identification so the expense line will format properly in the future.

Conclusion – Response accepted.

IV-B-09 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.

IV-C-09 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-09 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	\$ 4,836

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.

IV-E-09 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.

IV-F-09 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, the publication did not include total disbursements from each fund and did not have a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa and publish minutes as required.

Response – The City has always published minutes and approved disbursements as required but was not aware a separate publication was needed for a total by fund for disbursements and receipts. The City will make a special publication to get current fiscal year correct and then begin publishing on a monthly basis.

Conclusion – Response accepted.

IV-G-09 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-09 Financial Condition – The Special Revenue, FY08 Housing and Cemetery Expansion Funds and the Capital Projects Fund had deficit balances at June 30, 2009 of \$(28), \$(975) and \$(679,947), respectively.

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

Response – The City was aware of deficit accounts. The City had chosen to not make transfers until our balancing situation was corrected. In February 2010, after the balancing situation was resolved, transfers were made to eliminate the deficits. If a deficit occurs in the Capital Projects Fund, we do not make transfers until project is finalized and all reimbursements are received by the City.

Conclusion – Response accepted.

IV-I-09 Tax Increment Financing – The City's tax increment financing (TIF) certification required by Chapter 403 of the Code of Iowa and filed December 1, 2008 certified \$66,558 of TIF debt. The City's TIF debt consists entirely of developer rebate agreements in which the City agrees to rebate TIF tax to the developer(s) over a specified period of time in exchange for certain infrastructure and other improvements. The following items were noted regarding the City's TIF debt certification:

- We were unable to substantiate all of the amounts certified to ensure compliance with Chapter 403.19(5)(a) of the Code of Iowa.
- The governing body approval date is not included on the certification as required by Chapter 403.19(5)(a) of the Code of Iowa.
- Also, the City is required to provide certain information to the County Auditor for taxes to be divided correctly, in the correct amount and during the appropriate time frame. The City is required to provide the payment start and end dates, the percentage of TIF to be paid each year and the maximum amounts to be paid for each development agreement.

In addition, the City paid \$37,663 in economic development grants to local businesses from the Special Revenue, Tax Increment Financing 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.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Recommendation – The City should review the December 1, 2008 TIF debt certification and adjust for the above items through future certifications. Amounts included in the certification should be supported. TIF revenues should 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 and TIF debt certifications comply with Chapter 403.19(5)(a) of the Code of Iowa.

Response – The City has taken the necessary steps to ensure compliance and ensure TIF revenues are used only to meet financial obligations which are documented by an appropriate debt instrument.

Conclusion – Response accepted.

- IV-J-09 Annual Financial Report – The City’s annual financial report was prepared and filed timely for the year ended June 30, 2009. However, the report contained material errors in the ending balances and certain receipt and disbursement line items for the governmental funds.

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

Response – Once we have corrected figures from the audit, we will republish.

Conclusion – Response accepted.

- IV-K-09 Unclaimed Property – The City has several old outstanding checks dating back to January 1998. These are considered unclaimed property and should be remitted to the State Treasurer in accordance with Chapter 556 of the Code of Iowa.

Recommendation – The City should report unclaimed property to the State Treasurer annually before November 1.

Response – This had not been done due to the balancing situation. Since the balancing problem is resolved, the City has removed old outstanding checks and will report unclaimed property as necessary.

Conclusion – Response accepted.

- IV-L-09 Excessive Balance – The Special Revenue, Employee Benefits Fund cash balance was \$749,237 at June 30, 2009, or 117% of the total disbursements of \$640,898 for the year ended June 30, 2009.

Recommendation – The City should reduce the balance of the Special Revenue, Employee Benefits Fund to a reasonable amount through reductions in future tax askings.

Response – This will be taken into consideration during the budget process. The City’s insurance renewal dates are not until fall so when budget process is taking place we estimate our health insurance costs. The renewal fluctuates each year and this is a hard area to estimate in the budget, but an effort will be made to reduce this balance.

Conclusion – Response accepted.

City of Red Oak

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
Nancy F. Curtis, CPA, Senior Auditor II
Gelu Sherpa, Staff Auditor
Adam D Steffensmeier, Staff Auditor
Lara K. Van Wyk, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, prominent initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State