



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

February 21, 2014

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the City of Red Oak, Iowa.

The City's receipts totaled \$10,342,103 for the year ended June 30, 2013, a 9.5% decrease from the prior year. The receipts included \$2,291,422 in property tax, \$195,272 from tax increment financing, \$2,637,442 from charges for service, \$725,640 from operating grants, contributions and restricted interest, \$483,199 from capital grants, contributions and restricted interest, \$615,687 from local option sales tax, \$3,255,830 of bond proceeds, \$11,637 from unrestricted interest on investments and \$125,974 from other general receipts.

Disbursements for the year ended June 30, 2013 totaled \$9,012,577, a 28% decrease from the prior year, and included \$2,438,035 for public safety, \$882,248 for public works and \$1,950,515 for capital projects. Also, disbursements for business type activities totaled \$2,166,325.

The significant decrease in receipts and disbursements was due primarily to prior year grant funding and disbursements for the wastewater treatment plant project.

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/1320-0647-B00F.pdf>.

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CITY OF RED OAK

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

JUNE 30, 2013

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City of Red Oak

Officials

<u>Name</u>	<u>Title</u>	<u>Expires</u>
William H. Billings, Jr.	Mayor	Jan 2014
Larry Barnett	Mayor Pro Tem	Jan 2016
Fred Pilecki (Appointed)	Council Member	Nov 2013
Tom Pratt	Council Member	Jan 2014
Scott Keith	Council Member	Jan 2016
Jeanice Lester	Council Member	Jan 2016
Brad Wright	Administrator	Indefinite
Mary Bolton	City Clerk	Indefinite
Stephen Hays	Treasurer	Indefinite
Tom Stamets	Attorney	Indefinite

City of Red Oak



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Red Oak, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Red Oak as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information


Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Red Oak's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.


The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 32 through 34, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 22, 2014 on our consideration of the City of Red Oak's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Red Oak's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 22, 2014

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, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 35.5%, or approximately \$2,041,000, from fiscal year 2012 to fiscal year 2013. The increase was primarily due to the issuance of general obligation corporate purpose bonds during fiscal year 2013.
- Disbursements for governmental activities increased 7.5%, or approximately \$479,000, from fiscal year 2012 to fiscal year 2013. Community and economic development function disbursements decreased approximately \$562,000 due to the CDBG grant project being mostly completed in fiscal year 2012, public works function disbursements decreased approximately \$125,000 due to a decrease in airport fuel sales and less storm damage in fiscal year 2013 and capital projects function disbursements increased approximately \$947,000 due to the street and sidewalk project.
- The City's total cash basis net position increased 25.3%, or approximately \$1,330,000, from June 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the governmental activities increased approximately \$740,000 and the cash basis net position of the business type activities increased approximately \$590,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

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

Fund Financial Statements

The City has two kinds of funds:

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

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

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

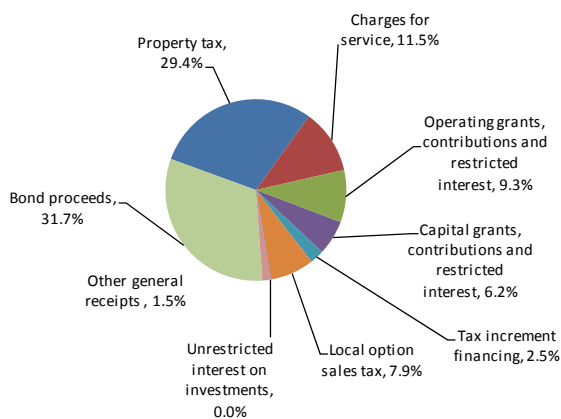
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

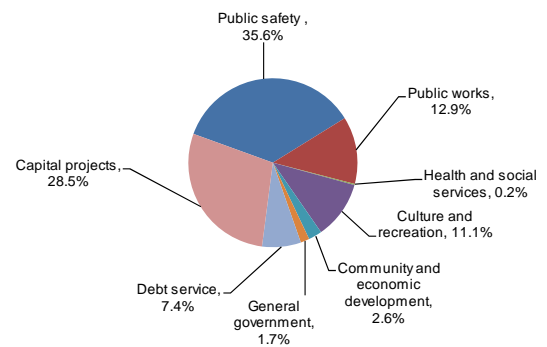
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$3.1 million to approximately \$3.8 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service	\$ 896,904	1,003,393
Operating grants, contributions and restricted interest	725,640	1,263,993
Capital grants, contributions and restricted interest	483,199	288,145
General receipts:		
Property tax	2,291,422	2,252,418
Tax increment financing	195,272	249,408
Local option sales tax	615,687	561,018
Unrestricted interest on investments	2,693	7,317
Bond proceeds	2,458,160	-
Other general receipts	116,845	118,789
Total receipts	7,785,822	5,744,481
Disbursements:		
Public safety	2,438,035	2,237,045
Public works	882,248	1,007,610
Health and social services	13,770	31,297
Culture and recreation	761,487	794,891
Community and economic development	178,825	740,843
General government	117,584	116,346
Debt service	503,788	434,980
Capital projects	1,950,515	1,003,814
Total disbursements	6,846,252	6,366,826
Change in cash basis net position before transfers	939,570	(622,345)
Transfers, net	(200,000)	1,167
Change in cash basis net position	739,570	(621,178)
Cash basis net position beginning of year	3,080,403	3,701,581
Cash basis net position end of year	\$ 3,819,973	3,080,403

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 35.5%, or approximately \$2,041,000. The total cost of all programs and services increased approximately \$479,000, or 7.5%. The increase in receipts was primarily the result of issuing general obligation corporate purpose bonds during fiscal year 2013. The increase in disbursements was primarily due to an increase in capital projects, net of fewer CDBG disbursements and decreased airport fuel purchases.

The cost of all governmental activities this year was approximately \$6.8 million, compared to approximately \$6.4 million last year. However, as shown in the Cash Basis Statement of Activities and Net Position on pages 14-15, the amount taxpayers ultimately financed for these activities was only approximately \$4.7 million because some of the cost was paid by those who directly benefited from the programs (approximately \$897,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$1,209,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$5,480,000 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 receipts.

Changes in Cash Basis Net Position of Business Type Activities		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 1,039,798	1,003,727
Sewer	629,989	570,786
Landfill	70,751	70,949
Capital grants, contributions and restricted interest	-	2,000,000
General receipts:		
Unrestricted interest on investments	8,944	7,086
Other general receipts	9,129	4,114
Sewer revenue bond proceeds	797,670	2,023,830
Total receipts	<u>2,556,281</u>	<u>5,680,492</u>
Disbursements:		
Water	928,182	1,000,487
Sewer	1,197,960	5,186,597
Landfill	40,183	41,609
Total disbursements	<u>2,166,325</u>	<u>6,228,693</u>
Change in cash basis net position before transfers	389,956	(548,201)
Transfers, net	200,000	(1,167)
Change in cash basis net position	589,956	(549,368)
Cash basis net position beginning of year	2,171,882	2,721,250
Cash basis net position end of year	<u>\$ 2,761,838</u>	<u>2,171,882</u>

Total business type activities receipts decreased \$3,124,211, or 55%. Total disbursements for the fiscal year decreased 65.2%, or \$4,062,368. The decrease in receipts and disbursements is primarily due to receiving grant and bond proceeds to fund a wastewater treatment plant project in fiscal year 2012. The cash balance increased \$589,956 from the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Red Oak completed the year, its governmental funds reported a combined fund balance of \$3,819,973, an increase of approximately \$740,000 compared to last year's total of \$3,080,403. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$44,376 from the prior year to \$1,298,187. Approximately \$31,000 of the decrease was due to a decrease in licenses and permits.
- The Special Revenue, Road Use Tax Fund cash balance increased \$134,889, or 19.1%, to \$839,738. The City intends to use this money to upgrade the condition of all City roads.
- The Special Revenue, Employee Benefits Fund cash balance decreased \$51,492, or 7.2%, during the fiscal year to \$663,138.
- 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 \$1,294,206, an increase of \$602,125 over the prior year. The increase was due to a \$350,000 transfer to reimburse the Special Revenue, Local Option Sales Tax Fund for law enforcement center construction costs.
- The Debt Service Fund cash balance increased \$165,724 during the fiscal year to \$248,969. This increase was primarily due to receipt of new bond proceeds net of transfers for various capital projects.
- The Capital Projects Fund cash balance decreased \$43,202 during the fiscal year to a deficit of (\$1,051,001). The City spent a total of \$1,950,515 on construction projects in the current year, compared to \$1,003,814 in the prior year. The increase in disbursements is primarily due to airport, swimming pool and street projects. Intergovernmental receipts increased \$274,009 from the prior year, primarily due to increases in airport grants and street projects.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$125,558 to \$1,194,840 at June 30, 2013. Total receipts increased \$39,657 while disbursements decreased \$72,305 during the year.
- The Enterprise, Sewer Fund cash balance increased \$433,830 to \$1,163,556 at June 30, 2013. Total receipts decreased \$2,968,672 while disbursements decreased \$3,988,637 during the year. The decrease in receipts was primarily due to the City receiving an I-JOBS grant of \$2,000,000 in fiscal year 2012. The decrease in disbursements is primarily due to decreased costs for the wastewater treatment plant project that was completed in fiscal year 2012.
- The Enterprise, Landfill Fund cash balance increased \$30,568 to \$403,442 at June 30, 2013.

BUDGETARY HIGHLIGHTS

The City's receipts were \$464,096 more than budgeted and other financing sources were \$4,287,059 more than budgeted. This was primarily due to the City receiving bond proceeds for general corporate purposes.

Total disbursements were \$603,294 less than budgeted. Actual disbursements for the debt service function were \$36,633 more than budgeted. Disbursements were \$354,450 less than budgeted in the public works function due to less overtime spent on roads during the winter due to the mild weather.

DEBT ADMINISTRATION

At June 30, 2013, the City had \$8,941,501 of bonds and other long-term debt outstanding, compared to \$6,010,237 last year. Debt increased as a result of issuing \$2,505,000 of general obligation and \$797,670 of sewer revenue bonds during the year.

	Outstanding Debt at Year-End	
	June 30,	
	2013	2012
General obligation bonds	\$ 6,065,000	3,920,000
Sewer revenue bonds	2,685,000	1,972,330
Lease-purchase agreement	191,501	117,907
Total	\$ 8,941,501	6,010,237

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 \$7,341,054, including tax increment financing rebate agreements of \$1,084,553, is significantly below its constitutional debt limit of approximately \$10,825,000. Additional information about the City's debt is presented in Notes 3 and 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Red Oak's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 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, 2013 remained fairly steady at 5.2%, versus 5.5% a year ago. This compares with the State's unemployment rate of 4.6% and the national rate of 7.6%.

These factors were taken into account when adopting the budget for fiscal year 2014. Property tax receipts available for appropriation in the fiscal year 2014 operating budget are approximately \$2.284 million, an increase of 6.2% over the fiscal year 2013 budget. Budgeted disbursements are \$7,948,565, a decrease of 14% compared to the fiscal year 2013 final budget. The City has added no major new programs or initiatives.

If these estimates are realized, the City's June 30, 2014 budgeted cash balance is expected to decrease \$966,664 during the year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

City of Red Oak

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2013

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 2,438,035	546,883	28,695	-
Public works	882,248	248,729	557,573	1,600
Health and social services	13,770	12,322	-	-
Culture and recreation	761,487	74,907	139,372	-
Community and economic development	178,825	2,494	-	-
General government	117,584	11,569	-	-
Debt service	503,788	-	-	-
Capital projects	1,950,515	-	-	481,599
Total governmental activities	6,846,252	896,904	725,640	483,199
Business type activities:				
Water	928,182	1,039,798	-	-
Sewer	1,197,960	629,989	-	-
Landfill	40,183	70,751	-	-
Total business type activities	2,166,325	1,740,538	-	-
Total	\$ 9,012,577	2,637,442	725,640	483,199
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Bond proceeds, net of \$46,840 of discount and fees				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Nonexpendable:				
Permanent Funds				
Expendable:				
Streets				
Employee benefits				
Debt service				
Local option sales tax				
Fire department				
Urban renewal purposes				
Library				
Landfill superfund				
Other purposes				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
(1,862,457)	-	(1,862,457)
(74,346)	-	(74,346)
(1,448)	-	(1,448)
(547,208)	-	(547,208)
(176,331)	-	(176,331)
(106,015)	-	(106,015)
(503,788)	-	(503,788)
(1,468,916)	-	(1,468,916)
(4,740,509)	-	(4,740,509)
-	111,616	111,616
-	(567,971)	(567,971)
-	30,568	30,568
-	(425,787)	(425,787)
(4,740,509)	(425,787)	(5,166,296)
2,131,044	-	2,131,044
160,378	-	160,378
195,272	-	195,272
615,687	-	615,687
2,693	8,944	11,637
2,458,160	797,670	3,255,830
116,845	9,129	125,974
(200,000)	200,000	-
5,480,079	1,015,743	6,495,822
739,570	589,956	1,329,526
3,080,403	2,171,882	5,252,285
\$ 3,819,973	2,761,838	6,581,811
\$ 256,610	-	256,610
899,738	-	899,738
663,138	-	663,138
248,969	17,151	266,120
1,294,206	-	1,294,206
34,716	-	34,716
60,779	-	60,779
202,360	-	202,360
-	354,613	354,613
6,580	-	6,580
152,877	2,390,074	2,542,951
\$ 3,819,973	2,761,838	6,581,811

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, 2013

	Special Revenue			
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax
Receipts:				
Property tax	\$ 1,157,793	-	846,707	-
Tax increment financing	-	-	-	-
Other city tax	62,579	-	45,951	615,687
Licenses and permits	39,423	-	-	-
Use of money and property	19,790	-	-	-
Intergovernmental	129,795	549,888	-	-
Charges for service	594,021	-	-	-
Miscellaneous	377,216	-	-	-
Total receipts	2,380,617	549,888	892,658	615,687
Disbursements:				
Operating:				
Public safety	1,419,511	-	641,198	309,829
Public works	286,458	461,081	134,709	-
Health and social services	13,770	-	-	-
Culture and recreation	584,853	-	151,860	23,677
Community and economic development	-	-	-	22,568
General government	101,201	-	16,383	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	2,405,793	461,081	944,150	356,074
Excess (deficiency) of receipts over (under) disbursements	(25,176)	88,807	(51,492)	259,613
Other financing sources (uses):				
Bond proceeds, net of \$46,840 of discount and fees	-	-	-	-
Operating transfers in	7,488	46,082	-	350,000
Operating transfers out	(26,688)	-	-	(7,488)
Total other financing sources (uses)	(19,200)	46,082	-	342,512
Change in cash balances	(44,376)	134,889	(51,492)	602,125
Cash balances beginning of year	1,342,563	704,849	714,630	692,081
Cash balances end of year	\$ 1,298,187	839,738	663,138	1,294,206
Cash Basis Fund Balances				
Nonspendable:				
Cemetery perpetual care	\$ -	-	-	-
Library bequests	-	-	-	-
Restricted for:				
Streets	-	839,738	-	-
Employee benefits	-	-	663,138	-
Debt service	-	-	-	-
Local option sales tax	-	-	-	1,294,206
Fire department	-	-	-	-
Urban renewal purposes	-	-	-	-
Library	171,239	-	-	-
Other purposes	6,580	-	-	-
Assigned for:				
Wastewater treatment plant	500,000	-	-	-
Historic preservation	3,213	-	-	-
Unassigned	617,155	-	-	-
Total cash basis fund balances	\$ 1,298,187	839,738	663,138	1,294,206

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
152,387	-	-	2,156,887
-	-	195,272	195,272
7,991	-	18,014	750,222
-	-	-	39,423
-	-	816	20,606
-	481,599	1,600	1,162,882
-	-	-	594,021
-	-	31,133	408,349
160,378	481,599	246,835	5,327,662
-	-	67,497	2,438,035
-	-	-	882,248
-	-	-	13,770
-	-	1,097	761,487
-	-	156,257	178,825
-	-	-	117,584
503,788	-	-	503,788
-	1,950,515	-	1,950,515
503,788	1,950,515	224,851	6,846,252
(343,410)	(1,468,916)	21,984	(1,518,590)
2,458,160	-	-	2,458,160
-	1,425,714	366	1,829,650
(1,949,026)	-	(46,448)	(2,029,650)
509,134	1,425,714	(46,082)	2,258,160
165,724	(43,202)	(24,098)	739,570
83,245	(1,007,799)	550,834	3,080,403
248,969	(1,051,001)	526,736	3,819,973
-	-	215,610	215,610
-	-	41,000	41,000
-	-	60,000	899,738
-	-	-	663,138
248,969	-	-	248,969
-	-	-	1,294,206
-	-	34,716	34,716
-	-	60,779	60,779
-	-	31,121	202,360
-	-	-	6,580
-	-	-	500,000
-	-	-	3,213
-	(1,051,001)	83,510	(350,336)
248,969	(1,051,001)	526,736	3,819,973

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, 2013

	Enterprise			Total
	Water	Sewer	Landfill	
Operating receipts:				
Charges for service	\$ 1,030,703	629,989	70,751	1,731,443
Miscellaneous	9,095	-	-	9,095
Total operating receipts	1,039,798	629,989	70,751	1,740,538
Operating disbursements:				
Business type activities	878,303	502,990	40,183	1,421,476
Excess of operating receipts over operating disbursements	161,495	126,999	30,568	319,062
Non-operating receipts (disbursements):				
Interest on investments	6,012	2,932	-	8,944
Miscellaneous	7,930	1,199	-	9,129
Capital projects	(49,879)	(525,965)	-	(575,844)
Debt service	-	(169,005)	-	(169,005)
Sewer revenue bond proceeds	-	797,670	-	797,670
Total non-operating receipts (disbursements)	(35,937)	106,831	-	70,894
Excess of receipts over disbursements	125,558	233,830	30,568	389,956
Transfers in	-	200,000	-	200,000
Change in cash balances	125,558	433,830	30,568	589,956
Cash balances beginning of year	1,069,282	729,726	372,874	2,171,882
Cash balances end of year	\$ 1,194,840	1,163,556	403,442	2,761,838
Cash Basis Fund Balances				
Restricted for:				
Debt service	\$ -	17,151	-	17,151
Landfill superfund	-	-	354,613	354,613
Unrestricted	1,194,840	1,146,405	48,829	2,390,074
Total cash basis fund balances	\$ 1,194,840	1,163,556	403,442	2,761,838

See notes to financial statements.

City of Red Oak

Notes to Financial Statements

June 30, 2013

(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 (the primary government) and its blended component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

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

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

Jointly Governed Organizations

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

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

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

Related Organization

The City is responsible for appointing a majority of the voting members of the Low Rent Housing Board, but the City's accountability for this organization does not extend beyond making the appointments.

B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position (previously referred to as 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 Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

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

Expendable restricted net position result when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Employee Benefits Fund is used to account for the property tax levy and disbursements for employee benefits, such as health insurance, pensions, etc.

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

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities with the exception of those financed through Enterprise Funds.

The City reports the following major proprietary funds:

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

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, Landfill Fund accounts for the operation of the City's recycling program and the maintenance of the closed landfill.

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City intends to use for specific purposes as determined by the City Council, City Administrator or City Clerk.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceeded the amount budgeted in the debt service function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2013 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 \$55,789 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated.

(3) Long-Term Debt

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

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 560,000	129,283	85,000	80,550	645,000	209,833
2015	560,000	122,800	90,000	78,000	650,000	200,800
2016	575,000	114,915	90,000	75,300	665,000	190,215
2017	590,000	105,170	95,000	72,600	685,000	177,770
2018	600,000	93,670	95,000	69,750	695,000	163,420
2019-2023	2,320,000	278,525	535,000	303,450	2,855,000	581,975
2024-2028	860,000	35,970	630,000	217,650	1,490,000	253,620
2034-2035	-	-	325,000	14,700	325,000	14,700
Total	\$ 6,065,000	880,333	1,945,000	912,000	8,010,000	1,792,333

Sewer Revenue Bonds

On October 29, 2010, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$2,850,000 of sewer revenue bonds with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the City's sewer system. The bonds are payable solely from sewer customer net receipts and are payable through 2035. During the current year, annual principal and interest payments on the bonds required 133% of net receipts. Principal and interest paid and total customer net receipts were \$169,005 and \$126,999, respectively.

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

- (1) The bonds will only be redeemed from the future earnings of the enterprise activities and the bond holders hold a lien on the future earnings of the fund.
- (2) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (3) User rates shall be established at a level which produce and maintain net receipts at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

During fiscal year 2013, sufficient user rates were not established at a level to produce net revenues equal to at least 110% of the principal of and interest on the bonds as they became due. Also, the City is not being charged for service as required. In addition, the City has not made the required transfers to the sewer revenue bond sinking account.

Lease-Purchase Agreements

On May 15, 2012, the City entered into lease-purchase agreement for a plow truck. The following is a schedule of the future minimum lease payments, including interest at 3.912% per annum, with a cost of \$117,907 and the present value of net minimum lease payments under the agreement in effect at June 30, 2013:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2014	\$ 25,593
2015	25,593
2016	25,594
2017	25,594
Total minium lease payments	<u>102,374</u>
Less amount representing interest	<u>(9,279)</u>
Present value of net minimum lease payments	<u>\$ 93,095</u>

During the year ended June 30, 2013, the City paid \$25,593 on the lease agreement.

On July 2, 2012, the City entered into lease-purchase agreement for a wheel loader. The following is a schedule of the future minimum lease payments, including interest at 3.30% per annum, with a cost of \$114,410 and the present value of net minimum lease payments under the agreement in effect at June 30, 2013:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2014	\$ 16,004
2015	16,004
2016	16,004
2017	16,004
2018	16,004
2019-2020	32,008
Total minimum lease payments	<u>112,028</u>
Less amount representing interest	<u>(13,622)</u>
Present value of net minimum lease payments	<u>\$ 98,406</u>

During the year ended June 30, 2013, the City paid \$16,000 on the lease agreement.

(4) Development and Rebate Agreements

Rebate Agreements

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

The total to be paid by the City under the agreements is not to exceed \$2,022,865. The total amount rebated during the year ended June 30, 2013 was \$141,496. The City has rebated a total of \$872,302 of incremental property tax under the agreements. The outstanding balance of the agreements at June 30, 2013 was \$1,150,563.

These agreements are not a general obligation of the City. However, the agreements are subject to the constitutional debt limitation of the City, except for \$66,010 which has not been appropriated by the City Council at June 30, 2013.

(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 5.78% of their annual covered salary and the City is required to contribute 8.67% 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, 2013, 2012 and 2011 were \$193,321, \$173,845 and \$155,128, respectively, equal to the required contributions for each year.

(6) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug and dental benefits for employees, retirees and their spouses. There are 46 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug and dental benefits are provided through fully-insured plans with Wellmark and Delta Dental. Retirees under age 65 would pay the same premium for the medical/prescription drug and dental benefits as active employees.

Funding Policy – The contribution requirement of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$503 for single coverage and \$1,560 for family coverage. For the year ended June 30, 2013, the City contributed \$610,656 and plan members eligible for benefits contributed \$38,835 to the plan.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, compensatory time and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory time and sick leave payable to employees at June 30, 2013, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 105,000
Compensatory time	24,000
Sick leave	<u>82,000</u>
Total	<u>\$ 211,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2013.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Local Option Sales Tax	<u>\$ 7,488</u>
Special Revenue: Road Use Tax	Special Revenue: Tax Increment Financing	46,082
Local Option Sales Tax	Debt Service	350,000
Library Bequest	Permanent: Library Bequest	<u>366</u>
		<u>396,448</u>
Capital Projects	General	26,688
	Debt Service	1,399,026
		<u>1,425,714</u>
Enterprise: Water	Debt Service	<u>200,000</u>
Total		<u>\$ 2,029,650</u>

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

(9) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 679 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 300% 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, 2013 were \$134,639.

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. For members requiring specific coverage from \$3,000,000 to \$15,000,000 such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 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, 2013, 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% 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.

(10) Interfund Loan

The detail of the Interfund loan at June 30, 2013 is as follows:

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

In a prior year, an advance was made from the General Fund to the Special Revenue, Tax Increment Financing Fund to provide an economic development grant for an urban renewal project. The loan will be repaid through transfers from the Special Revenue, Tax Increment Financing Fund as receipts of the fund become available.

(11) Library Bequests

The Library has received various restricted bequests. At June 30, 2013, the Permanent, 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 received \$1,200 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, 2013, the City spent \$24 of these funds for flowers and \$383 for cemetery maintenance. At June 30, 2013, the balance in the Special Revenue, Komarek Trust Fund totaled \$13,429.

(13) Contingent Liability

The City entered into a joint agreement with the U.S. Environmental Protection Agency (EPA) with respect to contamination at the former site of the Red Oak Landfill. Under the terms of the settlement agreement, the City and Magna International are jointly responsible for the operation and maintenance of the remedy for a period of 30 years. The City and Magna International are required to establish and maintain financial security in the amount of \$735,100, for which both the City and Magna International are jointly responsible only if they fail to carry out the program in making the necessary reports to the EPA. At June 30, 2013, all monitoring and maintenance activities were completed.

(14) Commitments

The City entered into contracts for water treatment plant improvements, a trail project, swimming pool renovation, downtown renovation and airport runway renovation totaling \$10,451,463, of which \$9,963,469 has been paid at June 30, 2013. The balance of \$487,994 will be paid as work on the projects progresses.

(15) Deficit Balance

At June 30, 2013, the Capital Projects Fund had a deficit balance of \$1,051,001. The deficit balance in the Capital Projects Fund will be eliminated through future transfers from other funds, grant reimbursements and long-term debt proceeds.

City of Red Oak

Other Information

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

Other Information

Year ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 2,156,887	-	-
Tax increment financing	195,272	-	-
Other city tax	750,222	-	-
Licenses and permits	39,423	-	-
Use of money and property	20,606	8,944	317
Intergovernmental	1,162,882	-	-
Charges for service	594,021	1,740,538	-
Miscellaneous	408,349	14,129	27,128
Total receipts	5,327,662	1,763,611	27,445
Disbursements:			
Public safety	2,438,035	-	-
Public works	882,248	-	-
Health and social services	13,770	-	-
Culture and recreation	761,487	-	-
Community and economic development	178,825	-	-
General government	117,584	-	-
Debt service	503,788	-	-
Capital projects	1,950,515	-	-
Business type activities	-	2,166,325	67,497
Total disbursements	6,846,252	2,166,325	67,497
Excess (deficiency) of receipts over (under) disbursements	(1,518,590)	(402,714)	(40,052)
Other financing sources, net	2,258,160	992,670	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	739,570	589,956	(40,052)
Balances beginning of year	3,080,403	2,171,882	74,768
Balances end of year	\$ 3,819,973	2,761,838	34,716

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
2,156,887	2,149,349	2,149,349	7,538
195,272	182,772	182,772	12,500
750,222	662,225	662,225	87,997
39,423	51,125	51,125	(11,702)
29,233	16,880	16,880	12,353
1,162,882	907,956	907,956	254,926
2,334,559	2,279,975	2,279,975	54,584
395,350	349,450	349,450	45,900
7,063,828	6,599,732	6,599,732	464,096
2,438,035	2,460,997	2,500,997	62,962
882,248	1,011,698	1,236,698	354,450
13,770	23,500	23,500	9,730
761,487	797,324	842,324	80,837
178,825	188,950	188,950	10,125
117,584	134,008	134,008	16,424
503,788	467,155	467,155	(36,633)
1,950,515	1,979,502	1,979,502	28,987
2,098,828	2,175,240	2,175,240	76,412
8,945,080	9,238,374	9,548,374	603,294
(1,881,252)	(2,638,642)	(2,948,642)	1,067,390
3,250,830	171,100	(1,036,229)	4,287,059
1,369,578	(2,467,542)	(3,984,871)	5,354,449
5,177,517	7,509,692	7,509,692	(2,332,175)
6,547,095	5,042,150	3,524,821	3,022,274

City of Red Oak

Notes to Other Information – Budgetary Reporting

June 30, 2013

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$310,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amount budgeted in the debt service function.

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, 2013

	Volunteer		Tax	Low-	Special
	Fire and		Increment	Moderate	Hotel
	Rescue	I-Jobs	Financing	Income	Recreation &
	Association				Tourism
Receipts:					
Tax increment financing	\$ -	-	191,579	3,693	-
Other city taxes	-				9,007
Use of money and property	317	-	-	-	-
Intergovernmental	-	-	-	-	-
Miscellaneous	27,128	-	-	-	-
Total receipts	27,445	-	191,579	3,693	9,007
Disbursements:					
Operating:					
Public safety	67,497	-	-	-	-
Culture and recreation	-	-	-	-	-
Community and economic development	-	-	154,657	-	-
Total disbursements	67,497	-	154,657	-	-
Excess (deficiency) of receipts over (under) disbursements	(40,052)	-	36,922	3,693	9,007
Other financing sources (uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	(46,082)	-	-
Total other financing sources (uses)	-	-	(46,082)	-	-
Change in cash balances	(40,052)	-	(9,160)	3,693	9,007
Cash balances beginning of year	74,768	60,000	69,939	48,374	-
Cash balances end of year	\$ 34,716	60,000	60,779	52,067	9,007
Cash Basis Fund Balances					
Nonspendable:					
Cemetery perpetual care	\$ -	-	-	-	-
Library bequests	-	-	-	-	-
Restricted for:					
Streets	-	60,000	-	-	-
Fire department	34,716	-	-	-	-
Urban renewal purposes	-	-	60,779	-	-
Library	-	-	-	-	-
Other purposes	-	-	-	52,067	9,007
Total cash basis fund balances	\$ 34,716	60,000	60,779	52,067	9,007

See accompanying independent auditor's report.

Revenue						Permanent			
Hotel Community Events	CDBG Nishna Productions	Komarek Trust	Cemetery Kiosk	Library Bequest	Library People's Art Projects	Cemetery Perpetual Care	Library Bequest	Total	
-	-	-	-	-	-	-	-	195,272	
9,007	-	-	-	-	-	-	-	18,014	
-	-	-	-	132	1	-	366	816	
-	1,600	-	-	-	-	-	-	1,600	
-	-	1,200	-	-	-	2,805	-	31,133	
9,007	1,600	1,200	-	132	1	2,805	366	246,835	
-	-	-	-	-	-	-	-	67,497	
-	-	407	-	690	-	-	-	1,097	
-	1,600	-	-	-	-	-	-	156,257	
-	1,600	407	-	690	-	-	-	224,851	
9,007	-	793	-	(558)	1	2,805	366	21,984	
-	-	-	-	366	-	-	-	366	
-	-	-	-	-	-	-	(366)	(46,448)	
-	-	-	-	366	-	-	(366)	(46,082)	
9,007	-	793	-	(192)	1	2,805	-	(24,098)	
-	-	12,636	-	27,289	4,023	212,805	41,000	550,834	
9,007	-	13,429	-	27,097	4,024	215,610	41,000	526,736	
-	-	-	-	-	-	215,610	-	215,610	
-	-	-	-	-	-	-	41,000	41,000	
-	-	-	-	-	-	-	-	60,000	
-	-	-	-	-	-	-	-	34,716	
-	-	-	-	-	-	-	-	60,779	
-	-	-	-	27,097	4,024	-	-	31,121	
9,007	-	13,429	-	-	-	-	-	83,510	
9,007	-	13,429	-	27,097	4,024	215,610	41,000	526,736	

City of Red Oak
 Schedule of Indebtedness
 Year ended June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Corporate purpose and refunding	Mar 25, 2010	0.50-3.45%	\$ 2,600,000
Sewer improvement	Nov 17, 2010	0.75-3.40	2,350,000
Corporate purpose	Sep 26, 2012	0.45-2.30	2,505,000
Total			
Revenue bonds:			
Sewer	Oct 29, 2010	3.00% *	\$ 2,850,000
Lease purchase agreements:			
Plow truck	May 15, 2012	3.912%	\$117,907
Wheel loader	Jul 2, 2012	3.300%	114,410
Total			

* The City is required to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
1,675,000	-	210,000	1,465,000	41,975
2,245,000	-	150,000	2,095,000	55,180
-	2,505,000	-	2,505,000	24,743
\$ 3,920,000	2,505,000	360,000	6,065,000	121,898
1,972,330	797,670	85,000	2,685,000	84,005
117,907	-	24,812	93,095	781
-	114,410	16,004	98,406	-
\$ 117,907 -	114,410	40,816	191,501	781

City of Red Oak

Bond Maturities

June 30, 2013

General Obligation Bonds							
Year Ending June 30,	Corporate Purpose and Refunding		Sewer Improvement		Sewer Improvement		Total
	Issued March 25, 2010		Issued Nov 17, 2010		Issued Sept 26, 2012		
	Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	
2014	1.70%	\$ 215,000	1.30%	\$ 150,000	0.45%	\$ 195,000	560,000
2015	2.10	210,000	1.55	155,000	0.55	195,000	560,000
2016	2.50	220,000	1.80	160,000	0.70	195,000	575,000
2017	2.80	230,000	2.10	160,000	0.85	200,000	590,000
2018	3.10	235,000	2.30	165,000	1.20	200,000	600,000
2019	3.30	195,000	2.50	170,000	1.35	205,000	570,000
2020	3.45	160,000	2.70	175,000	1.60	210,000	545,000
2021		-	2.90	180,000	1.75	215,000	395,000
2022		-	3.05	185,000	1.95	215,000	400,000
2023		-	3.15	190,000	2.10	220,000	410,000
2024		-	3.25	200,000	2.20	225,000	425,000
2025		-	3.40	205,000	2.30	230,000	435,000
2026		-		-		-	-
2027		-		-		-	-
2028		-		-		-	-
2029		-		-		-	-
2030		-		-		-	-
2031		-		-		-	-
2032		-		-		-	-
2033		-		-		-	-
2034		-		-		-	-
2035		-		-		-	-
Total		<u>\$ 1,465,000</u>		<u>\$ 2,095,000</u>		<u>\$ 2,505,000</u>	<u>6,065,000</u>

See accompanying independent auditor's report.

Year Ending June 30,	Revenue Bonds		
	Sewer		
	Issued Oct 29, 2010		
	Interest Rates		Amount
2014	3.00%	\$	85,000
2015	3.00		90,000
2016	3.00		90,000
2017	3.00		95,000
2018	3.00		95,000
2019	3.00		100,000
2020	3.00		105,000
2021	3.00		105,000
2022	3.00		110,000
2023	3.00		115,000
2024	3.00		120,000
2025	3.00		120,000
2026	3.00		125,000
2027	3.00		130,000
2028	3.00		135,000
2029	3.00		140,000
2030	3.00		145,000
2031	3.00		150,000
2032	3.00		150,000
2033	3.00		155,000
2034	3.00		160,000
2035	3.00		165,000
Total		\$	<u>2,685,000</u>

City of Red Oak

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

For the Last Ten Years

	2013	2012	2011	2010
Receipts:				
Property tax	\$ 2,156,887	2,134,293	2,032,826	2,128,623
Tax increment financing	195,272	249,408	170,716	91,392
Other city tax	750,222	679,143	637,533	608,242
Licenses and permits	39,423	69,982	60,593	51,523
Use of money and property	20,606	8,545	30,586	81,969
Intergovernmental	1,162,882	1,349,513	1,372,360	2,283,841
Charges for service	594,021	638,841	640,212	495,287
Special assessments	-	3,172	3,433	3,695
Miscellaneous	408,349	608,234	477,816	316,029
Total	<u>\$ 5,327,662</u>	<u>5,741,131</u>	<u>5,426,075</u>	<u>6,060,601</u>
Disbursements:				
Operating:				
Public safety	\$ 2,438,035	2,237,045	2,451,691	2,167,493
Public works	882,248	1,007,610	787,651	802,415
Health and social services	13,770	31,297	39,595	10,006
Culture and recreation	761,487	794,891	683,139	655,112
Community and economic development	178,825	740,843	471,518	279,102
General government	117,584	116,346	119,821	123,141
Debt service	503,788	434,980	423,037	468,832
Capital projects	1,950,515	1,003,814	636,005	3,231,951
Total	<u>\$ 6,846,252</u>	<u>6,366,826</u>	<u>5,612,457</u>	<u>7,738,052</u>

See accompanying independent auditor's report.

2009	2008	2007	2006	2005	2004
2,050,552	2,051,128	1,987,915	1,977,212	1,971,911	2,083,572
82,158	81,447	201,129	90,136	89,074	259,745
668,751	557,592	646,708	528,603	584,980	547,700
61,636	51,073	49,585	53,302	80,412	16,097
124,911	239,731	251,362	156,388	99,670	76,739
2,020,983	1,705,840	915,512	576,171	1,546,851	876,268
548,744	580,372	590,031	550,830	558,132	424,815
3,957	4,219	4,481	26,667	9,947	7,867
595,485	452,226	396,528	535,457	263,518	280,962
6,157,177	5,723,628	5,043,251	4,494,766	5,204,495	4,573,765
2,490,460	1,885,490	1,842,324	1,684,050	1,731,635	1,702,066
796,214	800,133	497,363	531,830	576,699	514,779
8,123	29,080	13,591	15,263	16,098	13,339
577,789	580,009	547,171	585,723	690,502	492,602
164,443	298,823	134,446	70,045	76,827	328,252
157,026	112,603	102,300	108,125	115,442	118,595
696,778	699,977	694,634	700,026	1,462,758	936,457
850,782	2,891,634	202,061	449,924	1,916,596	646,885
5,741,615	7,297,749	4,033,890	4,144,986	6,586,557	4,752,975

City of Red Oak



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Mary Mosiman, CPA
Auditor of State

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

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Red Oak, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 22, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Red Oak's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Red Oak's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Red Oak's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Red Oak's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A) through (C) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described the accompanying Schedule of Findings as items (D) through (F) to be significant deficiencies.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.


The City of Red Oak's Responses to the Findings


The City of Red Oak's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Red Oak's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 22, 2014

City of Red Oak

Schedule of Findings

Year ended June 30, 2013

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from performing duties which are incompatible. Generally, one or two individuals may have control over the following areas for the City:
- (1) Incoming mail is not opened by an individual not authorized to make entries to the accounting records. In addition, an independent person does not compare the listing to cash receipt records consistently.
 - (2) Receipts – collecting, depositing, journalizing and posting.
 - (3) Utility receipts – billing, collecting and posting.
 - (4) Disbursements – purchasing, recording, reconciling and posting.
 - (5) Payroll – preparing, approving and disbursing, including electronic fund transfers.
 - (6) Bank reconciliation – accessing records, signing checks and preparing bank reconciliation.
 - (7) Financial reports – for 4 of 12 months, the financial reports were not reviewed by the City Council.

For the Library and the Volunteer Fire and Rescue Association, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – posting, reconciling and check writing.
- (3) Cash – handling and recording cash.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City, the Library and the Volunteer Fire and Rescue Association should review their operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of reviews should be indicated by the signature or initials of the independent reviewer and the date of the review.

Response – We will continue to strive towards the highest level of internal control possible given the limitations of current staffing levels. The Library and Volunteer Fire and Rescue Association will be advised the same requirements apply to these entities as well, and enact the above recommendations.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings

Year ended June 30, 2013

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not properly reconciled for four months of the year. Although the computer system generates a reconciliation report, the amounts in the report are not compared to the utility records to ensure accuracy. The delinquent accounts listing was not printed or reviewed during the fiscal year. An independent person does not review and approve the reconciliation or adjustments made to accounts. In addition, there is no formal policy or procedures for the process of collecting or writing off accounts.

Recommendation – Procedures should be established to compare amounts on the computer generated reconciliation report to utility records for accuracy. The delinquent accounts listing should be printed and reviewed. An independent person should review the reconciliations and adjustments and should monitor delinquent accounts. In addition, policies and procedures should be established for the process of collecting or writing off accounts.

Response – City is currently doing reconciliation and adjustments as proposed. City is in process of drafting policies for City Council consideration.

Conclusion – Response accepted.

- (C) Computer Systems – During our review of internal control, the existing control activities in the City's computer systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City's computer systems were noted:

The City does not have written policies for requiring employees to periodically change passwords.

The City did not delete a former employee's login credentials in a timely manner. These login credentials were shared and used by other employees during the year.

Recommendation – The City should develop written policies and procedures addressing the above items to improve the City's control over its computer systems. In addition, employee credentials should be immediately removed upon an employee leaving employment.

Response – Past employee log in credentials will be removed in a timely fashion and policies for changing of password will be drafted for City Council consideration.

Conclusion – Response accepted.

- (D) 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.

City of Red Oak

Schedule of Findings

Year ended June 30, 2013

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 City Council on a monthly basis.

Response – We have instructed the Library all accounts are to be turned over to City. Will continue to pursue.

Conclusion – Response accepted.

- (E) Petty Cash Policy – The City has several departments which utilize a petty cash fund. The City does not have a policy for the petty cash funds which specifies proper usage, including allowable and unallowable disbursements, approvals and maximum dollar amounts. In addition, one City department utilizes the petty cash fund rather than following established City procurement policies.

Recommendation – The City should formalize a petty cash fund policy establishing proper usage, amounts and procedures for all City departments. All City departments should follow established procurement policies.

Response – A policy will be drafted for City Council consideration.

Conclusion – Response accepted.

- (F) Contracts – The City enters into contracts for work to be performed for the City. The contracts are required to be signed by both parties prior to work being performed and disbursements being made to the contractor. One contract was not signed prior to work being performed and disbursements being made to the contractor.

Recommendation – The City should ensure contracts are properly signed by both parties prior to work being performed and disbursements being made to the contractor.

Response – The City will ensure all contracts are signed by all parties prior to work performed and disbursements are made to the contractor.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted

City of Red Oak

Schedule of Findings

Year ended June 30, 2013

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – At June 30, 2013, disbursements exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City will make every attempt to stay within budget or budget amendment will be properly adopted.

Conclusion – Response accepted.

- (2) Questionable Disbursements – A disbursement we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented was noted. This disbursement is detailed as follows:

Paid to	Purpose	Amount
HyVee	Condolence flowers	\$ 60

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by this disbursement before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures which clearly document the public purpose, including the requirement for proper documentation.

Response – The City feels expressing condolences to employees grieving the loss of a loved one is an important aspect of showing our respect and appreciation for our employees and, therefore, unquestionably serves as public purpose.

Conclusion – Response acknowledged. The City should establish written policies for bereavement disbursements to document the public purpose served.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Red Oak

Schedule of Findings

Year ended June 30, 2013

- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Chavis Wise, Full-Time Firefighter, Owner of American Fire Protection	Extinguisher inspections and supplies	\$ 1,973

The transactions with American Fire Protection may represent a conflict of interest as defined in Chapter 362.5 of the Code of Iowa since the total transactions exceed \$1,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The City will make every attempt to keep expenditures of this nature beneath the \$1,500 cap.

Conclusion – Response acknowledged. The City should consult legal counsel to determine the disposition of this matter.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not. However, the warrant listing and summary of revenue and disbursements were not published within 15 days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and publish the warrant listing and summaries timely.

Response – Warrants have always been published. Will make every effort to see they are published timely.

Conclusion – Response accepted.

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- (8) Financial Condition – The Capital Projects Fund had a deficit balance at June 30, 2013 of \$1,051,001.

Recommendation – The City should investigate alternatives to eliminate this deficit to return the fund to a sound financial position.

Response – Projects are zeroed out upon completion.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings

Year ended June 30, 2013

(9) Revenue Bonds – The following instances of non-compliance with the sewer revenue bond requirements were noted:

- The City's sewer revenue bond resolution requires a sewer revenue bond sinking account be established and transfers are to be made into the sinking account in equal monthly installments on the first day of each month. The City has established a sewer revenue bond sinking account, but the required monthly transfers into the sinking account were not made.
- The provisions of the sewer revenue bond resolution require the City produce net operating receipts equal to at least 110% of the principal of and interest on the bonds as they become due. The City's fiscal year 2013 net operating receipts of \$126,999 were less than 110% of the \$169,005 of sewer revenue bond principal and interest due during fiscal year 2013.
- The City's sewer revenue bond resolution requires all users of the system, including the City, be charged for usage. The City is not being charged for usage.

Recommendation – The City should make the necessary transfers to the sewer revenue bond sinking account as required by the sewer bond resolution. The City should establish utility rates at a level sufficient to produce net receipts to comply with the bond provisions. In addition, the City should ensure City sewer usage is billed and paid by the City as required by the bond provisions.

Response – Necessary transfers will be made and City will continue to analyze sewer rates to determine appropriate increases. The City will establish a sewer charge for all City departments.

Conclusion – Response accepted.

(10) Urban Renewal Annual Report – The urban renewal annual report has not been certified to the Iowa Department of Management.

Recommendation – The City should file the urban renewal annual report timely.

Response – The urban renewal annual report is substantially complete and will be finalized and filed as required.

Conclusion – Response accepted.

(11) I-JOBS Funding – As part of the 2009 I-JOBS legislation, cities receiving I-JOBS funding were required to identify and report quarterly to the Iowa Department of Transportation the specific projects or activities undertaken, their status and the amount of I-JOBS road funds spent to date. In addition, cities were required to expend the I-JOBS monies received within two years of receipt. The City did not submit the required reports and the City did not expend the I-JOBS funding within two years as required.

Recommendation – The City should contact the Iowa Department of Transportation (IDOT) to determine the disposition of this matter.

City of Red Oak

Schedule of Findings

Year ended June 30, 2013

Response – The City will make contact with IDOT to determine the disposition of this matter.

Conclusion – Response accepted.

- (12) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The Library does not properly retain electronic images of cancelled checks.

Recommendation – The Library should retain an image of both the front and back of each cancelled check as required.

Response – Once library accounts are transferred to the City, this will be handled in accordance with state recommendation, as are the other city accounts.

Conclusion – Response accepted.

- (13) Excessive Balance – The Special Revenue, Employee Benefits Fund cash balance at June 30, 2013 was \$663,138, or 70% of the total disbursements of \$944,150 during the fiscal year. The cash balance of the fund was \$714,630 at June 30, 2012.

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 – The City will continue to analyze requested funding for employee benefits and strive to reduce the subject cash balance.

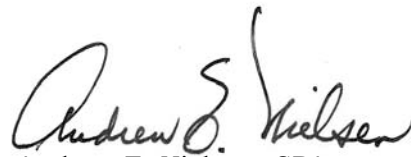
Conclusion – Response accepted.

City of Red Oak

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager
Dorothy O. Stover, Staff Auditor
Jessica L. Barloon, Assistant Auditor
Anthony M. Heibult, Assistant Auditor
Megan E. Irvin, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State