

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

March 20, 2018

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 \$8,568,919 for the year ended June 30, 2017, a 7.6% increase over the prior year. The receipts included \$2,550,951 in property tax, \$274,292 from tax increment financing, \$2,933,425 from charges for service, \$982,913 from operating grants, contributions and restricted interest, \$848,969 from capital grants, contributions and restricted interest, \$628,157 from local option sales tax, \$97,456 from hotel/motel tax, \$12,717 from unrestricted interest on investments and \$240,039 from other general receipts.

Disbursements for the year ended June 30, 2017 totaled \$8,503,536, a 5.1% decrease from the prior year, and included \$2,601,376 for public safety, \$1,321,058 for capital projects and \$928,610 for public works. Also, disbursements for business type activities totaled \$1,763,377.

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 <https://auditor.iowa.gov/reports/1720-0647-B00F>.

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CITY OF RED OAK

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

JUNE 30, 2017

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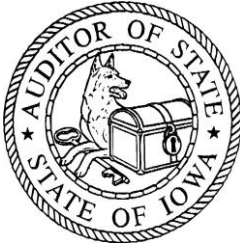
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City of Red Oak

Officials

<u>Name</u>	<u>Title</u>	<u>Expires</u>
William H. Billings, Jr.	Mayor	Jan 2020
Larry Barnett	Mayor Pro Tem	Jan 2020
Bill Haufle	Council Member	Jan 2018
Roger Waggener	Council Member	Jan 2018
Scott Keith	Council Member	Jan 2020
Jeanice Lester	Council Member	Jan 2020
Brad Wright	Administrator	Indefinite
Mary Bolton	City Clerk	Indefinite
Stephen Hays	Treasurer	Indefinite
Tom Stamets	Attorney	Indefinite

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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, the discretely presented component unit, 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, 2017, 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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Red Oak as of June 30, 2017, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed 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 opinions are 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, 2016 (which are not presented herein) and expressed unmodified 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, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 7 through 12 and 36 through 42, 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 February 22, 2018 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 solely 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 effectiveness of the City's 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

February 22, 2018

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, 2017. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2017 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 7.3%, or approximately \$455,000, from fiscal year 2016 to fiscal year 2017. The increase was primarily due an increase in donations to the Library and to the Volunteer Fire and Rescue Association.
- Disbursements for governmental activities decreased 7.0%, or approximately \$506,000, from fiscal year 2016 to fiscal year 2017. The capital projects, public works and health and social services function disbursements decreased approximately \$856,000, \$16,000 and \$16,000, respectively. Public safety function disbursements increased approximately \$233,000.
- The City's total cash basis net position increased 1.2%, or approximately \$65,000, from June 30, 2016 to June 30, 2017. Of this amount, the cash basis net position of the governmental activities decreased approximately \$255,000 and the cash basis net position of the business type activities increased approximately \$320,000.

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 and the City's proportionate share of the net pension liability and related contributions.

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, considered to be major funds of the City.

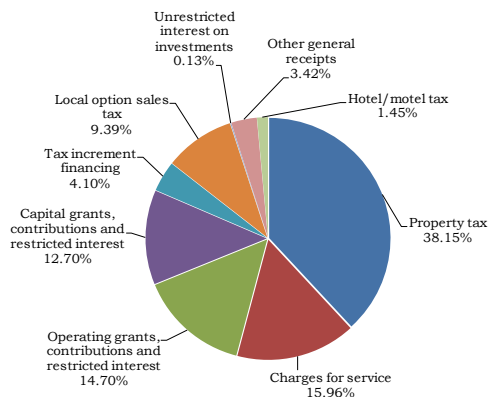
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

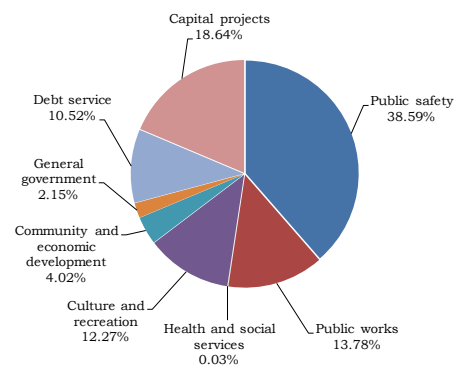
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$3.257 million to approximately \$3.002 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2017	2016
Receipts:		
Program receipts:		
Charges for service	\$ 1,067	1,019
Operating grants, contributions and restricted interest	983	815
Capital grants, contributions and restricted interest	849	801
General receipts:		
Property tax	2,551	2,467
Tax increment financing	274	205
Local option sales tax	628	635
Hotel/motel tax	97	90
Unrestricted interest on investments	9	10
Other general receipts	229	190
Total receipts	6,687	6,232
Disbursements:		
Public safety	2,601	2,368
Public works	929	945
Health and social services	2	18
Culture and recreation	827	833
Community and economic development	271	75
General government	145	130
Debt service	709	700
Capital projects	1,256	2,177
Total disbursements	6,740	7,246
Change in cash basis net position before transfers	(53)	(1,014)
Transfers, net	(202)	296
Change in cash basis net position	(255)	(718)
Cash basis net position beginning of year	3,257	3,975
Cash basis net position end of year	\$ 3,002	3,257

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 7.3%, or approximately \$455,000, from fiscal year 2016 to fiscal year 2017. The total cost of all programs and services decreased approximately \$506,000, or 7%. The increase in receipts was primarily the result of increased donations to the Library and the Volunteer Fire and Rescue Association. The decrease in disbursements was primarily due to fewer capital projects.

The cost of all governmental activities this year was approximately \$6.7 million compared to approximately \$7.2 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 approximately \$3.8 million because some of the cost was paid by those who directly benefited from the programs (approximately \$1,067,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$1,832,000).

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2017	2016
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 999	944
Sewer	719	670
Landfill	40	40
Storm sewer	108	71
General receipts:		
Unrestricted interest on investments	4	4
Other general receipts	11	3
Total receipts	<u>1,881</u>	<u>1,732</u>
Disbursements:		
Water	966	929
Sewer	750	740
Landfill	45	45
Storm sewer	2	2
Total disbursements	<u>1,763</u>	<u>1,716</u>
Change in cash basis net position before transfers	118	16
Transfers, net	202	(295)
Change in cash basis net position	320	(279)
Cash basis net position beginning of year	2,184	2,463
Cash basis net position end of year	<u>\$ 2,504</u>	<u>2,184</u>

Total business type activities receipts increased approximately \$149,000, or 8.6%, from fiscal year 2016 to fiscal year 2017. Total disbursements for the fiscal year increased 2.7%, or approximately \$47,000. The increase in receipts is primarily due to an increase in water and sewer rates during fiscal year 2017. The cash balance increased approximately \$320,000 over the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Red Oak completed the year, its governmental funds reported a combined fund balance of \$3,002,388, a decrease of more than \$255,000 compared to last year's total of \$3,257,416. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$379,137 from the prior year to \$1,596,876. The increase was primarily due to an increase in library donations during the year.
- The Special Revenue, Road Use Tax Fund cash balance increased \$154,894, or 12.1%, to \$1,429,838. The City intends to use this money to upgrade the condition of all City roads.
- The Special Revenue, Employee Benefits Fund cash balance decreased \$35,594, or 14.4%, during the fiscal year to \$211,507. The City has been reducing their levy over the past several years to reduce the surplus in the fund.
- 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 \$417,609, a decrease of \$189,910 from the prior year. The decrease was due to an increase in disbursements for police equipment during the fiscal year.
- The Special Revenue, Tax Increment Financing Fund cash balance decreased \$227,300, or 54.7%, during the fiscal year to \$188,293. The decrease was due to an interfund loan repayment to the Enterprise, Water Fund during fiscal year 2017.
- The Debt Service Fund cash balance decreased \$26,305 during the fiscal year to \$1,408,830. This is primarily due to the City utilizing local option sales tax to offset debt payments thus reducing the debt service levy.
- The Capital Projects Fund cash balance decreased \$359,343 during the fiscal year to a deficit of \$2,712,527. The City spent a total of \$1,255,921 on construction projects in the current year compared to \$2,078,565 in the prior year. The decrease in disbursements is primarily due to project completion in the previous year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$295,647 to \$1,392,479 at June 30, 2017. Total receipts increased \$63,170 while disbursements increased \$38,058 during the year.
- The Enterprise, Sewer Fund cash balance decreased \$28,782 to \$567,200 at June 30, 2017. Total receipts increased \$48,666 while disbursements increased \$9,993 during the year.
- The Enterprise, Landfill Fund cash balance decreased \$4,735 to \$417,377 at June 30, 2017.
- The Enterprise, Storm Sewer cash balance increased \$58,281 to \$127,161 at June 30, 2017. The increase was primarily due to a full year of operations for fiscal year 2017. The balance is expected to decrease in fiscal year 2018 as a transfer will be made to the Capital Project Fund for the levee project.

BUDGETARY HIGHLIGHTS

The City's receipts were \$208,404 less than budgeted.

Total disbursements were \$1,546,717 less than budgeted.

DEBT ADMINISTRATION

At June 30, 2017, the City had approximately \$7,425,000 of bonds and other long-term debt outstanding, compared to approximately \$8,100,000 last year.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2017	2016
General obligation bonds	\$ 5,070	5,635
Sewer revenue bonds	2,325	2,420
Lease-purchase agreement	30	45
Total	<u>\$ 7,425</u>	<u>8,100</u>

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 \$6,387,151 including tax increment financing rebate agreements of \$1,286,683, is below its constitutional debt limit of approximately \$12,000,000. 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 2018 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, 2017 decreased to 3.5%, versus 3.8% a year ago. This compares with the State's unemployment rate of 3.2% and the national rate of 4.4%.

These factors were taken into account when adopting the budget for fiscal year 2018. Property tax receipts available for appropriation in the fiscal year 2018 operating budget are approximately \$2.514 million, an increase of 2.9% from the fiscal year 2017 budget. Budgeted disbursements are \$8,294,969, a decrease of 16.9% compared to the fiscal year 2017 final budget. Decreases in expected capital project costs represent the largest decrease.

If these estimates are realized, the City's June 30, 2018 budgeted cash balance is expected to increase approximately \$483,000 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, 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, 2017

	Program Receipts			
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Primary Government:				
Governmental activities:				
Public safety	\$ 2,601,376	680,928	109,580	-
Public works	928,609	215,482	719,913	-
Health and social services	1,981	1,592	-	-
Culture and recreation	827,038	117,510	153,420	-
Community and economic development	271,138	35,353	-	-
General government	145,396	16,533	-	-
Debt service	708,700	-	-	-
Capital projects	1,255,921	-	-	848,969
Total governmental activities	6,740,159	1,067,398	982,913	848,969
Business type activities:				
Water	966,760	999,358	-	-
Sewer	749,855	718,752	-	-
Landfill	45,181	40,446	-	-
Storm sewer	1,581	107,471	-	-
Total business type activities	1,763,377	1,866,027	-	-
Total primary government	\$ 8,503,536	2,933,425	982,913	848,969
Component Unit:				
Red Oak Public Library Foundation	\$ 9,862	-	-	-
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Commercial/industrial tax replacement				
Unrestricted interest on investments				
Miscellaneous				
Sale of assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year, as restated				
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			Component Unit
Primary Government			Red Oak Public Library Foundation
Governmental Activities	Business Type Activities	Total	
(1,810,868)	-	(1,810,868)	
6,786	-	6,786	
(389)	-	(389)	
(556,108)	-	(556,108)	
(235,785)	-	(235,785)	
(128,863)	-	(128,863)	
(708,700)	-	(708,700)	
(406,952)	-	(406,952)	
(3,840,879)	-	(3,840,879)	
-	32,598	32,598	
-	(31,103)	(31,103)	
-	(4,735)	(4,735)	
-	105,890	105,890	
-	102,650	102,650	
(3,840,879)	102,650	(3,738,229)	
			(9,862)
2,194,936	-	2,194,936	-
355,315	-	355,315	-
274,292	-	274,292	-
628,157	-	628,157	-
97,456	-	97,456	-
88,313	-	88,313	-
8,609	4,108	12,717	91,836
140,664	11,262	151,926	-
500	-	500	-
(202,391)	202,391	-	-
3,585,851	217,761	3,803,612	91,836
(255,028)	320,411	65,383	81,974
3,257,416	2,183,806	5,441,222	599,300
\$ 3,002,388	2,504,217	5,506,605	681,274
\$ 270,047	-	270,047	-
1,429,838	-	1,429,838	-
211,507	-	211,507	-
1,408,830	48,390	1,457,220	-
417,609	-	417,609	-
89,102	-	89,102	-
188,293	-	188,293	-
360,690	-	360,690	681,274
-	380,321	380,321	-
206,447	-	206,447	-
(1,579,975)	2,075,506	495,531	-
\$ 3,002,388	2,504,217	5,506,605	681,274

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, 2017

	Special Revenue				
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax	Tax Increment Financing
Receipts:					
Property tax	\$ 1,265,182	-	834,048	-	-
Tax increment financing	-	-	-	-	269,655
Local option sales tax	-	-	-	628,157	-
Other city tax	154,873	-	38,290	-	-
Licenses and permits	80,974	-	-	-	-
Use of money and property	18,364	-	-	-	-
Intergovernmental	200,179	712,833	30,387	-	-
Charges for service	721,020	-	-	-	-
Miscellaneous	393,909	-	702	-	-
Total receipts	2,834,501	712,833	903,427	628,157	269,655
Disbursements:					
Operating:					
Public safety	1,470,899	-	642,806	414,549	-
Public works	232,869	559,069	136,671	-	-
Health and social services	1,981	-	-	-	-
Culture and recreation	669,516	-	146,019	11,398	-
Community and economic development	-	-	-	79,343	191,795
General government	131,871	-	13,525	-	-
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	2,507,136	559,069	939,021	505,290	191,795
Excess (deficiency) of receipts over (under) disbursements	327,365	153,764	(35,594)	122,867	77,860
Other financing sources (uses):					
Sale of real property	500	-	-	-	-
Transfers in	65,000	1,130	-	1,258	9,840
Transfers out	(13,728)	-	-	(314,035)	(315,000)
Total other financing sources (uses)	51,772	1,130	-	(312,777)	(305,160)
Change in cash balances	379,137	154,894	(35,594)	(189,910)	(227,300)
Cash balances beginning of year	1,217,739	1,274,944	247,101	607,519	415,593
Cash balances end of year	\$ 1,596,876	1,429,838	211,507	417,609	188,293
Cash Basis Fund Balances					
Nonspendable:					
Cemetery perpetual care	\$ -	-	-	-	-
Library bequests	-	-	-	-	-
Restricted for:					
Streets	-	1,429,838	-	-	-
Employee benefits	-	-	211,507	-	-
Debt service	-	-	-	-	-
Local option sales tax	-	-	-	417,609	-
Fire department	-	-	-	-	-
Urban renewal purposes	-	-	-	-	188,293
Library	328,563	-	-	-	-
Hotel recreation and tourism	64,321	-	-	-	-
Hotel community events	71,440	-	-	-	-
Other purposes	-	-	-	-	-
Assigned for:					
Historic preservation	3,303	-	-	-	-
Unassigned	1,129,249	-	-	-	-
Total cash basis fund balances	\$ 1,596,876	1,429,838	211,507	417,609	188,293

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
340,629	-	-	2,439,859
-	-	4,637	274,292
-	-	-	628,157
14,684	-	-	207,847
-	-	-	80,974
-	-	498	18,862
12,047	656,986	-	1,612,432
-	-	-	721,020
1,000	191,983	115,985	703,579
368,360	848,969	121,120	6,687,022
-	-	73,122	2,601,376
-	-	-	928,609
-	-	-	1,981
-	-	105	827,038
-	-	-	271,138
-	-	-	145,396
708,700	-	-	708,700
-	1,255,921	-	1,255,921
708,700	1,255,921	73,227	6,740,159
(340,340)	(406,952)	47,893	(53,137)
-	-	-	500
314,035	47,609	1,500	440,372
-	-	-	(642,763)
314,035	47,609	1,500	(201,891)
(26,305)	(359,343)	49,393	(255,028)
1,435,135	(2,353,184)	412,569	3,257,416
1,408,830	(2,712,527)	461,962	3,002,388
-	-	228,904	228,904
-	-	41,143	41,143
-	-	-	1,429,838
-	-	-	211,507
1,408,830	-	-	1,408,830
-	-	-	417,609
-	-	89,102	89,102
-	-	-	188,293
-	-	32,127	360,690
-	-	-	64,321
-	-	-	71,440
-	-	70,686	70,686
-	-	-	3,303
-	(2,712,527)	-	(1,583,278)
1,408,830	(2,712,527)	461,962	3,002,388

City of Red Oak

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, 2017

	Enterprise				Total
	Water	Sewer	Landfill	Storm Sewer	
Operating receipts:					
Charges for service	\$ 978,413	718,752	40,446	107,471	1,845,082
Miscellaneous	20,945	334	-	-	21,279
Total operating receipts	999,358	719,086	40,446	107,471	1,866,361
Operating disbursements:					
Business type activities	942,487	576,205	45,181	1,581	1,565,454
Excess (deficiency) of operating receipts over (under) operating disbursements	56,871	142,881	(4,735)	105,890	300,907
Non-operating receipts (disbursements):					
Interest on investments	2,121	1,987	-	-	4,108
Miscellaneous	10,928	-	-	-	10,928
Capital projects	(24,273)	-	-	-	(24,273)
Debt service	-	(173,650)	-	-	(173,650)
Net non-operating receipts (disbursements)	(11,224)	(171,663)	-	-	(182,887)
Excess (deficiency) of receipts over (under) disbursements	45,647	(28,782)	(4,735)	105,890	118,020
Transfers in	250,000	-	-	-	250,000
Transfers out	-	-	-	(47,609)	(47,609)
Total transfers in (out)	250,000	-	-	(47,609)	202,391
Change in cash balances	295,647	(28,782)	(4,735)	58,281	320,411
Cash balances beginning of year	1,096,832	595,982	422,112	68,880	2,183,806
Cash balances end of year	\$ 1,392,479	567,200	417,377	127,161	2,504,217
Cash Basis Fund Balances					
Restricted for:					
Debt service	\$ -	48,390	-	-	48,390
Landfill superfund	-	-	380,321	-	380,321
Unrestricted	1,392,479	518,810	37,056	127,161	2,075,506
Total cash basis fund balances	\$ 1,392,479	567,200	417,377	127,161	2,504,217

See notes to financial statements.

City of Red Oak

Notes to Financial Statements

June 30, 2017

(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, sewer, landfill and storm 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 component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Discretely Presented Component Unit

The Red Oak Public Library Foundation (Foundation) has been incorporated under the provisions of the Iowa Nonprofit Corporation Act for the purpose of supporting the Red Oak Public Library. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented.

Blended Component Unit

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 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 receipts, 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 results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

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 Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

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.

The Enterprise, Storm Sewer Fund accounts for the operation of the City's storm sewer/storm water system.

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net 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, 2017, disbursements exceeded the amount budgeted in the community and economic development function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2017 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 ensure 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 \$55,958 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the IPAIT investments. The City's investment in the Iowa Public Agency Investment Trust is unrated.

(3) Long-Term Debt

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

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 565,000	132,255	95,000	69,750	660,000	202,005
2019	550,000	120,060	100,000	66,900	650,000	186,960
2020	550,000	94,703	105,000	63,900	655,000	158,603
2021	570,000	94,758	105,000	60,750	675,000	155,508
2022	525,000	80,525	110,000	57,600	635,000	138,125
2023-2027	1,950,000	193,110	610,000	235,950	2,560,000	429,060
2028-2032	360,000	21,900	720,000	138,000	1,080,000	159,900
2033-2036	-	-	480,000	29,100	480,000	29,100
Total	\$ 5,070,000	737,311	2,325,000	721,950	7,395,000	1,459,261

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. Annual principal and interest payments on the bonds are expected to require more than 100% of net receipts. The total principal and interest remaining to be paid on the bonds is \$3,046,950. For the current year, principal and interest paid and total customer net receipts were \$167,600 and \$142,881, 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 2017, user rates were not established at a level to produce net receipts equal to at least 110% of the principal of and interest on the bonds as they came due. Also, the City is not being charged for service, as required, and has not made the required monthly transfers to the sinking account.

Lease-Purchase Agreement

On July 2, 2012, the City entered into a lease-purchase agreement for a wheel loader with a cost of \$114,410. The following is a schedule of the future minimum lease payments, including interest at 3.30% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2017:

Year Ending June 30,	Amount
2019	\$ 16,004
2020	16,004
Total minimum lease payments	32,008
Less amount representing interest	(1,540)
Present value of net minimum lease payments	<u>\$ 30,468</u>

During the year ended June 30, 2017, the City paid \$16,004 on this lease agreement

(4) 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 \$2,716,412. The total amount rebated during the year ended June 30, 2017 was \$191,795. The City has rebated a total of \$1,070,255 of incremental property tax under the agreements. The outstanding balance of the agreements at June 30, 2017 was \$1,646,157.

The City has entered into another rebate agreement to assist in an urban renewal project. The agreement requires the City to rebate portions of the local option sales tax revenue collected within the sub district of the property. The total to be paid by the City under the agreement is not to exceed \$100,000. The total rebated during the year ended June 30, 2017 was \$11,657. The outstanding balance of the agreement at June 30, 2017 was \$62,776.

These agreements are not general obligations of the City. However, the agreements are subject to the constitutional debt limitation of the City, except for \$422,250 which has not been appropriated by the City Council at June 30, 2017.

(5) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount contribution rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2017, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2017 totaled \$203,636.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2017, the City reported a liability of \$1,099,345 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2016, the City's proportion was 0.017469%, which was an increase of 0.003945% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$211,440, \$570,352 and \$282,061, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	1.90%
Domestic equity	24	5.85
International equity	16	6.32
Private equity/debt	11	10.31
Real estate	8	3.87
Credit opportunities	5	4.48
U.S. TIPS	5	1.36
Other real assets	2	6.42
Cash	1	(0.26)
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 2,299,872	1,099,345	86,754

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(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 48 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 requirements 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 \$614 for single coverage and \$1,901 for family coverage. For the year ended June 30, 2017, the City contributed \$719,173 and plan members eligible for benefits contributed \$47,272 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, 2017, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 142,000
Compensatory time	31,000
Sick leave	<u>116,000</u>
Total	<u>\$ 289,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2017.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2017 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Tax Increment Financing	<u>\$ 65,000</u>
Special Revenue:		
Road Use Tax	General	1,130
Local Option Sales Tax	General	1,258
Tax Increment Financing	General	9,840
Rural Fire Sinking	General	<u>1,500</u>
		<u>13,728</u>
Capital Projects	Enterprise:	
	Storm Sewer	<u>47,609</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	<u>314,035</u>
Enterprise:	Special Revenue:	
Water	Tax Increment Financing	<u>250,000</u>
Total		<u>\$ 690,372</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 753 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 casualty 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 estimated for the fiscal 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 at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal 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 Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The City's contributions to the Pool for the year ended June 30, 2017 were \$136,445.

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 \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

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. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

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 \$1,000,000 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) Library Bequests

The Library has received various restricted bequests. At June 30, 2017, the Permanent, Library Bequest Fund included a total of \$41,000 of memorials, as follows:

Name of Memorial	Amount	Purpose
Julia Lane	\$ 10,000	Interest to be used for the purchase of reference books.
Darwin Merritt	1,000	Interest to be used for the purchase of books and furniture.
Mary Windle	1,000	Interest to be used for the purchase of "standard authors" to be placed in a separate "Mary Windle Collection."
Herbert C. Lane	1,000	Interest to be used for the purchase of reference books for the "Lane Memorial Collection."
Virginia A. Petty	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>	

(11) Komarek Trust

The City did not receive any funding from the trustee of the Komarek Trust during the year ended June 30, 2017. During the year, the City spent \$24 of this fund for flowers. At June 30, 2017, the balance in the Special Revenue, Komarek Trust Fund totaled \$2,447.

(12) 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, 2017, all monitoring and maintenance activities were completed.

(13) Commitments

The City has entered into contracts for a trail project, roof replacement project, airport projects and road projects totaling \$1,601,895, of which \$872,543 has been paid at June 30, 2017. The balance of \$729,352 will be paid as work on the projects progresses.

(14) Deficit Balances

At June 30, 2017, the Capital Projects Fund had a deficit balance of \$2,712,527. The deficit will be eliminated through future transfers from other funds.

(15) Tax Abatements

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax receipts to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

City Tax Abatements

The City provides tax abatements for urban renewal and economic development projects with tax increment financing as provided for in Chapters 15A and 403 of the Code of Iowa. For these types of projects, the City enters into agreements with developers which require the City, after developers meet the terms of the agreements, to rebate a portion of the property tax paid or local option sales tax collected by the developers, to pay the developers an economic development grant or to pay the developers a predetermined dollar amount. No other commitments were made by the City as part of these agreements.

For the year ended June 30, 2017, the City abated \$113,797 of property tax under the urban renewal and economic development projects.

(16) Restatement

Beginning net position for the discretely present component unit was restated to correctly report the Red Oak Public Library Foundation as a component unit in accordance with the requirements set forth by the Governmental Accounting Standards Board.

	<u>Discretely Presented Component Unit</u>
Net position, June 30, 2016, as previously reported	\$ -
Correction to report the Foundation	<u>599,300</u>
Net position, July 1, 2016, as restated	<u>\$ 599,300</u>

(17) New Accounting Pronouncement

The City adopted the tax abatement disclosure guidance set forth in Governmental Accounting Standards Board Statement No. 77, Tax Abatement Disclosures. The Statement sets forth guidance for the disclosure of information about the nature and magnitude of tax abatements which will make these transactions more transparent to financial statement users. Adoption of the guidance did not have an impact on amounts reported in the financial statements. The Notes to Financial Statements include information about the City's tax abatements.

(18) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement will be implemented for the fiscal year ending June 30, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with postemployment benefits other than pensions, including additional note disclosures and required supplementary information.

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, 2017

	Governmental Funds Actual	Proprietary Funds Actual	Funds not Required to be Budgeted	Total
Receipts:				
Property tax	\$ 2,439,859	-	-	2,439,859
Tax increment financing	274,292	-	-	274,292
Other city tax	836,004	-	-	836,004
Licenses and permits	80,974	-	-	80,974
Use of money and property	18,862	4,108	344	22,626
Intergovernmental	1,612,432	-	-	1,612,432
Charges for service	721,020	1,845,082	-	2,566,102
Miscellaneous	703,579	32,207	109,236	626,550
Total receipts	6,687,022	1,881,397	109,580	8,458,839
Disbursements:				
Public safety	2,601,376	-	72,092	2,529,284
Public works	928,609	-	-	928,609
Health and social services	1,981	-	-	1,981
Culture and recreation	827,038	-	-	827,038
Community and economic development	271,138	-	-	271,138
General government	145,396	-	-	145,396
Debt service	708,700	-	-	708,700
Capital projects	1,255,921	-	-	1,255,921
Business type activities	-	1,763,377	-	1,763,377
Total disbursements	6,740,159	1,763,377	72,092	8,431,444
Excess (deficiency) of receipts over (under) disbursements	(53,137)	118,020	37,488	27,395
Other financing sources, net	(201,891)	202,391	-	500
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(255,028)	320,411	37,488	27,895
Balances beginning of year	3,257,416	2,183,806	51,614	5,389,608
Balances end of year	\$ 3,002,388	2,504,217	89,102	5,417,503

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
2,442,777	2,442,777	(2,918)
273,012	273,012	1,280
774,365	774,365	61,639
69,750	69,750	11,224
17,970	17,970	4,656
2,185,746	2,185,746	(573,314)
2,424,480	2,424,480	141,622
479,143	479,143	147,407
8,667,243	8,667,243	(208,404)
2,500,010	2,557,155	27,871
1,177,730	1,177,730	249,121
25,500	25,500	23,519
950,548	950,548	123,510
134,257	176,257	(94,881)
154,408	154,408	9,012
709,416	709,416	716
2,223,586	2,223,586	967,665
2,003,561	2,003,561	240,184
9,879,016	9,978,161	1,546,717
(1,211,773)	(1,310,918)	1,338,313
1,000	1,000	(500)
(1,210,773)	(1,309,918)	1,337,813
5,111,440	5,111,440	278,168
3,900,667	3,801,522	1,615,981

City of Red Oak

Notes to Other Information – Budgetary Reporting

June 30, 2017

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 and discretely presented component units. 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 \$99,145. The budget amendment is reflected in the final budgeted amount.

During the year ended June 30, 2017, disbursements exceeded the amounts budgeted in the community and economic development function.

City of Red Oak

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Three Years*
(In Thousands)

Other Information

	2017	2016	2015
City's proportion of the net pension liability	0.017469%	0.013524%	0.010370%
City's proportionate share of the net pension liability	\$ 1,099	668	411
City's covered-employee payroll	\$ 2,262	2,177	2,136
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	48.59%	30.68%	19.24%
IPERS' net position as a percentage of the total pension liability	81.82%	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Red Oak

Schedule of City Contributions

Iowa Public Employees' Retirement System
For the Last Nine Years
(In Thousands)

Other Information

	2017	2016	2015	2014
Statutorily required contribution	\$ 204	209	209	204
Contributions in relation to the statutorily required contribution	(204)	(209)	(209)	(204)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered-employee payroll	\$ 2,182	2,262	2,177	2,136
Contributions as a percentage of covered-employee payroll	9.35%	9.24%	9.60%	9.55%

See accompanying independent auditor's report.

GASB Statement No. 68 requires ten years of information be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

2013	2012	2011	2010	2009
194	176	155	140	134
(194)	(176)	(155)	(140)	(134)
-	-	-	-	-
2,102	2,018	1,898	1,825	1,905
9.23%	8.72%	8.17%	7.67%	7.03%

City of Red Oak

Notes to Other Information – Pension Liability

Year ended June 30, 2017

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.20% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

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, 2017

	Special Revenue				
	Volunteer Fire and Rescue Association	Rural Fire Sinking Fund	Low- Moderate Income	Komarek Trust	Library Bequest
Receipts:					
Tax increment financing	\$ -	-	4,637	-	-
Use of money and property	344	-	-	-	10
Miscellaneous	109,236	1,500	-	-	5
Total receipts	109,580	1,500	4,637	-	15
Disbursements:					
Operating:					
Public safety	72,092	1,030	-	-	-
Culture and recreation	-	-	-	24	81
Total disbursements	72,092	1,030	-	24	81
Excess (deficiency) of receipts over (under) disbursements	37,488	470	4,637	(24)	(66)
Other financing sources:					
Transfers in	-	1,500	-	-	-
Change in cash balances	37,488	1,970	4,637	(24)	(66)
Cash balances beginning of year	51,614	(17)	61,649	2,471	27,167
Cash balances end of year	\$ 89,102	1,953	66,286	2,447	27,101
Cash Basis Fund Balances					
Nonspendable:					
Cemetery perpetual care	\$ -	-	-	-	-
Library bequests	-	-	-	-	-
Restricted for:					
Fire department	89,102	-	-	-	-
Library	-	-	-	-	27,101
Other purposes	-	1,953	66,286	2,447	-
Total cash basis fund balances	\$ 89,102	1,953	66,286	2,447	27,101

See accompanying independent auditor's report.

	Permanent			
Library				
People's	Cemetery			
Art	Perpetual	Library		
Projects	Care	Bequest		Total
-	-	-		4,637
1	-	143		498
1,000	4,244	-		115,985
1,001	4,244	143		121,120
-	-	-		73,122
-	-	-		105
-	-	-		73,227
1,001	4,244	143		47,893
-	-	-		1,500
1,001	4,244	143		49,393
4,025	224,660	41,000		412,569
5,026	228,904	41,143		461,962
-	228,904	-		228,904
-	-	41,143		41,143
-	-	-		89,102
5,026	-	-		32,127
-	-	-		70,686
5,026	228,904	41,143		461,962

City of Red Oak
 Schedule of Indebtedness
 Year ended June 30, 2017

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Sewer improvement	Nov 17, 2010	2.30-3.40%	\$ 2,350,000
Corporate purpose	Sep 26, 2012	1.20-2.30	2,505,000
Corporate purpose and refunding	Mar 17, 2015	3.00-3.50	2,265,000
Total			
Revenue bonds:			
Sewer	Oct 29, 2010	3.00% *	\$ 2,850,000
Lease-purchase agreements:			
Wheel loader	Jul 2, 2012	3.30%	\$ 114,410

* 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
1,630,000	-	160,000	1,470,000	47,448
1,920,000	-	200,000	1,720,000	33,043
2,085,000	-	205,000	1,880,000	61,925
<u>\$ 5,635,000</u>	-	565,000	5,070,000	142,416
<u>2,420,000</u>	-	95,000	2,325,000	72,600
<u>\$ 44,966</u>	-	14,498	30,468	1,506

City of Red Oak

Bond Maturities

June 30, 2017

General Obligation Bonds								
Year Ending June 30,	Sewer Improvement Issued Nov 17, 2010		Corporate Purpose Issued Sept 26, 2012		Corporate Purpose and Refunding Issued Mar 17, 2015		Total	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2018	2.30%	\$ 165,000	1.20%	\$ 200,000	3.00%	\$ 200,000	565,000	
2019	2.50	170,000	1.35	205,000	3.00	175,000	550,000	
2020	2.70	175,000	1.60	210,000	3.00	165,000	550,000	
2021	2.90	180,000	1.75	215,000	3.00	175,000	570,000	
2022	3.05	185,000	1.95	215,000	3.00	125,000	525,000	
2023	3.15	190,000	2.10	220,000	3.00	130,000	540,000	
2024	3.25	200,000	2.20	225,000	3.50	130,000	555,000	
2025	3.40	205,000	2.30	230,000	3.50	135,000	570,000	
2026		-		-	3.00	140,000	140,000	
2027		-		-	3.00	145,000	145,000	
2028		-		-	3.00	115,000	115,000	
2029		-		-	3.00	120,000	120,000	
2030		-		-	3.00	125,000	125,000	
2031		-		-		-	-	
2032		-		-		-	-	
2033		-		-		-	-	
2034		-		-		-	-	
2035		-		-		-	-	
Total		<u>\$ 1,470,000</u>		<u>\$ 1,720,000</u>		<u>\$ 1,880,000</u>	<u>5,070,000</u>	

See accompanying independent auditor's report.

<u>Revenue Bonds</u>		
<u>Sewer</u>		
<u>Issued Oct 29, 2010</u>		
Interest		
<u>Rates</u>		<u>Amount</u>
3.00%	\$	95,000
3.00		100,000
3.00		105,000
3.00		105,000
3.00		110,000
3.00		115,000
3.00		120,000
3.00		120,000
3.00		125,000
3.00		130,000
3.00		135,000
3.00		140,000
3.00		145,000
3.00		150,000
3.00		150,000
3.00		155,000
3.00		160,000
3.00		165,000
	<u>\$</u>	<u>2,325,000</u>

City of Red Oak

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

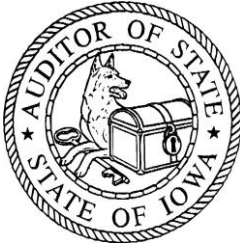
For the Last Ten Years

	2017	2016	2015	2014
Receipts:				
Property tax	\$ 2,439,859	2,351,728	2,385,807	2,274,532
Tax increment financing	274,292	205,418	130,261	155,529
Local option sales tax	628,157	607,519	624,626	537,438
Other city tax	207,847	232,262	209,962	198,033
Licenses and permits	80,974	87,358	34,299	60,470
Use of money and property	18,862	19,028	23,509	13,992
Intergovernmental	1,612,432	1,598,146	1,097,819	866,294
Charges for service	721,020	646,234	694,702	581,007
Special assessments	-	-	-	-
Miscellaneous	703,579	469,128	558,375	399,187
Total	\$ 6,687,022	6,216,821	5,759,360	5,086,482
Disbursements:				
Operating:				
Public safety	\$ 2,601,376	2,368,467	2,651,137	2,273,915
Public works	928,609	944,566	915,346	885,139
Health and social services	1,981	17,669	128,999	117,449
Culture and recreation	827,038	832,866	828,629	832,045
Community and economic development	271,138	75,284	141,205	170,121
General government	145,396	129,862	123,344	114,917
Debt service	708,700	699,544	1,755,591	690,383
Capital projects	1,255,921	2,177,336	733,876	416,576
Total	\$ 6,740,159	7,245,594	7,278,127	5,500,545

See accompanying independent auditor's report.

2013	2012	2011	2010	2009	2008
2,156,887	2,134,293	2,032,826	2,128,623	2,050,552	2,051,128
195,272	249,408	170,716	91,392	82,158	81,447
615,687	567,018	544,659	484,199	543,294	434,488
134,535	122,125	92,874	124,043	125,457	123,104
39,423	69,982	60,593	51,523	61,636	51,073
20,606	8,545	30,586	81,969	124,911	239,731
1,162,882	1,349,513	1,372,360	2,283,841	2,020,983	1,705,840
594,021	638,841	640,212	495,287	548,744	580,372
-	3,172	3,433	3,695	3,957	4,219
408,349	608,234	477,816	316,029	595,485	452,226
5,327,662	5,751,131	5,426,075	6,060,601	6,157,177	5,723,628
2,438,035	2,237,045	2,451,691	2,167,493	2,490,460	1,885,490
882,248	1,007,610	787,651	802,415	796,214	800,133
13,770	31,297	39,595	10,006	8,123	29,080
761,487	794,891	683,139	655,112	577,789	580,009
178,825	740,843	471,518	279,102	164,443	298,823
117,584	116,346	119,821	123,141	157,026	112,603
503,788	434,980	423,037	468,832	696,778	699,977
1,950,515	1,003,814	636,005	3,231,951	850,782	2,891,634
6,846,252	6,366,826	5,612,457	7,738,052	5,741,615	7,297,749

**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**



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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

To the Honorable Mayor and Members of the City Council:

We have audited 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, the financial statements of the governmental activities, the business type activities, the discretely presented component unit, 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, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 22, 2018. 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 have not been 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) and (B) 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 (C) through (E) 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, 2017 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

February 22, 2018

City of Red Oak

Schedule of Findings

Year ended June 30, 2017

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

Condition – Generally, one or two individuals may have control over the following areas for the City:

- (1) Receipts – collecting, depositing and recording.
- (2) Utility receipts – billing, collecting and posting.
- (3) Payroll – preparing, approving and disbursing, including electronic fund transfers.

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.

For the Library Foundation, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, and recording.
- (2) Disbursements – check writing and recording.

Cause – The City and component units noted above have a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the City's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

City of Red Oak

Schedule of Findings

Year ended June 30, 2017

Recommendation – The City, the Library, the Volunteer Fire and Rescue Association and the Library Foundation 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 documented by the signature or initials of the independent reviewer and the date of the review.

Response – The City tries hard to share duties and check over each other’s work on a daily basis. We will continue to try and maximize our internal control as much as possible. We will contact the Library, Volunteer Fire and Rescue Association, and Library Foundation to notify them of this concern.

Conclusion – Response accepted.

(B) Financial Reporting

Criteria – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City’s financial statements.

Condition – A material component unit was not properly identified by the City as a component unit required to be disclosed in the City’s financial statements. Adjustments were subsequently made by the City to properly include these amounts in the financial statements.

Cause – City policies and procedures have not been established to require review of potential component units on an annual basis to ensure the City’s financial statements are accurate and reliable.

Effect – Lack of policies and procedures resulted in City employees not detecting the error in the normal course of performing their assigned functions. As a result, a material adjustment to the City’s financial statements was necessary.

Recommendation – The City should establish procedures to ensure all component units are identified and properly reported in the City’s financial statements.

Response – The City will work to establish procedures to ensure all units are identified and properly reported.

Conclusion – Response accepted.

(C) Computer System

Criteria – Properly designed policies and procedures pertaining to control activities over the City’s computer system and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable, and helps ensure the efficiency of operations and compliance with applicable laws and regulations.

City of Red Oak

Schedule of Findings

Year ended June 30, 2017

Condition – Employee policies do not require passwords to be changed periodically.

Cause – Management has not adopted written policies requiring passwords to be changed periodically.

Effect – Lack of written policies for computer based systems could result in a loss of data or compromised data, resulting in unreliable financial information.

Recommendation – The City should develop written policies and procedures requiring passwords to be changed periodically to improve the City’s control over its computer system.

Response – The City will establish a policy advising employees to change their computer passwords periodically.

Conclusion – Response accepted.

(D) Separately Maintained Records

Criteria – City policy requires only authorized individuals be allowed on signature cards.

Condition – The signature cards for the Library accounts were not updated to reflect those approved by City policy.

Cause – The Library has not followed City policy in regards to signature cards.

Effect – The Library is not in compliance with City policy.

Recommendation – All account signature cards should be updated to include an authorized City signature as required by City policy.

Response – The City will advise the Library that all their account signature cards must be updated to include only authorized City signatures as required by City policy.

Conclusion – Response accepted.

(E) Library

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds and ensuring all receipts are properly recorded.

Condition – The City does not receive adequate documentation from the Library to determine the appropriate fund for recording Library receipts. In addition, the City has no written documentation defining the purpose of the various Library funds in use.

City of Red Oak

Schedule of Findings

Year ended June 30, 2017

Cause – Procedures have not been designed and implemented to ensure adequate documentation for receipts is provided to the City for recording Library receipts. In addition, the City has not adequately documented the purpose of each of the Library funds.

Also, during fiscal year 2017, the Library closed two existing bank accounts and moved the funds to a different bank. The City ordinance establishing the Library Board is not clear as to whether the Library has the authority to open and/or close bank accounts. However, the City was unaware this had occurred until after the funds had been moved.

Effect – Lack of adequate documentation supporting the purpose of the various Library funds and the purpose of each Library receipt can result in receipts being incorrectly deposited and recorded. In addition, bank accounts could be opened and/or closed without the City Council knowledge.

Recommendation – The City should work with the Library to determine the documentation needed for the City to properly record receipts. The City should document the purpose of the various library funds. The City should establish procedures to ensure all bank accounts are authorized by the City Council.

Response – The Library will be advised to submit all supporting documentation to City Hall for all receipts received. The City will be writing a policy to determine the correct usage of each Library fund and the authority of the Library to close and open accounts.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

City of Red Oak

Schedule of Findings

Year ended June 30, 2017

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amount budgeted in the community and economic development function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City was not aware of exceeding the budget due to a software error. The City will research the issue and correct it for future years.

Conclusion – Response accepted.

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

Name, Title and Business Connection	Transaction Description	Amount
Chavis Wise, Full-Time Firefighter, Owner of American Fire Protection	Extinguisher inspections and supplies	\$ 1,499

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with American Fire Protection do not appear to represent a conflict of interest since they totaled less than \$1,500 during the fiscal year.

- (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.
- (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 of \$2,712,527 at June 30, 2017.

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

City of Red Oak

Schedule of Findings

Year ended June 30, 2017

Response – The City will make transfers from other funds to help offset the deficit fund balances.

Conclusion – Response accepted.

(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 to 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 to 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 come due. The City's fiscal year 2017 net operating receipts of \$142,881 were less than 110% of the \$167,600 of sewer revenue bond principal and interest due during fiscal year 2017.
- 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 – City continues to increase sewer revenue to help offset this bond requirement. Transfers will be made to the sewer revenue bond sinking account as required. The City will continue to evaluate the feasibility of charging sewer to each department as there is not a meter system in place for many of these facilities.

Conclusion – Response acknowledged. The City should pay for sewer usage as required.

(10) Annual Urban Renewal Report – The Annual Urban Renewal Report was properly approved and certified to the Iowa Department of Management on or before December 1, as required.

The following exceptions were noted:

- The amount reported as TIF debt outstanding was overstated by \$148,775.

Recommendation – The City should consult TIF legal counsel to determine the proper disposition of these matters.

Response – The City will set up a process for tracking TIF and will review the overstated amount.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings

Year ended June 30, 2017

- (11) Excess Fund Balance – The Debt Service Fund balance at June 30, 2017 totaled approximately \$1.4 million, or 199% of total disbursements for fiscal year 2017. Based on a review of the City’s budgets for fiscal year 2017 and prior years, it appears the City is levying debt service for only the amount needed to cover payments due in each fiscal year. Accordingly, it is unclear how the Debt Service Fund balance has grown to twice the amount needed in a fiscal year.

Recommendation – The City should review current and past payments from the Debt Service and other funds to ensure all obligations were paid from the appropriate fund/source. Future Debt Service levies should be reduced, if needed, to reduce the Debt Service Fund balance to a reasonable amount.

Response – We will continue to evaluate the cause of the increase in the Debt Service Fund and will budget accordingly in upcoming years to reduce this balance.


Conclusion – Response accepted.

City of Red Oak

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager
Tiffany M. Ainger, CPA, Senior Auditor II
Erin J. Sietstra, Staff Auditor
Mitchell W. Shipman, Assistant Auditor
Nicholas H. Shields, Auditor Intern

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

Andrew E. Nielsen, CPA
Deputy Auditor of State