



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

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NEWS RELEASE

FOR RELEASE

August 4, 2020

Contact: Marlys Gaston
515/281-5834

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

FINANCIAL HIGHLIGHTS:

The City's receipts totaled \$11,493,948 for the year ended June 30, 2019, a 29.1% increase over the prior year. Disbursements for the year ended June 30, 2019 totaled \$11,171,508, a 41.6% increase over the prior year. The significant increase in receipts and disbursements is due primarily to general obligation bond proceeds used for capital projects and to refund existing debt and an insurance reimbursement to replace a fire truck.

AUDIT FINDINGS:

Sand reported nine findings related to the receipt and disbursement of taxpayer funds, one finding pertaining to the Volunteer Fire and Rescue Association, a blended component unit, and one finding pertaining to the Library Foundation, a discretely presented component unit. They are found on pages 50 through 55 of this report. The findings address issues such as a lack of segregation of duties, disbursements exceeding budget and bond proceeds inappropriately credited to the Debt Service Fund. Sand provided the City and the component units with recommendations to address each of the findings.

The City Council and the component unit management have a fiduciary responsibility to provide oversight of the City's and the component unit's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the audit report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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CITY OF RED OAK

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

JUNE 30, 2019

City of Red Oak



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Rob Sand
Auditor of State

July 20, 2020

Officials of the City of Red Oak
Red Oak, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the financial and compliance audit report for the City of Red Oak, Iowa, for the year ended June 30, 2019. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Red Oak throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand". The signature is stylized and written in a cursive-like font.

Rob Sand
Auditor of State

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-7
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Cash Basis Statement of Activities and Net Position	A	10-11
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	12-13
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	15
Notes to Financial Statements		16-29
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual – All Governmental Funds and Proprietary Funds		32-33
Notes to Other Information – Budgetary Reporting		34
Schedule of the City’s Proportionate Share of the Net Pension Liability		35
Schedule of City Contributions		36-37
Notes to Other Information – Pension Liability		38
Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	40-41
Schedule of Indebtedness	2	42-43
Bond Maturities	3	44-45
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4	46-47
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		48-49
Schedule of Findings		50-55
Staff		56

City of Red Oak

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
William H. Billings, Jr.	Mayor	Jan 2020
Jeanice Lester	Mayor Pro Tem	Jan 2020
T.J. Clarke	Council Member	Nov 2019
Scott Keith	Council Member	Jan 2020
Bill Haufle	Council Member	Jan 2022
Tony Wernicke	Council Member	Jan 2022
Brad Wright	Administrator	Indefinite
Mary Bolton	City Clerk	Indefinite
Stephen Hays	Treasurer	Indefinite
Tom Stamets	Attorney	Indefinite

City of Red Oak



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of the City of Red Oak, Iowa, as of and for the year ended June 30, 2019, 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 unmodified and adverse audit opinions.

Basis for Adverse Opinion on the Discretely Presented Component Unit

Investments in the Library Foundation's financial statements are valued at fair value, rather than at cost, which is required for reporting under the cash basis of receipts and disbursements, the basis or framework under which the City's financial statements are reported. The amount by which this departure affects the receipts and cash balance of the discretely presented component unit is not known.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Discretely Presented Component Unit" paragraph, the financial statements referred to above do not present fairly the cash basis financial position of the discretely presented component unit as of June 30, 2019 or the changes in its cash basis financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Red Oak as of June 30, 2019, 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, 2018 (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. Because of the significance of the matter described in the "Basis for Adverse Opinion on the Discretely Presented Component Unit" paragraph above, it is not appropriate to, and we do not, express an opinion on the supplementary information.

The other information, 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 32 through 38, 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 July 20, 2020 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.


Marlys K. Gaston, CPA
Deputy Auditor of State

July 20, 2020

City of Red Oak

Basic Financial Statements

City of Red Oak

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2019

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Primary Government:				
Governmental activities:				
Public safety	\$ 3,753,127	631,812	190,015	-
Public works	938,191	246,529	747,459	-
Health and social services	2,200	2,871	7,831	-
Culture and recreation	946,240	52,233	121,094	-
Community and economic development	200,603	50	-	-
General government	158,832	5,517	4,357	-
Debt service	815,532	-	-	-
Capital projects	1,285,833	-	-	194,236
Total governmental activities	8,100,558	939,012	1,070,756	194,236
Business type activities:				
Water	908,077	1,090,746	-	-
Sewer	809,487	813,239	-	-
Landfill	46,911	45,125	-	-
Storm sewer	1,475	106,770	-	-
Total business type activities	1,765,950	2,055,880	-	-
Total primary government	\$ 9,866,508	2,994,892	1,070,756	194,236
Component Unit:				
Library Foundation	\$ 10,375	-	37,939	-
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				
Insurance reimbursement for equipment loss				
Miscellaneous				
General obligation bond proceeds				
Refunded debt				
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				
Capital projects				
Employee benefits				
Debt service				
Local option sales tax				
Fire department				
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			
Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Library Foundation
(2,931,300)	-	(2,931,300)	
55,797	-	55,797	
8,502	-	8,502	
(772,913)	-	(772,913)	
(200,553)	-	(200,553)	
(148,958)	-	(148,958)	
(815,532)	-	(815,532)	
(1,091,597)	-	(1,091,597)	
(5,896,554)	-	(5,896,554)	
-	182,669	182,669	
-	3,752	3,752	
-	(1,786)	(1,786)	
-	105,295	105,295	
-	289,930	289,930	
(5,896,554)	289,930	(5,606,624)	
			27,564
2,372,814	-	2,372,814	-
228,707	-	228,707	-
294,157	-	294,157	-
567,921	-	567,921	-
90,152	-	90,152	-
86,094	-	86,094	-
34,162	12,687	46,849	-
995,146	-	995,146	-
296,407	-	296,407	-
2,255,817	-	2,255,817	-
(1,305,000)	-	(1,305,000)	-
5,916,377	12,687	5,929,064	-
19,823	302,617	322,440	27,564
3,829,478	2,688,015	6,517,493	728,030
\$ 3,849,301	2,990,632	6,839,933	755,594
275,012	-	275,012	-
1,496,198	-	1,496,198	-
1,858,578	-	1,858,578	-
305,678	-	305,678	-
356,881	14,075	370,956	-
789,831	-	789,831	-
59,784	-	59,784	-
423,510	-	423,510	755,594
-	378,729	378,729	-
343,189	-	343,189	-
(2,059,360)	2,597,828	538,468	-
\$ 3,849,301	2,990,632	6,839,933	755,594

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, 2019

	Special Revenue			
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax
Receipts:				
Property tax	\$ 1,302,068	-	978,290	-
Tax increment financing	-	-	-	-
Local option sales tax	-	-	-	567,921
Other city tax	142,863	-	39,745	-
Licenses and permits	66,116	-	-	-
Use of money and property	36,466	-	-	-
Intergovernmental	211,109	741,784	33,897	-
Charges for service	734,961	-	-	-
Miscellaneous	1,556,171	-	927	-
Total receipts	4,049,754	741,784	1,052,859	567,921
Disbursements:				
Operating:				
Public safety	2,674,168	-	735,259	300,533
Public works	274,270	507,167	156,754	-
Health and social services	2,200	-	-	-
Culture and recreation	745,894	-	186,651	9,730
Community and economic development	-	-	-	39,640
General government	145,156	-	13,676	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	3,841,688	507,167	1,092,340	349,903
Excess (deficiency) of receipts over (under) disbursements	208,066	234,617	(39,481)	218,018
Other financing sources (uses):				
General obligation bond proceeds, including \$25,817 net premium	-	-	-	-
Refunded debt	-	-	-	-
Transfers in	-	3,933	-	-
Transfers out	(245,723)	(288,312)	-	(10,563)
Total other financing sources (uses)	(245,723)	(284,379)	-	(10,563)
Change in cash balances	(37,657)	(49,762)	(39,481)	207,455
Cash balances beginning of year, as restated	1,596,468	1,318,390	345,159	582,376
Cash balances end of year	\$ 1,558,811	1,268,628	305,678	789,831
Cash Basis Fund Balances				
Nonspendable:				
Cemetery perpetual care	\$ -	-	-	-
Library bequests	-	-	-	-
Restricted for:				
Streets	-	1,268,628	-	-
Capital projects	-	-	-	-
Employee benefits	-	-	305,678	-
Debt service	-	-	-	-
Local option sales tax	-	-	-	789,831
Fire department	-	-	-	-
Library	188,640	-	-	-
Hotel recreation and tourism	98,068	-	-	-
Hotel community events	113,076	-	-	-
Insurance	72,581	-	-	-
Other purposes	11,319	-	-	-
Assigned for:				
Historic preservation	3,070	-	-	-
Unassigned	1,072,057	-	-	-
Total cash basis fund balances	\$ 1,558,811	1,268,628	305,678	789,831

See notes to financial statements.

Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
-	220,214	-	-	2,500,572
289,272	-	-	4,885	294,157
-	-	-	-	567,921
-	8,493	-	-	191,101
-	-	-	-	66,116
-	-	-	408	36,874
-	7,242	192,236	-	1,186,268
-	-	-	-	734,961
-	-	2,000	32,496	1,591,594
289,272	235,949	194,236	37,789	7,169,564
-	-	-	43,167	3,753,127
-	-	-	-	938,191
-	-	-	-	2,200
-	-	-	3,965	946,240
160,963	-	-	-	200,603
-	-	-	-	158,832
-	815,532	-	-	815,532
33,326	-	1,252,507	-	1,285,833
194,289	815,532	1,252,507	47,132	8,100,558
94,983	(579,583)	(1,058,271)	(9,343)	(930,994)
-	2,255,817	-	-	2,255,817
-	(1,305,000)	-	-	(1,305,000)
10,563	-	426,585	203,176	644,257
-	(65,000)	(3,159)	(31,500)	(644,257)
10,563	885,817	423,426	171,676	950,817
105,546	306,234	(634,845)	162,333	19,823
251,335	1,271,024	(1,987,252)	451,978	3,829,478
356,881	1,577,258	(2,622,097)	614,311	3,849,301
-	-	-	233,869	233,869
-	-	-	41,143	41,143
-	227,570	-	-	1,496,198
-	1,858,578	-	-	1,858,578
356,881	-	-	-	305,678
-	-	-	-	356,881
-	-	-	-	789,831
-	-	-	59,784	59,784
-	-	-	234,870	423,510
-	-	-	-	98,068
-	-	-	-	113,076
-	-	-	-	72,581
-	-	-	48,145	59,464
-	-	-	-	3,070
-	(508,890)	(2,622,097)	(3,500)	(2,062,430)
356,881	1,577,258	(2,622,097)	614,311	3,849,301

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, 2019

	Enterprise				
	Water	Sewer	Landfill	Storm Sewer	Total
Operating receipts:					
Charges for service	\$ 1,067,294	812,839	45,125	106,770	2,032,028
Miscellaneous	23,452	400	-	-	23,852
Total operating receipts	1,090,746	813,239	45,125	106,770	2,055,880
Operating disbursements:					
Business type activities	882,105	637,012	46,911	1,475	1,567,503
Excess (deficiency) of operating receipts over (under) operating disbursements	208,641	176,227	(1,786)	105,295	488,377
Non-operating receipts (disbursements):					
Interest on investments	6,622	6,065	-	-	12,687
Capital projects	(25,972)	-	-	-	(25,972)
Debt service	-	(172,475)	-	-	(172,475)
Net non-operating receipts (disbursements)	(19,350)	(166,410)	-	-	(185,760)
Change in cash balances	189,291	9,817	(1,786)	105,295	302,617
Cash balances beginning of year	1,529,974	607,406	417,495	133,140	2,688,015
Cash balances end of year	\$ 1,719,265	617,223	415,709	238,435	2,990,632
Cash Basis Fund Balances					
Restricted for:					
Debt service	\$ -	14,075	-	-	14,075
Landfill superfund	-	-	378,729	-	378,729
Unrestricted	1,719,265	603,148	36,980	238,435	2,597,828
Total cash basis fund balances	\$ 1,719,265	617,223	415,709	238,435	2,990,632

See notes to financial statements.

City of Red Oak

Notes to Financial Statements

June 30, 2019

(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 911 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.

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 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, 2019, disbursements exceeded the amount budgeted in the public safety function before the budget amendment.

(2) Cash and Pooled Investments

The City’s deposits in banks at June 30, 2019 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 \$57,604 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.

At June 30, 2019, the City’s Library Foundation, a discretely presented component unit, had the following investments:

Investment	Carrying Amount	Fair Value
Stocks	not available	\$ 519,363
Annuities	\$ 150,000	not available

Due to the unavailability of information, the Library Foundation’s investments do not include disclosures in accordance with GASB Statement No. 72.

(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
2020	\$ 660,000	118,761	105,000	63,900	765,000	182,661
2021	685,000	114,990	105,000	60,750	790,000	175,740
2022	645,000	97,127	110,000	57,600	755,000	154,727
2023	660,000	80,035	115,000	54,300	775,000	134,335
2024	680,000	62,215	120,000	50,850	800,000	113,065
2025-2029	1,335,000	102,465	650,000	198,750	1,985,000	301,215
2030-2034	125,000	3,750	760,000	94,200	885,000	97,950
2035	-	-	165,000	4,950	165,000	4,950
Total	\$ 4,790,000	579,343	2,130,000	585,300	6,920,000	1,164,643

On August 23, 2018, the City issued \$2,230,000 of general obligation corporate purpose and refunding bonds with interest at rate of 3.00% per annum to refund \$1,305,000 of general obligation bonds dated March 25, 2010. The remainder of the proceeds will be used for capital projects. The refunding was undertaken to reduce total debt service payments over the next seven years by \$25,145 and resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$21,348.

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 95% of net receipts for the year ended June 30, 2019. The total principal and interest remaining to be paid on the bonds is \$2,715,300. For the current year, principal and interest paid and total customer net receipts were \$166,900 and \$176,227, 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 2019, user rates were not established at a level to produce net receipts equal to at least 110% of the principal 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.

(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, 2019 was \$194,289. The City has rebated a total of \$1,451,932 of incremental property tax under the agreements. The outstanding balance of the agreements at June 30, 2019 was \$1,264,480.

The agreements are not general obligations of the City. However, the agreements are subject to the constitutional debt limitation of the City, except for \$488,329 which has not been appropriated by the City Council at June 30, 2019.

(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 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 2019, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the City contributed 9.44% of covered payroll, for a total rate of 15.73%. Protection occupation members contributed 6.81% of covered payroll and the City contributed 10.21% for a total rate of 17.02%.

The City’s contributions to IPERS for the year ended June 30, 2019 totaled \$225,806.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2019, the City reported a liability of \$983,561 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 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, 2018, the City’s proportion was 0.015542%, which was a decrease of 0.000713% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$231,495, \$488,571 and \$325,083, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2018 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

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
Domestic equity	22.0%	6.01%
International equity	15.0	6.48
Global smart beta equity	3.0	6.23
Core plus fixed income	27.0	1.97
Public credit	3.5	3.93
Public real assets	7.0	2.91
Cash	1.0	(0.25)
Private equity	11.0	10.81
Private real assets	7.5	4.14
Private credit	3.0	3.11
Total	100.0%	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. 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 7.00%, 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 (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
City's proportionate share of the net pension liability	\$ 2,319,409	983,561	(136,045)

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. Group insurance benefits are established under Iowa Code Chapter 509A.13. 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 the plan members range from \$743 for single coverage to \$2,300 for family coverage. For the year ended June 30, 2019, the City contributed \$822,218 and plan members eligible for benefits contributed \$52,045 to the plan. At June 30, 2019, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits – Individuals who are employed by Red Oak and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Retired participants must be age 55 or older at retirement, with the exception of special service participants who must be age 50 with 22 years of services. At June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	-
Active employees	<u>47</u>
Total	<u>47</u>

(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, 2019, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 156,000
Compensatory time	41,000
Sick leave	<u>169,000</u>
Total	<u>\$ 366,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2019.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2019 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue:		
Road Use Tax	Capital Projects	\$ 3,159
	General	774
		<u>3,933</u>
	Special Revenue:	
Tax Increment Financing	Local Option Sales Tax	10,563
Library Donations	General	<u>203,176</u>
Capital Projects	Debt Service	65,000
	General	41,773
	Special Revenue:	
	Low-Moderate Income	31,500
	Road Use Tax	<u>288,312</u>
		<u>426,585</u>
Total		<u>\$ 644,257</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 778 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, 2019 were \$137,648.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$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, 2019, 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 received \$600 from the trustee of the Komarek Trust during the year ended June 30, 2019. During the year, the City spent \$32 of this fund for flowers. At June 30, 2019, the balance in the Special Revenue, Komarek Trust Fund totaled \$3,593.

(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, 2019, all monitoring and maintenance activities were completed.

(13) Commitments

The City has entered into a contract in June 2018 for a water meter replacement project for \$941,209. Payments of \$873,192 were made on the contract as of June 30, 2019. The balance of \$68,017 will be paid as work on the project progresses.

(14) Deficit Balances

At June 30, 2019, the Capital Projects Fund had a deficit balance of \$2,622,097. The deficit will be eliminated through future grant reimbursements and transfers from other funds.

(15) Tax Abatements

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax receipts 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, 2019, the City abated \$119,841 of property tax under the urban renewal and economic development projects.

(16) Subsequent Event

In September 2019, the City issued \$2,755,000 of general obligation corporate purpose bonds. The proceeds will be used for capital projects ongoing at the City. The general obligation bond will be repaid through an ad valorem tax on all taxable property in the City.

(17) Restatement

The Library Foundation previously reported their investments at cost which is required in order to report on the cash basis of accounting, the same framework as the City reports. However, effective September 2018, cost information for the Foundation's investments is no longer available and, accordingly, investments are instead reported at fair market value. As a result, the Library Foundation's net position at July 1, 2018 was restated to include investments at fair value. The Library Foundation was also reclassified from a blended component unit to a discretely presented component unit in accordance with requirements set forth by the Governmental Accounting Standards Board. The effect of the restatement is as follows:

	Governmental Activities	Special Revenue, Library Foundation	Discretely Presented Component Unit, Library Foundation
Net position/balance, June 30, 2018, as previously reported	\$ 4,477,466	647,988	-
Increase to report investments at fair value at June 30, 2018	80,042	80,042	-
Reclassification of component unit from blended to discretely presented	(728,030)	(728,030)	728,030
Net position, July 1, 2018 as restated	<u>\$ 3,829,478</u>	<u>-</u>	<u>728,030</u>

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, 2019

	Governmental Funds Actual	Proprietary Funds Actual	Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 2,500,572	-	-
Tax increment financing	294,157	-	-
Other city tax	759,022	-	-
Licenses and permits	66,116	-	-
Use of money and property	36,874	12,687	408
Intergovernmental	1,186,268	-	-
Charges for service	734,961	2,032,028	-
Miscellaneous	1,591,594	23,852	29,656
Total receipts	<u>7,169,564</u>	<u>2,068,567</u>	<u>30,064</u>
Disbursements:			
Public safety	3,753,127	-	43,167
Public works	938,191	-	-
Health and social services	2,200	-	-
Culture and recreation	946,240	-	-
Community and economic development	200,603	-	-
General government	158,832	-	-
Debt service	815,532	-	-
Capital projects	1,285,833	-	-
Business type activities	-	1,765,950	-
Total disbursements	<u>8,100,558</u>	<u>1,765,950</u>	<u>43,167</u>
Excess (deficiency) of receipts over (under) disbursements	(930,994)	302,617	(13,103)
Other financing sources, net	950,817	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	19,823	302,617	(13,103)
Balances beginning of year, as restated	<u>3,829,478</u>	<u>2,688,015</u>	<u>70,934</u>
Balances end of year	<u>\$ 3,849,301</u>	<u>2,990,632</u>	<u>57,831</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
2,500,572	2,543,412	2,543,412	(42,840)
294,157	282,386	282,386	11,771
759,022	802,298	802,298	(43,276)
66,116	80,900	80,900	(14,784)
49,153	25,922	25,922	23,231
1,186,268	1,168,510	1,168,510	17,758
2,766,989	2,833,721	2,833,721	(66,732)
1,585,790	312,868	312,868	1,272,922
9,208,067	8,050,017	8,050,017	1,158,050
3,709,960	2,607,246	3,825,438	115,478
938,191	1,156,200	1,156,200	218,009
2,200	25,200	25,200	23,000
946,240	1,047,188	1,047,188	100,948
200,603	191,537	253,537	52,934
158,832	178,330	178,330	19,498
815,532	671,360	1,811,360	995,828
1,285,833	1,869,138	1,869,138	583,305
1,765,950	2,209,544	2,209,544	443,594
9,823,341	9,955,743	12,375,935	2,552,594
(615,274)	(1,905,726)	(4,325,918)	3,710,644
950,817	601,000	1,596,146	(645,329)
335,543	(1,304,726)	(2,729,772)	3,065,315
6,446,559	5,316,652	5,316,652	1,129,907
6,782,102	4,011,926	2,586,880	4,195,222

City of Red Oak

Notes to Other Information – Budgetary Reporting

June 30, 2019

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 \$2,420,192.

During the year ended June 30, 2019, disbursements exceeded the amounts budgeted in the public safety function prior to the budget amendment.

City of Red Oak

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

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

Other Information

	2019	2018	2017	2016	2015
City's proportion of the net pension liability	0.015542%	0.016255%	0.017469%	0.013524%	0.010370%
City's proportionate share of the net pension liability	\$ 984	1,083	1,099	668	411
City's covered payroll	\$ 2,233	2,182	2,262	2,177	2,136
City's proportionate share of the net pension liability as a percentage of its covered payroll	44.07%	49.63%	48.59%	30.68%	19.24%
IPERS' net position as a percentage of the total pension liability	83.62%	82.21%	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 Ten Years
(In Thousands)

Other Information

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Statutorily required contribution	\$ 226	209	204	209
Contributions in relation to the statutorily required contribution	<u>(226)</u>	<u>(209)</u>	<u>(204)</u>	<u>(209)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered payroll	\$ 2,301	2,233	2,182	2,262
Contributions as a percentage of covered payroll	9.82%	9.36%	9.35%	9.24%

See accompanying independent auditor's report.

2015	2014	2013	2012	2011	2010
209	204	194	176	155	140
(209)	(204)	(194)	(176)	(155)	(140)
-	-	-	-	-	-
2,177	2,136	2,102	2,018	1,898	1,825
9.60%	9.55%	9.23%	8.72%	8.17%	7.67%

City of Red Oak

Notes to Other Information – Pension Liability

Year ended June 30, 2019

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.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018.

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

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, 2019

	Special Revenue				
	Volunteer Fire and Rescue Association	Rural Fire Sinking Fund	Low- Moderate Income	Komarek Trust	Library Bequest
Receipts:					
Tax increment financing	\$ -	-	4,885	-	-
Use of money and property	408	-	-	-	-
Miscellaneous	29,656	-	-	600	-
Total receipts	30,064	-	4,885	600	-
Disbursements:					
Operating:					
Public safety	43,167	-	-	-	-
Culture and recreation	-	-	-	32	-
Total disbursements	43,167	-	-	32	-
Excess (deficiency) of receipts over (under) disbursements	(13,103)	-	4,885	568	-
Other financing sources:					
Transfers in	-	-	-	-	-
Transfers out	-	-	(31,500)	-	-
	-	-	(31,500)	-	-
Change in cash balances	(13,103)	-	(26,615)	568	-
Cash balances beginning of year	70,934	1,953	71,167	3,025	27,101
Cash balances end of year	\$ 57,831	1,953	44,552	3,593	27,101
Cash Basis Fund Balances					
Nonspendable:					
Cemetery perpetual care	\$ -	-	-	-	-
Library bequests	-	-	-	-	-
Restricted for:					
Fire department	57,831	1,953	-	-	-
Library	-	-	-	-	27,101
Other purposes	-	-	44,552	3,593	-
Unassigned	-	-	-	-	-
Total cash basis fund balances	\$ 57,831	1,953	44,552	3,593	27,101

See accompanying independent auditor's report.

			Permanent		
Freedom Rock	Library Donations	Library People's Art Projects	Cemetery Perpetual Care	Library Bequest	Total
-	-	-	-	-	4,885
-	-	-	-	-	408
-	-	-	2,240	-	32,496
-	-	-	2,240	-	37,789
-	-	-	-	-	43,167
3,500	-	433	-	-	3,965
3,500	-	433	-	-	47,132
(3,500)	-	(433)	2,240	-	(9,343)
-	203,176	-	-	-	203,176
-	-	-	-	-	(31,500)
-	203,176	-	-	-	171,676
(3,500)	203,176	(433)	2,240	-	162,333
-	-	5,026	231,629	41,143	451,978
(3,500)	203,176	4,593	233,869	41,143	614,311
-	-	-	233,869	-	233,869
-	-	-	-	41,143	41,143
-	-	-	-	-	59,784
-	203,176	4,593	-	-	234,870
-	-	-	-	-	48,145
(3,500)	-	-	-	-	(3,500)
(3,500)	203,176	4,593	233,869	41,143	614,311

City of Red Oak
 Schedule of Indebtedness
 Year ended June 30, 2019

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
Sewer improvement and refunding	Aug 23, 2018	3.00	2,230,000
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
1,305,000	-	1,305,000	-	10,369
1,520,000	-	205,000	1,315,000	28,942
1,680,000	-	175,000	1,505,000	51,825
-	2,230,000	260,000	1,970,000	51,662
<u>\$ 4,505,000</u>	<u>2,230,000</u>	<u>1,945,000</u>	<u>4,790,000</u>	<u>142,798</u>
<u>2,230,000</u>	<u>-</u>	<u>100,000</u>	<u>2,130,000</u>	<u>66,900</u>
<u>15,485</u>	<u>-</u>	<u>15,485</u>	<u>-</u>	<u>519</u>

City of Red Oak

Bond Maturities

June 30, 2019

General Obligation Bonds								
Year Ending June 30,	Corporate Purpose Issued Sept 26, 2012		Corporate Purpose and Refunding Issued Mar 17, 2015		Sewer Improvement Issued Aug 23, 2018		Total	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2020	1.60%	\$ 210,000	3.00%	\$ 165,000	3.00%	\$ 285,000	660,000	
2021	1.75	215,000	3.00	175,000	3.00	295,000	685,000	
2022	1.95	215,000	3.00	125,000	3.00	305,000	645,000	
2023	2.10	220,000	3.00	130,000	3.00	310,000	660,000	
2024	2.20	225,000	3.50	130,000	3.00	325,000	680,000	
2025	2.30	230,000	3.50	135,000	3.00	315,000	680,000	
2026		-	3.00	140,000	3.00	135,000	275,000	
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>\$ 1,315,000</u>		<u>\$ 1,505,000</u>		<u>\$ 1,970,000</u>	<u>4,790,000</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%	\$	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>2,130,000</u>

City of Red Oak

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

For the Last Ten Years

	2019	2018	2017	2016
Receipts:				
Property tax	\$ 2,500,572	2,515,110	2,439,859	2,351,728
Tax increment financing	294,157	336,427	274,292	205,418
Local option sales tax	567,921	593,523	628,157	607,519
Other city tax	191,101	191,520	207,847	232,262
Licenses and permits	66,116	102,569	80,974	87,358
Use of money and property	36,874	22,770	18,862	19,028
Intergovernmental	1,186,268	1,744,220	1,612,432	1,598,146
Charges for service	734,961	819,269	721,020	646,234
Special assessments	-	-	-	-
Miscellaneous	1,591,594	537,388	703,579	469,128
Total	\$ 7,169,564	6,862,796	6,687,022	6,216,821
Disbursements:				
Operating:				
Public safety	\$ 3,753,127	2,343,381	2,601,376	2,368,467
Public works	938,191	943,255	928,609	944,566
Health and social services	2,200	8,179	1,981	17,669
Culture and recreation	946,240	786,851	827,038	832,866
Community and economic development	200,603	233,150	271,138	75,284
General government	158,832	142,583	145,396	129,862
Debt service	815,532	698,510	708,700	699,544
Capital projects	1,285,833	977,187	1,255,921	2,177,336
Total	\$ 8,100,558	6,133,096	6,740,159	7,245,594

See accompanying independent auditor's report.

2015	2014	2013	2012	2011	2010
2,385,807	2,274,532	2,156,887	2,134,293	2,032,826	2,128,623
130,261	155,529	195,272	249,408	170,716	91,392
624,626	537,438	615,687	567,018	544,659	484,199
209,962	198,033	134,535	122,125	92,874	124,043
34,299	60,470	39,423	69,982	60,593	51,523
23,509	13,992	20,606	8,545	30,586	81,969
1,097,819	866,294	1,162,882	1,349,513	1,372,360	2,283,841
694,702	581,007	594,021	638,841	640,212	495,287
-	-	-	3,172	3,433	3,695
558,375	399,187	408,349	608,234	477,816	316,029
<u>5,759,360</u>	<u>5,086,482</u>	<u>5,327,662</u>	<u>5,751,131</u>	<u>5,426,075</u>	<u>6,060,601</u>
2,651,137	2,273,915	2,438,035	2,237,045	2,451,691	2,167,493
915,346	885,139	882,248	1,007,610	787,651	802,415
128,999	117,449	13,770	31,297	39,595	10,006
828,629	832,045	761,487	794,891	683,139	655,112
141,205	170,121	178,825	740,843	471,518	279,102
123,344	114,917	117,584	116,346	119,821	123,141
1,755,591	690,383	503,788	434,980	423,037	468,832
733,876	416,576	1,950,515	1,003,814	636,005	3,231,951
<u>7,278,127</u>	<u>5,500,545</u>	<u>6,846,252</u>	<u>6,366,826</u>	<u>5,612,457</u>	<u>7,738,052</u>



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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, each major fund, the discretely presented component unit and the aggregate remaining fund information of the City of Red Oak, Iowa, as of and for the year ended June 30, 2019, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 20, 2020. The financial statements were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed unmodified opinions on the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Red Oak, Iowa, as of June 30, 2019. We expressed an adverse opinion on the discretely presented component unit.

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.

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. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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. We consider the deficiency in internal control described in the accompanying Schedule of Findings as item (A) to be a material weakness.

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, 2019 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.

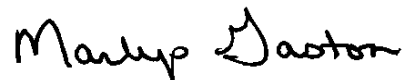
The City of Red Oak's Responses to the Findings

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.


Marlys K. Gaston, CPA
Deputy Auditor of State

July 20, 2020

City of Red Oak

Schedule of Findings

Year ended June 30, 2019

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, the Volunteer Fire and Rescue Association's and the Library Foundation'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, recording and maintaining accounts receivable.
- (3) Payroll – preparing, approving and disbursing, including electronic fund transfers.

For 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 and each component unit'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, 2019

Recommendation – The City, 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 – Every year the City tries hard to share duties and check over each other's work on a daily basis. We will continue to maximize our internal control as much as possible. We will also encourage the Library Foundation and Volunteer Fire and Rescue Association to improve internal controls to the extent possible given existing staffing.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

City of Red Oak

Schedule of Findings

Year ended June 30, 2019

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amount budgeted in the public safety function before the budget amendment. 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 – All efforts are made to not exceed the City budget and will be watched closely. Unplanned expenditures occurring late in the fiscal year sometimes make amending the budget impractical if not impossible. The City will make every effort to amend the budget in the future if it appears, we will exceed budgeted disbursements.

Conclusion – Response accepted.

- (2) Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in the 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:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Chavis Wise, Full-Time Firefighter, Owner of American Fire Protection	Extinguisher inspections and supplies	\$ 1,463

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.

City of Red Oak

Schedule of Findings

Year ended June 30, 2019

- (8) Financial Condition – The Capital Projects Fund had a deficit balance of \$2,622,097 at June 30, 2019. In addition, the Special Revenue, Freedom Rock Fund had a deficit of \$3,500.

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

Response – The City continues to work on cleaning up deficit balances. Our procedure continues that we close out a project of the deficit balance once the project has been closed and all grant money has been received. This can sometime overlap fiscal years.

Conclusion – Response accepted.

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

- The provisions of the sewer revenue bond resolution require the City to produce net operating receipts equal to at least 110% of the principal and interest on the bonds as they come due. During the fiscal year ended June 30, 2019, net operating receipts were 106% of the sewer revenue bond principal and interest.
- 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 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 establish utility rates at a level sufficient to produce net receipts to comply with the bond provisions. The City should make the necessary transfers to the sewer revenue bond sinking account as required by the sewer bond resolution. 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 and we will continue to evaluate the needs. Transfers have since taken place regarding this situation. The water meter project is not yet complete, but plans are still being made to install meters in all city facilities for usage to be tracked and water and sewer charges to be made accordingly.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings

Year ended June 30, 2019

- (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 exception was noted:

- The amount reported as TIF debt outstanding was not supported.

Recommendation – The City should ensure the amounts reported on the Annual Urban Renewal Report are supported and agree with City records.

Response – We will work with the consulting firm that completes the Annual Urban Renewal Report to assure the amounts reported are supported.

Conclusion – Response accepted.

- (11) Debt Service Fund – The Debt Service Fund balance at June 30, 2019 totaled approximately \$1.6 million, or 75% of total disbursements for fiscal year 2019. Based on a review of the Debt Service Fund activity for fiscal years 2013 through 2019, the City credited bond proceeds to the Debt Service Fund during fiscal years 2013, 2015 and 2019. With the exception of bond proceeds issued to refund debt, the bond proceeds should have been credited to the Special Revenue, Road Use Tax and Capital Projects Funds as detailed in the bond documents. In some cases, a portion of the proceeds were transferred to the Capital Projects Fund by the City but approximately \$2.086 million of bond proceeds remain in the Debt Service Fund at June 30, 2019.

Recommendation – The City should transfer the remaining bond proceeds out of the Debt Service Fund to the Special Revenue, Road Use Tax (\$227,570) and Capital Projects (\$1,858,578) Funds. In the future, the City should credit bond proceeds directly to the Capital Projects Fund.

Response – Corrective transfers will be made. In the future, bond proceeds will be deposited directly into the Capital Projects Fund.

Conclusion – Response accepted.

- (12) Utilities – The City did not charge the correct utility rates for taxable sewer from May 2018 through April 2019. The City approved by ordinance an increase in the rate effective May 2018 which was not updated in the City’s billing system until the May 2019 billing. As a result, the City billed approximately \$12,500 less than the amount that should have been billed.

Recommendation – The City should ensure utility rates are charged in accordance with City Ordinances.

Response – Utility rates charged have since been corrected and all billed amounts are now in accordance with what has been approved by ordinance.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings

Year ended June 30, 2019

- (13) Property Tax – The City levied an insurance levy which exceeded the insurance disbursements for the last four years resulting in an unspent balance of \$75,872.

Recommendation – The City should restrict unspent insurance funds to ensure the funds are only used for insurance purposes. The City should track the unspent balance of the levy and reduce future levies to reduce the balance.

Response – The City projects insurance increases and sets the levy accordingly. If insurance increases come in less than projected, an excess in revenue occurs. The City will make every effort to use excess revenue received and reduce future insurance levy accordingly.

Conclusion – Response accepted.

- (14) Outstanding Checks – Chapter 556.1(12) of the Code of Iowa requires the City to report and remit outstanding obligations, including checks held for more than two years, to the State Treasurer’s Office annually. At June 30, 2019, there were 22 outstanding checks which have been outstanding for over two years.

Recommendation – The City should report and remit all outstanding obligations, including checks held for more than two years, to the State Treasurer’s Office annually.

Response – New procedures have been put into place and every effort is being made to get outstanding checks off the books. If the check is under \$50.00 it will be reversed and put back into the account, it was withdrawn from. If over \$50 it will be submitted to the Great Treasure Hunt after the fiscal year ends and reporting time is active.

Conclusion – Response accepted.

City of Red Oak

Staff

This audit was performed by:

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