



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834

Rob Sand
Auditor of State

NEWS RELEASE

Contact: Brian Brustkern
515/281-5834

FOR RELEASE

March 5, 2025

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

FINANCIAL HIGHLIGHTS:

The City's receipts totaled \$9,238,714 for the year ended June 30, 2023, a 4.1% decrease from the prior year. Disbursements for the year ended June 30, 2023 totaled \$9,408,177, a 6.1% increase over the prior year. The significant decrease from the prior year in receipts is due primarily to a large donation to the library in the year ended June 30, 2022. The significant increase in disbursements is due primarily to increased public safety salaries and the repair and purchase of equipment.

AUDIT FINDINGS:

Sand reported eleven findings related to the receipt and disbursement of taxpayer funds. They are found on pages 50 through 56 of this report. The findings address issues such as a lack of segregation of duties, financial reporting, disbursements exceeding budget, a deficit fund balance in the Special Revenue, Employee Benefits Fund and the Capital Projects Fund and questionable donations. Sand provided the City with recommendations to address each of the findings.

Seven of the findings discussed above are repeated from the prior year. The City Council has a fiduciary responsibility to provide oversight of the City'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 website at [Audit Reports – Auditor of State](#).

###

CITY OF RED OAK

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

JUNE 30, 2023

City of Red Oak



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004
Telephone (515) 281-5834

Rob Sand
Auditor of State

February 23, 2025

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, 2023. 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, appearing to read "Rob Sand".

Rob Sand
Auditor of State

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		4-7
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		16-32
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual – All Governmental Funds and Proprietary Funds		34-35
Notes to Other Information – Budgetary Reporting		37
Schedule of the City’s Proportionate Share of the Net Pension Liability (Asset)		38-39
Schedule of City Contributions		40-41
Notes to Other Information – Pension Liability (Asset)		42
Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1	44-45
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	2	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		50-56
Staff		57

City of Red Oak

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Shawwna Silvius	Mayor	Jan 2024
Jeanice Lester	Mayor Pro Tem	Jan 2024
Scott Keith	Council Member	Jan 2024
Pete Wemhoff	Council Member	Jan 2024
Brian Bills	Council Member	Jan 2026
Tim Fridolph	Council Member	Jan 2026
Brad Wright	Administrator	(Resigned Dec 2022)
Kyra Smith (Appointed May 2023)	Administrator	Indefinite
Mary Bolton	City Clerk	(Resigned Dec 2022)
Christie Vanderholm (Appointed Feb 2023)	City Clerk	Indefinite
Stephen Hays	Treasurer	Indefinite
Tom Stamets	Attorney	Indefinite



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

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834

Rob Sand
Auditor of State

Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Audit of the Financial Statements

Adverse and Unmodified Opinions

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, 2023, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Adverse Opinion on the Discretely Presented Component Unit

In our opinion, because of the significance of the matter discussed in the Basis for Adverse and Unmodified Opinions section of our report, the accompanying financial statements referred to above do not present fairly, the financial position of the discretely presented component unit of the City of Red Oak as of June 30, 2023, 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 on Governmental Activities, Business Type Activities, Each Major Fund and the Aggregate Remaining Fund Information.

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, 2023, and the respective changes in cash basis financial position for the year then ended in accordance with the cash basis of accounting described in Note 1.

Basis for Adverse and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Red Oak, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Matter Giving Rise to 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.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 3 to the financial statements, the City of Red Oak adopted new accounting guidance related to Governmental Accounting Standards Board Statement No. 96, Subscription-Based Information Technology Arrangements. Our opinions are not modified with respect to this matter.

Responsibilities of Management 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, and for determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 of Red Oak's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Red Oak's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary 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 Auditor's Responsibilities for the Audit of the Financial Statements section of this report, the financial statements for the four years ended June 30, 2022 (which are not presented herein) and expressed unmodified opinions on governmental activities, the business type activities, each major fund and the aggregate remaining fund information which were prepared on the cash basis of accounting. We expressed an adverse opinion on the financial statements of the discretely presented component unit due to the investment being valued at fair value rather than cost. We also previously audited the financial statements for the five years ended June 30, 2018 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the cash basis of accounting. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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. The 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 GAAS. Because of the significance of the matter described in the Matter Giving Rise to Adverse Opinion on the Discretely Presented Component Unit paragraph on the preceding page, it is inappropriate to, and we do not, express an opinion on the supplementary information.

Other Information

Management is responsible for the other information included in this report. The other information comprises the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability (Asset) and the Schedule of City Contributions on pages 34 through 42 but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 23, 2025 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.



Brian R. Brustkern, CPA
Deputy Auditor of State

February 23, 2025

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, 2023

	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	\$ 3,117,332	532,206	206,336	165,000
Public works	1,214,283	269,162	771,073	-
Health and social services	13,903	-	4,225	-
Culture and recreation	1,055,186	121,482	36,173	-
Community and economic development	121,860	100	-	-
General government	281,931	5,930	4,739	-
Debt service	941,085	-	607	-
Capital projects	708,436	-	-	50,003
Total governmental activities	7,454,016	928,880	1,023,153	215,003
Business type activities:				
Water	975,207	1,024,449	-	-
Sewer	932,765	927,873	-	-
Landfill	44,637	44,989	-	-
Storm sewer	1,552	107,844	-	-
Total business type activities	1,954,161	2,105,155	-	-
Total primary government	\$ 9,408,177	3,034,035	1,023,153	215,003
Component Unit:				
Library Foundation	\$ 13,088	-	77,194	-
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				
American Rescue Plan Act				
Commercial/industrial tax replacement				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Nonexpendable:				
Permanent funds				
Expendable:				
Streets				
Debt service				
Local option sales tax				
Fire department				
Library				
Hotel recreation and tourism				
Hotel community events				
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
Primary Government			Unit
Governmental Activities	Business Type Activities	Total	Library Foundation
(2,213,790)	-	(2,213,790)	
(174,048)	-	(174,048)	
(9,678)	-	(9,678)	
(897,531)	-	(897,531)	
(121,760)	-	(121,760)	
(271,262)	-	(271,262)	
(940,478)	-	(940,478)	
(658,433)	-	(658,433)	
(5,286,980)	-	(5,286,980)	
-	49,242	49,242	
-	(4,892)	(4,892)	
-	352	352	
-	106,292	106,292	
-	150,994	150,994	
(5,286,980)	150,994	(5,135,986)	
			64,106
2,560,717	-	2,560,717	-
465,074	-	465,074	-
134,666	-	134,666	-
861,764	-	861,764	-
103,168	-	103,168	-
469,442	-	469,442	-
125,294	-	125,294	-
46,575	28,448	75,023	-
143,079	28,296	171,375	-
243,918	(243,918)	-	-
5,153,697	(187,174)	4,966,523	-
(133,283)	(36,180)	(169,463)	64,106
6,166,772	2,623,259	8,790,031	822,546
\$ 6,033,489	2,587,079	8,620,568	886,652
289,849	-	289,849	-
1,331,064	-	1,331,064	-
939,269	14,944	954,213	-
1,489,565	-	1,489,565	-
158,752	-	158,752	-
1,117,403	-	1,117,403	886,652
69,813	-	69,813	-
80,277	-	80,277	-
-	372,093	372,093	-
176,076	-	176,076	-
381,421	2,200,042	2,581,463	-
\$ 6,033,489	2,587,079	8,620,568	886,652

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, 2023

	Special			
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax
Receipts:				
Property tax	\$ 1,428,030	-	1,046,588	-
Local option sales tax	-	-	-	861,764
Tax increment financing	-	-	-	-
Other city tax	152,745	-	36,522	-
Licenses and permits	59,843	-	-	-
Use of money and property	56,627	-	-	-
Intergovernmental	519,524	770,073	45,870	-
Charges for service	677,860	6,578	-	-
Miscellaneous	257,300	-	1,775	-
Total receipts	3,151,929	776,651	1,130,755	861,764
Disbursements:				
Operating:				
Public safety	2,010,657	-	874,089	207,411
Public works	329,306	692,616	192,361	-
Health and social services	13,903	-	-	-
Culture and recreation	828,416	-	174,320	35,537
Community and economic development	-	-	-	15,000
General government	263,461	-	18,470	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	3,445,743	692,616	1,259,240	257,948
Excess (deficiency) of receipts over (under) disbursements	(293,814)	84,035	(128,485)	603,816
Other financing sources (uses):				
Sale of assets	2	-	-	-
Transfers in	57,265	85,379	-	-
Transfers out	(136,100)	(1,845)	-	(510,000)
Total other financing sources (uses)	(78,833)	83,534	-	(510,000)
Change in cash balances	(372,647)	167,569	(128,485)	93,816
Cash balances beginning of year	2,091,528	1,163,495	84,455	1,395,749
Cash balances end of year	\$ 1,718,881	1,331,064	(44,030)	1,489,565
Cash Basis Fund Balances				
Nonspendable:				
Cemetery perpetual care	\$ -	-	-	-
Library bequests	-	-	-	-
Restricted for:				
Streets	-	1,331,064	-	-
Debt service	-	-	-	-
Local option sales tax	-	-	-	1,489,565
Fire department	-	-	-	-
Library	878,344	-	-	-
Hotel recreation and tourism	69,813	-	-	-
Hotel community events	80,277	-	-	-
Insurance	89,960	-	-	-
Other purposes	-	-	-	-
Assigned for:				
Historic preservation	3,337	-	-	-
Unassigned	597,150	-	(44,030)	-
Total cash basis fund balances	\$ 1,718,881	1,331,064	(44,030)	1,489,565

See notes to financial statements.

Revenue				
Tax Increment Financing	Debt Service	Capital Projects	Nonmajor	Total
-	449,710	-	-	2,924,328
-	-	-	-	861,764
120,770	-	-	13,896	134,666
-	15,364	-	-	204,631
-	-	-	-	59,843
420	-	-	6,328	63,375
-	21,155	444,445	-	1,801,067
-	-	-	-	684,438
-	-	-	83,626	342,701
121,190	486,229	444,445	103,850	7,076,813
-	-	-	25,175	3,117,332
-	-	-	-	1,214,283
-	-	-	-	13,903
-	-	-	16,913	1,055,186
106,860	-	-	-	121,860
-	-	-	-	281,931
-	941,085	-	-	941,085
-	-	708,436	-	708,436
106,860	941,085	708,436	42,088	7,454,016
14,330	(454,856)	(263,991)	61,762	(377,203)
-	-	-	-	2
-	439,472	367,012	-	949,128
-	-	(57,265)	-	(705,210)
-	439,472	309,747	-	243,920
14,330	(15,384)	45,756	61,762	(133,283)
202,297	738,026	(220,792)	712,014	6,166,772
216,627	722,642	(175,036)	773,776	6,033,489
-	-	-	248,849	248,849
-	-	-	41,000	41,000
-	-	-	-	1,331,064
216,627	722,642	-	-	939,269
-	-	-	-	1,489,565
-	-	-	158,752	158,752
-	-	-	239,059	1,117,403
-	-	-	-	69,813
-	-	-	-	80,277
-	-	-	-	89,960
-	-	-	86,116	86,116
-	-	-	-	3,337
-	-	(175,036)	-	378,084
216,627	722,642	(175,036)	773,776	6,033,489

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, 2023

	Enterprise				
	Water	Sewer	Landfill	Storm Sewer	Total
Operating receipts:					
Charges for service	\$ 1,024,449	927,873	44,989	107,844	2,105,155
Miscellaneous	27,646	650	-	-	28,296
Total operating receipts	1,052,095	928,523	44,989	107,844	2,133,451
Operating disbursements:					
Business type activities	944,223	736,744	44,637	1,552	1,727,156
Excess of operating receipts over operating disbursements	107,872	191,779	352	106,292	406,295
Non-operating receipts (disbursements):					
Interest on investments	14,676	13,772	-	-	28,448
Capital outlay	(30,984)	(44,821)	-	-	(75,805)
Debt service	-	(151,200)	-	-	(151,200)
Net non-operating disbursements	(16,308)	(182,249)	-	-	(198,557)
Excess of receipts over disbursements	91,564	9,530	352	106,292	207,738
Other financing sources (uses):					
Transfers in	-	-	3,000	-	3,000
Transfers out	(83,294)	(108,771)	-	(54,853)	(246,918)
Total other financing sources (uses)	(83,294)	(108,771)	3,000	(54,853)	(243,918)
Change in cash balances	8,270	(99,241)	3,352	51,439	(36,180)
Cash balances beginning of year	1,317,259	375,642	404,227	526,131	2,623,259
Cash balances end of year	\$ 1,325,529	276,401	407,579	577,570	2,587,079
Cash Basis Fund Balances					
Restricted for:					
Debt service	\$ -	14,944	-	-	14,944
Landfill superfund	-	-	372,093	-	372,093
Unrestricted	1,325,529	261,457	35,486	577,570	2,200,042
Total cash basis fund balances	\$ 1,325,529	276,401	407,579	577,570	2,587,079

See notes to financial statements.

City of Red Oak

Notes to Financial Statements

June 30, 2023

(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 that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. 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:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance 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 Financing 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. Property Taxes and Governmental Cash Basis Fund Balances

The following accounting policies are followed in preparing the financial statements:

Property tax receipts recognized in the governmental funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2021 assessed property valuations; is for the tax accrual period July 1, 2022 through June 30, 2023 and reflects tax asking contained in the budget certified to the City Council in March 2022.

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, 2023, disbursements exceeded the amounts budgeted in the community and economic development, general government and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2023 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 \$60,464 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, 2023, the City's Library Foundation, a discretely presented component unit, had the following investments:

<u>Investment</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Stocks	Not Available	\$ 597,243
Annuities	\$ 275,000	342,258

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

(3) Bonds, Notes, Equipment Purchase Agreement and IT Subscriptions Payable

A summary of changes in bonds, notes, equipment purchase agreement and information technology (IT) subscriptions payable for the year ended June 30, 2023 is as follows:

	Beginning Balances	Increases	Decreases	Ending Balances	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 5,255,000	-	760,000	4,495,000	780,000
Equipment purchase agreement - direct borrowing	197,912	-	26,808	171,104	25,849
IT subscriptions	-	38,011	8,087	29,924	12,400
Governmental activities total	<u>\$ 5,452,912</u>	<u>-</u>	<u>786,808</u>	<u>4,666,104</u>	<u>818,249</u>
Business type activities:					
Sewer revenue bonds - direct borrowing	\$ 1,810,000	-	115,000	1,695,000	120,000
IT subscriptions	-	17,422	3,706	13,716	5,683
Business type activities total	<u>\$ 1,810,000</u>	<u>17,422</u>	<u>118,706</u>	<u>1,708,716</u>	<u>125,683</u>

General Obligation Bonds

A summary of the City's June 30, 2023 general obligation bonds payable is as follows:

Year Ending June 30,	2012 Series Issued Sep 26, 2012			2015 Series Issued Mar 17, 2015		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2024	2.20%	\$ 225,000	10,240	3.00%	\$ 130,000	28,725
2025	2.30	230,000	5,290	3.00	135,000	24,825
2026		-	-	3.50	140,000	20,755
2027		-	-	3.50	145,000	15,875
2028		-	-	3.00	115,000	10,800
2029-2033		-	-	3.00	245,000	11,100
Total		<u>\$ 455,000</u>	<u>15,530</u>		<u>\$ 910,000</u>	<u>112,080</u>

Year Ending June 30,	2018 Series Issued Aug 23, 2018			2019A Issued Sep 5, 2019		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2024	3.00%	\$ 325,000	23,250	5.00%	\$ 100,000	91,850
2025	3.00	315,000	13,500	5.00	100,000	86,850
2026	3.00	135,000	4,050	5.00	280,000	81,850
2027		-	-	5.00	295,000	67,850
2028		-	-	5.00	285,000	53,100
2029-2033		-	-	3.00	1,295,000	111,750
Total		<u>\$ 775,000</u>	<u>40,800</u>		<u>\$ 2,355,000</u>	<u>493,250</u>

Year Ending June 30,	Total		
	Principal	Interest	Total
2024	\$ 780,000	154,065	934,065
2025	780,000	130,465	910,465
2026	555,000	106,655	661,655
2027	440,000	83,725	523,725
2028	400,000	63,900	463,900
2029-2033	1,540,000	122,850	1,662,850
Total	<u>\$ 4,495,000</u>	<u>661,660</u>	<u>5,156,660</u>

On September 26, 2012, the City issued \$2,505,000 of general obligation bonds with interest rates ranging from 0.45% to 2.30% per annum. The bonds were issued for infrastructure improvements, pool improvements, Washington sewer project and the law enforcement center. During the year ended June 30, 2023, the City paid \$220,000 of principal and \$14,860 of interest on the bonds.

On March 17, 2015, the City issued \$2,265,000 of general obligation bonds with interest rates ranging from 2.00% to 3.50% per annum. The bonds were for street improvements. During the year ended June 30, 2023, the City paid \$130,000 of principal and \$32,625 of interest on the bonds.

On August 23, 2018, the City issued \$2,230,000 of general obligation bonds with interest rates of 3% per annum. The bonds were issued to refund \$1,305,000 of general obligation bonds dated March 25, 2010. The remainder of the proceeds were used for capital projects. During the year ended June 30, 2023, the City paid \$310,000 of principal and \$32,550 of interest on the bonds.

On September 5, 2019, the City issued \$2,755,000 of general obligation bonds with interest rates ranging from 3.00% to 5.00% per annum. The bonds were issued for improvements to the City swimming pool, library, airport and to finance the acquisition of a vehicle and equipment for the fire department. During the year ended June 30, 2023, the City paid \$100,000 of principal and \$96,850 of interest on the bonds.

Equipment Purchase Agreement – Direct Borrowing

On October 4, 2021, the City entered into an equipment purchase agreement for a broom sweeper with an initial liability of \$221,302. This agreement bears interest at of 3.85% per annum and is payable with annual installments of \$32,554 over six years with a final payment due on July 1, 2028. During the year ended June 30, 2023, the City paid \$26,808 of principal and \$5,746 of interest on the agreement.

Year Ending June 30,	Broom Sweeper			
	Interest Rates	Issued Oct 4, 2021		
		Principal	Interest	Total
2024	3.85%	\$ 25,849	6,705	32,554
2025	3.85	26,862	5,692	32,554
2026	3.85	27,914	4,640	32,554
2027	3.85	29,008	3,546	32,554
2028	3.85	30,145	2,409	32,554
2029	3.85	31,326	1,228	32,554
Total		\$ 171,104	24,220	195,324

Sewer Revenue Bonds – Direct Borrowing

A summary of the City’s June 30, 2023 revenue bonds payable is as follows:

Year Ending June 30,	Sewer			
	Issued Oct 29, 2010			
	Interest Rates	Principal	Interest	Total
2024	1.75%	\$ 120,000	29,662	149,662
2025	1.75	120,000	27,563	147,563
2026	1.75	125,000	25,462	150,462
2027	1.75	130,000	23,275	153,275
2028	1.75	135,000	21,000	156,000
2029-2033	1.75	740,000	67,900	807,900
2034-2035	1.75	325,000	8,575	333,575
Total		<u>\$ 1,695,000</u>	<u>203,437</u>	<u>1,898,437</u>

On October 29, 2010, the City entered into a loan agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources for the issuance of sewer revenue bonds of up to \$2,850,000 with interest at 3.00% per annum. The Iowa Finance Authority approved a reduction to the interest rate from 3.0% per annum to 1.75% per annum effective December 1, 2021. 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 Chapter 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the municipal wastewater treatment and sanitary sewer system. During the year ended June 30, 2023, the City paid principal of \$115,000 and interest of \$31,675 on the bonds.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,850,000 of sewer revenue bonds issued in October 2010. 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 98% of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,898,437. For the current year, principal and interest paid and total customer net receipts were \$146,675 and \$149,745, 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.
- (4) The City should also pay for usage.

During fiscal year 2023, the City is not being charged for service, as required and has not made the required monthly transfers to the sinking account.

Information Technology Subscription

On November 1, 2022, the City entered into a subscription-based information technology agreement (SBITA) for Microsoft 365 and workstation management. An initial subscription liability was recorded in the amount of \$5,679. The agreement requires monthly payments of \$170 with an initial payment on November 1, 2022. The agreement has an implicit interest rate of 5.0% and final payment due October 31, 2025. During the year ended June 30, 2023, the City paid principal of \$1,208 and interest of \$152.

On November 1, 2022, the City entered into a subscription-based information technology agreement (SBITA) for workstation management, server management and security services. An initial subscription liability was recorded in the amount of \$49,754. The agreement requires monthly payments of \$1,485 with an initial payment on November 1, 2022. The agreement has an implicit interest rate of 5.0% and final payment due October 31, 2025. During the year ended June 30, 2023, the City paid principal of \$10,585 and interest of \$1,295.

Future principal and interest payments are as follows:

Year Ending June 30,	SBITA Workstation			SBITA City-Wide		
	Principal	Interest	Total	Principal	Interest	Total
2024	\$ 1,853	187	2,040	\$ 16,230	1,590	17,820
2025	1,947	93	2,040	17,060	760	17,820
2026	671	9	680	5,879	61	5,940
Totals	\$ 4,471	289	4,760	\$ 39,169	2,411	41,580

Year Ending June 30,	Total		
	Principal	Interest	Total
2024	\$ 18,083	\$ 1,777	19,860
2025	19,007	853	19,860
2026	6,550	70	6,620
Totals	\$ 43,640	2,700	46,340

(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 developers in exchange for the construction of buildings and certain infrastructure improvements by the developers. Certain agreements also require the developers to certify specific employment requirements are met.

The total to be paid by the City under the agreements is not to exceed \$2,753,850. The total amount rebated during the year ended June 30, 2023 was \$106,860. The City has rebated a total of \$1,885,529 of incremental property tax under the agreements. The outstanding balance of the agreements at June 30, 2023 was \$868,320.

The agreements are not general obligations of the City. However, the agreements are subject to the constitutional debt limitation of the City, except for \$656,466 which has not been appropriated by the City Council at June 30, 2023.

(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 and may retire any time after reaching age 50 with 22 or more years of covered employment.

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 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 2023, 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 6.21% of covered payroll and the City contributed 9.31% for a total rate of 15.52%.

The City’s contributions to IPERS for the year ended June 30, 2023 totaled \$243,995.

Net Pension Liability, Pension Expense (Reduction), Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2023, the City reported a liability of \$199,602 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022 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, 2022, the City’s proportion was 0.005283%, which was a decrease of 0.290677% from its proportion measured as of June 30, 2021.

For the year ended June 30, 2023, the City’s pension expense (reduction), deferred outflows of resources and deferred inflows of resources totaled \$(29,164), \$1,365,180 and \$1,442,646, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2022 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, 2022 valuation were based on the results of a quadrennial experience study covering the period of July 1, 2017 through June 30, 2021.

Mortality rates used in the 2022 valuation were based on the PubG-2010 mortality tables with future mortality improvements modeled using Scale MP-2021.

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 geometric 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%	3.57%
International equity	17.5	4.79
Global smart beta equity	6.0	4.16
Core plus fixed income	20.0	1.66
Public credit	4.0	3.77
Cash	1.0	0.77
Private equity	13.0	7.57
Private real assets	8.5	3.55
Private credit	8.0	3.63
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 (Asset) to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.00%, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 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 (asset)	\$ 1,228,764	199,602	(704,852)

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. For the year ended June 30, 2023, the City contributed \$824,812 and plan members eligible for benefits contributed \$56,989 to the plan. At June 30, 2023, 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, 2023, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	-
Active employees	<u>49</u>
Total	<u><u>49</u></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, 2023, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 218,000
Compensatory time	71,000
Sick leave	<u>129,000</u>
Total	<u><u>\$ 418,000</u></u>

This liability has been computed based on rates of pay in effect at June 30, 2023.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2023 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Capital Projects	<u>\$ 57,265</u>
Special Revenue:		
Road Use Tax	General	<u>85,379</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	360,000
	Enterprise:	
	Water	59,604
	Sewer	<u>19,868</u>
		<u>439,472</u>
Capital Projects	General	50,721
	Special Revenue:	
	Road Use Tax	1,845
	Local Option Sales Tax	150,000
	Enterprise:	
	Water	23,690
	Sewer	85,903
	Storm Sewer	<u>54,853</u>
		<u>367,012</u>
Enterprise:	Enterprise:	
Landfill	Sewer	<u>3,000</u>
Total		<u>\$ 952,128</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 800 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, employment practices liability, public officials liability, cyber liability, law enforcement liability and property. 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, 2023 were \$194,175.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, employment practices, law enforcement, cyber, 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. As of June 30, 2023, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. 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, \$20,000 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, 2023, 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

During the year ended June 30, 2023, the City did not receive additional funds from the trustee of the Komarek Trust and spent \$4,000 for cemetery maintenance. At June 30, 2023, the balance in the Special Revenue, Komarek Trust Fund totaled \$193.

(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, 2023, all monitoring and maintenance activities were completed.

(13) Commitments

The City entered into a contract in August 2022 for a road reconstruction project of \$742,962. The balance of \$542,608 will be paid as work on the project progresses.

(14) Deficit Balance

At June 30, 2022, the Special Revenue, Employee Benefits Fund and Capital Projects Fund had deficit balances of \$44,030 and \$220,792, respectively. The deficits will be eliminated through property tax collections, 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, 2023, the City abated \$47,234 of property tax under the urban renewal and economic development projects.

(16) Lease Agreement

The City of Red Oak Airport Commission owns farmland which can be rented. On March 1, 2022, the City entered into a noncancelable lease agreement for 80 acres of the farmland. The agreement requires payments of \$5,800 in March and December with implicit interest rate of 5.0%. Final payment is December 1, 2023.

Year Ending	Farmland		
	Principal	Interest	Total
June 30,			
2024	\$ 5,659	141	5,800

(17) Subsequent Event

On January 15, 2024, the City issued \$3,700,000 of General Obligation Corporate Purpose Bonds, Series 2024A for the purpose of financing a public infrastructure for a townhome project and the purchase of a fire truck. The bonds bear interest ranging from 4.0% to 5.0% per annum and are payable through 2040.

Other Information

City of Red Oak

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances –
Budget and Actual – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2023

	Governmental Funds Actual	Proprietary Funds Actual	Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 2,924,328	-	-
Tax increment financing	134,666	-	-
Other city tax	1,066,395	-	-
Licenses and permits	59,843	-	-
Use of money and property	63,375	28,448	42
Intergovernmental	1,801,067	-	-
Charges for service	684,438	2,105,155	-
Miscellaneous	342,701	28,296	76,161
Total receipts	7,076,813	2,161,899	76,203
Disbursements:			
Public safety	3,117,332	-	25,175
Public works	1,214,283	-	-
Health and social services	13,903	-	-
Culture and recreation	1,055,186	-	-
Community and economic development	121,860	-	-
General government	281,931	-	-
Debt service	941,085	-	-
Capital projects	708,436	-	-
Business type activities	-	1,954,161	-
Total disbursements	7,454,016	1,954,161	25,175
Excess (deficiency) of receipts over (under) disbursements	(377,203)	207,738	51,028
Other financing sources, net	243,920	(243,918)	-
Change in balances	(133,283)	(36,180)	51,028
Balances beginning of year	6,166,772	2,623,259	63,271
Balances end of year	\$ 6,033,489	2,587,079	114,299

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
2,924,328	2,980,920	2,980,920	(56,592)
134,666	131,511	131,511	3,155
1,066,395	907,261	907,261	159,134
59,843	93,050	93,050	(33,207)
91,781	35,991	35,991	55,790
1,801,067	1,406,059	1,406,059	395,008
2,789,593	3,137,822	3,137,822	(348,229)
294,836	253,570	253,570	41,266
<u>9,162,509</u>	<u>8,946,184</u>	<u>8,946,184</u>	<u>216,325</u>
3,092,157	2,931,215	3,210,624	118,467
1,214,283	1,136,140	1,254,496	40,213
13,903	33,500	33,500	19,597
1,055,186	1,124,829	1,391,229	336,043
121,860	53,615	53,615	(68,245)
281,931	195,181	262,624	(19,307)
941,085	936,085	936,085	(5,000)
708,436	1,120,000	1,120,000	411,564
1,954,161	2,134,475	2,134,475	180,314
<u>9,383,002</u>	<u>9,665,040</u>	<u>10,396,648</u>	<u>1,013,646</u>
(220,493)	(718,856)	(1,450,464)	1,229,971
2	5,000	5,000	(4,998)
(220,491)	(713,856)	(1,445,464)	1,224,973
<u>8,726,760</u>	<u>7,005,472</u>	<u>7,005,472</u>	<u>1,721,288</u>
<u>8,506,269</u>	<u>6,291,616</u>	<u>5,560,008</u>	<u>2,946,261</u>

City of Red Oak

City of Red Oak

Notes to Other Information – Budgetary Reporting

June 30, 2023

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, two budget amendments increased budgeted disbursements by \$731,608. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2023, disbursements exceeded the amounts budgeted in the community and economic development, general government and the debt service functions. In addition, disbursements exceeded the amounts budgeted in the community and economic development, general government and debt service functions prior to the budget amendments.

City of Red Oak

Schedule of the City's Proportionate Share of the Net Pension Liability (Asset)

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

Other Information

	2023	2022	2021	2020
City's proportion of the net pension liability (asset)	0.005283%	0.295960%	0.017256%	0.013960%
City's proportionate share of the net pension liability (asset)	\$ 200	(1,022)	1,212	808
City's covered payroll	\$ 2,485	2,446	2,369	2,301
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	8.05%	(41.78)%	51.16%	35.12%
IPERS' net position as a percentage of the total pension liability (asset)	91.40%	100.81%	82.90%	85.45%

* 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.

2019	2018	2017	2016	2015
0.015542%	0.016255%	0.017469%	0.013524%	0.010370%
984	1,083	1,099	668	411
2,233	2,182	2,262	2,177	2,136
44.07%	49.63%	48.59%	30.68%	19.24%
83.62%	82.21%	81.82%	85.19%	87.61%

City of Red Oak

Schedule of City Contributions

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

Other Information

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Statutorily required contribution	\$ 244	233	233	229
Contributions in relation to the statutorily required contribution	<u>(244)</u>	<u>(233)</u>	<u>(233)</u>	<u>(229)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered payroll	\$ 2,603	2,485	2,446	2,369
Contributions as a percentage of covered payroll	9.37%	9.38%	9.53%	9.67%

See accompanying independent auditor's report.

2019	2018	2017	2016	2015	2014
226	209	204	209	209	204
(226)	(209)	(204)	(209)	(209)	(204)
-	-	-	-	-	-
2,301	2,233	2,182	2,262	2,177	2,136
9.82%	9.36%	9.35%	9.24%	9.60%	9.55%

City of Red Oak

Notes to Other Information – Pension Liability (Asset)

Year ended June 30, 2023

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2022 valuation incorporated the following refinements after a quadrennial experience study:

- Changed mortality assumptions to the PubG-2010 mortality tables with mortality improvements modeled using Scale MP-2021.
- Adjusted retirement rates for Regular members.
- Lowered disability rates for Regular members.
- Adjusted termination rates for all membership groups.

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 3.25% 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.
- 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.

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, 2023

	Volunteer Fire and Rescue Association	Rural Fire Sinking Fund	Low- Moderate Income	Special Komarek Trust
Receipts:				
Tax increment financing	\$ -	-	13,896	-
Use of money and property	42	-	173	-
Miscellaneous	76,161	-	-	-
Total receipts	76,203	-	14,069	-
Disbursements:				
Operating:				
Public safety	25,175	-	-	-
Culture and recreation	-	-	-	4,000
Total disbursements	25,175	-	-	4,000
Excess (deficiency) of receipts over (under) disbursements	51,028	-	14,069	(4,000)
Change in cash balances	51,028	-	14,069	(4,000)
Cash balances beginning of year	63,271	44,453	69,047	4,193
Cash balances end of year	\$ 114,299	44,453	83,116	193
Cash Basis Fund Balances				
Nonspendable:				
Cemetery perpetual care	\$ -	-	-	-
Library bequests	-	-	-	-
Restricted for:				
Fire department	114,299	44,453	-	-
Library	-	-	-	-
Other purposes	-	-	83,116	193
Total cash basis fund balances	\$ 114,299	44,453	83,116	193

See accompanying independent auditor's report.

Revenue					Permanent		
Freedom Rock	Cemetery Kiosk	Library Bequest	Library Donations	Library People's Art Projects	Cemetery Perpetual Care	Library Bequest	Total
-	-	-	-	-	-	-	13,896
-	-	1	6,112	-	-	-	6,328
728	2,807	-	-	-	3,930	-	83,626
728	2,807	1	6,112	-	3,930	-	103,850
-	-	-	-	-	-	-	25,175
728	-	-	12,185	-	-	-	16,913
728	-	-	12,185	-	-	-	42,088
-	2,807	1	(6,073)	-	3,930	-	61,762
-	2,807	1	(6,073)	-	3,930	-	61,762
-	-	27,167	212,773	5,048	244,919	41,143	712,014
-	2,807	27,168	206,700	5,048	248,849	41,143	773,776
-	-	-	-	-	248,849	-	248,849
-	-	-	-	-	-	41,000	41,000
-	-	-	-	-	-	-	158,752
-	-	27,168	206,700	5,048	-	143	239,059
-	2,807	-	-	-	-	-	86,116
-	2,807	27,168	206,700	5,048	248,849	41,143	773,776

City of Red Oak

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

For the Last Ten Years

	2023	2022	2021	2020
Receipts:				
Property tax	\$ 2,924,328	2,940,489	2,847,232	2,624,082
Tax increment financing	861,764	127,761	194,638	229,896
Local option sales tax	134,666	835,777	736,860	652,507
Other city tax	204,631	193,957	162,781	210,569
Licenses and permits	59,843	95,566	100,828	92,139
Use of money and property	63,375	17,056	54,003	78,105
Intergovernmental	1,801,067	1,585,239	1,435,662	1,286,607
Charges for service	684,438	650,313	821,053	705,466
Miscellaneous	342,701	1,058,845	250,821	267,560
Total	\$ 7,076,813	7,505,003	6,603,878	6,146,931
Disbursements:				
Operating:				
Public safety	\$ 3,117,332	2,644,953	2,544,178	2,529,760
Public works	1,214,283	995,237	864,498	976,084
Health and social services	13,903	13,678	10,673	32,341
Culture and recreation	1,055,186	1,007,699	848,836	869,878
Community and economic development	121,860	137,942	134,332	222,769
General government	281,931	172,903	188,521	212,791
Debt service	941,085	948,978	1,011,040	988,269
Capital projects	708,436	1,146,157	757,047	2,770,619
Total	\$ 7,454,016	7,067,547	6,359,125	8,602,511

See accompanying independent auditor's report.

2019	2018	2017	2016	2015	2014
2,500,572	2,515,110	2,439,859	2,351,728	2,385,807	2,274,532
294,157	336,427	274,292	205,418	130,261	155,529
567,921	593,523	628,157	607,519	624,626	537,438
191,101	191,520	207,847	232,262	209,962	198,033
66,116	102,569	80,974	87,358	34,299	60,470
36,874	22,770	18,862	19,028	23,509	13,992
1,186,268	1,744,220	1,612,432	1,598,146	1,097,819	866,294
734,961	819,269	721,020	646,234	694,702	581,007
1,591,594	537,388	703,579	469,128	558,375	399,187
7,169,564	6,862,796	6,687,022	6,216,821	5,759,360	5,086,482
3,753,127	2,343,381	2,601,376	2,368,467	2,651,137	2,273,915
938,191	943,255	928,609	944,566	915,346	885,139
2,200	8,179	1,981	17,669	128,999	117,449
946,240	786,851	827,038	832,866	828,629	832,045
200,603	233,150	271,138	75,284	141,205	170,121
158,832	142,583	145,396	129,862	123,344	114,917
815,532	698,510	708,700	699,544	1,755,591	690,383
1,285,833	977,187	1,255,921	2,177,336	733,876	416,576
8,100,558	6,133,096	6,740,159	7,245,594	7,278,127	5,500,545



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834

Rob Sand
Auditor of State

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

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with auditing standards generally accepted in the United States of America 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, 2023, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 23, 2025. Our report expressed unmodified opinions on the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Red Oak, Iowa as of June 30, 2023 which 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 an adverse opinion on the financial statements of the discretely presented component unit.

Report on 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 (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Red Oak's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Red Oak's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that 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 that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items 2023-001 and 2023-002 to be material weaknesses.

A significant deficiency is a deficiency, or a 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. We consider the deficiencies described in the accompanying Schedule of Findings as items 2023-003 and 2023-004 to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Red Oak’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 noncompliance or other matters which are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance 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, 2023 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.

City of Red Oak’s Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Red Oak’s responses to the findings identified in our audit and described in the accompanying Schedule of Findings. The City of Red Oak’s responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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.



Brian R. Brustkern, CPA
Deputy Auditor of State

February 23, 2025

City of Red Oak

Schedule of Findings

Year ended June 30, 2023

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

2023-001 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 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, voiding and recording.
- (2) Utility receipts – billing, collecting, recording and maintaining accounts receivable.

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 the Library Foundation 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 the Library Foundation'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.

Recommendation – The City 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 to provide additional controls through review of financial transactions, reconciliations and financial report. The reviews should be documented by the signature or initials of the reviewer and the date of the review.

Response – The City has eight employees that divide the duties that impact internal control and fiscal responsibility. In the past two years an additional position has been created, the Deputy Clerk, to allow for more segregation. The City will continue to review procedures and assigned duties, to separate them as much as possible. The City has also added additional steps that items such as voiding, or billing adjustments are approved by the City Administrator. The Library Foundation has created additional steps to be sure multiple people, with various rolls, are reviewing the Foundation's finances.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings

Year ended June 30, 2023

2023-002 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 in 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 transfer was recorded within the City's accounting system recording the purchase of a certificate of deposit from a City owned bank account. Adjustments were subsequently made by the City to properly report these amounts in the City's financial statements.

Cause – City procedures have not been established to ensure all transactions are recorded properly to the correct account within the accounting system.

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

Recommendation – The City should implement procedures to ensure that all transfers between bank accounts and certificates of deposits are identified and properly reported in the City's financial statements.

Response – The City is first working with a consultant to get all CD's posted to the various banks in the software system to be sure that cash balances to the banks with a zero discrepancy. Once those are posted, processes will be created to be sure cashed CDs are posted in the cash properly.

Conclusion – Response accepted.

2023-003 Disaster Recovery Plan

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

Condition – The City does not have a written disaster recovery plan and does not require back-up tapes be stored off site daily in a fireproof vault or safe.

Cause – Management has not required a written disaster recovery plan or off-site storage for back-up tapes.

Effect – The failure to have a formal disaster recovery plan could result in the City's inability to function in the event of a disaster or continue City business without interruption. Storing back-up tapes off-site helps ensure financial and other information is readily available in the case of a disaster or emergency.

City of Red Oak

Schedule of Findings

Year ended June 30, 2023

Recommendation – A written disaster recovery plan should be developed and approved by the City Council, and back-up tapes should be stored off site daily in a fireproof vault or safe.

Response – The City is working on a plan with our IT consultant and have created additional steps to decrease the chance of disasters and what to do if anything is compromised.

Conclusion – Response accepted.

2023-004 Disbursements

Criteria – Internal controls over safeguarding assets constitute a process, effected by an entity's governing body, management and other personnel designated to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from error or misappropriation. Such processes include establishing policies addressing proper asset use and proper supporting documentation.

Condition – The City did not always retain supporting documentation for disbursements paid by credit card.

Cause – Supporting documentation is not always maintained for disbursements.

Effect – Lack of supporting documentation for all disbursements could result in unauthorized transactions and the opportunity for misappropriation.

Recommendation – All disbursements should be supported by invoices or other supporting documentation.

Response – The City has stopped paying anything without an invoice.

Conclusion – Response accepted.

INSTANCES OF NONCOMPLIANCE

No matters were noted.

City of Red Oak

Schedule of Findings

Year ended June 30, 2023

Other Findings Related to Required Statutory Reporting:

2023-A Certified Budget – Disbursements during the year ended June 30, 2023 exceeded the amounts budgeted in the community and economic development, general government and debt service functions. In addition, disbursements exceeded the amounts budgeted in the community and economic development, general government and debt service functions prior to the budget amendments. 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 has changed processes to be sure an amendment is completed to be in compliance with Chapter 384.18.

Conclusion – Response accepted.

2023-B Questionable Disbursements – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General’s opinion dated April 25, 1979, public funds may only be spent for public benefit. Certain disbursements were noted which we believe may not meet the requirements of public purpose as defined in the Attorney General’s opinion since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Swimoutlet.com	Sales tax	\$ 13
Bass Pro Shop	Sales tax	1

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

Recommendation – The City Council should implement procedures to ensure sales tax is not paid on purchases.

Response – The City Administrator is reviewing the invoices paid and directing staff to contact any businesses that charged the City sales tax and also providing the business with a sales tax exemption form.

Conclusion – Response accepted.

2023-C Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Red Oak

Schedule of Findings

Year ended June 30, 2023

2023-D 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	\$ 1,715
Duane Barkman, ambulance driver, owner of Servus Auto Glass	Windshield repairs	1,104
Kyra Smith, City Administrator Granddaughter of owner of Dickel Duit Outdoor Power	Equipment repairs and maintenance	756

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions above do not appear to represent a conflict of interest since they totaled less than \$6,000 during the fiscal year.

2023-E Restricted Donor Activity – No transactions were noted between the City, City officials, City employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.

2023-F 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.

2023-G City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

2023-H Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

2023-I Financial Condition – The Special Revenue, Employee Benefits fund and the Capital Projects Fund had deficit balances of \$44,030 and \$175,036, respectively at June 30, 2023.

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

Response – The City is attempting to more accurately levy for the cost of employee benefits so as to not have a negative fund balance at the year end. In addition, we are making sure that prior to a capital project being started, that the revenue sources are identified.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings

Year ended June 30, 2023

2023-J Revenue Bonds – 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. The City does not make the required monthly transfers to the sinking account.

Recommendation – The City should ensure City sewer usage is billed and paid by the City and the required transfers to the sinking account are made monthly.

Response – The City is reviewing the City owned properties that do not have a water meter installed. Once those are installed the sewer will be charged as required.

Conclusion – Response accepted.

2023-K 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.

However, the amount of TIF debt outstanding on the Levy Authority Summary page is overstated by \$37,135. In addition, the City reported a cash balance of \$0 restricted for low and moderate (LMI) housing. The correct cash balance restricted for LMI housing is \$69,047.

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

Response – The City is working more closely to be sure the amount of the TIF asking on the TIF Debt Certification form is accurate. Staff was unaware that the previous Administration had done an advanced certification. The LMI cash is restricted.

Conclusion – Response accepted.

2023-L Questionable Donations – During the fiscal year ended June 30, 2023, the City donated \$30,000 to the Montgomery County Development Corporation.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to private, nonprofit corporations. Article III, Section 31 of the Constitution of the State of Iowa states “...no public money or property shall be appropriated for local or private purposes, unless such appropriation, compensation or claim be allowed by two-thirds of the members elected to each branch of the General Assembly.”

At least six official Iowa Attorney General Opinions since 1972 have consistently concluded that “a governmental body may not donate public funds to a private entity, even if the entity is established for charitable educational purposes and performs work which the government could perform directly. The Opinions further state, “Even if the function of a private nonprofit corporation fits within the scope of activities generally recognized as serving a public purpose, a critical question exists regarding whether funds or property transferred to a private entity will indeed be used for those public purposes.”

City of Red Oak

Schedule of Findings

Year ended June 30, 2023

“Political subdivisions and municipalities, including cities, counties, schools and townships are municipal – governmental – entities. As governmental entities they are governed by elected bodies, are directly responsible to the public as a whole, and are subject to the limitations imposed on them by the state. Although a private organization may be formed to provide and support ‘public’ services which are the same or similar to the services provided by government, the private organizations are not subjected to the same degree of public accountability and oversight as governmental entities.”

Recommendation – We are not aware of any statutory authority for the City to donate public funds to private nonprofit organizations. If the nonprofit organization provides a service to the City, the City may enter into an agreement properly established under Chapter 28E of the Code of Iowa or an ordinary contract for services similar to one they would enter with a private entity providing services. Either way, the agreement should detail the services provided and the cost of those services, as well as provide transparency for the City that allows confirmation the funds were spent as agreed and a clawback provision in the event that they are not spent as agreed. If the entity is not providing a service to the City, the City should immediately cease making future donations.

Response – The City created a resolution authorizing the funds to the MCDC and Chamber and after that created an actual service agreement.

Conclusion – Response accepted.

2023-M Unclaimed Property – Chapter 556.11 of the Code of Iowa requires all entities to report and remit outstanding obligations, including checks, held for more than two years to the Office of Treasurer of State annually. The City did not remit obligations outstanding for greater than two years, as required.

Recommendation – Outstanding checks should be reviewed annually and amounts over two years old should be remitted to the Office of Treasurer of State, as required.

Response – The City will begin this process now.

Conclusion – Response accepted.

City of Red Oak

Staff

This audit was performed by:

Brian R. Brustkern, CPA, Deputy
Cole L. Hocker, CPA, Director
Mackenzie L. Johnson, Senior Auditor
Enoch Duval, Staff Auditor
Hunter W. Penton, Staff Auditor