



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

May 8, 2009

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Auditor of State David A. Vaudt today released an audit report on the City of Red Oak, Iowa.

The City's receipts totaled \$7,362,317 for the year ended June 30, 2008, a 10 percent increase over 2007. The receipts included \$2,174,272 in property tax, \$81,447 from tax increment financing, \$2,272,678 from charges for service, \$782,876 from operating grants, contributions and restricted interest, \$1,232,180 from capital grants, contributions and restricted interest, \$434,448 from local option sales tax, \$262,189 from unrestricted interest on investments and \$122,227 from other general receipts.

Disbursements for the year totaled \$8,571,752, a 60 percent increase over the prior year, and included \$1,885,490 for public safety, \$800,133 for public works and \$2,891,634 for capital projects. Disbursements for business type activities totaled \$1,274,003.

The significant increase in receipts is due primarily to additional federal grants received for construction purposes. The significant increase in disbursements is due primarily to an increase in capital project disbursements for airport and bridge construction.

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

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CITY OF RED OAK

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

JUNE 30, 2008

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City of Red Oak

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2008)		
Ted A. Schoonover	Mayor	Jan 2008
Tom Pratt	Mayor Pro Tem	Jan 2010
Larry Brandstetter	Council Member	Nov 2007
Ivan Craig (Appointed Jul 2007)	Council Member	Nov 2007
Roger Waggener	Council Member	Jan 2008
Mark Gregg	Council Member	Jan 2010
Brad Wright	Administrator	Indefinite
Mary Bolton	Clerk	Indefinite
Stephen Hays	Treasurer	Indefinite
Tom Stamets	Attorney	Indefinite
(After January 2008)		
Ted A. Schoonover	Mayor	Jan 2010
Tom Pratt	Mayor Pro Tem	Jan 2010
Mark Gregg	Council Member	Jan 2010
Roger Waggener	Council Member	Jan 2012
Ivan Craig	Council Member	Jan 2012
Larry Brandstetter	Council Member	Jan 2012
Brad Wright	Administrator	Indefinite
Mary Bolton	Clerk	Indefinite
Stephen Hays	Treasurer	Indefinite
Tom Stamets	Attorney	Indefinite

City of Red Oak



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Red Oak, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Red Oak's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

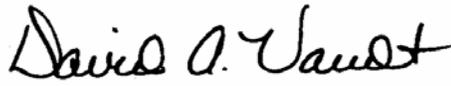
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Red Oak as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 24, 2009 on our consideration of the City of Red Oak's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Red Oak's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 24, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Red Oak provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 13.5%, or approximately \$680,000, from fiscal 2007 to fiscal 2008. Capital grants, contributions, and restricted interest increased approximately \$740,000 and tax increment financing decreased approximately \$120,000.
- Disbursements for governmental activities increased 81%, or approximately \$3,264,000, from fiscal 2007 to fiscal 2008. Public works, community and economic development and capital projects disbursements increased approximately \$303,000, \$164,000 and \$2,690,000, respectively.
- The City's total cash basis net assets decreased 14.5%, or approximately \$1,209,000, from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities decreased approximately \$1,471,000 and the assets of the business type activities increased approximately \$262,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

The Statement of Activities and Net Assets is divided into two kinds of activities:

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

Fund Financial Statements

The City has two kinds of funds:

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

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

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

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

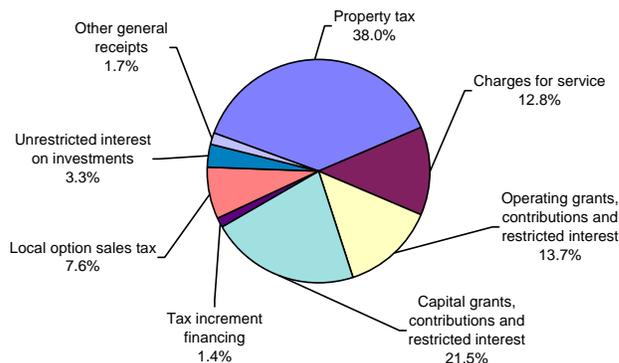
Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

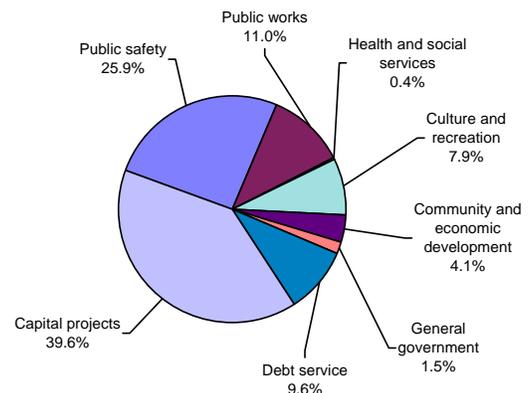
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$5,599,459 to \$4,128,418. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service	\$ 732,088	679,445
Operating grants, contributions and restricted interest	782,876	782,036
Capital grants, contributions and restricted interest	1,232,180	492,544
General receipts:		
Property tax	2,174,272	2,116,378
Tax increment financing	81,447	201,129
Local option sales tax	434,448	518,245
Unrestricted interest on investments	186,163	195,958
Other general receipts	100,154	57,516
Total receipts	<u>5,723,628</u>	<u>5,043,251</u>
Disbursements:		
Public safety	1,885,490	1,842,324
Public works	800,133	497,363
Health and social services	29,080	13,591
Culture and recreation	580,009	547,171
Community and economic development	298,823	134,446
General government	112,603	102,300
Debt service	699,977	694,634
Capital projects	2,891,634	202,061
Total disbursements	<u>7,297,749</u>	<u>4,033,890</u>
Change in cash basis net assets before transfers	(1,574,121)	1,009,361
Operating transfers, net	103,080	40,000
Increase (decrease) in cash basis net assets	(1,471,041)	1,049,361
Cash basis net assets beginning of year	5,599,459	4,550,098
Cash basis net assets end of year	<u>\$ 4,128,418</u>	<u>5,599,459</u>

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 13.5%, or approximately \$680,000. The total cost of all programs and services increased approximately \$3,264,000, or 81%, with no new programs added this year. The increase in receipts was primarily the result of an increase in capital grants, contributions and restricted interest offset by a decrease in tax increment financing. The increase in disbursements was primarily the result of an increase in capital projects, public works, and community and economic development activity in the current year.

The cost of all governmental activities this year was approximately \$7.3 million, compared to approximately \$4.0 million last year. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was only \$4.55 million because some of the cost was paid by those directly benefited from the programs (\$732,088) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$2,015,056). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$3,080,000 in property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous collections.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 909,859	930,336
Sewer	558,970	564,156
Landfill	71,761	72,351
General receipts:		
Unrestricted interest on investments	76,026	50,768
Other general receipts	22,073	14,773
Total receipts	<u>1,638,689</u>	<u>1,632,384</u>
Disbursements:		
Water	808,298	865,379
Sewer	432,320	423,131
Landfill	33,385	33,274
Total disbursements	<u>1,274,003</u>	<u>1,321,784</u>
Change in cash basis net assets before transfers	364,686	310,600
Operating transfers, net	<u>(103,080)</u>	<u>(40,000)</u>
Increase in cash basis net assets	261,606	270,600
Cash basis net assets beginning of year	<u>2,729,172</u>	<u>2,458,572</u>
Cash basis net assets end of year	<u>\$ 2,990,778</u>	<u>2,729,172</u>

Total business type activities receipts increased \$6,305, or 0.4%. Total disbursements for the fiscal year decreased 3.6%, or \$47,781. The cash balance increased \$261,606 over the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Red Oak completed the year, its governmental funds reported a combined fund balance of \$4,128,418, a decrease of more than \$1,471,000 compared to last year's total of \$5,599,459. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$37,138 over the prior year to \$1,411,055. The increase is attributable to an overall increase in receipts of \$118,424 offset by an increase in disbursements of \$141,602. Receipts increased primarily due to an increase in miscellaneous revenues related to sales of aviation fuel at the airport. Public work disbursements increased \$88,598, primarily due to increased operating costs at the airport. Culture and recreation disbursements increased \$33,210, primarily due to the purchase of a new mower for the cemetery.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$169,915 to \$1,247,160 during the fiscal year. This decrease was primarily due to an increase in public works disbursements for the purchase of a new street sweeper.
- The Special Revenue, Employee Benefits Fund cash balance increased \$31,285 to \$680,107 during the fiscal year. The increase is attributable to receipts of \$642,610 offset by disbursements of \$611,325.
- The Special Revenue, Local Option Sales Tax Fund was established to account for special sales tax collected. At the end of the fiscal year, the cash balance was \$1,542,505, an increase of \$303,006 over the previous year. Local option sales tax collections credited to this fund decreased \$83,797 during the current year. Total disbursements increased \$13,937 while transfers out decreased \$262,782.
- The Debt Service Fund cash balance decreased \$221,027 to (\$346,973) during the fiscal year. This decrease was due to transfers from other funds not yet allocated to the Debt Service Fund offset by an increase in property tax receipts.
- The Capital Projects Fund cash balance decreased \$1,254,835 to (\$1,092,823) during the fiscal year. The City incurred construction costs for bridge and airport improvements in fiscal year 2008. However, federal reimbursement for these projects was not received until fiscal year 2009, causing the significant decrease in the Capital Projects Fund cash balance. The City spent a total of \$2,891,634 on construction projects in the current year, compared to \$202,061 in the prior year. Intergovernmental receipts increased \$693,792 over the prior year, primarily due to federal grants received for improvements at the airport.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$120,339 to \$986,615. Total receipts decreased \$4,843 while disbursements decreased \$57,081 during the year.
- The Sewer Fund cash balance increased \$102,891 to \$1,766,325. Total receipts increased \$11,738 while disbursements increased \$9,189 during the year.

• BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on June 16, 2008 and resulted in an increase of \$257,700 in operating disbursements, related primarily to community and economic development disbursements due to increased disbursements for the community development block grant. The amendment also increased revenues by \$182,765, related primarily to an increase in airport fuel sales. The City had sufficient cash balances to absorb any additional costs.

With the amendment, the City's receipts were \$492,978 less than budgeted. This was primarily due to the City receiving less in intergovernmental receipts because the City wasn't reimbursed for a bridge project until after year-end and less in miscellaneous receipts than anticipated because fewer contributions were received due to the delay of the library expansion project.

Even with the amendment, total disbursements were \$307,501 more than the amended budget. Actual disbursements for the public works, culture and recreation, community and economic development and capital project functions were \$21,968, \$12,945, \$26,548 and \$737,134 more than the amended budget, respectively. This was primarily due to the City not budgeting for the full amount of a new street sweeper, unanticipated increases in technology disbursements for the library, increased maintenance costs for parks and the pool, an increase in downtown projects in the urban renewal area and completing more construction projects than anticipated.

DEBT ADMINISTRATION

At June 30, 2008, the City had \$2,255,000 in general obligation notes outstanding, compared to \$2,820,000 last year. Debt decreased as a result of current year redemptions.

Outstanding Debt at Year-End		
	June 30,	
	2008	2007
General obligation notes	\$ 2,255,000	2,820,000

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all property within the City's corporate limits. The City's outstanding general obligation debt of \$3,117,970, including tax increment financing rebate agreements of \$862,970, is significantly below its constitutional debt limit of approximately \$9,765,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Red Oak's elected and appointed officials and citizens considered many factors when setting the fiscal year 2009 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in the City as of June 30, 2008 stood at 5.4%. This compares with the State's unemployment rate of 4.0% and the national rate of 5.6%.

These factors were taken into account when adopting the budget for fiscal year 2009. Tax revenues available for appropriation in the fiscal 2009 operating budget are \$2.1 million, an increase of 1.9% over the final 2008 budget. The City will use this increase in receipts to finance programs we currently offer. Budgeted disbursements are expected to increase \$3,088,162 to \$11,255,700. The City has added no major new programs or initiatives, but has added \$2,559,500 to the capital projects budget for airport subdivision and street projects.

If these estimates are realized, the City's June 30, 2009 budgeted cash balance is expected to decrease \$2,337,733 from the June 30, 2008 budgeted cash balance. The City will be using accumulated cash, grants and donations for projects rather than issuing additional debt.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

City of Red Oak

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2008

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,885,490	525,784	38,332	-
Public works	800,133	88,903	534,998	-
Health and social services	29,080	2,072	-	-
Culture and recreation	580,009	95,049	58,422	-
Community and economic development	298,823	6,262	147,824	-
General government	112,603	14,018	3,300	-
Debt service	699,977	-	-	-
Capital projects	2,891,634	-	-	1,232,180
Total governmental activities	7,297,749	732,088	782,876	1,232,180
Business type activities:				
Water	808,298	909,859	-	-
Sewer	432,320	558,970	-	-
Landfill	33,385	71,761	-	-
Total business type activities	1,274,003	1,540,590	-	-
Total	\$ 8,571,752	2,272,678	782,876	1,232,180

General Receipts:

Property and other city tax levied for:
 General purposes
 Debt service
 Tax increment financing
 Local option sales tax
 Unrestricted interest on investments
 Miscellaneous
 Transfers
 Total general receipts and transfers
 Change in cash basis net assets
 Cash basis net assets beginning of year
 Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Special levies
 Streets
 Urban renewal purposes
 Local option sales tax
 Library bequests
 Fire department donations
 Police donations
 Other purposes
 Cemetery perpetual care
 Sewer improvements
 Landfill purposes
 Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(1,321,374)	-	(1,321,374)
(176,232)	-	(176,232)
(27,008)	-	(27,008)
(426,538)	-	(426,538)
(144,737)	-	(144,737)
(95,285)	-	(95,285)
(699,977)	-	(699,977)
(1,659,454)	-	(1,659,454)
(4,550,605)	-	(4,550,605)
-	101,561	101,561
-	126,650	126,650
-	38,376	38,376
-	266,587	266,587
(4,550,605)	266,587	(4,284,018)
1,695,322	-	1,695,322
478,950	-	478,950
81,447	-	81,447
434,448	-	434,448
186,163	76,026	262,189
100,154	22,073	122,227
103,080	(103,080)	-
3,079,564	(4,981)	3,074,583
(1,471,041)	261,606	(1,209,435)
5,599,459	2,729,172	8,328,631
\$ 4,128,418	2,990,778	7,119,196
\$ 711,281	-	711,281
1,247,160	-	1,247,160
317,316	-	317,316
1,542,505	-	1,542,505
65,412	-	65,412
90,416	-	90,416
18,847	-	18,847
16,909	-	16,909
202,560	-	202,560
-	270,000	270,000
-	207,727	207,727
(83,988)	2,513,051	2,429,063
\$ 4,128,418	2,990,778	7,119,196

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, 2008

	Special Revenue			
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax
Receipts:				
Property tax	\$ 966,854	-	603,226	-
Tax increment financing	-	-	-	-
Other city tax	59,346	-	34,722	434,448
Licenses and permits	51,073	-	-	-
Use of money and property	205,188	-	-	-
Intergovernmental	59,295	530,914	-	-
Charges for service	575,682	-	-	-
Special assessments	-	-	-	-
Miscellaneous	153,836	-	4,662	-
Total receipts	2,071,274	530,914	642,610	434,448
Disbursements:				
Operating:				
Public safety	1,242,340	-	414,995	131,442
Public works	157,232	545,507	97,394	-
Health and social services	29,080	-	-	-
Culture and recreation	481,860	-	90,577	-
Community and economic development	-	-	-	-
General government	104,244	-	8,359	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	2,014,756	545,507	611,325	131,442
Excess (deficiency) of receipts over (under) disbursements	56,518	(14,593)	31,285	303,006
Other financing sources (uses):				
Operating transfers in	30,303	103,837	-	-
Operating transfers out	(49,683)	(259,159)	-	-
Total other financing sources (uses)	(19,380)	(155,322)	-	-
Net change in cash balances	37,138	(169,915)	31,285	303,006
Cash balances beginning of year	1,373,917	1,417,075	648,822	1,239,499
Cash balances end of year	\$ 1,411,055	1,247,160	680,107	1,542,505
Cash Basis Fund Balances				
Reserved for police donations	\$ 18,847	-	-	-
Unreserved:				
General fund	1,392,208	-	-	-
Special revenue funds	-	1,247,160	680,107	1,542,505
Debt service fund	-	-	-	-
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 1,411,055	1,247,160	680,107	1,542,505

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
451,602	-	29,446	2,051,128
-	-	81,447	81,447
27,348	-	1,728	557,592
-	-	-	51,073
-	22,553	11,990	239,731
-	967,807	147,824	1,705,840
-	-	4,690	580,372
-	4,219	-	4,219
-	237,601	56,127	452,226
478,950	1,232,180	333,252	5,723,628
-	-	96,713	1,885,490
-	-	-	800,133
-	-	-	29,080
-	-	7,572	580,009
-	-	298,823	298,823
-	-	-	112,603
699,977	-	-	699,977
-	2,891,634	-	2,891,634
699,977	2,891,634	403,108	7,297,749
(221,027)	(1,659,454)	(69,856)	(1,574,121)
-	508,456	-	642,596
-	(103,837)	(126,837)	(539,516)
-	404,619	(126,837)	103,080
(221,027)	(1,254,835)	(196,693)	(1,471,041)
(125,946)	162,012	884,080	5,599,459
(346,973)	(1,092,823)	687,387	4,128,418
-	-	-	18,847
-	-	-	1,392,208
-	-	484,827	3,954,599
(346,973)	-	-	(346,973)
-	(1,092,823)	-	(1,092,823)
-	-	202,560	202,560
(346,973)	(1,092,823)	687,387	4,128,418

Exhibit C

City of Red Oak

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2008

	Enterprise			Total
	Water	Sewer	Nonmajor Landfill	
Operating receipts:				
Charges for service	\$ 896,198	558,970	71,761	1,526,929
Miscellaneous	13,661	-	-	13,661
Total operating receipts	909,859	558,970	71,761	1,540,590
Operating disbursements:				
Business type activities	708,496	393,476	33,385	1,135,357
Excess of operating receipts over operating disbursements	201,363	165,494	38,376	405,233
Non-operating receipts (disbursements):				
Interest on investments	39,022	37,004	-	76,026
Miscellaneous	13,695	8,378	-	22,073
Capital projects	(99,802)	(38,844)	-	(138,646)
Total non-operating receipts (disbursements)	(47,085)	6,538	-	(40,547)
Excess of receipts over disbursements	154,278	172,032	38,376	364,686
Operating transfers out	(33,939)	(69,141)	-	(103,080)
Net change in cash balances	120,339	102,891	38,376	261,606
Cash balances beginning of year	866,276	1,663,434	199,462	2,729,172
Cash balances end of year	\$ 986,615	1,766,325	237,838	2,990,778
Cash Basis Fund Balances				
Reserved for:				
Improvements	\$ -	270,000	-	270,000
Landfill purposes	-	-	207,727	207,727
Unreserved	986,615	1,496,325	30,111	2,513,051
Total cash basis fund balances	\$ 986,615	1,766,325	237,838	2,990,778

See notes to financial statements.

City of Red Oak

Notes to Financial Statements

June 30, 2008

(1) Summary of Significant Accounting Policies

The City of Red Oak is a political subdivision of the State of Iowa located in Montgomery County. It was first incorporated in 1901 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Red Oak has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Red Oak and its blended component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

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

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

Jointly Governed Organizations

The City participates in several jointly governed organizations for which the City is not financially accountable or the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial

statements to be misleading or incomplete. City officials are members of the following boards and commissions: Montgomery County Assessor's Conference Board and the Southwest Iowa Planning Council (SWIPCO) Regional Planning Commission.

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

Related Organizations

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

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefits Fund is used to account for property tax levied to finance the payment of employee benefits.

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

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

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

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Red Oak 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 incurred, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the public works, culture and recreation, community and economic development and capital projects functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$55,063 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

(3) Long Term Debt

Notes Payable

Annual debt service requirements to maturity for general obligation notes are as follows:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 590,000	106,190	696,190
2010	395,000	77,468	472,468
2011	255,000	56,892	311,892
2012	110,000	44,510	154,510
2013	115,000	40,275	155,275
2014-2018	645,000	125,195	770,195
2019	145,000	6,960	151,960
Total	\$ 2,255,000	457,490	2,712,490

(4) Development Agreements

Rebate Agreements

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

The total to be paid by the City under the agreements is not to exceed \$1,147,792. The total amount rebated during the year ended June 30, 2008 was \$58,823. The City has rebated a total of \$284,822 of incremental tax under the agreements. The outstanding balance of the agreements at June 30, 2008 was \$862,970.

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

Other Agreements

In March 2007, the City entered into an agreement with a developer regarding certain property on which the developers are constructing a residential subdivision. The City agreed to provide tax increment financing assistance to help defray the costs of the construction of the infrastructure portion of the project, as follows: 100% of the costs for the paving of the street, 50% of the costs of the sanitary sewer and water extension construction and 100% of the storm sewer improvements. The developer agreed to pay the following: 100% of the grading costs of the street right-of-way, 50% of the costs of the sanitary sewer and water extension construction and 100% of the sidewalk installation costs. At June 30, 2008, the developer has paid \$148,088 to the City for grading, sewer and water costs.

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$129,899, \$125,754 and \$119,136, respectively, equal to the required contributions for each year.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, compensatory time and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory time and sick leave payable to employees at June 30, 2008, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 78,000
Compensatory time	49,000
Sick leave	<u>76,000</u>
Total	<u>\$ 203,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2008.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Emergency	\$ 30,303
Special Revenue: Road Use Tax	Capital Projects	103,837
Capital Projects	General	49,683
	Special Revenue: Road Use Tax	259,159
	Library Bequest	96,534
	Enterprise: Water	33,939
	Sewer	69,141
		<u>508,456</u>
Total		<u>\$ 642,596</u>

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

(8) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 563 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2008 were \$135,171.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2008, 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 claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with the airport liability, employee blanket bond and workers compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Industrial Development Revenue Bonds

The City has issued a total of \$1,050,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$640,000 is outstanding at June 30, 2008. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

(10) Treasurer's Debt Service Account

The City deposits into a Treasurer's Debt Service Account sufficient funds to redeem note principal and interest when due. These deposits are recorded as disbursements at the time of payment and subsequent activity and resulting balances are not recorded by the City. At June 30, 2008, the Treasurer's Debt Service Account had a balance of \$35.

(11) Library Bequests

The Library has received various restricted bequests. At June 30, 2008, the Library Bequest Fund included a total of \$41,000 of memorials, as follows:

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

(12) Komarek Trust

The City receives \$1,100 annually from the trustee of the Komarek Trust to be used for maintenance of cemetery chapel grounds and roadways and for placement of flowers on certain graves. During the year ended June 30, 2008, the City spent \$1,204 of these funds for flowers and statues. At June 30, 2008, the balance in the Special Revenue, Komarek Trust Fund totaled \$11,453.

(13) Contingent Liability

The City is subject to a potential liability of \$735,100 for financial security in connection with its former participation in the operation of the Red Oak Landfill. The probability of loss, if any, is indeterminable.

(14) Commitments

Construction commitments for airport, subdivision, bridge and street projects at June 30, 2008 totaled \$3,361,474. To date, \$1,784,576 was paid under these construction commitments. The balance of \$1,576,898 will be paid as work on the projects progresses.

(15) Deficit Balances

At June 30, 2008, the Special Revenue, Community Development Block Grant Housing Rehabilitation and FY08 Housing Funds and the Debt Service and Capital Projects Funds had deficit balances of \$(36,372), \$(28), \$(346,973) and \$(1,092,823), respectively. The deficit balances in the Special Revenue, Community Development Block Grant Housing Rehabilitation Fund and FY08 Fund will be eliminated through future reimbursement requests from grant moneys. The deficit balance for the Debt Service Fund will be eliminated through transfers from other funds. The deficit balance for the Capital Projects Fund will be eliminated through grant reimbursement requests.

(16) Subsequent Events

On October 6, 2008, the City approved the purchase of warning sirens for \$70,603.

On October 6, 2008, the City received notification it was approved for a USDA grant totaling \$348,591 for the purchase of a new fire truck.

In October 2008, the City was notified a grant for \$72,147 from the FAA for the FY09 Taxiway C project was approved.

In February 2009, the City was notified a grant for \$420,000 was awarded to the City for the library expansion project.

City of Red Oak

Required Supplementary Information

City of Red Oak

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

Required Supplementary Information

Year ended June 30, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 2,051,128	-	-
Tax increment financing	81,447	-	-
Other city tax	557,592	-	-
Licenses and permits	51,073	-	-
Use of money and property	239,731	76,026	4,369
Intergovernmental	1,705,840	-	-
Charges for service	580,372	1,526,929	-
Special assessments	4,219	-	-
Miscellaneous	452,226	35,734	30,397
Total receipts	5,723,628	1,638,689	34,766
Disbursements:			
Public safety	1,885,490	-	96,713
Public works	800,133	-	-
Health and social services	29,080	-	-
Culture and recreation	580,009	-	-
Community and economic development	298,823	-	-
General government	112,603	-	-
Debt service	699,977	-	-
Capital projects	2,891,634	-	-
Business type activities	-	1,274,003	-
Total disbursements	7,297,749	1,274,003	96,713
Excess (deficiency) of receipts over (under) disbursements	(1,574,121)	364,686	(61,947)
Other financing sources (uses)	103,080	(103,080)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(1,471,041)	261,606	(61,947)
Balances beginning of year	5,599,459	2,729,172	152,363
Balances end of year	\$ 4,128,418	2,990,778	90,416

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Net Variance
	Original	Final	
2,051,128	2,033,591	2,033,591	17,537
81,447	-	-	81,447
557,592	567,459	567,459	(9,867)
51,073	41,525	41,525	9,548
311,388	-	-	311,388
1,705,840	2,172,070	2,225,070	(519,230)
2,107,301	2,171,000	2,187,300	(79,999)
4,219	4,219	4,219	-
457,563	647,900	761,365	(303,802)
<u>7,327,551</u>	<u>7,637,764</u>	<u>7,820,529</u>	<u>(492,978)</u>
1,788,777	1,845,430	1,845,430	56,653
800,133	738,165	778,165	(21,968)
29,080	8,500	31,200	2,120
580,009	567,064	567,064	(12,945)
298,823	102,275	272,275	(26,548)
112,603	129,558	129,558	16,955
699,977	700,646	700,646	669
2,891,634	2,129,500	2,154,500	(737,134)
1,274,003	1,688,700	1,688,700	414,697
<u>8,475,039</u>	<u>7,909,838</u>	<u>8,167,538</u>	<u>(307,501)</u>
(1,147,488)	(272,074)	(347,009)	(800,479)
-	-	-	-
(1,147,488)	(272,074)	(347,009)	(800,479)
<u>8,176,268</u>	<u>7,387,263</u>	<u>7,387,263</u>	<u>789,005</u>
<u>7,028,780</u>	<u>7,115,189</u>	<u>7,040,254</u>	<u>(11,474)</u>

City of Red Oak

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$257,700. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the public works, culture and recreation, community and economic development and capital projects functions.

Other Supplementary Information

City of Red Oak

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2008

	Emergency	Volunteer Fire and Rescue Association	Tax Increment Financing	CDBG Housing Rehabilitation
Receipts:				
Property tax	\$ 29,446	-	-	-
Tax increment financing	-	-	81,447	-
Other city tax	1,728	-	-	-
Use of money and property	-	4,369	-	-
Intergovernmental	-	-	-	147,824
Charges for services	-	-	-	-
Miscellaneous	-	30,397	-	-
Total receipts	31,174	34,766	81,447	147,824
Disbursements:				
Operating:				
Public safety	-	96,713	-	-
Culture and recreation	-	-	-	-
Community and economic development	-	-	93,467	205,328
Total disbursements	-	96,713	93,467	205,328
Excess (deficiency) of receipts over (under) disbursements	31,174	(61,947)	(12,020)	(57,504)
Other financing uses:				
Operating transfers out	(30,303)	-	-	-
Net change in cash balances	871	(61,947)	(12,020)	(57,504)
Cash balances beginning of year	30,303	152,363	329,336	21,132
Cash balances end of year	\$ 31,174	90,416	317,316	(36,372)
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	\$ 31,174	90,416	317,316	(36,372)
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 31,174	90,416	317,316	(36,372)

See accompanying independent auditor's report.

Special Revenue						Permanent	
FY08 Housing	Komarek Trust	Cemetery Kiosk	Library Bequest	Library People's Art Projects	Cemetery Perpetual Care		Total
-	-	-	-	-	-	-	29,446
-	-	-	-	-	-	-	81,447
-	-	-	-	-	-	-	1,728
-	-	-	7,274	347	-	-	11,990
-	-	-	-	-	-	-	147,824
-	-	-	-	-	4,690	-	4,690
-	1,100	22,066	2,564	-	-	-	56,127
-	1,100	22,066	9,838	347	4,690	-	333,252
-	-	-	-	-	-	-	96,713
-	1,204	-	5,948	420	-	-	7,572
28	-	-	-	-	-	-	298,823
28	1,204	-	5,948	420	-	-	403,108
(28)	(104)	22,066	3,890	(73)	4,690	-	(69,856)
-	-	-	(96,534)	-	-	-	(126,837)
(28)	(104)	22,066	(92,644)	(73)	4,690	-	(196,693)
-	11,557	(21,816)	158,056	5,279	197,870	-	884,080
(28)	11,453	250	65,412	5,206	202,560	-	687,387
(28)	11,453	250	65,412	5,206	-	-	484,827
-	-	-	-	-	202,560	-	202,560
(28)	11,453	250	65,412	5,206	202,560	-	687,387

City of Red Oak

City of Red Oak

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2008

	Enterprise - Landfill		Total
	Recycling	Superfund	
Operating receipts:			
Charges for service	\$ 39,864	31,897	71,761
Operating disbursements:			
Business type activities	33,000	385	33,385
Excess of operating receipts over disbursements	6,864	31,512	38,376
Cash balances beginning of year	23,247	176,215	199,462
Cash balances end of year	\$ 30,111	207,727	237,838
Cash Basis Fund Balances			
Reserved	\$ -	207,727	207,727
Unreserved	30,111	-	30,111
	\$ 30,111	207,727	237,838

See accompanying independent auditor's report.

City of Red Oak
Schedule of Indebtedness
Year ended June 30, 2008

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Essential and general corporate purpose	Aug 1, 1997	4.75-5.20%	\$ 1,635,000
Essential corporate purpose	Jul 1, 1998	4.35-4.70	1,000,000
Essential corporate purpose	Jul 1, 2000	5.20-5.70	1,185,000
Essential corporate purpose	Nov 1, 2002	2.60-4.50	620,000
Essential corporate purpose	Nov 1, 2002	3.60-5.20	210,000
Essential corporate purpose	Jun 1, 2004	1.75-4.80	1,280,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
635,000	200,000	435,000	32,715
235,000	115,000	120,000	10,930
550,000	125,000	425,000	30,757
145,000	50,000	95,000	5,650
45,000	45,000	-	2,340
1,210,000	30,000	1,180,000	51,253
<u>\$ 2,820,000</u>	<u>565,000</u>	<u>2,255,000</u>	<u>133,645</u>

Schedule 4

City of Red Oak

Note Maturities

June 30, 2008

Year Ending June 30,	General Obligation Notes										Total
	Essential and General Corporate Purpose		Essential Corporate Purpose		Essential Corporate Purpose		Essential Corporate Purpose		Essential Corporate Purpose		
	Issued Aug 1, 1997		Issued Jul 1, 1998		Issued Jul 1, 2000		Issued Nov 1, 2002		Issued Jun 1, 2004		
	Interest		Interest		Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	
2009	5.15%	\$ 210,000	4.70%	\$ 120,000	5.55%	\$ 135,000	4.00%	\$ 95,000	3.25%	\$ 30,000	590,000
2010	5.20	225,000	-	-	5.60	140,000	-	-	3.45	30,000	395,000
2011	-	-	-	-	5.70	150,000	-	-	3.65	105,000	255,000
2012	-	-	-	-	-	-	-	-	3.85	110,000	110,000
2013	-	-	-	-	-	-	-	-	4.00	115,000	115,000
2014	-	-	-	-	-	-	-	-	4.15	120,000	120,000
2015	-	-	-	-	-	-	-	-	4.30	120,000	120,000
2016	-	-	-	-	-	-	-	-	4.45	130,000	130,000
2017	-	-	-	-	-	-	-	-	4.60	135,000	135,000
2018	-	-	-	-	-	-	-	-	4.70	140,000	140,000
2019	-	-	-	-	-	-	-	-	4.80	145,000	145,000
Total		<u>\$ 435,000</u>		<u>\$ 120,000</u>		<u>\$ 425,000</u>		<u>\$ 95,000</u>		<u>\$ 1,180,000</u>	<u>2,255,000</u>

See accompanying independent auditor's report.

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

For the Last Six Years

	2008	2007	2006	2005	2004	2003
Receipts:						
Property tax	\$ 2,051,128	1,987,915	1,977,212	1,971,911	2,083,572	2,010,066
Tax increment financing	81,447	201,129	90,136	89,074	259,745	388,647
Other city tax	557,592	646,708	528,603	584,980	547,700	527,394
Licenses and permits	51,073	49,585	53,302	80,412	16,097	16,188
Use of money and property	239,731	251,362	156,388	99,670	76,739	99,181
Intergovernmental	1,705,840	915,512	576,171	1,546,851	876,268	955,452
Charges for service	580,372	590,031	550,830	558,132	424,815	407,150
Special assessments	4,219	4,481	26,667	9,947	7,867	44,611
Miscellaneous	452,226	396,528	535,457	263,518	280,962	285,603
Total	\$ 5,723,628	5,043,251	4,494,766	5,204,495	4,573,765	4,734,292
Disbursements:						
Operating:						
Public safety	\$ 1,885,490	1,842,324	1,684,050	1,731,635	1,702,066	1,605,572
Public works	800,133	497,363	531,830	576,699	514,779	907,959
Health and social services	29,080	13,591	15,263	16,098	13,339	3,175
Culture and recreation	580,009	547,171	585,723	690,502	492,602	584,342
Community and economic development	298,823	134,446	70,045	76,827	328,252	295,120
General government	112,603	102,300	108,125	115,442	118,595	122,687
Debt service	699,977	694,634	700,026	1,462,758	936,457	678,723
Capital projects	2,891,634	202,061	449,924	1,916,596	646,885	744,121
Total	\$ 7,297,749	4,033,890	4,144,986	6,586,557	4,752,975	4,941,699

See accompanying independent auditor's report.

Schedule 6

City of Red Oak

Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Transportation:			
Airport Improvement Program	20.106	3-19-0077-05	\$ 610
Airport Improvement Program	20.106	3-19-0077-06	699,705
Airport Improvement Program	20.106	3-19-0077-07	19,689
Airport Improvement Program	20.106	3-19-0077-08	27,982
Total direct			747,986
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	06-HSG-079-05	183,590
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	BRM-6360(610)--8N-69	709,811
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1705-DRIA	28,216
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1763-DRIA	55,664
			83,880
Total indirect			977,281
Total			\$ 1,725,267

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

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Red Oak, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 24, 2009. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Red Oak's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Red Oak's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Red Oak's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Red Oak's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Red Oak's financial statements that is more than inconsequential will not be prevented or detected by the City of Red Oak's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by City of Red Oak's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-08, II-C-08 and II-D-08 are material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

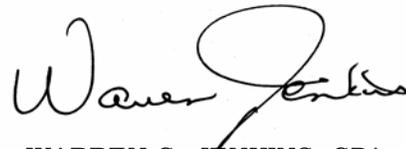
The City of Red Oak's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Red Oak's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Red Oak and other parties to whom the City of Red Oak may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 24, 2009

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

City of Red Oak



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

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Red Oak, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The City of Red Oak's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the City of Red Oak's management. Our responsibility is to express an opinion on the City of Red Oak's compliance based on our audit.

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

In our opinion, the City of Red Oak complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

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

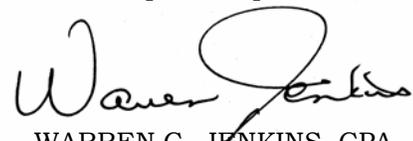
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. We did not identify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

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

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Red Oak and other parties to whom the City of Red Oak may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 24, 2009

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

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

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 20.106 – Airport Improvement Program.
 - CFDA Number 20.205 – Highway Planning and Construction.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Red Oak did not qualify as a low-risk auditee.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-08 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from performing duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One of three individuals has control over utility receipts, including billing, collecting, recording and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – Due to a small office, this comment is made every year. We try to segregate duties as much as possible. Deposits are prepared by a different individual than who has done the posting that day. And then a third person takes the deposit to the bank. We are continuously reviewing our office procedures and take this into effect each time but due to the size of our office we do not have another solution at this time.

Conclusion – Response acknowledged. The City should utilize current personnel to provide additional control through review of financial transactions, reconciliations and reports.

II-B-08 Information Systems – The following weaknesses in the City's computer-based systems were noted:

The City does not have written policies for:

- Logging off unattended computers.
- Usage of the Internet.
- A disaster recovery plan.

Also, the computer system does not require passwords to be changed.

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

Response – The City adopted an identify theft policy which addresses many of these computer security issues.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

II-C-08 Financial Reporting – During the audit, we identified a material receipt for local option sales tax miscoded to the wrong fund. In some cases, utility tax collections were posted as property tax rather than other city tax. We also identified several amounts which should have been coded as transfers, but were incorrectly coded as receipts and disbursements. Adjustments were subsequently made by the City to properly record these amounts in the financial statements.

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

Response – There was an error in the posting of local option sales tax for one month. It was posted to the Road Use Tax Fund instead but has been corrected since the error was found. The transfer/receipt situation referred to has to do with the Library transferring a CD to the City account out of an account the Library has set up. We find it easier to follow the whole situation by showing it as a receipt instead of just a transfer. It had not been in the City's checking account and by showing it as a receipt, the City can then easily match the City's receipt posting to bank deposits. We will reconsider our procedures in the future.

Conclusion – Response accepted.

II-D-08 Fund Balance and Reconciliations – The City records detailed receipt and disbursement transactions for each fund on its computer system. The City does not use the computer software to track fund balances. Fund balances are tracked on the monthly Clerk's report which includes receipts, disbursements, transfers in and out, and beginning and ending fund balances for each fund. At June 30, 2008, variances existed between the fund balances on the monthly Clerk's reports and the computer system. The City has not resolved these variances.

During the year ended June 30, 2008, the City made adjustments to receipts on the monthly Clerk's report for unknown variances which existed between the monthly Clerk's report and the bank balances. At June 30, 2008, the bank balances were \$1,279 higher than the balance on the monthly Clerk's report.

Recommendation – The City should adjust the computer balances at June 30, 2008 to agree with balances in the monthly Clerk's report. After the adjustment, the City should implement procedures to ensure the balances agree on a monthly basis.

The City should investigate and resolve all variances between the monthly Clerk's report and the bank balances timely.

Response – Efforts will be made to get the monthly Clerk's report up-to-date to reconcile bank balances with the Clerk's report on a regular basis. The City's software company will be contacted to help make the computer balance with the City's monthly financials.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

II-E-08 Budgeted Receipts – The City did not budget for tax increment financing or use of money and property receipts. Collections of \$81,447 and \$311,388, respectively, were recorded as receipts in these categories.

Recommendation – The City should include budget amounts for all anticipated receipt line items to more accurately project City receipts and ending balances.

Response – We will try to budget for all anticipated receipts.

Conclusion – Response accepted.

II-F-08 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – Part of this procedure had been missing during the change of personnel. The utility billing clerk and the City Clerk are working together to make this work better and accounts significantly overdue or uncollectible are being transferred to a collection agency sooner.

Conclusion – Response accepted.

II-G-08 Separately Maintained Records – The Red Oak Library maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City’s accounting records.

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

Response – The City and the library director will be working together to get all of these funds shown under the City records.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Red Oak
Schedule of Findings and Questioned Costs
Year ended June 30, 2008

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

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

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-08 Certified Budget – Disbursements during the year ended June 30, 2008 exceeded the amounts budgeted in the public works, culture and recreation, community and economic development and capital projects functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – This situation will be resolved. The City was using account numbers by departments and not always by function which resulted in this confusion.

Conclusion – Response accepted.

IV-B-08 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

IV-C-08 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-08 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Tom Pratt, Council Member, employee of Orscheln’s	Supplies	\$ 5,729

In the opinion of the City Attorney, the transactions with Orscheln’s do not represent a conflict of interest since Mr. Pratt does not own the store and does not profit, directly or indirectly, from store sales.

IV-E-08 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

IV-F-08 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-08 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

IV-H-08 Financial Condition – The Special Revenue, Community Development Block Grant Housing Rehabilitation and FY08 Funds and the Debt Service and Capital Projects Funds had deficit balances at June 30, 2008 of \$(36,372), \$(28), \$(346,973) and \$(1,092,823), respectively.

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

Response – The City will be making transfers to clear out finished projects and/or debt service.

Conclusion – Response accepted.

IV-I-08 Tax Increment Financing – The City’s tax increment financing (TIF) certification required by Chapter 403 of the Code of Iowa and filed December 1, 2007 certified \$74,416 of TIF debt. The City’s TIF debt consists entirely of developer rebate agreements in which the City agrees to rebate TIF tax to the developer(s) over a specified period of time in exchange for certain infrastructure and other improvements. The following items were noted regarding the City’s TIF debt certification:

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

In addition, the City paid \$34,644 in economic development grants to local businesses from the Special Revenue, Tax Increment Financing Fund. These grants, while representing an obligation of the City, have not been certified as TIF debt and, accordingly, do not qualify to be paid from TIF revenues.

Recommendation – The City should review the December 1, 2007 TIF debt certification and adjust for the above items through future certifications. Amounts included in the certification should be supported. TIF revenues should only be used to pay qualifying indebtedness which has been properly certified to the County Auditor. The City should establish procedures to ensure TIF revenues are used only for qualified debt and TIF debt certifications comply with Chapter 403.19(5)(a) of the Code of Iowa.

Response – The comments are noted and the City will try to make proper filings in the future.

Conclusion – Response accepted.

City of Red Oak

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

IV-J-08 Annual Financial Report – The City’s annual financial report was prepared and filed timely for the fiscal year ended June 30, 2008. However, the report contained material errors in the ending balances and certain receipt and disbursement line items for both the governmental and proprietary categories.

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

Response – The comment is noted and adjustments will be made.

Conclusion – Response accepted.

IV-K-08 Old Outstanding Checks – The City has several old outstanding checks dating back to January 1998. These are considered unclaimed property per Chapter 556.1(10) of the Code of Iowa and should be remitted to the State Treasurer.

Recommendation – The City should report and remit any outstanding checks older than two years to the State Treasurer annually before November 1.

Response – The City is working on clearing up old files and will submit to the State as necessary.

Conclusion – Response accepted.

IV-L-08 Excessive Balance – The Special Revenue, Employee Benefits Fund cash balance was \$680,107 at June 30, 2008, or 111% of the total disbursements of \$611,325 for the fiscal year ended June 30, 2008.

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

Response – The fund balance has grown due to overestimated increases to employee benefits. The City will attempt to reduce this balance through reduced tax askings in future fiscal year budgets.

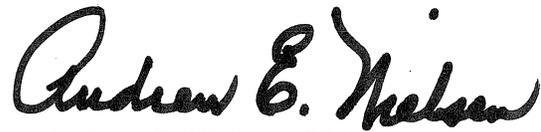
Conclusion – Response accepted.

City of Red Oak

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
Nancy F. Curtis, CPA, Senior Auditor II
Michael P. Piehl, Senior Auditor
Daniel W. Henaman Jr., Assistant Auditor
Jeana R. Muhlbauer, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State