MUXFELDT
ASSOCIATES, CPA, P.C.
Certified Public Accountant

December 28, 2016

Lonnie G. Muxfeldt
Certified Public Accountant

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To the Honorable Mayor and
Members of the City Council:

I have audited the financial statements of the City of Underwood for the year ended June 30, 2016, and have issued my report thereon dated December 28, 2016. Professional standards require that I provide you with the following information related to my audit.

My Responsibility under U.S. Generally Accepted Auditing Standards

As stated in my engagement letter dated May 17, 2016, my responsibility, as described by professional standards, is to plan and perform my audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. Because of the concept of reasonable assurance and because I did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by me.

As part of my audit, I considered the internal control over financial reporting and tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. Such considerations were solely for the purpose of determining my audit procedures and not to provide any assurance concerning internal control over financial reporting or compliance.

(A) Accounting Policies

Significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. I noted no transactions entered into by the City that were both significant and unusual, and of which, under professional standards, I was required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

(B) Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. I evaluated key factors and assumptions used in the significant estimates used by the City in determining the reasonableness in relation to the financial statements taken as a whole.

The significant estimates include the bond and note maturities as presented in Note 3, compensated absences in Note 6, and net pension liabilities, deferred outflows and inflows related to pensions in Note 5.

(C) Difficulties encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing my audit.

(D) Uncorrected misstatements

I have provided you with a listing of all known and likely uncorrected misstatements identified during the audit which have been included in the management representation letter. In my judgment, none of the uncorrected misstatements, either individually or in the aggregate, indicate matters that could have a significant effect on the City's financial reporting process.

(E) Disagreements with Management

Professional standards define a disagreement with management as a matter, whether or not resolved or not resolved to my satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of my audit.

(F) Material, Corrected Misstatements

All material and corrected misstatements that were brought to the attention of management, as a result of audit procedures, were included in the auditor's comments and recommendations.

(G) Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with us to determine the consultant has all the relevant facts. There were no such consultations with other accountants.

(H) Significant Issues

Significant issues arising from the audit that were discussed, or the subject of correspondence, with management include the following:

Unsubstantiated Disbursements - It was noted during an examination of credit card charges that 26% or $676 of them were not substantiated. Every effort should be made to substantiate credit card disbursements and employee reimbursements. It was also noted that the City does not have a written credit card policy. Council should consider adopting a written credit card policy.

Clerk's Reports - It was noted during a discussion with the mayor that City Council has not been provided with the clerk's reports on a month to month basis. This appears to be an oversight on the part of the clerk.

This information is intended solely for the use of the Mayor, City Council and Management of the City of Underwood and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Muxfeldt Associates, CPA, P.C.

Lonnie G. Muxfeldt, CPA

Lonnie G. Muxfeldt, CPA

CITY OF UNDERWOOD

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

JUNE 30, 2016

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CITY OF UNDERWOOD

OFFICIALS

(Before January 2016)

Name	Title	Term Expires
Dennis Bardsley	Mayor	January 2018
Robert Dose	Mayor Pro-Tem	January 2016
Todd Erwin	Council Member	January 2016
Ed Freuck	Council Member	Appointed Sep 2015
Jim Pingel	Council Member	January 2018
David Powell	Council Member	Resigned August 2015
Gary Wahle	Council Member	January 2018
Jill Willard	City Clerk	Indefinite
Lea Voss	City Treasurer	Appointed yearly
Matthew Woods	City Attorney	Indefinite

(After January 2016)

Name	Title	Term Expires
Dennis Bardsley	Mayor	January 2018
Robert Dose	Mayor Pro-Tem	January 2020
Todd Erwin	Council Member	January 2020
Jim Pingel	Council Member	January 2018
Ed Freuck	Council Member	January 2020
Gary Wahle	Council Member	January 2018
Jill Willard	City Clerk	Indefinite
Lea Voss	City Treasurer	Appointed yearly
Matthew Woods	City Attorney	Indefinite

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December 28, 2016

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

I 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 Underwood, Iowa, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Continued . . .

To the Honorable Mayor and
Members of the City Council:

Auditor's Responsibility (Continued)

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

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my 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 Underwood as of June 30, 2016, 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.

Basis of Accounting

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

Continued...

To the Honorable Mayor and
Members of the City Council:

Other Matters

Supplementary and Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Underwood's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The other information, the City's Management's Discussion and Analysis, the budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 8 through 13 and 38 through 44, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

To the Honorable Mayor and
Members of the City Council:

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated December 28, 2016 on my consideration of the City of Underwood's internal control over financial reporting and my 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 my 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* in considering the City of Underwood's internal control over financial reporting and compliance.

Mayfield Associates, CPA, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Underwood 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, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities decreased 30%, or approximately $450,000, from fiscal year 2015 to fiscal year 2016, mainly due to a $371,000 decrease in bond proceeds. Property tax decreased approximately $2,100, sale of assets increased approximately $89,000, tax increment financing increased approximately $51,000, and local option sales tax decreased approximately $5,800.

Disbursements of the City's governmental activities decreased 42%, or approximately $493,000 in fiscal year 2016 from fiscal year 2015. Public safety, public works, and general government decreased approximately $497,000, $60,000, and $25,500, respectively.

The City's total cash basis net position increased 18% or approximately $310,000, from June 30, 2015 to June 30, 2016. Of this amount, the cash basis net position of the governmental activities increased approximately $360,000 and the cash basis net position of the business type activities decreased approximately $50,000.

USING THIS REPORT

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

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

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

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

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

Other information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the non-major governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the sanitary sewer system and garbage collection. 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 the Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Sewer and Garbage Funds. The Sewer Fund is considered a major fund of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately $1.17 million to approximately $1.53 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities

	Year Ended June 30, 2016	Year Ended June 30, 2015
Receipts:		
Program receipts:		
Charges for services	$ 48,851	$ 59,764
Operating grants, contributions and restricted interest	220,046	192,491
Capital grants, contributions and restricted interest	-0-	-0-
General receipts:		
Property tax	400,702	402,794
Tax increment financing	176,238	125,081
Local option sales tax	130,814	136,655
Miscellaneous receipts	3,892	6,560
Bond proceeds	-0-	596,300
Sale of property	90,000	860
Total receipts	1,070,543	1,520,505
Disbursements:		
Public safety	55,634	552,605
Public works	130,637	190,581
Culture and recreation	29,457	30,051
Community and economic development	149,503	124,644
General government	132,370	157,927
Debt service	180,125	114,678
Total disbursements	677,726	1,170,486
Change in cash basis net position before transfers	392,817	350,019
Transfers, net	(32,703)	(34,164)
Change in cash basis net position	360,114	315,855
Cash basis net position, beginning of year	1,174,017	858,162
Cash basis net position, end of year	$ 1,534,131	$ 1,174,017

The City's total receipts for governmental activities decreased 30%, or approximately $450,000. The total cost of all programs and services decreased approximately $493,000 or 42%, with no new programs added this year. This significant decrease was due to a fire truck that was purchased in the prior year.

Decreases to governmental receipts included approximately $2,000 in property taxes, $5,800 in local option taxes and $596,300 from note proceeds issued in the prior fiscal year. Tax increment financing increased approximately $51,000.

The cost of all governmental activities this year was approximately $678,000 compared to approximately $1.17 million last year. However, as shown in the Statement of Activities and Net Position on pages 15 and 16, the amount taxpayers ultimately financed for these activities was only $408,829 because some of the cost was paid by those directly benefited from the programs ($48,851) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest ($220,046). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2016 from approximately $252,000 to $269,000, principally due to increases in operating grants, contributions and restricted interest.

Changes in Cash Basis Net Position of Business Type Activities

	Year Ended June 30, 2016	Year Ended June 30, 2015
Receipts:		
Program receipts:		
Charges for services and sales:		
Sewer	$ 126,004	$ 115,555
Garbage	41,786	44,223
Operating grants, contributions and restricted interest	-0-	-0-
Capital grants, contributions and restricted interest	225,011	-0-
General receipts:		
Net bond proceeds	225,011	-0-
Total receipts	617,812	159,778
Disbursements:		
Sewer	656,939	171,137
Garbage	43,482	44,770
Total disbursements	700,421	215,907
Change in cash basis net position before transfers	(82,609)	(56,129)
Transfers, net	32,703	34,164
Change in cash basis net position	(49,906)	(21,965)
Cash basis net position, beginning of year	509,431	531,396
Cash basis net position, end of year	$ 459,525	$ 509,431

Total business type activities receipts for the fiscal year were approximately $618,000 compared to approximately $160,000 last year. This was primarily due to capital grants, contributions, restricted interest and note proceeds related to the sewer lift station. The cash balance decreased approximately $50,000 from the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Underwood completed the year, its governmental funds reported a combined fund balance of $1,534,131, an increase of $360,114 from last year's total of $1,174,017.

The General Fund cash balance increased $244,646 from the prior year to $870,935 at year end. There was a significant decrease in disbursements because the Fire Department purchased a new fire truck in the prior fiscal year.

The Special Revenue, Road Use Tax Fund cash balance increased by $85,591 to $420,990. $98,110 of local option sales tax was receipted into the Road Use Tax Fund this fiscal year and this money will be used to maintain and upgrade City streets.

The Special Revenue Fund, Urban Renewal Tax Increment Fund was established to account for the Fieldcrest Addition, the Eagle Landing Subdivision, the finance agreement with Links Snacks, Inc. and the City's housing rehabilitation program. The fund's cash balance increased by $22,036 to $206,787 at fiscal year-end.

The Debt Service Fund cash balance increased by $11,261 from the prior year. Principal and interest payments were $180,125, tax receipts were $49,640, transfers from the general fund and the road use tax fund were $117,508 and $24,237, respectively.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise Fund, Sewer Fund cash balance decreased by $48,210 to $417,248 from the prior year balance of $465,458. The decrease was primarily due to engineering and construction costs associated with the sewer lift station.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended the budget on March 8, 2016 and May 10, 2016. The first budget amendment increased disbursements by $22,000 and the second budget amendment increased disbursements by $473,708.

The City's receipts were approximately $133,000 less than budgeted primarily due to receiving less intergovernmental receipts than anticipated. The City's disbursements were approximately $672,000 less than budgeted primarily affecting the business type activities, community and economic development and public works functions.

DEBT ADMINISTRATION

At June 30, 2016, the City had $1,263,989 in bonds and notes outstanding, compared to $1,230,102 last year, as shown below.

Outstanding Debt at Year-End		
	Year Ended June 30, 2016	Year Ended June 30, 2015
General obligation notes	$ 886,978	$ 1,035,102
Sewer revenue notes	377,011	195,000
Total	$ 1,263,989	$ 1,230,102

Debt increased $225,011 as a result of issuing sewer revenue bonds to finance the sewer lift station project. Outstanding principal was reduced by $191,124. Interest costs for the fiscal year were $39,252.

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 taxable property within the City's corporate limits. The City's outstanding general obligation debt of $886,978 is significantly below its constitutional debt limit of approximately $2.7 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Underwood's elected and appointed officials and citizens considered many factors when setting the fiscal year 2017 budget, tax rates and fees charged for various City activities. One of those factors is the economy. As a bedroom community of a major metropolitan area, housing continues to move as new families take residence in the Community.

These factors were taken into account when adopting the budget for fiscal year 2017. The mill levy decreased $0.04026 from $12.22586 to $12.18560. Disbursements are expected to decrease approximately $20,000. Receipts are expected to decrease by approximately $84,000.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately $12,600 by the close of fiscal year 2017.

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 Jill Willard, City Clerk, or Mayor Dennis Bardsley, at 218 2nd Street, Underwood, Iowa 51576.

BASIC FINANCIAL STATEMENTS

CITY OF UNDERWOOD

CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION

AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

		Program Receipts		
	Disbursements	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	$ 55,634	$ 40,930	$ 106,238	$ -0-
Public works	130,637	-0-	113,322	-0-
Culture and recreation	29,457	450	-0-	-0-
Community and economic development	149,503	-0-	52	-0-
General government	132,370	7,471	434	-0-
Debt service	180,125	-0-	-0-	-0-
Total governmental activities	677,726	48,851	220,046	-0-
Business type activities:				
Sewer	656,939	126,004	-0-	225,011
Garbage	43,482	41,786	-0-	-0-
Total business type activities	700,421	167,790	-0-	-0-
Total	$ 1,378,147	$ 216,641	$ 220,046	$ 225,011

Property taxes levied for:
General purposes
Debt service
Tax increment financing
Local option sales tax
Unrestricted investment earnings
Bond Proceeds
Miscellaneous
Sale of assets
Transfers
Total general receipts

Change in cash basis net position

Cash basis net position, beginning of year

Cash basis net position, end of year

Cash basis net position
Restricted:
Expendable:
Streets
Urban renewal
Debt service
Other purposes
Unrestricted
Total cash basis net position

Net (Disbursements), Receipts and Changes in Net Position		
Governmental Activities	Business Type Activities	Total
$ 91,534	$ -0-	$ 91,534
(17,315)	-0-	(17,315)
(29,007)	-0-	(29,007)
(149,451)	-0-	(149,451)
(124,465)	-0-	(124,465)
(180,125)	-0-	(180,125)
(408,829)	-0-	(408,829)
-0-	(305,924)	(305,924)
-0-	(1,696)	(1,696)
-0-	(307,620)	(307,620)
(408,829)	(307,620)	(716,449)
351,062	-0-	351,062
49,640	-0-	49,640
176,238	-0-	176,238
130,814	-0-	130,814
-0-	-0-	-0-
-0-	225,011	225,011
3,892	-0-	3,892
90,000	-0-	90,000
(32,703)	32,703	-0-
768,943	257,714	1,026,657
360,114	(49,906)	310,208
1,174,017	509,431	1,683,448
$ 1,534,131	$ 459,525	$ 1,993,656
$ 420,990	$ -0-	$ 420,990
206,787	-0-	206,787
11,936	-0-	11,936
23,483	-0-	23,483
870,935	459,525	1,330,460
$ 1,534,131	$ 459,525	$ 1,993,656

See notes to financial statements.

CITY OF UNDERWOOD

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

		Special Revenue	
	General	Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	$ 260,492	$ -0-	$ -0-
Tax increment financing	-0-	-0-	176,237
Other city tax	3,324	-0-	-0-
Licenses and permits	11,994	-0-	-0-
Use of money and property	446	-0-	52
Intergovernmental	105,727	113,322	-0-
Charges for services	31,096	-0-	-0-
Miscellaneous	9,443	710	-0-
Total receipts	422,522	114,032	176,289
Disbursements:			
Operating:			
Public safety	50,671	-0-	-0-
Public works	-0-	117,710	-0-
Culture and recreation	17,138	-0-	-0-
Community and economic development	20,241	-0-	129,253
General government	87,318	-0-	-0-
Debt service	-0-	-0-	-0-
Total disbursements	175,368	117,710	129,253
Excess (deficiency) of receipts over (under) disbursements	247,154	(3,678)	47,036
Other financing sources (uses):			
Sale of assets	90,000	-0-	-0-
Bond Proceeds	-0-	-0-	-0-
Operating transfers in	25,000	113,506	-0-
Operating transfers out	(117,508)	(24,237)	(25,000)
Total other financing sources (uses)	(2,508)	89,269	(25,000)
Change in cash balances	244,646	85,591	22,036
Cash balances, beginning of year	626,289	335,399	184,751
Cash balances, end of year	$ 870,935	$ 420,990	$ 206,787
Cash Basis Fund Balances			
Restricted for:			
Urban renewal purposes	$ -0-	$ -0-	$ 206,787
Debt Service	-0-	-0-	-0-
Streets	-0-	420,990	-0-
Other purposes	-0-	-0-	-0-
Unassigned	870,935	-0-	-0-
Total cash basis fund balances	$ 870,935	$ 420,990	$ 206,787

See notes to financial statements.

EXHIBIT B

Local Option Sales Tax	Debt Service	Other Non-major Governmental Funds	Total
$ -0-	$ 49,640	$ 87,247	$ 397,379
-0-	-0-	-0-	176,237
130,814	-0-	-0-	134,138
-0-	-0-	-0-	11,994
-0-	-0-	-0-	498
-0-	-0-	-0-	219,049
-0-	-0-	-0-	31,096
-0-	-0-	-0-	10,153
130,814	49,640	87,247	980,544
-0-	-0-	4,963	55,634
-0-	-0-	12,926	130,636
-0-	-0-	12,319	29,457
-0-	-0-	9	149,503
-0-	-0-	45,053	132,371
-0-	180,125	-0-	180,125
-0-	180,125	75,270	677,726
130,814	(130,485)	11,977	302,818
-0-	-0-	-0-	90,000
-0-	-0-	-0-	-0-
-0-	141,745	-0-	280,251
(130,814)	-0-	(15,395)	(312,954)
(130,814)	141,745	(15,395)	57,297
-0-	11,260	(3,418)	360,115
-0-	676	26,901	1,174,016
$ -0-	$ 11,936	$ 23,483	$ 1,534,131
$ -0-	$ -0-	$ -0-	$ 206,787
-0-	11,936	-0-	11,936
-0-	-0-	-0-	420,990
-0-	-0-	23,483	23,483
-0-	-0-	-0-	870,935
$ -0-	$ 11,936	$ 23,483	$ 1,534,131

EXHIBIT C

CITY OF UNDERWOOD

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

	Enterprise Funds		
	Sewer	Garbage	Total
Operating receipts:			
Charges for services	$ 124,349	$ 41,775	$ 166,124
Miscellaneous	1,636	11	1,647
Total receipts	125,985	41,786	167,771
Operating disbursements:			
Business type activities	100,220	43,482	143,702
Total disbursements	100,220	43,482	143,702
Operating income	25,765	(1,696)	24,069
Non-operating receipts (disbursements):			
Interest	19	-0-	19
Capital outlay	(506,467)	-0-	(506,467)
Debt service	(50,252)	-0-	(50,252)
Total non-operating receipts (disbursements)	(556,700)	-0-	(556,700)
Excess of receipts over disbursements	(530,935)	(1,696)	(532,631)
Other financing sources (uses):			
Bond proceeds	225,011	-0-	225,011
Grant proceeds	225,011	-0-	225,011
Operating transfer in	32,703	-0-	32,703
Other financing sources (uses)	482,725	-0-	482,725
Change in cash balance	(48,210)	(1,696)	(49,906)
Cash balances, beginning of year	465,458	43,973	509,431
Cash balances, end of year	$ 417,248	$ 42,277	$ 459,525
Cash Basis Fund Balances			
Unrestricted	$ 417,248	$ 42,277	$ 459,525
Total cash basis fund balances	$ 417,248	$ 42,277	$ 459,525

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

The City of Underwood is a political subdivision of the State of Iowa and located in Pottawattamie County. It was first incorporated in 1902 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, culture and recreation, community and economic development, and general administrative services. The City also provides sewer and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Underwood has included all funds, organizations, account groups, 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 financial burdens on the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following board and commissions: Pottawattamie County Assessor's Conference Board, City Assessor's Conference Board and Pottawattamie County Emergency Management Commission.

B. Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position reports information on all of the non-fiduciary 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 services.

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation - Continued

The Cash Basis Statement of Activities and Net Position presents the City's non-fiduciary net position. Net position is reported in the following categories:

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

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

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

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

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major 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 that are not paid from other funds.

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation - Continued

Special Revenue:

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

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

The Local Option Sales Tax Fund is used to account for local option sales taxes which are transferred 25% to the Sewer Fund and 75% to the Road Use Tax Fund.

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

The City reports the following major proprietary fund:

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

C. Measurement Focus and Basis of Accounting

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

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

(1) Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Governmental Cash Basis Fund Balances

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

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

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

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2016, disbursements did not exceed amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits in bank at June 30, 2016, were covered entirely 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 and the Treasurer of the State of Iowa; 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's cash, which consists of cash on hand, cash in bank and certificates of deposit, held at two local institutions in the City's name totaled $1,993,656 as of June 30, 2016.

Interest Rate Risk

The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 124,909	$ 24,905	$ 242,011	$ 9,201	$ 366,920	$ 34,106
2018	130,475	21,029	30,000	4,017	160,475	25,046
2019	136,056	16,928	30,000	3,071	166,056	19,999
2020	76,654	12,710	30,000	2,126	106,654	14,836
2021	77,269	10,995	30,000	1,182	107,269	12,177
2022	77,901	9,263	15,000	236	92,901	9,499
2023	83,714	6,937	-0-	-0-	83,714	6,937
2024	60,000	4,950	-0-	-0-	60,000	4,950
2025	60,000	3,300	-0-	-0-	60,000	3,300
2026	60,000	1,650	-0-	-0-	60,000	1,650
Total	$ 886,978	$ 112,667	$ 377,011	$ 19,833	$ 1,263,989	$ 132,500

General Obligation Street Improvement Note, 2013

On July 9, 2013, the City issued a $190,000 general obligation street improvement note with a local bank. The $190,000 note bears interest at 2.82%, requires semiannual principle and interest installments of $12,025, and matures June 1, 2023.

General Obligation Corporate Purpose Bonds, Series 2009

On April 15, 2009, the City issued bonds to finance street repairs to 3rd Street and the purchase of an ambulance. The $495,000 bonds bear interest ranging from 2.25% to 4.20%, requires semi-annual installments of interest and annual retirements of bonds (approximately $65,000 annually), and matures June 1, 2019.

General Obligation Corporate Purpose Bonds, Series 2013

On March 31, 2015, the City issued bonds to finance the purchase of a fire truck and the 4th Street Extension project. The $610,000 bonds bear interest ranging from 2.0% to 2.75%, requires semi-annual installments of interest and annual installments of principal of approximately $63,500, and matures June 1, 2026.

(3) Bonds and Notes Payable (Continued)

Sewer Revenue Note

On January 31, 2012, the City issued a $300,000 sewer revenue note with a local bank. The note bears interest at 3.15%, requires semi-annual principal and interest payments, and matures June 1, 2022.

Sewer Revenue Loan and Disbursement Agreement

In June 2015, the City entered into a Sewer Revenue Loan and Disbursement Agreement in an amount not to exceed $313,000 to finance one half the cost of the sanitary sewer lift project. In August 2015, the City qualified for Clean Water State Revolving Fund participation and drew $$225,011 and repaid $13,000 by June 30, 2016. The interest rate is 2% and payable solely from the net receipts of the sanitary sewer utility.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay $300,000 of a sewer revenue note issued January 31, 2012. Proceeds from the note provided financing for sewer improvements. The note is payable solely from sewer customer net receipts and are payable through 2022.

(4) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 3 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums of the City and plan members are $1,444 for family coverage. For the year ended June 30, 2016, the City contributed $35,060 and the plan members eligible for benefits contributed $9,364.

(5) Pension Plan

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

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

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

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

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

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

(5) Pension Plan (Continued)

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

Contribution - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS' Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of pay and the City contributed 8.93% for a total rate of 14.88%.

The City's contributions to IPERS for the year ended June 30, 2016 were $11,529.

Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City's liability for its proportionate share of the collective net pension liability totaled $88,912. The collective net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.001788 percent, which was a decrease of 0.000192 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016 the City pension expense, deferred outflows and deferred inflows totaled $7,498, $17,094, and $20,703, respectively.

There were no non-employer contributing entities to IPERS.

(5) Pension Plan (Continued)

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

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

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

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100%	

(5) Pension Plan (Continued)

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

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.5 percent) or 1 percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability	$155,670	$88,912	$32,565

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

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation time 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 payable to employees at June 30, 2016, primarily relating to the Road Use Fund, is as follows:

Type of Benefit	Amount June 30, 2016
Vacation	$ 3,842

This liability has been computed based on rates of pay in effect at June 30, 2016.

(7) Related Party Transactions

Business transactions between the City and City officials during the year ended June 30, 2016 totaled $2,000.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2016, is as follows:

Transfer to	Transfer from	Amount
Debt Service	General Fund	$ 117,508
Debt Service	Special Revenue - Road Use	24,237
General	Special Revenue - Urban Renewal TIF	25,000
Special Revenue - Road Use	Capital Projects - Clarke Circle	15,395
Special Revenue - Road Use	Special Revenue - Local Option	98,110
Enterprise - Sewer	Special Revenue - Local Option	32,703
Total		$ 312,953

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

(9) Risk Management

The City is a member 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 746 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claim expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

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

The City's property and casualty contributions to the 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, 2016 were $25,266.

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

(9) Risk Management (Continued)

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 that 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 against whom the claim was made or the loss was incurred.

The City does not disclose a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2015, no liability has been disclosed in the City's financial statements. As of June 30, 2015, 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 liability claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries workers' compensation insurance purchased from the Iowa Municipalities Workers' Compensation Association, IMWCA in the amount of $6,619. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Urban Renewal Tax Increment Financing Agreements

Fieldcrest Development Agreement

On December 10, 2003, the City entered into a development agreement with McKee Contracting. The developer agreed to construct residential infrastructure such as storm sewers, pavement, sanitary sewers, hydrants, and streetlights in the Fieldcrest Urban Renewal Area of the City. The City voided the original agreement and entered into a new agreement with Shiloh Properties, LLC. The developer requested and the City agreed to make economic development tax increment payments to the developer each year during the term of the agreement. For the year ended June 30, 2016, the City rebated $32,715 to Shiloh Properties, LLC.

The City certifies to the County Auditor by December 1 of each year the following year's tax increment financing request. Per terms of the agreement and in accordance with provisions of Section 403.22 of the Code of Iowa, the City retains 35.1% of the incremental tax receipts for the purpose of providing assistance to low and moderate income households. For the year ended June 30, 2016, the City received $176,238 of tax increment financing receipts and retained the required percentage of LMI set aside per terms of the agreement.

In March 2014, the City entered into an agreement with Shiloh Properties, LLC to develop Fieldcrest Phase 3 Subdivision and the construction of public infrastructure on certain real property situated in the urban renewal area. The City will use up to $440,000 tax increment financing to support the developer's construction of public infrastructure necessary for the development of the Fieldcrest Phase 3 Project. Per terms of the agreement 5% of tax increment financing receipts will be set aside for low to moderate income households.

Urban Renewal Area South - Internal Loan

On October 8, 2013, the City amended its Urban Renewal Plan South to decrease the Urban Renewal Area and to provide a commercial business building to house up to four new businesses. The City's General Fund advanced approximately $200,000 necessary to construct the commercial building and will be reimbursed through tax increment financing receipts. For the year ended June 30, 2016, the Urban Renewal Tax Increment Financing Fund reimbursed $25,000 to the General Fund. The balance of the Internal Loan was $155,521 at June 30, 2016.

(10) Urban Renewal Tax Increment Financing Agreements (Continued)

Tax Incremental Finance Agreement with Jack Links, Inc.

In November 2013, the City requested an annual appropriation from Pottawattamie County to collect the maximum allowable taxes for the Jack Links TIF District. For the year ended June 30, 2016, the City received $84,105 and rebated to Jack Links, Inc. $55,768 per terms of the agreement.

(11) Commitments

The City renewed an agreement for law enforcement services with Pottawattamie County. The fee for the year ended June 30, 2016 was $16,048.

The City has extended an agreement with M & K Tree Service, Inc. for solid waste collection through 2016 at a cost of $11.09 (with annual optional incremental fuel increases) per month per household or commercial unit.

(12) CITIES Grant

In July 2015, the Pottawattamie County Board of Supervisors awarded a CITIES grant to the City of Underwood for the sanitary sewer lift and main project. The $260,000 grant required a 50/50 local match and expired September 30, 2016. At the close of the project, CITIES funds expended totaled $247,780 and the balance of CITIES funds to be de-obligated totaled $12,220. Total project cost was $483,102.

(13) New Accounting Pronouncement

The City of Underwood adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

OTHER INFORMATION

CITY OF UNDERWOOD

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

OTHER INFORMATION

YEAR ENDED JUNE 30, 2016

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	$ 397,379	$ -0-
Tax increment financing	176,237	-0-
Other city tax	134,138	-0-
Licenses and permits	11,994	-0-
Use of money and property	497	19
Intergovernmental	219,049	-0-
Charges for services	31,096	166,124
Special assessments	-0-	-0-
Miscellaneous	10,153	1,647
Total receipts	980,543	167,790
Disbursements:		
Public safety	55,634	-0-
Public works	130,637	-0-
Health and social services	-0-	-0-
Culture and recreation	29,457	-0-
Community and economic development	149,503	-0-
General government	132,370	-0-
Debt service	180,125	-0-
Capital projects	-0-	-0-
Business type	-0-	700,421
Total disbursements	677,726	700,421
Excess (deficiency) of receipts over (under) disbursements	302,817	(532,631)
Other financing sources, net	57,297	482,725
Excess (deficiency) of receipts and other financing sources	360,114	(49,906)
Balance beginning of year	1,174,017	509,431
Balance end of year	$ 1,534,131	$ 459,525

See Accompanying Independent Auditor's Report.

Total	Budgeted Amounts Original	Budgeted Amounts Final	Final to Total Variance
$ 397,379	$ 379,322	$ 379,322	$ 18,057
176,237	150,000	150,000	26,237
134,138	113,760	113,760	20,378
11,994	4,355	4,355	7,639
516	250	250	266
219,049	460,557	460,557	(241,508)
197,220	171,816	171,816	25,404
-0-	-0-	-0-	-0-
11,800	1,000	1,000	10,800
1,148,333	1,281,060	1,281,060	(132,727)
55,634	102,794	102,794	(47,160)
130,637	268,691	268,691	(138,054)
-0-	-0-	-0-	-0-
29,457	66,940	66,940	(37,483)
149,503	202,428	202,428	(52,925)
132,370	171,661	193,661	(61,291)
180,125	191,642	191,642	(11,517)
-0-	30,000	30,000	(30,000)
700,421	520,037	993,745	(293,324)
1,378,147	1,554,193	2,049,901	(671,754)
(229,814)	(273,133)	(768,841)	539,027
540,022	260,000	260,000	280,022
310,208	(13,133)	(508,841)	819,049
1,683,448	1,683,448	1,683,448	-0-
$ 1,993,656	$ 1,670,315	$ 1,174,607	$ 819,049

CITY OF UNDERWOOD

NOTES TO OTHER INFORMATION - BUDGETARY REPORTING

JUNE 30, 2016

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and 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, there were two budget amendments.

During the year ended June 30, 2016, disbursements did not exceed amounts budgeted.

CITY OF UNDERWOOD
SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST TWO FISCAL YEARS

OTHER INFORMATION

	2016	2015
City's proportion of the net pension liability	.001788%	.001980%
City's proportionate share of the net pension liability	$ 88,912	$ 80,214
City's covered-employee payroll	$ 129,099	$ 123,159
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	68.87%	65.13%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

- The amounts present for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

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

CITY OF UNDERWOOD
SCHEDULE OF CITY CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST TWO FISCAL YEARS

OTHER INFORMATION

	2016	2015
Statutorily required contribution	$ 11,529	$ 10,998
Contributions in relation to the statutorily required contribution	$ 11,541	$ 10,975
Contribution deficiency (excess)	$ (12)	$ 23
City's covered-employee payroll	$ 129,099	$ 123,159
Contributions as a percentage of covered-employee payroll	8.93%	8.93%

See accompanying independent auditor's report.

Changes of benefit terms:

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

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

Changes of assumptions:

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

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

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

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

SUPPLEMENTARY INFORMATION

CITY OF UNDERWOOD

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES - NON-MAJOR GOVERNMENTAL FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

	Special Revenue	
	Employee Benefits	Insurance
Receipts:		
Property tax	$ 60,458	$ 26,789
Disbursements:		
Operating:		
Public safety	4,963	-0-
Public works	12,926	-0-
Culture and recreation	12,319	-0-
Community and economic development	9	-0-
General government	19,787	25,266
Total disbursements	50,004	25,266
Excess (deficiency) of receipts over (under) disbursements	10,454	1,523
Other financing sources (uses):		
Operating transfers in	-0-	-0-
Operating transfers out	-0-	-0-
Net financing sources (uses)	-0-	-0-
Net change in cash balances	10,454	1,523
Cash balances beginning of year	11,275	231
Cash balances end year	$ 21,729	$ 1,754
Cash Basis Fund Balances		
Restricted for other purposes	$ 21,729	$ 1,754
Assigned for capital projects	-0-	-0-
Total cash basis fund balances	$ 21,729	$ 1,754

See Accompanying Independent Auditor's Report.

SCHEDULE 1

	Capital Projects Clark Circle		Total
$	-0-	$	87,247
	-0-		4,963
	-0-		12,926
	-0-		12,319
	-0-		9
	-0-		45,053
	-0-		75,270
	-0-		11,977
	-0-		-0-
	(15,395)		(15,395)
	(15,395)		(15,395)
	(15,395)		(3,418)
	15,395		26,901
$	-0-	$	23,483
$	-0-	$	23,483
	-0-		-0-
$	-0-	$	23,483

CITY OF UNDERWOOD

SCHEDULE OF INDEBTEDNESS

JUNE 30, 2016

Obligation	Date of Issue	Interest Rates		Amount Originally Issued
General obligation notes:				
Clarke Circle Improvement Note	July 9, 2013	2.82%	$	190,000
Fire Equipment Note	June 21, 2007	4.90%	$	174,000
Corporate Purpose Bonds	April 15, 2009	2.25 - 4.20%	$	495,000
Corporate Purpose Bonds	March 31, 2015	2.00 - 2.75%	$	610,000
Revenue notes:				
Sewer Revenue Note	January 31, 2012	3.15%	$	300,000
SRF Loan	Oct 10, 2015	2.00%	$	313,000

See Accompanying Independent Auditor's Report.

SCHEDULE 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
$ 171,202	$ -0-	$ 19,224	$ 151,978	$ 4,828	$ 357
23,900	-0-	23,900	-0-	1,043	-0-
230,000	-0-	55,000	175,000	9,275	613
610,000	-0-	50,000	560,000	16,855	1,118
$ 1,035,102	$ -0-	$ 148,124	$ 886,978	$ 32,001	$ 2,088
$ 195,000	$ -0-	$ 30,000	$ 165,000	$ 5,923	$ 440
-0-	225,011	13,000	212,011	1,328	349
$ 195,000	$ 225,011	$ 43,000	$ 377,011	$ 7,251	$ 789

CITY OF UNDERWOOD

BOND AND NOTE MATURITIES

JUNE 30, 2016

General Obligation Bonds and Notes

Year Ending June 30,	Street Improvements Issued July 9, 2013	
	Interest Rate	Amount
2017	2.82%	$ 19,909
2018	2.82%	20,475
2019	2.82%	21,056
2020	2.82%	21,654
2021	2.82%	22,269
2022	2.82%	22,901
2023	2.82%	23,714
2024	--	-0-
2025	--	-0-
2026	--	-0-
Total		$ 151,978

See Accompanying Independent Auditor's Report.

CITY OF UNDERWOOD

BOND AND NOTE MATURITIES

JUNE 30, 2016

General Obligation Bonds and Notes

Year Ending June 30,	Essential Corporate Purpose Bonds Issued April 15, 2009		Essential Corporate Purpose Bonds Issued March 31, 2015		
	Interest Rate	Amount	Interest Rate	Amount	Total
2017	3.50%	$ 55,000	2.00%	$ 50,000	$ 124,909
2018	4.20%	60,000	2.00%	50,000	130,475
2019	4.20%	60,000	2.00%	55,000	136,056
2020	--	-0-	2.00%	55,000	76,654
2021	--	-0-	2.00%	55,000	77,269
2022	--	-0-	2.75%	55,000	77,901
2023	--	-0-	2.75%	60,000	83,714
2024	--	-0-	2.75%	60,000	60,000
2025	--	-0-	2.75%	60,000	60,000
2026	--	-0-	2.75%	60,000	60,000
Total		$ 175,000		$ 560,000	$ 886,978

CITY OF UNDERWOOD

BOND AND NOTE MATURITIES

JUNE 30, 2016

Sewer Revenue Notes

Year Ending June 30,	Sewer Revenue Note Issued January 31, 2012		SRF Loan Issued Oct 2, 2015		
	Interest Rate	Amount	Interest Rate	Amount	Total
2017	3.15%	$ 30,000	2.00%	$ 212,011	$ 242,011
2018	3.15%	30,000	--	-0-	30,000
2019	3.15%	30,000	--	-0-	30,000
2020	3.15%	30,000	--	-0-	30,000
2021	3.15%	30,000	--	-0-	30,000
2022	3.15%	15,000	--	-0-	15,000
Total		$ 165,000		$ 212,011	$ 377,011

CITY OF UNDERWOOD

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION - ALL GOVERNMENTAL FUNDS

FOR THE LAST TEN YEARS

	2016	2015	2014	2013	2012
Receipts:					
Property taxes	$ 397,379	$ 398,964	$ 323,669	$ 308,902	$ 313,228
Tax increment financing	176,237	125,081	42,913	138,374	132,638
Other city taxes	134,138	140,485	108,381	95,905	104,829
License and permits	11,994	11,878	9,923	11,605	4,292
Use of money and property	498	501	324	1,002	778
Intergovernmental	219,049	192,023	186,090	200,434	210,675
Charges for service	31,096	44,131	33,198	25,223	21,858
Special assessments	-0-	-0-	-0-	-0-	631
Miscellaneous	10,153	10,282	12,288	30,462	10,270
Total	$ 980,544	$ 923,345	$ 716,786	$ 811,907	$ 799,199
Disbursements:					
Operating:					
Public safety	$ 55,634	$ 552,605	$ 63,899	$ 66,461	$ 85,024
Public works	130,637	190,581	99,147	145,866	169,873
Health and social services	-0-	-0-	-0-	-0-	-0-
Culture and recreation	29,457	30,051	32,767	24,346	24,391
Comm. and economic dev	149,503	124,644	70,619	309,896	155,806
General government	132,370	157,927	139,188	156,684	147,998
Debt service	180,125	114,678	91,903	118,839	124,397
Capital projects	-0-	-0-	163,939	-0-	-0-
Total	$ 677,726	$ 1,170,486	$ 661,462	$ 822,092	$ 707,489

See accompanying independent auditor's report.

2011	2010	2009	2008	2007
$ 304,106	$ 293,877	$ 270,827	$ 256,042	$ 231,541
138,597	123,215	107,394	105,459	112,347
83,453	70,550	90,339	77,247	85,383
7,420	7,920	10,133	14,064	5,840
1,459	1,592	6,600	16,071	12,858
176,971	156,597	391,438	203,803	154,660
29,557	14,424	16,255	10,954	9,893
-0-	80	-0-	461	-0-
4,604	14,845	35,613	3,946	20,544
$ 746,167	$ 683,100	$ 928,599	$ 688,047	$ 633,066

$ 159,372	$ 244,484	$ 48,252	$ 63,655	$ 244,708
137,970	114,943	95,392	90,412	41,769
-0-	-0-	-0-	-0-	-0-
22,980	28,358	22,519	15,818	22,324
128,010	137,592	147,032	160,643	123,243
144,403	129,953	126,105	122,462	116,766
137,599	127,722	107,177	98,114	96,850
82,859	-0-	372,950	249,091	28,072
$ 813,193	$ 783,052	$ 919,427	$ 800,195	$ 673,732

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

MUXFELDT
ASSOCIATES, CPA, P.C.
Certified Public Accountant

December 28, 2016

Lonnie G. Muxfeldt
Certified Public Accountant

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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:

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Underwood, Iowa as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated December 28, 2016. My report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

Continued . . .

Member of American Institute of Certified Public Accountants,
Iowa Society of CPA's and AICPA Private Companies Practice Section

To the Honorable Mayor and
Members of the City Council:

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Underwood's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-16 and I-B-16 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in Part I of the accompanying Schedule of Findings as item I-C-16 to be significant deficiencies.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my 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.

Continued . . .

To the Honorable Mayor and
Members of the City Council

City of Underwood's Responses to Findings

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

Purpose of this Report

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

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Underwood during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Mayfield Associates, CPA, P.C.

CITY OF UNDERWOOD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2016

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES

I-A-16 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. For example, the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all performed by the same person.

Recommendation - I realize that with one full time city clerk and a part time deputy clerk, a proper segregation of duties is challenging. However, City Council should monitor control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged.

I-B-16 Financial Reporting - During the audit, I identified the following material weaknesses:

Transfers were not recorded despite a Council resolution and budget authorization. The result was a material deficit balance in the debt service fund.

SRF Loan proceeds were misidentified as a grant. The result was a material overstatement of grants far in excess of the grant agreement.

A material amount of grants was posted to the general fund instead of the sewer lift capital project fund. The result was a material deficit in the capital projects fund and an overstatement of general fund receipts.

Adjustments were subsequently made by the City to properly report these amounts in the City's financial statements.

Recommendation -I realize that the first year of clerking can be overwhelming and that the referenced deficiencies constitute a very small percentage of the transactions that were posted correctly. But in order to *correct* and *prevent* errors, they must be *detected* first.

Response - These errors were oversights. More attention will be devoted to identifying and correctly posting receipts, especially material amounts. Procedures for recording transfers have been implemented.

Conclusion - Response accepted

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES (Continued)

I-C-16 Financial Reporting - During the audit, I identified significant deficiencies as follows:

The December interest payment on the Corporate Purpose Bonds was recorded in two separate checking accounts. One cleared the bank and the other sat on the outstanding check list for seven months without *detection*.

Road Use Tax was posted to the Local Option Tax accounts and Local Option Tax was posted to the Road Use Tax account. This also occurred in the prior year.

The Clerk's report understated fund balances, reported a net loss and payroll liabilities, and was not provided to Council on a monthly basis.

Adjustments were subsequently made by the City to properly report these amounts in the City's financial statements. This appears due to employee oversight.

Recommendation - The City should implement procedures to ensure that local option sales tax and road use tax are correctly recorded in the City's financial records, to ensure that outstanding checks of significant amounts be investigated regularly, to ensure that transactions be properly closed to the appropriate funds, to ensure that no payroll liabilities appear on the Clerk's report and to ensure that Council is provided a Clerk's report on a monthly basis.

Response - Suggestions to correct procedures during the audit were very helpful. Procedures will be implemented further to *detect*, *correct* and *prevent* such oversights from happening in the future. Council will be provided monthly Clerk's reports.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CITY OF UNDERWOOD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2016

Part II: Other Findings Related to Required Statutory Reporting:

II-A-16 Certified Budget - Disbursements during the year ended June 30, 2016 did not exceed the amounts budgeted.

II-B-16 Questionable Disbursements - I noted no disbursements for parties, banquets or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-C-16 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-16 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows.

Name, Title and Business Connection	Transaction Description	Amount
Ed Freuck, City Council Member, Owner of EDCO	Housing Rehab Administration fees	$2,000

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the City Council Member do not appear to represent conflicts of interest since the transaction was less than $2,500 during the fiscal year.

II-E-16 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 coverage is adequate for current operations.

II-F-16 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

II-G-16 Deposits and Investments - I noted no instance of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

Part II: Other Findings Related to Required Statutory Reporting (Continued):

II-H-16 Unsubstantiated Disbursements - It was noted that not all credit card charges were substantiated. It was also noted that the City does not have a written credit card policy.

Recommendation - Disbursements should be substantiated with appropriate documentation. City Council should consider adopting a written credit card policy.

Response - Credit card charges will be appropriately substantiated in the future and we will consider adopting a written credit card policy.

Conclusion - Response accepted.

II-I-16 Revenue Bonds and Notes - No instances of non-compliance with the revenue bond and note resolutions were noted.

II-J-16 Tax Increment Financing - Chapter 403.19 of the Code of Iowa provides that a municipality may certify loans, advances, indebtedness and bonds (indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. Urban Renewal Area TIF Indebtedness was certified to the County Auditor before December 1, and no exceptions were noted.

II-K-16 Urban Renewal Annual Report - The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1, and no exceptions were noted.