

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

JUNE 30, 2017

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CITY OF UNDERWOOD

OFFICIALS

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

MUXFELDT ASSOCIATES, CPA, P.C.

Certified Public Accountant

October 27, 2017

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, 2017, 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 . . .

Lonnie G. Muxfeldt
Certified Public
Accountant

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October 27, 2017
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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, 2017, 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 . .

October 27, 2017

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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 seven years ended June 30, 2016 (which are not presented herein) and expressed unqualified 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 43, 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.

October 27, 2017

Page Four

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 October 27, 2017 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.

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

2017 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 18%, or approximately \$281,300, from fiscal year 2016 to fiscal year 2017. Property tax increased approximately \$32,800, tax increment financing decreased approximately \$74,000, and note proceeds increased approximately \$172,500.

Disbursements of the City's governmental activities increased 14%, or approximately \$96,800 in fiscal year 2017 from fiscal year 2016. Public works, general government and capital projects increased approximately \$7,250, \$39,000, and \$172,500, respectively.

The City's total cash basis net position increased 18% or approximately \$370,700, from June 30, 2016 to June 30, 2017. Of this amount, the cash basis net position of the governmental activities increased approximately \$281,000 and the cash basis net position of the business type activities increased approximately \$89,000.

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 \$1.5 million to approximately \$1.8 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, <u>2017</u>	Year Ended June 30, <u>2016</u>
Receipts:		
Program receipts:		
Charges for services	\$ 56,476	\$ 48,851
Operating grants, contributions and restricted interest	214,214	220,046
Capital grants, contributions and restricted interest	2,000	-0-
General receipts:		
Property tax	430,258	400,702
Tax increment financing	102,095	176,238
Local option sales tax	106,706	130,814
Miscellaneous receipts	2,139	3,892
Note Proceeds	172,535	-0-
Sale of property	-0-	90,000
Total receipts	<u>1,086,423</u>	<u>1,070,543</u>
Disbursements:		
Public safety	50,691	55,383
Public works	137,895	130,637
Culture and recreation	26,001	29,457
Community and economic development	66,081	149,503
General government	171,327	132,370
Debt service	150,014	180,125
Capital projects	172,535	-0-
Total disbursements	<u>774,544</u>	<u>677,475</u>
Change in cash basis net position before transfers	311,879	393,068
Transfers, net	<u>(30,571)</u>	<u>(32,703)</u>
Change in cash basis net position	281,308	360,365
Cash basis net position, beginning of year	<u>1,534,382</u>	<u>1,174,017</u>
Cash basis net position, end of year	<u>\$ 1,815,690</u>	<u>\$ 1,534,382</u>

The City's total receipts for governmental activities increased 1.5%, or approximately \$16,000. The total cost of all programs and services increased approximately \$97,000 or 14%, with no new programs added this year.

Significant increases to governmental receipts included approximately \$30,000 in property taxes and \$172,500 from note proceeds. Significant decreases to governmental receipts included approximately \$74,000 in tax increment financing and \$24,000 in local option taxes. The significant increase to governmental disbursements was the result of the purchase of the 625 Highway South property.

The cost of all governmental activities this year was approximately \$677,700 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 \$501,854 because some of the cost was paid by those directly benefited from the programs (\$56,476) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$216,214). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2017 from approximately \$268,900 to \$272,700, principally due to increases in charges for services.

Changes in Cash Basis Net Position of Business Type Activities

	Year Ended June 30, 2017	Year Ended June 30, 2016
Receipts:		
Program receipts:		
Charges for services and sales:		
Sewer	\$ 156,514	\$ 126,004
Garbage	45,962	41,786
Operating grants, contributions and restricted interest	-0-	-0-
Capital grants, contributions and restricted interest	22,768	225,011
General receipts:		
Miscellaneous	-0-	-0-
Restricted interest	-0-	-0-
Note proceeds	21,361	225,011
Total receipts	<u>246,605</u>	<u>617,812</u>
Disbursements:		
Sewer	152,815	656,939
Garbage	34,950	43,482
Total disbursements	<u>187,765</u>	<u>700,421</u>
Change in cash basis net position before transfers	58,840	(82,609)
Transfers, net	<u>30,571</u>	<u>32,703</u>
Change in cash basis net position	89,411	(49,906)
Cash basis net position, beginning of year	<u>459,525</u>	<u>509,431</u>
Cash basis net position, end of year	<u>\$ 548,936</u>	<u>\$ 459,525</u>

Total business type activities receipts for the fiscal year were approximately \$246,600 compared to approximately \$618,000 last year. Disbursements decreased approximately \$512,600 primarily due to a sewer project completed in the prior year. The cash balance increased approximately \$89,000 from the prior year primarily due to increased sewer customer receipts, and final grant and loan proceeds on the prior year sewer lift project.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Underwood completed the year, its governmental funds reported a combined fund balance of \$1,815,690, an increase of \$281,308 from last year's total of \$1,534,382.

The General Fund cash balance increased \$176,808 from the prior year to \$1,047,994 at year end. General Fund receipts increased approximately \$21,400 and disbursements increased approximately \$38,400.

The Special Revenue, Road Use Tax Fund cash balance increased by \$31,844 to \$452,834. \$76,135 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 assistance program. The fund's cash balance increased by \$70,396 to \$277,183 at year end.

The Special Revenue, Local Option Sales Tax Fund, receipted \$106,706 in local option tax and transferred 75% to the Road Use Tax Fund and 25% to the Sewer Fund.

The Debt Service Fund cash balance decreased by \$3,677 from the prior year to \$8,260. Principal and interest payments were \$150,014, tax receipts were \$56,337, transfers from the general fund and the road use tax fund were \$53,300 and \$36,700, respectively.

The Capital Projects Fund was utilized to account for the purchase of property at 625 Highway South and was financed at fiscal year-end by the use of a line of credit with a local bank in anticipation of issuing a general obligation property acquisition note in August 2017 with the same local bank.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise Fund, Sewer Fund cash balance increased by \$78,399 to \$495,647 from the prior year. The increase was primarily due to final grant and loan proceeds associated with the sanitary sewer lift and main project of the prior year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended the budget once. The City's receipts were approximately \$151,600 more than budgeted primarily due to receiving more tax incremental financing and charges for services receipts than anticipated.

The City's disbursements were approximately \$206,500 less than budgeted and affected all functions.

DEBT ADMINISTRATION

At June 30, 2017, the City had \$1,291,592 in bonds and notes outstanding, compared to \$1,265,554 last year, as shown below.

Outstanding Debt at Year-End				
	Year Ended June 30, 2017		Year Ended June 30, 2016	
General obligation notes	\$	934,656	\$	886,978
Sewer revenue notes		356,936		378,576
Total	\$	1,291,592	\$	1,265,554

Debt increased by \$196,895, as a result of a line of credit to finance the purchase of property and completion of the sewer lift and main project. Outstanding principal was reduced by \$167,857. Interest costs for the fiscal year were \$34,803.

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 \$934,656 is significantly below its constitutional debt limit of approximately \$2.8 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 2018 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 up residence in the Community.

These factors were taken into account when adopting the budget for fiscal year 2018. The mill levy increased \$0.01306 from \$12.18560 to \$12.19866. Disbursements are expected to decrease approximately \$23,500. Receipts are expected to decrease by approximately \$28,300.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$83,000 by the close of fiscal year 2018.

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, 2017

	Disbursements	Charges for Services	Program Receipts	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 50,691	\$ 42,226	\$ 99,826	\$ -0-
Public works	137,895	-0-	113,840	-0-
Cultures and recreation	26,001	1,200	-0-	2,000
Community and economic development	66,081	-0-	51	-0-
General government	171,327	13,050	497	-0-
Debt service	150,014	-0-	-0-	-0-
Capital Projects	172,535	-0-	-0-	-0-
Total governmental activities	<u>774,544</u>	<u>56,476</u>	<u>214,214</u>	<u>2,000</u>
Business type activities:				
Sewer	152,815	156,514	-0-	22,768
Garbage	34,950	45,962	-0-	-0-
Total business type activities	<u>187,765</u>	<u>202,476</u>	<u>-0-</u>	<u>22,768</u>
Total	\$ <u>962,309</u>	\$ <u>258,952</u>	\$ <u>214,214</u>	\$ <u>24,768</u>

Property taxes levied for:
 General purposes
 Debt service
 Tax increment financing
 Local option sales tax
 Note Proceeds
 Miscellaneous
 Transfers
 Total general receipts

Change in cash basis net assets

Cash basis net assets, beginning of year

Cash basis net assets, end of year

Cash basis net position

Restricted:

Expendable:

Streets

Urban renewal

Debt service

Other purposes

Assigned for trails

Unrestricted

Total cash basis net position

EXHIBIT A

Net (Disbursements), Receipts and Changes in Net Position		
Governmental Activities	Business Type Activities	Total
\$ 91,361	\$ -0-	\$ 91,361
(24,055)	-0-	(24,055)
(22,801)	-0-	(22,801)
(66,030)	-0-	(66,030)
(157,780)	-0-	(157,780)
(150,014)	-0-	(150,014)
(172,535)	-0-	(172,535)
(501,854)	-0-	(501,854)
-0-	26,467	26,467
-0-	11,012	11,012
-0-	37,479	37,479
(501,854)	37,479	(464,375)
373,921	-0-	373,921
56,337	-0-	56,337
102,095	-0-	102,095
106,706	-0-	106,706
172,535	21,361	193,896
2,139	-0-	2,139
(30,571)	30,571	-0-
783,162	51,932	835,094
281,308	89,411	370,719
1,534,382	459,525	1,993,907
\$ 1,815,690	\$ 548,936	\$ 2,364,626
\$ 452,834	\$ -0-	\$ 452,834
277,183	-0-	277,183
8,260	-0-	8,260
29,419	-0-	29,419
2,000	-0-	2,000
1,045,994	548,936	1,594,930
\$ 1,815,690	\$ 548,936	\$ 2,364,626

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, 2017

	Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 283,836	\$ -0-	\$ -0-
Tax increment financing	-0-	-0-	102,095
Other city tax	678	-0-	-0-
Licenses and permits	13,978	-0-	-0-
Use of money and property	554	-0-	51
Intergovernmental	99,269	113,840	-0-
Charges for services	30,579	-0-	-0-
Miscellaneous	14,997	1,561	-0-
Total receipts	<u>443,891</u>	<u>115,401</u>	<u>102,146</u>
Disbursements:			
Operating:			
Public safety	50,350	-0-	-0-
Public works	-0-	122,992	-0-
Culture and recreation	11,422	-0-	-0-
Community and economic development	34,321	-0-	31,750
General government	117,690	-0-	-0-
Debt service	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-
Total disbursements	<u>213,783</u>	<u>122,992</u>	<u>31,750</u>
Excess (deficiency) of receipts over (under) disbursements	230,108	(7,591)	70,396
Other financing sources (uses):			
Sale of assets	-0-	-0-	-0-
Note Proceeds	-0-	-0-	-0-
Operating transfers in	-0-	76,135	-0-
Operating transfers out	(53,300)	(36,700)	-0-
Total other financing sources (uses)	<u>(53,300)</u>	<u>39,435</u>	<u>-0-</u>
Net change in cash balances	176,808	31,844	70,396
Cash balances, beginning of year	<u>871,186</u>	<u>420,990</u>	<u>206,787</u>
Cash balances, end of year	\$ <u>1,047,994</u>	\$ <u>452,834</u>	\$ <u>277,183</u>
Cash Basis Fund Balances			
Restricted for:			
Urban renewal purposes	\$ -0-	\$ -0-	\$ 277,183
Debt Service	-0-	-0-	-0-
Streets	-0-	452,834	-0-
Other purposes	-0-	-0-	-0-
Assigned for trails	2,000	-0-	-0-
Unassigned	1,045,994	-0-	-0-
Total cash basis fund balances	\$ <u>1,047,994</u>	\$ <u>452,834</u>	\$ <u>277,183</u>

See notes to financial statements.

EXHIBIT B

	Local Option Sales Tax	Debt Service	Capital Projects	Other Non-major Governmental Funds	Total
\$	-0-	\$ 56,337	\$ -0-	\$ 89,407	\$ 429,580
	-0-	-0-	-0-	-0-	102,095
	106,706	-0-	-0-	-0-	107,384
	-0-	-0-	-0-	-0-	13,978
	-0-	-0-	-0-	-0-	605
	-0-	-0-	-0-	-0-	213,109
	-0-	-0-	-0-	-0-	30,579
	-0-	-0-	-0-	-0-	16,558
	<u>106,706</u>	<u>56,337</u>	<u>-0-</u>	<u>89,407</u>	<u>913,888</u>
	-0-	-0-	-0-	341	50,691
	-0-	-0-	-0-	14,903	137,895
	-0-	-0-	-0-	14,579	26,001
	-0-	-0-	-0-	10	66,081
	-0-	-0-	-0-	53,637	171,327
	-0-	150,014	-0-	-0-	150,014
	-0-	-0-	172,535	-0-	172,535
	<u>-0-</u>	<u>150,014</u>	<u>172,535</u>	<u>83,470</u>	<u>774,544</u>
	106,706	(93,677)	(172,535)	5,937	139,344
	-0-	-0-	-0-	-0-	-0-
	-0-	-0-	172,535	-0-	172,535
	-0-	90,000	-0-	-0-	166,135
	(106,706)	-0-	-0-	-0-	(196,706)
	<u>(106,706)</u>	<u>90,000</u>	<u>172,535</u>	<u>-0-</u>	<u>141,964</u>
	-0-	(3,677)	-0-	5,937	281,308
	-0-	11,937	-0-	23,482	1,534,382
\$	<u>-0-</u>	<u>8,260</u>	<u>-0-</u>	<u>29,419</u>	<u>1,815,690</u>
\$	-0-	\$ -0-	\$ -0-	\$ -0-	\$ 277,183
	-0-	8,260	-0-	-0-	8,260
	-0-	-0-	-0-	-0-	452,834
	-0-	-0-	-0-	29,419	29,419
	-0-	-0-	-0-	-0-	2,000
	-0-	-0-	-0-	-0-	1,045,994
\$	<u>-0-</u>	<u>8,260</u>	<u>-0-</u>	<u>29,419</u>	<u>1,815,690</u>

CITY OF UNDERWOOD

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

	Enterprise Funds		
	Sewer	Garbage	Total
Operating receipts:			
Charges for services	\$ 142,555	\$ 45,962	\$ 188,517
Miscellaneous	13,937	-0-	13,937
Total receipts	<u>156,492</u>	<u>45,962</u>	<u>202,454</u>
Operating disbursements:			
Business type activities	100,168	34,950	135,118
Total disbursements	<u>100,168</u>	<u>34,950</u>	<u>135,118</u>
Operating income	56,324	11,012	67,336
Non-operating receipts (disbursements):			
Interest	22	-0-	22
Grant	22,768	-0-	22,768
Debt service	(52,647)	-0-	(52,647)
Total non-operating receipts (disbursements)	<u>(29,857)</u>	<u>-0-</u>	<u>(29,857)</u>
Excess of receipts over disbursements	26,467	11,012	37,479
Other financing sources (uses):			
Loan proceeds	21,361	-0-	21,361
Operating transfer in	30,571	-0-	30,571
Other financing sources (uses)	<u>51,932</u>	<u>-0-</u>	<u>51,932</u>
Net change in cash balance	78,399	11,012	89,411
Cash balances, beginning of year	<u>417,248</u>	<u>42,277</u>	<u>459,525</u>
Cash balances, end of year	\$ <u>495,647</u>	\$ <u>53,289</u>	\$ <u>548,936</u>
Cash Basis Fund Balances			
Unrestricted	\$ <u>495,647</u>	\$ <u>53,289</u>	\$ <u>548,936</u>
Total cash basis fund balances	\$ <u>495,647</u>	\$ <u>53,289</u>	\$ <u>548,936</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

(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.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

(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.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

(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.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

(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 placed 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, 2017, disbursements did not exceed amounts budgeted.

**CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

(2) Cash and Pooled Investments

The City's deposits in bank at June 30, 2017, 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 ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council 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 \$2,364,626 as of June 30, 2017.

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.

**CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

(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		Revenue Notes		Total	
	Bonds and Notes		Principal	Interest	Principal	Interest
	Principal	Interest				
2018	303,009	22,323	251,936	8,455	554,945	30,778
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	83,766	6,937	-0-	-0-	83,766	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	\$ 934,655	\$ 89,056	\$ 356,936	\$ 15,070	\$ 1,291,591	\$ 104,126

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 corporate purpose 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%, require semi-annual installments of interest and annual retirements of bonds (approximately \$65,000 annually), and mature 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%, require semiannual installments of interest and annual installments of principal of approximately \$63,500, and mature June 1, 2026.

Land Acquisition Note

On May 7, 2017, the City financed the purchase of the 625 Highway South property by utilizing its line of credit with a local bank in anticipation of issuing a \$173,000 general obligation property acquisition note with the same bank.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

(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 to date drew \$\$246,372 and repaid \$26,000 by June 30, 2017. 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 is 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 \$1,665 for family coverage and \$655 for single coverage. For the year ended June 30, 2017, the City contributed \$40,931 and the plan members eligible for benefits contributed \$10,094.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

(5) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by 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, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

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.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

(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 - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS' Contribution Rate Funding Policy requires 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 2017, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%.

The City's contributions to IPERS for the year ended June 30, 2017 were \$12,280.

Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2017, the City reported a liability of \$113,205 for its proportionate share of the net pension liability. The collective net pension liability was measured as of June 30, 2016, 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, 2016, the City's proportion was 0.001815%, which was an increase of 0.000027% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017 the City pension expense, deferred outflows and deferred inflows totaled \$13,427, \$32,865, and \$15,360, respectively.

There were no non-employer contributing entities to IPERS.

**CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

(5) Pension Plan (Continued)

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

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

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

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

The long-term expected rate of return on 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 asset class are summarized in the following table:

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

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

(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 projected 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	\$183,150	\$113,205	\$54,170

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.

**CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

(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, 2017, primarily relating to the Road Use Fund, is as follows:

Type of Benefit	Amount June 30, 2017
Vacation	\$ <u>2,366</u>

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

(7) Related Party Transactions

Business transactions between the City and City officials during the year ended June 30, 2017 totaled \$2,400.

(8) Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt Service	General Fund	\$ 53,300
Debt Service	Special Revenue - Road Use	36,700
Special Revenue - Road Use	Special Revenue - Local Option	76,135
Enterprise – Sewer	Special Revenue - Local Option	30,571
Total		\$ <u>196,706</u>

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

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, 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, 2017 were \$26,654.

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.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

(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.

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 \$5,917. 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.

**CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

(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, 2017, the City rebated \$-0- 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, 2017, the City received \$13,240 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, 2017, the \$25,000 reimbursement from the Urban Renewal TIF Fund to the General Fund was overlooked. The balance of the Internal Loan was \$155,521 at June 30, 2017 and 2016.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

(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, 2017, the City received \$87,965 and rebated to Jack Links, Inc. \$31,500 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, 2017 was \$16,048.

The City has extended an agreement with M & K Mills Tree Service, Inc. for solid waste collection through 2017 at a cost of \$11.09 (with annual optional incremental fuel increases) per month per household or commercial unit.

(12) Subsequent Events

In August 2017, the City approved a loan agreement, providing for the issuance of a \$173,000 General Obligation Property Acquisition Note and authorizing the levy of taxes to pay the same. The Note financed the purchase of property.

(13) New Accounting Pronouncement

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

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, 2017

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 429,580	\$ -0-
Tax increment financing	102,095	-0-
Other city tax	107,384	-0-
Licenses and permits	13,978	-0-
Use of money and property	605	22
Intergovernmental	213,109	22,768
Charges for services	30,579	188,517
Special assessments	-0-	-0-
Miscellaneous	16,558	13,937
Total receipts	913,888	225,244
Disbursements:		
Public safety	50,691	-0-
Public works	137,895	-0-
Health and social services	-0-	-0-
Culture and recreation	26,001	-0-
Community and economic development	66,081	-0-
General government	171,327	-0-
Debt service	150,014	-0-
Capital projects	172,535	-0-
Business type	-0-	187,765
Total disbursements	774,544	187,765
Excess (deficiency) of receipts over (under) disbursements	139,344	37,479
Other financing sources, net	141,964	51,932
Excess (deficiency) of receipts and other financing sources	281,308	89,411
Balance beginning of year	1,534,382	459,525
Balance end of year	\$ 1,815,690	\$ 548,936

See Accompanying Independent Auditor's Report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$ 429,580	\$ 410,433	\$ 410,433	\$ 19,147
102,095	56,819	56,819	45,276
107,384	120,217	120,217	(12,833)
13,978	4,605	4,605	9,373
627	1,260	1,260	(633)
235,877	220,066	220,066	15,811
219,096	183,010	183,010	36,086
-0-	-0-	-0-	-0-
30,495	-0-	-0-	30,495
<u>1,139,132</u>	<u>996,410</u>	<u>996,410</u>	<u>142,722</u>
50,691	83,194	83,194	32,503
137,895	172,240	172,240	34,345
-0-	-0-	-0-	-0-
26,001	61,590	61,590	35,589
66,081	99,098	99,098	33,017
171,327	197,415	197,415	26,088
150,014	150,313	150,313	299
172,535	-0-	185,000	12,465
187,765	219,917	219,917	32,152
<u>962,309</u>	<u>983,767</u>	<u>1,168,767</u>	<u>206,458</u>
176,823	12,643	(172,357)	349,180
<u>193,896</u>	<u>-0-</u>	<u>185,000</u>	<u>8,896</u>
370,719	12,643	12,643	358,076
<u>1,993,907</u>	<u>1,993,907</u>	<u>1,993,907</u>	<u>-0-</u>
\$ <u><u>2,364,626</u></u>	\$ <u><u>2,006,550</u></u>	\$ <u><u>2,006,550</u></u>	\$ <u><u>358,076</u></u>

CITY OF UNDERWOOD

**NOTES TO OTHER INFORMATION -
BUDGETARY REPORTING**

JUNE 30, 2017

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except 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, the budget was amended once.

During the year ended June 30, 2017, 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 THREE FISCAL YEARS**

OTHER INFORMATION

	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	.001815%	.001788%	.001980%
City's proportionate share of the net pension liability	\$ 113,205	\$ 88,912	\$ 80,214
City's covered-employee payroll	\$ 137,512	\$ 129,099	\$ 123,159
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	82.32%	68.87%	65.13%
Plan fiduciary net position as a percentage of the total pension liability	81.82%	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 THREE FISCAL YEARS**

OTHER INFORMATION

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 12,280	\$ 11,529	\$ 10,998
Contributions in relation to the statutorily required contribution	\$ <u>12,280</u>	\$ <u>11,541</u>	\$ <u>10,975</u>
Contribution deficiency (excess)	\$ <u>-0-</u>	\$ <u>(12)</u>	\$ <u>23</u>
City's covered-employee payroll	\$ 137,512	\$ 129,099	\$ 123,159
Contributions as a percentage of covered-employee payroll	2.93%	8.93%	8.93%

See accompanying independent auditor's report.

CITY OF UNDERWOOD
NOTES TO OTHER INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2017

Changes of benefit terms:

Legislation enacted 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 (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

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

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

SUPPLEMENTARY INFORMATION

CITY OF UNDERWOOD
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES -
NON-MAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

	Special Revenue		
	Employee		Total
	Benefits	Insurance	
Receipts:			
Property tax	\$ 60,530	\$ 28,877	\$ 89,407
Disbursements:			
Operating:			
Public safety	341	-0-	341
Public works	14,903	-0-	14,903
Culture and recreation	14,579	-0-	14,579
Community and economic development	10	-0-	10
General government	25,970	27,667	53,637
Total disbursements	55,803	27,667	83,470
Excess (deficiency) of receipts over (under) disbursements	4,727	1,210	5,937
Other financing sources (uses):			
Operating transfers in	-0-	-0-	-0-
Operating transfers out	-0-	-0-	-0-
Net financing sources (uses)	-0-	-0-	-0-
Net change in cash balances	4,727	1,210	5,937
Cash balances beginning of year	21,728	1,754	23,482
Cash balances end year	\$ 26,455	\$ 2,964	\$ 29,419
Cash Basis Fund Balances			
Restricted for other purposes	\$ 26,455	\$ 2,964	\$ 29,419
Total cash basis fund balances	\$ 26,455	\$ 2,964	\$ 29,419

See Accompanying Independent Auditor's Report.

CITY OF UNDERWOOD
SCHEDULE OF INDEBTEDNESS
JUNE 30, 2017

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation notes:			
Clarke Circle Improvement Note	July 9, 2013	2.82 %	\$ 190,000
Corporate Purpose Bonds	April 15, 2009	2.25 - 4.20 %	\$ 495,000
Corporate Purpose Bonds	March 31, 2015	2.00 - 2.75%	\$ 610,000
Line of Credit	May 2, 2017	4.50%	\$ 172,535
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

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 151,978	\$ -0-	\$ 19,857	\$ 132,121	\$ 4,394	\$ 310
175,000	-0-	55,000	120,000	7,350	420
560,000	-0-	50,000	510,000	13,413	1,034
-0-	172,535	-0-	172,535	-0-	1,294
<u>\$ 886,978</u>	<u>\$ 172,535</u>	<u>\$ 124,857</u>	<u>\$ 934,656</u>	<u>\$ 25,157</u>	<u>\$ 3,058</u>
\$ 165,000	\$ -0-	\$ 30,000	\$ 135,000	\$ 4,686	\$ 370
213,576	21,360	13,000	221,936	4,961	354
<u>\$ 378,576</u>	<u>\$ 21,360</u>	<u>\$ 43,000</u>	<u>\$ 356,936</u>	<u>\$ 9,647</u>	<u>\$ 724</u>

CITY OF UNDERWOOD
BOND AND NOTE MATURITIES
JUNE 30, 2017

General Obligation Bonds and Notes

Year Ending June 30,	Street Improvements Issued July 9, 2013		Land Acquisition Issued May 7, 2017	
	Interest Rate	Amount	Interest Rate	Amount
2018	2.82%	\$ 20,475	4.50%	\$ 172,535
2019	2.82%	21,056	--	-0-
2020	2.82%	21,654	--	-0-
2021	2.82%	22,269	--	-0-
2022	2.82%	22,901	--	-0-
2023	2.82%	23,766	--	-0-
2024	--	-0-	--	-0-
2025	--	-0-	--	-0-
2026	--	-0-	--	-0-
Total		\$ <u>132,121</u>		\$ <u>172,535</u>

See Accompanying Independent Auditor's Report.

CITY OF UNDERWOOD
BOND AND NOTE MATURITIES

JUNE 30, 2017

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		Total
	Interest Rate	Amount	Interest Rate	Amount	
2018	4.20%	\$ 60,000	2.00%	\$ 50,000	\$ 303,010
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	83,766
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		\$ <u>120,000</u>		\$ <u>510,000</u>	\$ <u>934,656</u>

CITY OF UNDERWOOD
BOND AND NOTE MATURITIES

JUNE 30, 2017

Sewer Revenue Notes

Year Ending June 30,	Sewer Revenue Note Issued January 31, 2012		SRF Loan Issued Oct 2, 2015		Total
	Interest Rate	Amount	Interest Rate	Amount	
2018	3.15%	\$ 30,000	2.00%	\$ 221,936	\$ 251,936
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		\$ <u>135,000</u>		\$ <u>221,936</u>	\$ <u>356,936</u>

CITY OF UNDERWOOD

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

FOR THE LAST TEN YEARS

	<u>2017</u>		<u>2016</u>		<u>2015</u>		<u>2014</u>		<u>2013</u>
Receipts:									
Property taxes	\$ 429,580	\$	397,379	\$	398,964	\$	323,669	\$	308,902
Tax increment financing	102,095		176,237		125,081		42,913		138,374
Other city taxes	107,384		134,138		140,485		108,381		95,905
License and permits	13,978		11,994		11,878		9,923		11,605
Use of money and property	605		498		501		324		1,002
Intergovernmental	213,109		219,049		192,023		186,090		200,434
Charges for service	30,579		31,096		44,131		33,198		25,223
Special assessments	-0-		-0-		-0-		-0-		-0-
Miscellaneous	16,558		10,153		10,282		12,288		30,462
	<u>16,558</u>		<u>10,153</u>		<u>10,282</u>		<u>12,288</u>		<u>30,462</u>
Total	\$ <u>913,888</u>	\$	<u>980,544</u>	\$	<u>923,345</u>	\$	<u>716,786</u>	\$	<u>811,907</u>
Disbursements:									
Operating:									
Public safety	\$ 50,691	\$	55,634	\$	552,605	\$	63,899	\$	66,461
Public works	137,895		130,636		190,581		99,147		145,866
Health and social services	-0-		-0-		-0-		-0-		-0-
Culture and recreation	26,001		29,457		30,051		32,767		24,346
Comm. and economic dev	66,081		149,503		124,644		70,619		309,896
General government	171,327		132,371		157,927		139,188		156,684
Debt service	150,014		180,125		114,678		91,903		118,839
Capital projects	172,535		-0-		-0-		163,939		-0-
	<u>172,535</u>		<u>-0-</u>		<u>-0-</u>		<u>163,939</u>		<u>-0-</u>
Total	\$ <u>774,544</u>	\$	<u>677,726</u>	\$	<u>1,170,486</u>	\$	<u>661,462</u>	\$	<u>822,092</u>

See accompanying independent auditor's report.

SCHEDULE 4

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$	313,228	\$ 304,106	\$ 293,877	\$ 270,827	\$ 256,042
	132,638	138,597	123,215	107,394	105,459
	104,829	83,453	70,550	90,339	77,247
	4,292	7,420	7,920	10,133	14,064
	778	1,459	1,592	6,600	16,071
	210,675	176,971	156,597	391,438	203,803
	21,858	29,557	14,424	16,255	10,954
	631	-0-	80	-0-	461
	<u>10,270</u>	<u>4,604</u>	<u>14,845</u>	<u>35,613</u>	<u>3,946</u>
\$	<u>799,199</u>	<u>746,167</u>	<u>683,100</u>	<u>928,599</u>	<u>688,047</u>
\$	85,024	\$ 159,372	\$ 244,484	\$ 48,252	\$ 63,655
	169,873	137,970	114,943	95,392	90,412
	-0-	-0-	-0-	-0-	-0-
	24,391	22,980	28,358	22,519	15,818
	155,806	128,010	137,592	147,032	160,643
	147,998	144,403	129,953	126,105	122,462
	124,397	137,599	127,722	107,177	98,114
	<u>-0-</u>	<u>82,859</u>	<u>-0-</u>	<u>372,950</u>	<u>249,091</u>
\$	<u>707,489</u>	<u>813,193</u>	<u>783,052</u>	<u>919,427</u>	<u>800,195</u>

**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.

October 27, 2017

Certified Public Accountant

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

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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, 2017, and the related notes to financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated October 27, 2017. 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 . . .

October 27, 2017

Page Two

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-17 and I-B-17 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 deficiency described in Part I of the accompanying Schedule of Findings as item I-C-17 to be a significant deficiency.

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, 2017 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 . . .

October 27, 2017
Page Three

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.

M. Lupfest Associates, CPA, P.C.

**CITY OF UNDERWOOD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2017**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES

I-A-17 Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements.

Condition – One individual in the City has control over the cash receipts listing, bank deposits and the posting of cash receipts to the cash receipts journal.

Cause – The City has two employees and procedures have not been designed to adequately segregate duties. The City Treasurer provides compensating controls through additional oversight of transactions and processes by reviewing bank deposits, statements and postings on a monthly basis.

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

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 continue to rely on our City Treasurer’s monthly supervision of account and transaction activity.

Conclusion - Response accepted.

**CITY OF UNDERWOOD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2017**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES (Continued)

I-B-17 Financial Reporting

Criteria - A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City's financial statements.

Condition – Two material omissions on the City's ledgers were transfers and the purchase of real estate. Adjustments were subsequently made by the City to properly report these amounts in the City's financial statements.

Cause – Policies have not been established and procedures have not been implemented to ensure that transfers are approved by Council resolution and recorded on the City's ledgers and that real estate purchases are properly recorded.

Effect – Lack of policies and procedures resulted in City employees not detecting the errors in the normal course of performing their assigned functions and material adjustments to the City's financial statements were necessary.

Recommendation – City employees may consider reviewing the Resolutions over the past several years to become acquainted with required transfers. Unusual transactions such as the real estate purchase financed with a line of credit pose a challenge to new clerks, but could have been resolved by contacting the auditor for advice.

Response – Reviewing the Resolutions of past years will aid in ensuring that transfers are not overlooked in the future.

Conclusion – Response accepted

**CITY OF UNDERWOOD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2017**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES (Continued)

I-C-17 Financial Reporting

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial reports on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City's financial reports filed with the State of Iowa.

Condition – 2016 Financial reports filed with the State of Iowa such as the Annual Financial Report and Annual Urban Renewal Report contained errors. The former under reported debt and the latter under reported disbursements and ending cash balances.

Cause – Policies have not been established and procedures have not been implemented to ensure that Financial reports filed with the State of Iowa are accurate and agree with the City's ledgers and the audited financial statements.

Effect – Errors in financial reporting occur when reports are not double checked to City ledgers or audited financial statements.

Recommendation – Because the audited financial statements are available before the annual reports are prepared, audited financial statements should be consulted when checking figures on reports filed with the State of Iowa.

Response – Suggestions to correct procedures during the audit were very helpful. Procedures will be implemented further to *detect*, *correct* and *prevent* such errors to financial reports filed with the State of Iowa.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**CITY OF UNDERWOOD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2017**

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-17 Certified Budget - Disbursements during the year ended June 30, 2017 did not exceed the amounts budgeted.
- II-B-17 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-17 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-17 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows.

Name, Title and Business Connection	Transaction Description	Amount
Robert Dos, City Council Member, Partner, Wickman Drywall	Drywalling	\$2,400

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

- II-E-17 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure coverage is adequate for current operations.
- II-F-17 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.
- II-G-17 Revenue Bonds and Notes - No instances of non-compliance with the revenue bond and note resolutions were noted.

**CITY OF UNDERWOOD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2017**

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

II-H-17 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

A monthly receipts and disbursements by fund was neither prepared nor published.

Although minutes and claims were presented timely for publication, minutes and claims were rarely published within fifteen days after the council meeting, if at all. The problem lies with the newspaper publisher, not the City.

The claims listing was omitted from the minute book and the website for two months. This was corrected during fieldwork.

Recommendation – A proper treasurer’s or clerk’s report format was provided for use in preparing a monthly receipts and disbursements by fund report for publication.

Response – We will prepare and publish a monthly receipts and disbursements by fund report.

Conclusion – Response accepted.

II-I-17 Tax Increment Financing - Chapter 403.19 of the Code of Iowa provides that a municipality may certify loans, advances, 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.

**CITY OF UNDERWOOD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2017**

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

II-J-17 Annual Urban Renewal Report - The annual urban renewal report was certified to the Iowa Department of Management on or before December 1, but it was never approved by City Council.

In addition, the following exceptions were noted:

The City's disbursements and ending cash balances of the Special Revenue, Urban Renewal Tax Increment Fund reported on the Levy Authority Summary do not agree with the City's general ledger or the audited financial statements for June 30, 2016.

Recommendation – The City should ensure amounts reported in the Annual Urban Renewal Report agree with City records. City Council should approve the Annual Urban Renewal Report by Resolution as done in years past.

Response – These items will be reported correctly on next year's report.

Conclusion – Response accepted.

