

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

JUNE 30, 2018

TABLE OF CONTENTS

| | | <u>Page</u> |
|--|-----------------|-------------|
| Officials | | 3 |
| Independent Auditor's Report | | 4 - 7 |
| Management's Discussion and Analysis | | 8 - 13 |
| Basic Financial Statements: | <u>Exhibit</u> | |
| Government-wide Financial Statements: | | |
| Cash Basis Statement of Activities and Net Position | A | 15 - 16 |
| Governmental Fund Financial Statements: | | |
| Statement of Cash Receipts, Disbursements and Changes in Cash Balances | B | 17 - 18 |
| Proprietary Fund Financial Statements: | | |
| Statement of Cash Receipts, Disbursements and Changes in Cash Balances | C | 19 |
| Notes to Financial Statements | | 21 - 38 |
| Other Information: | | |
| Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds | | 40 - 41 |
| Notes to Other Information - Budgetary Reporting | | 42 |
| Schedule of the City's Proportionate Share of the Net Pension Liability | | 43 |
| Schedule of City Contributions | | 44 |
| Notes to Other Information - Pension Liability | | 45 |
| Supplementary Information: | <u>Schedule</u> | |
| Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Non-major Governmental Funds | 1 | 47 |
| Schedule of Indebtedness | 2 | 48 - 49 |
| Bond and Note Maturities | 3 | 50 - 52 |
| Schedule of Receipts by Source and Disbursements By Function - All Governmental Fund Types | 4 | 53 - 54 |
| 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 <i>Government Auditing Standards</i> | | 56 - 58 |
| Schedule of Findings | | 59 - 65 |

CITY OF UNDERWOOD

OFFICIALS

(Before January 2018)

| <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 |

(After January 2018)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-----------------|----------------|---------------------|
| Dennis Bardsley | Mayor | January 2022 |
| Robert Dose | Mayor Pro-Tem | January 2020 |
| Todd Erwin | Council Member | January 2020 |
| Ed Freuck | Council Member | January 2020 |
| Jim Pingel | Council Member | January 2022 |
| JW Tiarks | Council Member | January 2022 |
| Cindy Sorlien | City Clerk | Indefinite |
| Lea Voss | City Treasurer | Appointed yearly |
| Matthew Woods | City Attorney | Indefinite |



May 1, 2019

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, 2018, 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 . . .

Monte Broeckelman
Certified
Public Accountant

Harlan Office:

2309 B Chatburn Ave.
P.O. Box 551
Harlan, IA 51537-0551

Ph. (712) 755-3366
Fax (712) 755-3343

Avoca Office:

160 S. Elm Street
Avoca, IA 51521

Ph. (712) 343-2379

monte@broeckelmancpa.com

Licensed in:

Iowa
Kansas

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, 2018, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

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

Continued . .

To the Honorable Mayor and
Members of the City Council:

Other Matters

Supplementary and Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Underwood's basic financial statements. I previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the eight years ended June 30, 2017 (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 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.

May 1, 2019
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 May 1, 2019 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.

Bruckelmaier & Associates, 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, 2018. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2018 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities decreased 10%, or approximately \$108,900, from fiscal year 2017 to fiscal year 2018. The decrease was primarily due to note proceeds received in the prior year.

Disbursements of the City's governmental activities decreased 13%, or approximately \$103,200 in fiscal year 2018 from fiscal year 2017. Capital projects, community and economic development, and public works decreased approximately \$172,500, \$72,000, and \$58,500, respectively.

The City's total cash basis net position increased 13% or approximately \$295,500, from June 30, 2017 to June 30, 2018. Of this amount, the cash basis net position of the governmental activities increased approximately \$278,700 and the cash basis net position of the business type activities increased approximately \$16,800.

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 \$1.7 million to approximately \$2.0 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

| <u>Changes in Cash Basis Net Position of Governmental Activities</u> | | |
|--|---|---|
| | <u>Year Ended June 30, 2018</u> | <u>Year Ended June 30, 2017</u> |
| Receipts: | | |
| Program receipts: | | |
| Charges for services | \$ 65,916 | \$ 56,476 |
| Operating grants, contributions and restricted interest | 224,346 | 214,214 |
| Capital grants, contributions and restricted interest | 2,000 | 2,000 |
| General receipts: | | |
| Property tax | 429,125 | 429,580 |
| Tax increment financing | 134,076 | 102,095 |
| Local option sales tax | 109,829 | 106,706 |
| Hotel motel tax | 6,044 | 678 |
| Miscellaneous receipts | 6,185 | 2,139 |
| Note Proceeds | -0- | 172,535 |
| Total receipts | <u>977,521</u> | <u>1,086,423</u> |
| Disbursements: | | |
| Public safety | 85,007 | 50,691 |
| Public works | 79,344 | 137,895 |
| Culture and recreation | 36,676 | 26,001 |
| Community and economic development | 138,185 | 66,081 |
| General government | 175,588 | 171,327 |
| Debt service | 156,558 | 150,014 |
| Capital projects | -0- | 172,535 |
| Total disbursements | <u>671,358</u> | <u>774,544</u> |
| Change in cash basis net position before transfers | 306,163 | 311,879 |
| Transfers, net | <u>(27,458)</u> | <u>(30,571)</u> |
| Change in cash basis net position | 278,705 | 281,308 |
| Cash basis net position, beginning of year, as restated | <u>1,728,821</u> | <u>1,447,513</u> |
| Cash basis net position, end of year | <u>\$ 2,007,526</u> | <u>\$ 1,728,821</u> |

The City's total receipts for governmental activities decreased 10%, or approximately \$108,900. The total cost of all programs and services decreased approximately \$103,200 or 13%, with no new programs added this year.

Governmental program receipts increased approximately \$19,500 or 7% and governmental general receipts decreased approximately \$128,500 or 16%, primarily due to note proceeds received in the prior fiscal year. The significant decrease to governmental disbursements was the result of the purchase of the 625 Highway South property in the prior fiscal year. Community and economic development activities increased approximately \$72,000 and public safety activities increased approximately \$34,300.

The cost of all governmental activities this year was approximately \$671,300 compared to approximately \$774,500 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 \$379,000 because some of the cost was paid by those directly benefited from the programs (\$65,916) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$226,346). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2018 from approximately \$272,700 to \$292,300, principally due to increases in operating grants, contributions and restricted interest.

| Changes in Cash Basis Net Position of Business Type Activities | | |
|--|--------------------------------|--------------------------------|
| | Year Ended June 30, 2018 | Year Ended June 30, 2017 |
| Receipts: | | |
| Program receipts: | | |
| Charges for services and sales: | | |
| Sewer | \$ 163,204 | \$ 156,514 |
| Garbage | 46,823 | 45,962 |
| Operating grants, contributions and restricted interest | -0- | -0- |
| Capital grants, contributions and restricted interest | -0- | 22,768 |
| General receipts: | | |
| Miscellaneous | 306 | -0- |
| Restricted interest | 35 | -0- |
| Note proceeds | -0- | 21,361 |
| Total receipts | <u>210,368</u> | <u>246,605</u> |
| Disbursements: | | |
| Sewer | 172,432 | 152,815 |
| Garbage | 48,609 | 34,950 |
| Total disbursements | <u>221,041</u> | <u>187,765</u> |
| Change in cash basis net position before transfers | (10,673) | 58,840 |
| Transfers, net | <u>27,458</u> | <u>30,571</u> |
| Change in cash basis net position | 16,785 | 89,411 |
| Cash basis net position, beginning of year, as restated | <u>549,573</u> | <u>460,162</u> |
| Cash basis net position, end of year | <u>\$ 566,358</u> | <u>\$ 549,573</u> |

Total business type activities receipts for the fiscal year were approximately \$237,800 compared to approximately \$277,100 last year. Disbursements increased approximately \$33,300 primarily due to sewer lift station repairs. The cash basis net position increased approximately \$16,700 from the prior year, or 3.0%.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Underwood completed the year, its governmental funds reported a combined fund balance of \$2,007,526, an increase of \$278,705 from last year's total of \$1,728,821.

The General Fund cash balance increased \$91,694 from the prior year to \$1,140,760 at year end. General Fund receipts increased approximately \$26,600 and disbursements increased approximately \$101,000.

The Special Revenue, Road Use Tax Fund cash balance increased by \$97,067 to \$549,901. \$82,371 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 \$57,211 to \$245,005 at year end.

The Special Revenue, Local Option Sales Tax Fund, receipted \$109,829 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 increased by \$3,209 from the prior year to \$11,469. Principal and interest payments were \$156,558, tax receipts were \$53,767, transfers from the general fund and the road use tax fund were \$64,000 and \$42,000, respectively.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise Fund, Sewer Fund cash balance increased by \$18,571 to \$514,950 from the prior year. Overall, Sewer Fund receipts decreased approximately \$60,000 primarily due to grant and loan proceeds associated with the sanitary sewer lift and main project in the prior year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not amend the budget. The City's receipts were approximately \$9,400 less than budgeted primarily due to receiving less intergovernmental receipts than anticipated.

The City's disbursements were approximately \$387,700 less than amounts budgeted. For the year ended June 30, 2018, disbursements exceeded the budget in the debt service and business type activities functions.

DEBT ADMINISTRATION

At June 30, 2018, the City had \$1,118,568 in bonds and notes outstanding, compared to \$1,292,057 last year, as shown below.

| Outstanding Debt at Year-End | | | | |
|------------------------------|--------------------------------|-----------|--------------------------------|-----------|
| | Year Ended June 30, 2018 | | Year Ended June 30, 2017 | |
| General obligation notes | \$ | 804,632 | \$ | 935,121 |
| Sewer revenue notes | | 313,936 | | 356,936 |
| Total | \$ | 1,118,568 | \$ | 1,292,057 |

Outstanding principal was reduced by \$173,489. Interest costs for the fiscal year were \$34,519.

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 \$804,632 is significantly below its constitutional debt limit of approximately \$2.9 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 2019 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 2019. The mill levy increased \$0.33709 from \$12.19866 to \$12.53575. Disbursements are expected to increase approximately \$216,100. Receipts are expected to increase by approximately \$86,600.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$212,300 by the close of fiscal year 2019.

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 Cindy Sorlien, City Clerk, or Mayor Dennis Bardsley, at 241 3rd 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, 2018

| | Disbursements | Charges for Services | Program Receipts | |
|------------------------------------|-------------------|----------------------|---|---|
| | | | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Functions / Programs: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 85,007 | \$ 49,311 | \$ 102,311 | \$ -0- |
| Public works | 79,344 | 20 | 117,000 | -0- |
| Cultures and recreation | 36,676 | 300 | -0- | 2,000 |
| Community and economic development | 138,185 | -0- | 52 | -0- |
| General government | 175,588 | 16,285 | 4,983 | -0- |
| Debt service | 156,558 | -0- | -0- | -0- |
| Capital Projects | -0- | -0- | -0- | -0- |
| Total governmental activities | <u>671,358</u> | <u>65,916</u> | <u>224,346</u> | <u>2,000</u> |
| Business type activities: | | | | |
| Sewer | 172,432 | 163,545 | -0- | -0- |
| Garbage | 48,609 | 46,823 | -0- | -0- |
| Total business type activities | <u>221,041</u> | <u>210,368</u> | <u>-0-</u> | <u>-0-</u> |
| Total | \$ <u>892,399</u> | \$ <u>276,284</u> | \$ <u>224,346</u> | \$ <u>2,000</u> |

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

Change in cash basis net assets

Cash basis net assets, beginning of year, as restated

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

| Net (Disbursements), Receipts and Changes in Net Position | | |
|---|-----------------------------|---------------------|
| Governmental Activities | Business Type Activities | Total |
| \$ 66,615 | \$ -0- | \$ 66,615 |
| 37,676 | -0- | 37,676 |
| (34,376) | -0- | (34,376) |
| (138,133) | -0- | (138,133) |
| (154,320) | -0- | (154,320) |
| (156,558) | -0- | (156,558) |
| -0- | -0- | -0- |
| <u>(379,096)</u> | <u>-0-</u> | <u>(379,096)</u> |
| -0- | (8,887) | (8,887) |
| -0- | <u>(1,786)</u> | <u>(1,786)</u> |
| -0- | <u>(10,673)</u> | <u>(10,673)</u> |
| (379,096) | (10,673) | (389,769) |
| 375,358 | -0- | 375,358 |
| 53,767 | -0- | 53,767 |
| 134,076 | -0- | 134,076 |
| 109,829 | -0- | 109,829 |
| 6,185 | -0- | 6,185 |
| 6,044 | -0- | 6,044 |
| <u>(27,458)</u> | <u>27,458</u> | <u>-0-</u> |
| <u>657,801</u> | <u>27,458</u> | <u>685,259</u> |
| 278,705 | 16,785 | 295,490 |
| <u>1,728,821</u> | <u>549,573</u> | <u>2,278,394</u> |
| \$ <u>2,007,526</u> | \$ <u>566,358</u> | \$ <u>2,573,884</u> |
| \$ 549,901 | \$ -0- | \$ 549,901 |
| 245,005 | -0- | 245,005 |
| 11,469 | -0- | 11,469 |
| 60,391 | 2,850 | 63,241 |
| 2,000 | -0- | 2,000 |
| <u>1,138,760</u> | <u>563,508</u> | <u>1,702,268</u> |
| \$ <u>2,007,526</u> | \$ <u>566,358</u> | \$ <u>2,573,884</u> |

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, 2018

| | General | Special Revenue | |
|--|---------------------|-------------------|-----------------------------|
| | | Road Use Tax | Urban Renewal Tax Increment |
| Receipts: | | | |
| Property tax | \$ 283,118 | \$ -0- | \$ -0- |
| Tax increment financing | -0- | -0- | 134,076 |
| Other city tax | 6,185 | -0- | -0- |
| Licenses and permits | 20,014 | -0- | -0- |
| Use of money and property | 7,659 | -0- | 52 |
| Intergovernmental | 101,595 | 117,000 | -0- |
| Charges for services | 30,443 | -0- | -0- |
| Miscellaneous | 21,523 | 20 | -0- |
| Total receipts | <u>470,537</u> | <u>117,020</u> | <u>134,128</u> |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | 84,807 | -0- | -0- |
| Public works | 11,044 | 60,324 | -0- |
| Culture and recreation | 27,653 | -0- | -0- |
| Community and economic development | 60,660 | -0- | 76,917 |
| General government | 130,679 | -0- | -0- |
| Debt service | -0- | -0- | -0- |
| Capital projects | -0- | -0- | -0- |
| Total disbursements | <u>314,843</u> | <u>60,324</u> | <u>76,917</u> |
| Excess (deficiency) of receipts over (under) disbursements | 155,694 | 56,696 | 57,211 |
| Other financing sources (uses): | | | |
| Operating transfers in | -0- | 82,371 | -0- |
| Operating transfers out | (64,000) | (42,000) | -0- |
| Total other financing sources (uses) | <u>(64,000)</u> | <u>40,371</u> | <u>-0-</u> |
| Net change in cash balances | 91,694 | 97,067 | 57,211 |
| Cash balances, beginning of year, as restated | <u>1,049,066</u> | <u>452,834</u> | <u>187,794</u> |
| Cash balances, end of year | \$ <u>1,140,760</u> | \$ <u>549,901</u> | \$ <u>245,005</u> |
| Cash Basis Fund Balances | | | |
| Restricted for: | | | |
| Urban renewal purposes | \$ -0- | \$ -0- | \$ 245,005 |
| Debt Service | -0- | -0- | -0- |
| Streets | -0- | 549,901 | -0- |
| Other purposes | -0- | -0- | -0- |
| Assigned for trails | 2,000 | -0- | -0- |
| Unassigned | 1,138,760 | -0- | -0- |
| Total cash basis fund balances | \$ <u>1,140,760</u> | \$ <u>549,901</u> | \$ <u>245,005</u> |

EXHIBIT B

| | Local Option Sales Tax | Debt Service | Other Non-major Governmental Funds | Total |
|----|---------------------------|----------------------|---|-------------------------|
| \$ | -0- | \$ 53,767 | \$ 92,240 | \$ 429,125 |
| | -0- | -0- | -0- | 134,076 |
| | 109,829 | -0- | -0- | 116,014 |
| | -0- | -0- | -0- | 20,014 |
| | -0- | -0- | -0- | 7,711 |
| | -0- | -0- | -0- | 218,595 |
| | -0- | -0- | -0- | 30,443 |
| | -0- | -0- | -0- | 21,543 |
| | <u>109,829</u> | <u>53,767</u> | <u>92,240</u> | <u>977,521</u> |
| | -0- | -0- | 200 | 85,007 |
| | -0- | -0- | 7,976 | 79,344 |
| | -0- | -0- | 9,023 | 36,676 |
| | -0- | -0- | 608 | 138,185 |
| | -0- | -0- | 44,909 | 175,588 |
| | -0- | 156,558 | -0- | 156,558 |
| | -0- | -0- | -0- | -0- |
| | <u>-0-</u> | <u>156,558</u> | <u>62,716</u> | <u>671,358</u> |
| | 109,829 | (102,791) | 29,524 | 306,163 |
| | -0- | 106,000 | -0- | 188,371 |
| | <u>(109,829)</u> | <u>-0-</u> | <u>-0-</u> | <u>(215,829)</u> |
| | <u>(109,829)</u> | <u>106,000</u> | <u>-0-</u> | <u>(27,458)</u> |
| | -0- | 3,209 | 29,524 | 278,705 |
| | -0- | 8,260 | 30,867 | 1,728,821 |
| \$ | <u><u>-0-</u></u> | <u><u>11,469</u></u> | <u><u>60,391</u></u> | <u><u>2,007,526</u></u> |
| \$ | -0- | \$ -0- | \$ -0- | \$ 245,005 |
| | -0- | 11,469 | -0- | 11,469 |
| | -0- | -0- | -0- | 549,901 |
| | -0- | -0- | 60,391 | 60,391 |
| | -0- | -0- | -0- | 2,000 |
| | -0- | -0- | -0- | 1,138,760 |
| \$ | <u><u>-0-</u></u> | <u><u>11,469</u></u> | <u><u>60,391</u></u> | <u><u>2,007,526</u></u> |

See notes to financial statements.

CITY OF UNDERWOOD

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

| | Enterprise Funds | | |
|---|-------------------|------------------|-------------------|
| | Sewer | Garbage | Total |
| Operating receipts: | | | |
| Charges for services | \$ 163,204 | \$ 46,823 | \$ 210,027 |
| Miscellaneous | 306 | -0- | 306 |
| Total receipts | <u>163,510</u> | <u>46,823</u> | <u>210,333</u> |
| Operating disbursements: | | | |
| Business type activities | <u>120,981</u> | <u>48,609</u> | <u>169,590</u> |
| Total disbursements | <u>120,981</u> | <u>48,609</u> | <u>169,590</u> |
| Operating income (loss) | 42,529 | (1,786) | 40,743 |
| Non-operating receipts (disbursements): | | | |
| Interest | 35 | -0- | 35 |
| Grant | -0- | -0- | -0- |
| Debt service | <u>(51,451)</u> | <u>-0-</u> | <u>(51,451)</u> |
| Total non-operating receipts (disbursements) | <u>(51,416)</u> | <u>-0-</u> | <u>(51,416)</u> |
| Excess (deficiency) of receipts over disbursements | (8,887) | (1,786) | (10,673) |
| Other financing sources (uses): | | | |
| Loan proceeds | -0- | -0- | -0- |
| Operating transfer in | <u>27,458</u> | <u>-0-</u> | <u>27,458</u> |
| Other financing sources (uses) | <u>27,458</u> | <u>-0-</u> | <u>27,458</u> |
| Net change in cash balance | 18,571 | (1,786) | 16,785 |
| Cash balances, beginning of year, as restated | <u>496,379</u> | <u>53,194</u> | <u>549,573</u> |
| Cash balances, end of year | \$ <u>514,950</u> | \$ <u>51,408</u> | \$ <u>566,358</u> |
| Cash Basis Fund Balances | | | |
| Restricted | | | |
| Sewer sinking | \$ 2,850 | \$ -0- | \$ 2,850 |
| Unrestricted | <u>512,100</u> | <u>51,408</u> | <u>563,508</u> |
| Total cash basis fund balances | \$ <u>514,950</u> | \$ <u>51,408</u> | \$ <u>566,358</u> |

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

(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, 2018

(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, 2018

(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, 2018

(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, 2018, disbursements exceeded amounts budgeted in the debt service and business type activity functions.

**CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2018, 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 \$2,573,884 as of June 30, 2018.

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, 2018**

(3) Bonds and Notes Payable

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

| Year Ending June 30, | General Obligation Bonds and Notes | | Revenue Notes | | Total | |
|----------------------------|---------------------------------------|------------------|-------------------|------------------|---------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2019 | \$ 152,013 | \$ 22,200 | \$ 43,000 | \$ 7,250 | \$ 195,013 | \$ 29,450 |
| 2020 | 93,112 | 17,481 | 43,000 | 6,045 | 136,112 | 23,526 |
| 2021 | 94,244 | 15,248 | 43,000 | 4,840 | 137,244 | 20,088 |
| 2022 | 95,411 | 12,979 | 28,000 | 3,635 | 123,411 | 16,614 |
| 2023 | 101,872 | 10,106 | 13,000 | 3,139 | 114,872 | 13,245 |
| 2024 | 78,628 | 7,551 | 13,000 | 2,879 | 91,628 | 10,430 |
| 2025 | 79,214 | 5,315 | 13,000 | 2,618 | 92,214 | 7,933 |
| 2026 | 79,818 | 3,060 | 13,000 | 2,359 | 92,818 | 5,419 |
| 2027 | 20,441 | 788 | 13,000 | 2,098 | 33,441 | 2,886 |
| 2028 | 9,879 | 154 | 13,000 | 1,839 | 22,879 | 1,993 |
| 2029 | -0- | -0- | 13,000 | 1,579 | 13,000 | 1,579 |
| 2030 | -0- | -0- | 13,000 | 1,318 | 13,000 | 1,318 |
| 2031 | -0- | -0- | 13,000 | 1,059 | 13,000 | 1,059 |
| 2032 | -0- | -0- | 13,000 | 799 | 13,000 | 799 |
| 2033 | -0- | -0- | 13,000 | 539 | 13,000 | 539 |
| 2034 | -0- | -0- | 13,000 | 279 | 13,000 | 279 |
| 2035 | -0- | -0- | 936 | 18 | 936 | 18 |
| Total | \$ 804,632 | \$ 94,882 | \$ 313,936 | \$ 42,293 | \$ 1,118,568 | \$ 137,175 |

General Obligation Street Improvement Note, 2013

On July 9, 2013, the City issued a 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 2015

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.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

(3) Bonds and Notes Payable (Continued)

Land Acquisition Note

On August 23, 2017, the City issued a \$173,000 general obligation property acquisition note with a local bank. The note bears interest at 3.12%, requires semi-annual principal and interest payments of approximately \$10,614, and matures June 1, 2028.

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 installments of interest and semi-annual installments of principal of \$15,000, 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 \$39,000 by June 30, 2018. 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 2 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 \$2,898 for family coverage. For the year ended June 30, 2018, the City contributed \$16,354 and the plan members eligible for benefits contributed \$5,451.

**CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

(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, 2018

(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 2018, 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, 2018 were \$10,302.

Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2018, the City reported a liability of \$120,284 for its proportionate share of the net pension liability. The collective net pension liability was measured as of June 30, 2017, 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, 2017, the City's proportion was 0.001822%, which was an increase of 0.000007% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018 the City's pension expense, deferred outflows and deferred inflows totaled \$16,545, \$43,844, and \$24,138, respectively.

There were no non-employer contributing entities to IPERS.

**CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience study dated March 24, 2017.

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> |
|------------------------|-------------------------|---|
| Domestic equity | 24.0% | 6.25% |
| International equity | 16.0 | 6.71 |
| Core plus fixed income | 27.0 | 2.25 |
| Public credit | 3.5 | 3.46 |
| Public real assets | 7.0 | 3.27 |
| Cash | 1.0 | (0.31) |
| Private equity | 11.0 | 11.15 |
| Private real assets | 7.5 | 4.18 |
| Private credit | 3.0 | 4.25 |
| Total | 100% | |

**CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

(5) Pension Plan (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed 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 7.00%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.00%) or 1 percentage-point higher (8.00%) than the current rate.

| | 1% Decrease (6.00%) | Discount Rate (7.00%) | 1% Increase (8.00%) |
|--|---------------------------|-----------------------------|---------------------------|
| City's proportionate share of the net pension liability | \$198,179 | \$120,284 | \$54,836 |

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, 2018**

(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. At June 30, 2018, City employees had accumulated -0- earned vacation hours and the City's liability is reported as follows:

| Type of Benefit | Amount June 30, 2018 |
|-----------------|--|
| Vacation | \$ <u style="border-bottom: 3px double black;">-0-</u> |

(7) Related Party Transactions

Business transactions between the City and City officials during the year ended June 30, 2018 totaled \$1,376.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2018, is as follows:

| Transfer to | Transfer from | Amount |
|----------------------------|--------------------------------|--|
| Debt Service | General Fund | \$ 64,000 |
| Debt Service | Special Revenue - Road Use | 42,000 |
| Special Revenue - Road Use | Special Revenue - Local Option | 82,371 |
| Enterprise – Sewer | Special Revenue - Local Option | <u>27,458</u> |
| Total | | <u style="border-bottom: 3px double black;">\$ 215,829</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, 2018

(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, 2018 were \$25,650.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

**CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

(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 \$7,126. 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, 2018

(10) Urban Renewal Tax Increment Financing Agreements

Field Crest Development Agreement - Phase One

On December 10, 2003, the City entered into a development agreement with McKee Contracting with respect to the development of the Field Crest Phase One housing subdivision, including the construction of public infrastructure and new housing units within the Urban Renewal Area. The original developer started but did not complete the performance obligations under the original agreement and the original agreement was rendered null and void.

On November 23, 2010, the City entered into a development agreement with Shiloh Properties, LLC which had acquired the property and the rights to undertake its development from McKee Contracting. Shiloh Properties requested, and the City agreed to provide, tax increment financing assistance to the developer to assist in paying the cost of the project improvements such as street repairs and storm sewer/drainage infrastructure. The developer also agreed to market the lots comprising the property and to continue promoting the construction of homes thereon.

Per terms of the agreement, the developer was required to certify to the City by November 1 of each year the estimated amount of incremental property taxes which would be paid with respect to the taxable incremental property valuation for the property in the fiscal year immediately following such certification. The City agreed to make 12 semi-annual economic development tax increment payments to the developer over six years or until such earlier time as total payments equal to \$210,000 have been made. Each payment was subject to annual appropriation by the City Council and required a 35.1% Low and Moderate Income Set Aside deducted from the payment amount.

Per terms of the agreement, the Low and Moderate Set Aside amount shall be retained by the City for use in any lawful purpose of the City, including the provision of assistance to low and moderate income families, pursuant to Section 403.22 of the Code of Iowa. The developer may apply to the City for all or a portion of the funds set aside assistance to low and moderate income families, provided the developer can document to the satisfaction of the City that housing units which are located on the property are occupied by families which meet the required income limits of state law. The City reserves the right to allocate funds accumulated through the Low and Moderate Set Aside Amount in any lawful manner of its choosing.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

Field Crest Development Agreement - Phase Three

On April 8, 2014, the City entered into a development agreement with Shiloh Properties, LLC for the construction of single-family housing units and public infrastructure such as street improvements, landscaping and grading, and other infrastructure improvements within the Urban Renewal Area. The developer requested, and the City agreed to provide, tax increment financing assistance to the developer to assist in paying the cost of the infrastructure project.

Per terms of the agreement, the developer was required to certify to the City by November 1 of each year the estimated amount of incremental property taxes which would be paid with respect to the taxable incremental property valuation for the property in the fiscal year immediately following such certification. The City agreed to make 28 semi-annual economic development tax increment payments over fourteen years to the developer with total payments not to exceed the lesser of \$440,000 or the demonstrated infrastructure costs. All payments are subject to annual appropriation by City Council and required a 15% Low and Moderate Income Set Aside Amount. The Iowa Economic Development Authority approved the 15% Set Aside Percentage, reduced from 31.5%, for such projects in Pottawattamie County.

Per terms of the agreement, the Low and Moderate Set Aside amount shall be retained by the City for use in any lawful purpose of the City, including the provision of assistance to low and moderate income families, pursuant to Section 403.22 of the Code of Iowa. The developer may apply to the City for all or a portion of the funds set aside assistance to low and moderate income families, provided the developer can document to the satisfaction of the City that housing units which are located on the property are occupied by families which meet the required income limits of state law. The City reserves the right to allocate funds accumulated through the Low and Moderate Set Aside Amount in any lawful manner of its choosing.

Field Crest Development Agreement - Phase Two

On August 22, 2017, the City entered into a development agreement with Shiloh Properties, LLC to develop a residential subdivision including the construction of public infrastructure improvements within the Urban Renewal Area. The developer requested, and the City agreed to provide, tax increment financing assistance to the developer to assist in paying the cost of the infrastructure project.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

Field Crest Development Agreement - Phase Two (Continued)

Per terms of the agreement, the developer is required to certify to the City by November 1 of each year the estimated amount of incremental property taxes which would be paid with respect to the taxable incremental property valuation for the property in the fiscal year immediately following such certification. The City agreed to make 30 semi-annual economic development tax increment payments over fifteen years to the developer with total payments not to exceed the lesser of \$902,000 or the demonstrated infrastructure costs. All payments are subject to annual appropriation by City Council and required a 15% Low and Moderate Income Set Aside Amount. The Iowa Economic Development Authority approved the 15% Set Aside Percentage, reduced from 31.5%, for such projects in Pottawattamie County.

Per terms of the agreement, the Low and Moderate Set Aside amount shall be retained by the City for use in any lawful purpose of the City, including the provision of assistance to low and moderate income families, pursuant to Section 403.22 of the Code of Iowa. The developer may apply to the City for all or a portion of the funds set aside assistance to low and moderate income families, provided the developer can document to the satisfaction of the City that housing units which are located on the property are occupied by families which meet the required income limits of state law. The City reserves the right to allocate funds accumulated through the Low and Moderate Set Aside Amount in any lawful manner of its choosing.

For the year ended June 30, 2018, the City rebated \$26,480 of incremental taxes to Shiloh Properties LLC.

Tax Incremental Finance Agreement with Jack Links, Inc.

In December 2016, the City requested an annual appropriation from Pottawattamie County to collect the maximum allowable incremental taxes for the Jack Links TIF District. For the year ended June 30, 2018, the City received \$66,429, and rebated to Jack Links, Inc. \$50,436 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, 2018 was \$16,048.

The City has modified an agreement with M & K Mills Tree Service, Inc. for solid waste collection at a cost of \$12.50, \$6.00 for an extra container and \$95.00 for container replacement.

**CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

(12) Tax Abatements

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax receipts to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

City Tax Abatements

The City provides tax abatements for urban renewal and economic development projects with tax increment financing as provided for in Chapters 15A and 403 of the Code of Iowa. For these types of projects, the City enters into agreements with developers which require the City, after developers meet the terms of the agreements, to rebate a portion of the property tax paid by the developers, to pay the developers an economic development grant or pay the developers a predetermined dollar amount. No other commitments were made by the City as part of these agreements.

For the year ended June 30, 2018, the City abated \$23,398 of property tax under urban renewal and economic development agreements.

(13) Restatement of Prior Year Balances

A material overstatement of the City’s checking account balance required an adjustment to the prior year fund balances as follows:

| Fund | As Previously Reported | Adjust- ment | As Restated |
|-----------------------|------------------------------|-----------------|------------------|
| General | \$ 1,047,995 | \$ 1,071 | \$ 1,049,066 |
| Urban Renewal TIF | 277,183 | (89,389) | 187,794 |
| Employee Benefit Fund | 26,455 | 1,448 | 27,903 |
| Sewer Fund | 495,648 | 731 | 496,379 |
| Garbage Fund | 53,289 | (95) | 53,194 |
| Total | <u>1,900,570</u> | <u>(86,234)</u> | <u>1,814,366</u> |

The material overstatement of the City’s checking account balance was due to improper reconciliation procedures as explained in the Schedule of Findings as Item I-C-18.

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, 2018

| | Governmental Funds Actual | Proprietary Funds Actual |
|--|---------------------------------|--------------------------------|
| Receipts: | | |
| Property tax | \$ 429,125 | \$ -0- |
| Tax increment financing | 134,076 | -0- |
| Other city tax | 116,014 | -0- |
| Licenses and permits | 20,014 | -0- |
| Use of money and property | 7,711 | 35 |
| Intergovernmental | 218,595 | -0- |
| Charges for services | 30,443 | 210,027 |
| Special assessments | -0- | -0- |
| Miscellaneous | 21,543 | 306 |
| Total receipts | <u>977,521</u> | <u>210,368</u> |
| Disbursements: | | |
| Public safety | 85,007 | -0- |
| Public works | 79,344 | -0- |
| Health and social services | -0- | -0- |
| Culture and recreation | 36,676 | -0- |
| Community and economic development | 138,185 | -0- |
| General government | 175,588 | -0- |
| Debt service | 156,558 | -0- |
| Capital projects | -0- | -0- |
| Business type | -0- | 221,041 |
| Total disbursements | <u>671,358</u> | <u>221,041</u> |
| Excess (deficiency) of receipts over (under) disbursements | 306,163 | (10,673) |
| Other financing sources, net | <u>(27,458)</u> | <u>27,458</u> |
| Excess (deficiency) of receipts and other financing sources | 278,705 | 16,785 |
| Balance beginning of year, as restated | <u>1,728,821</u> | <u>549,573</u> |
| Balance end of year | <u>\$ 2,007,526</u> | <u>\$ 566,358</u> |

See Accompanying Independent Auditor's Report.

| | Total | Budgeted Amounts | | Variance Favorable (Unfavorable) |
|----|-------------------------|------------------|-------------------------|--|
| | | Original & Final | | |
| \$ | 429,125 | \$ | 411,180 | \$ 17,945 |
| | 134,076 | | 131,396 | 2,680 |
| | 116,014 | | 112,752 | 3,262 |
| | 20,014 | | 7,355 | 12,659 |
| | 7,746 | | 1,250 | 6,496 |
| | 218,595 | | 333,328 | (114,733) |
| | 240,470 | | 200,000 | 40,470 |
| | -0- | | -0- | -0- |
| | 21,849 | | -0- | 21,849 |
| | <u>1,187,889</u> | | <u>1,197,261</u> | <u>(9,372)</u> |
| | 85,007 | | 103,442 | 18,435 |
| | 79,344 | | 200,100 | 120,756 |
| | -0- | | -0- | -0- |
| | 36,676 | | 57,090 | 20,414 |
| | 138,185 | | 179,604 | 41,419 |
| | 175,588 | | 199,115 | 23,527 |
| | 156,558 | | 156,146 | (412) |
| | -0- | | 210,000 | 210,000 |
| | 221,041 | | 174,647 | (46,394) |
| | <u>892,399</u> | | <u>1,280,144</u> | <u>387,745</u> |
| | 295,490 | | (82,883) | 378,373 |
| | <u>-0-</u> | | <u>-0-</u> | <u>-0-</u> |
| | 295,490 | | (82,883) | 378,373 |
| | <u>2,278,394</u> | | <u>2,278,394</u> | <u>-0-</u> |
| \$ | <u><u>2,573,884</u></u> | \$ | <u><u>2,195,511</u></u> | \$ <u><u>378,373</u></u> |

CITY OF UNDERWOOD

**NOTES TO OTHER INFORMATION -
BUDGETARY REPORTING**

JUNE 30, 2018

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. The budget was not amended during the year.

During the year ended June 30, 2018, disbursements exceeded amounts budgeted in the debt service and business type activities functions.

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

**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST FOUR FISCAL YEARS**

OTHER INFORMATION

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|-------------|-------------|
| City's proportion of the net pension liability | .001822% | .001815% | .001788% | .001980% |
| City's proportionate share of the net pension liability | \$ 120,284 | \$ 113,205 | \$ 88,912 | \$ 80,214 |
| City's covered-employee payroll | \$ 115,360 | \$ 137,512 | \$ 129,099 | \$ 123,159 |
| City's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 104.3% | 82.32% | 68.87% | 65.13% |
| Plan fiduciary net position as a percentage of the total pension liability | 82.21% | 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 FOUR FISCAL YEARS**

OTHER INFORMATION

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|------------------|------------------|------------------|------------------|
| Statutorily required contribution | \$ 10,302 | \$ 12,280 | \$ 11,529 | \$ 10,998 |
| Contributions in relation to the statutorily required contribution | \$ <u>10,302</u> | \$ <u>12,280</u> | \$ <u>11,541</u> | \$ <u>10,975</u> |
| Contribution deficiency (excess) | \$ <u>-0-</u> | \$ <u>-0-</u> | \$ <u>(12)</u> | \$ <u>23</u> |
| City's covered-employee payroll | \$ 115,360 | \$ 137,512 | \$ 129,099 | \$ 123,159 |
| Contributions as a percentage of covered-employee payroll | 8.93% | 8.93% | 8.93% | 8.93% |

See accompanying independent auditor's report.

CITY OF UNDERWOOD
NOTES TO OTHER INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2018

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.

Changes of assumptions:

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

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

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- 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, 2018

| | Special Revenue | | |
|--|-----------------|-----------|-----------|
| | Employee | | Total |
| | Benefits | Insurance | |
| Receipts: | | | |
| Property tax | \$ 63,135 | \$ 29,105 | \$ 92,240 |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | 200 | -0- | 200 |
| Public works | 7,976 | -0- | 7,976 |
| Culture and recreation | 9,023 | -0- | 9,023 |
| Community and economic development | 608 | -0- | 608 |
| General government | 19,259 | 25,650 | 44,909 |
| Total disbursements | 37,066 | 25,650 | 62,716 |
| Excess (deficiency) of receipts over (under) disbursements | 26,069 | 3,455 | 29,524 |
| 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 | 26,069 | 3,455 | 29,524 |
| Cash balances beginning of year, as restated | 27,903 | 2,964 | 30,867 |
| Cash balances end year | \$ 53,972 | \$ 6,419 | \$ 60,391 |
| Cash Basis Fund Balances | | | |
| Restricted for other purposes | \$ 53,972 | \$ 6,419 | \$ 60,391 |
| Total cash basis fund balances | \$ 53,972 | \$ 6,419 | \$ 60,391 |

See Accompanying Independent Auditor's Report.

CITY OF UNDERWOOD
SCHEDULE OF INDEBTEDNESS
JUNE 30, 2018

| <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, Series 2009 | April 15, 2009 | 4.20 % | \$ 495,000 |
| Corporate Purpose Bonds, Series 2015 | March 31, 2015 | 2.00 - 2.75% | \$ 610,000 |
| Property Acquisition Note | August 23, 2017 | 3.12% | \$ 173,000 |
| Revenue notes: | | | |
| Sewer Revenue Note | January 31, 2012 | 3.15% | \$ 300,000 |
| SRF Loan | Oct 10, 2015 | 2.00% | \$ 313,000 |

See Accompanying Independent Auditor's Report.

SCHEDULE 2

| <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> |
|--|-----------------------------------|-------------------------------------|------------------------------------|--------------------------|--|
| \$ 132,121 | \$ -0- | \$ 20,429 | \$ 111,692 | \$ 4,463 | \$ 262 |
| 120,000 | -0- | 60,000 | 60,000 | 5,040 | 210 |
| 510,000 | -0- | 50,000 | 460,000 | 12,413 | 951 |
| 173,000 | -0- | 60 | 172,940 | 4,152 | 450 |
| <u>\$ 935,121</u> | <u>\$ -0-</u> | <u>\$ 130,489</u> | <u>\$ 804,632</u> | <u>\$ 26,068</u> | <u>\$ 1,873</u> |
| | | | | | |
| \$ 135,000 | \$ -0- | \$ 30,000 | \$ 105,000 | \$ 4,012 | \$ 276 |
| 221,936 | -0- | 13,000 | 208,936 | 4,439 | 348 |
| <u>\$ 356,936</u> | <u>\$ -0-</u> | <u>\$ 43,000</u> | <u>\$ 313,936</u> | <u>\$ 8,451</u> | <u>\$ 624</u> |

CITY OF UNDERWOOD
BOND AND NOTE MATURITIES
JUNE 30, 2018

General Obligation Bonds and Notes

| Year Ending June 30, | Street Improvements Issued July 9, 2013 | | Land Acquisition Issued August 23, 2017 | |
|----------------------------|--|-------------------|--|-------------------|
| | Interest Rate | Amount | Interest Rate | Amount |
| 2019 | 2.82% | \$ 21,056 | 3.12% | \$ 15,957 |
| 2020 | 2.82% | 21,654 | 3.12% | 16,458 |
| 2021 | 2.82% | 22,269 | 3.12% | 16,975 |
| 2022 | 2.82% | 22,901 | 3.12% | 17,510 |
| 2023 | 2.82% | 23,812 | 3.12% | 18,060 |
| 2024 | -- | -0- | 3.12% | 18,628 |
| 2025 | -- | -0- | 3.12% | 19,214 |
| 2026 | -- | -0- | 3.12% | 19,818 |
| 2027 | -- | -0- | 3.12% | 20,441 |
| 2028 | -- | -0- | 3.12% | 9,879 |
| Total | | \$ <u>111,692</u> | | \$ <u>172,940</u> |

See Accompanying Independent Auditor's Report.

CITY OF UNDERWOOD
BOND AND NOTE MATURITIES
JUNE 30, 2018

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 | |
| 2019 | 4.20% | \$ 60,000 | 2.00% | \$ 55,000 | \$ 152,013 |
| 2020 | -- | -0- | 2.00% | 55,000 | 93,112 |
| 2021 | -- | -0- | 2.00% | 55,000 | 94,244 |
| 2022 | -- | -0- | 2.75% | 55,000 | 95,411 |
| 2023 | -- | -0- | 2.75% | 60,000 | 101,872 |
| 2024 | -- | -0- | 2.75% | 60,000 | 78,628 |
| 2025 | -- | -0- | 2.75% | 60,000 | 79,214 |
| 2026 | -- | -0- | 2.75% | 60,000 | 79,818 |
| 2027 | -- | -0- | | -0- | 20,441 |
| 2028 | -- | -0- | | -0- | 9,879 |
| Total | | \$ <u>60,000</u> | | \$ <u>460,000</u> | \$ <u>804,632</u> |

CITY OF UNDERWOOD
BOND AND NOTE MATURITIES

JUNE 30, 2018

Sewer Revenue Notes

| Year Ending June 30, | Sewer Revenue Note Issued January 31, 2012 | | SRF Loan Issued October 10, 2015 | | Total |
|----------------------------|---|-------------------|-------------------------------------|-------------------|-------------------|
| | Interest Rate | Amount | Interest Rate | Amount | |
| 2019 | 3.15% | \$ 30,000 | 2.00% | \$ 13,000 | \$ 43,000 |
| 2020 | 3.15% | 30,000 | 2.00% | 13,000 | 43,000 |
| 2021 | 3.15% | 30,000 | 2.00% | 13,000 | 43,000 |
| 2022 | 3.15% | 15,000 | 2.00% | 13,000 | 28,000 |
| 2023 | -- | -0- | 2.00% | 13,000 | 13,000 |
| 2024 | -- | -0- | 2.00% | 13,000 | 13,000 |
| 2025 | -- | -0- | 2.00% | 13,000 | 13,000 |
| 2026 | -- | -0- | 2.00% | 13,000 | 13,000 |
| 2027 | -- | -0- | 2.00% | 13,000 | 13,000 |
| 2028 | -- | -0- | 2.00% | 13,000 | 13,000 |
| 2029 | -- | -0- | 2.00% | 13,000 | 13,000 |
| 2030 | -- | -0- | 2.00% | 13,000 | 13,000 |
| 2031 | -- | -0- | 2.00% | 13,000 | 13,000 |
| 2032 | -- | -0- | 2.00% | 13,000 | 13,000 |
| 2033 | -- | -0- | 2.00% | 13,000 | 13,000 |
| 2034 | -- | -0- | 2.00% | 13,000 | 13,000 |
| 2035 | -- | -0- | 2.00% | 936 | 936 |
| Total | | \$ <u>105,000</u> | | \$ <u>208,936</u> | \$ <u>313,936</u> |

CITY OF UNDERWOOD

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

FOR THE LAST TEN YEARS

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|----------------------------|--------------------------|--------------------------|--------------------------|----------------------------|--------------------------|
| Receipts: | | | | | |
| Property taxes | \$ 429,125 | \$ 429,580 | \$ 397,379 | \$ 398,964 | \$ 323,669 |
| Tax increment financing | 134,076 | 102,095 | 176,237 | 125,081 | 42,913 |
| Other city taxes | 116,014 | 107,384 | 134,138 | 140,485 | 108,381 |
| License and permits | 20,014 | 13,978 | 11,994 | 11,878 | 9,923 |
| Use of money and property | 7,711 | 605 | 498 | 501 | 324 |
| Intergovernmental | 218,595 | 213,109 | 219,049 | 192,023 | 186,090 |
| Charges for service | 30,443 | 30,579 | 31,096 | 44,131 | 33,198 |
| Special assessments | -0- | -0- | -0- | -0- | -0- |
| Miscellaneous | <u>21,543</u> | <u>16,558</u> | <u>10,153</u> | <u>10,282</u> | <u>12,288</u> |
| Total | \$ <u>977,521</u> | \$ <u>913,888</u> | \$ <u>980,544</u> | \$ <u>923,345</u> | \$ <u>716,786</u> |
| Disbursements: | | | | | |
| Operating: | | | | | |
| Public safety | \$ 85,007 | \$ 50,691 | \$ 55,634 | \$ 552,605 | \$ 63,899 |
| Public works | 79,344 | 137,895 | 130,636 | 190,581 | 99,147 |
| Health and social services | -0- | -0- | -0- | -0- | -0- |
| Culture and recreation | 36,676 | 26,001 | 29,457 | 30,051 | 32,767 |
| Comm. and economic dev | 138,185 | 66,081 | 149,503 | 124,644 | 70,619 |
| General government | 175,588 | 171,327 | 132,371 | 157,927 | 139,188 |
| Debt service | 156,558 | 150,014 | 180,125 | 114,678 | 91,903 |
| Capital projects | <u>-0-</u> | <u>172,535</u> | <u>-0-</u> | <u>-0-</u> | <u>163,939</u> |
| Total | \$ <u>671,358</u> | \$ <u>774,544</u> | \$ <u>677,726</u> | \$ <u>1,170,486</u> | \$ <u>661,462</u> |

See accompanying independent auditor's report.

SCHEDULE 4

| | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|------|----------------|-------------------|-------------------|-------------------|-------------------|
| \$ | 308,902 | \$ 313,228 | \$ 304,106 | \$ 293,877 | \$ 270,827 |
| | 138,374 | 132,638 | 138,597 | 123,215 | 107,394 |
| | 95,905 | 104,829 | 83,453 | 70,550 | 90,339 |
| | 11,605 | 4,292 | 7,420 | 7,920 | 10,133 |
| | 1,002 | 778 | 1,459 | 1,592 | 6,600 |
| | 200,434 | 210,675 | 176,971 | 156,597 | 391,438 |
| | 25,223 | 21,858 | 29,557 | 14,424 | 16,255 |
| | -0- | 631 | -0- | 80 | -0- |
| | <u>30,462</u> | <u>10,270</u> | <u>4,604</u> | <u>14,845</u> | <u>35,613</u> |
| \$ | <u>811,907</u> | <u>\$ 799,199</u> | <u>\$ 746,167</u> | <u>\$ 683,100</u> | <u>\$ 928,599</u> |
| | | | | | |
| \$ | 66,461 | \$ 85,024 | \$ 159,372 | \$ 244,484 | \$ 48,252 |
| | 145,866 | 169,873 | 137,970 | 114,943 | 95,392 |
| | -0- | -0- | -0- | -0- | -0- |
| | 24,346 | 24,391 | 22,980 | 28,358 | 22,519 |
| | 309,896 | 155,806 | 128,010 | 137,592 | 147,032 |
| | 156,684 | 147,998 | 144,403 | 129,953 | 126,105 |
| | 118,839 | 124,397 | 137,599 | 127,722 | 107,177 |
| | <u>-0-</u> | <u>-0-</u> | <u>82,859</u> | <u>-0-</u> | <u>372,950</u> |
| \$ | <u>822,092</u> | <u>\$ 707,489</u> | <u>\$ 813,193</u> | <u>\$ 783,052</u> | <u>\$ 919,427</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**



May 1, 2019

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

Monte Broeckelman
Certified
Public Accountant

Harlan Office:

2309 B Chatburn Ave.
P.O. Box 551
Harlan, IA 51537-0551

Ph. (712) 755-3366
Fax (712) 755-3343

Avoca Office:

160 S. Elm Street
Avoca, IA 51521

Ph. (712) 343-2379

monte@broeckelmancpa.com

Licensed in:

Iowa
Kansas

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, 2018, and the related notes to financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated May 1, 2019. 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 deficiencies in internal control that I consider to be material weaknesses.

Continued . . .

May 1, 2019

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-18, I-B-18, I-C-18 and I-D-18 to be material weaknesses.

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, 2018 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 . . .

May 1, 2019
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.

Brackman & Associates, P.C.

**CITY OF UNDERWOOD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2018**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES

I-A-18 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, errors 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, 2018**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES (Continued)

I-B-18 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 - Although authorized by Council resolution, a material amount of transfers was omitted on the City's ledgers. 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 which are approved by Council resolution get recorded on the City's ledgers.

Effect - Lack of policies and procedures resulted in City employees not detecting the error 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 revising procedures for recording transfers to ensure that material omissions are detected, corrected and prevented.

Response - We will revise procedures as recommended.

Conclusion - Response accepted.

**CITY OF UNDERWOOD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2018**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES (Continued)

I-C-18 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 statements.

Condition - The City's financial records, in particular the clerk's reports, contained numerous errors such as payroll liabilities, a reconciliation discrepancies account, a net loss, and a material overstatement of the checking account balance.

Cause - The City maintains its financial records in QuickBooks which is not designed for governmental fund accounting and requires manual closing entries to departments and funds every month, which were not routinely being performed.

Effect - Such was the case for payroll liabilities, a reconciliation discrepancies account that was not timely investigated and the net loss that indicated incorrect or omitted closing entries. The material misstatement in the checking account was the result of recording State and County receipts in the checking account on the City books but depositing the receipts in the money market account at the bank. The two were not reconciled one to the other and the outstanding deposits in the checking account never cleared, were never investigated or reconciled. Material adjustments to the City's financial statements were necessary.

Recommendation - In the prior year it was recommended that the City change to more user-friendly software. This was accomplished when Summit software become operable July 1, 2018.

Response - Software that is designed for governmental fund accounting will make the City's financial records more reliable.

Conclusion - Response accepted.

**CITY OF UNDERWOOD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2018**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES (Continued)

I-D-18 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 statements.

Condition - A material amount of garbage fees were misposted to the Sewer Fund rather than the Garbage Fund. 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 garbage fees are posted to the Garbage Fund.

Effect - Lack of policies and procedures resulted in City employees not correcting and preventing errors in the normal course of performing their assigned functions and material adjustments to the City financial statements were necessary.

Recommendation - The prevention of material errors in the financial statements is a two-fold process: detection and correction. The material errors were detected and identified but no attempt was made to correct them.

Response - We have reviewed procedures and plan to make the necessary changes to improve internal control. New software was implemented for fiscal year 2019 which should eliminate this particular internal control concern.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**CITY OF UNDERWOOD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2018**

Part II: Other Findings Related to Required Statutory Reporting:

II-A-18 Certified Budget - Disbursements during the year ended June 30, 2018 exceeded the amounts budgeted in the debt service and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, *Public monies may not be expended or encumbered except under an annual or continuing appropriation*. This appears to be due to employee oversight.

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

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

II-B-18 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-18 Travel Expense - No disbursements of City money for travel expenses for spouses of City officials or employees were noted.

II-D-18 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows.

| Name, Title and Business Connection | Transaction Description | Amount |
|--|----------------------------|---------|
| Joey Bauer, City Employee, Owner of Joey Bauer's Carpet Service | Carpet laying | \$1,376 |

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

II-E-18 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-18 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-18 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, 2018**

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

II-H-18 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

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

In six instances Council minutes and claims were published but the date of publication was indeterminable. In five instances there was no evidence that the Council minutes or claims were published at all. In seven instances Council minutes and claims were published after the fifteen-day period required by Chapter 372.13(6) of the Code of Iowa.

Recommendation - When presenting the Council minutes to the publisher, it is recommended that the communication (e-mail) be retained for verification of timely submission. It is also recommended that receipts and disbursements by fund be published monthly. Surrounding towns publish their summaries of receipts and disbursements by fund in the local newspaper and it is recommended that the same format be utilized.

Response - We will prepare and publish a summary of monthly receipts and disbursements by fund. We will also retain communications with the publisher to demonstrate timely submissions.

Conclusion - Response accepted.

II-I-18 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, 2018**

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

II-J-18 Annual Urban Renewal Report - The annual urban renewal report was approved by City Council and certified to the Iowa Department of Management on or before December 1. However, the Department of Management requested revisions in the original filing. A revised certification was dated January 18, 2018.

The following exceptions were noted in the revised Annual Urban Renewal Report:

The City's disbursements and 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 as of June 30, 2017.

Recommendation - The City should ensure amounts reported in the Annual Urban Renewal Report agree with City records.

Response - These items will be reported correctly in the future.

Conclusion - Response accepted.

CITY OF UNDERWOOD
UNDERWOOD, IOWA 51576

NEWS RELEASE

Broeckelman & Associates, P.C., 2309 B Chatburn Avenue, Harlan, Iowa today released an audit report on the City of Underwood, Iowa.

The City's receipts totaled \$1,187,889 for the year ended June 30, 2018, an eleven percent decrease from the prior year. The receipts included \$429,125 from property tax, \$134,076 from tax incremental financing, \$276,284 from charges for services, \$224,346 from operating grants, contributions and restricted interest, \$2,000 from capital grants, contributions and restricted interest, \$109,829 from local option sales tax, \$6,185 from hotel motel tax, and \$6,044 from miscellaneous receipts.

Disbursements for the year totaled \$892,399 a seven percent decrease from the prior year, and included \$175,588 for general government, \$156,558 for debt service, \$36,676 for culture and recreation, \$164,351 for public safety and public works, and \$138,185 for community and economic development. Also, disbursements for business-type activities totaled \$221,041.

The significant decrease in receipts is due primarily to loan proceeds received in the prior year. The significant decrease in disbursements is due primarily to property acquisition costs in the prior year.

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

