

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

**JUNE 30, 2020**



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**CITY OF UNDERWOOD**

**OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dennis Bardsley	Mayor	January 2022
Robert Dose	Mayor Pro-Term	January 2024
Ashleigh Robinson	Council Member	Resigned August 2020
Josh Madsen	Council Member	January 2024
Jim Pingel	Council Member	January 2022
JW Tiarks	Council Member	January 2022
Royce Forbush	Council Member	January 2022
Cindy Sorlien	City Clerk/Administrator	Indefinite
Andrea Raes	City Treasurer	Appointed yearly
Matthew Woods	City Attorney	Indefinite



February 9, 2021

**Monte Broeckelman**  
Certified  
Public Accountant

Independent Auditor's Report

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Iowa  
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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, 2020, 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 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 . . .

February 9, 2021  
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To the Honorable Mayor and  
Members of the City Council:

Auditor's Responsibility (Continued)

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

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

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Underwood as of June 30, 2020, and the respective changes in cash basis financial position for the year then ended in accordance 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 . .

February 9, 2021  
Page Three

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 nine years ended June 30, 2019 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The other information, 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 39 through 45, 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.

Continued . .



February 9, 2021  
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 February 9, 2021 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 solely 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 the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Underwood's internal control over financial reporting and compliance.

*Brackelman & 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, 2020. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2020 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 71.21%, or approximately \$705,100 from fiscal year 2019 to fiscal year 2020. The increase was primarily due to increased note proceeds.

Disbursements of the City's governmental activities increased 76.9%, or approximately \$650,000 in fiscal year 2020 from fiscal year 2019. Capital projects, community and economic development, and public works increased approximately \$629,400, \$96,000, and \$51,000, respectively.

The City's total cash basis net position increased approximately \$159,100, from June 30, 2019 to June 30, 2020. Of this amount, the cash basis net position of the governmental activities increased approximately \$165,300 and the cash basis net position of the business type activities decreased approximately \$6,000.

### USING THIS REPORT

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

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

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

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

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

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

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

## **BASIS OF ACCOUNTING**

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

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

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

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

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

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

Business Type Activities include the sanitary sewer system and garbage collection. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$2.1 million to approximately \$2.2 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year Ended June 30, <u>2020</u>	Year Ended June 30, <u>2019</u>
Receipts:		
Program receipts:		
Charges for services	\$ 51,951	\$ 54,577
Operating grants, contributions and restricted interest	275,436	224,968
Capital grants, contributions and restricted interest	-0-	-0-
General receipts:		
Property tax	472,760	453,829
Tax increment financing	107,831	94,470
Local option sales tax	139,359	126,621
Hotel motel tax	3,671	4,073
Miscellaneous receipts	9,633	26,542
Note proceeds	634,699	5,150
Total receipts	<u>1,695,340</u>	<u>990,230</u>
Disbursements:		
Public safety	89,781	117,798
Public works	183,631	132,330
Culture and recreation	51,114	42,564
Community and economic development	170,965	75,266
General government	162,096	144,939
Debt service	208,213	332,310
Capital projects	629,384	-0-
Total disbursements	<u>1,495,184</u>	<u>845,207</u>
Change in cash basis net position before transfers	200,156	145,023
Transfers, net	<u>(34,840)</u>	<u>(48,755)</u>
Change in cash basis net position	165,316	96,268
Cash basis net position, beginning of year	<u>2,103,794</u>	<u>2,007,526</u>
Cash basis net position, end of year	<u>\$ 2,269,110</u>	<u>\$ 2,103,794</u>

The City's total receipts for governmental activities increased 71.21%, or approximately \$705,100. The total cost of all programs and services increased approximately \$649,977 or 76.9%, with no new programs added this year. The significant increase in receipts was primarily the result of proceeds received from the issuance of notes.

The City increased property taxes for fiscal year 2020 an average of 2.18%. This increase raised the City's property tax receipts approximately \$18,900 in fiscal year 2020. Based on valuations remaining steady, property tax receipts are budgeted to remain the same for next year.

The cost of all governmental activities this year was approximately \$1,495,000 compared to approximately \$845,200 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 \$1,167,794 because some of the cost was paid by those directly benefiting from the programs (\$51,951) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$275,436). The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2020 from approximately \$279,500 to \$327,400, primarily due to increases in operating grants, contributions, and restricted interest.

Changes in Cash Basis Net Position of Business Type Activities		
	Year Ended June 30, 2020	Year Ended June 30, 2019
Receipts:		
Program receipts:		
Charges for services and sales:		
Sewer	\$ 179,685	\$ 167,236
Garbage	51,086	52,892
Operating grants, contributions and restricted interest	-0-	-0-
Capital grants, contributions and restricted interest	-0-	-0-
General receipts:		
Miscellaneous	-0-	-0-
Restricted interest	-0-	-0-
Note proceeds	-0-	-0-
Total receipts	<u>230,771</u>	<u>220,128</u>
Disbursements:		
Sewer	224,312	280,455
Garbage	47,515	53,140
Total disbursements	<u>271,827</u>	<u>333,595</u>
Change in cash basis net position before transfers	(41,056)	(113,467)
Transfers, net	<u>34,840</u>	<u>48,755</u>
Change in cash basis net position	(6,216)	(64,712)
Cash basis net position, beginning of year	<u>501,646</u>	<u>566,358</u>
Cash basis net position, end of year	<u>\$ 495,430</u>	<u>\$ 501,646</u>

Total business type activities receipts for the fiscal year were approximately \$230,800 compared to approximately \$220,100 last year. Disbursements decreased approximately \$62,000 due to major sewer lift station repairs in the prior year. The cash basis net position decreased approximately \$6,000 from the prior year, or 1%.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Underwood completed the year, its governmental funds reported a combined fund balance of \$2,269,110, an increase of \$165,316 from last year's total of \$2,103,794. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$124,213 from the prior year to \$1,270,372 at year end. General Fund receipts decreased approximately \$6,300 and disbursements increased approximately \$14,900.

The Special Revenue, Road Use Tax Fund cash balance increased by \$48,077 to \$635,178. \$104,519 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 decreased by \$35,651 to \$253,052 at year end.

The Special Revenue, Local Option Sales Tax Fund, receipted \$139,358 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 \$21,433 from the prior year to \$27,188. Principal and interest payments were \$208,213, tax receipts were \$71,853, transfers from capital projects, general, and the road use tax fund were \$70,612, \$55,898, and \$31,284, respectively.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Enterprise Fund, Sewer Fund cash balance decreased by \$9,787 to \$440,699 from the prior year. Overall, Sewer Fund receipts increased approximately \$12,450 primarily due to a rate increase. Disbursements decreased by \$56,143.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended the budget once. The City's receipts were approximately \$392,000 less than budgeted primarily due to receiving less intergovernmental receipts than anticipated.

The City's disbursements were approximately \$954,553 less than amounts budgeted. For the year ended June 30, 2020, disbursements exceeded the budget in the debt service function.





## DEBT ADMINISTRATION

At June 30, 2020, the City had \$1,131,611 in bonds and notes outstanding, compared to \$695,781 last year, a 63% increase, as shown below.

Outstanding Debt at Year-End				
	Year Ended June 30, 2020		Year Ended June 30, 2019	
General obligation notes	\$	950,675	\$	500,845
Sewer revenue notes		180,936		194,936
Total	\$	1,131,611	\$	695,781

Outstanding principal was reduced by \$196,025. Interest costs for the fiscal year were \$28,561.

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 \$950,675 is below its constitutional debt limit of approximately \$3.0 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 2021 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 2021. The mill levy increased \$0.04833 from \$12.81018 to \$12.85851. Disbursements are expected to increase approximately \$478,000. Receipts are expected to increase by approximately \$482,000.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$321,900 by the end of fiscal year 2021.

## 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/Administrator, 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, 2020**

		Program Receipts		
	Disbursements	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions / Programs:</b>				
Governmental activities:				
Public safety	\$ 89,781	\$ 46,050	\$ 106,347	\$ -0-
Public works	183,632	-0-	162,743	-0-
Cultures and recreation	51,114	1,650	-0-	-0-
Community and economic development	170,964	-0-	59	-0-
General government	162,093	4,251	6,287	-0-
Debt service	208,213	-0-	-0-	-0-
Capital Projects	629,384	-0-	-0-	-0-
Total governmental activities	1,495,181	51,951	275,436	-0-
Business type activities:				
Sewer	224,312	179,685	-0-	-0-
Garbage	47,515	51,086	-0-	-0-
Total business type activities	271,827	230,771	-0-	-0-
<b>Total</b>	<b>\$ 1,767,008</b>	<b>\$ 282,722</b>	<b>\$ 275,436</b>	<b>\$ -0-</b>
Property taxes levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel motel tax				
Miscellaneous				
Bond proceeds				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets, beginning of year				
Cash basis net assets, end of year				
<b>Cash basis net position</b>				
Restricted:				
Expendable:				
Urban renewal				
Debt service				
Streets				
Other purposes				
Unrestricted				
<b>Total cash basis net position</b>				

EXHIBIT A

Net (Disbursements), Receipts and Changes in Net Position		
Governmental Activities	Business Type Activities	Total
\$ 62,616	\$ -0-	\$ 62,616
(20,889)	-0-	(20,889)
(49,464)	-0-	(49,464)
(170,905)	-0-	(170,905)
(151,555)	-0-	(151,555)
(208,213)	-0-	(208,213)
(629,384)	-0-	(629,384)
<u>(1,167,794)</u>	<u>-0-</u>	<u>(1,167,794)</u>
-0-	(44,627)	(44,627)
-0-	3,571	3,571
<u>-0-</u>	<u>(41,056)</u>	<u>(41,056)</u>
(1,167,794)	(41,056)	(1,208,850)
400,907	-0-	400,907
71,853	-0-	71,853
107,831	-0-	107,831
139,358	-0-	139,358
3,671	-0-	3,671
9,633	-0-	9,633
634,697	-0-	634,697
(34,840)	34,840	-0-
<u>1,333,110</u>	<u>34,840</u>	<u>1,367,950</u>
165,316	(6,216)	159,100
<u>2,103,794</u>	<u>501,646</u>	<u>2,605,440</u>
\$ <u>2,269,110</u>	\$ <u>495,430</u>	\$ <u>2,764,540</u>
\$ 253,052	\$ -0-	\$ 253,052
27,188	-0-	27,188
635,178	-0-	635,178
83,320	-0-	83,320
<u>1,270,372</u>	<u>495,430</u>	<u>1,765,802</u>
\$ <u>2,269,110</u>	\$ <u>495,430</u>	\$ <u>2,764,540</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, 2020**

	Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment
<b>Receipts:</b>			
Property tax	\$ 328,142	\$ -0-	\$ -0-
Tax increment financing	-0-	-0-	107,831
Other city tax	6,259	-0-	-0-
Licenses and permits	21,515	-0-	-0-
Use of money and property	6,830	-0-	59
Intergovernmental	105,804	117,870	-0-
Charges for services	27,849	-0-	-0-
Miscellaneous	9,633	-0-	-0-
Total receipts	<u>506,032</u>	<u>117,870</u>	<u>107,890</u>
<b>Disbursements:</b>			
<b>Operating:</b>			
Public safety	68,221	273	-0-
Public works	32,253	142,755	-0-
Culture and recreation	43,292	-0-	-0-
Community and economic development	27,416	-0-	143,541
General government	154,739	-0-	-0-
Debt service	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-
Total disbursements	<u>325,921</u>	<u>143,028</u>	<u>143,541</u>
Excess (deficiency) of receipts over (under) disbursements	180,111	(25,158)	(35,651)
<b>Other financing sources (uses):</b>			
Debt proceeds	-0-	-0-	-0-
Operating transfers in	-0-	104,519	-0-
Operating transfers out	(55,898)	(31,284)	-0-
Total other financing sources (uses)	<u>(55,898)</u>	<u>73,235</u>	<u>-0-</u>
Net change in cash balances	124,213	48,077	(35,651)
Cash balances, beginning of year	<u>1,146,159</u>	<u>587,101</u>	<u>288,703</u>
Cash balances, end of year	<u>\$ 1,270,372</u>	<u>\$ 635,178</u>	<u>\$ 253,052</u>
<b>Cash Basis Fund Balances</b>			
<b>Restricted for:</b>			
Urban renewal purposes	\$ -0-	\$ -0-	\$ 253,052
Debt Service	-0-	-0-	-0-
Streets	-0-	635,178	-0-
Other purposes	-0-	-0-	-0-
Unassigned	1,270,372	-0-	-0-
Total cash basis fund balances	<u>\$ 1,270,372</u>	<u>\$ 635,178</u>	<u>\$ 253,052</u>

EXHIBIT B

	Local Option Sales Tax	Debt Service	Other Non-major Governmental Funds	Total
\$	-0-	\$ 71,853	\$ 72,764	\$ 472,759
	-0-	-0-	-0-	107,831
	139,358	-0-	-0-	145,617
	-0-	-0-	-0-	21,515
	-0-	-0-	-0-	6,889
	-0-	-0-	44,874	268,548
	-0-	-0-	-0-	27,849
	-0-	-0-	-0-	9,633
	<u>139,358</u>	<u>71,853</u>	<u>117,638</u>	<u>1,060,641</u>
	-0-	-0-	21,287	89,781
	-0-	-0-	8,623	183,631
	-0-	-0-	7,822	51,114
	-0-	-0-	8	170,965
	-0-	-0-	7,357	162,096
	-0-	208,213	-0-	208,213
	-0-	-0-	629,384	629,384
	<u>-0-</u>	<u>208,213</u>	<u>674,481</u>	<u>1,495,184</u>
	139,358	(136,360)	(556,843)	(434,543)
	-0-	-0-	634,699	634,699
	-0-	157,793	-0-	262,312
	<u>(139,358)</u>	<u>-0-</u>	<u>(70,612)</u>	<u>(297,152)</u>
	<u>(139,358)</u>	<u>157,793</u>	<u>564,087</u>	<u>599,859</u>
	-0-	21,433	7,244	165,316
	-0-	5,755	76,076	2,103,794
\$	<u>-0-</u>	<u>27,188</u>	<u>83,320</u>	<u>2,269,110</u>
\$	-0-	\$ -0-	\$ -0-	\$ 253,052
	-0-	27,188	-0-	27,188
	-0-	-0-	-0-	635,178
	-0-	-0-	83,320	83,320
	-0-	-0-	-0-	1,270,372
\$	<u>-0-</u>	<u>27,188</u>	<u>83,320</u>	<u>2,269,110</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, 2020

	Enterprise Funds		
	Sewer	Garbage	Total
Operating receipts:			
Charges for services	\$ 179,592	\$ 51,086	\$ 230,678
Miscellaneous	70	-0-	70
Total receipts	<u>179,662</u>	<u>51,086</u>	<u>230,748</u>
Operating disbursements:			
Business type activities	<u>181,631</u>	<u>47,515</u>	<u>229,146</u>
Total disbursements	<u>181,631</u>	<u>47,515</u>	<u>229,146</u>
Operating income (loss)	(1,969)	3,571	1,602
Non-operating receipts (disbursements):			
Interest	23	-0-	23
Debt service	(17,899)	-0-	(17,899)
Capital Project	(24,782)	-0-	(24,782)
Total non-operating receipts (disbursements)	<u>(42,658)</u>	<u>-0-</u>	<u>(42,658)</u>
Excess (deficiency) of receipts over disbursements	(44,627)	3,571	(41,056)
Other financing sources (uses):			
Operating transfer in	65,978	-0-	65,978
Operating transfer out	(31,138)		(31,138)
Other financing sources (uses)	<u>34,840</u>	<u>-0-</u>	<u>34,840</u>
Net change in cash balance	(9,787)	3,571	(6,216)
Cash balances, beginning of year	<u>450,486</u>	<u>51,160</u>	<u>501,646</u>
Cash balances, end of year	\$ <u>440,699</u>	\$ <u>54,731</u>	\$ <u>495,430</u>
<b>Cash Basis Fund Balances</b>			
Restricted			
Unrestricted	\$ <u>440,699</u>	\$ <u>54,731</u>	\$ <u>495,430</u>
Total cash basis fund balances	\$ <u>440,699</u>	\$ <u>54,731</u>	\$ <u>495,430</u>

See notes to financial statements.



**NOTES TO FINANCIAL STATEMENTS**

**CITY OF UNDERWOOD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**(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 government 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, 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. The City has no component units which meet the Governmental Accounting Standards Broad criteria.

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, 2020**

**(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.

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

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

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts 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, 2020**

**(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 Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities with the exception of those financed through Enterprise Funds.

The City reports the following major proprietary 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 are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

**CITY OF UNDERWOOD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**(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. Property Taxes and Governmental Cash Basis Fund Balances

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

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1.5% per month penalty for delinquent payments; is based on January 1, 2018 assessed property valuations; is for the tax accrual period July 1, 2019 through June 30, 2020 and reflects tax asking contained in the budget certified to the City Council in March 2019.

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.

**CITY OF UNDERWOOD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**(1) Summary of Significant Accounting Policies (Continued)**

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2020, disbursements exceeded amounts budgeted in the debt service function.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2020, 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; 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 \$2,764,540 as of June 30, 2020.

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, 2020**

**(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
2021	163,827	24,040	10,936	3,166	174,763	27,206
2022	117,901	21,133	11,000	2,975	128,901	24,108
2023	123,947	18,169	11,000	2,783	134,947	20,952
2024	100,000	15,180	11,000	2,590	111,000	17,770
2025	100,000	12,690	11,000	2,398	111,000	15,088
2026	105,000	10,200	12,000	2,205	117,000	12,405
2027	45,000	7,200	12,000	1,995	57,000	9,195
2028	45,000	5,850	12,000	1,785	57,000	7,635
2029	50,000	4,500	12,000	1,575	62,000	6,075
2030	50,000	3,000	12,000	1,365	62,000	4,365
2031	50,000	1,500	13,000	1,155	63,000	2,655
2032	-0-	-0-	13,000	927	13,000	927
2033	-0-	-0-	13,000	700	13,000	700
2034	-0-	-0-	13,000	473	13,000	473
2035	-0-	-0-	14,000	245	14,000	245
Total	\$ 950,675	\$ 123,462	\$ 180,936	\$ 26,337	\$ 1,131,611	\$ 149,799

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 semi-annual principal and interest installments of \$12,025, and matures June 1, 2023.

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 4<sup>th</sup> Street Extension project. The \$610,000 bonds bear interest ranging from 2.0% to 2.75%, require semi-annual installments of interest and annual installments of principal of approximately \$64,213, and mature June 1, 2026.

General Obligation Corporate Purpose Loan Agreement

On June 17, 2019, the City entered into a loan agreement and received an advance of \$5,150 in anticipation of the issuance of \$515,000 of General Obligation Corporate Purpose Bonds, Series 2019, dated July 1, 2019. The \$515,000 bonds bear interest ranging from 2.0% to 3.0%, require semi-annual installments of interest and annual installments of principal of approximately \$47,570.

**CITY OF UNDERWOOD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**(3) Bonds and Notes Payable (Continued)**

Municipal Line of Credit, Capital Improvements

On November 20, 2013, the City entered into a line of credit of \$200,000 with a local financial institution with a maturity date of November 1, 2016, which was subsequently extended to November 1, 2018. On November 26, 2018, the agreement was amended and changed to be due on demand. The line of credit bears interest of 3.5%, requires monthly payments of all accrued interest and note principal is due on demand. Estimated installments of interest and principal approximate \$52,035 based upon the June 30, 2020 note balance.

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 of the cost of the sanitary sewer lift project. In August 2015, the City qualified for Clean Water State Revolving Fund participation and to date has drew \$247,936 and repaid \$67,000 as of June 30, 2020. The interest rate is 1.75%, requires semi-annual installments of interest and annual installments of principal of approximately \$14,500 and is payable solely from the net receipts of the sanitary sewer utility.

**(4) 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 P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://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:

**CITY OF UNDERWOOD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**(4) Pension Plan (Continued)**

Pension Benefits (continued)

- 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.

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 2020, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the City contributed 9.44% of covered payroll, for a total rate of 15.73%.

The City's contributions to IPERS for the year ended June 30, 2020 were \$14,840.

**CITY OF UNDERWOOD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**(4) Pension Plan (Continued)**

Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2020, the City reported a liability of \$124,847 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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 IPERS relative to the contributions of all IPERS participating employers. At June 30, 2019, the City's proportion was 0.002142%, which was an increase of 0.000355% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020 the City's pension expense, deferred outflows and deferred inflows totaled \$22,966, \$19,621, and \$24,460, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2019 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)	2.6% 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, 2019 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2019 valuation were based on the RP-2014 employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing 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:

**CITY OF UNDERWOOD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**(4) Pension Plan (Continued)**

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	22.0%	5.60%
International equity	15.0	6.08
Global smart beta equity	3.0	5.82
Core plus fixed income	27.0	1.71
Public credit	3.5	3.32
Public real assets	7.0	2.81
Cash	1.0	(0.21)
Private equity	11.0	10.13
Private real assets	7.5	4.76
Private credit	3.0	3.01
Total	100.0%	

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed 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, IPERS' 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 IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability 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	\$221,688	\$124,847	\$43,618

Pension Plan Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

**CITY OF UNDERWOOD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**(5) Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer retiree health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. For the year ended June 30, 2020, the City contributed \$26,044 and plan members eligible for benefits contributed \$6,828 to the plan. At June 30, 2020, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

There are 4 active and no retired members in the plan. Participants must be age 55 or older at retirement.

**(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, 2020, City employees had accumulated 176 earned vacation hours and the City's liability is reported as follows:

Type of Benefit	Amount June 30, 2020
Vacation	\$ <u>2,900</u>

This liability has been computed based upon rates of pay in effect at June 30, 2020.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2020, is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Project - Mosquito Creek	\$ 70,612
Debt Service	General Fund	55,898
Debt Service	Special Revenue - Road Use	31,284
Special Revenue - Road Use	Special Revenue - Local Option	104,519
Enterprise - Sewer	Special Revenue - Local Option	34,839
Total		\$ <u>297,152</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, 2020**

**(8) Related Party Transactions**

There were no business transactions between the City and City officials during the year ended June 30, 2020

**(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 779 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, 2020 were \$26,596.

**CITY OF UNDERWOOD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**(9) Risk Management (Continued)**

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.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. As of June 30, 2020, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all liability claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation and public officials' bond in the amount of \$6,200 and \$385, respectively. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.



**CITY OF UNDERWOOD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**(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, 2020**

**(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, 2020**

**(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, 2020, the City received \$42,155 and rebated \$18,156 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, 2020, the City received \$65,676, and rebated to Jack Links, Inc. \$125,385 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, 2020 was \$16,534.

The City has an agreement with M & K Mills Tree Service, Inc. for solid waste collection at a cost of \$11.50, \$6.00 for an extra container, and \$95.00 for container replacement.



**CITY OF UNDERWOOD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**(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, 2020, \$31,305 of property tax was diverted from the City under urban renewal and economic development agreements.

**(13) Subsequent Events**

In July of 2020, the City issued \$727,000 of Sewer Revenue Bonds to finance the planning, designing, and construction of improvements and extensions for the sewer system utility. The bonds bear interest at 1.75% and mature in June of 2040.

In July of 2020, the City issued \$340,000 of general obligation corporate purpose bonds to finance public projects including flood mitigation control, storm water drainage, sidewalk, sewer and waterworks system improvements. The bonds bear interest from .90% to 1.60% and mature June 1, 2030.



**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, 2020**

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 472,759	\$ -0-
Tax increment financing	107,831	-0-
Other city tax	145,617	-0-
Licenses and permits	21,515	-0-
Use of money and property	6,889	23
Intergovernmental	268,547	-0-
Charges for services	27,849	230,748
Special assessments	-0-	-0-
Miscellaneous	9,633	-0-
Total receipts	1,060,640	230,771
Disbursements:		
Public safety	89,781	-0-
Public works	183,632	-0-
Health and social services	-0-	-0-
Culture and recreation	51,114	-0-
Community and economic development	170,964	-0-
General government	162,093	-0-
Debt service	208,213	-0-
Capital projects	629,384	-0-
Business type	-0-	271,826
Total disbursements	1,495,181	271,826
Excess (deficiency) of receipts over (under) disbursements	(434,541)	(41,055)
Other financing sources, net	599,856	34,840
Excess (deficiency) of receipts and other financing sources	165,315	(6,215)
Balance beginning of year	2,103,794	501,646
Balance end of year	\$ 2,269,109	\$ 495,431

See Accompanying Independent Auditor's Report.



Total	Budgeted Amounts		Variance
	Original	Final	Favorable (Unfavorable)
\$ 472,759	\$ 460,513	\$ 460,513	\$ 12,246
107,831	92,274	107,831	-0-
145,617	89,733	112,294	33,323
21,515	-0-	24,845	(3,330)
6,912	-0-	6,727	185
268,547	374,563	624,563	(356,016)
258,597	267,730	303,050	(44,453)
-0-	-0-	31,789	(31,789)
9,633	-0-	11,880	(2,247)
<u>1,291,411</u>	<u>1,284,813</u>	<u>1,683,492</u>	<u>(392,081)</u>
89,781	506,695	506,695	416,914
183,632	257,276	318,051	134,419
-0-	-0-	-0-	-0-
51,114	89,817	89,817	38,703
170,964	59,067	193,067	22,103
162,093	229,144	229,144	67,051
208,213	165,233	165,233	(42,980)
629,384	-0-	916,723	287,339
271,826	258,095	302,830	31,004
<u>1,767,007</u>	<u>1,565,327</u>	<u>2,721,560</u>	<u>954,553</u>
(475,596)	(280,514)	(1,038,068)	562,472
<u>634,696</u>	<u>-0-</u>	<u>712,691</u>	<u>(77,995)</u>
159,100	(280,514)	(325,377)	484,477
<u>2,605,440</u>	<u>2,605,440</u>	<u>2,605,440</u>	<u>-0-</u>
\$ <u>2,764,540</u>	\$ <u>2,324,926</u>	\$ <u>2,280,063</u>	\$ <u>484,477</u>



**CITY OF UNDERWOOD**

**NOTES TO OTHER INFORMATION -  
BUDGETARY REPORTING**

**JUNE 30, 2020**

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 nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,156,233. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2020, disbursements exceeded amounts budgeted in the debt service function.



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

**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
FOR THE LAST FIVE YEARS**

**OTHER INFORMATION**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
City's proportion of the net pension liability	.002142%	.001807%	.001822%	.001815%	.001788%
City's proportionate share of the net pension liability	\$ 124,847	\$ 114,295	\$ 120,284	\$ 113,205	\$ 88,912
City's covered-employee payroll	\$ 157,208	\$ 164,061	\$ 115,360	\$ 137,512	\$ 129,099
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	79.42%	69.66%	104.26%	82.32%	68.87%
IPERS' net position as a percentage of the total pension liability	85.45%	83.62%	82.21%	81.82%	85.19%

- In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

See accompanying independent auditor's report.

**CITY OF UNDERWOOD  
SCHEDULE OF CITY CONTRIBUTIONS**

**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
FOR THE LAST TEN FISCAL YEARS**

**OTHER INFORMATION**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Statutorily required contribution	\$ 14,840	\$ 15,487	\$ 10,302	\$ 12,280
Contributions in relation to the statutorily required contribution	\$ <u>(14,840)</u>	\$ <u>(15,487)</u>	\$ <u>(10,302)</u>	\$ <u>(12,280)</u>
Contribution deficiency (excess)	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>
City's covered-employee payroll	\$ 157,208	\$ 164,060	\$ 115,360	\$ 137,512
Contributions as a percentage of covered-employee payroll	9.44%	9.43%	8.93%	8.93%

<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 11,529	\$ 10,998	\$ 11,806	\$ 11,464	\$ 8,895	\$ 6,649
\$ <u>11,541</u>	\$ <u>(10,975)</u>	\$ <u>(11,806)</u>	\$ <u>(11,464)</u>	\$ <u>(8,895)</u>	\$ <u>(6,649)</u>
\$ <u>(12)</u>	\$ <u>23</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>
\$ 129,099	\$ 123,159	\$ 132,201	\$ 132,223	\$ 110,223	\$ 95,669
8.93%	8.93%	8.93%	8.67%	8.07%	6.95%

See accompanying independent auditor's report.





**CITY OF UNDERWOOD**  
**NOTES TO OTHER INFORMATION - PENSION LIABILITY**  
**YEAR ENDED JUNE 30, 2020**

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

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

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

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.



**SUPPLEMENTARY INFORMATION**



CITY OF UNDERWOOD

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

	Special Revenue		Capital	Capital	Total
	Employee Benefits	FEMA	Projects Streets	Projects Mosquito Creek	
Receipts:					
Property tax	\$ 72,764	\$ -0-	\$ -0-	\$ -0-	\$ 72,764
Federal Flood Assistance	-0-	44,874	-0-	-0-	44,874
Total receipts	<u>72,764</u>	<u>44,874</u>	<u>-0-</u>	<u>-0-</u>	<u>117,638</u>
Disbursements:					
Public safety	466	20,821	-0-	-0-	21,287
Public works	8,623	-0-	-0-	-0-	8,623
Culture and recreation	7,822	-0-	-0-	-0-	7,822
Community and economic development	8	-0-	-0-	-0-	8
General government	7,357	-0-	-0-	-0-	7,357
Capital projects	-0-	-0-	530,228	99,156	629,384
Total disbursements	<u>24,276</u>	<u>20,821</u>	<u>530,228</u>	<u>99,156</u>	<u>674,481</u>
Excess (deficiency) of receipts over (under) disbursements	48,488	24,053	(530,228)	(99,156)	(556,843)
Other financing sources (uses):					
Bond proceeds	-0-	-0-	512,691	122,008	634,699
Operating transfers out	-0-	-0-	-0-	(70,612)	(70,612)
Net financing sources (uses)	<u>-0-</u>	<u>-0-</u>	<u>512,691</u>	<u>51,396</u>	<u>564,087</u>
Net change in cash balances	48,488	24,053	(17,537)	(47,760)	7,244
Cash balances beginning of year	<u>88,942</u>	<u>(18,016)</u>	<u>5,150</u>	<u>-0-</u>	<u>76,076</u>
Cash balances end year	<u>\$ 137,430</u>	<u>\$ 6,037</u>	<u>\$ (12,387)</u>	<u>\$ (47,760)</u>	<u>\$ 83,320</u>
<b>Cash Basis Fund Balances</b>					
Restricted for other purposes	\$ 137,430	\$ -0-	\$ (12,387)	\$ (47,760)	\$ 77,283
Unassigned	-0-	6,037	-0-	-0-	6,037
Total cash basis fund balances	<u>\$ 137,430</u>	<u>\$ 6,037</u>	<u>\$ (12,387)</u>	<u>\$ (47,760)</u>	<u>\$ 83,320</u>

See Accompanying Independent Auditor's Report.

**CITY OF UNDERWOOD**  
**SCHEDULE OF INDEBTEDNESS**  
**JUNE 30, 2020**

<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
Municipal Line of Credit	November 20, 2013	3.50 %	\$ 200,000
Corporate Purpose Bonds, Series 2015	March 31, 2015	2.00 - 2.75%	\$ 610,000
Corporate Purpose Loan Agreement	June 17, 2019	2.00 - 3.00%	\$ 515,000
Revenue notes:			
SRF Loan	October 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>
\$ 90,695	\$ -0-	\$ 21,577	\$ 69,117	\$ 2,473	\$ 162
-0-	122,006	70,448	51,558	162	193
405,000	-0-	55,000	350,000	10,106	767
5,150	509,850	35,000	480,000	12,164	1,048
<u>\$ 500,845</u>	<u>\$ 631,856</u>	<u>\$ 182,025</u>	<u>\$ 950,675</u>	<u>\$ 24,905</u>	<u>\$ 2,170</u>
\$ 194,936	\$ -0-	\$ 14,000	\$ 180,936	\$ 3,655	\$ 359
<u>\$ 194,936</u>	<u>\$ -0-</u>	<u>\$ 14,000</u>	<u>\$ 180,936</u>	<u>\$ 3,655</u>	<u>\$ 359</u>

**CITY OF UNDERWOOD**  
**BOND AND NOTE MATURITIES**  
**JUNE 30, 2020**

**General Obligation Bonds and Notes**

Year Ending June 30,	Street Improvements Issued July 9, 2013		Municipal Line of Credit Issued Nov 20, 2013	
	Interest Rate	Amount	Interest Rate	Amount
2021	2.82%	22,269	3.50%	51,558
2022	2.82%	22,901	-0-	-0-
2023	2.82%	23,947	-0-	-0-
2024	-0-	-0-	-0-	-0-
2025	-0-	-0-	-0-	-0-
2026	-0-	-0-	-0-	-0-
2027	-0-	-0-	-0-	-0-
2028	-0-	-0-	-0-	-0-
2029	-0-	-0-	-0-	-0-
2030	-0-	-0-	-0-	-0-
2031	-0-	-0-	-0-	-0-
Total		\$ <u>69,117</u>		\$ <u>51,558</u>

See Accompanying Independent Auditor's Report.



**CITY OF UNDERWOOD**  
**BOND AND NOTE MATURITIES**  
**JUNE 30, 2020**

**General Obligation Bonds and Notes**

Year Ending June 30,	Corporate Purpose Loan Agreement Issued June 17, 2019		Essential Corporate Purpose Bonds Issued March 31, 2015		Total
	Interest Rate	Amount	Interest Rate	Amount	
2021	2%	35,000	2.00%	55,000	163,827
2022	2%	40,000	2.75%	55,000	117,901
2023	2%	40,000	2.75%	60,000	123,947
2024	2%	40,000	2.75%	60,000	100,000
2025	2%	40,000	2.75%	60,000	100,000
2026	2%	45,000	2.75%	60,000	105,000
2027	2%	45,000	--	-0-	45,000
2028	2%	45,000	--	-0-	45,000
2029	2%	50,000	--	-0-	50,000
2030	2%	50,000	--	-0-	50,000
2031	2%	50,000	--	-0-	50,000
Total		\$ <u>480,000</u>		\$ <u>350,000</u>	\$ <u>950,675</u>



**CITY OF UNDERWOOD**  
**BOND AND NOTE MATURITIES**  
**JUNE 30, 2020**

**Sewer Revenue Notes**

Year Ending June 30,	SRF Loan Issued May 12, 2015		Total
	Interest Rate	Amount	
2021	2.00%	10,936	10,936
2022	2.00%	11,000	11,000
2023	2.00%	11,000	11,000
2024	2.00%	11,000	11,000
2025	2.00%	11,000	11,000
2026	2.00%	12,000	12,000
2027	2.00%	12,000	12,000
2028	2.00%	12,000	12,000
2029	2.00%	12,000	12,000
2030	2.00%	12,000	12,000
2031	2.00%	13,000	13,000
2032	2.00%	13,000	13,000
2033	2.00%	13,000	13,000
2034	2.00%	13,000	13,000
2035	2.00%	14,000	14,000
Total		\$ 180,936	\$ 180,936

**CITY OF UNDERWOOD**

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

**FOR THE LAST TEN YEARS**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Receipts:</b>					
Property taxes	\$ 472,759	\$ 453,829	\$ 429,125	429,580	\$ 397,379
Tax increment financing	107,831	94,470	134,076	102,095	176,237
Other city taxes	145,617	133,419	116,014	107,384	134,138
License and permits	21,515	16,643	20,014	13,978	11,994
Use of money and property	6,889	10,066	7,711	605	498
Intergovernmental	268,547	214,902	218,595	213,109	219,049
Charges for service	27,849	30,314	30,443	30,579	31,096
Special assessments	-0-	-0-	-0-	-0-	-0-
Miscellaneous	9,633	31,437	21,543	16,558	10,153
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$ <u>1,060,640</u>	\$ <u>985,080</u>	\$ <u>977,521</u>	<u>913,888</u>	\$ <u>980,544</u>
<b>Disbursements:</b>					
<b>Operating:</b>					
Public safety	\$ 89,781	\$ 117,798	\$ 85,007	50,691	\$ 55,634
Public works	183,632	132,330	79,344	137,895	130,636
Health and social services	-0-	-0-	-0-	-0-	-0-
Culture and recreation	51,114	42,564	36,676	26,001	29,457
Comm. and economic dev	170,964	75,266	138,185	66,081	149,503
General government	162,093	144,939	175,588	171,327	132,371
Debt service	208,213	332,310	156,558	150,014	180,125
Capital projects	629,384	-0-	-0-	172,535	-0-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$ <u>1,495,181</u>	\$ <u>845,207</u>	\$ <u>671,358</u>	\$ <u>774,544</u>	\$ <u>677,726</u>

See accompanying independent auditor's report.

SCHEDULE 4

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 398,964	\$ 323,669	\$ 308,902	\$ 313,228	\$ 304,106
125,081	42,913	138,374	132,638	138,597
140,485	108,381	95,905	104,829	83,453
11,878	9,923	11,605	4,292	7,420
501	324	1,002	778	1,459
192,023	186,090	200,434	210,675	176,971
44,131	33,198	25,223	21,858	29,557
-0-	-0-	-0-	631	-0-
10,282	12,288	30,462	10,270	4,604
<u>\$ 923,345</u>	<u>\$ 716,786</u>	<u>\$ 811,907</u>	<u>\$ 799,199</u>	<u>\$ 746,167</u>
\$ 552,605	\$ 63,899	\$ 66,461	\$ 85,024	\$ 159,372
190,581	99,147	145,866	169,873	137,970
-0-	-0-	-0-	-0-	-0-
30,051	32,767	24,346	24,391	22,980
124,644	70,619	309,896	155,806	128,010
157,927	139,188	156,684	147,998	144,403
114,678	91,903	118,839	124,397	137,599
-0-	163,939	-0-	-0-	82,859
<u>\$ 1,170,486</u>	<u>\$ 661,462</u>	<u>\$ 822,092</u>	<u>\$ 707,489</u>	<u>\$ 813,193</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**



February 9, 2021

INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

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**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, 2020 and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated February 9, 2021. 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 have not been identified. However, as described in the accompanying Schedule of Findings & Responses, I identified deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

Continued . . .



February 9, 2021  
Page Two

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 and Responses as items I-A-20, I-B-20, and I-C-20 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 or other matters which are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2020 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 . . .



February 9, 2021

Page Three

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 and Responses. 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.

*Breckelmeier & Associates, P.C.*



**CITY OF UNDERWOOD  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2020**

**Part I: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES**

I-A-20     Segregation of Duties

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

Condition - A limited number of people have the primary responsibility for most of the accounting and financial reporting duties.

Cause - The City has a limited number of employees which does not allow procedures to be established to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes. 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 detect, correct, and prevent 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. We continue to recommend the 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 AND RESPONSES  
YEAR ENDED JUNE 30, 2020**

**Part I: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES (Continued)**

I-B-20      Financial Reporting – Local Option Tax transfers

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 - The local option tax was not transferred to the sewer and road use funds as required by the voter ballot.

Cause - Policies have not been established and procedures have not been implemented to ensure that the local option tax transfers get recorded in the City's accounting records.

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 AND RESPONSES  
YEAR ENDED JUNE 30, 2020**

**Part I: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES (Continued)**

I-C-20      Financial Reporting – Debt Service transfers

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 debt service fund had a material deficit balance.

Cause - Cash, tax receipts, and transfers from other funds were insufficient to maintain the debt service fund balance in a healthy financial position.

Effect - The lack of the relationship between debt service payments and the required transfers to fund those debt service payments resulted in a material deficit balance in the debt service fund. Adjustments were made to transfers to correctly report amounts in the City's financial statements.

Recommendation - When recording the debt service payment, identify which department or fund provides the money for this payment. For example, when paying on a firetruck, the fire department should provide the funds equal to the payment. When paying on street improvements, road use funds provide the funds equal to the payment. These are then recorded as transfers into the debt service fund. City officials are approving the required transfers, the amounts just need recorded in the City' accounting records.

Response - Procedures will be revised to properly report transfers and maintain the debt service fund in a healthy financial position.

Conclusion - Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted

**CITY OF UNDERWOOD  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2020**

**Part II: Other Findings Related to Required Statutory Reporting:**

II-A-20 Certified Budget - Disbursements during the year ended June 30, 2020 exceeded the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, *Public monies may not be expended or encumbered except under an annual or continuing appropriation.*

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

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

Conclusion - Response accepted.

II-B-20 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-20 Travel Expense - No disbursements of City money for travel expenses for spouses of City officials or employees were noted.

II-D-20 Business Transactions - No business transactions between the City and City officials and/or employees were noted.

II-E-20 Restricted Donor Activity - No transactions were noted between the City, City officials, City employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.

II-F-20 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-G-20 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-H-20 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 AND RESPONSES  
YEAR ENDED JUNE 30, 2020**

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

II-I-20 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 published in November 2019 for the months of July, September, and October 2019, but after the 15 day requirement as required by Chapter 372.13(6). Council minutes and claims were all published timely.

Recommendation - Clerks often include the summary of receipts and disbursements by fund with the claims list thereby ensuring its publication.

Response - We will revise our current practices and include the summary of receipts and disbursements by fund with the claims list.

Conclusion - Response accepted.

II-J-20 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. The report was filed on November 27, 2019.

