

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

JUNE 30, 2004

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16-17
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	C	18
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D	19
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	E	20
Notes to Financial Statements		21-30
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		32-33
Notes to Required Supplementary Information – Budgetary Reporting		34
Other Supplementary Information:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	36-37
Schedule of Indebtedness	2	38-39
Bond and Note Maturities	3	40-41
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4	42
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance		44-45
Schedule of Findings		46-49

City of Underwood

Officials

<u>Name</u>	<u>Title</u> (Before January 2004)	<u>Term Expires</u>
Stan Forrester	Mayor	January 2004
Charlotte Owens	Council Member	January 2004 (resigned September 2003)
Rhonda Johnson	Council Member	January 2004
Robert Dose	Council Member	January 2004
David DiCenzo	Council Member	January 2006
Dave Lyon	Council Member	January 2006

<u>Name</u>	<u>Title</u> (After January 2004)	<u>Term Expires</u>
Craig Zenor	Mayor	January 2006
David DiCenzo	Council Member	January 2006
Dave Lyon	Council Member	January 2006
Shawn McKee	Council Member	January 2008
Rhonda Johnson	Council Member	January 2008
Robert Dose	Council Member	January 2008

Debra Maxell	City Clerk	Indefinite
Mary Bennett	Deputy Clerk	Indefinite
Lea Voss	Treasurer	Indefinite
Scott Peters	Attorney	Indefinite

City of Underwood

August 19, 2004

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Underwood, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Underwood's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Underwood as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 11, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*.

Continued...

Independent Auditor's Report
City of Underwood

In accordance with *Government Auditing Standards*, we have also issued our reports dated August 19, 2004 on our consideration of the City of Underwood's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 32 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Underwood's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the year ended June 30, 2001 were audited by other auditors who expressed an unqualified opinion on those financial statements. Other 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. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 19.6%, or approximately \$111,000, from fiscal 2003 to fiscal 2004. Property tax increased approximately \$42,000.
- Disbursements decreased 26.4%, or approximately \$221,000, in fiscal 2004 from fiscal 2003. Public works and debt service disbursements increased approximately \$50,000 and \$29,000, respectively. Public safety, community & economic development, general government and capital projects decreased by \$111,000, \$43,000, \$3,000 and \$145,000, respectively.
- The City's total cash basis net assets increased 11%, or approximately \$27,000, from June 30 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$48,000 and the assets of the business type activities decreased by approximately \$21,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

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, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

The required financial statements for governmental funds include 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 one Enterprise Fund to provide separate information for the sewer fund, considered to be a major fund of the City.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased moderately from a year ago, increasing from \$183 thousand to \$231 thousand. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2004	2003
Receipts and other financing sources:		
Property tax	\$ 151	109
Tax increment financing collections	216	194
Other city tax	76	71
Licenses and permits	6	2
Use of money and property	1	2
Intergovernmental	123	168
Charges for service	41	1
Special assessments	0	1
Miscellaneous	64	19
	<u>678</u>	<u>567</u>
Disbursements and other financing uses:		
Public safety	41	151
Public works	105	55
Health and social services	1	1
Culture and recreation	49	48
Community and economic development	141	184
General government	117	119
Debt service	161	132
Capital projects	0	145
	<u>615</u>	<u>835</u>
Excess (deficiency) of receipts over (under) disbursements	63	(268)
Other financing sources (uses), net	<u>(15)</u>	<u>244</u>
Net change in cash basis net assets	48	(24)
Cash basis net assets beginning of year	<u>183</u>	<u>207</u>
Cash basis net assets end of year	<u>\$ 231</u>	<u>183</u>

The City's total receipts for governmental activities increased by 19.6%, or \$111,000. The total cost of all programs and services decreased by approximately \$220,000, or 26.4%, with no new programs added this year. The increase in receipts was primarily the result of revenues received for garbage service charges in the General Fund that were previously reported in the Enterprise Fund, contributions and grant proceeds received from Iowa West Foundation for the development of Trailhead Park and property taxes.

The City increased property tax rates for 2004 by 21 percent. This increase, the first in three years, raised the City's property tax receipts by approximately \$42,000 in 2004. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase by an additional \$57,000 next year.

The cost of all governmental activities this year was \$615 thousand compared to \$836 thousand last year. However, as shown in the Statement of Activities and Net Assets on pages 13-14, the amount taxpayers ultimately financed for these activities was only \$442 thousand because some of the cost was paid by those directly benefited from the programs (\$47,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$188,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2004 from approximately \$566,000 to approximately \$677,000, principally due to receiving grant proceeds to develop Trailhead Park. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$442,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2004	2003
Operating receipts		
Charges for service	\$ 67	91
Special assessments	0	1
Miscellaneous	2	3
	<u>69</u>	<u>95</u>
Operating disbursements		
Sewer	73	38
Garbage	0	26
	<u>73</u>	<u>64</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	(4)	31
Nonoperating receipts (disbursements) and transfers		
Debt service	(34)	(16)
Transfers	17	16
	<u>(17)</u>	<u>0</u>
Net change in cash basis net assets	(21)	31
Cash basis net assets beginning of year	<u>58</u>	<u>27</u>
Cash basis net assets end of year	\$ <u>37</u>	<u>58</u>

Total business type activities receipts for the fiscal year were \$86 thousand compared to \$111 thousand last year. This significant decrease was due primarily to the reclassification of garbage service charge revenues to governmental activities. The cash balance decreased by approximately \$21,000 from the prior year because the bond proceeds received last year were disbursed this fiscal year for the approved sewer lift station improvement project. Total disbursements and transfers for the fiscal year increased by 21.3% to a total of \$107 thousand.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Underwood completed the year, its governmental funds reported a combined fund balance of \$231,256, an increase of more than \$48,000 above last year's total of \$183,026. 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 \$29,608 from the prior year to \$29,331 from a deficit of \$277. The increase was due primarily to grant proceeds received during the fiscal year for prior year expenditures to develop Trailhead Park and property tax increases.
- The Urban Renewal Tax Increment Fund balance at the end of the fiscal year was \$171,797, an increase of \$42,052 from the previous year. The increase was the result of Urban Renewal Tax Increment revenues into the Low-Moderate Income Housing Assistance Program that exceeded eligible applicant requests during the fiscal year and will be disbursed to eligible applicants in subsequent years.
- The Debt Service Fund cash balance increased by \$181 to \$(2,662) during the fiscal year. This increase was due to an increase in property tax. Bond principal and interest payments increased by \$18,223 in fiscal 2004.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance decreased by \$20,774 to \$36,969, due to additional debt service and final disbursement on the lift station improvements project from bond proceeds received in the prior year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City budget was not amended nor exceeded in expenditures. Actual revenues were less than budgeted due to state shared revenue budget cuts and grant awards anticipated, but not funded. Some capital equipment budgeted was not purchased due to state shared revenue cuts made after the budget was certified. A sewer improvement capital project budgeted was not constructed. Housing Assistance Program revenues exceeded disbursements.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$657,000 in bonds and other long-term debt, compared to approximately \$808,000 last year, as shown below:

	Outstanding Debt at Year End (Expressed in Thousands)	
	Year ended June 30,	
	2004	2003
General obligation notes and bonds	\$ 442	503
Urban renewal tax increment financing revenue bonds	82	145
Revenue bonds	133	160
	<u>\$ 657</u>	<u>808</u>

Debt decreased as a result of issuing approximately \$9,000 in equipment debt, and redeeming \$160,000 in principal over the course of the year.

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 and tax increment financing debt was \$524,000 at fiscal year end. The City has entered into tax increment financing rebate agreements for the purpose of residential economic development which principal balances totaled \$323,000 at fiscal year end. That debt, while not a general obligation of the City, is subject to the constitutional debt limit of the City. That, coupled with the debt of \$524,000, noted above, is significantly below the City’s constitutional debt limit of \$1.435 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Underwood's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2004 compared with the national rate of 3.4 percent.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are \$657 thousand, a decrease of 9% over the final 2004 budget. Property tax rate increases due to decreases in taxable valuations and the decrease in proceeds from the urban renewal tax increment financing revenue bonds are the leading causes. The regular taxable valuation increased \$3.896 million from \$9.252 million in 2004 to \$13.148 million in 2005 due to redemption in full of the tax increment rebate agreement with Underwood Hills Development in the Underwood Urban Renewal Area. The total taxable valuation decreased \$7,000 from \$16.354 million in 2004 to \$16.347 in 2005 due to the residential property tax rollback. Residential properties were taxable at 48.46% of assessed valuation in 2005 as compared to 51.39% in 2004. The tax rate for debt service increased from \$2.47 per thousand of taxable valuation in 2004 to \$3.53 per thousand of taxable valuation in 2005 as the general levy tax rate of \$8.10 per thousand of taxable valuation was no longer sufficient to fund all existing debt and operations.

Budgeted disbursements are expected to decrease by approximately \$186,000 from 2004 due to reduction of approximately \$108,000 in debt service and tax increment revenue bonds. No major programs were cut and no major new programs were added to the 2005 budget. The City budgeted no capital improvements for 2005 due to continued budget constraints.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$6,000 by the close of 2005.

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 Debra Maxell, City Administrator, 218 Second Street, Underwood, Iowa.

City of Underwood
Basic Financial Statements

City of Underwood
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2004

		Program Receipts	
	Disbursements	Charges for Service	Operating Grants Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 40,519	5	62,679
Public works	105,362	28,037	61,813
Health and social services	650	0	0
Culture and recreation	48,998	11,974	61,691
Community and economic development	141,126	6,085	0
General government	116,604	488	0
Debt service	161,316	0	0
Total governmental activities	614,575	46,589	186,183
Business type activities:			
Sewer	107,022	69,278	0
Total business type activities	107,022	69,278	0
Total	\$ 721,597	115,867	186,183

General Receipts:

Property tax levied for:
 General purposes
 Tax increment financing
 Debt service
Local option sales tax
Grants and contributions not restricted to specific purpose
Unrestricted interest on investments
Bond proceeds
Miscellaneous
Sale of assets
Transfers
 Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets:

Restricted:
 Urban renewal purposes
 Debt service
 Other purposes
Unrestricted

 Total cash basis net assets

See notes to financial statements.

Net (Disbursement) Receipts and Changes in
Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
22,165	0	22,165
(15,512)	0	(15,512)
(650)	0	(650)
24,667	0	24,667
(135,041)	0	(135,041)
(116,116)	0	(116,116)
<u>(161,316)</u>	<u>0</u>	<u>(161,316)</u>
(381,803)	0	(381,803)
<u>0</u>	<u>(37,744)</u>	<u>(37,744)</u>
<u>0</u>	<u>(37,744)</u>	<u>(37,744)</u>
(381,803)	(37,744)	(419,547)
\$ 119,830	0	119,830
215,569	0	215,569
40,006	0	40,006
67,011	0	67,011
1,030	0	1,030
739	217	956
0	0	0
0	0	0
2,601	0	2,601
<u>(16,753)</u>	<u>16,753</u>	<u>0</u>
<u>430,033</u>	<u>16,970</u>	<u>447,003</u>
48,230	(20,774)	27,456
<u>183,026</u>	<u>57,743</u>	<u>240,769</u>
\$ <u>231,256</u>	<u>36,969</u>	<u>268,225</u>
\$ 171,797	0	171,797
0	22,103	22,103
32,790	0	32,790
<u>26,669</u>	<u>14,866</u>	<u>41,535</u>
\$ <u>231,256</u>	<u>36,969</u>	<u>268,225</u>

City of Underwood
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and for the year ended June 30, 2004

	Special Revenue		
	General	Urban Renewal Tax Increment	Debt Service
Receipts			
Property tax	\$ 87,627	0	38,621
Tax increment financing collections	0	215,569	0
Other city tax	7,407	0	1,385
Licenses and permits	6,022	0	0
Use of money and property	397	592	0
Intergovernmental	63,259	0	0
Charges for service	40,562	0	0
Miscellaneous	64,361	0	0
Total receipts	269,635	216,161	40,006
Disbursements			
Operating:			
Public safety	40,519	0	0
Public works	52,571	0	0
Health and social services	650	0	0
Culture and recreation	48,998	0	0
Community and economic development	2,770	138,339	0
General government	100,120	0	0
Debt service	49,793	71,698	39,825
Total disbursements	295,421	210,037	39,825
Excess (deficiency) of receipts over (under) disbursements	(25,786)	6,124	181
Other financing sources (uses):			
Sale of capital assets	2,601	0	0
Operating transfers in	52,793	35,928	0
Operating transfers out	0	0	0
Total other financing sources (uses)	55,394	35,928	0
Net change in cash balances	29,608	42,052	181
Cash balances beginning of year	(277)	129,745	(2,843)
Cash balances end of year	\$ 29,331	171,797	(2,662)
Cash Basis Fund Balances			
Unreserved:			
General fund	\$ 29,331	0	0
Special revenue funds	0	171,797	0
Debt service	0	0	(2,662)
Total cash basis fund balances	\$ 29,331	171,797	(2,662)

See notes to financial statements.

Other Nonmajor Governmental Funds	Total
24,512	150,760
0	215,569
67,295	76,087
0	6,022
0	989
59,348	122,607
0	40,562
0	64,361
<u>151,155</u>	<u>676,957</u>
0	40,519
52,791	105,362
0	650
0	48,998
17	141,126
16,484	116,604
0	161,316
<u>69,292</u>	<u>614,575</u>
81,863	62,382
0	2,601
0	88,721
<u>(105,474)</u>	<u>(105,474)</u>
<u>(105,474)</u>	<u>(14,152)</u>
(23,611)	48,230
<u>56,401</u>	<u>183,026</u>
<u>32,790</u>	<u>231,256</u>
0	29,331
32,790	204,587
0	(2,662)
<u>32,790</u>	<u>231,256</u>

City of Underwood
 Reconciliation of the Statement of Cash
 Receipts, Disbursements and Changes in Cash Balances
 to the Statement of Activities and Net Assets -
 Governmental Funds
 As of and for the year ended June 30, 2004

Total governmental funds cash balances	\$	231,256
<i>Adjustments</i>		
None		0
Cash basis net assets of governmental activities	\$	231,256
Net change in cash balances	\$	48,230
<i>Adjustments</i>		
None		0
Change in cash balance of governmental activities	\$	48,230

See notes to financial statements.

City of Underwood
 Statement of Cash Receipts, Disbursements and Changes in Cash Balances
 Proprietary – Sewer Enterprise Fund
 As of and for the year ended June 30, 2004

Operating receipts:	
Charges for service	\$ 67,075
Special assessment	320
Miscellaneous	<u>1,883</u>
Total operating receipts	69,278
Operating disbursements:	
Business type activities	<u>72,931</u>
Total operating disbursements	<u>72,931</u>
Deficiency of operating receipts under operating disbursements	(3,653)
Non-operating receipts (disbursements):	
Interest on investments	217
Debt service	<u>(34,091)</u>
Total non-operating receipts (disbursements)	<u>(33,874)</u>
Deficiency of receipts under disbursements	(37,527)
Operating transfers in	<u>16,753</u>
Net change in cash balances	(20,774)
Cash balances beginning of year	<u>57,743</u>
Cash balances end of year	\$ <u>36,969</u>
Cash Basis Fund Balances	
Reserved for debt service	\$ 22,103
Unreserved	<u>14,866</u>
Total cash basis fund balances	\$ <u>36,969</u>

See notes to financial statements.

City of Underwood
 Reconciliation of the Statement of Cash Receipts, Disbursements
 and Changes in Cash Balances
 to the Statement of Activities and Net Assets –
 Proprietary Funds
 As of and for the year ended June 30, 2004

Total enterprise funds cash balances	\$	36,969
<i>Adjustments</i>		
None		0
Cash basis net assets of business type activities	\$	36,969
Net change in cash balances	\$	(20,774)
<i>Adjustments</i>		
None		0
Change in cash balance of business type activities	\$	(20,774)

See notes to financial statements.

City of Underwood
Notes to Financial Statements
June 30, 2004

NOTE (1) Summary of Significant Accounting Policies

The City of Underwood is a political subdivision of the State of Iowa located in Pottawattamie County. It was first incorporated in 1977 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides a sewer utility 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 benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board 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 boards 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 Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

City of Underwood
Notes to Financial Statements
June 30, 2004

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

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

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

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

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

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

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

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

City of Underwood
Notes to Financial Statements
June 30, 2004

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

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 of Underwood 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.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2002, to compute the amounts which became liens on property on July 1, 2003. These taxes were due and payable in two installments on September 30, 2003 and March 31, 2004, at the Pottawattamie County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

NOTE (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

City of Underwood
Notes to Financial Statements
June 30, 2004

NOTE (2) Cash and Pooled Investments - Continued

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 in bank and certificates of deposit, totaled \$268,225.

NOTE (3) Bonds and Notes Payable

Annual debt service requirements to maturity of general obligation bonds and notes, urban renewal tax increment financing revenue bonds, and revenue notes are as follows:

Year Ended June 30,	General Obligation Bonds & Notes		Urban Renewal Tax Increment Financing (TIF) Bonds		Revenue Notes		Total	
	Principal		Principal		Principal		Principal	
2005	\$	75,950	\$	27,500	\$	28,555	\$	132,005
2006		61,744		27,500		29,903		119,147
2007		48,093		27,500		23,392		98,985
2008		50,237		-		16,323		66,560
2009		43,827		-		16,999		60,826
2010		45,745		-		17,666		63,411
2011		47,747		-		-		47,747
2012		38,804		-		-		38,804
2013		29,646		-		-		29,646
Total	\$	<u>441,793</u>	\$	<u>82,500</u>	\$	<u>132,838</u>	\$	<u>657,131</u>
Year Ended June 30,	Interest		Interest		Interest		Interest	
2005	\$	18,443	\$	3,259	\$	5,536	\$	27,238
2006		15,159		2,173		4,188		21,520
2007		12,633		1,086		2,776		16,495
2008		10,490		-		1,923		12,413
2009		8,309		-		1,247		9,556
2010		6,390		-		503		6,893
2011		4,387		-		-		4,387
2012		2,304		-		-		2,304
2013		866		-		-		866
Total	\$	<u>78,981</u>	\$	<u>6,518</u>	\$	<u>16,173</u>	\$	<u>101,672</u>

City of Underwood
Notes to Financial Statements
June 30, 2004

NOTE (3) Bonds and Notes Payable - Continued

Interest costs paid during the year ended June 30, 2004 totaled \$37,117.

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The urban renewal tax increment revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City, however the debt is subject to the constitutional debt limitation of the City.

The City has a general obligation debt limit of approximately \$1,435,000 which was not exceeded during the year ended June 30, 2004.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the sewer enterprise activity, and the note holders hold a lien on the future earnings of the fund.
- b) Sufficient monthly transfers shall be made to the sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.

The City has complied with the provisions of the resolution.

NOTE (4) Pension and Retirement Benefits

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

Plan members are required to contribute 3.7 % of their annual salary and the City is required to contribute 5.75 % of annual covered payroll. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002, was \$4,793, \$4,244, and \$4,105, respectively, equal to the required contributions for each year.

City of Underwood
Notes to Financial Statements
June 30, 2004

NOTE (5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and comp time termination payments payable to employees at June 30, 2004, primarily relating to the General Fund is \$2,474. This liability is computed on rates of pay effective as of June 30, 2004.

NOTE (6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Emergency	\$ 2,535
	Local Option Sales Tax	<u>50,258</u>
		52,793
Special Revenue: Urban Renewal Tax Increment	Special Revenue: Road Use	35,928
Proprietary: Sewer	Special Revenue: Local Option Sales Tax	<u>16,753</u>
		<u>\$ 105,474</u>

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

NOTE (7) 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 490 members are from 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.

City of Underwood
Notes to Financial Statements
June 30, 2004

NOTE (7) Risk Management - Continued

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2004 were \$13,999.

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 \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$5,000 each accident, each location, with excess coverage reinsured on an individual member basis. All property risks are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

City of Underwood
Notes to Financial Statements
June 30, 2004

NOTE (7) Risk Management - Continued

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries workmen's compensation insurance purchased from Iowa Municipal Workers Compensation Association. The City assumes liability for any deductions, 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.

NOTE (8) Deficit Fund Balances

The Debt Service Fund had a deficit fund balance of \$2,662 at June 30, 2004. The deficit will be eliminated with the levy of property taxes.

NOTE (9) Urban Renewal Tax Increment Financing Development Agreements

McKee Development Agreements

On February 8, 2000, the City entered into an agreement with McKee Contracting. The developer agreed to provide improvements to certain property within the City's Urban Renewal South Area for the purpose of constructing housing units. In exchange, the City agreed to make urban renewal increment tax payments to the Developer semi-annually of eligible costs of approximately \$28,000. If tax increment financing collections are available, these payments will be made December 1 and June 1 of each fiscal year, beginning December 1, 2002 and continue for nine fiscal years or until the total has been paid. The City shall retain 42.82% of the urban renewal tax increment revenue for the purpose of providing assistance to low and moderate income families, and pay the remaining 57.18% to the developer. The City paid the developer \$4,003 during the year.

City of Underwood
Notes to Financial Statements
June 30, 2004

NOTE (9) Urban Renewal Tax Increment Financing Development Agreements - Continued

McKee Development Agreements - Continued

On December 10, 2003, the City entered into an agreement with McKee Contracting. The developer agreed to provide improvements to certain property within the City's Field Crest Urban Renewal Area for the purpose of constructing housing units. The total costs to be incurred on the project over a period of 16 years, are to be approximately \$1,688,339. In exchange, the City agreed to make urban renewal increment tax payments to the developer semi-annually. If tax increment financing collections are available, these payments will be made December 1 and June 1 of each fiscal year, beginning on the first December 1 for which incremental tax revenues become available with respect to each Phase of the development, and continuing for a total of ten years for each of the Phases. There are six Phases of construction from the years 2004 through 2020. There were no payments made to the developer during the year.

Underwood Hills Development Agreement

On April 7, 2000, the City entered into an agreement with Underwood Hills Development. The developer agreed to provide improvements to certain property within the City's Urban Renewal Area for the purpose of constructing housing units. In exchange, the City agreed to make urban renewal tax increment payments to the Developer semi-annually of eligible costs of approximately \$216,500 plus interest of 6% per annum. If tax increment financing collections are available, these payments will be made December 1 and June 1 of each fiscal year, beginning December 1, 2000, and ending June 1, 2012. Before making any payments on this Agreement, the City shall make any payments of principal and interest to be made on the North TIF Bonds (Note 3). The City shall retain 42.82% of urban renewal tax increment revenue for the purpose of providing assistance to low and moderate income families and pay the remaining 57.18% to the developer. The City paid the developer \$90,593 for principal and \$4,404 for interest costs during the year. This was considered the final payment on this agreement.

City of Underwood
Notes to Financial Statements
June 30, 2004

NOTE (9) Urban Renewal Tax Increment Financing Development Agreements - Continued

HLH Development Agreement

On January 9, 2001, the City entered into an agreement with HLH Development, L.C. The developer agreed to provide improvements to certain property within the City's Urban Renewal South Area legally described as Eagle Landing for the purpose of constructing housing units. In exchange, the City agreed to make urban renewal tax increment payments to the Developer semi-annually of eligible costs of approximately \$300,785 plus interest of 6% per annum calculated from December 1, 2000. If tax increment financing collections are available, these payments will be made December 1 and June 1 of each fiscal year, beginning December 1, 2003 and continue for nine fiscal years or until the total has been paid. The City shall retain 20% of urban renewal tax increment revenue for the purpose of providing assistance to low and moderate income families and pay the remaining 80% to the developer. The City paid the developer \$11,600 for interest costs during the year.

NOTE (10) Commitments

The City has entered into an agreement for law enforcement services. The fee for the fiscal year ending June 30, 2005 is \$12,040.

The City has signed an agreement for solid waste collection services through March 2005 at a cost of \$9 per month per household or commercial unit, to be adjusted yearly by a formula that includes the consumer price index.

NOTE (11) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement reports the City's governmental and business type activities. The accounting change has no effect on beginning net assets.

Required Supplementary 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
 Required Supplementary Information
 Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Actual
Receipts			
Property tax	150,760	0	150,760
Tax increment financing collections	215,569	0	215,569
Other city tax	76,087	0	76,087
Licenses and permits	6,022	0	6,022
Use of money and property	989	217	1,206
Intergovernmental	122,607	0	122,607
Charges for service	40,562	69,278	109,840
Miscellaneous	64,361	0	64,361
Total receipts	<u>676,957</u>	<u>69,495</u>	<u>746,452</u>
Disbursements			
Public safety	40,519	0	40,519
Public works	105,362	0	105,362
Health and social services	650	0	650
Culture and recreation	48,998	0	48,998
Community and economic development	141,126	0	141,126
General government	116,604	0	116,604
Debt service	161,316	0	161,316
Business type activities	0	107,022	107,022
Total disbursements	<u>614,575</u>	<u>107,022</u>	<u>721,597</u>
Excess (deficiency) of receipts over (under) disbursements	62,382	(37,527)	24,855
Other financing sources, net	<u>(14,152)</u>	<u>16,753</u>	<u>2,601</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	48,230	(20,774)	27,456
Balances beginning of year	<u>183,026</u>	<u>57,743</u>	<u>240,769</u>
Balances end of year	<u>\$ 231,256</u>	<u>36,969</u>	<u>268,225</u>

See accompanying independent auditor's report.

Original Budgeted Amounts	Budget to Actual Variance
148,229	2,531
215,328	241
69,828	6,259
3,450	2,572
3,390	(2,184)
178,965	(56,358)
102,525	7,315
200	64,161
721,915	24,537
46,327	5,808
123,610	18,248
650	0
55,640	6,642
187,258	46,132
138,879	22,275
162,185	869
133,901	26,879
848,450	126,853
(126,535)	151,390
50,000	(47,399)
(76,535)	103,991
81,677	159,092
5,142	263,083

City of Underwood
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2004

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 and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. These 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 ended June 30, 2004, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

City of Underwood
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2004

	Special		
	Road Use Tax	Emergency	Employee Benefits
Receipts:			
Property tax	\$ 0	2,384	22,128
Other city tax	0	151	133
Intergovernmental	59,348	0	0
Total receipts	59,348	2,535	22,261
Disbursements:			
Operating:			
Public works	47,795	0	4,996
Community and economic development	0	0	17
General government	0	0	16,484
Total disbursements	47,795	0	21,497
Excess of receipts over disbursements	11,553	2,535	764
Other financing uses:			
Operating transfers out	(35,928)	(2,535)	0
Net change in cash balances	(24,375)	0	764
Cash balances beginning of year	45,683	5	10,713
Cash balances end of year	\$ 21,308	5	11,477

Cash Basis Fund Balances

Unreserved:			
Special revenue funds	\$ 21,308	5	11,477
Total cash basis fund balances	\$ 21,308	5	11,477

See accompanying independent auditor's report.

<u>Revenue</u>	
Local Option Sales Tax	<u>Total</u>
0	24,512
67,011	67,295
<u>0</u>	<u>59,348</u>
67,011	151,155
0	52,791
0	17
<u>0</u>	<u>16,484</u>
<u>0</u>	<u>69,292</u>
67,011	81,863
<u>(67,011)</u>	<u>(105,474)</u>
0	(23,611)
<u>0</u>	<u>56,401</u>
<u>0</u>	<u>32,790</u>
<u>0</u>	<u>32,790</u>
<u>0</u>	<u>32,790</u>

City of Underwood
Schedule of Indebtedness
Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and notes:			
Fire truck #1	Jul 11, 1995	6.25 %	\$ 79,693
Street equipment	Jun 22, 2000	5.24 %	40,000
Fire truck #2	Jan 16, 2001	5.125 %	50,000
Fire station	Oct 15, 2001	3.75 %	40,000
Street improvements	Nov 20, 2001	4.75 %	170,000
Rescue unit	Feb 28, 2003	4.27 %	100,000
Street improvements	Jun 16, 2003	3.86 %	150,000
Rescue equipment	Jan 13, 2004	0.00 %	9,890
Urban renewal tax increment financing (TIF) revenue bonds:			
North district	Feb 1, 1998	4.30 – 4.40 %	\$ 340,000
South district	Jun 24, 2002	3.95 %	110,000
Revenue bonds:			
Sewer improvement	Oct 15, 1999	5.25 %	\$ 92,000
Sewer improvement	Feb 28, 2003	4.10 %	110,000

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>
24,738	0	9,430	15,308	1,411	0
17,272	0	8,351	8,921	797	0
37,454	0	6,758	30,696	1,833	0
24,000	0	8,000	16,000	902	0
149,479	0	14,674	134,805	6,928	0
100,000	0	8,803	91,197	3,507	0
150,000	0	12,546	137,454	5,677	0
0	9,890	2,478	7,412	0	0
<u>502,943</u>	<u>9,890</u>	<u>71,040</u>	<u>441,793</u>	<u>21,055</u>	<u>0</u>
35,000	0	35,000	0	770	0
110,000	0	27,500	82,500	8,428	0
<u>145,000</u>	<u>0</u>	<u>62,500</u>	<u>82,500</u>	<u>9,198</u>	<u>0</u>
50,066	0	13,391	36,675	2,455	0
110,000	0	13,837	96,163	4,409	0
<u>160,066</u>	<u>0</u>	<u>27,228</u>	<u>132,838</u>	<u>6,864</u>	<u>0</u>

City of Underwood
Bond and Note Maturities
June 30, 2004

Year Ending June 30,	General Obligation							
	Fire Truck #1 Issued July 11, 1995		Fire Truck #2 Issued Jan. 16, 2001		Street Equipment Issued June 22, 2000		Fire Station Issued Oct. 16, 2001	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2005	6.25 %	\$ 10,039	5.125 %	\$ 7,107	5.24 %	\$ 8,921	3.75 %	\$ 8,000
2006	6.25 %	5,269	5.125 %	7,476	-	-	3.75 %	8,000
2007	-	-	5.125 %	7,865	-	-	-	-
2008	-	-	5.125 %	8,248	-	-	-	-
2009	-	-	-	-	-	-	-	-
2010	-	-	-	-	-	-	-	-
2011	-	-	-	-	-	-	-	-
2012	-	-	-	-	-	-	-	-
2013	-	-	-	-	-	-	-	-
Total		\$ 15,308		\$ 30,696		\$ 8,921		\$ 16,000

Year Ending June 30,	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds		Revenue		Notes	
	South District Issued June 24, 2002		Sewer Issued Oct. 15, 1999		Sewer Issued Feb. 28, 2003	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2005	3.95 %	\$ 27,500	5.25 %	\$ 14,103	4.10 %	\$ 14,452
2006	3.95 %	27,500	5.25 %	14,853	4.10 %	15,050
2007	3.95 %	27,500	5.25 %	7,719	4.10 %	15,673
2008	-	-	-	-	4.10 %	16,323
2009	-	-	-	-	4.10 %	16,999
2010	-	-	-	-	4.10 %	17,666
Total		\$ 82,500		\$ 36,675		\$ 96,163

See accompanying independent auditor's report.

Schedule 3

Bonds

Street Improvement Warrant Issued Nov. 20, 2001		Rescue Unit Issued Feb. 28, 2003		Street Improvement Issued June 16, 2003		Rescue Equipment Issued Jan 13, 2004		
Interest		Interest		Interest		Interest		Total
Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	
4.75 %	\$ 15,379	4.27 %	\$ 8,506	3.86 %	\$ 13,042	0.00 %	\$ 4,956	\$ 75,950
4.75 %	16,118	4.27 %	8,874	3.86 %	13,551	0.00 %	2,456	61,744
4.75 %	16,892	4.27 %	9,257	3.86 %	14,079	-	0	48,093
4.75 %	17,705	4.27 %	9,656	3.86 %	14,628	-	0	50,237
4.75 %	18,556	4.27 %	10,073	3.86 %	15,198	-	0	43,827
4.75 %	19,448	4.27 %	10,507	3.86 %	15,790	-	0	45,745
4.75 %	20,382	4.27 %	10,960	3.86 %	16,405	-	0	47,747
4.75 %	10,325	4.27 %	11,434	3.86 %	17,045	-	0	38,804
-	-		11,930	3.86 %	17,716	-	0	29,646
	\$ <u>134,805</u>		\$ <u>91,197</u>		\$ <u>137,454</u>		\$ <u>7,412</u>	\$ <u>441,793</u>

	<u>Total</u>
\$	28,555
	29,903
	23,392
	16,323
	16,999
	17,666
\$	<u>132,838</u>

City of Underwood
 Schedule of Receipts By Source and Disbursements By Function -
 All Governmental Funds
 For the Last Four Years

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Receipts				
Property tax	\$ 150,760	108,867	110,108	92,974
Tax increment financing collections	215,569	193,980	173,355	190,451
Other city tax	76,087	70,798	64,351	52,064
Licenses and permits	6,022	2,090	3,520	2,535
Use of money and property	989	2,200	6,242	9,821
Intergovernmental	122,607	167,696	102,073	286,420
Charges for service	40,562	1,157	700	150
Miscellaneous	64,361	19,089	656	3,776
Total	\$ <u>676,957</u>	<u>565,877</u>	<u>461,005</u>	<u>638,191</u>
Disbursements				
Operating:				
Public safety	\$ 40,519	151,330	62,289	147,569
Public works	105,362	55,339	109,867	490,352
Health and social services	650	650	645	645
Culture and recreation	48,998	47,702	11,339	10,268
Community and economic development	141,126	184,141	286,464	108,839
General government	116,604	119,593	144,835	101,069
Debt service	161,316	132,023	10,801	0
Capital projects	0	144,734	164,938	0
Total	\$ <u>614,575</u>	<u>835,512</u>	<u>791,178</u>	<u>858,742</u>

See accompanying independent auditor's report.

City of Underwood

August 19, 2004

Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Underwood, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 19, 2004. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Underwood's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. Prior year reportable conditions have been resolved.

Compliance

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

Continued...

City of Underwood
Independent Auditor's Report on
Internal Control and Compliance

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items II-H-04, II-J-04 and II-K-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Underwood and other parties to whom the City of Underwood may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

City of Underwood
Schedule of Findings
Year Ended June 30, 2004

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No matters were reported.

City of Underwood
 Schedule of Findings
 Year Ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

II-A-04 Official Depositories

A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget

Disbursements during the year ended June 30, 2004 did not exceed the budgeted amounts.

II-C-04 Entertainment Expense

We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-E-04 Business Transactions

Business transactions between the City and City officials or employees are detailed.

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Dave Lyon, Council Member Owner of Dave Lyon Auto	Repairs and Parts	\$ 328
Stan Forrester, Mayor Owner of Country Store	Supplies	35
Craig Zenor, Mayor	Contract Services	310
Shawn McKee, Council Member Owner of McKee Contracting	Contract Services	<u>60</u>
		<u>\$ 733</u>

In accordance with Chapter 362.5(10) of the Iowa Code, the transactions with the Council Members and the Mayors do not appear to represent a conflict of interest since the total transactions with the individuals did not exceed \$2,500 during the fiscal year.

City of Underwood
Schedule of Findings
Year Ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting Continued:

II-F-04 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-04 Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

II-H-04 Deposits and Investments

Comment – The City has not adopted a written investment policy.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Response – We will do this.

Conclusion – Response accepted.

II-I-04 Revenue Note

The City is in compliance with the provisions of the sewer revenue note resolution.

II-J-04 City Code

Comment – In accordance with Chapter 380.8(2) of the Code of Iowa, at least once every five years a City shall compile a City Code containing all of the city ordinances in effect except trade, bond, and zoning ordinances, and ordinances vacating streets and alleys. The City has not re-codified its City Ordinances in more than five years.

Recommendation – The City should re-codify the City Ordinances.

Response – Re-codification is in progress.

Conclusion – Response accepted.

City of Underwood
Schedule of Findings
Year Ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting Continued:

II-K-04 Financial Condition

Comment – The Debt Service Fund had a deficit balance at June 30, 2004.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return the fund to a sound financial position.

Response – We intend to eliminate the deficit with a levy of property taxes.

Conclusion – Response accepted

NEWS RELEASE

Schroer & Associates, P.C. today released an audit report on the City of Underwood, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$749,053 for the year ended June 30, 2004, a 33 percent decrease from 2003. The receipts included \$159,836 in property tax, \$215,569 from tax increment financing collections, \$115,867 from charges for service, \$186,183 from operating grants, contributions and restricted interest, \$67,011 from local option sales tax, \$956 from unrestricted investment earnings and \$3,631 from other general receipts.

Disbursements for the year totaled \$721,597, a 21 percent decrease from the prior year, and included \$161,316 for debt service, \$141,126 for community and economic development, and \$116,604 for general government. Also, disbursements for business type activities totaled \$107,622.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.