

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

JUNE 30, 2006

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City of Underwood

Officials

<u>Name</u>	<u>Title</u> (Before January 2006)	<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
Kelly Groskurth	City Clerk	Indefinite
Lea Voss	Treasurer	Indefinite
Scott Peters	Attorney	Indefinite

<u>Name</u>	<u>Title</u> (After January 2006)	<u>Term Expires</u>
Craig Zenor	Mayor	January 2008
Shawn McKee	Council Member	January 2008
Rhonda Johnson	Council Member	January 2008
Robert Dose	Council Member	January 2008
Edward Freuck	Council Member	January 2010
Jim Pingel	Council Member	January 2010
Kelly Groskurth	City Clerk	Indefinite
Lea Voss	Treasurer	Indefinite
Scott Peters	Attorney	Indefinite

City of Underwood

August 31, 2006

Independent Auditors' 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, 2006, 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, 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 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, 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued our reports dated August 31, 2006 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 grant agreements 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Continued...

Independent Auditor's Report
City of Underwood

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 three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions 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

As management of the City of Underwood, we offer readers of the City of Underwood's financial statements this narrative overview and analysis of the financial activities of the City of Underwood for the fiscal year ended June 30, 2006. This section should be read in conjunction with the financial statements and the accompanying notes that follow.

2006 Financial Highlights

- Receipts of the City's governmental activities decreased by 4.00%, or approximately 24,000 from fiscal 2005 to fiscal 2006. Property tax increased approximately \$6,000. Tax increment financing decreased approximately \$23,000.
- Disbursements increased 21.4%, or approximately \$115,000, in fiscal 2006 from fiscal 2005. Public safety, public works, community & economic development, general government, and capital projects, disbursements increased approximately \$29,600, \$20,300, \$10,800, \$14,300, and \$85,200, respectively. Health and social services, culture and recreation, and debt service, disbursements decreased approximately \$650, \$11,400, and \$33,400, respectively.
- The City's total cash basis net assets increased 25.6%, or approximately \$84,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities increased approximately \$66,000 the assets of the business type activities increased by approximately \$17,000.

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 non-major 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 limitation 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 solid waste removal, and 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 two Enterprise Funds to provide separate information for the solid waste (garbage) fund and the sewer fund. The Sewer Fund is 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 \$267 thousand to \$333 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)		
	<u>Year Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Receipts and other financing sources:		
Property Tax	\$ 212	206
Tax increment financing collections	76	99
Other City Tax	91	80
Licenses and permits	8	9
Use of money and property	3	1
Intergovernmental	130	145
Charges for Service	16	37
Special assessments	0	0
Miscellaneous	28	11
	<u>564</u>	<u>588</u>
Disbursements and other financing uses:		
Public Safety	165	135
Public Works	62	41
Health and Social Services	0	1
Culture and Recreation	12	24
Community and Economic Development	108	97
General government	127	113
Debt Service	92	125
Capital Projects	85	0
	<u>651</u>	<u>536</u>
Excess (deficiency) of receipts over (under) disbursements	<87>	52
Other financing sources (uses), net	<u>153</u>	<u><16></u>
Net change in cash basis net assets	66	36
Cash basis net assets beginning of year	<u>267</u>	<u>231</u>
Cash basis net assets end of year	<u><u>333</u></u>	<u><u>267</u></u>

The total receipts for governmental activities decreased by 4.0%, or \$24,000. The total cost of all programs and services increased by approximately \$115,000 or 21.45%, with no new programs added this year. The decrease in receipts was primarily the result of the Solid Waste Fund being moved to the Proprietary Funds Account.

The City decreased property tax rates slightly for the year 2007 from 14.55093 to 14.54508. The Underwood Hills Development Urban Renewal Area is completed and is now part of the General levy received by the city.

The cost of all governmental activities this year was \$651 thousand compared to \$536 thousand last year. However, as shown in the statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$468 thousand, due to costs paid by those directly benefited from the programs (\$24,000) or by other governments, organizations that subsidized certain programs with grants, contributions and restricted interest (\$132,000) and by a capital grant received (\$27,000).

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Operating receipts		
Charges for service	118	86
Special assessments	1	1
Miscellaneous	<u>2</u>	<u>6</u>
	121	93
Operating disbursements		
Sewer	62	52
Garbage	<u>29</u>	<u>0</u>
	91	52
Excess (deficiency) of operating receipts over (under) operating disbursements	30	41
Nonoperating receipts (disbursements) and transfer		
Debt Service	(34)	(34)
Transfers	<u>21</u>	<u>16</u>
	<u>(13)</u>	<u>(18)</u>
Net change in cash basis net assets	17	23
Cash basis net assets beginning of year	<u>60</u>	<u>37</u>
Cash basis net assets end of year	<u>77</u>	<u>60</u>

Total business type activities receipts for the fiscal year were \$121 thousand compared to \$93 thousand last year. This significant increase was due primarily to moving Solid Waste Removal (Garbage) to the Proprietary Fund. The cash balance increased by approximately \$17,000 from the prior year because of a sewer rate increase and by a personnel shortage for 3 months. Total disbursements for the fiscal year increased due to garbage being moved to the Proprietary Fund.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Underwood completed the year, its governmental funds reported a combined fund balance of \$333,466, an increase of more than \$66,821 above last year's total of \$266,645. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund balance at the end of the year was \$117,200
- The Urban Renewal Tax Increment Fund balance at the end of the fiscal year was \$97,136 a decrease of \$52,820 from the previous year. The decrease was the result of the Low-Moderate Income Housing Assistance Program disbursed to qualified applicants.
- The Debt Service Fund cash balance is to \$1,779.
- The Road Use Tax Fund balance at the end of the fiscal year was \$115,351 increase of \$88,966. The increase is the result of posting all of the revenues and disbursements for roads into the Road Use Fund compared to splitting them between the General Fund and Road Use Fund as in the past.
- The Local Option Sales Tax Fund at the end of the fiscal year was \$0.
- The Capital Projects Fund at the end of the fiscal year was <\$15,817>. The negative balance is due to a road project being completed and payments disbursed prior to receiving the grant monies. Grant monies were expected to be received in June 2006, but were not received until July 2006

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund balance increased by \$15,910 to \$76,292 due to a rate increase and a decrease in payroll due to not having a full time maintenance man for 3 months.
- The Garbage Fund balance is \$1117.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City budget was amended by \$92,807 for revenues and \$17,000 for disbursements. Revenues increased due to the sale of property to the Health Clinic and for "transfer-in" that was not recorded in the original budget. Disbursements increased due to 4th Avenue project. Overall the City received \$287,545 less in revenues than budgeted due to grant awards anticipated, but not funded, an anticipated bond for a capital improvement project that did not occur. However, the City disbursed \$339,714 less than budgeted. An infrastructure improvement budgeted for, was completed, but financed by Oriental Trading Company. A fire truck was not purchased due to lack of funding from an anticipated grant. Housing Assistance Program expenditures were less than budgeted.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$447,000 in bonds and other long-term debt, compared to approximately \$525,000 last year as shown below:

	Outstanding Debt at Year End (Expressed in Thousands)	
	Year ended June 30,	
	2006	2005
General obligation notes and bonds	345	366
Urban renewal tax increment financing revenue bonds	28	55
Revenue Bonds	<u>74</u>	<u>104</u>
	<u>447</u>	<u>525</u>
Anticipatory warrants	70	0

Debt decreased as a result of redeeming \$153,000 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 \$373,000 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 \$349,000 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 \$373,000 noted above, is below the City's constitutional debt limit of \$1.590 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 2007 budget, tax rates, and fees that will be charged for various City activities.

These indicators were taken into account when adopting the budget for fiscal year 2007. The operating budget for 2007 is \$954 thousand, a decrease of 16.9% under the final 2006 budget. Property tax rate will remain the same as last year. The regular taxable valuation increased 10.6% from \$14.153 million in 2006 to \$15.651 million in 2007. Residential properties were taxable at 45.5596 % of assessed valuation in 2007 as compared to 47.964% in 2006. The tax rate for debt service stayed the same at \$3.53 per thousand of taxable valuation.

Budgeted disbursements are expected to decrease by approximately \$229,000 from 2006 due to capital improvement projects. No major programs were cut and no major new programs were added to the 2007 budget.

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 Kelly Groskurth, City Clerk, 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, 2006

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 165,080	14,597	70,451
Public works	61,710	15	60,156
Culture and recreation	12,380	600	-
Community and economic development	107,790	5,880	860
General government	126,730	2,622	214
Debt service	91,668	-	-
Capital projects	85,151	-	-
Total governmental activities	650,509	23,714	131,681
Business type activities:			
Sewer	95,289	90,581	-
Garbage	29,352	30,469	-
Total business type activities	124,641	121,050	-
Total	\$ 775,150	144,764	131,681

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
Anticipatory warrants issued
Note proceeds
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:
 Streets
 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			
Capital Grants Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
-	(80,032)	-	(80,032)
-	(1,539)	-	(1,539)
-	(11,780)	-	(11,780)
-	(101,050)	-	(101,050)
-	(123,894)	-	(123,894)
-	(91,668)	-	(91,668)
26,998	(58,153)	-	(58,153)
<u>26,998</u>	<u>(468,116)</u>	<u>-</u>	<u>(468,116)</u>
-	-	(4,708)	(4,708)
-	-	1,117	1,117
-	-	<u>(3,591)</u>	<u>(3,591)</u>
<u>26,998</u>	<u>(468,116)</u>	<u>(3,591)</u>	<u>(471,707)</u>
\$	163,589	-	163,589
	76,287	-	76,287
	56,901	-	56,901
	82,016	-	82,016
	390	-	390
	2,518	111	2,629
	69,575	-	69,575
	75,000	-	75,000
	29,168	-	29,168
	<u>(20,507)</u>	<u>20,507</u>	<u>-</u>
	<u>534,937</u>	<u>20,618</u>	<u>555,555</u>
	66,821	17,027	83,848
	<u>266,645</u>	<u>60,382</u>	<u>327,027</u>
\$	<u>333,466</u>	<u>77,409</u>	<u>410,875</u>
\$	115,351	-	115,351
	97,136	-	97,136
	1,779	4,786	6,565
	2,000	-	2,000
	<u>117,200</u>	<u>72,623</u>	<u>189,823</u>
\$	<u>333,466</u>	<u>77,409</u>	<u>410,875</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, 2006

	General	Special Revenue		
		Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax
Receipts				
Property tax	\$ 113,471	-	-	-
Tax increment financing collections	-	-	76,287	-
Other city tax	5,096	-	-	82,016
Licenses and permits	7,936	-	-	-
Use of money and property	2,518	-	860	-
Intergovernmental	69,641	60,156	-	-
Charges for service	15,763	-	-	-
Special assessments	15	-	-	-
Miscellaneous	1,414	-	-	-
Total receipts	<u>215,854</u>	<u>60,156</u>	<u>77,147</u>	<u>82,016</u>
Disbursements				
Operating:				
Public safety	165,080	-	-	-
Public works	1,288	60,422	-	-
Culture and recreation	8,696	-	-	-
Community and economic development	7,165	-	100,238	-
General government	87,869	-	-	-
Debt service	-	-	29,729	-
Capital projects	-	-	-	-
Total disbursements	<u>270,098</u>	<u>60,422</u>	<u>129,967</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	(54,244)	(266)	(52,820)	82,016
Other financing sources (uses):				
Sale of capital assets	29,168	-	-	-
Anticipatory warrants issued	69,575	-	-	-
General obligation bonds issued	-	75,000	-	-
Operating transfers in	-	61,509	-	-
Operating transfers out	(703)	(47,277)	-	(82,016)
Total other financing sources (uses)	<u>98,040</u>	<u>89,232</u>	<u>-</u>	<u>(82,016)</u>
Net change in cash balances	43,796	88,966	(52,820)	-
Cash balances beginning of year	<u>73,404</u>	<u>26,385</u>	<u>149,956</u>	<u>-</u>
Cash balances end of year	\$ <u>117,200</u>	<u>115,351</u>	<u>97,136</u>	<u>-</u>
Cash Basis Fund Balances				
Unreserved:				
General fund	\$ 117,200	-	-	-
Special revenue funds	-	115,351	97,136	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total cash basis fund balances	\$ <u>117,200</u>	<u>115,351</u>	<u>97,136</u>	<u>-</u>

See notes to financial statements.

Exhibit B

Debt Service	Capital Projects Fund	Other Nonmajor Governmental Funds	Total
55,144	-	43,402	212,017
-	-	-	76,287
1,757	-	1,620	90,489
-	-	-	7,936
-	-	-	3,378
-	-	-	129,797
-	-	-	15,763
-	-	-	15
-	26,998	-	28,412
<u>56,901</u>	<u>26,998</u>	<u>45,022</u>	<u>564,094</u>
-	-	-	165,080
-	-	-	61,710
-	-	3,684	12,380
-	-	387	107,790
-	-	36,861	126,730
61,939	-	-	91,668
-	85,151	-	85,151
<u>61,939</u>	<u>85,151</u>	<u>42,932</u>	<u>650,509</u>
(5,038)	(58,153)	2,090	(86,415)
-	-	-	29,168
-	-	-	69,575
-	-	-	75,000
4,941	42,336	703	109,562
-	-	-	(130,069)
<u>4,941</u>	<u>42,336</u>	<u>703</u>	<u>153,236</u>
(97)	(15,817)	2,793	66,821
<u>1,876</u>	<u>-</u>	<u>15,027</u>	<u>266,645</u>
<u>1,779</u>	<u>(15,817)</u>	<u>17,817</u>	<u>333,466</u>
-	-	-	117,200
-	-	17,817	230,304
1,779	-	-	1,779
-	(15,817)	-	(15,817)
<u>1,779</u>	<u>(15,817)</u>	<u>17,817</u>	<u>333,466</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, 2006

Total governmental funds cash balances	\$	333,466
<i>Adjustments</i>		
None		-
Cash basis net assets of governmental activities	\$	333,466
Net change in cash balances	\$	66,821
<i>Adjustments</i>		
None		-
Change in cash balance of governmental activities	\$	66,821

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, 2006

	Enterprise Funds		
	Sewer	Garbage	Total
Operating receipts:			
Charges for service	\$ 87,933	30,456	118,389
Special assessment	506	-	506
Miscellaneous	2,142	13	2,155
Total operating receipts	90,581	30,469	121,050
Operating disbursements:			
Business type activities	61,198	29,352	90,550
Total operating disbursements	61,198	29,352	90,550
Excess of operating receipts over operating disbursements	29,383	1,117	30,500
Non-operating receipts (disbursements):			
Interest on investments	111	-	111
Debt service	(34,091)	-	(34,091)
Total non-operating receipts (disbursements)	(33,980)	-	(33,980)
Excess (deficiency) of receipts over (under) disbursements	(4,597)	1,117	(3,480)
Operating transfers in	20,507	-	20,507
Net change in cash balances	15,910	1,117	17,027
Cash balances beginning of year	60,382	-	60,382
Cash balances end of year	\$ 76,292	1,117	77,409
 Cash Basis Fund Balances			
Reserved for debt service	\$ 4,786	-	4,786
Unreserved	71,506	1,117	72,623
Total cash basis fund balances	\$ 76,292	1,117	77,409

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, 2006

Total enterprise funds cash balances	\$	77,409
<i>Adjustments</i>		
None		-
Cash basis net assets of business type activities	\$	77,409
Net change in cash balances	\$	17,027
<i>Adjustments</i>		
None		-
Change in cash balance of business type activities	\$	17,027

See notes to financial statements.

City of Underwood
Notes to Financial Statements
June 30, 2006

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 1882 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 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 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, 2006

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 - Continued:

The Road Use Tax Fund is used to account for road construction and maintenance.

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

City of Underwood
Notes to Financial Statements
June 30, 2006

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation – Continued

Special Revenue - Continued:

The Local Option Sales Tax Fund is used to account for the receipts from the tax authorized by referendum and used for the relief of property taxes and utility charges.

The Debt Service Fund is utilized to account 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 construction of capital facilities with the exception of those financed through enterprise funds.

The City reports the following major proprietary funds:

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

The Garbage Fund accounts for the operation of the City's solid waste disposal.

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, 2006, disbursements did not exceed the amounts budgeted.

City of Underwood
Notes to Financial Statements
June 30, 2006

NOTE (1) Summary of Significant Accounting Policies - Continued

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2004, to compute the amounts which became liens on property on July 1, 2005. These taxes were due and payable in two installments on September 30, 2005 and March 31, 2006, 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, 2006 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.

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 \$410,875.

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	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	Revenue Bonds	Total
	Principal	Principal	Principal	Principal
2007	\$ 49,642	27,500	23,392	100,534
2008	56,989	-	16,323	73,312
2009	59,827	-	16,999	76,826
2010	62,745	-	17,757	80,502
2011	47,747	-	-	47,747
2012-2013	68,471	-	-	68,471
Total	\$ 345,421	27,500	74,471	447,392

Year Ended June 30,				Total
	Interest	Interest	Interest	Interest
2007	\$ 12,787	1,086	2,776	16,649
2008	12,043	-	1,923	13,966
2009	9,613	-	1,247	10,860
2010	7,062	-	489	7,551
2011	4,387	-	-	4,387
2012-2013	3,398	-	-	3,398
Total	\$ 49,290	1,086	6,435	56,811

City of Underwood
Notes to Financial Statements
June 30, 2006

NOTE (3) Bonds and Notes Payable - Continued

Interest costs paid during the year ended June 30, 2006 totaled \$24,024.

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 \$1,590,000 which was not exceeded during the year ended June 30, 2006.

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, 2006, 2005, and 2004, was \$4,132, \$4,877, and \$4,793, respectively, equal to the required contributions for each year.

City of Underwood
Notes to Financial Statements
June 30, 2006

NOTE (5) Anticipatory Warrants

Anticipatory warrants are warrants which are legally drawn on City funds but are not paid for lack of funds, in accordance with Chapter 74 of the Code of Iowa. The warrants bear interest at rates in effect at the time the warrants are first presented for redemption.

The City has issued \$69,575 in anticipatory warrants, at 3.95% interest per annum, for purchase of a fire truck. As of June 30, 2006, these warrants are still outstanding.

NOTE (6) 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, 2006, primarily relating to the General Fund is \$634. This liability is computed on rates of pay effective as of June 30, 2006.

NOTE (7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Special Revenue: Road Use Tax	Special Revenue: Local Option Sales Tax	\$ 61,509
Special Revenue: Insurance	General	703
Debt Service	Special Revenue: Road Use Tax	4,941
Capital Projects	Special Revenue: Road Use Tax	42,336
Proprietary: Sewer	Special Revenue: Local Option Sales Tax	<u>20,507</u>
		<u>\$ 129,996</u>

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

NOTE (8) Related Party Transactions

The City has two urban renewal tax increment financing development rebate agreements with a City Council member. See Note 10.

City of Underwood
Notes to Financial Statements
June 30, 2006

NOTE (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 531 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 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, 2006 were \$15,763.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 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. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each accident, each location, with excess coverage reinsured on an individual member basis.

City of Underwood
Notes to Financial Statements
June 30, 2006

NOTE (9) Risk Management - Continued

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance company 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 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 (10) 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 \$10,876 of principal during the year on the agreement.

City of Underwood
Notes to Financial Statements
June 30, 2006

NOTE (10) 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.

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 \$33,532 for interest costs during the year.

NOTE (11) Commitments

The City has entered into an agreement for law enforcement services. The fee for the fiscal year ending June 30, 2007 is \$12,040.

The City has signed an agreement for solid waste collection services through March 2007 at a cost of \$9.42 per month per household or commercial unit, to be adjusted yearly by a formula that includes an adjustment based on the consumer price index.

The City has signed a contract for a welcome sign project for \$10,720.

City of Underwood
Notes to Financial Statements
June 30, 2006

NOTE (12) Deficit Balance

The Capital Projects Fund had a deficit balance of \$15,817 at June 30, 2006. The deficit balance was the result of project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of a County grant.

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, 2006

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	<u>Actual</u>
Receipts			
Property tax	\$ 212,017	-	212,017
Tax increment financing collections	76,287	-	76,287
Other city tax	90,489	-	90,489
Licenses and permits	7,936	-	7,936
Use of money and property	3,378	111	3,489
Intergovernmental	129,797	-	129,797
Charges for service	15,763	118,389	134,152
Special assessments	15	506	521
Miscellaneous	28,412	2,155	30,567
Total receipts	<u>564,094</u>	<u>121,161</u>	<u>685,255</u>
Disbursements			
Public safety	165,080	-	165,080
Public works	61,710	-	61,710
Health and social services	-	-	-
Culture and recreation	12,380	-	12,380
Community and economic development	107,790	-	107,790
General government	126,730	-	126,730
Debt service	91,668	-	91,668
Capital projects	85,151	-	85,151
Business type activities	-	124,641	124,641
Total disbursements	<u>650,509</u>	<u>124,641</u>	<u>775,150</u>
Excess (deficiency) of receipts over (under) disbursements	(86,415)	(3,480)	(89,895)
Other financing sources, net	<u>153,236</u>	<u>20,507</u>	<u>173,743</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	66,821	17,027	83,848
Balances beginning of year	<u>266,645</u>	<u>60,382</u>	<u>327,027</u>
Balances end of year	<u>\$ 333,466</u>	<u>77,409</u>	<u>410,875</u>

See accompanying independent auditors' report.

Original Budgeted Amounts	Final Budgeted Amounts	Budget to Actual Variance
211,722	211,722	295
77,010	77,010	(723)
72,674	72,674	17,815
9,710	9,710	(1,774)
1,290	26,178	(22,689)
317,477	317,477	(187,680)
129,865	129,865	4,287
288	288	233
26,700	26,700	3,867
<u>846,736</u>	<u>871,624</u>	<u>(186,369)</u>
212,859	212,859	47,779
125,939	125,939	64,229
650	-	-
11,561	17,211	4,831
215,889	174,389	66,599
132,890	132,890	6,160
117,974	117,974	26,306
84,000	137,500	52,349
196,102	196,102	71,461
<u>1,097,864</u>	<u>1,114,864</u>	<u>339,714</u>
(251,128)	(243,240)	153,345
<u>207,000</u>	<u>274,919</u>	<u>(101,176)</u>
(44,128)	31,679	52,169
<u>277,528</u>	<u>277,528</u>	<u>49,499</u>
<u>233,400</u>	<u>309,207</u>	<u>101,668</u>

City of Underwood
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2006

The budgetary comparison is presented as Required Supplementary Information 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 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, one budget amendment increased budgeted disbursements by \$17,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, 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, 2006

	Special Revenue			
	Emergency	Employee Benefits	Insurance	Total
Receipts:				
Property tax	\$ 3,781	25,102	14,519	43,402
Other city tax	141	938	541	1,620
Total receipts	3,922	26,040	15,060	45,022
Disbursements:				
Operating:				
Culture and recreation	-	3,684	-	3,684
Community and economic development	-	387	-	387
General government	-	23,098	15,763	38,861
Total disbursements	-	27,169	15,763	42,932
Excess (deficiency) of receipts over (under) disbursements	3,922	(1,129)	(703)	2,090
Other financing sources:				
Operating transfers in	-	-	703	703
Net change in cash balances	3,922	(1,129)	-	2,793
Cash balances beginning of year	-	15,024	-	15,024
Cash balances end of year	\$ 3,922	13,895	-	17,817
 Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	\$ 3,922	13,895	-	17,817
Total cash basis fund balances	\$ 3,922	13,895	-	17,817

See accompanying independent auditors' report.

City of Underwood
Schedule of Indebtedness
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Fire truck #1	Jul 11, 1995	6.25 %	\$ 79,693
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
Special services truck	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
Street improvements	Feb 24, 2006	3.95%	75,000
Urban renewal tax increment financing (TIF) revenue bonds:			
South district	Jun 24, 2002	3.95 %	\$ 110,000
Revenue notes:			
Sewer improvement	Oct 15, 1999	5.25 %	\$ 92,000
Sewer improvement	Feb 28, 2003	4.10 %	110,000
Anticipatory warrants:			
Fire truck	Varies	3.95%	\$ 260,000

See accompanying independent auditors' 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>
5,288	-	5,288	-	167	-
23,589	-	23,589	-	1,318	-
8,000	-	8,000	-	316	-
119,426	-	16,118	103,308	5,483	-
82,698	-	13,460	69,238	5,005	-
124,485	-	13,610	110,875	4,613	-
2,456	-	2,456	-	-	-
-	75,000	13,000	62,000	798	-
<u>365,942</u>	<u>75,000</u>	<u>95,521</u>	<u>345,421</u>	<u>17,700</u>	<u>-</u>
<u>55,000</u>	<u>-</u>	<u>27,500</u>	<u>27,500</u>	<u>2,229</u>	<u>-</u>
22,572	-	14,853	7,719	993	-
81,896	-	15,144	66,752	3,102	-
<u>104,468</u>	<u>-</u>	<u>29,997</u>	<u>74,471</u>	<u>4,095</u>	<u>-</u>
<u>-</u>	<u>69,575</u>	<u>-</u>	<u>69,575</u>	<u>-</u>	<u>-</u>

City of Underwood
Bond and Note Maturities
June 30, 2006

Year Ending June 30,	General Obligation					
	Street Improvements Issued Nov. 20, 2001		Special Services Truck Issued Feb 28, 2003		Street Improvements Issued Jun. 16, 2003	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2007	4.75%	\$ 16,892	4.27%	\$ 4,671	3.86%	\$ 14,079
2008	4.75%	17,705	4.27%	9,656	3.86%	14,628
2009	4.75%	18,556	4.27%	10,073	3.86%	15,198
2010	4.75%	19,448	4.27%	10,507	3.86%	15,790
2011	4.75%	20,382	4.27%	10,960	3.86%	16,405
2012	4.75%	10,325	4.27%	11,434	3.86%	17,045
2013	-	-	4.27%	11,937	3.86%	17,730
Total		\$ <u>103,308</u>		\$ <u>69,238</u>		\$ <u>110,875</u>

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
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%	17,757
Total		\$ <u>27,500</u>		\$ <u>7,719</u>		\$ <u>66,752</u>

See accompanying independent auditors' report.

Bonds

Street Improvements
 Issued Feb. 24, 2006

Interest		
Rate	Amount	Total
3.95%	\$ 14,000	\$ 49,642
3.95%	15,000	56,989
3.95%	16,000	59,827
3.95%	17,000	62,745
-	-	47,747
-	-	38,804
-	-	29,667
	\$ <u>62,000</u>	\$ <u>345,421</u>

Total	
\$	23,392
	16,323
	16,999
	<u>17,757</u>
\$	<u>74,471</u>

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts				
Property tax	\$ 212,017	205,970	150,760	108,867
Tax increment financing collections	76,287	98,565	215,569	193,980
Other city tax	90,562	76,458	76,087	70,798
Licenses and permits	7,936	8,683	6,022	2,090
Use of money and property	3,378	1,252	989	2,200
Intergovernmental	129,724	148,400	122,607	167,696
Charges for service	15,763	37,616	40,562	1,157
Special assessments	15	168	-	-
Miscellaneous	<u>28,412</u>	<u>10,762</u>	<u>64,361</u>	<u>19,089</u>
Total	<u>\$ 564,094</u>	<u>587,874</u>	<u>676,957</u>	<u>565,877</u>
Disbursements				
Operating:				
Public safety	\$ 165,080	80,432	40,519	151,330
Public works	61,710	96,443	105,362	55,339
Health and social services	-	650	650	650
Culture and recreation	12,380	23,735	48,998	47,702
Community and economic development	107,790	97,029	141,126	184,141
General government	126,730	112,466	116,604	119,593
Debt service	91,668	125,109	161,316	132,023
Capital projects	<u>85,151</u>	<u>-</u>	<u>-</u>	<u>144,734</u>
Total	<u>\$ 650,509</u>	<u>535,864</u>	<u>614,575</u>	<u>835,512</u>

See accompanying independent auditors' report.

City of Underwood

August 31, 2006

Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council:

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, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 31, 2006. Our report expressed an unqualified opinion 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 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Underwood's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part I of the accompanying Schedule of Findings.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above we believe is also a material weakness.

Continued...

City of Underwood
Independent Auditors' Report on
Internal Control and Compliance and Other Matters

Compliance and Other Matters

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.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 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.

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, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties

Comment – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits, posting of the cash receipts to the cash receipts journal, and reconciling are at times all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – The City Treasurer does a monthly review of the bank statements, bank reconciliations, and general history detail.

Conclusion – Response acknowledged.

City of Underwood
 Schedule of Findings
 Year Ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

II-A-06 Certified Budget

Disbursements during the year ended June 30, 2006 did not exceed the budgeted amounts.

II-B-06 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-C-06 Travel Expense

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

II-D-06 Business Transactions

Comment - 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	Truck repairs	\$ 706
Craig Zenor, Mayor	Contract Services	40
Shawn McKee, Council Member Owner of McKee Contracting	Contract Services	<u>71</u>
		<u>\$ 817</u>

In accordance with Chapter 362.5(10) of the Iowa Code, the above transactions with the Mayor and Council Members 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.

The City also made a principal payment of \$10,876 on an urban renewal tax increment financing rebate agreement held with developer and Council Member Shawn McKee. Holding such an agreement with a council member may appear to represent a conflict of interest.

City of Underwood
Schedule of Findings
Year Ended June 30, 2006

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

II-D-06 Business Transactions (Continued):

Recommendation – The City should seek legal advice on these matters.

Response – We will do this.

Conclusion – Response accepted.

II-E-06 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-F-06 Council Minutes

Comment – No transactions were found that we believe should have been approved in the Council minutes but were not. However, we noted the City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation – The City should publish annual individual salaries as required.

Response – We will publish salaries as required.

Conclusion – Response accepted.

II-G-06 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-H-06 Revenue Note

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

City of Underwood
Schedule of Findings
Year Ended June 30, 2006

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

II-I-06 Financial Condition

Comment – The Capital Projects Fund had a deficit balance at June 30, 2006.

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

Response – The deficit was due to construction costs incurred prior to receipt of a county grant. The deficit was subsequently eliminated.

Conclusion – Response accepted.

NEWS RELEASE

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

The City's receipts totaled \$858,998 for the year ended June 30, 2006, a 26 percent increase from 2005. The receipts included \$220,490 in property tax, \$76,287 from tax increment financing collections, \$144,764 from charges for service, \$131,681 from operating grants, contributions and restricted interest, \$26,998 from capital grants, contributions and restricted interest, \$82,016 from local option sales tax, \$2,629 from unrestricted investment earnings and \$29,168 from the sale of general fixed assets, \$75,000 in note proceeds and \$69,575 in anticipatory warrants, and \$390 for grants not restricted to a specific purpose.

Disbursements for the year totaled \$775,150, a 25 percent increase from the prior year, and included \$165,080 for public safety, \$126,730 for general government, and \$107,790 for community and economic development. Also, disbursements for business type activities totaled \$124,641.

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

August 30, 2005

To the Honorable Mayor and
Members of the City Council
City of Underwood
218 Second Street – Box 40
Underwood, IA 51576

We have compiled the annual financial report of the City of Underwood for the year ended June 30, 2005, included in the accompanying prescribed form in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

Our compilation was limited to presenting in the form prescribed by the State of Iowa information that is the representation of management. We have not audited or reviewed the financial statements referred to above, and accordingly, do not express an opinion or any other form of assurance on them. These financial statements were compiled by us from financial statements for that same period that we previously audited, as indicated in our report dated August 30, 2005.

These financial statements are presented in accordance with the requirements of the State of Iowa, which differ from generally accepted accounting principles. Accordingly, these financial statements are not designed for those who are not informed about such differences.

November 13, 2006

Kelly
City of Underwood
P.O. Box 40
218 Second Street
Underwood, IA 51576

Dear Kelly:

Enclosed are draft copies of the audit for the City of Underwood. Please review and let me know if we need to make any changes.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh
Enc.

November 28, 2006

David Vaudt
Office of State Auditor
State Capitol Building
Des Moines, IA 50319

Dear Sir:

We have enclosed for your records the following information regarding the audit of the City of Underwood for the year ended June 30, 2006.

- 2 copies of the audit report
- 1 copy of the news release
- 1 copy of the number of hours worked
- 1 copy of the invoice

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh
Enc.

November 28, 2006

Kelly
City of Underwood
P.O. Box 40
218 Second Street
Underwood, IA 51576

Dear Kelly:

We have filed the required copies of your audit report with the Office of Auditor of State. A filing fee is required to be paid based on your final amended budget according to the following schedule:

<u>Budgeted Expenditures (In millions of dollars)</u>	<u>Fee Amount</u>
Under 1	\$100.00
At least 1, but less than 3	\$175.00
At least 3, but less than 5	\$250.00
At least 5, but less than 10	\$425.00
At least 10, but less than 25	\$625.00
25 and over	\$850.00

You are required to send the appropriate filing fee. The check should be made payable to "Auditor of State" and mailed to Office of Auditor of State, State Capitol Building, Des Moines, IA 50319-0004.

If you have any questions, please do not hesitate to call me at 712-322-8734.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh

City of Underwood

Hours Worked: 52 ½