

CITY OF UNDERWOOD

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

JUNE 30, 2009

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City of Underwood

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dennis Bardsley	Mayor	January 2010
Edward Freuck	Council Member	January 2010
Jim Pingel	Council Member	January 2010
Robert Dose	Council Member	January 2012
Todd Erwin	Council Member	January 2012
Rhonda Johnson	Council Member	January 2012
Kelly Groskurth	City Clerk	Indefinite
Lea Voss	Treasurer	Indefinite
Matthew Woods	Attorney	Indefinite

City of Underwood



Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

November 3, 2009

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, 2009, 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, 2009, 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 November 3, 2009 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.

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Independent Auditor's Report
City of Underwood

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 30 through 32 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 four years ended June 30, 2008 (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.

Schroer & Associates, P.C.

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 ending June 30, 2009. This section should be read in conjunction with the financial statements and the accompanying notes that follow.

2009 Financial Highlights

- Receipts of the City's governmental activities increased by 35%, or approximately \$241,000 for fiscal 2008 to fiscal 2009. Property tax increased approximately \$14,800. Intergovernmental receipts increased \$187,395.
- Disbursements increased 14.9%, or approximately \$119,000, in fiscal 2009 from fiscal 2008. The following increased approximately: Public Works \$5,000, General Government \$3,000, Debt Service \$9,000, Culture and Recreation \$7,000, and Capital Project \$124,000. The following experienced a decrease in expenditures: Public safety \$16,000, Community and Economic Development \$13,000.
- The City's total cash basis net assets increased .82%, or approximately \$8,400, from June 30, 2008 to June 30, 2009. Of this amount, the assets of the governmental activities decreased approximately \$46,000, the assets of the business type activities increased by approximately \$54,000.

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 decreased moderately from a year ago, decreasing from \$840 thousand to \$794 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,	
	2008	2009
Receipts and other financing sources:		
Property Tax	\$ 256	271
Tax increment financing collections	106	107
Other City Tax	77	90
Licenses and permits	14	10
Use of money and property	16	7
Intergovernmental	204	391
Charges for Service	10	16
Special assessments	1	1
Miscellaneous	4	36
	<hr/>	<hr/>
	688	929
Disbursements and other financing uses:		
Public safety	64	48
Public works	90	95
Health and social services	0	0
Culture and recreation	16	23
Community and economic development	160	147
General government	123	126
Debt service	98	107
Capital projects	249	373
	<hr/>	<hr/>
	800	919
Excess (deficiency) of receipts over (under) disbursements	<112>	10
Other financing sources (uses), net	502	-55
Net change in cash basis net assets	<hr/>	<hr/>
	390	-45
Cash basis net assets beginning of year	450	839
Cash basis net assets end of year	840	794

The total receipts for governmental activities increased by 35%, or \$241,000. The total cost of all programs and services increased by approximately \$119,000 or 14.9%, with no new programs added this year.

The City property tax rates remained the same.

The cost of all governmental activities this year was \$919 thousand compared to \$800 thousand last year.

As shown in the statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was \$467 thousand, due to costs paid by those directly benefited from the programs (\$26,000) or by other governments, organizations that subsidized certain programs with grants, contributions and restricted interest (\$169,000) and by a capital grant received (\$257,000).

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	<u>Year ended June 30,</u>	
	<u>2008</u>	<u>2009</u>
Operating receipts		
Charges for service	140	146
Special assessments	1	1
Miscellaneous	4	6
	145	153
Operating disbursements		
Sewer	58	68
Garbage	33	33
	91	101
Excess (deficiency) of operating receipts over (under) operating disbursements	54	52
Nonoperating receipts (disbursements) and transfer		
Debt Service	(18)	(18)
Transfers	17	20
	(1)	2
Net change in cash basis net assets	53	54
Cash basis net assets beginning of year	135	188
Cash basis net assets end of year	188	242

Total business type activities receipts for the fiscal year were \$153 thousand compared to \$145 thousand last year. This increase was due to the collection of past due accounts and an increase in customer base to the Proprietary Fund. The cash balance increased by approximately \$54,000 from the prior year. Total disbursements for the fiscal year increased due to having the remaining sewer lines jetted and televised.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Underwood completed the year, its governmental funds reported a combined fund balance of \$793,944, a decrease of \$45,836 below last year's total of \$839,780. 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 \$504,266 an increase of \$284,756 from prior year. The increase is due to a General Obligation Bond received for the purchase of a new ambulance.
- The Urban Renewal Tax Increment Fund balance at the end of the fiscal year was \$56,824 a decrease of \$8,068 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 was to \$0 a decrease of \$137 from prior year.
- The Road Use Tax Fund balance at the end of the fiscal year was \$190,477 increase of \$29,664.
- The Capital Projects Fund at the end of the fiscal year was \$5,781.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund balance increased by \$49,006 to \$225,402 due a sewer improvement revenue bond was paid in full the fiscal year ending 2007.
- The Garbage Fund balance increased by \$5,185 to \$16,998.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City budget was amended by \$313,942 for revenues and \$345,473 for disbursements. Revenues increased due to bond proceeds received, grant money received and TIF LMI reimbursements received that were not recorded in the original budget. Disbursements increased do to the increased housing assistance because of default reimbursements, Debt Services increased to pay back principal and interest on interim finance loan for 3rd street project. Overall the City revenues were less than budgeted due to bond receipts received year prior. However, the City disbursements were \$176,864 less than budgeted.

DEBT ADMINISTRATION

At June 30, 2008, the City had approximately \$829,000 in bonds and other long-term debt, compared to approximately \$427,000 last year as shown below:

Outstanding Debt at Year End (Expressed in Thousands)		
	Year ended June 30,	
	2009	2008
General obligation notes and bonds	811	392
Revenue Bonds	18	35
	<u>829</u>	<u>427</u>
Anticipatory notes	0	520

Anticipatory warrant for the 3rd Street West Capital improvement project was an interim finance loan that was paid with a permanent finance loan.

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 was \$811,000 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 \$245,827 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

\$829,000 noted above, is below the City's constitutional debt limit of \$2.2 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 2010 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 2010. The operating budget for 2010 is \$876 thousand, a significant decrease over the final 2009 budget. Property tax rate will decrease by .003 from last year. The regular taxable valuation increased from \$18.7 million in 2008 to \$19.5 million in 2009. The tax rate for debt service increased to \$3.94566 per thousand of taxable valuation from 3.33294 per thousand of taxable valuation.

Budgeted disbursements are expected to decreased by approximately \$291723 from 2009. No major programs were cut and no major new programs were added to the 2010 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, 2009

	Program Receipts		
Disbursements	Charges for Service	Operating Grants Contributions and Restricted Interest	
Functions/Programs:			
Governmental activities:			
Public safety	\$ 48,252	15,030	74,473
Public works	95,392	-	59,843
Culture and recreation	22,519	1,225	-
Community and economic development	147,032	8,078	23,235
General government	126,105	2,055	11,609
Debt service	107,177	-	-
Capital projects	372,950	-	-
Total governmental activities	919,427	26,388	169,160
Business type activities:			
Sewer	86,211	115,077	-
Garbage	32,845	38,030	-
Total business type activities	119,056	153,107	-
Total	\$ 1,038,483	179,495	169,160

General Receipts:

Property tax levied for:
General purposes
Debt service
Tax increment financing
Local option sales tax
Grants and contributions not restricted to specific purpose
Unrestricted interest on investments
Bond proceeds net of discount
Anticipation project note redeemed
Transfers
Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year, restated

Cash basis net assets end of year

Cash Basis Net Assets:

Restricted:

Streets
Urban renewal purposes
Debt service
Capital projects
Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Capital Grants Contributions and Restricted Interest	Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business Type Activities	Total
-	41,251	-	41,251
-	(35,549)	-	(35,549)
-	(21,294)	-	(21,294)
-	(115,719)	-	(115,719)
-	(112,441)	-	(112,441)
-	(107,177)	-	(107,177)
257,197	(115,753)	-	(115,753)
<u>257,197</u>	<u>(466,682)</u>	-	<u>(466,682)</u>
-	-	28,866	28,866
-	-	5,185	5,185
-	-	<u>34,051</u>	<u>34,051</u>
<u>257,197</u>	<u>(466,682)</u>	<u>34,051</u>	<u>(432,631)</u>
\$	206,975	-	206,975
	73,759	-	73,759
	107,394	-	107,394
	80,432	-	80,432
	855	-	855
	6,439	32	6,471
	485,100	-	485,100
	(520,000)	-	(520,000)
	<u>(20,108)</u>	<u>20,108</u>	<u>-</u>
	<u>420,846</u>	<u>20,140</u>	<u>440,986</u>
	(45,836)	54,191	8,355
	<u>839,780</u>	<u>188,209</u>	<u>1,027,989</u>
\$	<u>793,944</u>	<u>242,400</u>	<u>1,036,344</u>
\$	190,477	-	190,477
	56,824	-	56,824
	-	80,787	80,787
	5,781	-	5,781
	36,596	-	36,596
	<u>504,266</u>	<u>161,613</u>	<u>665,879</u>
\$	<u>793,944</u>	<u>242,400</u>	<u>1,036,344</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, 2009

	General	Special Revenue		
		Road Use Tax	Urban Renewal Tax Increment	Debt Service
Receipts				
Property tax	\$ 147,576	-	-	72,013
Tax increment financing collections	-	-	107,394	-
Other city tax	6,688	-	-	1,746
Licenses and permits	10,133	-	-	-
Use of money and property	6,439	-	161	-
Intergovernmental	74,398	59,843	-	-
Charges for service	16,255	-	-	-
Miscellaneous	12,539	-	23,074	-
Total receipts	<u>274,028</u>	<u>59,843</u>	<u>130,629</u>	<u>73,759</u>
Disbursements				
Operating:				
Public safety	48,252	-	-	-
Public works	-	90,503	-	-
Culture and recreation	17,544	-	-	-
Community and economic development	8,317	-	138,697	-
General government	90,068	-	-	-
Debt service	-	-	-	107,177
Capital projects	-	-	-	-
Total disbursements	<u>164,181</u>	<u>90,503</u>	<u>138,697</u>	<u>107,177</u>
Excess (deficiency) of receipts over (under) disbursements	109,847	(30,660)	(8,068)	(33,418)
Other financing sources (uses):				
Bond proceeds net of discount	194,750	-	-	290,350
Anticipation project note redeemed	-	-	-	(520,000)
Operating transfers in	-	60,324	-	262,931
Operating transfers out	(19,841)	-	-	-
Total other financing sources (uses)	<u>174,909</u>	<u>60,324</u>	<u>-</u>	<u>33,281</u>
Net change in cash balances	284,756	29,664	(8,068)	(137)
Cash balances beginning of year	219,510	160,813	64,892	137
Cash balances end of year	\$ <u>504,266</u>	<u>190,477</u>	<u>56,824</u>	<u>-</u>
Cash Basis Fund Balances				
Unreserved:				
General fund	\$ 504,266	-	-	-
Special revenue funds	-	190,477	56,824	-
Capital projects fund	-	-	-	-
Total cash basis fund balances	<u>\$ 504,266</u>	<u>190,477</u>	<u>56,824</u>	<u>-</u>

See notes to financial statements.

Capital Projects	Other Nonmajor Governmental Funds	Total
-	51,238	270,827
-	-	107,394
-	81,905	90,339
-	-	10,133
-	-	6,600
257,197	-	391,438
-	-	16,255
-	-	35,613
<u>257,197</u>	<u>133,143</u>	<u>928,599</u>
-	-	48,252
-	4,889	95,392
-	4,975	22,519
-	18	147,032
-	36,037	126,105
-	-	107,177
372,950	-	372,950
<u>372,950</u>	<u>45,919</u>	<u>919,427</u>
(128,226)	87,224	9,172
-	-	485,100
-	-	(520,000)
-	-	323,255
(243,090)	(80,432)	(343,363)
<u>(243,090)</u>	<u>(80,432)</u>	<u>(55,008)</u>
(358,843)	6,792	(45,836)
<u>364,624</u>	<u>29,804</u>	<u>839,780</u>
<u>5,781</u>	<u>36,596</u>	<u>793,944</u>
-	-	504,266
-	36,596	283,897
5,781	-	5,781
<u>5,781</u>	<u>36,596</u>	<u>793,944</u>

City of Underwood
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2009

	Enterprise Funds		
	Sewer	Garbage	Total
Operating receipts:			
Charges for service	\$ 108,668	37,733	146,401
Special assessment	943	297	1,240
Miscellaneous	5,466	-	5,466
Total operating receipts	<u>115,077</u>	<u>38,030</u>	<u>153,107</u>
Operating disbursements:			
Business type activities	67,965	32,845	100,810
Total operating disbursements	<u>67,965</u>	<u>32,845</u>	<u>100,810</u>
Excess of operating receipts over operating disbursements	47,112	5,185	52,297
Non-operating receipts (disbursements):			
Interest on investments	32	-	32
Debt service	(18,246)	-	(18,246)
Total non-operating receipts (disbursements)	<u>(18,214)</u>	<u>-</u>	<u>(18,214)</u>
Excess of receipts over disbursements	28,898	5,185	34,083
Operating transfers in	20,108	-	20,108
Net change in cash balances	49,006	5,185	54,191
Cash balances beginning of year	176,396	11,813	188,209
Cash balances end of year	<u>\$ 225,402</u>	<u>16,998</u>	<u>242,400</u>
 Cash Basis Fund Balances			
Reserved for debt service	\$ 80,787	-	80,787
Unreserved	144,615	16,998	161,613
Total cash basis fund balances	<u>\$ 225,402</u>	<u>16,998</u>	<u>242,400</u>

See notes to financial statements.

City of Underwood
Notes to Financial Statements
June 30, 2009

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 1902 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, 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, 2009

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 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, 2009

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

The Capital Projects Fund is used to account for all resources used in the construction of capital facilities with the exception of those that are financed through enterprise funds.

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

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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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, 2009, disbursements did not exceed the amounts budgeted.

City of Underwood
Notes to Financial Statements
June 30, 2009

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, 2007, to compute the amounts which became liens on property on July 1, 2008. These taxes were due and payable in two installments on September 30, 2008 and March 31, 2009, 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, 2009 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 \$1,036,344.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board (GASB) Statement No. 3, as amended by Statement No. 40.

Interest rate risk

The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

City of Underwood
Notes to Financial Statements
June 30, 2009

NOTE (3) Bonds and Notes Payable

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

Year Ended June 30,	General Obligation Bonds		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 96,516	30,154	18,095	151	114,611	30,305
2011	112,394	26,386	-	-	112,394	26,386
2012	109,629	22,314	-	-	109,629	22,314
2013	90,279	18,866	-	-	90,279	18,866
2014	71,029	15,772	-	-	71,029	15,772
2015-2019	331,350	38,325	-	-	331,350	38,325
Total	\$ 811,197	151,817	18,095	151	829,292	151,968

Interest costs paid during the year ended June 30, 2009 totaled \$33,158.

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

The City has a general obligation debt limit of approximately \$2,300,000 which was not exceeded during the year ended June 30, 2009.

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$110,000 in sewer revenue notes issued in February 2003. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2010. Annual principal and interest payments on the notes are expected to require less than 40 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$18,246. For the current year, principal and interest paid and total customer net receipts were \$18,246 and \$47,112, respectively.

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.

City of Underwood
Notes to Financial Statements
June 30, 2009

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 4.10% of their annual salary and the City is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2009, 2008, and 2007, was \$5,475, \$4,969, and \$4,851, respectively, equal to the required contributions for each year.

NOTE (5) Anticipation Project Note

In May 2008, the City issued \$520,000 in an anticipation project note, at 2.75% interest per annum, for a street improvement project. As of June 30, 2009, the note had been redeemed leaving no balance unpaid.

NOTE (6) Other Postemployment Benefits (OPEB)

The City implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions* during the year ended June 30, 2009.

The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 2 active and 0 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premium for the City and plan members is \$857 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2009, there were no plan members eligible for benefits.

City of Underwood
Notes to Financial Statements
June 30, 2009

NOTE (7) 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, 2009, primarily relating to the General Fund is \$1,324. This liability is computed on rates of pay effective as of June 30, 2009.

NOTE (8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

Transfer to	Transfer from	Amount
Special Revenue: Road Use Tax	Special Revenue: Local Option Sales Tax	\$ 60,324
Debt Service	General Capital Projects	19,841 <u>243,090</u>
		262,931
Proprietary: Sewer	Special Revenue: Local Option Sales Tax	<u>20,108</u>
		\$ <u>343,363</u>

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

NOTE (9) Related Party Transactions

The City had business transactions between the City and City officials totaling \$576 during the year ended June 30, 2009.

NOTE (10) 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 577 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.

City of Underwood
Notes to Financial Statements
June 30, 2009

NOTE (10) 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 200 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, 2009 were \$18,559.

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 \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 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.

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, 2009, 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

City of Underwood
Notes to Financial Statements
June 30, 2009

NOTE (10) Risk Management – Continued

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 (11) Urban Renewal Tax Increment Financing Development Agreements

McKee Development Agreements

On December 10, 2003, the City entered into an agreement with McKee Contracting. In 2005, the agreement was amended with McKee & Smith Enterprises. 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. The City paid the developer \$17,425 of principal and interest 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 \$69,424 for principal and interest during the year.

City of Underwood
Notes to Financial Statements
June 30, 2009

NOTE (12) Commitments

The City has entered into an agreement for law enforcement services. The fee for the fiscal year ending June 30, 2010 is \$12,040.

The City has signed an agreement for solid waste collection services through March 2010 at a cost of \$9.75 per month per household or commercial unit.

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, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Actual
Receipts			
Property tax	\$ 270,827	-	270,827
Tax increment financing collections	107,394	-	107,394
Other city tax	90,339	-	90,339
Licenses and permits	10,133	-	10,133
Use of money and property	6,600	32	6,632
Intergovernmental	391,438	-	391,438
Charges for service	16,255	146,401	162,656
Special assessments	-	1,240	1,240
Miscellaneous	35,613	5,466	41,079
Total receipts	<u>928,599</u>	<u>153,139</u>	<u>1,081,738</u>
Disbursements			
Public safety	48,252	-	48,252
Public works	95,392	-	95,392
Culture and recreation	22,519	-	22,519
Community and economic development	147,032	-	147,032
General government	126,105	-	126,105
Debt service	107,177	-	107,177
Capital projects	372,950	-	372,950
Business type activities	-	119,056	119,056
Total disbursements	<u>919,427</u>	<u>119,056</u>	<u>1,038,483</u>
Excess (deficiency) of receipts over (under) disbursements	9,172	34,083	43,255
Other financing sources, net	<u>(55,008)</u>	<u>20,108</u>	<u>(34,900)</u>
Excess (deficiency) of receipts and other financing sources over (under) other disbursements and financing uses	(45,836)	54,191	8,355
Balances beginning of year	<u>839,780</u>	<u>188,209</u>	<u>1,027,989</u>
Balances end of year	<u>\$ 793,944</u>	<u>242,400</u>	<u>1,036,344</u>

See accompanying independent auditors' report.

Original Budgeted Amounts	Final Budgeted Amounts	Budget to Actual Variance
270,466	270,466	361
111,788	125,788	(18,394)
87,095	87,095	3,244
7,375	7,375	2,758
10,360	10,360	(3,728)
127,000	143,942	247,496
166,800	166,800	(4,144)
-	-	1,240
1,100	1,100	39,979
<u>781,984</u>	<u>812,926</u>	<u>268,812</u>
64,762	64,762	16,510
104,259	104,259	8,867
26,550	26,550	4,031
132,588	165,588	18,556
154,656	149,656	23,551
97,376	629,849	522,672
588,000	373,000	50
120,389	120,389	1,333
<u>1,288,580</u>	<u>1,634,053</u>	<u>595,570</u>
(506,596)	(821,127)	864,382
<u>488,000</u>	<u>771,000</u>	<u>(805,900)</u>
(18,596)	(50,127)	58,482
<u>638,116</u>	<u>638,116</u>	<u>389,873</u>
<u>619,520</u>	<u>587,989</u>	<u>448,355</u>

City of Underwood
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2009

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 \$345,473. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements did not exceed the amended 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, 2009

	Special Revenue				Total
	Emergency	Employee Benefits	Insurance	Local Option Sales Tax	
Receipts:					
Property tax	\$ 4,918	28,307	18,013	-	51,238
Other city tax	141	814	518	80,432	81,905
Total receipts	<u>5,059</u>	<u>29,121</u>	<u>18,531</u>	<u>80,432</u>	<u>133,143</u>
Disbursements:					
Operating:					
Public works	-	4,889	-	-	4,889
Culture and recreation	-	4,975	-	-	4,975
Community and economic development	-	18	-	-	18
General government	-	17,478	18,559	-	36,037
Total disbursements	<u>-</u>	<u>27,360</u>	<u>18,559</u>	<u>-</u>	<u>45,919</u>
Excess (deficiency) of receipts over (under) disbursements	5,059	1,761	(28)	80,432	87,224
Other financing sources:					
Operating transfers out	-	-	-	(80,432)	(80,432)
Net change in cash balances	5,059	1,761	(28)	-	6,792
Cash balances beginning of year	<u>12,808</u>	<u>15,927</u>	<u>1,069</u>	<u>-</u>	<u>29,804</u>
Cash balances end of year	<u>\$ 17,867</u>	<u>17,688</u>	<u>1,041</u>	<u>-</u>	<u>36,596</u>
Cash Basis Fund Balances					
Unreserved:					
Special revenue funds	\$ <u>17,867</u>	<u>17,688</u>	<u>1,041</u>	<u>-</u>	<u>36,596</u>
Total cash basis fund balances	<u>\$ 17,867</u>	<u>17,688</u>	<u>1,041</u>	<u>-</u>	<u>36,596</u>

See accompanying independent auditors' report.

City of Underwood
 Schedule of Indebtedness
 Year ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
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
Street improvements	Feb 24, 2006	3.95%	75,000
Fire truck	Jun 21, 2007	4.90 %	174,000
Combined loan and infrastructure	Apr 15, 2009	2.25 - 4.20 %	495,000
Revenue notes:			
Sewer improvement	Feb 28, 2003	4.10 %	\$ 110,000
Anticipation project note:			
Street improvement	May 12, 2009	2.75 %	\$ 520,000

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>
68,709	-	18,367	50,342	3,235	-
50,024	-	10,330	39,694	3,159	-
82,196	-	15,096	67,100	3,127	-
33,000	-	15,955	17,045	1,358	-
157,793	-	15,777	142,016	8,300	-
<u>-</u>	<u>495,000</u>	<u>-</u>	<u>495,000</u>	<u>-</u>	<u>-</u>
<u>391,722</u>	<u>495,000</u>	<u>75,525</u>	<u>811,197</u>	<u>19,179</u>	<u>-</u>
<u>34,835</u>	<u>-</u>	<u>16,740</u>	<u>18,095</u>	<u>1,506</u>	<u>-</u>
<u>520,000</u>	<u>-</u>	<u>520,000</u>	<u>-</u>	<u>12,473</u>	<u>-</u>

City of Underwood
Bond and Note Maturities
June 30, 2009

Year Ending June 30,	Street Improvements Issued Nov. 20, 2001		Rescue Unit Issued Feb 28, 2003		General Obligation Street Improvements Issued Jun. 16, 2003	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
	2010	4.75%	\$ 19,439	4.27%	\$ 11,920	3.86%
2011	4.75%	20,373	4.27%	12,435	3.86%	16,400
2012	4.75%	10,530	4.27%	12,971	3.86%	17,039
2013	-	-	4.27%	2,368	3.86%	17,876
2014	-	-	-	-	-	-
2015	-	-	-	-	-	-
2016	-	-	-	-	-	-
2017	-	-	-	-	-	-
2018	-	-	-	-	-	-
2019	-	-	-	-	-	-
Total		\$ 50,342		\$ 39,694		\$ 67,100

Revenue Notes		
Sewer Issued Feb 28, 2003		
Year Ending June 30,	Interest Rate	Amount
2010	4.10 %	\$ 18,095
2011	-	-
2012	-	-
2013	-	-
2014	-	-
2015	-	-
2016	-	-
2017	-	-
2018	-	-
2019	-	-
Total		\$ 18,095

See accompanying independent auditors' report.

Bonds						
Street Improvements Issued Feb. 24, 2006		Fire Truck Issued Jun 21, 2007		Essential Corporate Purpose Issued Apr 15, 2009		
Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Total
3.95%	\$ 17,045	4.90 %	\$ 17,327	2.25 %	\$ 15,000	\$ 96,516
-	-	4.90 %	18,186	2.25 %	45,000	112,394
-	-	4.90 %	19,089	2.25 %	50,000	109,629
-	-	4.90 %	20,035	3.05 %	50,000	90,279
-	-	4.90 %	21,029	3.05 %	50,000	71,029
-	-	4.90 %	22,073	3.50 %	55,000	77,073
-	-	4.90 %	24,277	3.50 %	55,000	79,277
-	-	-	-	4.20 %	55,000	55,000
-	-	-	-	4.20 %	60,000	60,000
-	-	-	-	4.20 %	60,000	60,000
	<u>\$ 17,045</u>		<u>\$ 142,016</u>		<u>\$ 495,000</u>	<u>\$ 811,197</u>

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

	2009	2008	2007	2006	2005
Receipts					
Property tax	\$ 270,827	256,042	231,541	212,017	205,970
Tax increment financing collections	107,394	105,459	112,347	76,287	98,565
Other city tax	90,339	77,247	85,383	90,562	76,458
Licenses and permits	10,133	14,064	5,840	7,936	8,683
Use of money and property	6,600	16,071	12,858	3,378	1,252
Intergovernmental	391,438	203,803	154,660	129,724	148,400
Charges for service	16,255	10,954	9,893	15,763	37,616
Special assessments	-	461	-	15	168
Miscellaneous	35,613	3,946	20,544	28,412	10,762
Total	\$ 928,599	688,047	633,066	564,094	587,874
Disbursements					
Operating:					
Public safety	\$ 48,252	63,655	244,708	165,080	80,432
Public works	95,392	90,412	41,769	61,710	96,443
Health and social services	-	-	-	-	650
Culture and recreation	22,519	15,818	22,324	12,380	23,735
Community and economic development	147,032	160,643	123,243	107,790	97,029
General government	126,105	122,462	116,766	126,730	112,466
Debt service	107,177	98,114	96,850	91,668	125,109
Capital projects	372,950	249,091	28,072	85,151	-
Total	\$ 919,427	800,195	673,732	650,509	535,864

See accompanying independent auditors' report.

City of Underwood



Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

November 3, 2009

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, 2009, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 3, 2009. 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 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Underwood's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Underwood's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a control deficiency in internal control over financial reporting that we consider to be a significant deficiency and a material weakness.

Continued...

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

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects City of Underwood's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of City of Underwood's financial statements that is more than inconsequential will not be prevented or detected by City of Underwood's internal control. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by City of Underwood's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency I-A-09 described above is a material weakness.

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 grant agreements, 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 or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 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.

City of Underwood's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Underwood's responses and, accordingly, we express no opinion on them.

Continued...

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

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.

Schroer & Associates, P.C.

City of Underwood
Schedule of Findings
Year Ended June 30, 2009

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-09 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, reconciling and reporting, 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 accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Underwood
 Schedule of Findings
 Year Ended June 30, 2009

Part II: Other Findings Related to Statutory Reporting:

II-A-09 Certified Budget

Disbursements during the year ended June 30, 2009 did not exceed the amended budgeted amounts.

II-B-09 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-09 Travel Expense

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

II-D-09 Business Transactions

Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jim Pingel, Council Member Laborer	Snow Removal	\$ 114
Todd Erwin, Council Member Laborer	Snow Removal	<u>462</u>
		<u>\$ 576</u>

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Council Members do not appear to represent a conflict of interest since total transactions with each individual were less than \$2,500 during the fiscal year.

II-E-09 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-09 Council Minutes

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

City of Underwood
Schedule of Findings
Year Ended June 30, 2009

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

II-G-09 Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-H-09 Revenue Note

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

II-I-09 Excess Balances

Comment – The cash balances in the General Fund, Special Revenue Funds, Road Use Tax Account and Emergency Account and the Enterprise Fund, Sewer Account at June 30, 2009 were in excess of the disbursements made from each fund during the year.

Recommendation – The City should consider the necessity of maintaining the excess balances.

Response – The excess balances are considered necessary for the payment of future project costs.

Conclusion – Response accepted.