

UNDERWOOD COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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Underwood Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Lucy Hough	President	2003
Dan Masker	Vice-President	2003
Neil Darrington	Board Member	2004
Dennis Bardsley	Board Member	2004
Tim Schwery	Board Member	2005

Board of Education (After September 2003 Election)		
Dennis Bardsley	President	2004
Lucy Hough	Vice President	2006
Neil Darrington	Board Member	2004
Tim Schwery	Board Member	2005
Kris Tilley	Board Member	2006

School Officials

Edward H. Hawks	Superintendent	2004
Gerry Schmidt	District Secretary/ Treasurer	2004
William R. Hughes Jr.	Attorney	2004
Jim Hanks	Attorney	2004

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Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Underwood Community School District:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Underwood Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

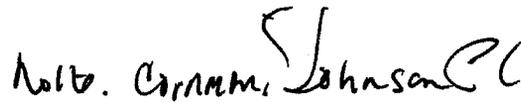
As described in Note 7 to the financial statements, during the year ended June 30, 2004, Underwood Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated October 13, 2004, on our consideration of the Underwood Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of

laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain 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 conducted for the purpose of forming an opinion on the financial statements that collectively comprise Underwood Community School District'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, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental 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.



NOLTE, CORNMAN & JOHNSON, P.C.

October 13, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Underwood Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,832,288 in fiscal 2003 to \$4,839,915 in fiscal 2004, while General Fund expenditures also increased from \$4,941,523 in fiscal 2003 to \$4,980,358 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from \$847,379 in fiscal 2003 to a balance of \$708,973 in fiscal 2004, a 16% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in local and state sources in fiscal 2004. The increase in expenditures was due primarily to an increase in the instruction functional area.

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 District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Underwood Community School District as a whole and present an overall view of the District'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 Underwood Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Underwood Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the 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 District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

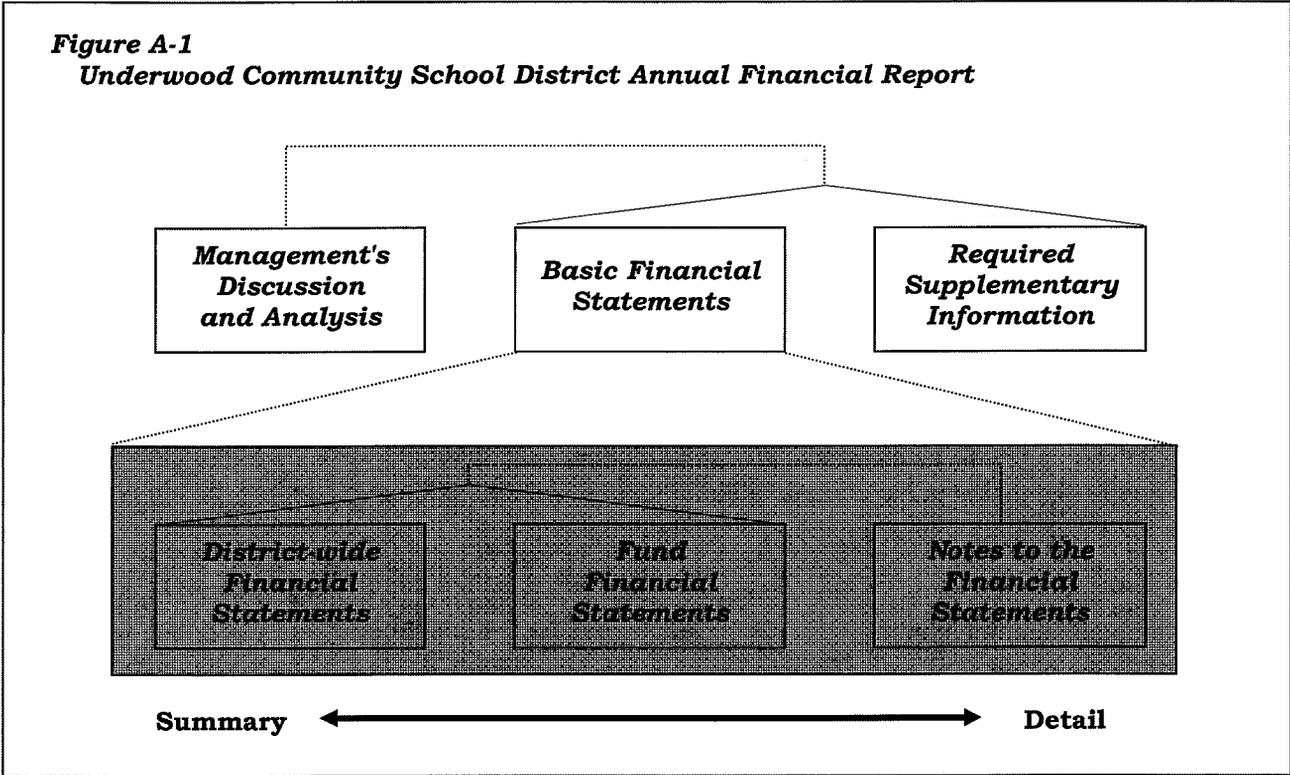


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	District-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 3,649,743	37,335	3,687,078
Capital Assets	1,203,016	1,438	1,204,454
Total assets	<u>4,852,759</u>	<u>38,773</u>	<u>4,891,532</u>
Other liabilities	2,168,437	19,469	2,187,906
Total liabilities	<u>2,168,437</u>	<u>19,469</u>	<u>2,187,906</u>
Net assets:			
Invested in capital assets, net of related debt	1,203,016	1,438	1,204,454
Restricted	776,570	0	776,570
Unrestricted	704,736	17,866	722,602
Total net assets	<u>\$ 2,684,322</u>	<u>19,304</u>	<u>2,703,626</u>

Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	\$ 724,017	215,208	939,225
Operating grants and contributions and restricted interest	443,068	76,146	519,214
General revenues:			
Property tax	1,773,512	0	1,773,512
Local option sales and service tax	459,884	0	459,884
Unrestricted state grants	2,259,206	0	2,259,206
Unrestricted investment earnings	10,262	40	10,302
Other	2,037	0	2,037
Total revenues	<u>5,671,986</u>	<u>291,394</u>	<u>5,963,380</u>
Program expenses:			
Governmental activities:			
Instructional	3,370,891	0	3,370,891
Support services	1,768,861	0	1,768,861
Non-instructional programs	4,044	270,906	274,950
Other expenses	376,584	0	376,584
Total expenses	<u>5,520,380</u>	<u>270,906</u>	<u>5,791,286</u>
Change in net assets	<u>\$ 151,606</u>	<u>20,488</u>	<u>172,094</u>

Property tax and unrestricted state grants account for approximately 68% of the total revenue. The District's expenses primarily relate to instruction and support services which account for approximately 89% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$5,671,986 and expenses were \$5,520,380.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,370,891	2,407,760
Support services	1,768,861	1,754,724
Non-instructional	4,044	4,044
Other expenses	376,584	186,767
Totals	<u>\$ 5,520,380</u>	<u>4,353,295</u>

-
- The cost financed by users of the District's programs was \$724,017.
 - Federal and state governments subsidized certain programs with grants and contributions totaling \$443,068.
 - The net cost of governmental activities was financed with \$1,773,512 in property tax, \$459,884 in Local Option Sales and Services Tax, \$2,259,206 in unrestricted state grants, \$10,262 in unrestricted investment earnings, and \$2,037 from other sources.

Business-Type Activities

Revenues of the District's business-type activities were \$291,394 and expenses were \$270,906. The District's business-type activities include the School Nutrition Fund and the Latch Key Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Underwood Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,478,768, above last year's ending fund balances of a \$1,243,648.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Growth during the year in tax resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures.
- The General Fund balance decreased from \$847,379 at June 30, 2003, to \$708,973 at June 30, 2004, due in part to the increase in instruction expenditures.
- The Capital Projects Fund balance increased from \$273,734 at June 30, 2003, to \$670,227 at June 30, 2004, due in part to an increase in local option sales and services tax.

Proprietary Fund Highlights

- The School Nutrition Fund net assets increased from \$10,220 at June 30, 2003 to \$21,663 at June 30, 2004, representing an increase of approximately 112%.
- The Latch Key Fund net assets increased from a deficit of \$11,404 at June 30, 2003 to a deficit of \$2,359 at June 30, 2004, representing an increase of 79%

BUDGETARY HIGHLIGHTS

The District's receipts were \$332,752 more than budgeted receipts, a variance of 5.91%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily due to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services functional area due to the timing of disbursements paid.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$1,204,454, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$85,627.

The original cost of the District's capital assets was \$4,759,883. Governmental funds account for \$4,732,034 with the remainder of \$27,849 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$83,144 at June 30, 2004, compared to \$107,646 reported at June 30, 2003.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Land	\$ 97,590	0	97,590
Buildings	1,002,710	0	1,002,710
Improvements other than buildings	19,572	0	19,572
Machinery and equipment	83,144	1,438	84,582
Total	\$ 1,203,016	1,438	1,204,454

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- State budget cuts continue to be a concern for the District, shifting the majority of funding on property taxes.
- A 2.5% across-the-board state cut did reduce revenues the District received during the 2003-2004 school year. This was due to a downward estimate in state revenues.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Shelly Schroder, Business Manager, Underwood Community School District, P.O. Box 130, Underwood, Iowa, 51576.

BASIC FINANCIAL STATEMENTS

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents:			
Other	\$ 1,762,000	30,327	1,792,327
Receivables			
Property tax:			
Delinquent	16,348	0	16,348
Succeeding year	1,704,797	0	1,704,797
Accounts	29	0	29
Due from other governments	166,569	0	166,569
Inventories	0	7,008	7,008
Capital assets, net of accumulated depreciation (Note 3)	1,203,016	1,438	1,204,454
TOTAL ASSETS	4,852,759	38,773	4,891,532
LIABILITIES			
Accounts payable	0	1,899	1,899
Salaries and benefits payable	463,640	17,570	481,210
Deferred revenue:			
Succeeding year property tax	1,704,797	0	1,704,797
TOTAL LIABILITIES	2,168,437	19,469	2,187,906
NET ASSETS			
Investment in capital assets, net of related debt	1,203,016	1,438	1,204,454
Restricted for:			
Talented and Gifted	6,775	0	6,775
Capital projects	670,227	0	670,227
Management levy	12,756	0	12,756
Physical plant and equipment levy	8,256	0	8,256
Other special revenue purposes	78,556	0	78,556
Unrestricted	704,736	17,866	722,602
TOTAL NET ASSETS	\$ 2,684,322	19,304	2,703,626

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 2,356,577	623,618	244,218
Special instruction	543,316	95,295	0
Other instruction	470,998	0	0
	<u>3,370,891</u>	<u>718,913</u>	<u>244,218</u>
Support services:			
Student services	149,960	0	0
Instructional staff services	183,763	0	0
Administration services	554,918	0	0
Operation and maintenance of plant services	597,250	0	0
Transportation services	282,970	5,104	9,033
	<u>1,768,861</u>	<u>5,104</u>	<u>9,033</u>
Non-instructional programs	4,044	0	0
Other expenditures:			
Facilities acquisitions	127,711	0	189,817
AEA flowthrough	189,817	0	0
Depreciation(unallocated)*	59,056	0	0
	<u>376,584</u>	<u>0</u>	<u>189,817</u>
Total governmental activities	5,520,380	724,017	443,068
Business-Type activities:			
Non-instructional programs:			
Nutrition services	245,095	180,352	76,146
Latch Key	25,811	34,856	0
Total business-type activities	<u>270,906</u>	<u>215,208</u>	<u>76,146</u>
Total	<u>\$ 5,791,286</u>	<u>939,225</u>	<u>519,214</u>

General Revenues:

Property tax levied for:
 General purposes
 Capital outlay
 Local option sales and services
Unrestricted state grants
Unrestricted investment earnings
Other

Total general revenues

Changes in net assets

Net assets beginning of year, as restated(Note 7)

Net assets end of year

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,488,741)	0	(1,488,741)
(448,021)	0	(448,021)
(470,998)	0	(470,998)
<u>(2,407,760)</u>	<u>0</u>	<u>(2,407,760)</u>
(149,960)	0	(149,960)
(183,763)	0	(183,763)
(554,918)	0	(554,918)
(597,250)	0	(597,250)
(268,833)	0	(268,833)
<u>(1,754,724)</u>	<u>0</u>	<u>(1,754,724)</u>
(4,044)		(4,044)
62,106	0	62,106
(189,817)	0	(189,817)
(59,056)	0	(59,056)
<u>(186,767)</u>	<u>0</u>	<u>(186,767)</u>
(4,353,295)	0	(4,353,295)
0	11,403	11,403
0	9,045	9,045
0	20,448	20,448
<u>(4,353,295)</u>	<u>20,448</u>	<u>(4,332,847)</u>
\$ 1,721,910	0	1,721,910
51,602	0	51,602
459,884	0	459,884
2,259,206	0	2,259,206
10,262	40	10,302
2,037	0	2,037
<u>4,504,901</u>	<u>40</u>	<u>4,504,941</u>
151,606	20,488	172,094
2,532,716	(1,184)	2,531,532
<u>\$ 2,684,322</u>	<u>19,304</u>	<u>2,703,626</u>

UNDERWOOD COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments:				
Other	1,063,226	597,886	98,350	1,759,462
Receivables:				
Property tax:				
Delinquent	15,130	0	1,218	16,348
Succeeding year	1,562,104	0	142,693	1,704,797
Accounts	29	0	0	29
Due from other governments	94,228	72,341	0	166,569
TOTAL ASSETS	\$ 2,734,717	670,227	242,261	3,647,205
LIABILITIES AND FUND BALANCES				
Liabilities:				
Salaries and benefits payable	\$ 463,640	0	0	463,640
Deferred revenue:				
Succeeding year property tax	1,562,104	0	142,693	1,704,797
Total liabilities	2,025,744	0	142,693	2,168,437
Fund balances:				
Reserved for:				
Talented and Gifted	6,775	0	0	6,775
Unreserved:				
Undesignated	702,198	670,227	99,568	1,471,993
Total fund balances	708,973	670,227	99,568	1,478,768
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,734,717	670,227	242,261	3,647,205

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004

Total fund balances of governmental funds (page 16)	\$ 1,478,768
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	1,203,016
Blending of the Internal Service Fund to be reflected on an entity-wide basis.	<u>2,538</u>
Net assets of governmental activites (page 13)	<u><u>\$ 2,684,322</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,642,228	459,884	131,284	2,233,396
Tuition	399,863	0	0	399,863
Other	95,646	1,701	237,069	334,416
State sources	2,651,388	0	96	2,651,484
Federal sources	50,790	0	0	50,790
Total revenues	<u>4,839,915</u>	<u>461,585</u>	<u>368,449</u>	<u>5,669,949</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	2,356,053	0	0	2,356,053
Special instruction	543,316	0	0	543,316
Other instruction	240,490	0	230,508	470,998
	<u>3,139,859</u>	<u>0</u>	<u>230,508</u>	<u>3,370,367</u>
Support services:				
Student services	149,960	0	0	149,960
Instructional staff services	183,763	0	0	183,763
Administration services	554,918	0	0	554,918
Operation and maintenance of plant services	499,161	0	98,089	597,250
Transportation services	259,036	0	0	259,036
	<u>1,646,838</u>	<u>0</u>	<u>98,089</u>	<u>1,744,927</u>
Non-instructional programs	3,844	0	200	4,044
Other expenditures:				
Facilities acquisitions	0	65,092	62,619	127,711
AEA flowthrough	189,817	0	0	189,817
	<u>189,817</u>	<u>65,092</u>	<u>62,619</u>	<u>317,528</u>
Total expenditures	<u>4,980,358</u>	<u>65,092</u>	<u>391,416</u>	<u>5,436,866</u>
Excess (deficiency) of revenues over (under) expenditures	(140,443)	396,493	(22,967)	233,083
Other financing sources:				
Sale of equipment	2,037	0	0	2,037
Total other financing sources	<u>2,037</u>	<u>0</u>	<u>0</u>	<u>2,037</u>
Net change in fund balances	(138,406)	396,493	(22,967)	235,120
Fund balance beginning of year	847,379	273,734	122,535	1,243,648
Fund balance end of year	<u>\$ 708,973</u>	<u>670,227</u>	<u>99,568</u>	<u>1,478,768</u>

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2004

Net change in fund balances - total governmental funds (page 18) \$ 235,120

***Amounts reported for governmental activities in the
 statement of activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 1,650	
Depreciation expense	<u>(85,208)</u>	(83,558)

Net change in the Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis.

44

Changes in net assets of governmental activities (page 15) \$ 151,606

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2004

	Business-Type				
	Activities:				
	Enterprise		Governmental		
	Fund		Activities:		
School	Latch	Internal	Total		
Nutrition	Key	Service			
ASSETS					
Cash and pooled investments	\$ 29,433	894	2,538	32,865	
Accounts receivable	0	0	0	0	
Inventories	7,008	0	0	7,008	
Capital assets, net of accumulated depreciation	1,438	0	0	1,438	
Total assets	<u>37,879</u>	<u>894</u>	<u>2,538</u>	<u>41,311</u>	
LIABILITIES					
Accounts payable	1,899	0	0	1,899	
Salaries and benefits payable	14,317	3,253	0	17,570	
Total liabilities	<u>16,216</u>	<u>3,253</u>	<u>0</u>	<u>19,469</u>	
NET ASSETS					
Invested in capital assets, net of related debt	1,438	0	0	1,438	
Unrestricted	20,225	(2,359)	2,538	20,404	
Total net assets	<u>\$ 21,663</u>	<u>(2,359)</u>	<u>2,538</u>	<u>21,842</u>	

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	Business-Type Activities:			Total
	Enterprise Fund		Governmental Activities:	
	School Nutrition	Latch Key	Internal Service	
Operating revenues:				
Local sources:				
Charges for services	\$ 180,352	34,856	30,286	245,494
Operating expenses:				
Non-instructional programs:				
Food service operations:				
Salaries	90,266	22,232	0	112,498
Benefits	11,930	2,696	30,242	44,868
Services	111,546	0	0	111,546
Supplies	30,630	883	0	31,513
Other	304	0	0	304
Depreciation	419	0	0	419
Total operating expenses	245,095	25,811	30,242	301,148
Operating gain (loss)	(64,743)	9,045	44	(55,654)
Non-operating revenues:				
State sources	3,620	0	0	3,620
Federal sources	72,526	0	0	72,526
Interest on investments	40	0	0	40
Total non-operating revenues	76,186	0	0	76,186
Change in net assets	11,443	9,045	44	20,532
Net assets beginning of year	10,220	(11,404)	2,494	1,310
Net assets end of year	\$ 21,663	(2,359)	2,538	21,842

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	Business-Type Activities:			Governmental Activities Internal Service	Total
	Enterprise Fund		Latch Key		
	School Nutrition	Latch Key			
Cash flows from operating activities:					
Cash received from sale of lunches and breakfasts	\$ 179,331	0	0	179,331	
Cash received from miscellaneous operating activities	2,920	34,856	30,286	68,062	
Cash payments to employees for services	(101,850)	(21,675)	(30,242)	(153,767)	
Cash payments to suppliers for goods or services	(121,295)	(883)	0	(122,178)	
Net cash used in operating activities	<u>(40,894)</u>	<u>12,298</u>	<u>44</u>	<u>(28,552)</u>	
Cash flows from non-capital financing activities:					
State grants received	3,620	0	0	3,620	
Federal grants received	51,646	0	0	51,646	
Net cash provided by non-capital financing activities	<u>55,266</u>	<u>0</u>	<u>0</u>	<u>55,266</u>	
Cash flows from investing activities:					
Interest on investments	40	0	0	40	
Net cash provided by investing activities	<u>40</u>	<u>0</u>	<u>0</u>	<u>40</u>	
Net increase in cash and cash equivalents	14,412	12,298	44	26,754	
Cash and cash equivalents at beginning of year	15,021	(11,404)	2,494	6,111	
Cash and cash equivalents at end of year	<u>\$ 29,433</u>	<u>894</u>	<u>2,538</u>	<u>32,865</u>	
Reconciliation of operating loss to net cash used in operating activities:					
Operating loss	\$ (64,743)	9,045	44	(55,654)	
Adjustments to reconcile operating loss to net cash used in operating activities:					
Commodities consumed	20,880	0	0	20,880	
Depreciation	419	0	0	419	
Decrease in inventories	305	0	0	305	
Increase in salaries and benefits payable	346	3,253	0	3,599	
Increase in deferred revenue	1,899	0	0	1,899	
Net cash used in operating activities	<u>\$ (40,894)</u>	<u>12,298</u>	<u>44</u>	<u>(28,552)</u>	
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:					
Current assets:					
Cash and pooled investments	<u>\$ 29,433</u>	<u>894</u>	<u>2,538</u>	<u>32,865</u>	

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at \$20,880.

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

The Underwood Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Underwood, Iowa, and the predominate agricultural territory in Pottawatamie County. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Underwood Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District 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 District are such that exclusion would cause the District'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 District 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 District. The Underwood Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Pottawatamie County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally 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 support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

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

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues 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 that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are 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 expenses, including instructional, support and other costs.

The District reports the following proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Latch Key Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary financial statements are reported using the "economic resources measurement focus". The Government-wide and

proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	1,500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-20 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term liabilities - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the support services functional area exceeded the amount budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2004 were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the District or the District's agent in the District's name, or by multiple financial institution collateral pool 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 District 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 Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$50,227 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investments in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year, as restated (Note 7)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 97,590	0	0	97,590
Total capital assets not being depreciated	97,590	0	0	97,590
Capital assets being depreciated:				
Buildings	2,606,970	0	0	2,606,970
Improvements other than buildings	525,003	0	0	525,003
Machinery and equipment	1,500,821	1,650	0	1,502,471
Total capital assets being depreciated	4,632,794	1,650	0	4,634,444
Less accumulated depreciation for:				
Buildings	1,552,317	51,943	0	1,604,260
Improvements other than buildings	498,318	7,113	0	505,431
Machinery and equipment	1,393,175	26,152	0	1,419,327
Total accumulated depreciation	3,443,810	85,208	0	3,529,018
Total capital assets being depreciated, net	1,188,984	(83,558)	0	1,105,426
Governmental activities capital assets, net	\$ 1,286,574	(83,558)	0	1,203,016
Business-type activities:				
Machinery and equipment	\$ 28,596	0	747	27,849
Less accumulated depreciation	26,739	419	747	26,411
Business-type activities capital assets, net	\$ 1,857	(419)	0	1,438

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 568
Support services:		
Transportation		25,584
		26,152
Unallocated depreciation		59,056
Total governmental activities depreciation expense		\$ 85,208
Business-type activities:		
Food services		\$ 419
Total business-type activities depreciation expense		\$ 419

(4) Pension and Retirement Benefits

The District 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 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$172,306, \$145,444,

\$165,715 respectively, equal to the required contributions for each year.

(5) Risk Management

Underwood Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa Schools Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed in July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision, and prescription drugs.

Each members' contributions to the ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA'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.

The District's contributions to the risk pool are recorded as expenditures from its General and Management Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$434,385.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004 no liability has been recorded in the District's financial statements. As of June 30, 2004 settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such a period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

Underwood Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$189,817 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(7) Accounting Change and Restatements

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absences and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus, Statement Number 38, Certain Financial Statement Note Disclosures, and Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include Government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

Beginning capital assets for governmental activities of \$5,154,795 were restated to \$4,730,384. The restatement primarily removed assets below the District's capitalizations threshold.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund			Total
	General	Capital Projects	Other Nonmajor Governmental Funds	
Net assets, June 30, 2003, as previously reported	\$ 847,379	273,734	122,535	1,243,648
GASB Interpretation 6 adjustments	0	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	<u>\$ 847,379</u>	<u>273,734</u>	<u>122,535</u>	<u>1,243,648</u>
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of \$3,443,810				1,286,574
Blending of Internal Service Fund				<u>2,494</u>
Net assets, July 1, 2003, as restated				<u>\$ 2,532,716</u>

(8) Deficit Net Assets

The District had a deficit net assets in the Enterprise Fund - Latch Key Fund of \$2,359 as of June 30, 2004.

(9) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2004, expenditures in the support services functional program area exceeded the amount budgeted.

REQUIRED SUPPLEMENTAL INFORMATION

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Revenues:		
Local sources	\$ 2,967,675	215,248
Intermediate sources	0	0
State sources	2,651,484	3,620
Federal sources	50,790	72,526
Total revenues	<u>5,669,949</u>	<u>291,394</u>
Expenditures:		
Instruction	3,370,367	0
Support services	1,744,927	0
Non-instructional programs	4,044	270,906
Other expenditures	317,528	0
Total expenditures	<u>5,436,866</u>	<u>270,906</u>
Excess(deficiency) of revenues over(under) expenditures	233,083	20,488
Other financing sources, net	<u>2,037</u>	0
Excess(deficiency) of revenues over(under) expenditures	235,120	20,488
Balance beginning of year	<u>1,243,648</u>	(1,184)
Balance end of year	<u>\$ 1,478,768</u>	<u>19,304</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
3,182,923	2,671,052	2,671,052	511,871
0	34,000	34,000	(34,000)
2,655,104	2,805,739	2,805,739	(150,635)
123,316	117,800	117,800	5,516
<u>5,961,343</u>	<u>5,628,591</u>	<u>5,628,591</u>	<u>332,752</u>
3,370,367	3,670,000	3,670,000	299,633
1,744,927	1,705,000	1,705,000	(39,927)
274,950	275,000	275,000	50
317,528	371,455	371,455	53,927
<u>5,707,772</u>	<u>6,021,455</u>	<u>6,021,455</u>	<u>313,683</u>
253,571	(392,864)	(392,864)	(646,435)
<u>2,037</u>	<u>2,000</u>	<u>0</u>	<u>(2,037)</u>
255,608	(390,864)	(392,864)	(648,472)
<u>1,242,464</u>	<u>1,000,929</u>	<u>1,000,929</u>	<u>241,535</u>
<u>1,498,072</u>	<u>610,065</u>	<u>608,065</u>	<u>890,007</u>

UNDERWOOD COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2004, disbursements in the support services functional program area exceeded the amounts budgeted.

OTHER SUPPLEMENTAL INFORMATION

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2004

	Special Revenue Funds				
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue
ASSETS					
Cash and pooled investments	\$ 12,022	59,392	7,772	19,164	98,350
Receivables:					
Property tax:					
Current year delinquent	734	0	484	0	1,218
Succeeding year	95,000	0	47,693	0	142,693
TOTAL ASSETS	<u>\$ 107,756</u>	<u>59,392</u>	<u>55,949</u>	<u>19,164</u>	<u>242,261</u>
LIABILITIES AND FUND EQUITY					
Liabilities:					
Deferred revenue:					
Succeeding year property tax	95,000	0	47,693	0	142,693
Total Liabilities	<u>95,000</u>	<u>0</u>	<u>47,693</u>	<u>0</u>	<u>142,693</u>
Fund equity:					
Fund balances:					
Unreserved:					
Undesignated	12,756	59,392	8,256	19,164	99,568
Total fund balances	<u>12,756</u>	<u>59,392</u>	<u>8,256</u>	<u>19,164</u>	<u>99,568</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 107,756</u>	<u>59,392</u>	<u>55,949</u>	<u>19,164</u>	<u>242,261</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2004

	Special Revenue Funds				
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue
REVENUES:					
Local sources:					
Local tax	\$ 79,682	0	51,602	0	131,284
Other	0	237,038	0	31	237,069
State sources	58	0	38	0	96
TOTAL REVENUES	<u>79,740</u>	<u>237,038</u>	<u>51,640</u>	<u>31</u>	<u>368,449</u>
EXPENDITURES:					
Current:					
Instruction:					
Other instruction	0	230,508	0	0	230,508
Support services:					
Operation and maintenance of plant services	98,089	0	0	0	98,089
Non-instructional programs	0	0	0	200	200
Other expenditures:					
Facilities acquisitions	0	0	62,619	0	62,619
TOTAL EXPENDITURES	<u>98,089</u>	<u>230,508</u>	<u>62,619</u>	<u>200</u>	<u>391,416</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(18,349)	6,530	(10,979)	(169)	(22,967)
FUND BALANCE BEGINNING OF YEAR	<u>31,105</u>	<u>52,862</u>	<u>19,235</u>	<u>19,333</u>	<u>122,535</u>
FUND BALANCE END OF YEAR	<u>\$ 12,756</u>	<u>59,392</u>	<u>8,256</u>	<u>19,164</u>	<u>99,568</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama/Speech	\$ 286	738	680	344
Band Activity	3,598	5,529	6,161	2,966
Track Activity	1,196	7,070	6,141	2,125
Basketball Activity	1,153	7,669	7,819	1,003
Football Activity	(534)	5,720	7,240	(2,054)
Baseball Activity	(871)	2,207	3,276	(1,940)
Wrestling Activity	(463)	557	1,698	(1,604)
Volleyball Activity	1,094	3,395	4,858	(369)
Softball Activity	891	3,308	3,789	410
Activity Tickets	1,037	7,179	8,395	(179)
Golf Activity	699	264	369	594
Elementary Art Club	3,022	6,314	5,823	3,513
Baseball Club	912	10,453	12,482	(1,117)
Cheerleading	232	1,794	1,793	233
High School Art Club	(413)	1,488	983	92
High School Concessions	3,751	11,363	11,664	3,450
Cross Country Club	(83)	566	472	11
Boys Basketball Club	(346)	4,000	3,564	90
FFA Account	3,431	0	0	3,431
Interest	393	1,336	1,221	508
Girls Basketball Club	2,006	9,393	9,699	1,700
Library Club	189	1,501	1,212	478
Football Club	1,214	5,158	3,423	2,949
Drill Team	196	1,896	2,774	(682)
Middle School Pop/Juice	1,674	9,990	8,227	3,437
High School Pop/Juice	818	12,255	12,639	434
Revolving	(7)	3,835	3,895	(67)
Soda	221	0	0	221
High School Science Club	(65)	714	649	0
Softball Club	2,133	10,245	9,677	2,701
Elementary Student Council	144	1,939	1,505	578
Middle School Student Council	438	2,751	2,692	497
High School Student Council	769	999	1,014	754
High School Boys Track Club	(258)	0	16	(274)
FCCLA/FHA Account	269	1,089	906	452
High Vocal Activity	(1,734)	8,191	5,164	1,293
High School Volleyball Club	790	4,006	3,734	1,062
Weightlifting Club	525	3,627	3,790	362
Softball Pitching	324	1,968	1,911	381
High School Wrestling Club	3,203	4,921	5,907	2,217
High School Yearbook	(3,158)	8,278	3,508	1,612
High School Girls Track Club	1,236	805	1,148	893
Wrestling Camp	14	0	0	14
Basketball Cheerleading	1,112	1,639	830	1,921
Football Cheerleading	947	3,419	3,616	750
Wrestling Cheerleading	858	2,282	2,929	211
Elementary Field Trip	80	2,836	2,835	81

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Elementary Student Directory	3	186	0	189
Middle School Leadership	2,718	650	1,229	2,139
Peers	158	0	0	158
Middle School Quest	442	867	417	892
SOS Account	933	103	580	456
Sweatshirts	(1,332)	3,434	1,979	123
Middle School TAG	17	0	0	17
Alumni	111	0	0	111
Spanish Club	228	113	130	211
JH Volleyball Club	250	405	643	12
Jump Rope for Heart	224	0	34	190
Elementary Playground Acct	730	0	265	465
Fellowship Athletes	79	0	0	79
Middle School Wrestling Club	(1,349)	127	0	(1,222)
Middle School Yearbook	837	0	0	837
Middle School Activity Center	745	0	0	745
Middle School Vocal Activity	1,870	7,722	8,367	1,225
Elementary Music	636	1,008	44	1,600
Home/School Partnership	57	0	0	57
Elementary PAC	4,426	7,881	6,837	5,470
Pott Cty Spelling Bee	17	0	15	2
JH Girls Track Club	130	0	50	80
Class of 2003	33	0	0	33
Girard Memorial Library Fund	481	885	1,366	0
Class of 2004	1,764	3,088	4,696	156
School Mascot Fund	345	0	0	345
Wrestling Mat Fund	500	1,000	0	1,500
JH Football Club	987	3,340	4,146	181
Class of 2005	3,462	6,841	8,819	1,484
JH Basketball Club	129	1,540	1,477	192
Class of 2006	100	9,654	4,760	4,994
JH Boys Track Club	208	460	761	(93)
MS Concessions	0	2,647	1,725	922
Class of 2007	0	0	40	(40)
Adopt Instrument Fund	0	400	0	400
Total	\$ 52,862	237,038	230,508	59,392

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 2,233,396	2,178,735	1,921,227	1,629,580
Tuition	399,863	395,125	344,725	366,063
Other	334,416	84,596	114,459	138,242
State sources	2,651,484	2,641,763	2,606,739	2,590,648
Federal sources	50,790	52,078	43,183	55,511
Total	<u>\$ 5,669,949</u>	<u>5,352,297</u>	<u>5,030,333</u>	<u>4,802,327</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,356,053	2,223,366	2,357,734	2,089,999
Special instruction	543,316	584,223	529,168	518,864
Other instruction	470,998	228,246	227,394	235,530
Support services:				
Student services	149,960	143,330	136,790	130,063
Instructional staff services	183,763	183,613	141,575	145,438
Administration services	554,918	503,239	479,773	454,578
Operation and maintenance of plant services	597,250	532,258	507,160	450,717
Transportation services	259,036	345,061	279,312	257,166
Non-instructional programs	4,044	554	8,069	9,253
Other expenditures:				
Facilities acquisitions	127,711	0	0	0
AEA flow-through	189,817	197,633	198,552	199,371
Total	<u>\$ 5,436,866</u>	<u>4,941,523</u>	<u>4,865,527</u>	<u>4,490,979</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

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

To the Board of Education of the
Underwood Community School District:

We have audited the financial statements of Underwood Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 13, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Underwood Community School District's general purpose 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 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 the accompanying Schedule of Findings.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Underwood Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a 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 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, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have all been resolved except for items I-A-04, I-C-04, I-D-04 and I-E-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Underwood Community School District and other parties to whom Underwood Community School District 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 Underwood Community School District 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.

Nolte, Cornman, Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

October 13, 2004

UNDERWOOD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part I: Findings Related to the General Purpose Financial Statements:

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

I-B-04 Student Activity Fund - We noted during the audit that the Student Activity Fund included an old class account and a revolving account.

Recommendation - The class account is inactive as the Class of 2003 has graduated and therefore is no longer a legitimate account. This balance may be transferred to another student activity account in accordance with the Uniform Accounting Procedure Manual. The revolving account should zero out at the end of the year.

Response - This has already been implemented for fiscal year ending 6/30/2005.

Conclusion - Response accepted.

I-C-04 Grants - We noted during our audit, that when expenditures for Teacher Quality were posted; it appeared that the expenses were not always properly posted to those projects.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting Manual for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

Response - Procedures are in place and this is being monitored.

Conclusion - Response accepted.

I-D-04 Activity Admissions – The Activity gate admissions and change box were not reconciled with pre-numbered tickets sold.

Recommendation – The District should establish reconciliation procedures for activity admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the change box and admissions to the number of tickets issued.

Response – We will be reviewing our procedures.

Conclusion – Response accepted.

I-E-04 Bank Reconciliations – We noted during our audit that the District did not reconcile bank balances to the general ledger monthly.

Recommendation – The District needs to perform reconciliations of bank statements and then reconcile to the general ledger for the fund balance. This reconciliation should be performed each month.

Response – This process is being monitored and procedures will be implemented to rectify this situation.

Conclusion – Response accepted.

I-F-04 Federal ID Number – We noted during our audit that the Booster Club was using the District’s Federal ID Number, however the records were not included in the district records for accounting purposes.

Recommendation – The district should include the Booster Club within the financial reporting and apply all internal control processes to the Booster Club. If the Booster Club is an external separate organization the district should notify the Booster Club to obtain their own federal identification number. However if a separate ID number is issued the Booster Club may still be required to be included in the district’s annual audit in compliance with GASB 39.

Response – We will be implementing new procedures.

Conclusion – Response accepted.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Statutory Reporting

II-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2004.

Recommendation – The district should increase their depository limits.

Response – The District accepts the recommendation and will increase depository limits.

Conclusion – Response accepted.

II-B-04 Certified Budget - District expenditures for the year ended June 30, 2004 exceeded the certified budget amounts in the support services functional area.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response – The process is being monitored and procedures are in place to amend the budget in a timely manner.

Conclusion – Response accepted.

II-C-04 Questionable Disbursements – We noted during our audit that there where clothing items purchased for coaches out of the Activity Fund which may not meet the requirements for public purpose as defined in Attorney General’s opinion dated April 25, 1979.

Recommendation – The District should review these types of expenditures and document the public purpose served. The District may consider adopting a policy directed to requirements in meeting public purpose criteria. If no public purpose is identified these types of expenditures should be added to the individuals W-2’s or the District should be reimbursed by the individuals who received the items of clothing.

Response – Procedures have been changed.

Conclusion – Response accepted.

II-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-E-04 Business Transactions – No business transactions between the District and District officials were noted.

II-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy. However, we did note that the District was not receiving the proper interest rate, set by the State Rate Setting Committee, on their Certificate of Deposit.

Recommendation – The District should contact the appropriate bank and rectify the situation.

Response – The bank has been notified and this has been corrected.

Conclusion – Response accepted.

II-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

II-K-04 Financial Condition - We noted that the Enterprise Fund – Latch Key had a deficit net assets balance of \$2,359 at June 30, 2004. We also noted that the Student Activity Fund had accounts with negative balances.

Recommendation - The District should continue to monitor this fund and accounts and investigate alternatives to eliminate the deficits.

Response – The District is continuing to monitor this.

Conclusion – Response accepted.