UNDERWOOD COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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Underwood Community School District

Officials

Name	Title	Term Expires
	Board of Education (Before September 2004 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
	Board of Education (After September 2004 Election)	
Neil Darrington	President	2007
Lucy Hough	Vice President	2006
Tim Schwery	Board Member	2005
Kris Tilley	Board Member	2006
Julie Handbury	Board Member	2007
	School Officials	
Edward H. Hawks	Superintendent	2005
Gerry Schmidt	District Secretary/ Treasurer (Resigned)	2005
Shelly Schroder	District Secretary/ Treasurer (Appointed)	2005
William R. Hughes Jr.	Attorney	2005
Jim Hanks	Attorney	2005

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

Telephone (641) 792-1910

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, the business-type activities, each major fund and the aggregate remaining fund information of Underwood Community School District, Underwood, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements 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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Underwood Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 13, 2005 on our consideration of Underwood Community School District'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 on 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.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 34 are not required parts of the basic financial statements, but are supplementary

information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions 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, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson

NOLTE, CORNMAN & JOHNSON, P.C.

October 13, 2005

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, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from $4,839,915 in fiscal 2004 to $5,082,939 in fiscal 2005, while General Fund expenditures increased from $4,980,358 in fiscal 2004 to $5,322,625 in fiscal 2005. This resulted in a decrease in the District's General Fund balance from $708,973 in fiscal 2004 to $470,239 in fiscal 2005, a 33.7% decrease from the prior year.

- The increase in General Fund revenues was attributable to an increase in state and federal grant revenues in fiscal 2005. The increase in expenditures was due primarily to an increase in instructional staff, administrative and transportation services.

- The District received $505,346 in local option sales and service tax during the year, which has offset the reduction in the tax levy in the other funds.

- September 2004 Certified Enrollment count resulted in an increase of 13.1 students, representing a 1.8% increase compared to the prior year.

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-1
Underwood Community School District Annual Financial Report

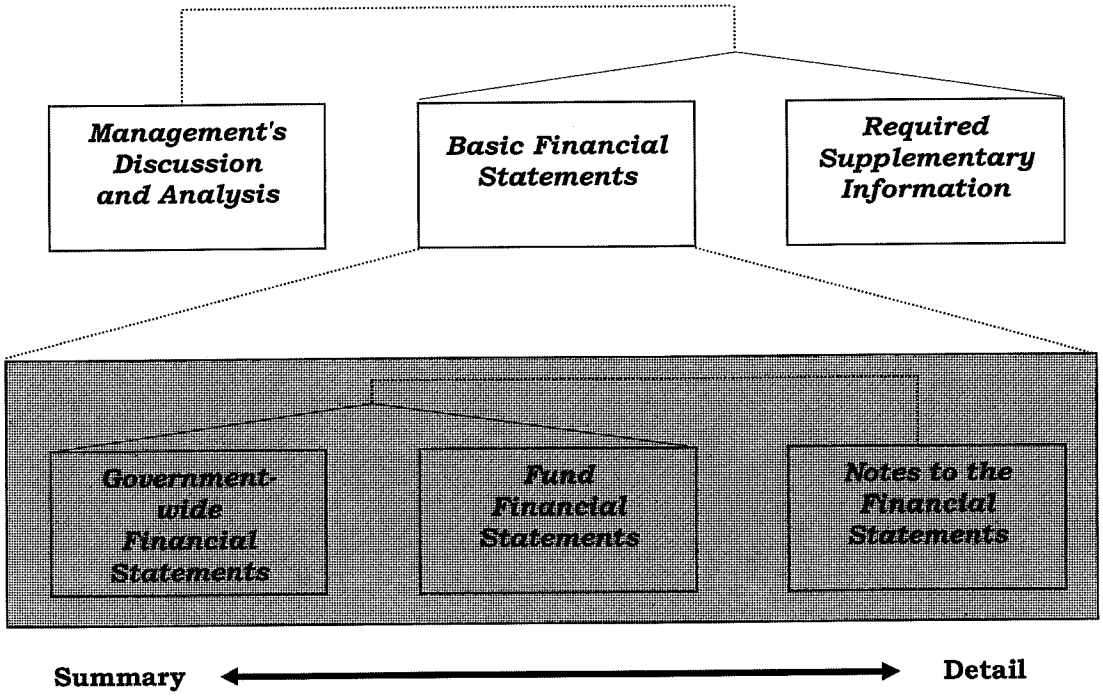

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements

	Government-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	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• 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.

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 two enterprise funds, the School Nutrition and the Latch Key Fund. The District's internal service fund, one type of proprietary fund, is the same as the governmental activities, but provide more detail and additional information, such as cash flows. The District currently has one internal service 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.

Reconciliation 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, 2005 compared to June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	$ 4,171,347	3,649,743	45,694	37,335	4,217,041	3,687,078	14.37%
Capital assets	1,080,899	1,203,016	1,022	1,438	1,081,921	1,204,454	-10.17%
Total assets	5,252,246	4,852,759	46,716	38,773	5,298,962	4,891,532	8.33%
Other liabilities	2,435,052	2,168,437	22,528	19,469	2,457,580	2,187,906	12.33%
Total liabilities	2,435,052	2,168,437	22,528	19,469	2,457,580	2,187,906	12.33%
Net assets:							
Invested in capital assets, net of related debt	1,080,899	1,203,016	1,022	1,438	1,081,921	1,204,454	-10.17%
Restricted	1,286,659	776,570	0	0	1,286,659	776,570	65.68%
Unrestricted	449,636	704,736	23,166	17,866	472,802	722,602	-34.57%
Total net assets	$ 2,817,194	2,684,322	24,188	19,304	2,841,382	2,703,626	5.10%

The District's combined net assets increased by 5.1% or $137,756 over the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets increased $510,089 or 65.68% over the prior year. The increase was primarily due to the increase in the fund balance of the Capital Projects Fund.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - decreased $249,800 or 34.57%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	$ 936,470	724,017	222,010	215,208	1,158,480	939,225	23.34%
Operating grants and contributions and restricted interest	491,620	443,068	78,765	76,146	570,385	519,214	9.86%
General revenues:							
Property tax	1,702,580	1,773,512	0	0	1,702,580	1,773,512	-4.00%
Local option sales and service tax	505,346	459,884	0	0	505,346	459,884	9.89%
Unrestricted state grants	2,442,518	2,259,206	0	0	2,442,518	2,259,206	8.11%
Other	32,727	12,299	107	40	32,834	12,339	166.10%
Total revenues	6,111,261	5,671,986	300,882	291,394	6,412,143	5,963,380	7.53%
Program expenses:							
Governmental activities:							
Instructional	3,509,682	3,370,891	0	0	3,509,682	3,370,891	4.12%
Support services	2,023,096	1,768,861	0	0	2,023,096	1,768,861	14.37%
Non-instructional programs	1,207	4,044	295,998	270,906	297,205	274,950	8.09%
Other expenses	444,404	376,584	0	0	444,404	376,584	18.01%
Total expenses	5,978,389	5,520,380	295,998	270,906	6,274,387	5,791,286	8.34%
Changes in net assets	132,872	151,606	4,884	20,488	137,756	172,094	-19.95%
Net assets beginning of year	2,684,322	2,532,716	19,304	(1,184)	2,703,626	2,531,532	6.80%
Net assets end of year	$ 2,817,194	2,684,322	24,188	19,304	2,841,382	2,703,626	5.10%

Property tax and unrestricted state grants account for 65% of the total revenue. The District's expenses primarily relate to instruction and support services that account for 88% of the total expenses.

Governmental Activities

Revenues for governmental activities were $6,111,261 and expenses were $5,978,389.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	$ 3,509,682	2,296,895
Support services	2,023,096	2,002,302
Non-instructional	1,207	1,207
Other expenses	444,404	249,895
Totals	$ 5,978,389	4,550,299

- The cost financed by users of the District's programs was $936,470.
- Federal and state governments subsidized certain programs with grants and contributions totaling $491,620.
- The net cost of governmental activities was financed with $1,702,580 in local tax, $505,346 in local option sales and service tax, $2,442,518 in unrestricted state grants and $31,775 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were $300,882 and expenses were $295,998. The District's business-type activities include the School Nutrition and 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 $1,747,584, above last year's ending fund balances of $1,478,768. However, the primary reason for the increase was the increase in the fund balance of the Capital Projects.

Governmental Fund Highlights

- The District's General Fund balance decreased from $708,973 on June 30, 2004 to $470,239 on June 30, 2005. The fluctuation in the District's General Fund financial position is the product of many factors. An increase in the state and federal grant revenue during the year resulted in an increase in total revenues. Revenues were exceeded by expenditures ensuring the decrease in the Districts financial position.
- The Management fund balance increased from $12,756 in 2004, to $43,740 in 2005, due to the increase in revenues. The expenditures increased as well, due to the increase in insurance costs for the year.
- The Physical Plant and Equipment Levy (PPEL) fund balance increased from $8,256 to $19,109, due in part to the District reducing total expenditures for the year.
- The Capital Projects fund balance increased during the current year, from $670,227 to $1,140,223. This increase was the result of the District receiving $505,346 in local option sales and service tax and only spending $50,733 during the current year.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from $19,304 at June 30, 2004 to $24,188 at June 30, 2005, representing an increase of approximately 25.3%.

BUDGETARY HIGHLIGHTS

The District's revenues were $961,211 more than budgeted revenues, a variance of 17.6%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is not the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District's budget is developed utilizing realistic projections of revenues and expenditures. The district then manages or controls General Fund spending through its line-item budget. In situations where revenues exceed projections, and expenditures do not exceed spending authority, the Board may take action to amend the budget authorizing additional expenditures. The District did amend their budget, increasing instructional expenditures by $285,000.

In spite of the District's budgetary practice, the certified budget was exceeded in the support service and non-instruction functional area due to the timing of disbursements paid at year-end.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested $1,081,921, 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) This amount represents a net decrease of more than 10% from last year. More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was $197,327.

The original cost of the District's capital assets was $4,798,934. Governmental funds account for $4,771,085 with the remainder of $27,849 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The machinery and equipment totaled $123,425 at June 30, 2005, compared to $83,144 reported at June 30, 2004. This increase resulted from the purchases made during the current year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Land	$ 97,590	97,590	0	0	97,590	97,590	0.00%
Buildings	841,911	1,002,710	0	0	841,911	1,002,710	-16.04%
Land improvements	17,973	19,572	0	0	17,973	19,572	-8.17%
Machinery and equipment	123,425	83,144	1,022	1,438	124,447	84,582	47.13%
Total	$ 1,080,899	1,203,016	1,022	1,438	1,081,921	1,204,454	-10.17%

ECONOMIC 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:

- Low allowable growth over several years and enrollment fluctuations may negatively impact the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget. The district's cash balance will support short term funding shortfalls from the state.

- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

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 Schroeder, District Board Secretary/Treasurer, Underwood Community School District, P.O. Box 130, Underwood, Iowa, 51576.

BASIC FINANCIAL STATEMENTS

Exhibit A

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 2,087,505	41,822	2,129,327
Receivables			
Property tax:			
Delinquent	15,791	0	15,791
Succeeding year	1,878,793	0	1,878,793
Accounts	1,445	0	1,445
Due from other governments	187,813	0	187,813
Inventories	0	3,872	3,872
Capital assets, net of accumulated depreciation(Note 3)	1,080,899	1,022	1,081,921
TOTAL ASSETS	5,252,246	46,716	5,298,962
LIABILITIES			
Accounts payable	49,050	0	49,050
Salaries and benefits payable	494,320	20,264	514,584
ISEBA assessment payable(Note 5)	12,889	0	12,889
Deferred revenue:			
Succeeding year property tax	1,878,793	0	1,878,793
Other	0	2,264	2,264
TOTAL LIABILITIES	2,435,052	22,528	2,457,580
NET ASSETS			
Investment in capital assets, net of related debt	1,080,899	1,022	1,081,921
Restricted for:			
Teacher Compensation	542	0	542
Talented and Gifted	9,072	0	9,072
Capital projects	1,140,223	0	1,140,223
Management levy	43,740	0	43,740
Physical plant and equipment levy	19,109	0	19,109
Other special revenue purposes	74,273	0	74,273
Unrestricted	449,336	23,166	472,502
TOTAL NET ASSETS	$ 2,817,194	24,188	2,841,382

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants, Contributions and Restricted Interest
Governmental activities:			
Instruction:			
Regular instruction	$ 2,393,737	410,429	246,619
Special instruction	505,093	79,278	32,559
Other instruction	610,852	443,902	0
	3,509,682	933,609	279,178
Support services:			
Student services	167,985	0	0
Instructional staff services	221,128	0	0
Adminstration services	665,318	0	0
Operation and maintenance of plant services	648,469	0	0
Transportation services	320,196	2,861	17,933
	2,023,096	2,861	17,933
Non-instructional programs	1,207	0	0
Other expenditures:			
Facilities acquisitions	87,497	0	0
AEA flowthrough	194,509	0	194,509
Depreciation(unallocated)*	162,398	0	0
	444,404	0	194,509
Total governmental activities	5,978,389	936,470	491,620
Business-Type activities:			
Non-instructional programs:			
Nutrition services	269,038	188,466	78,765
Latch Key	26,960	33,544	0
Total business-type activities	295,998	222,010	78,765
Total	$ 6,274,387	1,158,480	570,385
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			
Net assets end of year			

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,736,689)	0	(1,736,689)
(393,256)	0	(393,256)
(166,950)	0	(166,950)
(2,296,895)	0	(2,296,895)
(167,985)	0	(167,985)
(221,128)	0	(221,128)
(665,318)	0	(665,318)
(648,469)	0	(648,469)
(299,402)	0	(299,402)
(2,002,302)	0	(2,002,302)
(1,207)		(1,207)
(87,497)	0	(87,497)
0	0	0
(162,398)	0	(162,398)
(249,895)	0	(249,895)
(4,550,299)	0	(4,550,299)
0	(1,807)	(1,807)
0	6,584	6,584
0	4,777	4,777
(4,550,299)	4,777	(4,545,522)
$ 1,655,002	0	1,655,002
47,578	0	47,578
505,346	0	505,346
2,442,518	0	2,442,518
31,775	107	31,882
952	0	952
4,683,171	107	4,683,278
132,872	4,884	137,756
2,684,322	19,304	2,703,626
$ 2,817,194	24,188	2,841,382

Exhibit C

UNDERWOOD COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments	$ 889,189	1,061,597	135,119	2,085,905
Receivables:				
Property tax:				
Delinquent	14,466	0	1,328	15,794
Succeeding year	1,704,872	0	173,921	1,878,793
Accounts	767	0	678	1,445
Due from other governments	109,187	78,626	0	187,813
TOTAL ASSETS	$ 2,718,481	1,140,223	311,046	4,169,750
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 49,050	0	0	49,050
Salaries and benefits payable	494,320	0	0	494,320
Deferred revenue:				
Succeeding year property tax	1,704,872	0	173,921	1,878,793
Total liabilities	2,248,242	0	173,921	2,422,163
Fund balances:				
Reserved for:				
Teacher Compensation	542	0	0	542
Talented and Gifted	9,072	0	0	9,072
Unreserved:				
General	460,625	0	0	460,625
Capital projects	0	1,140,223	0	1,140,223
Management levy	0	0	43,740	43,740
Physical plant and equipment levy	0	0	19,109	19,109
Other special revenue	0	0	74,273	74,273
Total fund balances	470,239	1,140,223	137,122	1,747,584
TOTAL LIABILITIES AND FUND BALANCES	$ 2,718,481	1,140,223	311,043	4,169,747

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit D

UNDERWOOD COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Total fund balances of governmental funds (page 16)	$	1,747,584
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		1,080,899
ISEBA assessment payable, is not yet due and payable in the current period due to the completion of a lawsuit settlement and, therefore, are not reported as liabilities in the governmental funds.		(12,889)
Blending of the Internal Service Fund to be reflected on an entity-wide basis.		1,600
Net assets of governmental activites (page 13)	$	2,817,194

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit E

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	$ 1,560,185	0	142,395	1,702,580
Local option sales and service tax	0	505,346	0	505,346
Tuition	489,707	0	0	489,707
Other	99,022	15,383	364,133	478,538
State sources	2,847,598	0	113	2,847,711
Federal sources	86,427	0	0	86,427
Total revenues	5,082,939	520,729	506,641	6,110,309
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	2,384,783	0	3,079	2,387,862
Special instruction	505,093	0	0	505,093
Other instruction	336,438	0	277,576	614,014
	3,226,314	0	280,655	3,506,969
Support services:				
Student services	167,985	0	0	167,985
Instructional staff services	221,128	0	0	221,128
Administration services	665,318	0	0	665,318
Operation and maintenance of plant services	498,695	0	151,373	650,068
Transportation services	347,764	0	0	347,764
	1,900,890	0	151,373	2,052,263
Non-instructional programs	912	0	295	1,207
Other expenditures:				
Facilities acquisitions	0	50,733	36,764	87,497
AEA flowthrough	194,509	0	0	194,509
	194,509	50,733	36,764	282,006
Total expenditures	5,322,625	50,733	469,087	5,842,445
Excess(deficiency) of revenues over(under) expenditures	(239,686)	469,996	37,554	267,864
Other financing sources:				
Sale of equipment	952	0	0	952
Total other financing sources	952	0	0	952
Net change in fund balances	(238,734)	469,996	37,554	268,816
Fund balance beginning of year	708,973	670,227	99,568	1,478,768
Fund balance end of year	$ 470,239	1,140,223	137,122	1,747,584

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit F

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, 2005

Net change in fund balances - total governmental funds (page 18)		$ 268,816
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	$ 74,794	
Depreciation expense	(196,911)	(122,117)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
ISEBA Assessment		(12,889)
Net change in the Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis.		(938)
Changes in net assets of governmental activities (page 15)		$ 132,872

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit G

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

	Business-Type Activities: Enterprise Funds			Governmental Activities:
	School Nutrition	Latch Key	Total	Internal Service
ASSETS				
Cash and pooled investments	$ 34,197	7,625	41,822	1,600
Inventories	3,872	0	3,872	0
Capital assets, net of accumulated depreciation(Note 3)	1,022	0	1,022	0
Total assets	39,091	7,625	46,716	1,600
LIABILITIES				
Salaries and benefits payable	16,864	3,400	20,264	0
Deferred revenue:				
Other	2,264	0	2,264	0
Total liabilities	19,128	3,400	22,528	0
NET ASSETS				
Investment in capital assets	1,022	0	1,022	0
Unrestricted	18,941	4,225	23,166	1,600
Total net assets	$ 19,963	4,225	24,188	1,600

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit H

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	Business-Type Activities: Enterprise Fund			Governmental Activities:
	School Nutrition	Latch Key	Total	Internal Service
Operating revenues:				
Local sources:				
Charges for services	$ 188,466	33,544	222,010	29,865
Operating expenses:				
Non-instructional programs:				
Salaries	94,405	23,429	117,834	0
Benefits	12,631	2,840	15,471	30,803
Supplies	161,280	688	161,968	0
Other	306	3	309	0
Depreciation	416	0	416	0
Total operating expenses	269,038	26,960	295,998	30,803
Operating income(loss)	(80,572)	6,584	(73,988)	(938)
Non-operating revenues:				
State sources	4,051	0	4,051	0
Federal sources	74,714	0	74,714	0
Interest income	107	0	107	0
Total non-operating revenues	78,872	0	78,872	0
Change in net assets	(1,700)	6,584	4,884	(938)
Net assets beginning of year	21,663	(2,359)	19,304	2,538
Net assets end of year	$ 19,963	4,225	24,188	1,600

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit I

UNDERWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	Business-Type Activities: Enterprise Funds			Governmental Activities
	School Nutrition	Latch Key	Total	Internal Service
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	$ 185,766	0	185,766	0
Cash received from miscellanous operating activities	3,065	33,544	36,609	29,865
Cash payments to employees for services	(104,489)	(26,122)	(130,611)	(30,803)
Cash payments to suppliers for goods or services	(141,079)	(691)	(141,770)	0
Net cash provided by (used in) operating activities	(56,737)	6,731	(50,006)	(938)
Cash flows from non-capital financing activities:				
State grants received	4,051	0	4,051	0
Federal grants received	57,343	0	57,343	0
Net cash provided by non-capital financing activities	61,394	0	61,394	0
Cash flows from investing activities:				
Interest on investments	107	0	107	0
Net cash provided by investing activities	107	0	107	0
Net increase(decrease) in cash and cash equivalents	4,764	6,731	11,495	(938)
Cash and cash equivalents at beginning of year	29,433	894	30,327	2,538
Cash and cash equivalents at end of year	$ 34,197	7,625	41,822	1,600
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:				
Operating income(loss)	$ (80,572)	6,584	(73,988)	(938)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:				
Commodities consumed	17,371	0	17,371	0
Depreciation	416	0	416	0
Decrease in inventories	3,136	0	3,136	0
Increase in salaries and benefits payable	2,547	147	2,694	0
Increase in deferred revenue	365	0	365	0
Net cash provided by(used in) operating activities	$ (56,737)	6,731	(50,006)	(938)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:				
Current assets:				
Cash and pooled investments	$ 34,197	7,625	41,822	1,600

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2005, the District received Federal commodities valued at $17,371.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

(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 are served includes the city of Underwood, Iowa, and the predominate agricultural territory in Pottawattamie 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, 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 Pottawattamie 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 Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

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. The Latch Key Fund is used to account for child care services.

C. Measurement Focus and Basis of Accounting

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

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 funds are 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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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
Land improvements	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery 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
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

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, 2005, expenditures in the support services and non-instructional functional areas exceeded the amounts budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2005 were entirely covered by federal depository insurance or 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 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; 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 as follows:

	Amortized Cost
Diversified portfolio	$ 2,014,678

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

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 are all category 1, which means the investments are insured or registered or the securities are held by the District or its agent in the District's name.

The District's investments at June 30, 2005 are as follows:

Type	Fair Value
Certificates of deposit	$ 13,646

(3) Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	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	1,502,471	74,794	35,743	1,541,522
Total capital assets being depreciated	4,634,444	74,794	35,743	4,673,495
Less accumulated depreciation for:				
Buildings	1,604,260	160,799	0	1,765,059
Improvements other than buildings	505,431	1,599	0	507,030
Machinery and equipment	1,419,327	34,513	35,743	1,418,097
Total accumulated depreciation	3,529,018	196,911	35,743	3,690,186
Total capital assets being depreciated, net	1,105,426	(122,117)	0	983,309
Governmental activities capital assets, net	$ 1,203,016	(122,117)	0	1,080,899

	Balance Beginning of Year	Increases	Decreases	Balance End Of Year
Business-type activities:				
Machinery and equipment	$ 27,849	0	0	27,849
Less accumulated depreciation	26,411	416	0	26,827
Business-type activities capital assets, net	$ 1,438	(416)	0	1,022

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	$ 1,988
Regular	791
Support services:	
Operation and maintenance of plant service	400
Transportation	31,334
	34,513
Unallocated depreciation	162,398
Total governmental activities depreciation expense	$ 196,911
Business-type activities:	
Food services	$ 416
Total business-type activities depreciation expense	$ 416

(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 covered payroll for the years ended June 30, 2005, 2004, 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were $179,683, $172,306, $145,444 respectively, equal to the required contributions for each year.

(5) Risk Management

The District was a member in the Iowa School Employee Benefits Association (ISEBA), an Iowa Code Chapter 28E organization until June 30, 2004. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members that terminated from ISEBA on June 30, 2004 received an assessment in December 2004 which is due July 1, 2005. The total assessment for terminated members is approximately $1.95 million. The District's share of this assessment was $12,889 which is recorded on the district-wide Statement of Net Assets as a liability as of June 30, 2005.

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 $194,509 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(7) 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, 2005, expenditures in the support services and non-instructional functional program areas exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY 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, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Revenues:		
Local sources	$ 3,176,171	222,117
State sources	2,847,711	4,051
Federal sources	86,427	74,714
Total revenues	6,110,309	300,882
Expenditures:		
Instruction	3,506,969	0
Support services	2,052,263	0
Non-instructional programs	1,207	295,998
Other expenditures	282,006	0
Total expenditures	5,842,445	295,998
Excess(deficiency) of revenues over(under) expenditures	267,864	4,884
Other financing sources, net	952	0
Excess(deficiency) of revenues over(under) expenditures	268,816	4,884
Balance beginning of year	1,478,768	19,304
Balance end of year	$ 1,747,584	24,188

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts Original	Budgeted Amounts Final	Final to Actual Variance - Positive (Negative)
3,398,288	2,409,447	2,409,447	988,841
2,851,762	2,907,533	2,907,533	(55,771)
161,141	133,000	133,000	28,141
6,411,191	5,449,980	5,449,980	961,211
3,506,969	3,276,503	3,561,503	54,534
2,052,263	1,873,000	1,873,000	(179,263)
297,205	283,345	283,345	(13,860)
282,006	936,323	936,323	654,317
6,138,443	6,369,171	6,654,171	515,728
272,748	(919,191)	(1,204,191)	(1,476,939)
952	6,000	6,000	5,048
273,700	(913,191)	(1,198,191)	(1,471,891)
1,498,072	1,438,296	1,438,296	59,776
1,771,772	525,105	240,105	1,531,667

UNDERWOOD COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard 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 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 not 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 functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. 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, the District adopted one budget amendment increasing budgeted expenditures in the instructional function by $285,000.

During the year ended June 30, 2005, expenditures in the support service and non-instructional functional program area exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

Schedule 1

UNDERWOOD COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

	Manage-ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue
ASSETS					
Cash and pooled investments	$ 42,183	54,182	18,663	20,091	135,119
Receivables:					
Property tax:					
Current year delinquent	879	0	446	0	1,325
Succeeding year	125,000	0	48,921	0	173,921
Accounts	678	0	0	0	678
TOTAL ASSETS	$ 168,740	54,182	68,030	20,091	311,043
LIABILITIES AND FUND EQUITY					
Liabilities:					
Deferred revenue:					
Succeeding year property tax	125,000	0	48,921	0	173,921
Total Liabilities	125,000	0	48,921	0	173,921
Fund equity:					
Fund balances:					
Unreserved:					
Undesignated	43,740	54,182	19,109	20,091	137,122
Total fund balances	43,740	54,182	19,109	20,091	137,122
TOTAL LIABILITIES AND FUND EQUITY	$ 168,740	54,182	68,030	20,091	311,043

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 2

UNDERWOOD COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	Manage-ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue
REVENUES:					
Local sources:					
Local tax	$ 94,817	0	47,578	0	142,395
Other	90,544	272,366	1	1,222	364,133
State sources	75	0	38	0	113
TOTAL REVENUES	185,436	272,366	47,617	1,222	506,641
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	3,079	0	0	0	3,079
Other instruction	0	277,576	0	0	277,576
	3,079	277,576	0	0	280,655
Support services:					
Operation and maintenance of plant services	151,373	0	0	0	151,373
Non-instructional programs	0	0	0	295	295
Other expenditures:					
Facilities acquisitions	0	0	36,764	0	36,764
TOTAL EXPENDITURES	154,452	277,576	36,764	295	469,087
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	30,984	(5,210)	10,853	927	37,554
FUND BALANCE BEGINNING OF YEAR	12,756	59,392	8,256	19,164	99,568
FUND BALANCE END OF YEAR	$ 43,740	54,182	19,109	20,091	137,122

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 3

UNDERWOOD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Drama/Speech	$ 344	1,258	1,939	(337)
Band Activity	2,966	6,776	9,143	599
Track Activity	2,125	7,470	8,035	1,560
Basketball Activity	1,003	5,584	6,301	286
Football Activity	(2,054)	8,488	7,653	(1,219)
Baseball Activity	(1,940)	1,751	985	(1,174)
Wrestling Activity	(1,604)	2,551	935	12
Volleyball Activity	(369)	3,282	4,662	(1,749)
Softball Activity	410	1,371	2,841	(1,060)
Activity Tickets	(179)	6,624	6,372	73
Golf Activity	594	70	(10)	674
Elementary Art Club	3,513	5,308	7,576	1,245
Baseball Club	(1,117)	17,843	16,043	683
Cheerleading	233	1,156	1,156	233
High School Art Club	92	1,170	612	650
High School Concessions	3,450	12,651	14,335	1,766
Cross Country Club	11	312	324	(1)
Boys Basketball Club	90	4,973	4,585	478
FFA Account	3,431	0	0	3,431
Interest	508	585	601	492
Girls Basketball Club	1,700	6,953	8,517	136
Library Club	478	871	632	717
Football Club	2,949	5,392	5,410	2,931
Drill Team	(682)	2,492	2,283	(473)
Middle School Pop/Juice	3,437	7,897	8,649	2,685
High School Pop/Juice	434	12,933	12,867	500
Revolving	(67)	977	910	0
Soda	221	0	0	221
High School Science Club	0	430	412	18
Softball Club	2,701	10,745	10,183	3,263
Elementary Student Council	578	799	461	916
Middle School Student Council	497	2,318	2,613	202
High School Student Council	754	592	527	819
High School Boys Track Club	(274)	0	15	(289)
FCCLA/FHA Account	452	99	193	358
High Vocal Activity	1,293	14,786	13,573	2,506
High School Volleyball Club	1,062	12,300	10,623	2,739
Weightlifting Club	362	1,626	1,648	340
Softball Pitching	381	2,564	2,639	306
High School Wrestling Club	2,217	1,455	5,189	(1,517)
High School Yearbook	1,612	5,476	5,391	1,697
High School Girls Track Club	893	1,168	1,149	912
Wrestling Camp	14	0	0	14
Basketball Cheerleading	1,921	946	51	2,816
Football Cheerleading	750	1,359	1,663	446
Wrestling Cheerleading	211	2,126	2,087	250
Elementary Field Trip	81	3,748	3,750	79

UNDERWOOD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Elementary Student Directory	189	208	0	397
Middle School Leadership	2,139	711	1,236	1,614
Peers	158	0	0	158
Middle School Quest	892	1,052	0	1,944
SOS Account	456	76	0	532
Sweatshirts	123	9,371	9,719	(225)
Middle School TAG	17	0	0	17
Alumni	111	0	(189)	300
Spanish Club	211	7	38	180
JH Volleyball Club	12	295	295	12
Jump Rope for Heart	190	2,719	2,779	130
Elementary Playground Acct	465	0	448	17
Fellowship Athletes	79	0	0	79
Middle School Wrestling Club	(1,222)	30	0	(1,192)
Middle School Yearbook	837	0	0	837
Middle School Activity Center	745	4,030	3,338	1,437
Middle School Vocal Activity	1,225	7,362	8,304	283
Elementary Music	1,600	945	520	2,025
Home/School Partnership	57	0	0	57
Elementary PAC	5,470	15,342	13,309	7,503
Pott Cty Spelling Bee	2	0	15	(13)
JH Girls Track Club	80	0	0	80
Girard Memorial Library Fund	0	578	525	53
School Mascot Fund	345	316	661	0
Wrestling Mat Fund	1,500	500	0	2,000
JH Football Club	181	765	937	9
JH Basketball Club	192	0	177	15
JH Boys Track Club	(93)	154	256	(195)
Class of 2003	33	0	33	0
Class of 2004	156	0	156	0
Class of 2005	1,484	4,131	5,334	281
Class of 2006	4,994	3,661	6,762	1,893
Class of 2007	(40)	6,045	2,871	3,134
MS Concessions	922	2,944	2,280	1,586
Adopt Instrument Fund	400	200	600	0
SWIHMB band	0	21,649	21,649	0
Total	$ 59,392	272,366	277,576	54,182

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,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	$ 2,207,926	2,233,396	2,178,735	1,921,227
Tuition	489,707	399,863	395,125	344,725
Other	478,538	334,416	84,596	114,459
State sources	2,847,711	2,651,484	2,641,763	2,606,739
Federal sources	86,427	50,790	52,078	43,183
Total	$ 6,110,309	5,669,949	5,352,297	5,030,333
Expenditures:				
Current:				
Instruction:				
Regular instruction	$ 2,387,862	2,356,053	2,223,366	2,357,734
Special instruction	505,093	543,316	584,223	529,168
Other instruction	614,014	470,998	228,246	227,394
Support services:				
Student services	167,985	149,960	143,330	136,790
Instructional staff services	221,128	183,763	183,613	141,575
Adminstration services	665,318	554,918	503,239	479,773
Operation and maintenance of plant services	650,068	597,250	532,258	507,160
Transportation services	347,764	259,036	345,061	279,312
Non-instructional programs	1,207	4,044	554	8,069
Other expenditures:				
Facilities acquisitions	87,497	127,711	0	0
AEA flow-through	194,509	189,817	197,633	198,552
Total	$ 5,842,445	5,436,866	4,941,523	4,865,527

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

Telephone (641) 792-1910

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

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

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 Underwood Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 13, 2005. 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 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 an opinion 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 Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Underwood Community School District'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 or other matters 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 District's operations for the year ended June 30, 2005 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.

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 Underwood Community School District may report including federal awarding agencies and pass-through entities. 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, P.C.

October 13, 2005

UNDERWOOD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

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

REPORTABLE CONDITIONS:

I-A-05 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-05 Student Activity Fund Accounts - We noted during our audit that the District had balances left in the interest account.

Recommendation - Interest should be allocated out among the Student Activity accounts at year end.

Response - The balance was allocated out in FY06 among the various Student Activity accounts.

Conclusion - Response accepted.

I-C-05 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-D-05 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, 2005

Part II: Other Findings Related to Statutory Reporting

II-A-05 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

II-B-05 Certified Budget - District expenditures for the year ended June 30, 2005 exceeded the certified budget amounts in the support services and non-instructional 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-05 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-05 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-05 Business Transactions - Business transactions between the District and District officials are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Marsha Slobodnick, Secretary Spouse owns TJ Wood	Construction of various items	$15,964

In accordance with Attorney's General opinion dated November 9, 1976, the transaction with the spouse of Marsha Slobodnick does not appear to be a conflict of interest.

II-F-05 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-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-H-05 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-I-05 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 contacted and the interest rate is being adjusted.

Conclusion - Response accepted.

II-J-05 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-05 Deficit Balances - We noted during our audit that there were a few accounts in the Student Activity fund that had negative individual balances.

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

Response - We will continue to monitor this item and will work on establishing alternative to eliminate the deficits.

Conclusion - Response accepted.